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Attracting Foreign Investment Capital from Banks in Vietnam: Current Situation and Solutions

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Abstract
This article studies the current situation of attracting foreign investment capital by banks in recent times in Vietnam. With data collected from statistics of the State Bank of Vietnam, Vietnam Banking Association, Vietinbank, BIDV, in 2022 and using research methods to collect and process research data. Current research shows that foreign-invested banks play a leading role in promoting the flow of capital into the Vietnamese economy through 7 main channels: i) Bringing legal capital from parent banks, investing FDI form to establish joint venture banks, banks with 100% foreign capital, foreign bank branches in Vietnam; ii) Mobilize capital from the parent bank and from the international capital market, through banking legal entities in Vietnam to lend and finance projects implemented in Vietnam; iii) Providing wholesale credits, co-financing, and syndicated loans through Vietnamese banks investing in the Vietnamese economy; iv) Attracting business corporations as customers from parent banks in the home country and from other economies to deploy FDI projects and indirect investments in Vietnam; v) Guarantee and trade finance for foreign import and export activities with Vietnam; vi) Invest capital, buy shares, become a strategic shareholder in Vietnamese financial institutions, such as banks, insurance, securities companies, investment funds and other Vietnamese businesses Male; vii) Consulting and providing market information, policies, laws, and partners for foreign investors coming to Vietnam. Based on the current situation, the research team offers solutions and recommendations to attract foreign investment capital into banks to increase capital and use it effectively but avoid too much foreign control at banks in Vietnam.

Keywords: Commercial Banks, Foreign Investment Capital, Foreign Banks, Vietnam

1. Introduction

Vietnam officially implemented the innovation policy and opened the economy since 1986. But on February 3, 1994, when the US Government lifted the embargo on Vietnam, international financial and monetary organizations: IMF, WB, ADB, have just officially resumed relations with Vietnam, providing capital and technical support, and staff training for Vietnam. Also from this time, financial and banking corporations, collectively known as foreign credit institutions, especially those of the US, Canada, UK, Germany. began to expand their commercial presence in Vietnam. Vietnam. Foreign credit institutions invest FDI capital in the form of establishing and putting into operation foreign bank branches and joint venture banks. In recent years, credit institutions have established 100% foreign-owned banks in Vietnam. In addition, foreign banking and financial corporations also invest capital to buy shares, become strategic shareholders in 3 equitized state-owned commercial banks, and strategic shareholders in over 10 banks. Other joint stock trade; nearly 20 financial companies, securities companies, and insurance companies in Vietnam. Along with banks, foreign investors also expand business mergers and acquisitions activities in many other fields in Vietnam. Therefore, researching and clarifying the above contents and recommending related solutions has practical significance in the period when Vietnam's economy continues to integrate deeply with the international community.

2. Research Methods

Information collection method: The article uses secondary information through statistics from the annual reports of commercial banks in 2022, statistics of banks with 100% foreign investment capital calculated. By December 2022, statistics on a number of banks owned by foreign organizations in June 2021 by the Vietnam Banking Association.

Methods of processing and analyzing information: Information after being collected is processed using analytical methods such as: Descriptive statistical method, interpretive method to evaluate the current status of attracting foreign investment capital, mergers and acquisitions at commercial banks in Vietnam.

3. Research Overview

The foreign banking sector contributes to promoting economic restructuring and rapid integration of the Vietnamese banking system with the international economic community. The above activities of foreign banks have played a huge role in restructuring the Vietnamese economy over the past 10 years in general, and restructuring credit institutions in particular. Specifically, restructuring the credit institution system is one of three contents of economic restructuring, including public investment restructuring and state-owned enterprise restructuring. This is also an important solution to innovate the growth model and sustainable development of the economy. To restructure credit institutions in general, and restructure Vietnamese commercial banks in particular, one of the most important effective measures is to attract foreign investment capital into commercial banks. Vietnam. Through that, increasing charter capital, meeting Basel II requirements, reducing debt ratio, modernizing technology, improving management capacity in general and risk management capacity in particular.

Over the past many years, there have been many foreign investors, especially large economies, investing capital to buy shares and becoming shareholders of many Vietnamese joint stock commercial banks, especially the 3 State-owned commercial banks have been equitized, which are Vietcombank, BIDV and Vietinbank. According to the provisions of Decree No. 01/2014/ND-CP, the shareholding ratio of a foreign investor must not exceed 20% of the charter capital of a Vietnamese credit institution and the ownership ratio of other foreign investors. foreign investors maximum 30%, many foreign investors and some Vietnamese commercial banks have reached the maximum limit, but many other commercial banks still have opportunities, especially commercial banks. Weak share trading needs strong restructuring. In addition, EVFTA has taken effect, opening up new opportunities for large EU banks to increase ownership and investment in Vietnamese commercial banks.

To be able to develop sustainably in the Vietnamese financial market, currently and in the coming years, there are still many foreign financial institutions investing capital directly to buy shares in Vietnamese commercial banks. a big chance. Because, FDI investment is through the establishment of legal entities in Vietnam, such as: Banks with 100% foreign capital, Foreign bank branches, Joint venture banks, Foreign insurance companies, Foreign securities companies, foreign investment funds,... do not have many opportunities, do not have many conditions.

Meanwhile, the trend is not to spread out investment capital, but will focus on developing in depth, focusing on financial services areas that are its strengths. At the same time, foreign financial institutions will invest more in improving risk management and corporate governance at commercial banks in which they own capital. Invest new capital or increase the scale of investment capital to become a strategic partner with domestic banks. Investing in improving customer experience with many digital features will also be focused on by foreign-invested banks.

The trend of foreign banks no longer investing widely, but focusing on developing in capital markets is their strength, especially markets with a scale and creating growth consistent with their overall goals. parent bank. Foreign banks also will not focus as much on mergers and acquisitions as before, but will focus more on their own development or internal strengths.

Activities to attract foreign capital will be more exciting when the EVFTA is being implemented, which will impact many areas of the Vietnamese economy, including the banking sector. According to EVFTA commitments, for the banking sector, within 5 years from the date the Agreement takes effect, Vietnam will consider creating favorable conditions for EU credit institutions to increase their share holdings to 49% of charter capital at 2 Vietnamese joint stock commercial banks. Because the above commitment does not apply to Agribank and the three state-owned commercial banks that have been equitized, which are BIDV, VietinBank, and Vietcombank. Therefore, this is an opportunity for Vietnam's non-state-owned joint stock commercial banks to attract foreign investment capital to restructure and improve competitiveness (BIDV, 2022) [1].

At the same time, according to the Banking Industry Development Strategy to 2025 with a vision to 2030, the State gradually reduces the ownership ratio in equitized state-owned commercial banks, holding only a minimum of 65% of the total number of shares with voting rights. The Government and State Bank will select strategic shareholders with reputation in the market, financial capacity, and management experience to purchase shares in State-owned joint stock commercial banks and joint stock commercial banks. Non-state sector, promoting stronger restructuring of Vietnamese commercial banks (BIDV, 2022) [1].

4. Current Status of Attracting Foreign Investment Capital to Vietnam Joint Stock Commercial Bank

The banking sector is currently the industry of top priority for foreign investors to circulate international capital into the Vietnamese economy. Many foreign investors are using foreign investment funds in Vietnam to advise and buy shares in domestic commercial banks. In recent times, since 2007 when Vietnam officially became a member of the WTO, banking has been one of the fields that foreign investors are most interested in and invested in.

Strategic alliance agreement dated November 27, 2007 signed between Eximbank and Sumitomo Mitsui Banking Corporation (SMBC). SMBC invested in Eximbank with a total value of 225 million USD to own 15% of charter capital and become a strategic partner. SMBC commits to support and cooperate with Eximbank in developing retail banking, investment banking, and risk management services according to international standards. The deal values Eximbank at 1.5 billion USD after investment. But currently, the 15% Eximbank shares that SMBC owns have a market value of nearly 6,600 billion VND, about 290 million USD.

Currently, foreign investors own 29.7% of Eximbank's capital. Along with SMBC, in 2008, Eximbank also offered to sell 5% of shares to VinaCapital's VOF fund and 5% to two funds of Mirae Asset. Currently, VOF still holds approximately 5% of Eximbank's capital. However, in early

2022 SMBC found a partner to transfer 15% of capital in Eximbank, planning to invest capital to become another strategic shareholder with great potential of another Vietnamese joint stock commercial bank.

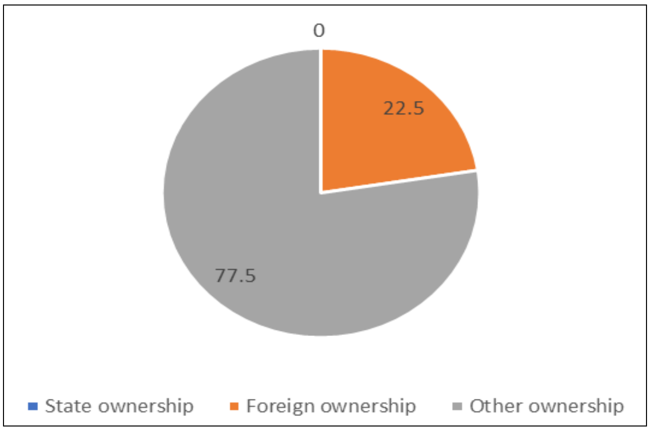
Next are 3 state-owned joint stock commercial banks. However, the majority of investors want to increase their shares, but there are also cases of reducing their ownership ratio. IFC has reduced its stake in VietinBank from 6.4% to 4.99%. From January 10, 2020, IFC group is no longer a major shareholder of VietinBank. Instead, The Bank of Tokyo - Mitsubishi UFJ (BTMU) is the largest foreign shareholder of VietinBank, owning 19.73% of the shares. BTMU has repeatedly asked the Vietnamese Government to allow them to increase their ownership ratio to 25% or 30% according to their capital investment strategy, because the current ownership ratio has reached the maximum ceiling. IFC's divestment makes the foreign investment capital room at VietinBank a bit more open. In VietinBank's current shareholder structure, the State Bank of Vietnam owns 64.46% of the shares; Japanese banks own 19.73% (BIDV, 2021).

In contrast to IFC at Vietinbank, in early 2020, Mizuho Bank of Japan spent nearly 930 billion VND to buy nearly 16.7 million additional shares to maintain a 15% ownership rate at Vietcombank. With an ownership ratio of 15%, Mizuho is holding about 556.3 million Vietcombank shares, equivalent to more than 50,600 billion VND, 4 times higher than the initial investment capital, not including the cash dividends received. in the past 9 years. Thus, Vietcombank is the Vietnamese commercial bank that brings the largest and fastest profits to foreign investors. By early August 2020, VEIL Fund was holding Vietcombank shares worth about 108 million USD, equivalent to 30.5 million Vietcombank shares (~0.82% of Vietcombank shares) (BIDV, 2022).

Notably, after Vietcombank successfully sold 3% of its shares to two foreign partners (GIC and Mizuho), it earned 6,200 billion VND in early 2019. At BIDV, after successfully selling 15% of capital to KEB Hana Bank of Korea, the Bank is planning to sell about 6% of charter capital to foreign investors (BIDV, 2022) [1].

One of the typical joint stock commercial banks attracting foreign shareholders is Techcombank, foreign investors own up to 22.5% of shares in this Bank.

Unit: %



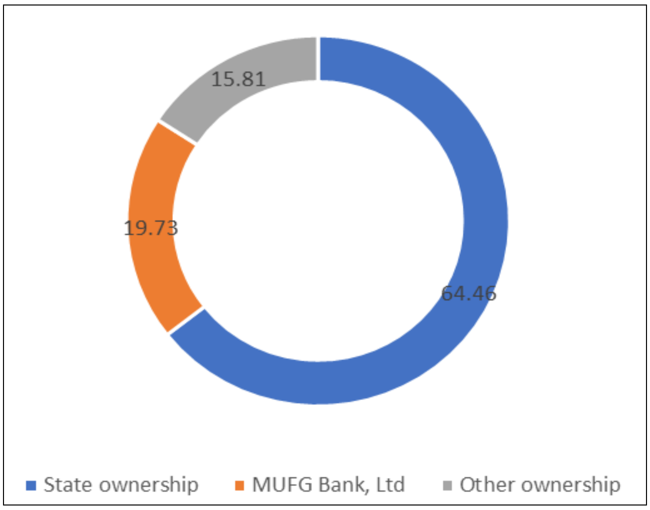
Source: Techcombank, 2022

Fig 1: Shareholder structure at Techcombank

Other large Japanese banking groups also own over 10% of the equity capital and are strategic shareholders in Vietinbank.

Vietinabank's shareholder structure as of December 2022:

Unit: %

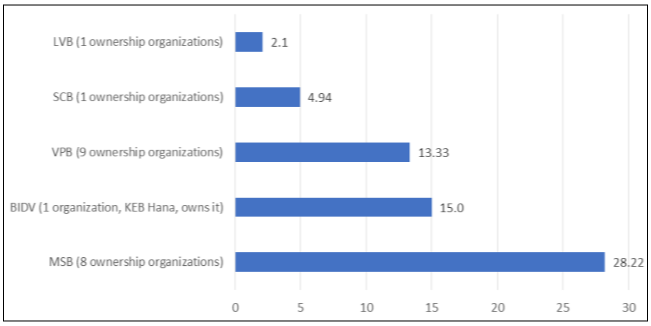


Source: Vietinbank, 2022

Fig 2: Vietinbank's shareholder structure

In addition, a number of commercial banks in Vietnam have foreign ownership. These organizations, along with the long-term commitment and transfer of experience and capacity of strategic shareholders, have contributed to the Vietnamese banking system improving its financial capacity, operating safely, stably and effectively be more effective.

Unit: %



Source: Vietnam Banking Association, 2021

Fig 3: Some banks have foreign ownership

Foreign investment fund: Vietnam Enterprise Investments Limited (VEIL) also owns a fair proportion of equity capital of 3 Vietnamese joint stock commercial banks in the proportion of investment portfolio structure, specifically at ACB: 8,18%; at MBB: 4.03% and at VPBank: 3.3%. In April 2021, Japan's Aozora Bank is also completing the process of purchasing 10% of the shares of Orient Commercial Joint Stock Bank (OCB). Because the results of attracting foreign investment capital to buy shares of domestic joint stock commercial banks have achieved high results and have taken place continuously for many years, up to now, some Vietnamese commercial banks have Currently, the remaining ownership rate of foreign investors is very low.

Currently, according to the current Law on Credit Institutions, an individual shareholder cannot own more than 5% of charter capital, an organization cannot own more than

15% of charter capital. The maximum foreign ownership ratio in banks is 30%. In cases where regulations in the EVFTA may allow foreign room of European credit institutions at two Vietnamese joint stock commercial banks to exceed the current regulatory ceiling (BVSC, 2015-2021) [2].

Four joint stock commercial banks with good scale, bad debt ratio within safe limits, profits are also high, ensuring capital adequacy ratio CAR according to regulations of the state bank, which are VIB, VPBank, Techcombank, ACB are potential candidates that can be considered to expand foreign room according to the proposal of the European Bank. According to EVFTA, between Vietnam and the EU there will be commitments and incentives on trade, services and investment. Notably, for banking services, within 5 years from the date EVFTA takes effect, Vietnam commits to consider creating favorable conditions, allowing EU credit institutions to increase foreign holdings. up to 49% of charter capital in 2 Vietnamese joint stock commercial banks, does not apply to 4 joint stock commercial banks in which the State holds controlling shares (SSI, 2015-2021).

The prospect of attracting foreign investment to Vietnam's banking sector is opening up with the EVFTA starting to be implemented. After the 2008 financial crisis, the EU has very strict regulations on investment, especially investment from the EU to foreign countries, both directly and indirectly. Therefore, the first advantage from this agreement is investment protection. This advantage can make investment cash flow from the EU into Vietnam stronger, including both FDI and FII, including investment in new technology, high technology, and capital mobilization from Europe through funds. Vietnam's investment is also more attractive thanks to quite strict and safe investment protection regulations. This directly affects the bank's operations such as affecting foreign currency flows, exchange rates, interest rates, payment services, money transfers. (BVSC, 2015-2021). The Agreement also opens up opportunities for EU investment funds to directly invest in the banking system such as opening branches, buying shares, etc. However, this direct investment segment is only potential. may not be exciting in the short term, because Europe has fully applied the regulations of Basel II, even Basel III. On the other hand, they also tend to restructure financial corporations and large commercial banks in the direction of not expanding scale but mainly increasing asset quality to avoid legal conflicts and conflicts of interest. beneficial, can lead to a crisis.

According to the provisions of Decree No. 01/2014/ND-CP, the shareholding ratio of a foreign investor must not exceed 20% of the charter capital of a Vietnamese credit institution and the ownership ratio of other foreign investors. Foreign investors maximum 30%. Foreign investors cannot control major decisions of commercial banks, so they are not interested in participating. This is one of the reasons why foreign investors and even domestic commercial banks want to expand room to have more opportunities to attract foreign capital to increase charter capital (SSI, 2015- 2021).

Current Status of FDI Investment in the Banking Sector in Vietnam

FDI capital implemented in the banking sector is the establishment of foreign banking legal entities in Vietnam. Accordingly, in 1994, when the US trade embargo against Vietnam was lifted, three leading US and world banking groups quickly established business presence in Vietnam. In 1994, Citigroup was also licensed to establish a branch in Hanoi, and four years later opened a sub-branch in Ho Chi Minh City. Also, right after the US Government lifted the embargo, Bank of America, a leading US banking group, also established a branch in Hanoi. In 1999, The Chase Manhattant Bank (now JP Morgan Chase Bank, N.A - Ho Chi Minh City Branch) was granted an operating license. In 2019, this bank continued to be extended the branch's operating term of 99 years (State Bank of Vietnam, 2022) [3].

Also, at the time after the US Government lifted the embargo, a series of large banks from developed economies in the world came to Vietnam. ABN AMRO Bank Hanoi Branch was established and operating in Vietnam since 1995 (State Bank of Vietnam, 2022) [3].

Also, at the time of lifting the embargo, a series of large foreign banks came from Germany, England, Australia, the Netherlands, France, Japan, such as: HSBC, ANZ, CommonWealth Bank, Deutche Bank, ING Bank, Société Générale, Mizuho Bank, Tokyo and Mishibishi Bank, also have business presence in Vietnam. However, due to the network development strategy and market development strategy, up to now a number of large foreign banks have withdrawn and closed their branches in Vietnam (State Bank of Vietnam, 2022) [3].

Specifically, after a number of years of operation, due to the business strategy of the parent bank, Bank of America Branch in Hanoi was closed ahead of schedule since July 16, 2002; ABN – AMRO BANK Hanoi Branch (Netherlands) from March 15, 2010; Credit Agricole Corporate and Investment Bank Hanoi Branch and City Branch. Ho Chi Minh since March 2014.

However, many other large foreign banks are still present and expanding their business activities in Vietnam, transforming into 100% foreign-owned banks. Some other banks continue to open new branches and buy shares to become banks. Strategic shareholder in a number of large-scale joint stock commercial banks in Vietnam, often shifting strongly to wholesale and resale of retail banking segment.

Current Status of 100% Foreign-Owned Banks in Vietnam

According to its commitment to join the WTO, in 2009, the Vietnamese Government allowed banks with 100% foreign capital to be established in Vietnam. This is an important milestone when the operating environment of the banking industry has made significant changes in attracting FDI capital into the banking sector. Implementing the above processes, up to now there have been over 23 countries and territories with financial and banking presence in Vietnam. Currently, the block of foreign credit institutions investing in FDI capital has established and put into operation 9 banks with 100% foreign capital: including: HSBC, ANZ (Australia), Standard Chartered (UK), Shinhan Bank (Korea), Hong Leong Bank (Malaysia), Public Bank Berhad (Malaysia), Woori Bank (Korea), CIMB (Malaysia) and UOB (Singapore) (State Bank of Vietnam, 2022) [3].

Table 1: Banks with 100% foreign capital in Vietnam

Unit: billion VND

Numerical order	Bank name	Authorized capital
1	ANZ	4,511.90
2	Hong Leong	3,000.00
3	HSBC	7,528.00
4	Shinhan	5,709.90
5	Standard Charterd	6,954.90
6	Public Bank	6,000.00
7	CIMB	3,698.20
8	Woori	7,700.00
9	UOB	5,000.00

Source: State Bank of Vietnam, 2022 [3]

Banks with foreign FDI capital operate mainly in big cities and industrial zones, concentrated mainly in Hanoi and Ho Chi Minh City, but still reach out to provide modern banking services to customers. businesses operating in other provinces and cities of Vietnam.

Current Status of the Mergers and Acquisitions Market in the Banking Sector Recently

Recently, the mergers and acquisitions (M&A) market in Vietnam has witnessed a transaction of great value in the banking sector. In mid-2020, OCB completed the sale of 15% of shares to Japanese partner Aozora Bank, thereby increasing charter capital from VND 7,898 billion to VND 8,767 billion. OCB's General Meeting of Shareholders held in April 2021 approved a plan to privately offer 70 million shares to domestic and foreign investors. The offering price will not be lower than the book value per share of the Bank at the end of the most recent quarter upon issuance. An M&A transaction worth more than 1 billion USD between VPBank and SMBC CF consumer finance company of SMBC Group (Japan). Accordingly, at the end of April 2021, 49% of charter capital at FE Credit under VPBank was transferred to SMBC CF with a value of up to 1.4 billion USD, the highest level in the banking and finance industry in Vietnam. ever (BIDV, 2022) [1].

Another M&A transaction in the banking sector is that 49% of the capital of HD Finance Company was also sold by HDBank to Japanese partner Credit Saigon (later changed to HD Saison). Another transaction is 49% of capital sold by MB of Mcredit sho Shinsei Financial Company (Japan) (BIDV, 2022) [1].

5. Conclusion and Recommendations

Firstly, implementing Vietnam's commitments to open the financial market under bilateral and multilateral trade agreements, many people expressed concerns that foreign banks would dominate and compete. Overwhelming Vietnamese commercial banks. However, in practice foreign banks cooperate very comprehensively with the Vietnamese commercial banking system, including syndicated loans, co-financing, participating as strategic shareholders, consulting and promoting Innovative domestic commercial bank. Up to now, many foreign banks have withdrawn from Vietnam and many other banks have expanded their business, established banks with 100% foreign capital in Vietnam and only occupied a 10% market share, making an important contribution to restructuring. Structure the Vietnamese credit institution system and develop the Vietnamese financial market in the new context.

Second, foreign banks operate business sustainably, cautiously, and effectively implement risk management. When the efficiency target is not achieved or the level of loss reaches a certain level, they quickly and decisively decide to cut losses and only maintain businesses that are still effective, such as corporate customers or sales. capital. In addition to providing direct banking services to businesses, an important activity of foreign banks is investment, which is the transfer of bank capital flows across borders, through project investment. project or invest as a strategic shareholder in many Vietnamese commercial banks or Vietnamese joint stock companies, providing credits to Vietnamese commercial banks to lend to corporate customers in Vietnam (BVSC, 2015-2021) [2].

Third, the foreign banking sector is being divided into two distinct segments: European and American banks specializing in wholesale and large corporate customers; Asian regional bank specializing in retail, individual and SME customers.

Fourth, the foreign banking sector proactively applies the most modern technologies of the international financial market to utility service business, advanced management, and consulting for local businesses in in the field of export finance, trade finance, providing tools to prevent exchange rate risks and comply with international practices and Vietnamese law.

In fact, Vietnamese commercial banks, compared to banks in other countries in ASEAN and the Asian region, are still small in terms of both equity capital and total assets. By allowing foreign investors to hold 49% of shares in a Vietnamese commercial bank, it will create a boost for bank stock prices, helping Vietnamese commercial banks mobilize important capital sources. increase financial capacity, to meet increasingly higher regulations according to international practices of the State Bank and increase capital scale, safety ratio, risk management capacity, and equivalent digital banking technology banks in the region.

With the need to increase capital to meet Basel II standards of most banks, in the coming time the Government should soon increase the ownership ratio of foreign investors in a joint stock commercial bank and increase the ownership ratio of foreign investors. Ownership of a foreign investor in a joint stock commercial bank. On the one hand, this is to increase attractiveness to foreign investors. On the other hand, if there is a lack of foreign capital flow, listed domestic banks will also lack the motivation to promote restructuring and improve financial capacity. The Government is even considering increasing the ownership limit of foreign investors up to 51%, because this is an extremely urgent solution to meet the needs of international integration and competition. Meanwhile, the fact that most global and regional banks now have to comply with Basel III means that the ability to participate as strategic shareholders in other banks will no longer be possible. as before. Therefore, it is time for the Government to review the ownership ratio of foreign investors in Vietnamese banks to increase their attractiveness.

At Vietcombank, there is still room to issue shares to foreign investors, so the Government and the state bank need to allow the ownership ratio of foreign investors to be expanded, while still maintaining the capital ratio. of the State at 65%.

Along with that, the Government directed the State Bank to urgently research, amend and complete regulations on foreign investors buying shares of Vietnamese credit institutions in the direction of increasing their ownership ratio. of foreign investors for each type of credit institution in accordance with signed international commitments to increase the mobilization of resources in terms of capital, technology, and management of foreign investors; At the same time, foreign investors are encouraged to participate in handling weak credit institutions to open room to 100%.

The government and state banks need to realize the policy of encouraging foreign investors to participate in restructuring weak, small-scale joint stock commercial banks with high bad debt ratios that have not been able to increase for many years Equity. The government needs to allow foreign investors to buy back 100% of the capital of weak joint stock commercial banks that are in the process of restructuring.

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