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### Developing Vietnam's Deposit Market in the Current Context

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#### Abstract

In the context of liquidity pressure weighing on the banking industry, commercial banks must actively handle bad debts and recover money to increase financial resources. Along with that, deposit mobilization activities also have issues that need to be further researched to improve to better meet the needs of capital use and liquidity safety. Developing the deposit market plays a very important role in the Vietnamese financial system and economy. Because customer savings deposits are the main source of capital for commercial banks to make loans, contributing to promoting economic growth, income distribution and hunger eradication and poverty reduction. In the context of foreign

banks expanding their operations in the Vietnamese market according to the roadmap to implement Vietnam's economic integration commitments, the level of competition in the market will become increasingly fierce. If Vietnamese commercial banks do not strengthen internal control, increase capital mobilization scale, and improve service quality to create trust. For customers, the risk of market share loss is unavoidable. The article analyzes the operation of the deposit market in the context of integration and the 4.0 industrial revolution, thereby offering solutions to develop Vietnam's deposit market in the coming time.

**Keywords:** Deposit Market, Customer Deposits, Deposit Interest Rates

#### 1. Introduction

Regarding deposit structure, although the liquidity of the Vietnamese banking system is still guaranteed, there are many potential risks. Previously, in the period 2020 - 2021, capital mobilization growth was mainly corporate payment deposits (demand deposits), residential deposits increased very slowly and only accounted for about half of the capital mobilized by businesses. Banks.

Although business deposits are increasing rapidly, they can be withdrawn at any time to put into production and business. This means that commercial banks' capital sources are unsustainable, causing difficulties for banks in managing and balancing capital sources and capital use. These are no small challenges for banks with high CASA ratios in complying with regulations on the ratio of short-term capital used for medium and long-term loans.

The proportion of medium and long-term capital that is too low in the total mobilized capital is one of the reasons why many banks cannot meet the capital needs of businesses, especially small and medium-sized enterprises. These banks mainly borrow medium and long-term capital to invest in expanding production and business, or for some large banks, this situation also makes it difficult for them to finance national projects.

Regarding capital mobilization products and quality of service provision, the reality of mobilizing residential deposits of Vietnamese commercial banks in recent times shows that traditional products are still the main, new products are still the main products. Is still small so it is not attractive enough to attract many individual customers to use this service, although the risk is assessed to be much lower than other investment channels.

In particular, with online deposit mobilization products, many customers, especially those who are older or have limited information technology skills, do not yet understand how to register and use the service, but have not yet received the information. Bank provides timely support. The professionalism, attitude and enthusiasm of bank staff sometimes do not satisfy customers.

Some banks do not have a customer relations department in the field of deposit mobilization, so the relationship with customers in the field of deposit mobilization is still quite passive, mainly waiting for customers to register for services. Deposit service. Customers do not see the bank's commitment and proper attention. They are still passive and confused in choosing the appropriate deposit product. The information provided by the bank is still quite general.

As for banking technology and risk control, small banks have not met customer expectations; Network quality, transmission speed, technical errors or terminal equipment are not guaranteed; the e-banking system develops independently, without a close and sustainable connection; The use of electronic signatures and electronic certificates has not been widely disseminated and has not shown its advantages compared to conventional signatures.

The above reality affects the mobilization of deposits by commercial banks from customers' account balances. In addition, the risk control process related to receiving and depositing money at some banks has not complied with regulations and incidents related to customer deposits have occurred.

On the other hand, the rapid development in the scale of service provision with a large number of products with different properties, number of transactions, and complexity, so the phenomenon of fraud and errors has also occurred. Happens at some banks.

With the above shortcomings, it is necessary to research Vietnam's deposit market in the context of negative economic fluctuations due to the global economic recession and political instability.

## 2. Research overview

### *Deposit market concept*

In the simplest sense of the phrase, the deposit market is defined as the amount of deposits at a particular bank divided by the total amount of deposits at all banks. However, in practice, the term "deposit market share" is used to refer to the market share of deposits held by commercial banks and savings and loan institutions regulated by the Federal Deposit Insurance Corporation (FDIC). Calculate. FDIC calculations do not include deposits at credit unions and cash accounts at brokerage firms.

These figures are considered by many to be important measures of banking performance although many consider them misleading for the following reasons:

- FDIC-insured deposits over the past twenty years have gotten smaller and smaller as bank customers choose to put their money in stocks, bonds, mutual funds and annuities. The amount of money in a mutual fund is twice the amount of money in a bank account, the amount of money in a Money Market Fund is the same as in a checking account. These businesses bring in equal or even more profits to the financial services company than a normal bank account, so if a customer transfers money from a regular bank account of a bank Specifically, to a mutual fund owned by a bank, the bank loses nothing. However, if one only looks at the deposit market share, it appears to be shrinking.
- The deposit market does not include credit unions. The deposit market does not show how many other financial products and services depositors of a particular bank can buy from that bank. For example, Bank Y customers in the same market who may have a 2% deposit market share have not successfully sold mutual funds, mortgages and insurance.
- When two banks merge, a survey is conducted to ensure that the combined deposit market share will not be greater than 25% in a particular state, or 10% nationally. If one or both of these ratios are higher than allowed, banks can choose to still go through with the

merger but they will need to divest (i.e. sell off branches and customer accounts) enough branches to Follow the instructions.

### *Characteristics of the basic deposit market*

A money market deposit account (MMDA), also known as a money market account (MMA), is a special type of savings account held by a bank or credit union with some features that are not otherwise available. In a regular savings account. Most money market deposit accounts pay higher interest rates than regular passbook savings accounts and often include check-writing and debit card privileges. MMDAs also have limitations that make them less flexible than regular checking or savings accounts.

Credit markets are lower than equity markets in dollar value. As such, the state of the credit markets acts as an indicator of the relative health of the market and the economy as a whole. Some analysts call the credit market the canary in the mine, because credit markets often show signs of trouble before equity markets. The government is the largest issuer of debt, issuing treasury bills, promissory notes and bonds, which have a maturity date.

The government is the largest issuer of debt, issuing Treasury bills, promissory notes and bonds, with maturities ranging from one month to 30 years. Companies also issue corporate bonds, which account for the second largest share of the credit market.

Through corporate bonds, investors lend money to companies that they can use to expand their businesses. In return, the company pays the owner an interest fee and repays the principal at the end of the term. Municipalities and government agencies can issue bonds.

For example, these can help finance a city housing project: Preferential interest rates and investor demand are both indicators of the health of the credit market. Analysts also look at the spread between Treasury and corporate bond yields, including both investment-grade and junk bonds.

Treasury bonds have the lowest default risk and, therefore, the lowest interest rates, while corporate bonds have a higher default risk and higher interest rates. As the spread between the interest rates on those types of investments widens, it could herald a recession as investors view corporate bonds as increasingly risky.

## 3. Current status of deposit market operations in Vietnam

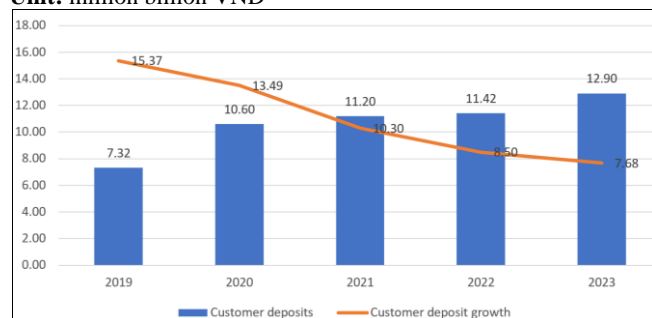
### *Customer deposit size*

The proportion of medium and long-term capital is too low, the imbalance in total mobilized capital, and the imbalance in the bank's capital term are currently also one of the reasons why many banks cannot meet the demand. Business loans.

After 5 years from 2019 to September 2023, the size of total customer deposits has increased 1.8 times (Total customer deposits of commercial banks as of September 30, 2023 is 12.90 trillion VND compared to 7.32 trillion VND). Trillion VND as of December 31, 2019).

The average growth rate of customer deposits in the period 2019 - 2023 is 11.1%, of which the highest growth rate was in 2019 with an increase of 15.37%. Deposit growth has tended to slow down in recent years. In 2022, customer deposit growth at commercial banks will reach 8.5%, the lowest in the period.

Unit: million billion VND



Source: Annual report of the State Bank, 2019-2023

**Fig 1:** Capital mobilization scale of commercial banks in the period 2019 - quarter 3/2023

Thanks to attractive deposit interest rates, it has attracted deposits into the banking system, thereby helping the banking system improve liquidity risk (when the ratio of outstanding credit debt/deposits in VND is already high). And have enough capital to support the economic recovery process. Data from the State Bank shows that the amount of deposits of the residential sector at credit institutions as of the end of November 2022 reached more than 5.74 million billion VND. In November 2022 alone, people's deposits increased to more than 84,000 billion VND. Compared to the end of 2021, people's money deposited at credit institutions by the end of November 2022 has increased to more than 444,000 billion VND (equivalent to an increase of 8.38%) (Thuy An, 2023) [3]. In the context of many fluctuations in investment channels such as real estate, stocks, etc., along with high deposit interest rates of banks, this is considered the main reason why people's deposits will increase in 2022.

#### Deposit interest rates

In 2022: The State Bank has increased interest rates twice (the first time on September 23, 2022 and the second time from October 25, 2022), specifically: Increased operating interest rates 2 times with a total increase of 2%.

In accordance with the international context and macro situation, domestic inflation as well as monetary policy goals, for the first time in the past 2 years, within 1 month, the State Bank has had 2 times increase interest rates (first time on September 23, 2022 and second time from October 25, 2022), specifically: Increase operating interest rates 2 times with a total increase of 2% (refund interest rate capital increased from 4%/year to 6%/year, rediscount interest rate increased from 2.5%/year to 4.5%/year, overnight lending interest rate in interbank electronic payment and for Loans to compensate for capital shortages in clearing payments of the state bank for credit institutions and foreign bank branches increased from 5%/year to 7%/year (Decision No. 1606/QD -NHNN dated September 22, 2022, Decision No. 1809/QD-NHNN dated October 24, 2022); increasing 02 times the maximum deposit interest rate in VND with a term of less than 06 months at credit institutions with an increase of 0.8% -2%/year (demand deposits and terms of less than 01 month increased from 0.2%/year to 1.0%/year, terms of 01 month to less than 06 months increased from 4%/year to 6% / year (Decision No. 1607/QD-NHNN, dated September 22, 2022, Decision No. 1812/QD-NHNN dated October 24, 2022); increase the ceiling interest rate for short-term loans in VND from 4.5%/year to 5.5%/year (Decision No.

1813/QD-NHNN, dated October 24, 2022) for a number of priority areas.

2023: Interest rates are assessed by the State Bank to be the lowest in the past 20 years. Regarding deposit interest rates, banks have continuously reduced them since March 2023 until now.

In the market, the interest rate level is rated the lowest by the State Bank in the past 20 years. Regarding deposit interest rates, banks have continuously reduced them since March 2023 until now, the current listed level can be said to have reached the bottom. As at Vietcombank, the highest deposit interest rate is 4.7%/year for a 12-month term. The 1-month term is only 1.7%/year, 3%/year for 6- and 9-month terms. At other large banks with State shares including: BIDV, VietinBank, Agribank, the highest savings interest rate is only 4.8%/year for long terms of 12 months or more. Shorter terms from 6 to 11 months are listed at 3%/year. For private banks, deposit interest rates are also close to those of state-owned banks. As at VPBank, the 12-month term pays interest at 5%/year. At MBBank, 6-to-11-month terms have interest rates of 3.9 - 4.2%/year.

#### 4. Solutions to develop Vietnam's deposit market

It can be seen that savings is always considered an investment channel that brings greater benefits and safety to people when they have idle money. In addition to the group of customers who deposit money with the need to make a profit, deposit services are now also considered a form of modern financial mastery for many young people, with the desire to accumulate for long-term plans.

Therefore, to implement the above deposit mobilization orientation, each bank can implement a capital mobilization strategy using specific methods and solutions suitable to its conditions. Here are some basic solution orientations:

Firstly, in the current context of deep international economic integration, to ensure the proactive right of commercial banks to operate business activities, to actively attract savings deposits from individual and banking customers. The state needs to urgently shift to using indirect tools in operating monetary policy, instead of the current administrative tools that deeply intervene in proactive credit and lending activities of commercial banks. Accordingly, the state bank needs to soon remove credit limits for state-owned commercial banks and equitized state-owned commercial banks, commercial banks with bad debt ratios below 1% and ensure safety ratios according to regulations, by 2024 completely eliminate this administrative tool.

Currently, the proportion of Vietnamese residents with bank accounts is about 31%, lower than other countries in the region (Singapore 98%, Malaysia 85%, Thailand 82%, Indonesia 49%, Philippines 34%). This is a good condition for commercial banks to continue attracting customers to open accounts at the bank.

To develop the customer base, banks need to continue to research and improve customer policies, proactively approach customer groups with different deposit needs, build a civilized office culture, and improve quality. Human resources and customer service quality. Preventing abnormal decreases in deposit capital on the basis of promptly and fully meeting withdrawal needs in all situations, preventing rumors from spreading, and having plans to promptly meet liquidity needs when needed. Incidents.

Banks need to diversify deposit terms more, maybe weekly, monthly... so that customers can feel secure and be ready to deposit money into the bank if they do not have a need to use it, thereby helping the bank access attract more customers, increasing the bank's ability to mobilize deposits. Second, offer attractive and flexible interest rates to increase the scale of attracting individual customer savings deposits to commercial banks, thereby reducing lending interest rates in the economy. In addition, the state bank needs to reduce the mandatory reserve ratio by 1%, helping to free up over 100,000 billion VND of loan capital for the economy, reducing lending interest rates. Commercial banks build interest rates and fees suitable for each product, each customer group (individuals, businesses) and interest rate fluctuations of the capital market. Diversify interest payment methods along with rewards to attract customers. When building a table of service fees and interest rates for each type of deposit mobilization, banks need to calculate how the fee covers costs, achieves profit goals, and ensures competitiveness not only among banks. Banks but also ensures connectivity with other capital markets, such as the corporate bond market, for example.

In fact, since 2016, Techcombank has been the first bank to implement the 0 VND e-banking program (free of charge for all transactions via electronic channels) for individual customers, and since then this bank has is continuing to expand this program to other customer segments. Thanks to the 0 VND e-banking policy, by 2021 TCB will be the bank with the highest CASA ratio in the system (reaching 50.5%). Recently, large banks such as Vietcombank, BIDV, VietinBank have also officially waived service fees on digital banking applications such as account maintenance fees, internal and external money transfer fees. However, if all banks offer free e-banking transactions, this policy will no longer be effective in attracting customers and increasing the CASA rate as in the case of TCB. Therefore, each bank needs to have its own solutions, in which researching product and technology improvements to increase convenience for customers when opening bank accounts is a practical direction.

Third, credit institutions diversify channels to attract savings deposits from individual customers, on the basis of safe and effective credit growth, focusing on the fields of production, business, priority areas, creating favorable conditions for people and businesses to access bank credit capital, strictly controlling credit in potentially risky areas, such as investment, real estate business, and securities, BOT projects, BT traffic, corporate bonds. Closely combine deposit mobilization with modernization of banking services and development of the digital ecosystem. In the context of an increasing number of customers and an increasing number of products and services, technology support will contribute significantly to the development of the system, helping managers and bank employees. Be freed from meticulous and mechanical work to invest time in caring for and finding new customers.

Therefore, to improve the ability to mobilize deposits, banks need to focus resources on implementing breakthrough solutions on digital banking channels (electronic identification - eKYC, money transfer and multi-channel electronic payment clearing). Electronic - ACH, online deposit mobilization...); Upgrade core banking system, transmission infrastructure, enhance information technology security, increase customer information security; Continue

to synchronously complete the IPCAS system (internal payment and bank accounting system), ensuring the system is connected smoothly, without network congestion, facilitating the transaction process; Strengthen network administration and system administration to early detect and take measures to promptly prevent and handle violations and high-tech crimes; Develop a digital ecosystem - an electronic payment environment by strengthening links with retail providers such as electricity, water, television, internet, telecommunications, tuition, hospital fees, tax payments, and movie tickets. Movies and a variety of other services.

Fourth, establish an appropriate internal control environment. The internal control environment plays an important role in banking operations in general and deposit mobilization in particular. Depending on conditions and development strategies, each bank needs to build a suitable internal control environment to help with management, administration and system supervision; Providing relevant information to localize key transactions showing signs of fraud or incorrect operations, helping to detect signs of risk early and correct them quickly and effectively while saving maximum labor and time. expense; Perform well the functions of supporting overall assessment of operations, assessing the level of completion of planned targets of each branch and the entire system (rate of increase/decrease in deposit mobilization, structure and fluctuations in deposit balances, ratio of short-term capital used for medium and long-term loans, minimum capital adequacy ratio, level of completion of targets assigned to branches by headquarters...).

The Government and state management agencies need to strengthen the protection of legitimate and legal rights and interests for investors, so that the financial market develops safely, effectively and sustainably.

For people and individual investors, depositing savings at commercial banks, investing in corporate bonds, or choosing other investment opportunities is the investor's right. To minimize possible risks, in addition to the efforts of state management agencies, people - individual investors also need to take measures to protect themselves by constantly learning and improving. Knowledge and thorough research about bond issuing businesses and deposit mobilizing banks, especially the publication of information by organizations on official information pages to choose investment products and timing. Investment points suitable to your financial capacity and risk tolerance.

## 5. Conclusion

To meet the capital needs of the economy and the liquidity safety of the banking system, commercial banks need to continue researching and improving the deposit mobilization situation on the basis of ensuring a reasonable balance. Managing the balance between mobilizing residential deposits and mobilizing corporate deposits, promoting the growth rate of highly stable capital sources, developing product diversity and distribution channels, building competitive fee schedules and interest rates. Competition, improving service quality, modernizing banking technology and strengthening risk control.

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