

PROVIDING INTERNATIONAL BANKING SERVICES – OPPORTUNITIES AND CHALLENGES FOR VIETNAMESE COMMERCIAL BANKS IN THE INTERGRATION PERIOD

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Abstract

Subject to the current trend of globalization and international trade market opening, providing international banking services to clients not only increases income but also affirms and enhances Vietnamese commercial banks' competitiveness. The opportunities that Vietnamese commercial banks receive from providing international banking services can be mentioned such as: expanding international correspondent banking network, improving competitiveness and improve management capacity by applying and developing products to meet international demand... However, banks also face many challenges. Taking advantage of opportunities and overcoming challenges will help commercial banks develop international banking services, thereby promoting the overall development of the entire banking system. Because of the above reasons, in this working paper, the author focuses on assessing the current situation of providing international banking services, recognizing the opportunities and challenges for Vietnamese commercial banks in the current economic integration period.

Keywords: *Competitiveness, international banking services, import-export, integration*

1. Introduction

In the context of economic integration, countries are trying to develop, open up and cooperate with other countries. The movement of goods between countries and the relationship between countries in transportation, insurance and payment has created the need to use international banking services. The process is to conduct payment activities between entities in different countries to form and develop international banking services, in which the bank is an intermediary bridge between the parties. According to Nguyen Van Tien (2007), international banking service is an important service of commercial banks, bringing significant revenue for banks. In particular, international payment is an important link in connecting and promoting the development of other business activities of the bank such as foreign currency trading, import and export financing, international guarantee and credit. According to Nguyen Thi Cam Thuy (2012), banking services are divided into two

segments: domestic banking services and international banking services. International banking services are activities related to money transfer transactions beyond national borders to integrate and transact with other banks in the world (Le Van Tu, 2009). In which, international banking services include: international payment, card, guarantee, factoring, capital mobilization, import and export financing, foreign exchange business... The international banking services mentioned in this study are the banking services related to foreign currency provided by the Vietnamese banks.

Today, when a series of trade agreements come into force such as the Trans-Pacific Strategic Partnership Agreement (Comprehensive and Progressive Agreement for Trans-Pacific Partnership - CPTPP), the Free Trade Agreement between Vietnam and the European Union (EVFTA), ... have promoted import and export activities of businesses, thereby promoting the use of international banking services at Vietnamese commercial banks. It is increasingly meaningful that commercial banks become a bridge for organizations, businesses and individuals to carry out business activities beyond national borders. Therefore, international banking services tend to increase in terms of revenue, profit as well as the number of customers and agency relationships, helping commercial banks establishes a foothold in the market. Implementing international banking services, the bank can monitor the business situation of import-export enterprises, facilitating effective management and coordination of import-export activities in the country according to the foreign policy that has been determined. At the same time, international service helps create a closed business chain for other services of the bank to have the opportunity to develop. However, with the presence of a large number of foreign banks with potential to participate in the domestic market, Vietnamese commercial banks have to face many challenges.

The provision of international banking services in Vietnam has recently attracted more attention to investment for development than ever before. However, commercial banks have only focused on expanding the scope and limiting operational risks without paying attention to the analysis and evaluation of the economic efficiency of this activity. Therefore, this issue was chosen to discuss in order to assess the opportunities and challenges of commercial banks.

2. Literature Review

There have been many domestic and foreign studies on international services in recent years. Some foreign studies mention solutions to develop international banking services at commercial banks to increase competition by focusing on strategies to attract customers. Research by Friederike Niepman (2014) mentions the significant cost factor that affects customers in using two main international payment instruments, which are letters of credit (L/C) and documents. With great value in export, the use of this payment instrument requires customers to choose a large and competent bank.

Some other studies mention that commercial banks can achieve higher benefit of scale when all their assets are fully exploited on a global scale (Nguyen Thi Cam Thuy, 2012). Economic integration has been creating conditions for banks and commercial banks

to develop. According to Vu Thi Thu Hoa and Nguyen Thi Thanh Phuong (2018), the development of foreign trade finance is increasingly proving its important role and position in contributing to the success of the current Vietnamese commercial banks. Pham Huyen Trang (2016) also pointed out that international trade finance business increasingly accounts for around 20-30% of Vietnamese commercial banks. According to Le Van Tu (2009), international banking services strongly promote the import and export activities of the country and at the same time are a positive factor in stimulating the circulation of international investment capital flows into that country. Through international banking services, businesses and investors quickly grasp and master international financial practices, so that they can perform well and compete on the integration process with developed countries. Commercial banks have therefore sought all ways to improve competitiveness, market share and operational efficiency. Huynh Thi Huong Thao (2017) studies the impact of international banking services on the bank's operating system during a time of changes from regional and international partners.

However, commercial banks always face difficulties and challenges when participating in integration (Ho Nguyen Phuong and Nguyen Viet Trung, 2019). Established FTAs put competitive pressure on Vietnamese commercial banks at all three levels, country, enterprise and product (To Huy Vu, 2019). Vietnamese commercial banks must find ways to mitigate risks, handle challenges in order to strengthen internal resources, competitiveness and develop new factors while still ensuring the common goal of stabilizing the macro-economy and building flexible industry system to respond to global and regional economic fluctuations.

3. Results

3.1. Current situation in providing international banking services in Vietnam

Currently, Vietnam has international trade relations with more than 180 countries and territories, focusing on a number of partners such as the EU, the US, Japan, ASEAN and China, etc. Competitive pressure among commercial banks (Thoraneenitiyan and Avkiran, 2009) is therefore increasing, requiring commercial banks to continuously expand their interbank network, and attracting a large number of customers in different industries. Thus, the scope of international banking activities of Vietnamese commercial banks is wider. Therefore, taking care and maintaining customer relationships is more and more difficult, requiring banks to have reasonable strategies to meet the needs of the market and the wishes of customers in providing international banking services.

Table 1. Types of International Banking Services in Vietnamese commercial banks

Name of bank	Types of International Banking Services
Vietcombank	For Buyers: Letter of Credit (L/C Issuance, L/C Amendment, Bill of Lading endorsement/Delivery authorization/Shipping guarantee, L/C Settlement, UPAS/UPAS Plus L/C,...), Import Collection, Outward Remittance (T/T, Bank draft); For Sellers: Letter of Credit (L/C-L/C amendment advising, L/C confirmation, Document checking and forwarding,...), Export Collection (D/A-D/P, Collection export bills negotiation with recourse), Inward Remittance, Factoring.
BIDV	International payment service: Import-Export payment, Border Payment; Export financing: Factoring, discount of recourse for debt collection by L/C deferred payment, Discount bill of exchange with export documents, export finance; Import financing: UPAS, Letter of Credit service, Import finance secured by imported goods; Domestic L/C Financing.

(Source: *vietcombank.com.vn*, *bidv.com.vn*)

The market share of international banking services focuses on large commercial banks such as Vietcombank, BIDV, Vietinbank, Eximbank... Each bank has different size, strategy and competition policy in attracting customers to use international banking services. It can be said that, in recent years, Vietnamese commercial banks have always actively changed customer policies, diversifying the portfolio of products and services to meet the maximum needs of customers. Through the provision of international banking services to customers, the bank collects fees to offset the bank's expenses and generate revenue and profit for the bank. Depending on the type of international service, the business environment and the credibility of the customer, the applicable service fee schedule is different.

Therefore, in the context of foreign market integration, commercial banks are constantly looking for solutions to increase capital, improve financial capacity, and enhance the diversity of international banking services to be able to compete with foreign organizations through specific strategies as well as KPI planning.

In terms of organizational structure, commercial banks have built specialized departments to develop international banking services. Vietinbank has an International Financing Processing Center, Vietcombank has a Trade Finance Center, MB Bank has a Payment Center... Commercial banks have all realized that a specialized management model for international banking services to develop the scale of operations without being constrained by other activities. From there, specialized divisions set forth their standards, product plans, and working capital. In terms of market share, the commercial banks have access to different fields such as exporting rice, shrimp or processed products, to diversify international banking services according to international trading practices and customs. Vietnamese commercial banks have enhanced payment and import-export finance operations: money transfer, collection, L/C, pre- and post-delivery financing, etc. Banks

have oriented towards a full package of import and export financing services to meet the maximum of clients' requirements.

Some results can be mentioned that, in terms of sales, in 2019, Vietcombank achieved international payment and trade finance sales of USD 85.4 billion, increasing by 9.03% compared to 2018. Vietinbank achieved \$60.2 billion in sales. These figures can show that international transaction sales at leading commercial banks prove the importance of international banking services in the operation of Vietnamese commercial banks.

3.2. Opportunities and Challenges for Vietnamese commercial banks in providing international banking services in the intergration period

Integration and changes in the domestic market have made international banking increasingly important to both customers and banks. The increase in the number of customers in Vietnamese commercial banks shows that the demand for international banking services is increasing. Therefore, the provision of international banking services has created many opportunities for Vietnamese commercial banks, but also poses many challenges that banks have to face.

3.2.1. Opportunities

Firstly, with 13 FTAs that have been in effect since 1993, it has promoted the development of Vietnam's import-export activities of goods and services. According to the General Statistics Office, from 2016 to now, the trade balance of import and export of goods has been continuously in surplus. Total import-export turnover in 2020 reached USD 543.9 billion, of which goods export will reach USD 281.5 billion, up 6.5%, import reached USD 262.4 billion USD, up 3.6%. That result is thanks to the implementation of business integration and FTAs. With the current number of businesses at about 85,000, the demand for international banking services of Vietnamese commercial banks is very large. Therefore, integration helps Vietnamese commercial banks have a large number of customers, import and export enterprises using international services. Integration with FTAs has opened up many opportunities for Vietnamese commercial banks to access the international market in an equal and favorable manner, in order to strengthen cooperation and increase market share. According to the content negotiated in the financial sector in the Agreements, a service supplier of one country can provide financial services in the market of another country if it ensures that it is allowed to operate the service. Therefore, Vietnamese commercial banks expand their international interbank network to develop agency activities, open relationships with foreign banks through modern technologies such as SWIFT, Telex, NOSTRO and VOSTRO accounts...Within recent 5 years, Vietnamese commercial banks have actively exploited and expanded the foreign banking market, opening representative offices and branches as well as connecting agency relationships.

Table 2: The number of agents in foreign countries of Vietnamese commercial banks in 2020

TT	Name of bank	The number of agents
1.	BIDV	1700 agents in 122 countries and territories
2.	Vietinbank	1000 agents in 90 countries and territories
3.	Vietcombank	1800 agents in 176 countries and territories
4.	Agribank	1100 agents in 100 countries and territories
5.	MB Bank	700 agents in 80 countries and territories
6.	Sacombank	278 agents in 90 countries and territories
7.	DongAbank	250 agents in 60 countries and territories

(Source: Annual reports of banks)

In addition, commercial banks also have the opportunity to diversify activities and linkages. Vietinbank has had export support funds, export insurance funds, financial institutions such as SEK (Sweden), JBIC (Japan), Eximbank (USA), KEIC (Korea)... since 2010 (Phan Thi Hong Hai, 2010). Vietinbank is also the first Vietnamese bank to be selected by the Export Credit Company (CCC) of the US Department of Agriculture to participate in the GSM - 102 program implemented by the US Department of Agriculture to promote US agricultural exports by guaranteeing the US bank to lend to the importer's bank... along with many remarkable results and achievements of other banks. Vietcombank is "Vietnam's best foreign exchange service provider" awarded by The Asian Banker magazine in 2019.

Secondly, integration is to promote the competitiveness of Vietnamese commercial banks, helping to improve the operation of the commercial banking system. The change in the number of banks through restructuring in recent years when there was the intervention of the Prime Minister, led to a change in governance and operations of Vietnamese commercial banks. By 2020, the charter capital of the top 10 Vietnamese commercial banks including: BIDV, Vietinbank, Vietcombank, Techcombank, Agribank, VPbank, MB, Sacombank, ACB, SCB, in which the highest is BIDV, reaching VND 40,220 billion. The 10 banks with the highest profit after tax include Vietcombank, Vietinbank, Techcombank, VP Bank, MB, BIDV, ACB, HD Bank, VIB and TP Bank, up 14% over the previous year. The 10 most prestigious banks based on 3 criteria (1) Financial capacity and efficiency, (2) Media credibility and (3) Surveys on customer satisfaction including: Techcombank, VP Bank, ACB, TP Bank, HD Bank, Sacombank, VIB, SHB, OCB and MSB. It can be seen that, not only banks with large capital have the opportunity to expand and promote international banking services, but also small commercial banks also try to access and expand international banking products, in order to compete and attract customers. Although Eximbank has a charter capital of VND 12,355 billion in 2020, it has also been very active in diversifying the portfolio of international banking services, actively trading in foreign currencies as well as using Swap, Forward, and Option tools for transactions, or make payment, finance import and export and make money transfer via SWIFT system, pay L/C, D/A, D/P, T/T, P/O, etc...Eximbank has achieved Outstanding International Payment Quality Award (STP Ward) awarded by Bank of New York Mellon (USA) in 2020, or Excellent Bank for International Payments awarded by Wells Fargo in 2019,...VietAbank

with charter capital of VND 3500 billion also diversified the international banking services portfolio in trade finance, system design and operation, developed the international banking department in depth, increased exploitation and cross-selling of digital banking products. to maintain the brand name of one of the banks with the most sustainable growth rate.

Thirdly, integration helps Vietnamese commercial banks improve their banking governance capacity following international standards, improve business activities to help commercial banks stand firm in the market. Commercial banks may face a number of risks such as market risk, operational risk, etc. when providing international banking services. Then, improving risk management capacity according to international standards will help limit risks in general and risks in providing international banking services in particular. Vietnamese commercial banks have focused on strengthening risk management skills, developing customer policies, approaching the 3 pillars of Basel II approved by the SBV in Circular 41/2016/NHNN and Circular 13 of the State Bank. This is a change that has a great impact on the operations of commercial banks. Which focuses on 3 pillars: (1) Regulation of minimum capital adequacy according to standardized approach, advanced approach for credit risk, operational risk and market risk; (2) Internal assessment of capital adequacy, thereby standardizing processes, risk measurement tools, capital endurance testing, capital planning according to market scenarios and monitoring; (3) Transparency and market discipline. The investment in capacity building and operation platform, digital banking transformation has been widely implemented. Nowadays, competition by technology has become a direct weapon for banks through digital banking services, especially in the field of payment for import and export enterprises. E-commerce activities are changing day by day and the trend of e-commerce is the key trend with modern technology application solutions.

Fourth, integration gives commercial banks the opportunity to access and develop a variety of products and services, to attract customers and promote customers to cross-buy other products and services. The provision of international banking services in the dynamic international market, with many participants, with more modern products and services is what VCB is aiming for. This not only increases income for Vietnamese commercial banks, but also increasingly affirms and enhances the competitiveness of banks in the face of the trend of opening up for integration and increasing competition. In addition to the difference in the form of distribution of international banking services in each Vietnamese commercial bank, the fees and policies for international banking services in each bank are also different. The lending taste of each commercial bank depends on the price policy, capital as well as the fields and strengths of the business. The international banking policy for export activities of rice, shrimp, fish, or processed and processed products that Vietnam commercial banks provides to import-export enterprises, although bringing different revenue but altogether these fields play an important role for the economy. Currently, with a large number of import-export enterprises, the development strategy of focusing on customers of import-export enterprises is particularly focused by commercial banks. Vietinbank has launched a product package for newly opened business customers (Combo 6 in 1 plus), SME credit card....Techcombank focuses on the corporate customer segment to help meet the growing

financial needs of exporting enterprises. Therefore, right from 2013, 2014, with this strategy, Techcombank was the first official member in Vietnam of IFG (International Factors Group) providing comprehensive import-export packaging solutions, awarded “Award for achieving high electricity rate” by Citibank.

Fifth, integration gives Vietnamese commercial banks the opportunity to enhance the legal system to help commercial banks have a more favorable and clear operating platform. In addition to the basis of international banking activities, it is based on 3 groups: (1) International laws and conventions, (2) National laws and regulations of the State Bank of Vietnam (Civil Law, Law on Credit Institutions, and Ordinance on Foreign Exchange). , Circulars...) and (3) International practices and practices (Incoterms, UCP, URR, ...), the state's supplement, amendment and systematization of documents to implement international banking services such as: TT03/2012/TT-NHNN, TT32/2013/TT-NHNN, etc. are increasingly flexible, specific and in line with international practices, helping import-export enterprises to have a clearer legal basis in operating in the Vietnamese market. Moreover, the commercial banks have grounds to resolve legal conflicts in international trade relations, in accordance with the Vietnamese legal system, customs and development level of the country in expanding relations with foreign partners.

3.2.1. Challenges

Firstly, competitive pressure on Vietnam commercial banks is significant when participating in integration. The accession to WTO in 2007 has made the banking market more vibrant and competitive because of the presence of 100% foreign-invested banks: HSBC, ANZ, etc. Therefore, Vietnamese commercial banks are facing pressure from competition and forced to increase capital, cooperate with foreign banks to limit the loss of market share. It can be seen that the number of foreign banks and foreign bank branches has changed very clearly, which requires banks to face competitive pressure on capital, policy mechanisms, and services.

Table 3: The number and types of banks

Types of banks/Year	2013	2014	2015	2016	2017	2018	2019	2020
State owned commercial banks	5	5	7	4	4	4	4	4
Joint Stock commercial banks	33	33	28	31	31	31	31	31
Foreign banks and branches of foreign banks	58	54	50	51	49	49	61	61
Joint venture bank	4	4	3	2	2	2	2	2
Total	100	96	88	88	86	86	98	98

(Source: sbv.com.vn)

Moreover, the financial capability of Vietnamese commercial banks is still small compared to foreign banks, the assets and product portfolio are still simple, the quality is not high, the professional level and organizational structure are not really as good and professional as the other regions and the world.

Secondly, integration increases capital transactions and increases risks for Vietnamese commercial banks while the management mechanism is not really complete, lacks scientific and close coordination between departments in the bank. With the familiarity with traditional banking services in the country, the trend of integration and wide opening has made it impossible for commercial banks to prepare well and respond promptly to market changes and familiarize themselves with the foreign markets. While import-export enterprises are rapidly approaching and looking for overseas partners every day, the framework, mechanism, and professional qualifications to support import-export enterprises in Vietnamese commercial banks does not have a methodical and timely response. The standardization of processes, methods, and services for measuring credit risk, market risk and operational risk has not been well prepared and publicly disclosed by commercial banks. According to statistics from the US Federal Reserve, from 2013 to 2016, there were about 22,000 scams causing losses of more than USD 3 billion taking place in 79 countries. While in Vietnam, import-export enterprises tend to choose money transfer payment or direct payment, rarely use hedging methods and strict international banking services, high fees to pay through banks or credit institutions. International banking is characterized by being affected by many random factors, world political economy, so commercial banks are prone to face market risks and operational risks. Therefore, import and export enterprises have to face the risk of cybercriminals attacking through accounts, creating fake emails, and luring victims to send money to hacker accounts. Commercial banks also cannot measure all the risks to advise and protect import-export enterprises.

Third, the big requirements is for the inspection and supervision mechanism of the team, professional expertise in handling and consulting international banking services as well as good technology operation. When opportunities open up, banks actively provide international banking services, including small banks, while lacking in understanding of international law, limited in technology and professional skills of weak staff. Inspection and supervision work requires commercial banks to have sufficient capacity, understanding of international business practices and supervision standards in foreign partner markets. Challenges with legal pressures, international laws and conventions, national laws, international practices as well as regulations of the banking industry that require commercial banks to ensure sufficient resources (capital, technology, professional qualifications,...) to be able to ensure the best possible consulting and support for import and export enterprises.

4. Discussion and Conclusion

Faced with opportunities and challenges in providing international banking services, first of all, commercial banks need to propose to the Government and the State Bank to create a proper legal system and practices to have a basis for promoting the reform and improvement of banking operation. There should be a macro inspection and supervision mechanism based on the requirements and regulations of groups of laws and practices to serve as a foundation for the operation of Vietnamese commercial banks.

In addition, commercial banks themselves need to not only try their best to maintain traditional customer service, but also to evaluate and determine their capacity in taking advantage of opportunities to improve competitiveness, develop international banking services to support import-export enterprises. Vietnam commercial banks need to develop specific customer policies in order to diversify operations and use capital effectively in foreign trade finance. It is necessary to form and scientifically operate a specialized international banking business model and be included in the operating chain of the bank itself. Commercial banks also need to further improve risk management capacity, management of system operations to respond to risks at a timely manner. Commercial banks also need to be more active in business, taking advantage of specialized products and services to best serve the needs of import-export enterprises.

International banking services are increasingly affirmed in national economic relations in general and foreign economic activities in particular. Especially in the current integration context, each country places foreign economic activities in a priority position, so commercial banks need to recognize opportunities and challenges to have their own international banking development strategy.

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