

Going to War

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Seeing the field

Securities companies do not have sufficient mid to long-term strategies, which has become a threat to their sustainability. The first problem is that securities companies' profits (especially for smaller companies) primarily come from proprietary trading; because of these companies' limited expertise, this model is only viable during periods of fast-paced growth. The second is short-term oriented strategies even among those focusing on retail brokerage and investment banking. New entrants often rely on business from their affiliates (parent companies or closely-related companies) - notably in the case of IPOs where the executives of such affiliates buy up large stakes and brokers open investment accounts for them. In cases like this, it is difficult to expand the business beyond existing connections.

Currently, there are 270,582 brokerage accounts in Vietnam (as of September 2007), which is relatively high when compared to other regional countries; Thailand, for example, had 478,585 as of the end of 2006, of which only 25 percent were active. Evidently, retail participation in Vietnam's securities market is strong, especially when average income levels are taken into account. But on the other hand, the majority of accounts in Vietnam are also likely to be inactive (despite the 'one account per person' regulation), and, resultantly, securities companies will face serious challenges in attracting new and active clients. Clearly, long-term and effective strategies need to be developed and implemented.

In 2006, four brokers dominated market share, holding over 50 percent of the total number of accounts. These superior players are large companies with strong affiliates (i.e. banks, insurance or foreign strategic partners) that have a significant advantage. By utilizing their connections, they have roped the most affluent clients - both domestic and foreign individuals and large corporations, and have begun investing extensively in modern IT that will enable them to improve their services and products. But there are also some strong medium-sized companies such as VNDirect Securities, which introduced E-trading before its competitors by developing effective IT systems on their own. However, most companies have not yet introduced customer segmentation analysis or CRM (Customer Relationship Management), and target customer profiles are vague in many cases. Consequently, most securities companies are far behind in coming up with attractive customer-oriented strategies.

Security, access and accountability

As more securities companies enter the market, there are worries regarding operational risks. The first is the capacity of IT systems. Many securities companies are not capable of catering to more than 1,000 accounts and orders simultaneously because of IT constraints (and both the HASTC and HOSE are limited as well - only capable of accepting 30,000 orders a day due to limited input terminals). Resultantly, it is often not clear which orders were successfully transacted, which leads to concerns over the fairness of trading.

Security of brokers' business operations is another concern. Management of each account is the responsibility of individual brokers, and the possibility of commingling clients' accounts, either deliberately or by mistake, has been pointed out. The central depository, VSD (Vietnam Securities Depository), does not require shareholder information on a real time or periodical basis; though planned improvements will raise the monitoring of brokers' account management.

Compliance and fraud are also a concern, and rumors of market manipulation and unfair trading are growing among retail investors. On the part of securities firms, they could address this issue by implementing a more sophisticated technology that would recognize and authorize users' activities thereby protecting companies and investors from manipulations.

Securities companies are now recognizing the importance of technology and are revamping their IT systems. The largest local IT vendor, FPT Information Systems, has launched a new brokerage system that is supposed to gradually phase

out the popular but archaic BOSC. Additionally, HASTC and HOSE have begun test trials of an online connection between brokers and the trading floors that will allow instantaneous transactions. This move will force securities companies to upgrade their own technologies to improve the services they provide to their clients. But smaller brokerage houses are still struggling with insufficient technology infrastructure.

Foreign entrants

In the coming time, Vietnam's brokerage sector is expected to compete more fiercely due to a number of reasons. Firstly, the foreign ownership ratio of listed companies has been raised to 49 percent, as per Decision No.238/2005/QD-TTg dated September 29, 2005. WTO commitments require Vietnam to raise this cap to 100 percent within five years of accession. This means there will be more foreign-owned and foreign-managed brokerages in the near future, especially in terms of investment banking and wealth management. Current foreign players include Morgan Stanley, Goldman Sachs and Daiwa Securities.

Another important factor is the expected emergence of an investment fund market. Currently, supply constraints because of equitization delays have slowed the growth of the investment fund market. But there is huge potential for it to catch up in the near future. China is a good example of the opportunity emerging here in Vietnam. China's securities market was previously, and still is to some extent, dominated by retail investors – most of whom are prospectors and day-traders that threaten market stability; but the Government has now introduced several measures to mitigate the fast-moving capital inflow and outflow. These include the introduction of an open-end investment trust scheme and the channeling of institutional investors' funds (as well as retail capital) into investment trusts that were created as early as 2001. China's investment trust market has grown rapidly since these reforms.

Competitively dull

In August 2003, the Vietnamese Government launched the "Strategy for the development of Vietnam's securities market through 2010" (Decision No. 163/2003/QD-TTg). The strategy included, "enhancing the operational quality of the securities market," which would be achieved by enforcing compliance of corporate governance principles, improving the quality of securities business practitioners and improving the quality of auditing financial statements. Most of these have yet to be ironed out. Certain concrete measures for effective enforcement, like the development of a Code of Conduct, the establishment of a self-regulatory organization or the introduction of qualifications for practitioners would also be necessary for achieving the aforementioned goals.

Vietnam's securities sector is still in the early development stage. It is critical to maintain the confidence of investors towards the securities market, especially in times of the current slump. The SSC needs to carefully monitor securities companies (particularly those with a weak financial or operational profile), keep an eye on clients' accounts, identify credit risks and crack down on unfair trading. As for securities companies, because they will be faced with ever fiercer competition, they need to come up with, and implement, long-term business plans and strategies that will help them survive during downturns and prosper during hot streaks.

A quick glance of the history of Vietnamese securities sector

1993: Nov: Capital Market Development Committee was established under SBV to develop legal framework

1996: Dec: State Securities Commission was established as an independent government entity

1997: Equitization program of SOEs was launched

2000: July: Ho Chi Minh City Securities Trading Center was established

Dec: 7 companies were granted license to conduct securities business

2003: Nov: Decree No.144 on securities and securities market was enacted

2004: February: State Securities Commission was transferred under the Ministry of Finance

2005: March: Hanoi Securities Trading Center was established

2006: May: Vietnam Securities Depository was established

December: Number of securities companies increased to 55

2007: January: Securities Law was enacted (replacing Decree No.144 and other regulations)

August: HCMC's STC was transformed (upgraded) to "Ho Chi Minh City Stock

December: Number of securities companies increased to 69.