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Sustainable Banking Development Model and Recommendations for Vietnam

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Abstract:

Purpose: *The article proposes a sustainable banking development model based on integrating content from previous banking development models and meeting the requirements of supporting national sustainable development, as well as the influence of factors from the business environment and internal banking environment on sustainable banking development to build the model.*
Design/Methodology/Approach: *The author builds a sustainable banking development model (SFISETAS) based on analyzing the main factors affecting sustainable banking development from the internal environment and banking business environment, that is: Strategy (S); Finance (F); Institution (I); Society (S); Economics (E); Technology (T); Administration (A); Staff (S).*
Findings: *There are currently 35 domestic commercial banks operating, of which 27 banks are listed on the stock exchange. Vietnam's commercial banking system has gone through many stages of ups and downs in its development, in each stage there is a mixture of social banking models, ethical banking models and green banking model. By 2015, Vietnamese commercial banks began to pay attention to sustainable banking development.*
Practical Implications: *Sustainable development is being pursued by businesses, countries and international organizations to seek long-term stable development in the globalization trend. Commercial banks operate in the field of currency and credit, related to most areas of the country's economic and social life, experiencing many ups and downs with many different development models.*
Originality/Value: *Banks are interested in sustainable development trends, this article gives some insights how to achieve it.*

Keywords: *Banks, commercial banks, sustainable banking, sustainable banking development, sustainable banking products and services, sustainable banking models, SFISETAS.*

JEL codes: *G20, O16, M10.*

Paper type: *Research article.*

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1. Introduction

Banks were formed and developed very strongly after the 18th century and went through many development models that are most commonly used by system researchers such as:

(i) Social banking model (Weber, 2014). Accordingly, the bank's business activities do not prioritize profit maximization but integrate profit, environmental and human factors into the business model to improve economic and social welfare and create long-term benefits for customers, communities and the economy;

(ii) Ethical banking model (De Arruda and Rok, 2016). The Bank pursues the formation of an ethical business community in environmental management and public policy. Ethics is the central theme of the five pillars of banking, which are ethical banking, ethical products and services, ethical business, ethical culture and workplace, and ethical advertising strategies. The purpose of Ethical Bank is to improve the quality of life for people and enhance the responsibility of banks in the face of the challenges of the ongoing globalization trend;

(iii) Green banking model (Meena, 2013). The Bank orients its business activities towards preserving or improving the environment, as expressed in its vision, and launches many supportive policy projects that have a positive impact on the environment, such as renewable energy projects, green housing loans and green technology, providing environmentally friendly products and services, minimizing the impact of carbon emissions from banking activities such as developing online banking and online consulting;

(iv) Sustainable banking model (Saal *et al.,* 1996). After heavy losses to American and Japanese commercial banks from the global economic and financial crisis, bank managers began to research and find a direction for sustainable development. A typical example is Westpac Bank (Australia) which began transforming its business model towards sustainability in 2001 by integrating environmental, social and ethical relationships into its business policies; or Triodos Bank (Netherlands), established 55 years ago and since 2010, is also considered a model for a sustainable banking model.

In China, in 2007 the People's Bank of China mentioned "Green Credit Policy" and applied the NSFR index (Basel III), which is also considered a model towards sustainable development of the bank. Banks in Singapore and Thailand since 2010 have also integrated content related to environmental protection into credit granting activities such as controlling greenhouse gas emissions and taking the lead in applying the NSFR Index towards sustainable banking development. In Vietnam, banks before 1986 were mainly state-owned banks, operating under the state's centralized subsidy mechanism, then converted into joint stock commercial banks with private capital and operating under market mechanism with state management.

2. The Theory of Sustainable Banking Development

The concept of sustainable development was mentioned in 1987 in the report "Our Future" of the United Nations World Council for Environment and Development: "Sustainable development is development that meets present needs without compromising the ability of future generations to meet their own needs". By 2002, at the World Summit on Sustainable Development held in Johannesburg (Republic of South Africa), it was determined that "Sustainable development is a process that is closely combined, reasonable and harmonious between the three aspects of development are economic development, social development and environmental protection."

According to Saal *et al.* (1996): "A commercial bank is considered healthy or sustainably developed when the bank's financial capacity and operations reach a certain level of efficiency to be able to exist and maintain and cope with the adverse effects of the external environment".

According to the author, commercial banks operate in all areas of the country's economic and social life, and can even reach beyond national borders. Is the development of the bank sustainable or not, in addition to factors within the bank, also depends greatly on the business environment where the bank conducts business activities.

In particular, stable political institutions, progressive and civilized society, sustainability and efficiency of the economy are the core factors related to the effectiveness of banking business activities in the relationship between banks and customers. This greatly affects the bank's business performance as well as future development prospects.

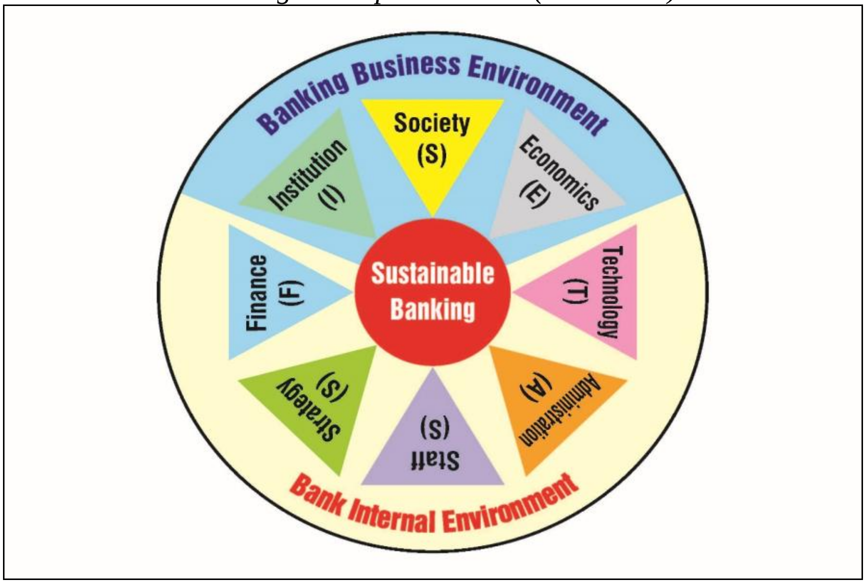
That is, for a bank to develop sustainably, in addition to internal factors such as: business strategy towards sustainable development, strong financial potential, modern technology, effective management and operations, a team of highly qualified banking staff..., requiring the cooperation of agencies and departments in building and perfecting a sustainable banking business environment.

From there, creating a favorable business environment helps the bank move towards sustainable development. In addition, banks themselves also need to be responsible for supporting and promoting the country's sustainable development on all three aspects of economics, society and environmental protection to contribute to building a business environment in general generally more sustainable.

3. Sustainable Banking Development Model

From the above argument, the author builds a sustainable banking development model (SFISETAS) based on analyzing the main factors affecting sustainable banking development from the internal environment and banking business environment, that is: Strategy (S); Finance (F); Institution (I); Society (S); Economics (E); Technology (T); Administration (A); Staff (S).

Figure 1. *Sustainable banking development model (SFISETAS)*



Source: *Own study.*

- Strategy: Sustainable banking development depends greatly on building the initial banking development strategy and designing sustainable banking products and services provided to the market, specifically:

(i) Bank development strategy: Sustainable bank development requires awareness from the highest level, the Board of Directors, to bank staff and is expressed by vision, mission and values core. Only then can the development of banks avoid fragmentation, patchwork, and lack of synchronization for sustainable development.

(ii) Designing sustainable banking products and services: Banks need to design and provide sustainable banking products and services to the market.

Accordingly, banking products and services need to integrate the State's policies and orientations on sustainable economic development, environmental protection and promoting social progress. That is, the bank closely follows the economic structure of local, regional and national areas to prioritize capital to support the development of key industries, supporting industries and the restructuring and modernization of the economy. Banks also need to grasp all State programs and regulations on environmental protection such as: waste treatment, greenhouse gas emissions, combating saltwater intrusion, and renewable energy creating and greening bare hills... to integrate into products and services provided by the bank.

This not only contributes to promoting sustainable economic development and environmental protection but also builds the bank's investment structure based on a sustainable foundation of the economy, opening up many positive growth prospects ROE according to the needs of shareholders and investors.

In addition, banks also need to build a transparent internal environment, pay decent salaries, and provide professional training for employees. Integrate public health assurance programs (eliminating credit for the production and consumption of dirty food, medicine and other items harmful to human health) into banking products and services are provided. Expand the network, equip ATM systems in remote areas, support job creation programs for poor women and ethnic minority youth, develop fine arts, and protect national cultural heritage… contributing to promoting social progress and enhancing the bank's responsibility to shareholders, employees and the community.

- Finance: The bank's strong financial potential is demonstrated through factors such as: large charter capital, high ROE, low bad debt... which will help the bank have enough financial capacity to modernize technology, recruiting talent, being able to endure business risks when the market changes unfavorably... towards the goal of long-term stable bank development.

- Institutions: A stable political regime, strict and comprehensive legal system, with sanctions strong enough to deter, regulate, and direct market activities... will create a legal environment for the market to operate smoothly, improve market discipline and transparency, and create a foundation to promote stable socio-economic development. This is an important premise for banks to carry out legal and effective business activities towards sustainable development.

- Society: A society with cultural identity, moral foundation, motivation and living habits, aiming to form a progressive, wealthy, civilized society... will promote accumulation, investment and consumption. From there, it contributes to promoting sustainable economic development, enhancing trust in relationships, creating a healthy business environment with potential for banks to operate effectively towards prosperity and sustainable development.

- Economy: Developed economy, high productivity, appropriate economic structure, key industries capable of international competitiveness, green economy, circular economy... This is a premise for banks to interact and build a stable customer base, opening up many opportunities for banks to improve business efficiency. In addition, the State's economic development policies and orientations, including strategies for developing key economic sectors and fields, economic restructuring, capital policies, training policies,... This macro ecosystem, if planned sustainably, will also create a favorable environment for economic development.

- Technology: Technology plays an important role in determining the ability to provide sustainable banking products and services, as well as improve the effectiveness of risk management and banking business administration. In the era of technology 4.0 and globalization, technology capable of integrating with the global payment system and other systems of ministries and branches in the economy is extremely important. Digital technology is emerging as a solution capable of meeting the above needs, helping banks move towards sustainable development.

- Administrtion: Banking administration includes strategic administration, capital and asset administration, customer relationship administration, risk administration, financial administration, product and service administration... To bank administration need to apply management models combined with the banking modernization process, helping managers control all banking activities accurately anytime, anywhere. Only then will bank administrators have timely solutions to respond to market risks and improve banking business efficiency.

- Staff: Banking is a service industry, so bank staff play a decisive role in the quality of banking products and services provided to the market. In the context of more and more large-scale, multi-industry, high-tech projects operating under multinational supply chains, banks are required to have many leading experts in charge of all areas of banking operations, understand and make the right investment decisions. If banks only recruit and provide in-depth training in the field of banking and finance in the traditional way, it will be difficult for banks to screen and eliminate large, complex, and ineffective projects.

4. Recommendations for Vietnam

Vietnam is an emerging economy that has just escaped war after 1975. The legal system and law enforcement capacity are gradually being improved and strengthened. GDP in 2023 is 430 billion USD, ranking 34th in the world (according to CEBR rankings).

There are currently 35 domestic commercial banks operating, of which 27 banks are listed on the stock exchange. Vietnam's commercial banking system has gone through many stages of ups and downs in its development, in each stage there is a mixture of social banking models, ethical banking models and green banking model. By 2015, Vietnamese commercial banks began to pay attention to sustainable banking development.

In order for Vietnam's commercial banking system to develop sustainably according to the SFISETAS sustainable banking model, both the state and the banks themselves need to complete a number of recommendations from the analysis of the banking business environment and the internal banking environment in Vietnam below.

- For state management agencies:

First: Improving the legal environment for business activities in general. There are currently 3 emerging issues affecting the sustainable development of banks related to the legal environment, which are:

(i) Legal system: A strict and comprehensive legal system will help improve market discipline and transparency, creating a consistent legal environment for long-term stable economic development, including sustainable banking development. Vietnam is in the phase of building and perfecting the legal system, somewhere there are still overlaps between laws and regulations; Law enforcement therefore still has many shortcomings. Focus on building and perfecting a strict legal system, capable of adjusting all areas of life towards a rule of law state, including the Law on Credit Institutions that needs to be researched and updated regularly.

(ii) Law enforcement capacity: Late debt payment, the verdict took too long to execute, bad debt that banks cannot release assets for recovery... is eroding the financial capacity of lending banks. The State needs to prioritize both mechanisms and human resources to strengthen law enforcement, ensure that the law is respected and handled quickly and thoroughly, creating conditions for the market to operate smoothly, towards development sustainable development.

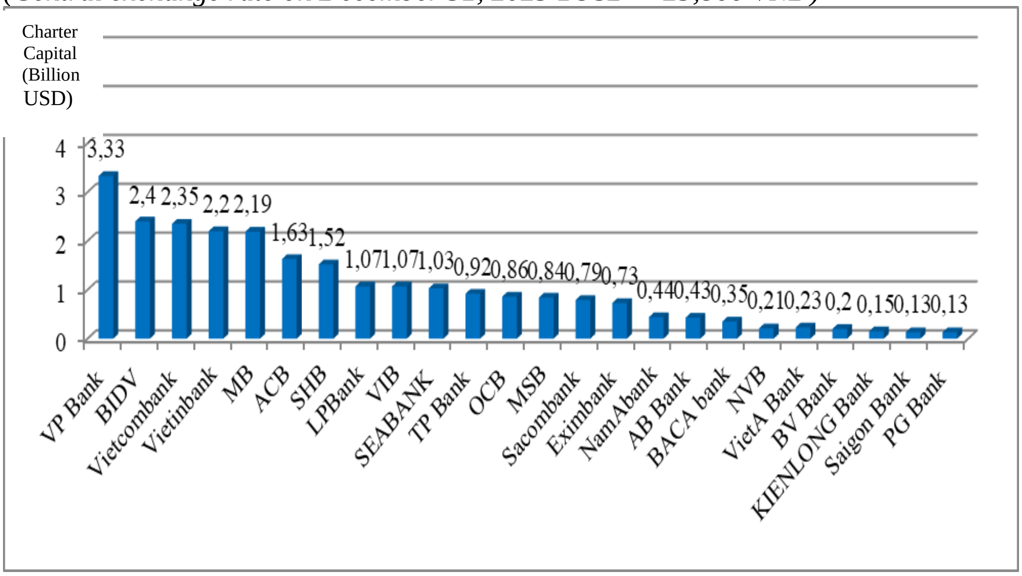
(iii) Hidden relationships: Expressed through cross-ownership of shares, hidden ownership, group interests, policy profiteering... leading to the election of a Board of Directors with anonymous shares; prioritize capital and transfer part of the benefits to the backyard; collusion for policy profiteering... is causing chaos in both business operations and management in general.

This is a painful problem that requires immediate control tools and strong handling measures, including imprisonment and confiscation of hidden assets to completely eliminate interest groups , returning transparency to the market, helping to allocate and use national resources more effectively and transparently. On the other hand, when the elected Board of Directors is dominated by hidden ownership, the arrangement of executive personnel may also be influenced by interest groups and therefore the bank's operating apparatus cannot attract talented people to towards the goal of sustainable development.

Second: Publicly and transparently disclose economic, social and environmental information to promote sustainable development. The State needs to widely publicize national information and data related to economic development strategies; environmental protection policy, including data and technical specifications of all projects in the economy related to the environment; policies to promote social progress... help banking experts integrate these contents into sustainable banking products and services. Thereby eliminating credit for loan projects that damage the environment, encouraging monitoring, feedback and enhancing the responsibility of the entire community in protecting the environment. The State also needs to soon announce, record, evaluate and rank sustainable banks to encourage sustainable bank development, as well as have policies to prioritize banks that meet sustainable banking criteria.

Third: Increase legal capital and have a roadmap to increase charter capital of commercial banks. By the end of 2023, only 13/35 domestic commercial banks will have charter capital of 1 billion - 3.3 billion USD. Low charter capital reduces the ability to withstand risks when banks encounter adverse business events and cannot pursue sustainable development policies. Therefore, it is extremely urgent to increase legal capital and force banks to increase charter capital corresponding to Vietnam's increasing GDP scale, on par with banks in the ASEAN region.

Figure 2. *Charter capital chart of 24 listed Vietnamese commercial banks in 2023 (Central exchange rate on December 31, 2023 1USD = 23,866 VND)*



Source: *Own study.*

- For Vietnamese commercial banks:

First: The bank's sustainable development needs to be included in the bank's development strategy, expressed through vision, mission and core values in order to achieve cognitive consensus from the Board of Directors and banking staff throughout the process of banking operations and development.

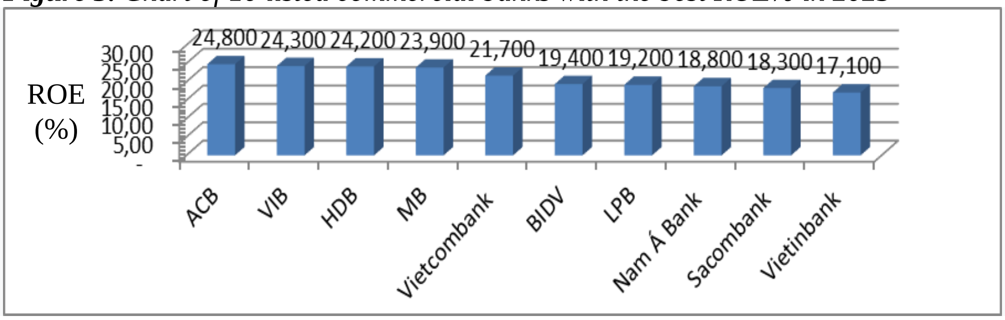
Second: Technology modernization is an urgent issue and digital technology is emerging as a solution that can help meet the needs of designing and providing sustainable banking products and services, as well as the ability to application software integration to support banking business management. If you are satisfied with current technology, it is likely that Vietnamese banks will be outdated in the next few years and then it will take a lot of time to convert data, train operating personnel... slow down the process of sustainable banking development.

Third: The CAR coefficient of Vietnamese banks is basically always controlled at a safe level (CAR > 8%). However, because commercial banks are allowed to use short-term capital for medium and long-term loans up to 30% from October 1, 2023 in Article 1 of Circular 08/2020/TT – NHNN, liquidity should very low bank.

Although Vietnamese banks are on the roadmap to deploy Basel I and Basel II, implementing the NSFR index at this time is very good to move towards sustainable banking development (NSFR Index = Available Stable Capital / Required Stable Capital) and must be greater than 100% according to Basel III. This means ensuring that long-term assets are funded at least partly by long-term capital to ensure liquidity for the bank's sustainable development.

Fourth: The average ROE (Profit/equity ratio) of 27 banks listed on the stock exchange in 2021: 19%, 2022: 19.8% and 2023: 17% is not really attractive to investors. Not to mention the increase in backyard interest groups and bank bad debts, which are likely to reduce ROE in the near future, possibly even negative charter capital. This requires an early solution to improve the ability to attract capital from shareholders to increase charter capital and have enough financial capacity for the bank to develop sustainably.

Figure 3. *Chart of 10 listed commercial banks with the best ROE% in 2023*

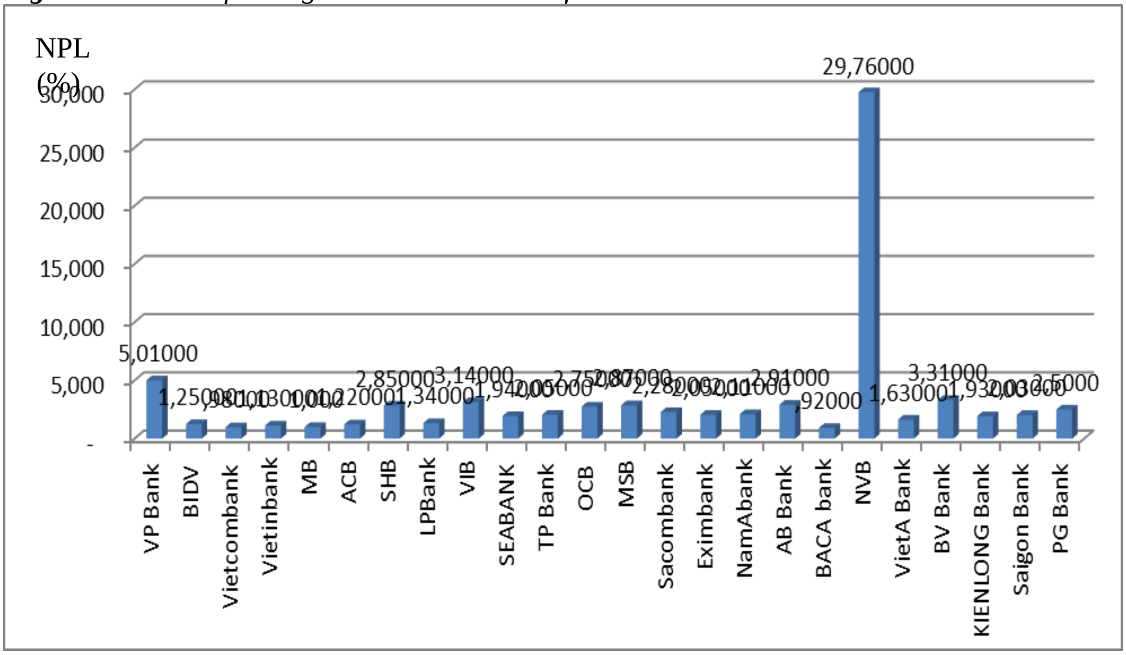


Source: *Own study.*

Fifth: Bad debt ratio = Bad debt/Total outstanding debt x 100. If the bank's bad debt ratio is too high, it will lead to the risk of losing capital, possibly pushing the bank into bankruptcy. According to data from the State Bank of Vietnam, on-balance sheet bad debt on the books of credit institutions by the end of 2022 is 2.03%; 2023 is 4.55%. Actual bad debts may be much higher because debts are restructured and rolled over with collusion from backyard interest groups that have not been shown on the balance sheet. It should be noted that data published by the General Statistics Office on December 29, 2023 shows that up to 217,700 businesses will enter and re-enter the market in 2023 and up to 172,600 businesses will withdraw from the market in 2023.

This shows that the life cycle of businesses in Vietnam is not high. If the bank's loan appraisal does not have enough multi-industry knowledge to eliminate unfeasible projects in credit granting, it can lead to bad debts arising among businesses withdrawing from the above market.

Figure 4. *Non-Performing Loan ratio% chart of 24 listed commercial banks in 2023*



Source: *Own study.*

Sixth: Banking activities cover all socio-economic fields and globalization trends, requiring banks to have many leading experts in all fields. From there, have enough knowledge to appraise and evaluate loan projects, especially large-scale projects, complex technology, products exported to foreign countries... Besides, bank employees also needs to clearly understand economic development policies, environmental protection policies, policies to promote social progress... to integrate them into sustainable banking products and services. Therefore, building and training a team of multidisciplinary banking staff with in-depth knowledge of economics, society and environmental protection is extremely urgent.

Seventh: Banks need to research and design sustainable banking products and services to replace traditional banking products and services, by integrating economic development policies, environmental protection policies, and policies to promote progress in banking products and services provided to the market. In the immediate future, it is necessary to soon design products to serve key economic sectors, innovation, renewable energy, and combat climate change; expanding the network and equipping ATM systems in remote areas, supporting job creation programs for poor women and ethnic minority youth, protecting national cultural heritage... contributing to support support the promotion of sustainable socio-economic development.

Eighth: Banks need to promote social progress in the internal banking environment such as building a transparent working environment, paying decent salaries, training to improve professional qualifications for employees. Integrate community health programs into bank policies for bank employees, share part of the bank's benefits to sponsor arts, sports, and social charity activities to further enhance the bank's responsibility towards its employees and promote social progress in general.

5. Conclusion

Research on sustainable banking honored by international organizations around the world such as Westpac Bank (Australia), Triodos Bank (Netherlands) shows that in these countries the banking business environment is quite sustainable, demonstrated through stable political institutions, comprehensive legal system, strict market discipline and stable economic development; or banks in ASEAN countries such as Singapore and Thailand have pioneered the application of the NSFR index since 2010 to improve bank liquidity towards sustainable banking development... then the scale of charter capital of this banks also amounts to several tens of billions of USD, large enough to modernize the bank and able to withstand business risks when encountering adverse fluctuations in the market.

Particularly in Vietnam, the legal environment is gradually being improved; the economy is developing but is still fragmented and unstable; there are 22/35 banks with charter capital of less than 1 billion USD; somewhere there are still underground activities that distort market operations... Vietnamese banks always face high bad debts, low ROE, many banks with negative equity have to be put on the special control list by management agencies. From there, it can be concluded that for the banking system to develop sustainably, it requires companionship from both sides, which are:

(i) The State needs to create a sustainable banking business environment. Demonstrated by the stability of political institutions, creating a strict and disciplined legal environment for the market to operate transparently; have planning and construction of sustainable economic development, have social development policies in the direction of increasing accumulation, encouraging investment, stimulating consumption...

(ii) The efforts and determination of the bank from the highest levels of leadership to bank staff in building a synchronously developed bank with strong financial capacity, modern technology combined with effective management and talented staff. In particular, sustainable banking development needs to be reflected in the bank's development strategy through vision, mission and core values as well as the design of sustainable products and services provided to the market, contributing to promoting the country's sustainable development.

The sustainable banking development model (SFISETAS) is drawn from research on sustainable development principles and practical testing in developed countries such as Australia, the Netherlands, China and the ASEAN region. This is valuable experience for Vietnamese banks to transform their business models in line with sustainable development trends in the world./.

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