

Moving forward: Retail banking gains ground

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Based on these progressive events, the financial market will certainly see three major trends developing in the next few years.

First, more people will utilize financial services because of increasing incomes, the policy to pay State employees by direct deposit and improvement of transaction channels such as ATMs and points of sale; though only 8 percent of the population currently have bank accounts.

Second, equitization of State-owned Enterprises (SOEs) and State-owned Commercial Banks (SOBs) is emphasized in the economic plans through 2010. This may change the flow of funds into market mechanism, whereas before, SOEs have taken advantages of being intimate with SOCBs. This transformation of the financial market is expected to enhance the banking business and securities market, and help Vietnam take a huge step towards opening up to fund management companies and institutional investors.

Third, thanks to WTO accession and resultant economic policy changes, foreign direct investment reached record highs in 2007 and is on its way in 2008. This will undoubtedly demand the participation of experienced and globally reputable financial groups, who are already establishing their foothold in the Vietnamese market.

Retail market attractiveness

Looking at the retail market potential as a whole, it is clear there is a huge opportunity for foreign entrants.

First, Vietnam's current population is 84 million, second only to Indonesia in ASEAN, and expected to reach 100 million by middle of 2010s. Another advantage is the majority of the population is under 30, 58 percent and will only dilute to 50 percent by 2016.

Second, incomes are rapidly increasing. With per capita GDP reaching US\$835 in 2007, Vietnam is now listed a middle-income country at the low level. Particularly in hubs like HCMC and Hanoi, people are getting wealthier. The middle class, defined as household income over VND 6.5 million, accounted for 21 percent in 2006, compared to 7 percent in 1999 in urban Hanoi and HCMC, while the lower class - household income less than 2.0 million has fallen to 25 percent from 64 percent in the same period. With the growing maturity of the younger generation and strong economic growth, purchasing power is expected to soon reach a level that will benefit all retail services, and particularly, financial managers.

Third, partly because of high economic growth, Vietnamese consumers are optimistic about the future of the nation's economy. According to a survey conducted by TNS in 2006, 85 percent responded that they are optimistic about the economy, increasing from 79 percent in 1999. Based on this writer's own experience, urban citizens are actively and ardently seeking new career opportunities and new products to enhance their standard of living.

Regulating retail banking

Regulatory authorities have implemented a legal framework for Credit Institutions (CIs) which stipulates scope of activities, types of CI business models, rules of establishment, and so on. CIs can establish subsidiaries to engage in financial, banking and insurance businesses. Regarding payment services/networks, Decree No. 64/2001/ND-CP of September 20, 2001, which relates to payment activities via payment service-providing organizations, stipulates payment activities, payment instruments, basic principles, players and the regulators. The Decree stipulates application of international agreements and international practices in payment activities with foreign countries in case of conflict between those and the decree. In 2006, Decision No. 35/2006/QĐ-NHNN of July 31, 2006, promulgates the scope of e-banking and the principle of risk management for e-banking. Moreover, in 2007, Decision 20-2007-QĐ-NHNN of May 15 May, 2007, regulates issuance, payment and use of bank cards and of supply of auxiliary bank card services, stipulates types of bank cards (debit card, credit card and prepaid card) and related activities.

Challenges

By the end of 2007, Vietnam's operating CIs included 5 SOBs, 40 private banks (including Joint Stock banks and Joint Venture Banks), 9 financial companies, 12 leasing companies, about 900 people's credit funds (cooperative credit institutions) and one policy bank. Most CIs, including SOCBs, are focusing on retail banking markets. However, banks still lack the human resources and infrastructure integral to comprehensive retail banking services.

Regarding the human resource shortage, despite rising educational levels and quality, Vietnamese students lack the qualifications banks need and there is also a severe scarcity of good managers.

Particularly retail banking business needs a lot of employees who are not only skilled to ensure efficient and no-mistake operations, but also talented with analytical/ marketing skills and a strong sense of customer service. The Deputy Prime Minister has requested that universities and training institutions develop a common curriculum that will meet the needs of the finance and banking sectors; roughly 46,000 students of finance and banking graduate from 33 universities and colleges each year.

Looking at social benefits provided by retail banking business, banks need to meet four primary functions (1) capital mobilization; (2) processing payments; (3) term conversion; and (4) providing credit. To carry out the above tasks, infrastructure and technology application is necessary. That may include transaction channels, payment instruments, ALM (Asset and Liability Management) and interest rate swap markets and credit information bureaus.

Regarding transaction channels, although the alliance between two major ATM networks (Smartlink and Banknetvn) reported in November 2007 is expected to enhance service coverage, ATMs are still limited, numbering 3,800 as of 2007, equivalent to 46 ATMs per one million people, still well behind China (65) and Indonesia (66). Moreover, few retail banks offer credit cards. Because convenient payment services will encourage customers to use bank accounts with long time relationship, payment related services such as debit and credit cards and the network infrastructure are strategically important to competitiveness of retail banking players. Another infrastructure necessity is a credit information bureau and counseling service/network, as well as privacy regulations related to credit information. Additionally, an active interest rate swap market and sophisticated ALM are also essential for term conversion.

Fierce competition

Although there is huge retail banking potential, recent monetary market measures have forced them into competing for capital by offering increasingly high interest rates. In a market where banks are sprouting up while potential customers tend to "sleep" without substantial incentives to try financial services, they are fighting both for retaining existing customers and competing for limited new customers regardless of incurring losses.

The State Bank raised its deposit interest rate cap on January 30th, following the increase of the compulsory reserve ratio to keep excess liquidity and inflation in check. Many banks thereby reacted by severely raising deposit interest rates at this ideal time to increase market share.

Foreign opportunity

For a long time, many Vietnamese have kept their savings "in a safe place". Savings accounts are becoming increasingly popular, accounting for 35percent of savings holdings in 2006, against 15percent in 2003. Based on a growing market and commensurate service supply, it is expected that retail banking will see prosperity in the years to come.

However, despite the opportunity, most local financial institutions face significant bottlenecks such as the human resources shortage and risk management, etc. But, with new foreign entrants who have solved these problems already and who can offer service quality yet unreachable in Vietnam, international players have high hopes as well.

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