

BANKING SUPERVISION AND EXAMINATION

The context of Vietnam

Nguyen Thi Minh Hue
Vietnam Development Forum

February 17, 2009



Outline

- 1. Prerequisites of banking supervision**
- 2. Real situation of banking supervision in Vietnam**
- 3. Discussion and Recommendations**

1. Prerequisites of Banking Supervision

Based on 25 core principles for effective banking supervision (Basel)

- Legal regulations on licensing authority and banks*
- Criteria of supervisory content and techniques*
- Information requirements for banking supervision*

Legal regulations

- ❑ Clear responsibilities and objectives for each involved authority
- ❑ Clear definition of the word “bank”
- ❑ Legal framework for banking supervision

Supervisory content and techniques

Supervisory content

- ❑ Capital adequacy
- ❑ Risk management: credit risk, liquidity risk, market risk, operational risk...
- ❑ Internal control

Supervisory techniques

- ❑ On-site and off-site supervision
- ❑ Understanding the operations of individual banks, banking groups and banking system

Information requirements

- Collecting, reviewing and analyzing prudential reports
- Verifying and insuring the accuracy of reports
- Insuring Timeliness and frequency of reports

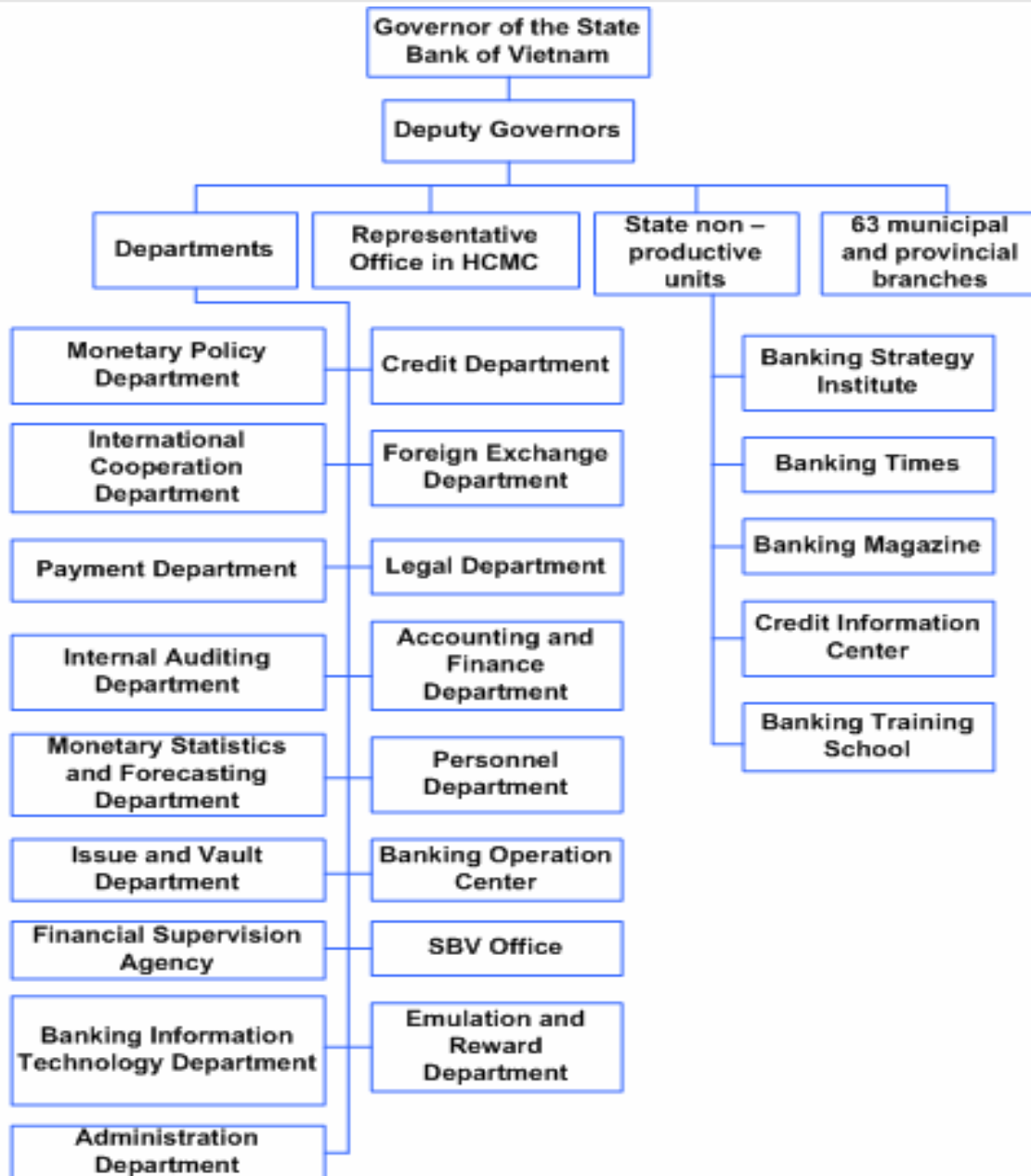
2. Real situation of banking supervision in Vietnam

- Legal regulations
- Supervisory content and techniques
- Information requirements

Legal regulations of banking supervision in Vietnam

- ❑ State Bank of Vietnam: major organization in supervising banks (S.B law, 1997)
- ❑ Establishing Financial Supervision Agency under the SBV
(merging from Banks Dept., Cooperated FI Dept., Banking supervision Dept., Money Laundering Prevention Center)
- ❑ Decide on licensing, rejecting, merging
- ❑ Set up capital adequacy and risk management requirements
- ❑ Organize off-site supervision and on-site examination

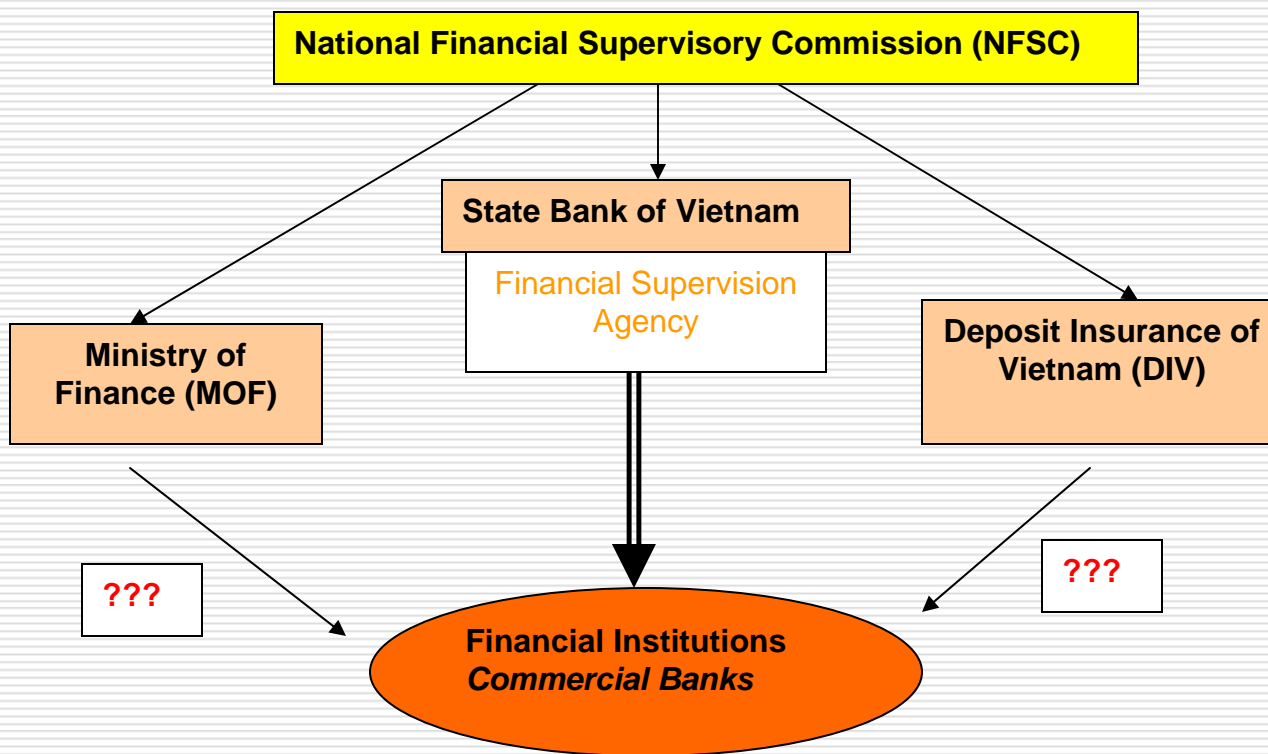
Organization Chart of the State Bank of Vietnam



Legal regulations _Limitations

- ❑ **Unclear Participation of other related authorities**
 - . Roles and responsibilities of other departments in SBV
 - . National Financial Supervisory Commission
 - . Ministry of Finance (Banks Department)
 - . Deposit Insurance of Vietnam
- ❑ **Unclear definitions about “bank”, “commercial bank” (F.I law, 1997)**

Legal regulations _Limitations



Supervisory content and techniques

Decision 398/1999/QD-NHNN3:

- Performance of asset and liability structure
- Asset quality
- Earnings, Costs and Business results
- Capital
- Liquidity
- Financial ratio analysis

Supervisory content and techniques

Supervisory techniques consist of on-site and off-site supervision

- ❑ On-site supervision units conduct planned and unexpected inspection visits to FIs
- ❑ Off-site supervision receives financial reports of FIs, consolidates data and analysis following 6 suggested contents above

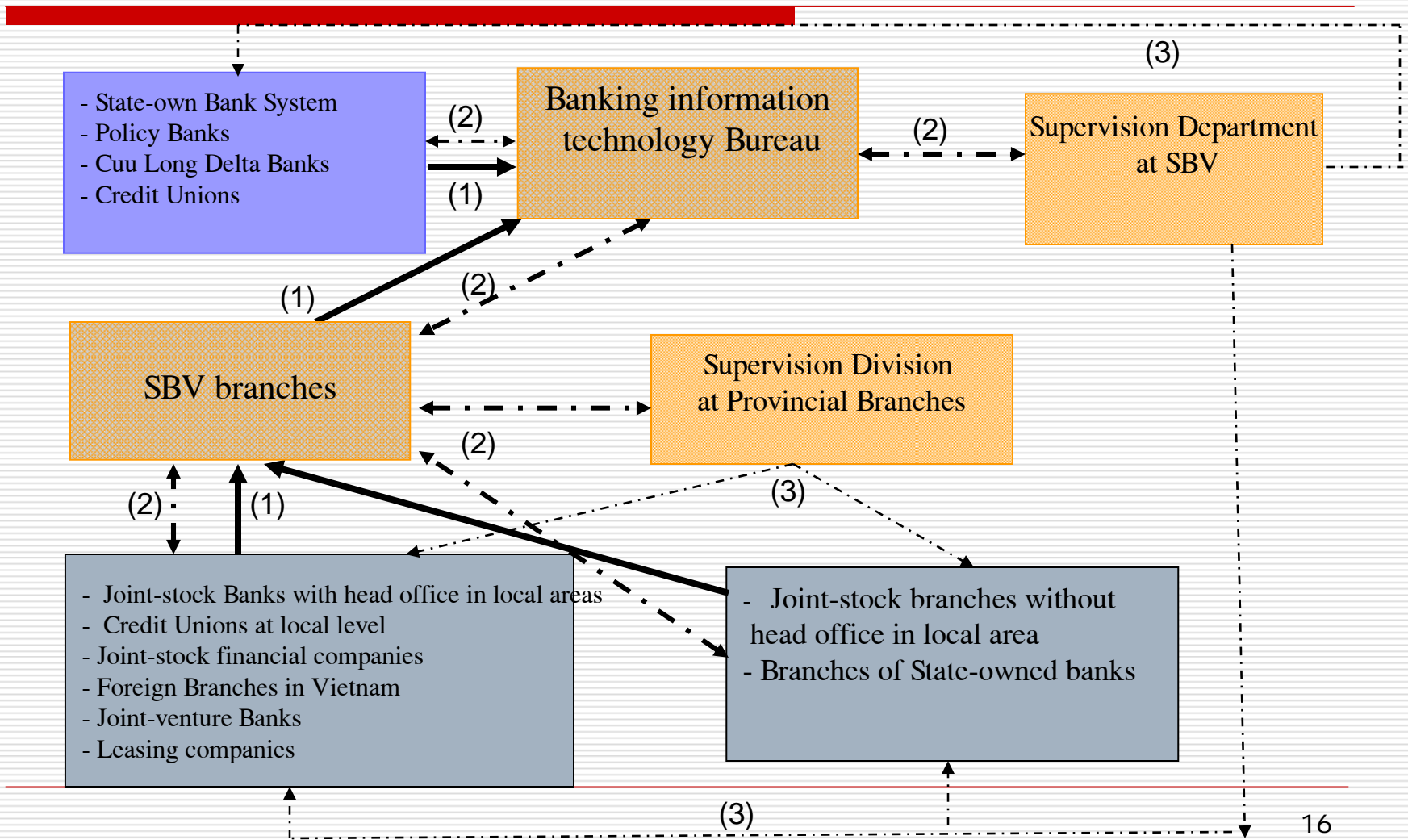
Supervisory content and techniques _ Limitation

- ❑ Supervisory contents do not follow Basel's core principles
- ❑ On-site and off-site supervision do not have consistent and informative supervisory reports
- ❑ On-site inspection mostly focus on compliance base methodology

Information requirements

- ❑ Financial reports required to FIs: balance sheets (both on-balance and off-balance), required financial ratios
- ❑ Supervision Department organized into 2 levels:
 - . Supervision Dept. at the Central level only receives information from head-offices of state-owned banks, credit unions
 - . Supervision Division at the provincial level receives information from other types of FIs (joint stock banks, finance companies, leasing companies...)

Information gathering and transferring flowchart



Supervision Information_Limitation

- ❑ Inconsistency of financial report system required to FIs
- ❑ Lack of means of verifying the accuracy of reports
- ❑ Supervision Dept at the Central level have not enough power to receive adequate information (just access info through banking information Bureau)

Recommendation

- ❑ Enhancing the risk-based supervision replaced to the compliance based supervision
- ❑ Clearly defining the responsibilities of Financial Supervisory Agency (License, Withdrawals, Inspections, ...)
- ❑ Improving data gathering and transferring system for FIs supervisions
- ❑*(many more from discussion)*....

Discussion

From aspect of SBV:

- ❑ Opinions of invited guests from SBV
- ❑ SBV's obstacles in banking (FIs) supervision
- ❑ SBV's supervision strategy in future

From aspect of FIs

- ❑ Difficulties in meeting supervision requirements of SBV
- ❑ Strategy of risk management

Discussion

From aspect of related organization

- National Financial Supervisory Commission
- Ministry of Finance
- Deposit Insurance of Vietnam