Media title: Bank restructuring: five-year review and prospects to come
Author: Nguyen Hoang Nam, Deputy General Director of PwC Vietnam
Source: Vietnam Investment Review on 20 December 2016
Online link: http://www.vir.com.vn/bank-restructuring-five-year-review-and-prospects-to-come.html

Money

07:00 | 20/12/2016

A+ A- 0 Print Email

Bank restructuring: five-year review and prospects to come

Positive news regarding the restructuring of banks has emerged at year-end.

At the recent Vietnam Development Forum 2016, Prime Minister Nguyen Xuan Phuc announced that there are international financial institutions that are planning to participate in the handling of bad debts and restructuring other weak commercial banks in Vietnam.

The fact that this news emerge at this moment means things are on the right track. In fact, not so long ago, State Bank of Vietnam's Governor Le Minh Hung also shared that it had finished the project "Restructuring of Credit Institutions in 2011-2015," and was planning new programmes to speed up this process.

Far-reaching achievements

During the last five years, the process of restructuring commercial banks in Vietnam has actually achieved positive and notable results. First, restructuring credit institutions (CIs) was implemented thoroughly, which helped to reduce the number of small and uncompetitive commercial banks. A special achievement is that the State Bank of Vietnam has successfully controlled the liquidity of these small banks, while ensuring the rights of depositors and the safety of the whole banking system. This process also helped to create a number of large-scale commercial banks capable of competing regionally. Vietinbank and Vietcombank, two domestic banks that are ranked in the global top 500 commercial banks, are examples of the rise of Vietnam's leading banks.

Next, the solution of financial restructuring, including handling bad debts and raising the capital of CIs, was also implemented. The bad debts to total gross debts ratio of the whole banking system was controlled more strictly with the aim to bring the ratio under 3 per cent. The State Bank proactively issued regulations about debt classification, the setting and use of credit loss provisions as per Circular No.02/2013/TT-NHNN and Circular No.09/2014/TT-NHNN, as well as the cessation of Decision No.780/QD-NHNN to minimise false reflection of credit quality through rescheduled loans. The total scale and registered capital of the Vietnamese banking system have also increased in the past years.

Besides, operating and management restructuring have helped to enhance the capabilities of developing effective business strategies, with banking credit focusing on key industries. The banking business model has been adjusted towards garnering increased revenue from services and enhanced business and risks management capabilities. Controls were also developed to limit the power of major shareholders and their connections in banks, by capping out the shareholding limit and cross-ownership.

In fact, the regulations about prudential ratios for the operations of CIs as per Circular No.36/2014/TT-NHNN and Circular No.06/2016/TT-NHNN did help to enhance the financial capabilities of the Vietnamese banking system. Ten domestic commercial banks were also chosen to pilot the first phase of Basel II, which is scheduled to be completed in 2018. This definitely shows the urge for global integration.

Challenges that remain

It is obvious that the bank restructuring process will be carried out more thoroughly in the next phase, building on the positive outcomes of previous efforts. However, we should be more vigorous in carrying out proposed restructuring solutions to effectively solve the remaining challenges.

Handling bad debts should be the number one target. At the moment, this process is done by either CIs collecting debts themselves, or by selling these debts to Vietnam Asset Management Company (VAMC). Though the latter option has been chosen in many cases, the actual debts volume VAMC collected through this channel is still very limited. I hope VAMC can be more proactive in their debt collection, especially with support from the framework for liquidation of collateral assets, debt selling and restructuring, and guidance to convert debts into capital to support VAMC's participation in the financial restructuring of CIs.

Secondly, although mergers between commercial banks have a positive impact on the CIs restructuring scheme, the deals that took place in the past years were solely to counter the cross-ownership problem. These mergers have yet to enhance the quality of assets, operating and management capabilities, as well as risk management capability of CIs in an actual sense.

Banking risk management capability is the third challenge to be looked at. The State Bank did issue Circular No.44/2011/TT-NHNN to regulate the internal controls and internal audit functions, which are considered the second and third lines of defence for any business organisation. Nevertheless, violations in the Vietnamese banking system in the past few years have been posing a great challenge to the risk management capability of domestic commercial banks.

How to grab the bull by the horn?

Back to the news of international financial institutes planning to participate in the handling of bad debts and restructuring of weak commercial banks in Vietnam. this is quite in line with the direction of the next phase of bank restructuring. State Bank Governor Le Minh Hung has stressed that Vietnam welcomes foreign investors with open arms to participate in the restructuring process. The rest depends on the judgement of these investors of the opportunities and prospects of Vietnam's banking sector in the years to come.

From my personal observations, foreign investors are primarily concerned about three major issues. First, the low limit of foreign ownership in domestic CIs is not considered attractive enough at the moment because it hampers investors' influence in the invested entities. Second,

Media title: Bank restructuring: five-year review and prospects to come
Author: Nguyen Hoang Nam, Deputy General Director of PwC Vietnam
Source: Vietnam Investment Review on 20 December 2016
Online link: http://www.vir.com.vn/bank-restructuring-five-year-review-and-prospects-to-come.html

it is the somewhat lacking transparency in the managerial structure and information disclosure of banks in Vietnam. Lastly, there are still mismatches between the solutions to handle bad debts and supporting the regulatory framework. This will continue to hinder foreign investors' interest in Vietnamese banks as they do not have any trustworthy methods to evaluate domestic banks and make decisions accordingly.

One good sign was the issuance of Decree No.01/2014/ND-CP, which allows foreign investors who meet certain financial criteria to own more than 30 per cent of the shares in a domestic commercial bank. Besides, the approval of the Law on Asset Auction by the National Assembly, which allows VAMC to auction off its bought debts and collateral assets, is also welcomed by foreign investors.

In order to effectively attract foreign investors, I would recommend domestic commercial banks to initially focus on building a transparent management model. The State Bank can assist by improving the banking management model regulations, with emphasis on standardising the internal control system and internal audit functions. The goal is to harmonise commercial banks' efforts with the State Bank's supervisory responsibilities.

In addition, banks need to strengthen their financial capabilities by controlling non-performing loans and managing credit risks. Currently, the huge gap between Vietnamese and international practices of classifying debts and setting credit loss provisions is also a concern for foreign investors. Therefore, domestic banks ought to speed up applying international standards to provide further valuable sources of information for prospective investors.

Last but not least, the State Bank should focus on providing more pragmatic solutions to handle bad debts. Supporting regulatory framework shall be developed and put into place to speed up the process of handling bad debts. This process is taking more time than expected due to limitations of the asset trading market, the complexity of collecting and auctioning collateral assets, as well as the severe lack of a true debt-trading market. The foreign ownership cap in domestic banks should also be raised. Of course, policies and procedures must be leaner to comfort and attract prospective overseas investors.

By Nguyen Hoang Nam - Deputy general director of PwC Vietnam