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# Cross-ownership in the banking system in Vietnam

**[1]Nguyen Minh Trang, [2]Trinh Minh Anh**
[1]Diplomatic Academy of Vietnam
[2]BIS HCMC

**Abstract**
The banking industry is an important component of the economy, contributing significantly to economic development and national growth. A sustainable and effective banking system will bring many benefits to the economy, minimizing disadvantages to society and the environment. The banking sector in Vietnam is currently undergoing comprehensive restructuring efforts aimed at enhancing operational efficiency and ensuring safety and sustainable development within the context of economic integration. While cross-ownership is deemed normal in economies reliant on credit, the situation in Vietnam is complicated by underdeveloped inspection and supervision activities. This raises concerns about the potential negative impacts of cross-ownership on the overall efficiency of the economy, with particular emphasis on its ramifications for the banking and financial sector. In this paper, we aim to explore the complex world of cross-ownership, taking a closer look at how it's influencing the global business scene and, more importantly, shaping the banking sector in Vietnam. Our focus is on unraveling the various aspects of cross-ownership, understanding its prevalence worldwide, and delving into the implications it holds.

**Keywords:** Cross-ownership, banking system, Vietnam

## 1. Introduction

Cross-ownership, an intricate phenomenon observed worldwide, plays a significant role in shaping business landscapes across various sectors and countries. In the United States, the media industry stands as a notable example, where premier media entities share interconnected ownership ties. Similarly, in Japan, Germany, and South Korea, cross-ownership is considered a pivotal element influencing the distinctive structures of companies. At its core, cross-ownership entails two companies holding shares in each other, granting them the power to influence and make decisions reciprocally.

In the context of the banking sector, cross-ownership takes on a unique significance, signifying one bank's ownership of shares in another. Recent years have witnessed the development of the banking and financial sector, leading to a more intricate web of cross-ownership relationships in Vietnam. However, this development has brought about negative consequences for the national economy, particularly impacting Vietnam's credit system. The complexities associated with cross-ownership have garnered attention from experts and policymakers alike, as it is perceived as a major contributor to issues such as bad debt and the manipulation of financial business activities.

## 2. The development of banking system in Vietnam Pre-Reform Era (Before 1986)

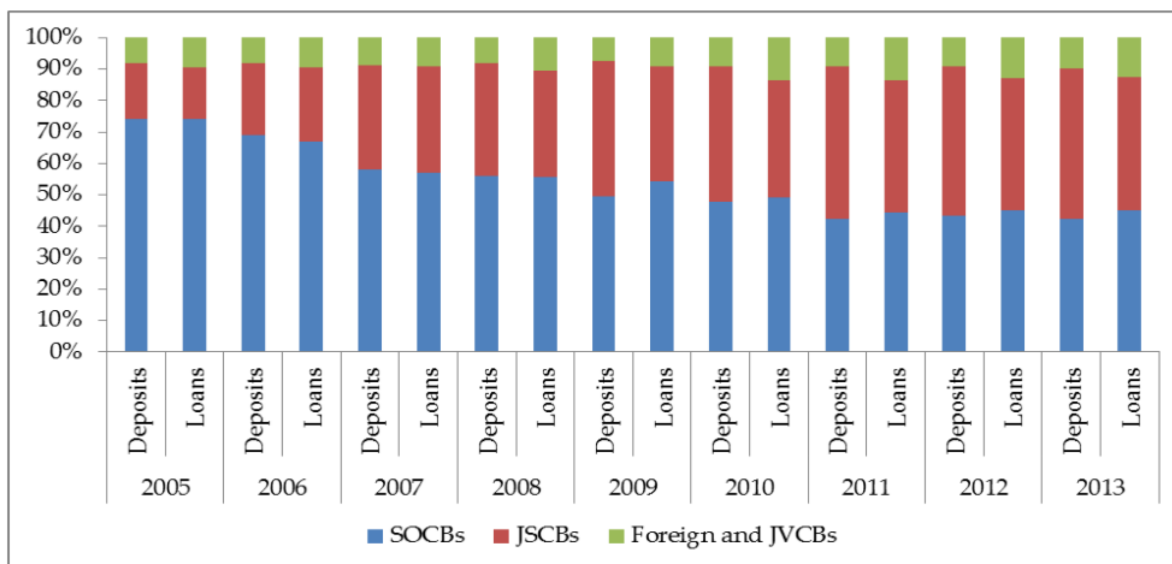
In this period, the economy is concentrated on recovery after the war of liberation and reunification of the country. The specific task of the banking industry is to establish a unified banking system throughout the country and liquidate the banking system of the old regime in the South. Accordingly, the National Bank of the Republic of Vietnam government was nationalized and merged into the State Bank of Vietnam system, jointly performing the task of unifying currency throughout the country, issuing new currency of the Socialist Republic of Vietnam. During this period, the State Bank system still basically operated as a public bank without any monetary business activities.

**Reforms (1986 Onward)**

The period from 1986 to 1990 marked a critical juncture in Vietnam's economic and banking landscape. Over a decade after liberation, the nation found itself in the throes of a comprehensive economic-political-social crisis, reaching its pinnacle following the Sixth National Party Congress in 1986. While this congress was touted as the "Congress of Economic Mechanism Innovation," its outcomes merely hinted at the revolutionary shifts needed, leaving room for interpretation regarding trends, perspectives, and the new directions required for transformative change.

Despite the nominal retention of socialist characteristics in Vietnam's economy during the initial years of reform, the practical reality revealed a division into two economic realms, characterized by organized and unorganized market systems. The legal and economic structures persisted, with outdated state-owned trading enterprises operating under the "coupon distribution" system, detached from the actual producers of goods and services. The banking system, still a government entity, reflected the prevailing challenges of an economy grappling with the need for comprehensive change. In response to the evolving economic landscape, four specialized banks emerged from the State Bank of Vietnam (SBV): the Vietnam Bank for Industry and Trade (VietinBank), the Vietnam Bank for Agriculture and Rural Development (AgriBank), Bank for Foreign Trade of Vietnam (Vietcombank), and the Bank for Investment and Development of Vietnam (BIDV). These changes marked a significant step in restructuring the banking sector to adapt to the new economic realities.

**Figure 1. Capital raising and lending by various types of banks in Vietnam**




Source: Fulbright Economics Teaching Program (2013)

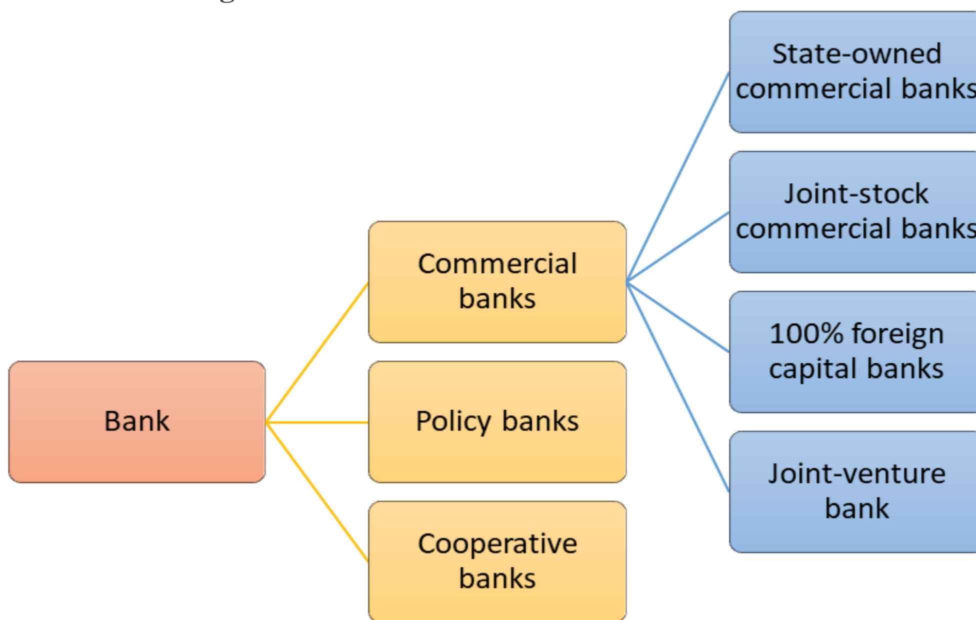
The late 1980s witnessed a "minor" yet severe economic crisis following the missteps of the 1985 General Adjustment of Prices, Wages, and Money. The reversal in adjusting money, wages, and prices led to hyperinflation, drastically affecting the cost of living for workers. State efforts to compensate the budget through excessive currency issuance further complicated matters, resulting in a rapid devaluation of the newly introduced currency. Rural Credit Cooperatives, Urban Credit Funds, and numerous joint-stock banks faced insolvency, contributing to shocks in the monetary and capital markets that reverberated into the early 1990s. During this period, state-owned commercial banks grappled with the expanding but undercapitalized economy. The financial market lacked diversity, with state-owned banks dominating and the absence of a stock market. Non-bank financial institutions were scarce. The State Bank's direct issuance to compensate the state budget and indirectly fund state investments through state-owned commercial banks became a prevalent practice, leading to a rapid increase in outstanding loans and non-recoverable debts.

In the aftermath of economic reforms, the establishment of joint-stock banks became a crucial development in Vietnam's financial evolution. However, the scarcity of capital posed a significant challenge. Cross-ownership emerged as a strategic solution during this period, facilitating collaboration among banks to overcome the challenges of insufficient capital required for economic and business development. Vietnam allowed the upgrading of many banks, with one crucial requirement being that banks had to meet the

minimum charter capital requirement, approximately 1,000 billion dong or more. To achieve this minimum capital requirement, many banks had to engage in cross-ownership, sharing capital (via stocks) with each other.

In May 1990, the State Council passed two ordinances regarding banks, initiating a comprehensive, fundamental, and extensive transformation of the banking system. The number of banks increased rapidly, but their scale remained small, and their management capabilities were weak, posing numerous risks, particularly credit risks. By the end of 1996, there were 52 joint-stock commercial banks (JSCB) in the entire system, comprising 32 urban joint-stock banks and 20 rural joint-stock banks (Duc Long, 2021).

**Figure 2. Classifications of banks in Vietnam**




Source: State Bank of Vietnam.

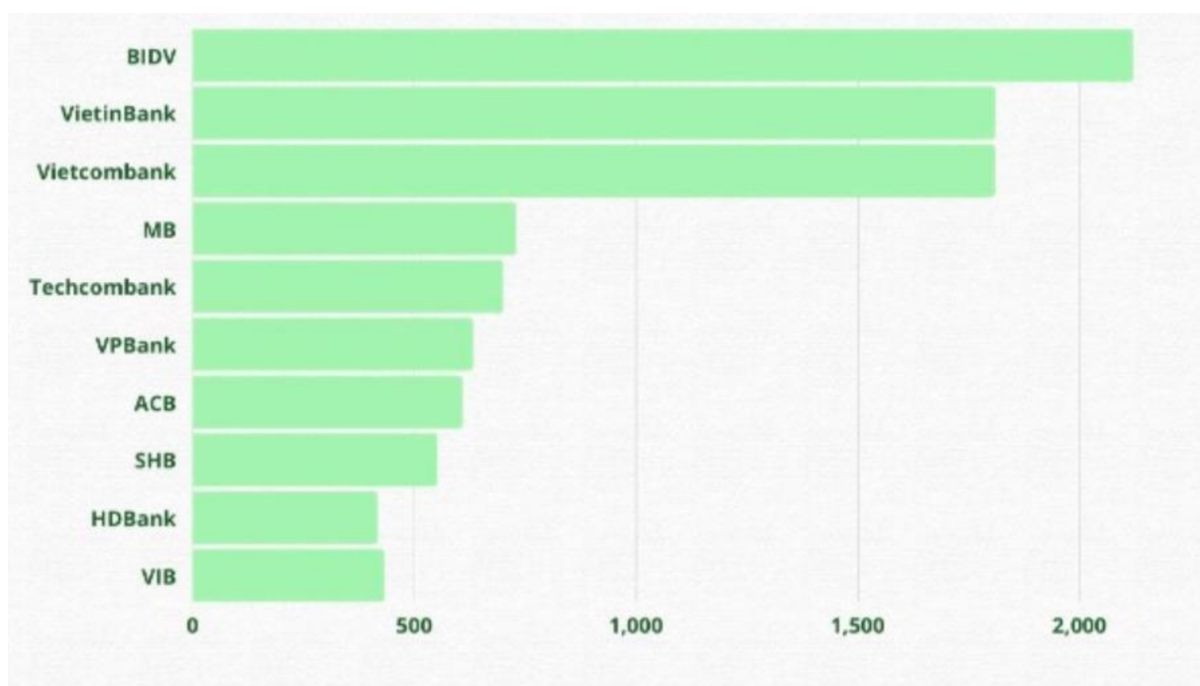
The Asian financial crisis in 1997-1998 had a negative impact on the domestic economy. Economic growth slowed down, import-export activities decreased, foreign investment stalled, and the banking system faced various risks and challenges. The existing capital deficiencies in the banking system worsened due to the impact of the aforementioned crisis. The pressure on the Vietnamese Dong led to continuous depreciation, and the real estate market experienced a decline and freeze. Numerous joint-stock banks fell under special control and had to merge with state-owned banks.

From 2006 to 2010, the global financial crisis in 2008-2009 and the subsequent economic recession negatively affected Vietnam's economy. The number of banks decreased to 37 by 2006 (Vu et al). Vietnam had recently joined the World Trade Organization (WTO) on January 11, 2007, and deepened its integration into the global economy. This placed the Vietnamese financial and monetary system under numerous difficulties and challenges. While the number of banks increased rapidly, with rural joint-stock banks upgraded to urban joint-stock banks and the establishment of three new joint-stock banks and five banks with 100% foreign capital, high charter capital levels in a short period led to banks attracting capital in various ways, and cross-ownership increased rapidly.

Following Vietnam's accession to the WTO in 2007, the dynamics of the Vietnamese banking sector underwent significant transformations. The introduction of banks with 100% foreign capital marked a notable development, signaling increased openness to international investment. Simultaneously, the State Bank of Vietnam (SBV) played a pivotal role in reshaping the sector by approving the conversion of 13 rural banks into urban banks and granting licenses to three new urban Joint Stock Commercial Banks (JSCBs) – namely Bao Viet, Tien Phong, and Lien Viet – as per the directives outlined in Decree 141 of 2006. It is noteworthy that these new institutions were founded by state-owned businesses and economic groups that had transitioned into public entities, with the state maintaining substantial shareholdings.

Despite this influx of new banks, the expansion did not necessarily correlate with improvements in overall efficiency and governance. The sector began to reveal inherent weaknesses, including suboptimal governance standards, sluggish and unresponsive management, slow adoption of modern accounting standards, and a monitoring system that faced challenges in enforcement. Notably, the initial surge in profits was not indicative of exemplary performance but rather reflected financial repression and an escalation of risks within the banking system. The consequences of these risks have materialized in recent years, underscoring the warnings issued earlier. As banks grapple with contemporary challenges, the reliance on past high profits to mitigate current issues has become apparent. Currently, according to the official list on the State Bank of Vietnam's website, the banking system in Vietnam is categorized with 4 state-owned commercial banks, 31 joint-stock commercial banks, and additionally, 13 foreign-invested and joint venture banks.

**Figure 3. Banks with the largest total assets in 2022 (in million billion Dong)**




In essence, Vietnam's banking landscape has evolved from a monolithic structure to a diverse array of institutions with varying ownership structures. This diversification is deemed essential for fostering competitiveness within the financial sector. State-owned commercial banks (SOCBs), once predominant in banking activities ranging from capital acquisition to lending, have witnessed a diminishing role. Conversely, Joint Stock Commercial Banks (JSCBs) have emerged as crucial counterparts, actively contributing to the development, competition, and stabilization of Vietnam's financial system.

## 3. Cross-ownership in Vietnam

### Legal framework

The legal provisions concerning the establishment, organization, and ownership matters within the banking sector are explicitly outlined by the government in the Law on Credit Institutions (LCI) No. 47/2010/QH12, issued on June 16, 2010, and the Decree No. 59/2009/ND-CP, dated June 16, 2009, which addresses the Organization and Operation of Credit Institutions. According to Vietnamese state law, specific regulations are in place regarding bank ownership rights, including:

- An individual shareholder is not allowed to own more than 5% of the charter capital of a Credit Institution (CI).

- An organizational shareholder is not permitted to own more than 15% of the charter capital of a Credit Institution (CI), except in cases such as:
    - a. Ownership of shares as specified in Article 3, Clause 149 of the Law on CIs.
    - b. Ownership of state-owned shares in a CI undergoing privatization.
    - c. Ownership of shares by foreign investors as stipulated in Article 2, Clause 16 of the Law on CIs.
- Shareholders and related persons of those shareholders are not allowed to collectively own more than 20% of the charter capital of a CI. The ownership ratio specified in Clauses 1, 2, and 3 of this Article includes the portion of capital entrusted to other organizations or individuals for share acquisition.

Prior to 2014, the ownership structure within the Vietnamese banking system reflected a historical legacy, where state-owned commercial banks held a portion of the capital in joint-stock commercial banks to support their operations. Consequently, intricate cross-ownership relationships emerged among state-owned commercial banks, joint-stock commercial banks, foreign banks, financial funds, state-owned enterprises, and private enterprises. For instance, by the end of 2011, eight joint-stock commercial banks had equity relationships with four state-owned commercial banks, with Vietcombank being a notable example. Vietcombank held 11% of shares in Military Bank, 8.2% in Eximbank, 4.7% in DongA Bank, and 5.3% in Saigon Bank. In contrast, interlocking ownership was observed among joint-stock commercial banks, as at least six of them had a shareholder that was another joint-stock commercial bank. For example, Eximbank currently holds 10.6% of shares in Sacombank and 8.5% in Viet A Bank (Le, Khuat, 2017) .

The first step in addressing cross-ownership was taken by the State Bank of Vietnam (NHNN) through the issuance of Circular 36 on November 20, 2014. In Article 18 of Circular 36, it stipulates that a Credit Institution (CI) is only allowed to hold shares in a maximum of two other Credit Institutions (except in cases where the other Credit Institutions are subsidiaries of that bank). Additionally, the number of shares held in these other Credit Institutions must not exceed 5% of the voting capital of those institutions. In cases where this limit is exceeded, unless the other Credit Institution is a subsidiary of the bank or the CI is involved in restructuring weak Credit Institutions as directed by the NHNN, measures need to be taken. Setting the 5% threshold serves as both a task and a goal to prompt Credit Institutions with existing share ownership in other Credit Institutions to divest their capital or for Credit Institutions held by another Credit Institution with more than 5% of charter capital to urgently plan for capital increases.

**Classification of cross-ownership in Vietnam**

Based on the characteristics and classification of ownership rights in Credit Institutions (CIs), cross-ownership is divided into six main forms as follows:

**(1) Ownership of domestic and foreign CIs in joint-venture banks**

Ownership of domestic and foreign Credit Institutions (CIs) in Joint Venture Banks (JVBs) can be succinctly understood as banks and domestic enterprises, along with foreign banks and enterprises, jointly contributing capital to establish a Joint Venture Credit Institution. According to regulations, each party (up to 5 members of the Board of Directors) has the right to own no more than 50% of the charter capital. It can be observed that the form of cross-ownership in joint-venture banks is positively characterized as a result of economic cooperation between the government and the central bank of different countries. This structure creates opportunities for collaboration between two economies and two financial systems.

**(2) Ownership of state-owned commercial bank in joint-stock commercial banks:**

Ownership of state-owned commercial bank (SOCB) in Joint-Stock Commercial Banks (JSCB) is essentially a mechanism wherein government-backed banks contribute capital and acquire shares in these commercial banks. This cross-ownership arrangement is in accordance with the government's strategy to establish a

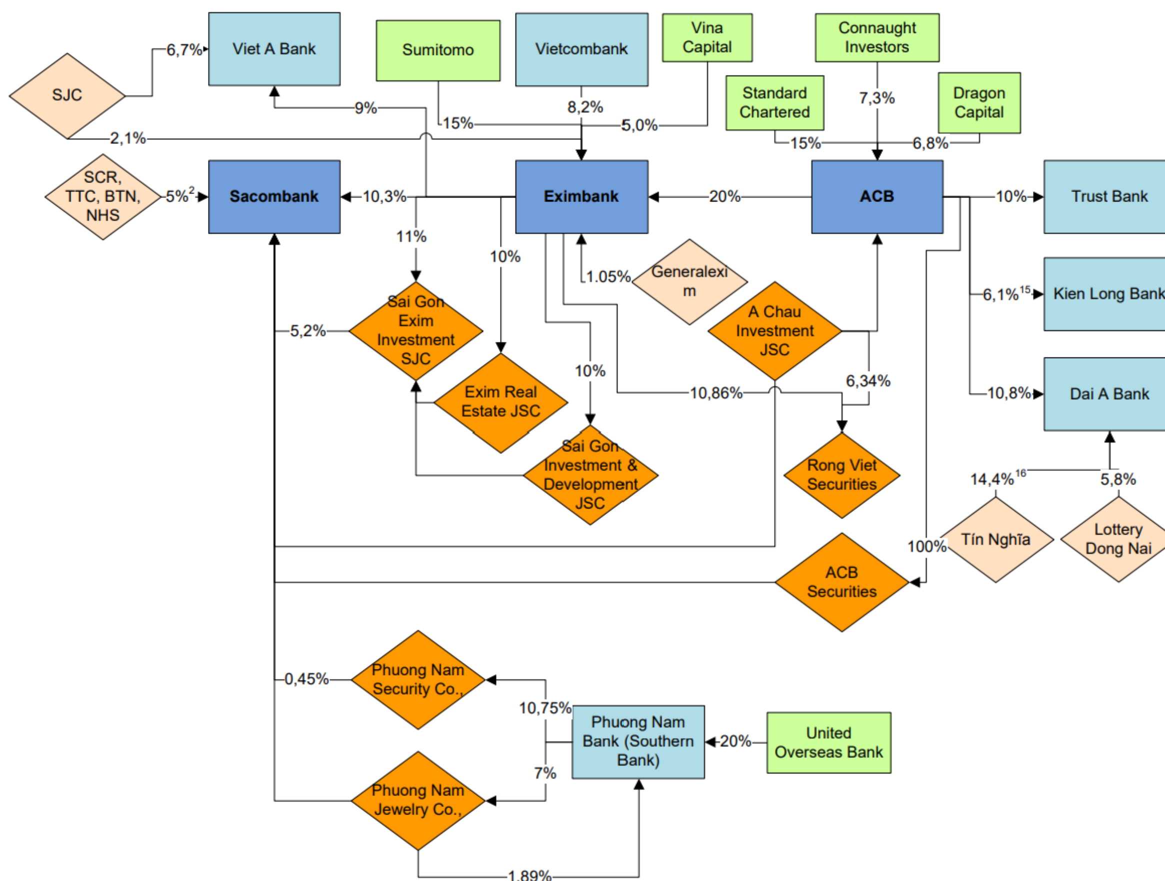
system of Joint-Stock Commercial Banks. The overarching goal is to share managerial expertise, provide strategic direction for emerging non-state-owned commercial banks, and concurrently oversee adherence to legal regulations. This form of ownership is viewed with caution, necessitating limitations to prevent SOCB from exerting significant influence on lending decisions within JSCB, thereby mitigating the risk of restricted capital access for non-state-owned enterprises. In practice, substantial progress has been made in addressing the cross-ownership concerns within the financial system. Notably, four major state-owned SOCB—VietcomBank, VietinBank, AgriBank, and BIDV—have successfully executed divestment plans from JSCB where they previously held significant stakes. This strategic move aligns these divested banks with the stipulated levels of cross-ownership, as per government regulations.

**(3) Cross ownership among JSCBs.**

This form of cross-ownership has been classified by the Economic Committee of the National Assembly as a concerning category due to its existence leading to the phenomenon of virtual capital. It distorts risk evaluation indices in the banking system since many assessment criteria utilize the self-owned capital, which includes this virtual capital. Additionally, it can create a situation where a group of individuals may manipulate the operations of major banks, fostering unhealthy competition in the financial-banking market. Specifically, it allows banks to easily borrow at low costs from Credit Institutions in which they hold shares.

A prominent example of this cross-ownership form is the intricate ownership structure involving Asian Commercial Bank (ACB) and a group of related Joint-Stock Commercial Banks. In the first quarter of 2012, Mr. Nguyen Duc Kien, Vice Chairman of ACB's Board of Founders, and his wife, Ms. Dang Ngoc Lan, a member of the Board of Directors of Vietbank, held a 4.99% stake in the latter. Furthermore, senior leaders of ACB simultaneously held significant positions in other banks through representing ACB's contributed capital in those institutions. For instance, ACB's Chief Accountant, Mr. Nguyen Van Hoa, concurrently served as a member of the Board of Directors of Joint-Stock Commercial Bank for Investment and Development of Vietnam (BIDV)'s Kien Long branch, representing 6.13% of ACB's stake in that bank. ACB held a 10% stake in Vietbank, and the representative for this contributed capital was Mr. Bui Tan Tai, Deputy General Director of ACB.

**Figure 4. Overlapping ownership amongst ACB, Eximbank, Sacombank, and some small JSCBs (5/2012)**



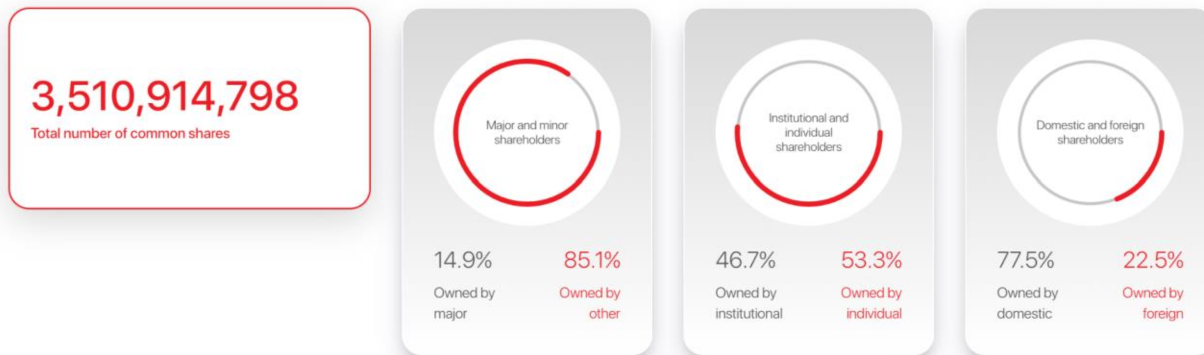

Source: Fulbright Economics Teaching Program (2013)

**(4) Ownership of foreign strategic shareholders in domestic JSCBs.**

The cross-ownership paradigm involving foreign strategic shareholders in domestic commercial banks is characterized by the predominant ownership of shares in these banks by international financial institutions. This framework provides foreign financial organizations with the option to directly acquire shares from existing shareholders of the domestic commercial bank or indirectly through the acquisition of shares in a subsidiary or affiliated company. Decree No. 01/2004/ND-CP from 2014 outlines the foreign ownership limits for Vietnamese banks. In general, foreign investment is restricted to a maximum of 30 percent of a bank's charter capital.

Initiated by the State Bank of Vietnam (SBV) in 2005, a policy encouraging the active participation of foreign financial institutions in the Vietnamese banking system has spurred significant growth in this specific form of cross-ownership. Notable examples include instances of foreign strategic shareholders in Techcombank - 22,5% (official website, 2021), BIDV - 17,29% (official website, 2024), VPBank - 17,6%, MBBank - 23,24%, and HDBank - 17,8% (Vietnam News Agency, 2023)

**Figure 5. Techcombank's shareholder structure 2021**

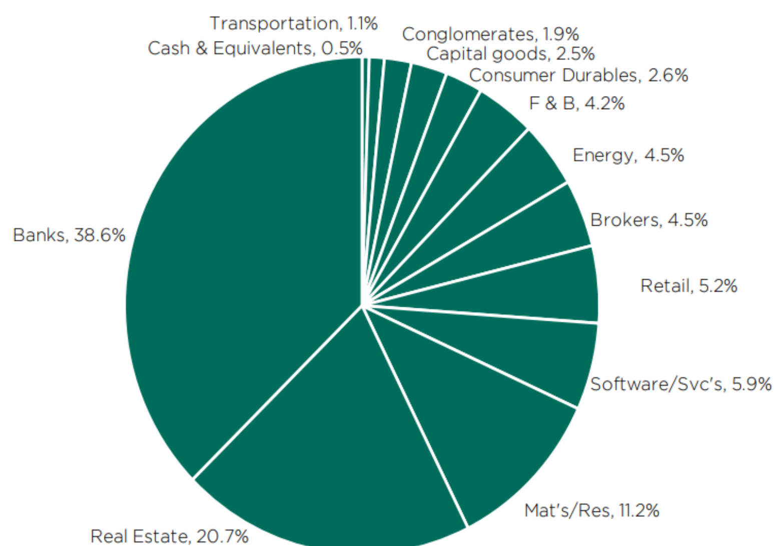



TCB Official website, 2021

**(5) Ownership of shareholders being fund management companies in domestic JSCBs.**

The ownership structure involving shareholders represented by fund management companies in domestic JSCBs is essentially the acquisition of shares in local JSCBs by various fund management entities, such as those specializing in securities, real estate, or bonds. These fund management companies strategically invest in JSCBs poised for robust development, contributing to the effective deployment of capital within the economy. Dragon Capital, a significant player in the investment fund landscape, has strategically directed substantial investments towards major banking institutions like VPBank (11,4%), Vietcombank (8,5%), ACB (8,3%) of their funds. In the most recent development in October 2023, Dragon Capital made a noteworthy investment in Sacombank, acquiring an impressive additional 3.5 million shares (Lam Tien, 2023).

**Figure 6. Sector allocation of Dragon Capital's fund**




Source: VEIL's Factsheet

**(6) Ownership of conglomerates, state-owned economic companies, and private entities in domestic JSCBs.**

The cross-ownership arrangement involving conglomerates, state-owned enterprises, and private individuals in domestic commercial banks can be conceptually simplified as the acquisition of shares by these entities in commercial banking institutions. Categorized by the Economic Committee of the National Assembly as a matter of concern, this form of cross-ownership introduces the notion of virtual capital, leading to a distortion in the assessment of risk levels within the banking system. This distortion arises as many risk

evaluation criteria predominantly utilize actual capital, and the introduction of virtual capital disrupts this conventional framework. Additionally, it fosters a scenario where a specific group of individuals can potentially impede the operations of prominent banks, giving rise to concerns about the creation of unhealthy competition dynamics within the financial-banking market.

The intrinsic concern surrounding this ownership structure arises from the scenario wherein both private enterprises and state-owned conglomerates, despite holding a considerable capital stake in commercial banks, exhibit minimal engagement in the banks' operational management. This lack of proactive involvement renders state capital susceptible to exploitation by a cadre of controlling investors who wield substantial influence, thereby establishing dominance over these financial institutions. The ownership of commercial banks by private economic conglomerates may relegate these institutions to serving as financing hubs primarily for the shareholders' business ventures, posing a consequential threat to the broader economy. The concentration of commercial banks' lending activities on a specific group of borrowers, coupled with a lack of impartial scrutiny in loan decision-making, accentuates the credit risk exposure, ultimately resulting in a surge in non-performing loans.

In practice, the 2010 Law on Credit Institutions explicitly outlines ownership thresholds for individuals and entities in commercial banks. Individual shareholders are restricted from exceeding 5% of the charter capital, while institutional shareholders face a cap at 15%. Despite these regulatory provisions, cross-ownership persists within the banking sector, enabling certain shareholder groups to circumvent these stipulations. Cross-ownership stands out as a contributing factor to cases exemplified by Van Thinh Phat and Ms. Truong My Lan. Investigative findings from the Ministry of Public Security, as of October 2022, reveal that Ms. Lan, the Chairwoman of the Board of Directors of Van Thinh Phat Group, commands a substantial 91.5% ownership of shares in Saigon Commercial Bank (SCB). This represents the highest individual ownership percentage recorded in a Vietnamese commercial bank. Specifically, Ms. Lan directly holds a 20% share in SCB, while an additional 71.5% is held indirectly through Van Thinh Phat Group's subsidiary companies. Ms. Lan's considerable shareholding in SCB affords her the requisite conditions to adeptly manipulate, control, and potentially exercise dominance over all facets of SCB's operations.

**Impact of Cross-Ownership on Banks and Finance in Vietnam**

**Positive impacts**

In the realm of Domestic Commercial Banks (DCBs) in Vietnam, cross-ownership emerges as a strategic tool, wielding considerable influence on their long-term operational, investment, and financial landscapes. This phenomenon serves as a shield against external pressures, particularly interventions in control rights emanating from formidable entities, often witnessed in the realms of takeovers and mergers.

Moreover, the strategic adoption of cross-ownership fosters a synergy of economic resources among DCBs. Banks possessing distinctive advantages in resources and independent business models find innovation more accessible, providing a competitive edge that allows them to outperform their counterparts. Engaging in cross-ownership establishes a collaborative framework wherein banks exploit each other's strengths — be it technological prowess, expansive information networks, execution of financial transactions, image promotion, human resource sharing, or financial backing. In essence, cross-ownership becomes a catalyst for augmenting profitability and optimizing overall business efficiency.

Furthermore, the integration of foreign financial institutions into the cross-ownership network adds another layer of advantages. The infusion of substantial capital from external sources fortifies the financial capacity of domestic banks. Simultaneously, collaborative endeavors in technology, information sharing, and human resources contribute distinctive advantages to the business operations of these banks on the local front. This symbiotic relationship shaped by cross-ownership stands as a testament to the multifaceted positive impact it imparts on the Vietnamese banking and financial landscape.

**Negative impacts**

In addition to the positive implications, the phenomenon of mutual cross-ownership among banks introduces various intricacies and risks, casting a substantial influence on the Vietnamese economy. As the cross-ownership network expands, intricacies deepen, and systemic risks amplify.

Firstly, mutual cross-ownership initiates the creation of a virtual capital stream. Consider the scenario where Bank A acquires shares of Bank B, leveraging these shares as collateral to secure loans, subsequently reinvesting this capital back into Bank A. Despite the apparent influx of virtual capital through cross-investments, these transactions allow banks to rapidly augment their capital, presenting a challenge for the State Bank of Vietnam (SBV) in terms of supervision and accurate assessment. This, in turn, unveils latent risks permeating the entire banking system.

Secondly, cross-ownership complicates the precise statistical measurement of the overall bad debt ratio within the banking system. Engaging in cross-ownership, banks seek avenues to obscure information related to the total volume of bad debts, strategically transferring loans to other banks under their ownership. This strategic maneuver serves to evade the necessary risk provisions mandated by SBV, showcasing a misalignment with regulatory guidelines.

Thirdly, cross-ownership gives rise to a landscape of reduced competition among banks, fostering tendencies towards monopolistic practices. As the interconnectedness among banks in cross-ownership alliances intensifies, so does the prevalence of exclusive measures. This, consequently, stifles competition, hindering the inflow of capital and technological advancements from foreign entities into the domestic banking sphere.

Fourthly, in the event that a bank within a cross-ownership network encounters challenges or is at risk of bankruptcy, the reverberations are felt across other banks in the system, amplifying the risk propagation and potentially triggering a cascading crisis.

Finally, cross-ownership exerts downward pressure on the liquidity ratio of stocks. Shares held by investors within cross-ownership groups are infrequently traded on the stock market, fostering volatility. This, in turn, poses a deterrent to investor participation, thereby diminishing both long-term commitment and external investor engagement in the financial markets.

The case study of Van Thinh Phat and SCB is a typical example of negative impacts by cross-ownership in Vietnam. Though Ms Truong My Lan does not hold any position at SCB Bank, she has a great power in this financial institution. Since 2012, she holds 81.43% of the shares of Saigon Commercial Joint Stock Bank (former name) under the names of 32 shareholders; 98.74% of the shares of Vietnam Tin Nghia Commercial Joint Stock Bank are under the names of 36 shareholders and 80.46% of the shares of First Commercial Joint Stock Bank are under the names of 24 shareholders. Ms. Truong My Lan, through trusted individuals who play key roles here and key officials at Van Thinh Phat, has implemented the bank's withdrawal activities in the form of disbursement to the banks. After these three banks were merged on January 10, 2012, with the name Saigon Commercial Joint Stock Bank (SCB Bank), Truong My Lan continued to ask 73 shareholders to own 85.606% of the SCB shares. At the same time, she continues to buy and use individual shares in SCB Bank's name to increase the share ownership ratio in this bank to nearly 91.536% of the charter capital, supported by 27 legal entities and individuals. Truong My Lan directly owns 4.982% of the charter capital. By owning/holding controlling power over the shares of SCB bank mentioned above, Truong My Lan has placed her own people to hold positions on the Board of Directors and the General Board of Directors, which leads to serious loss of 498,000 billion VND from SCB later on.

**Solutions to reduce Cross-ownership of banking system in Vietnam**

Cross-ownership in economic groups and the financial-banking sector, while initially seen as beneficial for industrial policies in Japan, began to reveal risks that impacted competition, transparency, and the interests of investors and minor shareholders. In response to these challenges, the Japanese government introduced

crucial amendments to the Law on Commerce in 1981, followed by more detailed specifications in the Law on Corporations enacted in 2005. These reforms aimed to restrict and control cross-ownership, emphasizing limitations on ownership rights and the exercise of shareholders' rights. Additionally, regulations in the Law on Banking and Law on Insurance Businesses set specific limits on voting rights to address dominant and overlapping ownership.

Drawing lessons from the experiences of regulatory frameworks in countries like Japan, the State Bank of Vietnam (SBV) should strengthen its monitoring mechanisms, particularly focusing on a comprehensive examination of major shareholders. The Japanese model, which was the Law on Commerce in 1981 amendments provides insights. Similarly, the SBV needs to manage cases where shareholders hold substantial stakes in various enterprises and financial organizations. Verification of financial sources and relationships is crucial, and any signs of non-transparency or questionable behavior should be promptly addressed with appropriate penalties. This approach aligns with Japan's emphasis on constraining the exercise of shareholders' rights. By adopting such measures, Vietnam can enhance regulatory transparency and reduce the risk of intentional violations, aligning its practices with successful models from other economies.

The South Korean economy's reliance on Chaebols, conglomerates controlled by family-owned businesses with government stock holdings, faced significant challenges during the 1977-1979 East Asian crisis, revealing operational inefficiencies and global competitiveness issues. In response, the government implemented a multifaceted strategy to manage cross-ownership within Chaebols. This approach included measures such as enhancing transparency through mandatory financial reporting, restricting parent companies from guaranteeing subsidiary debts, imposing financial safety controls, emphasizing key industries for global competitiveness, specifying personal responsibilities of Chaebol leaders, limiting circular investments among conglomerates, and prohibiting Chaebols from owning non-banking financial companies. Post-1997 crisis regulations introduced additional safeguards like the requirement for independent board members, the establishment of audit committees for transparency, and restrictions on diversification.

Building on lessons from South Korea and the proposed Vietnamese strategies, there is a compelling need to reinforce independent audits to scrutinize investment behaviors lacking transparency. The Korean model, with its response to the 1977-1979 East Asian crisis, showcased the significance of clean management, restrictions on inter-company transactions, and an emphasis on transparency. Vietnam should consider implementing similar measures through independent audits, focusing on evaluating the functions and responsibilities of CBs and investment banks. This approach aims to proactively prevent and mitigate cross-ownership, discourage "group benefits," and address the root causes leading to such ownership structures.

Cross ownership in China has emerged as a relatively recent and contentious issue, drawing varying perspectives on its implications and the need for regulatory intervention. The debate centers around whether cross ownership is a routine occurrence that doesn't warrant special attention or if there's a necessity to assess risks on a case-by-case basis, accompanied by governance and supervisory measures. Notably, China has not yet implemented any specific policy to address cross ownership officially. Several studies by authors such as Jiang, Yao, Feng (2013); Lin and Zhang (2009); Berger, Hasan, Zhou (2009); and Zhu, Yang (2016) contribute valuable insights to the discourse. These studies lend support to the idea of foreign and private presence and acquisitions in state-owned banks. According to these perspectives, such involvement from foreign and private entities can potentially mitigate risks and enhance the overall efficiency of banks.

Vietnamese government can reduce control in State-Owned Commercial Banks (SOCBs) carries several key benefits for better banking practices.

First off, it eases the pressure on banks to follow government directives in lending, fostering healthy competition as State-Owned Enterprises (SOEs) now have to compete for financing alongside private firms.

This competition encourages innovation and efficiency. Moreover, as private ownership gains prominence, private shareholders become more engaged in overseeing banks, aligning their interests with the bank's success.

Secondly, when banks are overseen by external shareholders instead of the government, they tend to follow regulations more diligently, where foreign involvement in state-owned banks enhanced efficiency and reduced risks.

Thirdly, reducing government influence in banks helps resolve conflicts of interest between central and local governments. Studies show that when the government controls banks, funds may be used for political purposes rather than sound financial decisions.

Lastly, the shift away from government control helps curb risky behavior by bankers. If banks have fewer ties to the government, they are less likely to make overly risky lending decisions, knowing they can't rely on government bailouts. These lessons underscore the importance of finding the right balance between government involvement and private ownership for a strong and competitive banking sector.

**4. Methodology**

Policy Analysis Method: Through a thorough examination of Vietnam's legal framework governing bank ownership and operations, including regulations outlined in the Law on Credit Institutions and Circular 36 issued by the State Bank of Vietnam, the paper evaluates the effectiveness of current policies in addressing cross-ownership concerns. Drawing on insights from international best practices, particularly from countries like Japan and South Korea, the paper proposes regulatory adjustments tailored to Vietnam's context, aiming to promote stability and address emerging challenges in the banking sector.

Compare and Contrast Methods: The authors compare the evolution of Vietnam's banking system before and after economic reforms, shedding light on structural changes and shifts in ownership patterns. By contrasting various forms of cross-ownership, such as state-owned banks versus foreign strategic shareholders, the paper elucidates differences in regulatory frameworks and their implications. Drawing parallels with experiences from Japan, South Korea, and China, the paper identifies common challenges and successful strategies, facilitating a nuanced understanding of cross-ownership dynamics and offering valuable insights for policy formulation.

Logical, statistical, synthesis, data processing and forecasting methods*:* were used to create logical reasoning, to analyze the implications of cross-ownership on Vietnam's banking sector and to synthesize information from various sources, including governmental regulations, academic research, and industry reports. Moreover, the paper incorporates statistical data, figures, and examples to support its analysis, providing a structured and evidence-based examination of cross-ownership dynamics. Additionally, the paper forecasts potential future trends and challenges associated with cross-ownership, based on historical trends and current developments within the banking sector.

Case Study Analysis: The paper presents a detailed case study of cross-ownership involving Van Thinh Phat and Saigon Commercial Bank (SCB) to illustrate the negative impacts of cross-ownership in Vietnam. Through this case study, we highlight specific instances of risk and misconduct associated with cross-ownership arrangements, providing empirical evidence to support its arguments.

**5. Conclusion**

In conclusion, the phenomenon of cross-ownership in Vietnam's banking sector presents both opportunities and challenges, drawing upon valuable lessons from experiences in Japan, South Korea, and China. Through a comprehensive analysis of policy frameworks, ownership structures, and regulatory approaches, this paper has provided insights into the implications of cross-ownership dynamics on the stability and competitiveness of Vietnam's banking landscape. Thanks to the efforts of Vietnam's government, in particular the State Bank of Vietnam, the number of cross-ownership pairs in 2015 was 7 pairs and decreased to 2 pairs at the end of

2017 (MOF). Drawing from Japan's regulatory amendments and South Korea's post-crisis reforms, Vietnam can enhance regulatory transparency and mitigate risks associated with cross-ownership by strengthening monitoring mechanisms and constraining the exercise of shareholders' rights. Furthermore, lessons from China underscore the importance of proactive governance and supervisory measures to address cross-ownership risks on a case-by-case basis, ensuring alignment with market integrity and investor interests. Proposed solutions to improve Vietnam's banking market include reinforcing independent audits to scrutinize investment behaviors lacking transparency, restricting circular investments, and promoting transparency through mandatory financial reporting. By adopting a balanced approach that fosters competition, transparency, and regulatory oversight, Vietnam can foster a resilient and competitive banking sector capable of navigating the complexities of cross-ownership dynamics while safeguarding the interests of stakeholders and contributing to the country's economic growth and stability.

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