

# VIETNAM BANKING SYSTEM IN INTEGRATION PROCESS: OPPORTUNITIES, RISKS AND SUSTAINABLE DEVELOPMENT ORIENTATION

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**Pro., PhD. NGUYEN THI MUI**  
*DIRECTOR*

*VietinBank Human Resource and Training School*

*VIETINBANK*



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NEW CHALLENGES. NEXT CHANGES.

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**VIETNAM BANKING SYSTEM IN INTEGRATION  
PROCESS: OPPORTUNITIES, RISKS AND  
SUSTAINABLE DEVELOPMENT ORIENTATION**

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**VIETINBANK HUMAN RESOURCE DEVELOPMENT AND TRAINING SCHOOL**



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- **RISKS AND REASONS**

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- **SUSTAINABLE DEVELOPMENT ORIENTATION**

# I. OPPORTUNITIES AND VIETNAM BANKING SYSTEM PROGRESS



**OPPORTUNITIES**

## DEMAND SIDE

**1. STRONG DEMAND FOR INVESTMENT CAPITAL**

**2. STRONG DEMAND FOR PAYMENT SERVICES, INTERNATIONAL BANKING SERVICES**

**3. IMPROVEMENT IN PER CAPITA INCOME AND QUICKLY INCREASE IN PURCHASING POWER**

## SUPPLY SIDE

**1. INSTITUTIONAL FRAME OF MARKET ORIENTED DEVELOPMENT FOR BANKING BUSINESS**

**2. REFORMING RISK MANAGEMENT**

**3. STRENGTHENING FINANCIAL CAPABILITY, ENLARGING BANKING ACTIVITY SCOPE**

**4. RESTRUCTURING BANKING SYSTEM NETWORK**

**5. IT APPLICATION; HUMAN RESOURCES DEVELOPMENT**

# I. OPPORTUNITIES AND VIETNAM BANKING SYSTEM PROGRESS

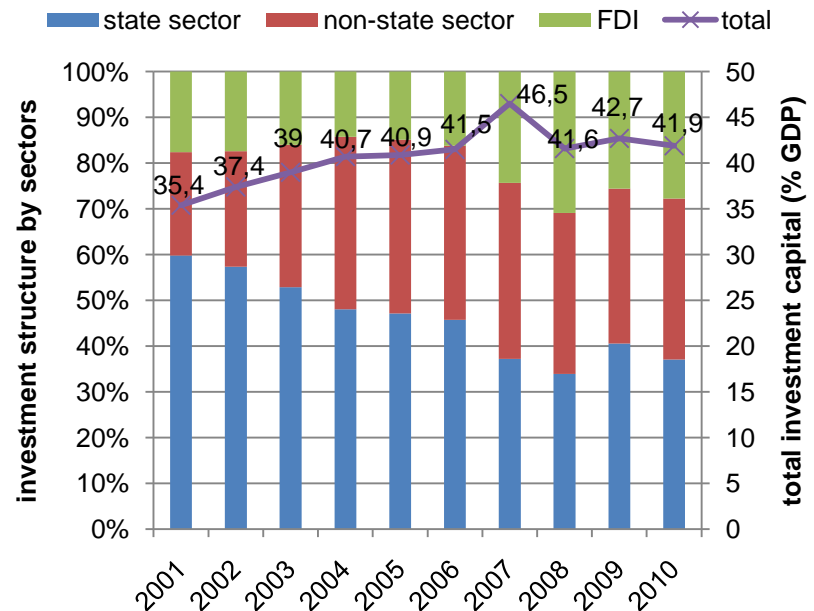
## DEMAND SIDE

### 1. Strong demand for investment capital

• Total social – investment: un-precedented growth to highest level in term of percentage of GDP (42.7%/GDP in 2010)

• Private investment capital: a boom in recent years

• FDI: More and more inflow as soon as Vietnam became member of WTO in 2007



Source : GSO, Vietnam

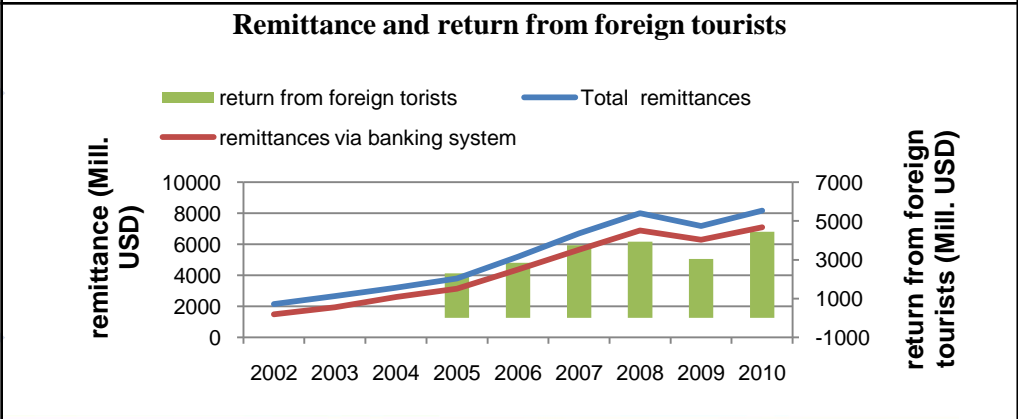
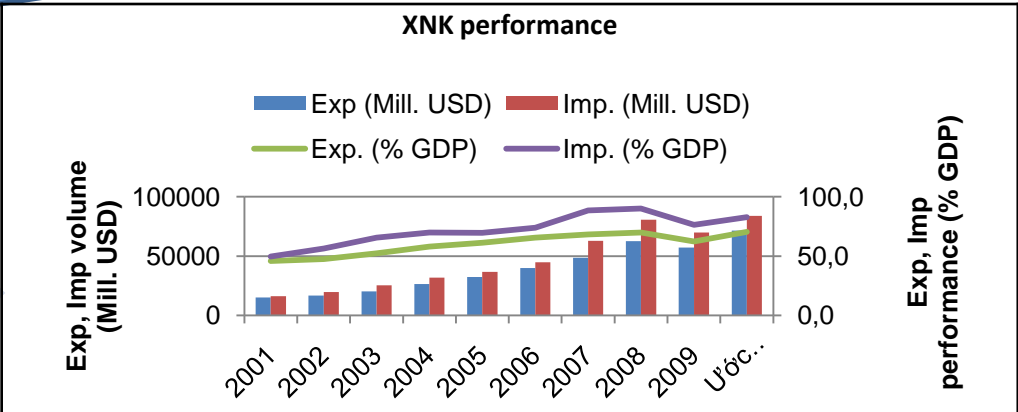
# I. OPPORTUNITIES AND VIETNAM BANKING SYSTEM PROGRESS

## DEMAND SIDE

2. Strong demand for external payment, exchange trading, remittances

Period 2006-2010

- **Export: increased 1.8 times**
- **Import: doubled**
- **Foreign currency from international tourists: increased 1.56 times**
- **Remittances: increased 1.62 times**



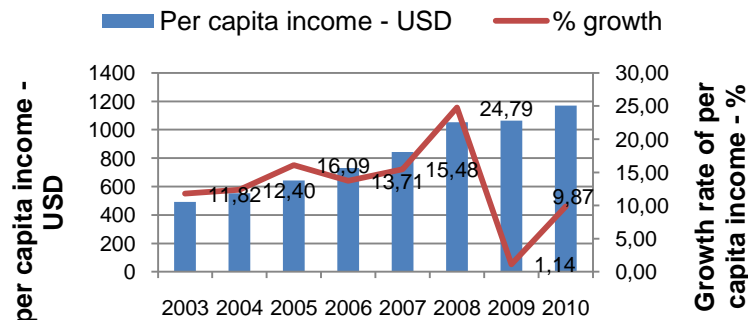
Source: Economy 2010-2011, Vietnam economic times

# I. OPPORTUNITIES AND VIETNAM BANKING SYSTEM PROGRESS

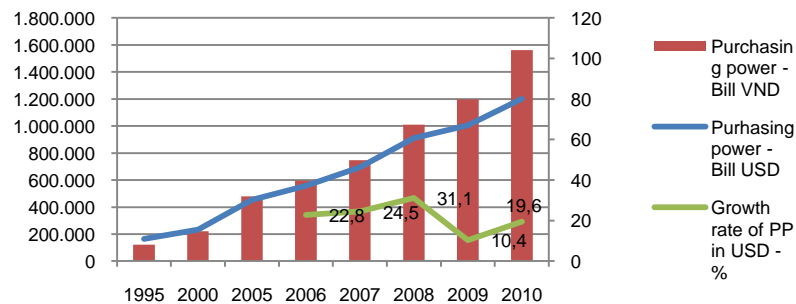
## DEMAND SIDE

3. Demand for banking services relating to a relatively large population size, young population structure, strong local purchasing power accompanied with considerable improvement in per capita income

- Population size
- Population structure
- Per capita income: increased 1.6 time between 2006-2010, reached to 1.160 USD in 2010
- Local purchasing power : quickly increase in scale, shifting structure from inferior goods to services



Source: GSO



Source: Economy 2010-2011, Vietnam economic times



# I. OPPORTUNITIES AND VIETNAM BANKING SYSTEM PROGRESS

## SUPPLY SIDE

### 1. LEGAL FRAME

=> Revised law of state bank; Revised law of financial institutions ( year 2010); law of independent audit (year 2011)

=> Ordinate of foreign exchange management

=> Circular No. 13 and Circular No.19 revising the circular No. 13: provisions on banking prudent criteria toward international standards/practices

=> Reorganizing and improving capability of banking inspection and supervision: setting up a department of banking inspection and supervision under the SBV

=> Legal frame for equitizing the state owned banks





# I. OPPORTUNITIES AND BANKING SYSTEM PROGRESS

## SUPPLY SIDE

Other banks

VIETINBANK

Building policy framework of risks management

Issued policies, documents on risks management;  
Consolidated operating risks management

Strategy on risks management

Established policy frame and principles of risks management: determined risk taste

Internal rating system ( Decree No. 493/NHNN)

Running risk management apparatus, assigning roles and responsibility of each department/office and of each individual in risks management

Application of IT into risks management: Fund transfer pricing, Internal rating system, MIS...

## 2. RISKS MANAGEMENT



# I. OPPORTUNITIES AND BANKING SYSTEM PROGRESS

## SUPPLY SIDE

### Other banks

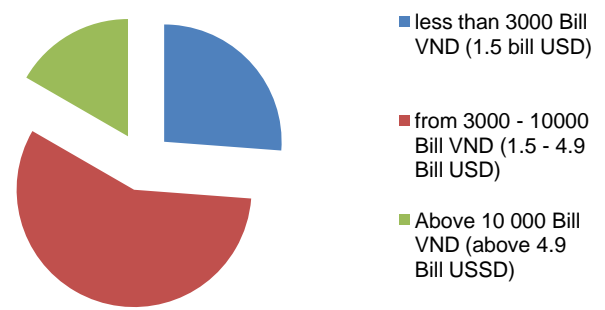
- Number of banks with charter capital less than 3000 Bill. VND (about 1.5 bill. USD): **11**
- Number of banks with charter capital from 3000 to 10 000 Bill. VND (about 1.5 – 4.9 bill. USD): **24**
- Number of banks with charter capital more than 10 000 Bill. VND (above 4.9 bill. USD): **07**

### VIETINBANK

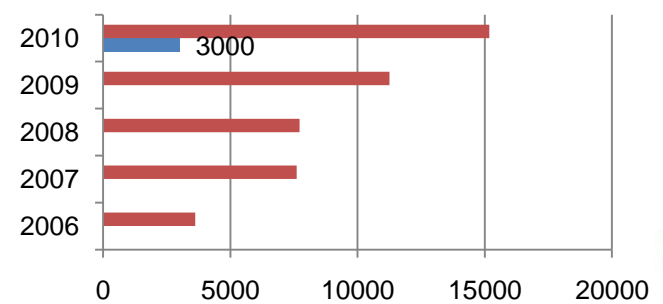
- Owned capital increased 2,6 time between 2006-2010.
- In year 2010: Vietinbank's charter capital was more than 5 times of minimum charter capital level provided by SBV

### 3. Strengthening financial capability

Bank system structure by capital scale



- Charter capital
- Minimum Charter capital level in 2011 (about 1.5 bill. USD)



# I. OPPORTUNITIES AND BANKING SYSTEM PROGRESS

## SUPPLY SIDE

Other banks

VIETINBANK

### Banking system network

Year	2006	2007	2008	2009
Joint stock banks	35	36	36	37
Joint venture banks	5	5	5	6
Foreign bank branches	27	35	37	37
100% foreign capital banks	0	0	5	5
State owned banks *	5	5	5	5
Policy bank	1	1	1	1
Vietnam Development bank	1	1	1	1

### Bank organization:

- departments/offices by customer groups;
- Inspection and exam. Office separated from operation machine;
- Risks management office separated from business offices;
- Bank model reform toward a financial group

**On 31/12/2010, Vietinbank network was the second large in Vietnam, after Agribank network, including:**

- 150 branches and transaction center
- More than 1000 transaction offices
- 06 subsidiaries
- 03 services – providing units
- Representative office in Frankfurt, Germany; ( it is planned to be in 7/2011)
- Building agency relationship with hundred banks around the world
- Signed 8 credit agreements frame with Belgium, Germany, Korea, Swiss,...

## 4. Banking system network and bank organization

\*: including vietinbank and VCB



# I. OPPORTUNITIES AND BANKING SYSTEM PROGRESS

## SUPPLY SIDE

**5. Application of IT; Human resource development**

### Other banks

### VIETINBANK

#### INFO and TECH

- => Each bank: conducting online within bank – wide scope ;
- => Applying IT into payment system; developing e-banking services;
- => Applying Modules into capital resource management, investment portfolio management; customer management

#### HUMAN

- => Recruitment policy: openness, examination regime/process;
- => Job management: performance evaluation
- => Wages and remuneration and reward regime: link with position and work performance

#### INFO and TECH

- => Overall system reorganization in line with the reform in IT:
- Implementing 19 modules on IT for banking governance and operation

#### HUMAN

- => Formal recruitment process; human resource management in close relation with wages, remuneration and reward regimes
- => Job management process: Job description; Job performance evaluation
- => Human resource restructuring

# I. OPPORTUNITIES AND BANKING SYSTEM PROGRESS

## BANK PROGRESS

1. BUSINESS SCALE AND NON-PERFORMING LOAN

2. BANK SERVICES DEVELOPMENT AND FINANCIAL DEEPENING

3. BANKING BUSINESS EFFICIENCY



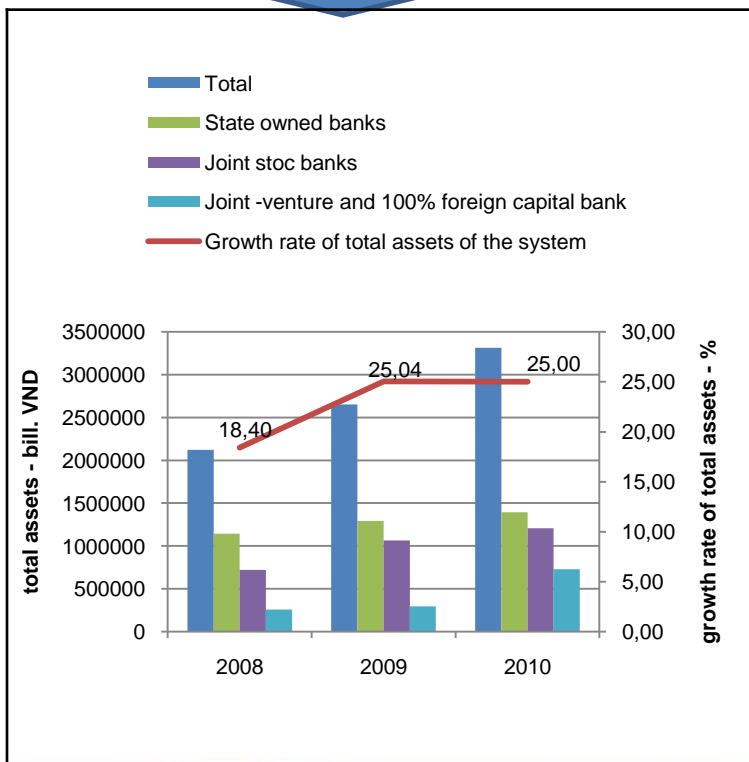
# I. OPPORTUNITIES AND BANKING SYSTEM PROGRESS

## BANKING SYSTEM PROGRESS

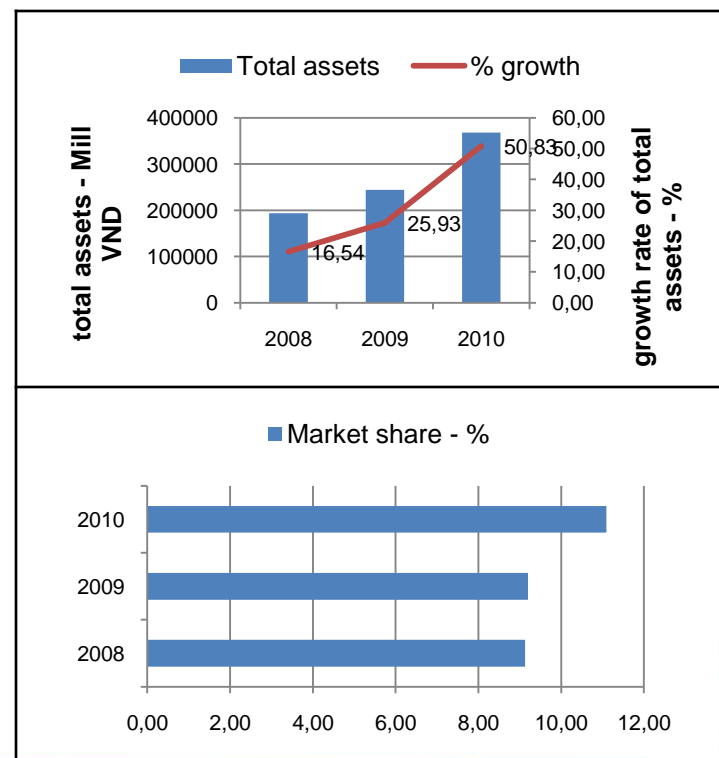
Other banks

VIETINBANK

1. TOTAL ASSETS AND non-performing loan



Source: SBV and author's calculation



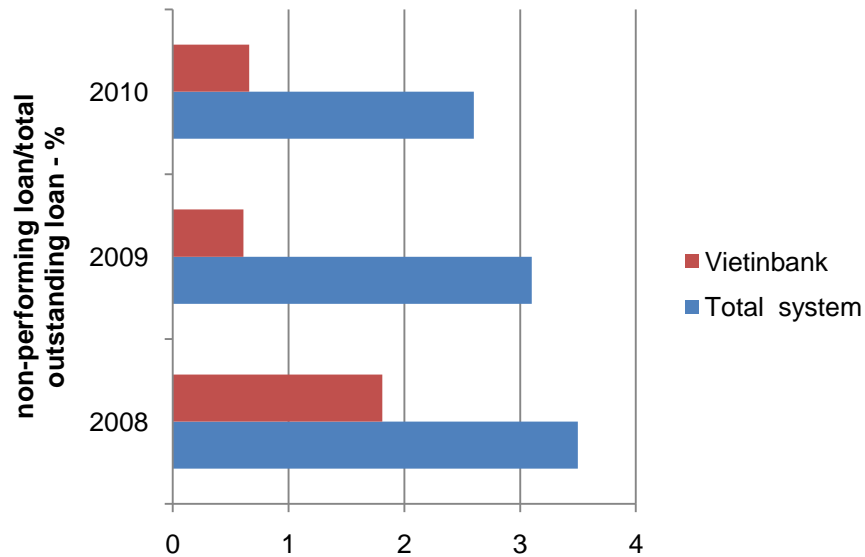
Source: Annual report and author's calculation

# I. OPPORTUNITIES AND BANKING SYSTEM PROGRESS

## BANKING SYSTEM PROGRESS

1. TOTAL ASSETS AND non-performing loan

non-performing loan

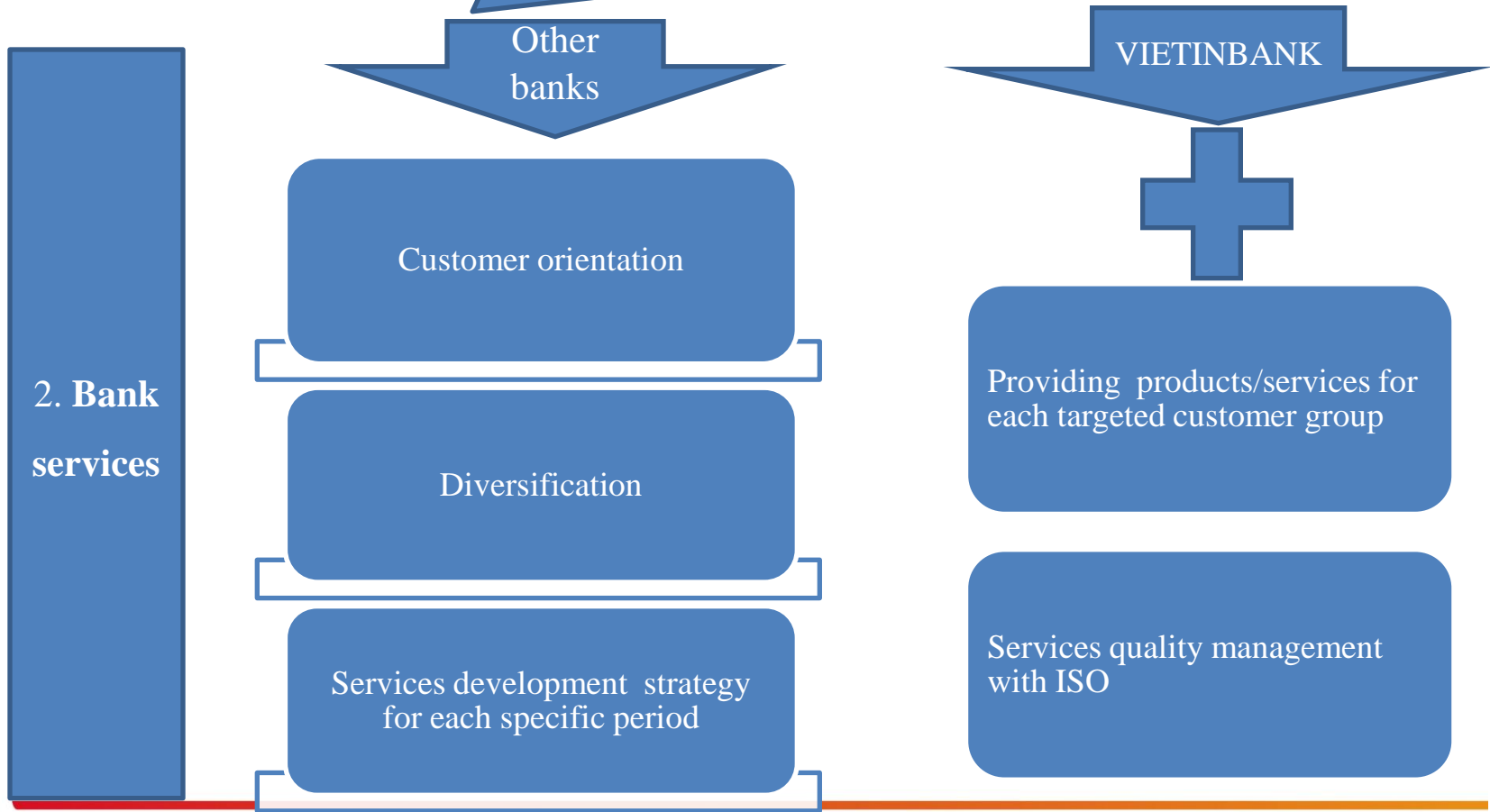


Source: Non-performing loan of total system – SBV  
Vietinbank:Annual report



# I. OPPORTUNITIES AND BANKING SYSTEM PROGRESS

## BANKING SYSTEM PROGRESS

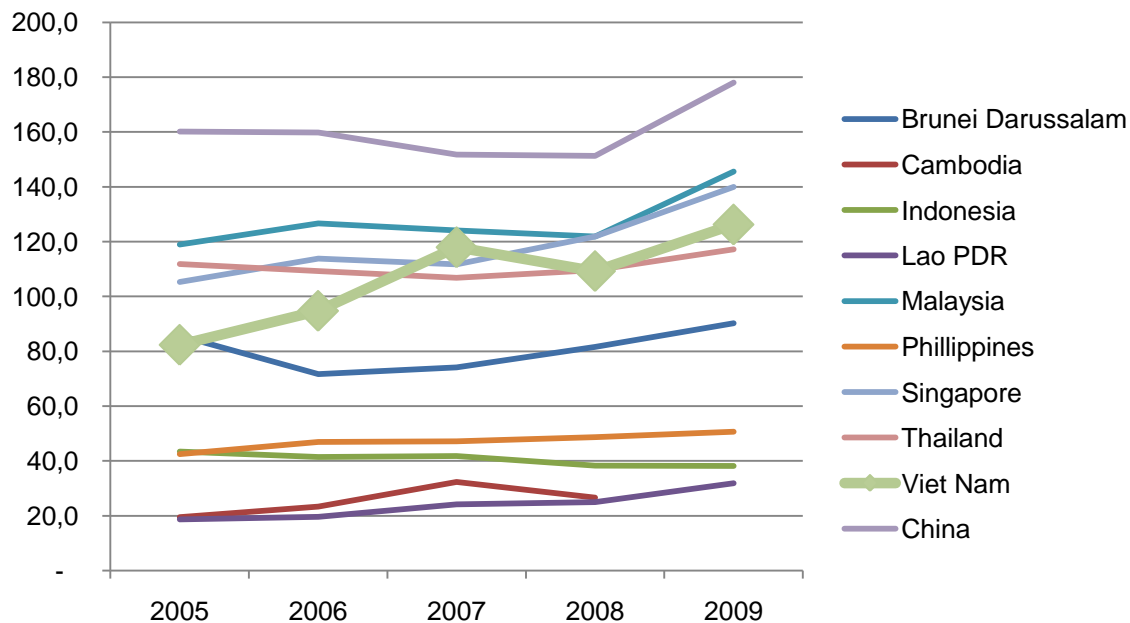




# I. OPPORTUNITIES AND BANKING SYSTEM PROGRESS

## BANKING SYSTEM PROGRESS

FINANCIAL  
DEEPENING  
M2/GDP



Source: Asian Pacific key indicators, ADB, 2010



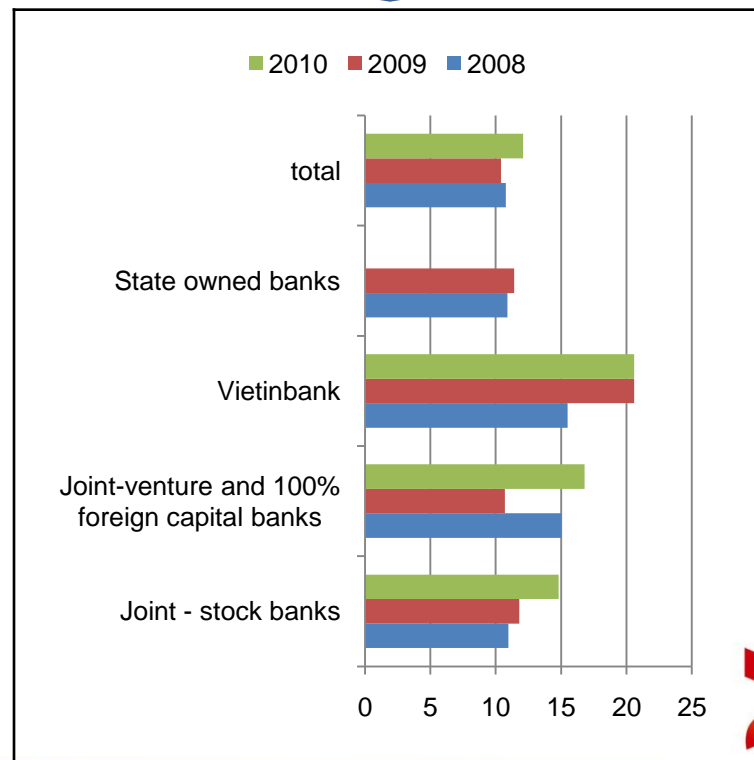
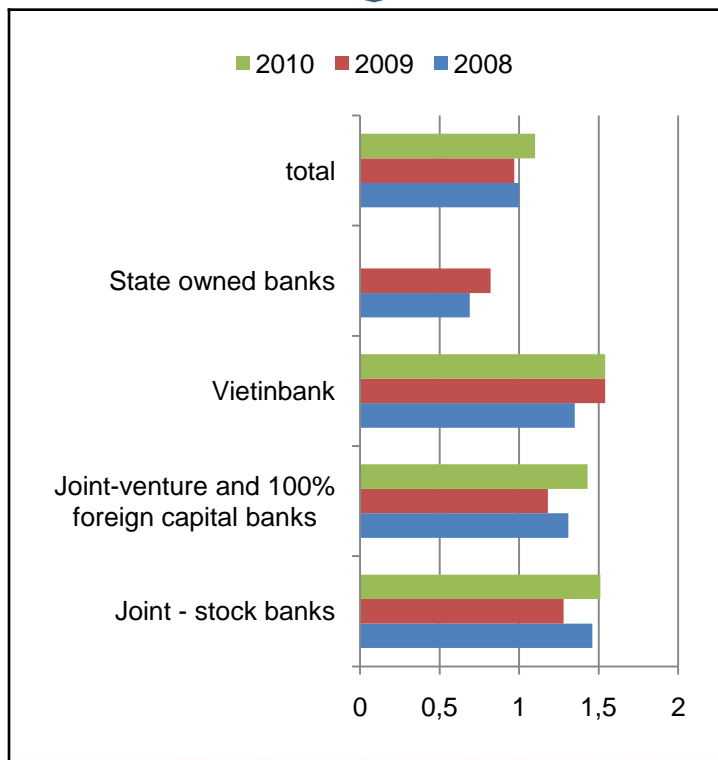
# I. OPPORTUNITIES AND BANKING SYSTEM PROGRESS

## BANKING SYSTEM PROGRESS

ROA

ROE

### 3. BANKING BUSINESS EFFICIENCY



Source: SBV and author's calculation



## II. RISKS IN BANKING BUSINESS AND REASONS

### RISKS IN BANKING BUSINESS

1. CREDIT RISK

2. LIQUIDITY AND DURATION GAP RISK

3. INTEREST RATE RISK AND EXCHANGE RATE RISK

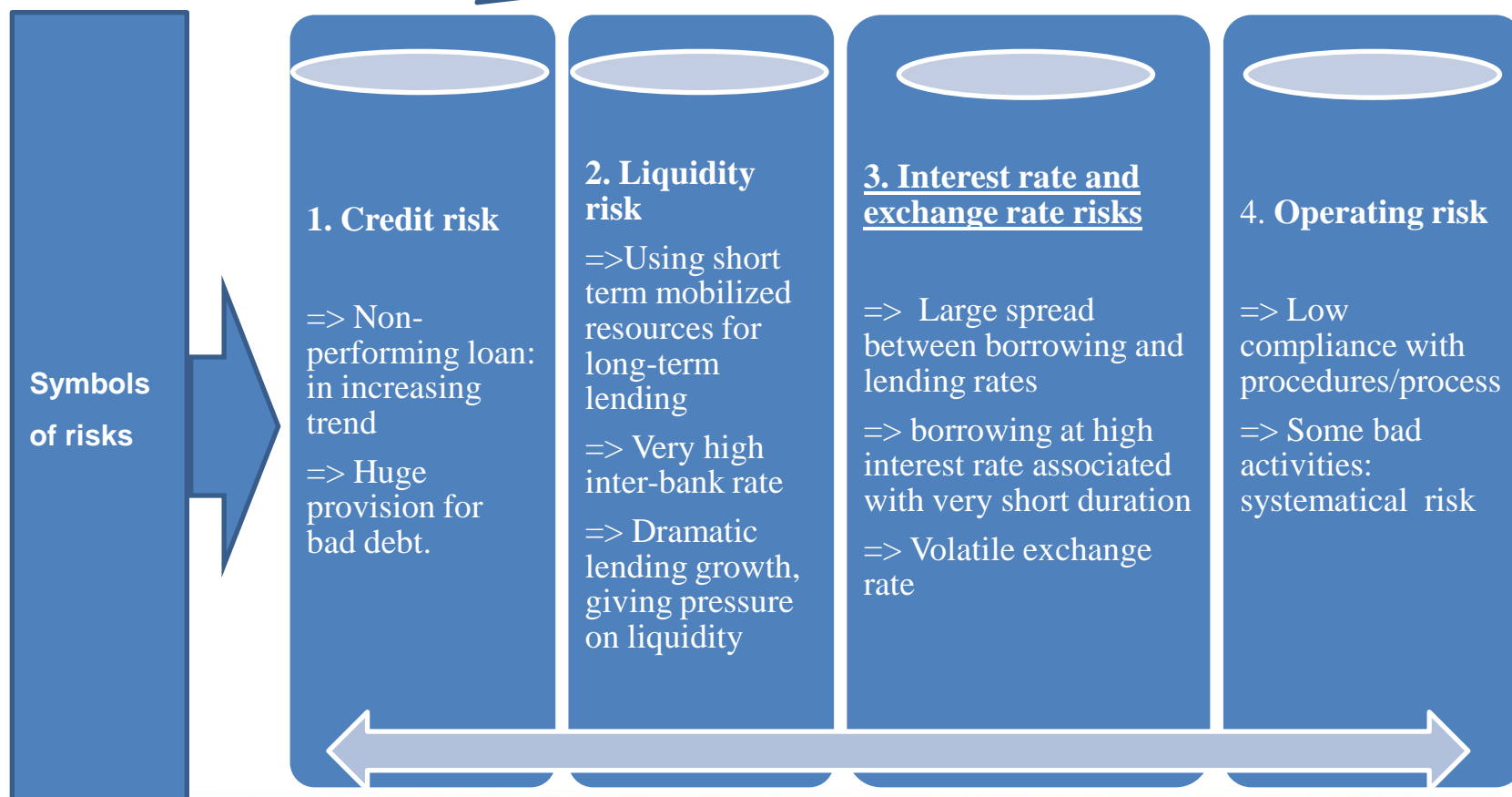
4. OPERATING RISK

5. OTHER RISKS



## II. RISKS IN BANKING BUSINESS AND REASONS

### RISKS IN BANKING BUSINESS



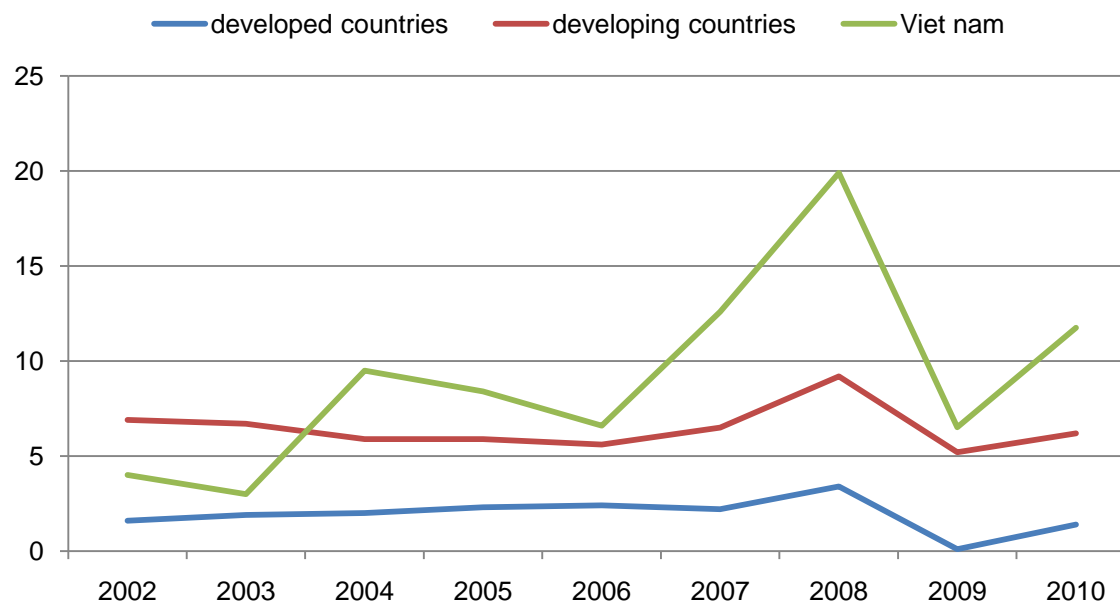
## II. RISKS IN BANKING BUSINESS AND REASONS

### REASONS BEHIDE RISKS IN BANKING BUSINESS

#### 1. Reasons from economy's internality

1.1. The economy in transition period, low stability, high CPI

CPI in Vietnam versus CPI in developed and developing countries group



Source: World economic outlook, IMF, 2010  
CPI in Vietnam: GSO, Vietnam



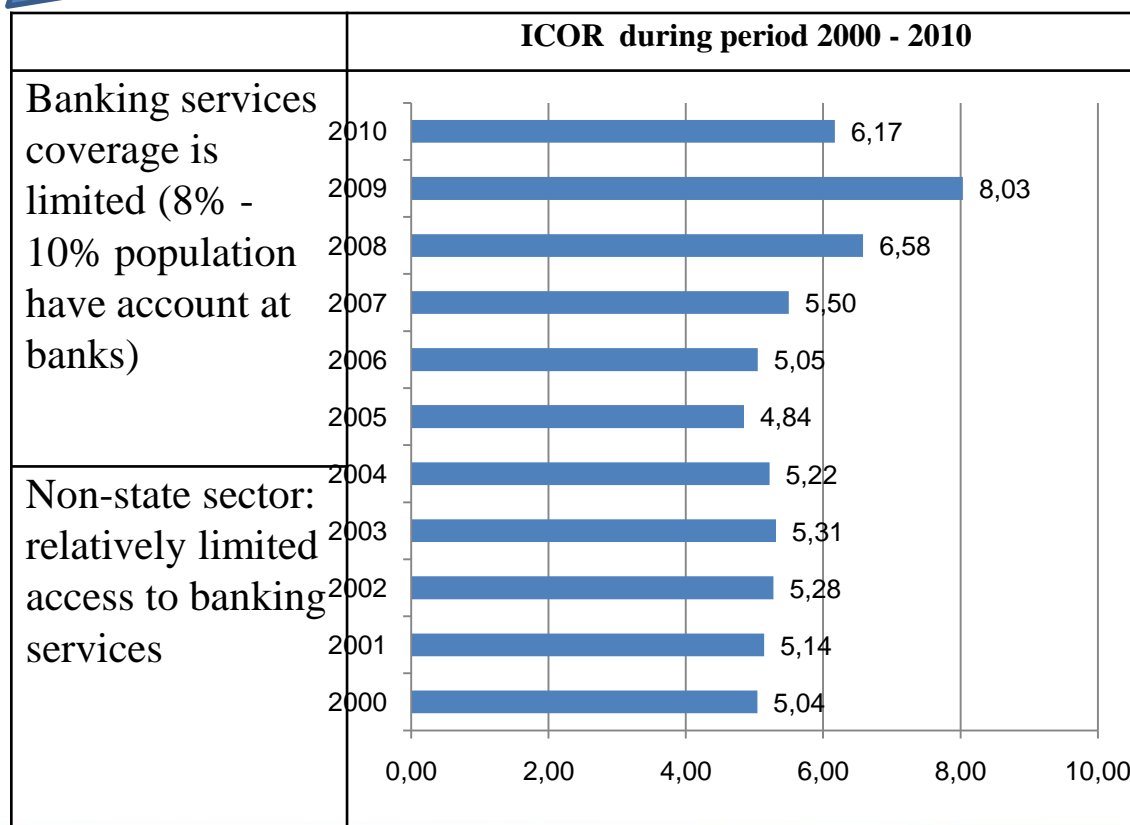
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## II. RISKS IN BANKING BUSINESS AND REASONS

### REASONS BEHIDE RISKS IN BANKING BUSINESS

1. Reasons from economy internality

1.2. Economy's Efficiency is not high



Source: Author's calculation based on GSO

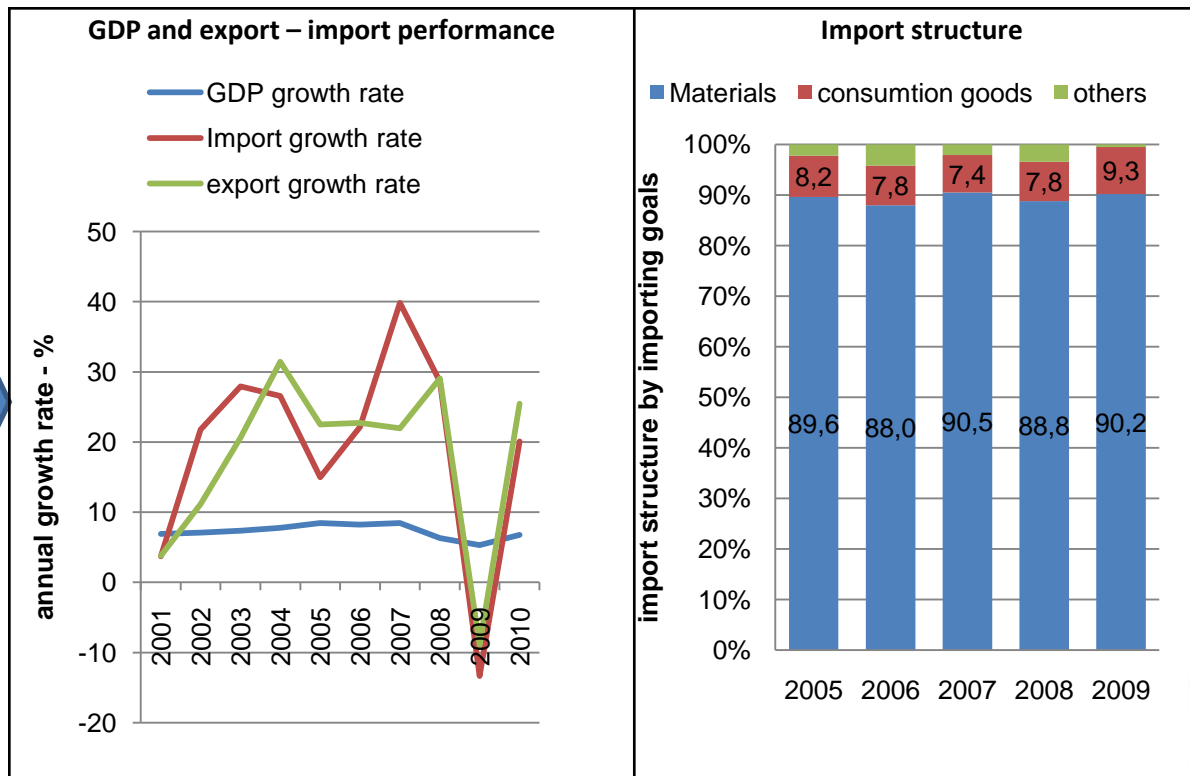


## II. RISKS IN BANKING BUSINESS AND REASONS

### REASONS BEHIDE RISKS IN BANKING BUSINESS

#### 1. Reason from economy internality

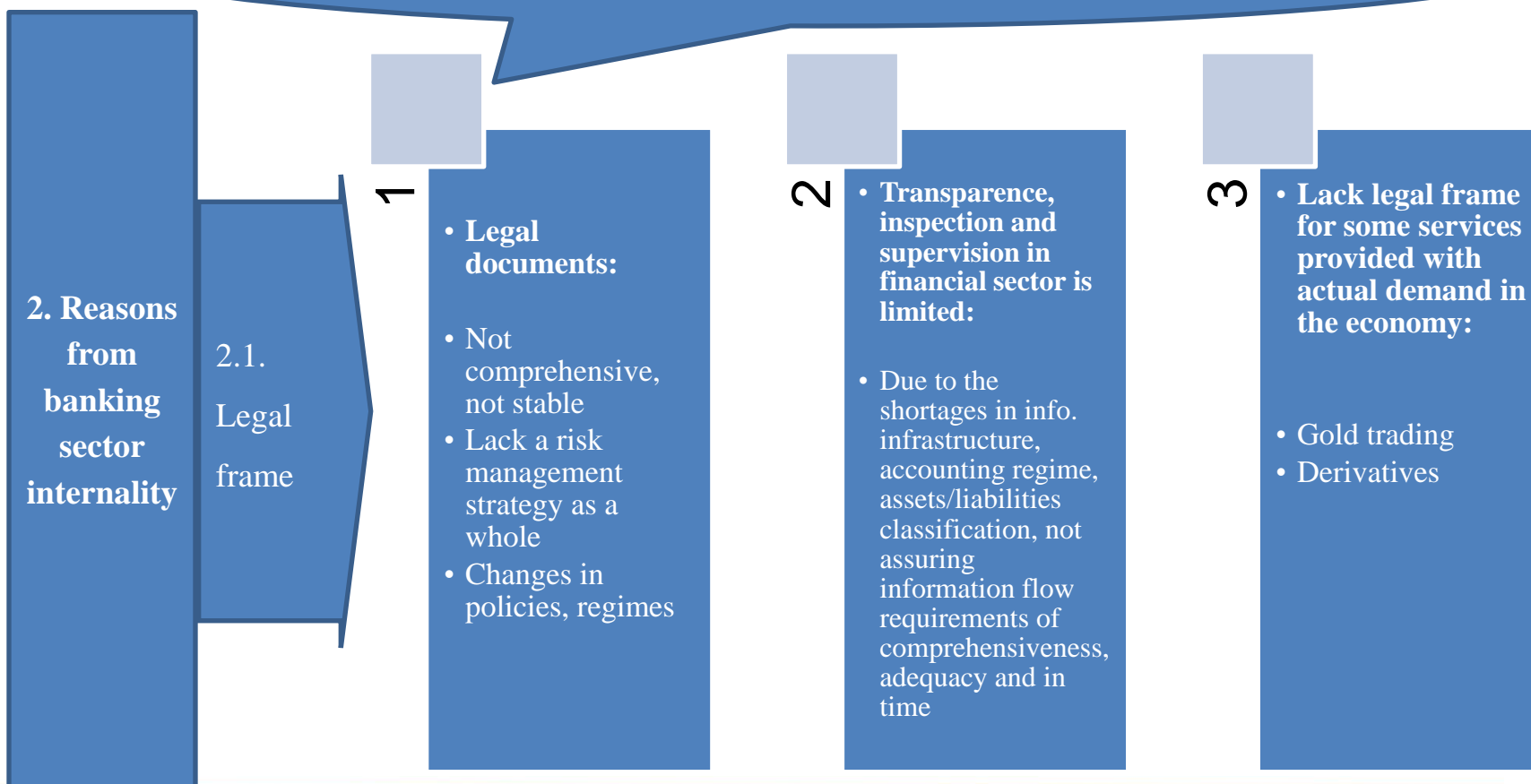
1.3. External sector: mainly in processing, accompanying with a large trade deficit during boom times



Source : GSO, Vietnam

## II. RISKS IN BANKING BUSINESS AND REASONS

### REASONS BEHIDE RISKS IN BANKING BUSSINESS





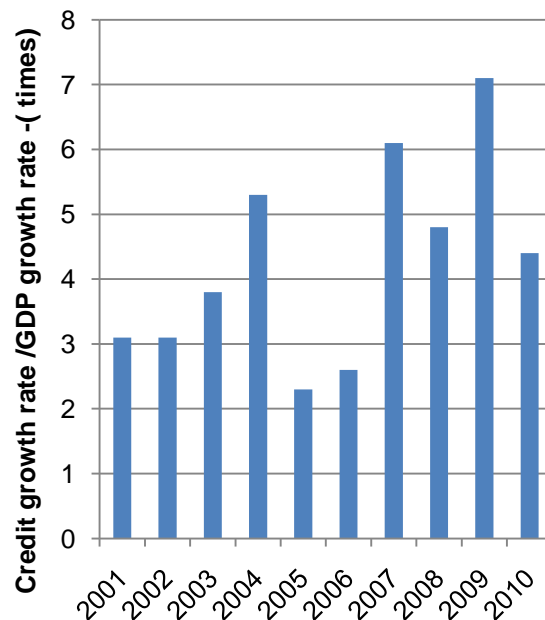
## II. RISKS IN BANKING BUSINESS AND REASONS

### REASONS BEHIDE RISKS IN BANKING BUSSINESS

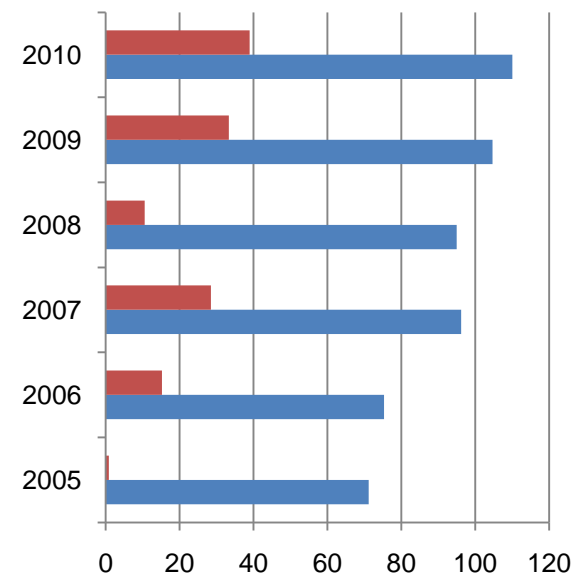
2. Reasons from banking sector internality

2.2. Un-balance between capital market and monetary market

■ Multiplier between credit growth rate and GDP growth rate



■ market capitalization of listed stocks (% GDO)  
■ domestic credit provided by banks % GDP



Source: Economy 2010-2011, Vietnam economic times

Source: Asian Pacific key indicators, ADB 2010 and author's calculation



## II. RISKS IN BANKING BUSINESS AND REASONS

### REASONS BEHIDE RISKS IN BANKING BUSINESS

#### 2. Reasons from banking sector internality

2.3.

- Risk management apparatus is not suitable with international practices/benchmarks.

2.4

- Lacking tools for measuring risks, monitoring risks and managing risks in systematical view; some risks have been not yet quantified (market risk), post – resolution rather than prevention and warning in advance

2.5

- Infor and Tech. Infrastructure: variance among banks because of very difference in financial capability

2.6

- Information: asymmetric information

2.7

- Competition: in such a way that does not pay enough attention on risk management.

### III. SUSTAINABLE DEVELOPMENT ORIENTATION

<b>1. Regarding to commercial banks</b>	Increasing competition, consolidation and diversification via restructuring and merging	Improving efficiency of banking business	Developing banking services to serve all potential customers in an efficient way
	<ul style="list-style-type: none"> <li>Speeding up the equitization process</li> <li>Encourage merging, strengthening joint – stock banks</li> <li>Review roles and functions of Vietnam development bank</li> </ul>	<ul style="list-style-type: none"> <li>Implementing banking governance in line with international practices (Assets/liability management, liquidity management...).</li> <li>Consolidating capability of recognizing risks and managing risks</li> <li>Improving information to market participators.</li> <li>Enlarging cooperation in grading up and updating infrastructure in banking system and IT.</li> <li>Building up criteria of warning in advance.</li> </ul>	<ul style="list-style-type: none"> <li>Increasing public access to banking services in parallel with strengthening of banking system</li> <li>Building up infrastructure to facilitate universal – provision of banking services (e-payment system)</li> <li>Safe and reasonable supervision of providers of financial services.</li> </ul>



### III. SUSTAINABLE DEVELOPMENT ORIENTATION

#### 2. Regarding to SBV

1

- Improving legal framework to facilitate banking business

2

- Building prudent criteria for banking business, targeting on a sound banking system

3

- Consolidating inspection and supervision regime to ensure a safe and efficient bank system
  - Reassigning roles of SBV to be a safeguard for the health of bank system
  - Comprehensive approach, risk – based inspection and supervision
  - Improving capability for banking inspection/supervision staff
  - Cooperation among management authorities
  - Cooperation and information sharing among SBV, DIV and commercial banks; consolidating CIC
  - Setting up an open dialogue among policy makers and market – participators
  - Stabilizing and strengthening position of VND, mitigating dollarization, controlling CPI, let interest rate and exchange rate to be determined with supply and demand relationship.
  - Supervising monetary market in line with international practices



### III. SUSTAINABLE DEVELOPMENT ORIENTATION

#### 3. Regarding to State

1

- Restructuring the economy, quickly reducing economy – sourced risks in banking business; reassigning role of state sector and non-state sector for social targets toward increasing role of market and minimizing state ownership, limiting administrative controls

2

- Restructuring financial market, especially stock market to be in compliance with the characters of the economy and requirements of a sound capital market

3

- Setting up rating agencies.

4

- Building up country – wide information system from local to central level.





**THANKS FOR YOUR ATTENTION !**

