

DEVELOPING BANKING SERVICE MARKET IN THE CONTEXT OF INTERNATIONAL ECONOMIC INTEGRATION IN VIETNAM

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The ongoing international economic integration faces Vietnam's financial system in general, banking system in particular with great challenges. The establishment of financial intermediaries in the financial system of each nation is unavoidable and needed to be welcomed since this is an inevitable trend of today's economic development. This positive attitude towards accepting the objective fact is shown that, on one hand, domestic commercial banks in each country have to make great efforts in order to consolidate their positions in the economy, on the other hand, pay attention to some market segments accessible to them, using their own advantages. Creating a space in domestic banking market e.g. giving up some market segments is just like losing home ground, opening opportunities for foreign competitors to create monopoly position. This is what domestic commercial banks try to avoid since foreign competitors, who are stronger in every aspects, are very good at taking those opportunities. The space Vietnamese banks are struggling to fill is banking service market.

1. What are banking services? Banks are financial-service firms. All products that banks provide for the market are services. Together with economic development, increasing number of services in general and financial services in particular are created. In the scope of this article, banking services are considered in a narrow meaning, excluding traditional activities of banks such as accepting deposits and granting loans. Here the banking services are activities banks conducting in return for fees, through serving firms, organizations and individuals. In this sense, commercial banks' service delivery is related to their off-balance-sheet activities. These include sales of financial instruments, generating fee income for banks; and sales of loans. Off-balance-sheet activities can strongly affect income of commercial banks while do not require funds at the time of contracting and do not appear on banks' balance sheet.

Banking services include:

Services for individuals: consist of marketing for banking services; issuing checks, credit cards, revolving credits, ATM, home banking services, mortgage

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loans, investment management services, tax services etc.

Services for business firms: comprise of financial guarantees; money transfers; investment, insurance, accounting, and advisory services etc.

Services for international trade: services for business firms involving in international trade, including international payment services, financing etc.

These services have the following characteristics:

Firstly, they do not require banks' funds. This is a great advantage for Vietnamese commercial banks, whose capital is low. Therefore, along with measures to increase domestic banks' equity such as equalization of state-owned commercial banks, mergers and dissolution some weak joint-stock banks etc., banks should also consider developing various types of services as an important measure.

Secondly, off-balance-sheet services are a potential source of high profit for banks since their costs are usually low. They are considered an efficient line of business which modern banks around the world actively engage in.

Thirdly, off-balance-sheet services are regarded as a low-risk field of business. Hence, expanding these services will help banks reduce risks such as interest rate risk and especially, credit risk due to asymmetric information in financial markets.

Finally, banking services require an adequate infrastructure. Commercial banks cannot provide services for consumers as well as business firm with poor infrastructure. Beside that, a competent staff force that not only has firm theoretical background but also is professionally proficient is a special requirement of banking service delivery.

2. In current context of Vietnam, developing banking service market is necessary and feasible, due to the following reasons:

First, the economy's demand of banking services is increasing.

For an underdeveloped economy, individuals and firms do not have much demand for services, especially banking and financial services. However, together with more and more open economy, increasingly liberalized trade and financial system, demand for financial services would increase rapidly and cannot be met by domestic financial intermediaries. There would be a very good opportunity for foreign financial institutions in dominating domestic financial markets when market entry barriers are lowered in accordance with integration commitments.

In reality, the demand for financial services, especially in urban areas, is increasing. This demand associates with the rapid pace of setting up new firms of various ownership as well as equitizing state-owned enterprises. It is the demand for trading stocks, investment

advisory services, leasing, liability management etc. The establishment of foreign-invested companies in the economy is a catalyst, promoting the demand for financial services. They are non-cash payment services, ATM, foreign exchange services etc. Obviously, the demand for financial services would encourage the establishment and development of the supply of services, which are still in short. Therefore, banking service market in Vietnam is of great potential, ready for accepting new supply sources. This is also a market space that Vietnamese commercial banks should actively exploit.

Second, Vietnamese banks' situation calls for developing the service market.

In fact, most commercial banks have not yet focused on accessing the service market. Traditional activities such as lending are still main sources of revenues (for most banks, revenue from lending account for more than 70% of total revenues. The reason here is that Vietnamese banks are weak in many aspects while, in order to be able to provide new and modern services, banks have to invest more on modern technology and equipment, improve staff's skills etc. (Bank for Foreign Trade has invested more than 30 million USD on technology). These are difficulties that would take banks quite a long period of time to overcome.

However, it is undeniable that since weaknesses at credit management

confront banks with serious risks, affecting their profitability and efficiency, developing services is a reasonable trend. From many countries' experience, small scale banks can still build their own advantages in some market segments. For Vietnamese commercial banks, in addition to traditional services, establishing new image and position by developing new services is necessary. New services such as card payment, ATM, payment for real property's purchase, money transfers, salary payment and management for big companies etc. would help banks increase business efficiency, reduce risks, thanks to diversification of business lines and investment portfolio of individual bank. Therefore, accession to modern banking service market in the context of weak commercial banks could be an effective measure to restructure banking activities, reduce risk exposure and non-performing loans, contributing to the cleaning of banks' balance sheet.

Hence, current situation of Vietnamese commercial banks itself poses an urgent need of expanding and developing the banking service market. This objective need do not arise from ability of banks to supply services for the market but from the weaknesses of them when international integration is approaching. Developing service activities has become one of the effective solutions for commercial banks to overcome current difficulties, and welcome the fresh but severe winds of integration.

It is necessary to affirm that many bank services are new to Vietnamese commercial banks but they would be able to successfully deliver at least some of the numerous types of services. Moreover, some banks have already developed many new services. For example, Bank for Foreign Trade has developed various modern services such as VCB online, VCB money including Home Banking and Ebanking, credit card services, ATM, debit cards "VCB connect-24", VCB Cyber Bill Payment, VCB Global Trade, VCB Treasure etc. Legal framework for banking services has also been improved.

3. The next issue is that, in the context of a weak banking system, how can banks feasibly and efficiently develop the service market? In our view, the following measures could be applied in order to develop banking service market:

For credit institutions as service suppliers

1. Active but selective and concentrative in developing services. First of all, focus on services banks currently offer such as issuing checks, credit cards, ATM, money transfers, salary payment services, accounting services, foreign exchange services etc. Banks should improve the quality of these services in order to preserve their share in domestic market. It is possible to say that foreign exchange services in big cities like Hanoi, Ho Chi Minh city have met the demand of firms and individuals. They contribute

significantly to the satisfaction of the demand for funds and foreign exchange payment, promoting export, import as well as attracting overseas national foreign exchange, fostering economic growth.

2. Brave and determined in developing new but high potential services. There are many types of services such as services to collect information and forecast; advisory services; security issuing guarantees etc. As above analyzed, the market of these services have good prospects. Beside these, Vietnamese banks should consider providing services that are new to them but surely be offered by foreign banks when they access Vietnamese market, for example, sales of loans. Banks can earn profits by selling their loans at price higher than the principal. The buyer earns an interest rate lower than the loan's initial interest rate. This service generates significant income for commercial banks. Other services are specialized services for banks' customers. For example, foreign exchange trading on behalf of customers; servicing a mortgage loan-backed security by collecting principal and interest and passing all the proceeds to the security's holder; guaranteeing debt securities by issuing drafts accepted by banks; providing credit guarantee by issuing standby letter of credit under which banks pledge to provide customer with a pre-determined amount of credit or guarantee for the issuance of commercial papers and other securities

etc. Vietnamese commercial banks should not simply seek for market but more importantly, control and dominate the domestic market. In order to do that, the urgent task each individual bank has to fulfill is to increase financial capacity and develop human resource.

3. Active in creating alliance and coordination between credit institutions in developing services. In reality, in an open economy, related services can strongly affect and support each other. Coordinative alliance between credit institutions in offering modern services help them not only reduce initial investment but also increase the possibility of dominating the service market by domestic banking system as a whole. By so doing, Vietnamese financial intermediaries can strengthen their competitiveness in competition with foreign ones in domestic market. The establishment of interbank ATM network is a good example for the strength of coordination, which should be multiplied for other banking services.

4. Create an appropriate mix of traditional and modern services based on current advantages of each bank. In fact, the lack of modern services makes providing traditional services more difficult and inefficient. Services such as advisory and analysis services, exchange rate insurance services, services to hedge against exchange rate risks, foreign exchange services etc. have a close relationship with traditional services.

5. Have a plan for human resource development in banking industry. Have more active role in training, for example by coordinating with high quality human resource suppliers. In the long-term, admit specialization in human resource educating and training, separate commercial banks' business activities from human resource training. New training as well as re-training for banking industry should be done by educational institutions in educating system. This is consistent with the trend of attaching educational institutions to labor users.

The supporting role of the government

Beside the efforts of each bank, the supporting role of the government is very important.

1. Government's supporting role is shown by a comprehensive and complete system of policies and legal documents, expressing the respect for banks' independence, self-control, and freedom to conduct business in a high competitive and level playing field. Sound and stable business environment would help banks grow more steadily and access rapidly to domestic financial markets.

2. The government also has an important role in regulating financial service market. Interdependence between services as well as independence of entities participating in banking service market requires unified regulation and command. Therefore, together with completing the legal

framework, government's supervision and inspection should also be strengthened. Punishment sanctions should be strict and transparent, creating a sound playing field, ensuring business rights of credit institutions, and protecting benefits of banks' customers.

3. Develop financial markets including money market and capital market, which should be considered the key measure to encourage the establishment and development of domestic financial service market. Developed money market creates conditions for commercial banks to execute their strengths in supply checking accounts and making payments for customers. In the context of developed money market, short-term financial claims are traded frequently among entities, increasing the value of transactions. This sets forth conditions for banks to realize their relative strengths compared to other entities. By using banking services, entities participating in money market save time and money; and have lower risks than using cash. The more money market develops, the wider the scope of

transactions with the participation of many entities in the economy. Banking services then become a necessary demand and integral part of money market transaction. Similarly, the development of stock market will create increasing demand for banking services such as guarantees, investment advisory services, portfolio management services etc.

4. Have a plan to support credit institutions by improving intellectual standards of the people in order to create the demand for banking service. However, government cannot change people's old habits or help them access modern services by only propaganda or coercive administrative measures. Business firms and individuals would use non-cash payment services, money transfer services, advisory services etc. once they realize the benefits of these services, e.g. quickness, accuracy, safeness and convenience. However, advertisement, instructions, information provision would change people's attitude more rapidly. Essentially, these are banks' sound marketing activities before providing a new service.

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