Vietnam Chapter

1. What explains the timing of the beginning of these markets?

The Vietnamese bank card market was created in late 2002, when a few banks started issuing their experimental proprietary cards. The following section explains the macro-economic conditions prior to that time.

Doi moi (renovation), adopted in 1986, launched Viet Nam's transition from a centrally planned economic system to a multisector socialist-oriented market economy. Economic liberalization, particularly in agriculture, led to strong productivity increases and diversification, turning Viet Nam into the world's second largest rice exporter. Greater market orientation has been accompanied by structural transformation. Agriculture's share in gross domestic product (GDP) is declining, but the sector still accounts for the largest share of employment, with agriculture accounting for approximately 22% of GDP and 60% of employment in 2001. The industry and services sectors have expanded, particularly in urban areas, and foreign direct investment (FDI) inflows and official development assistance have augmented domestic savings in financing development. Liberalization has been accompanied by significant poverty reduction, and the proportion of the population below the poverty line is estimated to have declined from 58% in 1992-1993 to around 32% in FY2000.

Viet Nam's economic performance over the previous decade has generally been strong. During 1992-1997, GDP grew at an average annual rate of 8.8%. The high growth period was followed by two years of economic slowdown during 1998-1999, when the average annual GDP growth rate fell by almost half to 4.6%. A rebound started in 2000, and GDP grew by about 6% in both 2000 and 2001, supported by strong domestic demand and expansion of public investment. Prudent macroeconomic management has: (i) kept inflation in check (less than 1% annually since 1999); (ii) maintained fiscal deficits within manageable limits (less than 3% of GDP in 1998-2000, and 4.9% in 2001); (iii) transformed high balance-of-payments current account deficits into surpluses since 1999; and (iv) set external debt accumulation on a more sustainable path (by reducing the debt-service ratio to around 10% of GDP in 2001).

Economic and structural reforms, which had slowed down in the wake of the 1997 Asian crisis, have again gathered momentum. The Government has committed, through the Bilateral Trade Agreement with the United States and the ASEAN Free Trade Agreement to significant trade liberalization, which should provide a strong challenge to increase the competitiveness of domestic and public enterprises. Simplified registration requirements under the new Enterprise Law adopted in 2000 led to a surge in the number of small private enterprises. Banking sector (and to a lesser extent SOE) reforms have been initiated, and a public administration reform master plan was approved in November 2001. Given the uncertain international economic environment and its impact on FDI inflows, Viet Nam will need to rely on domestic savings to sustain rapid growth rates. Improving the efficiency of the financial system, especially expanding the retail banking market, is an important requirement in order to sustain savings mobilization and growth.

The Vietnamese financial sector mirrors its economy and is in a transitional phase. Financial sector reforms since the onset of Doi moi, have created a two-tier banking system, established the basic legal frameworks for central and commercial bank operations, and initiated the development of financial infrastructures such as the credit information bureau and the payment system. The Government has made persistent efforts to modernize and transform the financial sector, recognizing its significance to the country's economic performance. Still, plagued by many factors inherited from the former regime, the formal financial system remains underdeveloped, inefficient, and inaccessible to many.

Financial intermediation is low and the current structure inhibits economic development and employment generation. Domestic financial resource mobilization had been limited, with gross domestic saving to GDP ratio at 24% in 2001. Within the financial sector the banks are dominant with total assets accounting for more than 70% of GDP. The nonbanking sector, on the other hand, was still at a nascent stage, with assets less than 3% of total bank assets, and will require substantial technical and financial support for proper development.

The number of banks increased during the previous decade due to deregulatory measures adopted by the State Bank of Viet Nam (SBV). However, state-owned commercial banks (SOCBs) continue to dominate the subsector despite their lackluster performance. In 2002, the banking subsector comprised 6 SOCBs, 38 joint stock commercial banks (JSCBs), 4 joint venture banks, 23 foreign bank branches, and 80 foreign bank representative offices. The four major SOCBs accounted for 73% of total bank assets, while JSCBs accounted for 10.7%, and foreign branch offices and joint venture banks together accounted for 15.3% of total bank assets. For credit, SOCBs provide 72% of total bank loans in the economy. Approximately 45% of SOCBs' credit is channeled to SOEs, with a substantial amount nonperforming. Efficiency is low, particularly for SOCBs operating large branch networks without adequate management information systems and performance measurement standards. The poor asset quality and inefficient operation have caused SOCBs' profitability to deteriorate, and financial returns on assets averaged –0.2% and the capital-to-assets ratio stood at 6% as of December 2001, as measured using the Vietnamese accounting system.

In May 1998, a bank restructuring committee, headed by a SBV deputy governor, began planning for restructuring in the banking subsector. A plan was formulated with the assistance of the International Monetary Fund (IMF) and World Bank, and consists of a five-track reform program: (i) improving the legal, regulatory, and supervisory frameworks; (ii) providing equal opportunities for all banks; (iii) restructuring JSCBs; (iv) restructuring and commercializing SOCBs; and (v) training management and staff in commercial banking and central bank supervision. In support of its implementation, IMF and World Bank provided a poverty reduction and growth facility (PRGF) and poverty reduction support credit (PRSC) in 2001.1 The banking sector was being restructured under the PRGF-PRSC framework.

For the clearing and payment system, SBV had initiated a major project to build a nationwide real-time gross settlement system with World Bank assistance. The Deposit Insurance of Vietnam was established in June 2000, and currently insures deposits of all commercial banks and 930 people's credit funds up to a maximum of D30 million ($1,966). A first payment was made to the depositors of a failed People's Credit Fund in 2001.

The fundamental infrastructure for building a sound and efficient financial sector, such as an accounting and auditing system, and basic laws on bankruptcy, contract enforcement, collateral, and loan recovery were being gradually developed. Ministry of Finance was drafting the Vietnamese Accounting Law. The Vietnamese accounting standards were being developed based on IAS, taking into account Vietnam's specific conditions, and was completed by the end of 2004. The Bankruptcy Law was under development with Asian Development Bank (ADB) assistance.

In 2002, Asia Commercial Bank, the leading private-owned bank, sold a minority stake to IMF. The discipline and know-how brought by IMF probably contributed to ACB’s continued development into a very innovative and good quality service provider, including a market leading position in card issuing. In June 2003, the SBV announced its intention to equitize two of the five SOCBs, one of which is scheduled to have the participation of a strategic foreign investor. Foreign investors’ equity ownership in domestic banks are limited to 10%, and foreign banks receive only limited licenses (eg. only corporate banking activities, only Hanoi and Hochiminh City operations).

The government successfully completed in 2003 a bank modemization program, supported by the Payment System and Bank Modernization (PSBM) project of The World Bank (WB). Under the project an intemationally compatible IT platform was established. On the foundation of this platform, a modern Inter-bank Payment System (IBPS) and two modern Core Banking Operational and Management Control Solutions (CBS) were introduced on a pilot basis. The IBPS vastly improved the payment services in the economy by reducing float, accelerating circulation of funds and increasing efficiency of funds transmission, while providing convenience and service to users. The system has also contributed to the solution of cash shortages that had existed for years in the economy. The share of cash in total liquidity was declining, at 22.0 percent in 2003 compared with 22.6 percent in 2002 and 23.7 percent in 2001.

The new electronic payment services available from the pilot IBPS had been readily accepted by the commercial banks (CBs), with many banks originally not included in the pilot project now having online connections and making active use of the system. The modern banking operational solutions have strengthened the institutional capabilities of the participating banks (accounting for over 73 percent of the banking system credit), as they have centralized the banks’ core businesses and stimulated initiatives to improve internal procedures, structure, management and customer services. The new systems have also brought about changes in banking regulations and operations as well as banking staff quality in all aspects of banking activities. The basic managerial structure of each of the commercial banks has started to change in order to take full advantage of the new systems. This helped create strong IT departments and IT top executives that later fostered the establishment of credit card departments.

2. What is the structure of the market for retail banking in the country?

The banking system is dominated by the large four State-Owned Commercial Banks (SOCBs) accounting for about 70 per cent of the total assets in the system. The SOCBs are complemented by about 90 institutions of different kinds: of Joint Stock Banks (JSBs), Joint Venture Banks (JVBs), and branches and representative offices of foreign banks, and to a minimal extent credit cooperatives/credit funds, Microfinance Institutions (MFIs), and financing companies.

The large 4 SOCB are:

- Vietcombank (VCB), whose core businesses is in money, particularly foreign exchange, markets and trade; and is considered a quality innovative service provider to retail market, with a leading market share in bank cards as well;
- Bank for Industrial Develelopment of Vietnam (BIDV), focusing primarily on medium- to longer-term project financing to SOEs;
- Vietnam Bank for Agriculture and Rural Development (VBARD) portfolio has become heavily weighted on rural/agricultural finance and it presently has the widest distribution network;
- Industrial and Commercial Bank of Vietnam (ICB), a very conservative commercial bank.

The following table describes the payment card market as of August 2002:

Vietnam Payment Card Market as of August 2002

Bank	Owner -ship	Card	ATM	POS	Plan 2002
Vietcombank	State	50,000	35	2,000	30 ATMs
B. for Agriculture	State	-	-	-	50-100 ATMs
Incombank	State	1,000	32	-	50 ATMs
BIDV	State	1,000	12	-	30 ATMs
ACB	Private	30,000	-	3,000	10 ATMs, 2,000 POS'
Phuong Nam Bank	Private	-	-	-	2 ATMs
Dong A Bank	Private	-	-	-	2 ATMs
Military Bank	Private	-	-	-	2 ATMs
Techcombank	Private	-	-	-	Issue debit cards
25 others	Private	-	-	-	Many plan to issue cards
ANZ	Foreign	-	4	200	4 ATMs
UOB	Foreign	-	-	200	More POS
HSBC	Foreign	-	4	-	4 ATMs
Citibank	Foreign	-	1	-	-
83 others	Foreign/JV	-	-	-	Many plan to issue cards

International card networks (Visa, Mastercard etc.) and issuers (Hongkong Shanghai Bank Corp, Australian-New Zealand Bank) have become more agressive as WTO entry in approaching and their regulatory barriers (eg. limited operational and geographical licenses) are being gradually removed.

Domestic card issuing banks also are becoming more innovative. Some banks have introduced service packages that include SMS reports on cash withdrawal and other transactions.

3. What kind of information sharing is there among banks?

There is no Credit Bureau that maintains information on retail customers. A Credit Information Center (for corporate credits only) is operating with standardized credit documentation, reports, and a database, which allows for compilation, distribution, storage, and retrieval of credit information. The system encompasses an early warning system, flagging high credit risk and problem accounts to financial institutions. There is no blacklist sharing among banks, except for reports of occasional fraud cases.

4. What are the peculiarities of the credit card market?

There is a bank card association that coordinates among card issuers, organizes regular seminars and repreresents members’ lobbying efforts.

There are currently 3 card issuing/acquiring alliances:

- Connect24: owned by Vietcombank (the state-owned card market leader), and joined by about 10 privately-owned banks.
- Banknet: lead by Bank for Agriculture and Rural Development (the institution with largest branch network but laggard in card issuing), Asia Commerical Bank (the top private-owned bank and also a top card issuer), with participation of about 10 private-owned banks.
- The third network is a cooperation among about 10 privately-owned banks.

The other 2 SOCBs (Incombank and BIDV) still issue their proprietary cards and operates their own POS/ATM network.

Most card issuing banks also have licensing agreements with the major international networks (Visa, Mastercard). American Express has Vietcombank as its exclusive issuing agent.

Vietcombank had an advantage of having a large retail customer base, a large portion of which converted into cardholders. They also leveraged their large customer base of corporate borrowers in order to deploy ATMs and POSs at hotels, restaurants, shopping centers, industrial zones etc.

ACB was very agressive and innovative in coming up with new card products and in finding ways to deploy POSs (eg. in taxis).

Many card issuing banks enter into agreements with large state-owned enterprises to offer cards at discounted terms to their employees. Others approach universities, industrial parks etc. to issue cards to students, workers and deploy ATMs and POSs on their premises.

Some banks have started to engage in co-branding cards, eg. with insurance company Prudential, with large retailers, etc.

Most proprietary cards are secured credits or debits. Real credit cards are nonexistent, except for some banks issuing credit cards to their own employees and VIPs only. Visa and Mastercard have been licensing secured credit cards to domestic issuers. Visa has just come in with their debit cards.

As there are very few real credit cards, the application conditions for cards are quite simple. Customers need an account with the issuing bank, deposit (typically 110% of the credit limit) for secured credit cards, or a minimum balance for debit cards. There is no credit scoring applied by banks.

Card transactions are monitored with simple software systems provided by the card software vendors. However frauds are quite common, there were about one major case every year for the last few years. The court and the law enforcement is obviously called upon in fraud cases.

The main problem banks see is the same one that has been hindering development of all no-collateral loans: the lack of transparency in personal incomes. Most creditworthy people have very low reported incomes on paper, since the majority of their incomes come from cash incentives from their employers and suppliers, while both the persons and the companies try to avoid taxable reported incomes. In addition, most documents that would prove creditworthiness (eg. salary statements, asset certificates) are easily subject to fraud.