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Ministry of Finance



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International Corporate Governance Meeting:

Why Corporate Governance Matters for Vietnam

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Morning Session: Context: Corporate Governance in Vietnamese Banks
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IMPORTANCE OF GOOD CORPORATE GOVERNANCE FOR VIETNAM COMMERCIAL BANKS

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In recent years, globalization has brought new opportunity as well as challenges to both policy makers and enterprises of Vietnam. In the context of globalization, regional and international organizations have been established, growing and setting new standards to influence business activities and various sectors.

In that inevitable course for integration, the country-in-transition of Vietnam is proactively preparing necessary steps for a stable integration into regional and international economy. We consider this is an appropriate time to talk about corporate governance, highly appreciate the idea to organize the consultative conference on corporate governance in Vietnam and would like to share our views over this issue.

1. The importance of good corporate governance for Vietnam commercial banks

In any single economy, banks play an important and sensitive role. Its performance directly affects the growth, efficiency and the stability of the economy. Therefore, corporate governance is of special importance and considered the key for corporates to successfully achieve its strategy and ensure the stable development of the sector.

In banking sector, international integration has brought opportunity to international exchange and co-operation, allowing Vietnam banks to have access to global funding sources and technical assistances, therefore permitting them to better meet capital need (in particular long term capital) of the economy and serving as a stimulus for reform and modernization of Vietnam banking sector and for the enhancement of banking management capability in accordance with international standards.

Effectively defining objectives and implementing corporate governance in Vietnam banks have been reducing potential obstacles with which Vietnam banking and financial sector is facing, which include:

- Our banking and financial system is underdeveloped as compare with regional and international one. It is obvious that the system is expanding, but it still fails to meet the increasingly high demand of the economy for a wider range of financial products offered. Offer of key financial products for private sector, especially for SOEs still remains limited.

- Banks' weak capability to protect itself against potential exposures that may be caused by customer intention or economic regime is the inevitable outcome of low infrastructure and weak human resource competence.
- Vietnam accounting and auditing system still fails to become a real component of the economy's information infrastructure and still lags behind international standards. Information transparency, which is one of important factors to satisfy the need of a sound development of the market, should be considered the first priority.
- Current regulation and legal framework still create barriers leading to inefficient allocation of financial resources. Financial institutions suffering high cost of operation therefore have disadvantage in terms of market competition and apply high charge on services provided to customers.
- In particular, good corporate governance in Vietnam banks will bring a sound financial situation to banking sector; create chance for capital accumulation to reinvest more efficiently into the economy.

2. Some issues to be considered to ensure the most efficient corporate governance in Vietnam banks.

In the context of regional and international integration, the development of Vietnam economy requires the acceleration of restructuring and modernization of banking system. Strictly following governance principles and enhancing banking governance efficiency is always banking sector's utmost concern and considered the prerequisite for the sector stability and growth. In general, this has a positive correlation with a stable development of enterprises. This also has positive impact on the economy as a whole. The governance should be examined from various perspectives, including objective versus strategy, organization versus operation, and systemic risk governance in particular.

Some key issues to be overcome

a) Objective versus Strategy governance

- Fulfill integration commitments; gradually strengthen the health of commercial banks with regards to capital, infrastructure, size, performance and expansion of market share. Planning to achieve a considerable change in infrastructure, capital resources, products offered, performance and security of banking sector in 2010. From 2010, Vietnam banking sector will fully operate under international standards (Basel I, Basel II) regarding both management, supervision and technology.
- Strengthen the competitiveness of each commercial bank with focus on improving quality of services and product diversification, reducing service charges, better serving customer need to enhance bank's reputation and therefore widen bank's business opportunity.

- Ensure that the stability and development of every bank will be based on its own competitive advantage.
- Each bank's development strategy shall reflect the bank's relation with economic environment and define goal for each period of time.

b) Organization versus Operation governance

- Build up an organization and network capable of realizing the expected strategy and objectives; establish a good organization, reasonably allocate resources, provide staffs with modern training program; strengthen key staff's capability.
- Create favorable conditions for bank's technology modernization, especially management information system and inter-bank electronic settlement in order to widen the chance for Vietnam commercial banks to integrate into international financial market.
- Focus on treatment of non-performing loans and bad debts to increase bank's solvency and financial health, improve bank's ability to face risks.
- Improve bank management capability and financial health on the basis of speeding up reinvestment and ownership restructuring. Restructuring should be in line with establishing regulations in accordance with development and integration process. Building up concrete management regulations in compliance with international standards for basic operation of banks.
 - + Credit management, investment management based on modern procedures; establish credit manual.
 - + Capital management, follow safety requirements set out by bank for international settlement.
 - + Assets – Liabilities management, prevention of new bad debts.
 - + Accounting and financial management under international standards.
 - + Risk management.
 - + Human resources management.
 - + Settlement management
 - + Technological management and modernization.

c) Systemic risk management.

Systemic risk management is the function assumed by the State Bank of Vietnam through monetary policy instruments and safety supervision regulation. In addition, the SBV has the responsibility to guide commercial banks to adopt risk mitigation methods suitable for each bank's circumstance, to build up credit information system, customer evaluation information as

well as related domestic and international economic information to prevent banking sector from possible exposures.

In the course for international integration with many social, economic and political changes, sound corporate governance in banks has an important role regarding the safety and efficiency of every single bank and the economy as a whole. However, we should not forget one thing: enhancing bank's performance remains dependent on the outcome of other sector reform, especially that of SOEs reform.