

## Spreading Out The Credit

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### The early days

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### Doing its part

Vietnam's banks, like banks in other Asian countries, are the primary financial foundation; they provide payment and settlement services to support economic activities and provide credit. Resultantly, the Government usually prioritizes its support towards helping banks. Because of their integral role in maintaining the entire financial system, banks have to meet high solvency requirements and usually diversify their credit exposure to a variety of sectors and industries. Contrarily, non-bank credit institutions are usually more flexible and specialized credit providers, and can contribute more directly to a selected sector by supporting sales, fostering smoother flow of goods and services, etc.; much more so than banks. In other words, banks are the bedrock of most businesses, but there are niche areas that banks fail to consider, or exploit, and this is where the non-bank credit institutions step in.

An example of one of these niches may be providing credit cards under an alliance, so that retailers can accumulate data of customers' purchasing activities; this is a major strategy of retailers in developed economies. This data base, if used properly, can be a strong marketing tool. Depending on the country's legal and regulatory framework governing the financial sector, credit cards can be issued by either banks or non-bank institutions, or both. In Japan, non-bank financial institutions can issue credit cards, though they can't accept any sort of deposit; whereas in the UK, only deposit accepting financial institutions can issue cards. As for Vietnam, under current regulations non-bank credit institutions may issue payment cards, but almost all currently distributed cards have been through commercial banks.

### Legal blur

The State Bank of Vietnam (SBV) did not expect non-bank credit institutions to play an important role, assuming they would be subsidiaries of industrial companies or banks. Perhaps because of this assumption, the current legal and regulatory framework is not so clear.

For example, the current Law on Credit Institutions assumes that providers of 'financing services' and 'leasing' are different; so in order to provide both loans and leasing, two companies must be involved. This is behind Vinashin Group's recently established leasing company subsidiary, in addition to its existing financing company (Table 2). But it would be more practical for financial service providers be allowed to provide both services, so as to best serve customers with specific needs.

Another example of the murky law is that current regulations assume leasing would only be provided for business purposes. Resultantly, individuals who do not own their own business cannot lease a car for daily use or leisure purposes (though such restrictions are not unreasonable given the Government's interest in limiting the number of cars on the road as a result of worsening traffic conditions).

It is rumored that the State Bank is currently drafting new legislation to replace the old law, which is expected to provide a more efficient regulatory framework for non-bank credit institutions. If this pans out, both financial service providers and customers will have many new services available to them.

### Small fry, big taste

Although the non-bank credit institution sector is small, it has potential to grow in coming years. Healthy competition is expected among new comers, as more and more foreign non-bank financial institutions seek access to the Vietnamese market; some of these companies already have in-country representative offices. In fact, it was a foreign owned finance company that introduced the retail business model to the Vietnamese market. Before, almost every finance company was a subsidiary or affiliate of large corporations such as PetroVietnam or Vinashin whose sole purpose was to provide financing to their respective parent organization. But in recent years, this sector has been on the brink of change; the first foreign owned finance company, Prudential Vietnam Finance, started by providing loans to individual customers by

approaching people at shopping malls. So, as the non-bank financial competition heats up due to foreign participation, expect fiercer emphasis on the retail credit market.

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