Liability Management at Military Commercial Joint Stock Bank

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Abstract

This article is conducted to analyze the liability management framework at the Military Commercial Joint Stock Bank. Data is collected from the annual report for the period 2019-2024 of the Military Commercial Joint Stock Bank. The research results show that the liability structure of the bank is not reasonable, the proportion of items is not commensurate with the role of each item. The proportion of deposit items tends to decrease. Interest expenses tend to increase. The research proposes a number of solutions for the Military Commercial Joint Stock Bank to improve the efficiency of liability management, emphasizing the role of human resource quality, liability management model and specific mechanisms for restructuring bank liability. The research results are reference documents for Vietnamese commercial banks in identifying, controlling and responding to risks in liability management in Vietnam.

Keywords: Liability management, Liability structure, MB

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1. Introduction

Commercial banks are a special type of enterprise, operating in the field of currency and credit. This is a major and effective capital supply organization in the economy, chosen by many businesses to borrow capital for business. The creation, organization and management of commercial banks' capital sources is one of the necessary issues and is a top concern not only for the benefit of the bank's consumers but also for the general economy and the general development of the economy.

As a core activity of the bank, liability structure management is becoming increasingly important in the bank's operations. However, like other banks, the liability structure management of the Military Bank always faces many risks. The reasons may be due to lack of practical experience, not much time participating in the international market, low professional qualifications, poor management experience... Liability structure management of commercial banks plays an important role in risk management and brings high efficiency to the bank's operations.

2. Theoretical Framework

According to the nature of ownership in the balance sheet, the capital of commercial banks is divided into liability and equity.

- Objective: The objective of liability management is part of the general operational objective of seeking profits on the basis of safety for the system. Specifically, liability capital directly generates costs for the bank, so liability management must aim at saving costs (mainly interest costs) but still maintaining the scale and maturity to meet the plan of forming the bank's assets.

- Management content:

+ Each type of liability of the bank needs to be detailed and fully statistically analyzed in terms of scale, maturity, and balance changes. This data source creates the premise for each bank to present the characteristics of each source and the factors affecting the scale and maturity of liability.

Factors affecting the scale and maturity of liability need to be carefully analyzed. The size and maturity of commercial banks' liability are directly affected by market factors such as interest rates, exchange rates, and commodity prices. Therefore, when planning capital sources in each period, it is necessary to calculate the changes in these market factors as well as their impact on the size and structure of liability payable.

+ Managing interest payments: interest is the cost of using capital for the right to use money. In essence, managing interest payments is the construction of an interest rate table based on different criteria on size, maturity, deposit purpose, etc. The construction of this interest rate table must also be calculated in balance with the profitability of the entire asset portfolio of the commercial bank.

Interest rate management includes the following contents:

Analysis of the impact of each factor on market interest rates: the ability to save, the ability to invest and absorb capital of the whole economy, the availability of financial instruments in the financial market, the inflation rate, the profitability of the asset portfolio and the risk appetite of commercial banks...

Interest rates need to be diversified, built on many different criteria such as term, scale, depositors, deposit forms, accompanying promotional services...

3. Research methods

Data: The writing mainly uses secondary data collected from annual reports of MB from 2019 to 2024.

Methodology: To achieve the content and purpose of research, this paper applied dialectical materialist and historical materialism method. Research methods: Statistical methods, comparative methods…

4. Results and Discussion

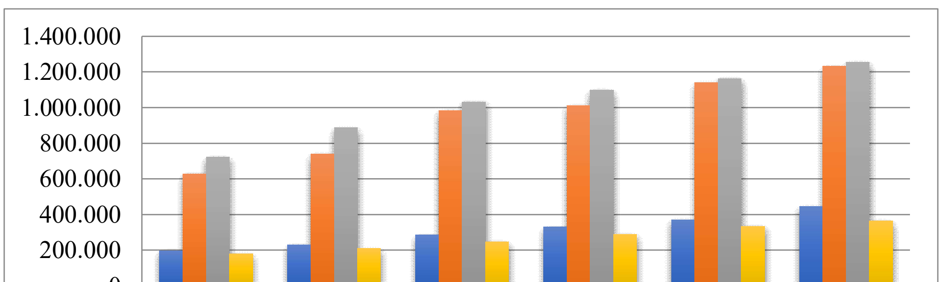
Liabilities are the most important source of capital for commercial banks. This is the capital source with the highest proportion of commercial banks. The size of liability capital determines the size of assets of commercial banks. The structure of capital sources will show the maturity or cost of commercial banks.

Firstly, the size of MB's liabilities

Similar to the size of assets, the size of liabilities of the four commercial banks studied shows a huge difference when the two State-owned commercial banks have a size of liabilities that is two to three times larger than the two private joint-stock commercial banks, MB and VPB. In 2023, Vietinbank's total liabilities were three times larger than MB's, reaching VND 1,163,357 billion compared to VND 371,602 billion. The size of liabilities of MB and VPB is quite similar, this similarity is also reflected in the indicators of total assets or profits over the years.

Figure 1. Total liability size of MB, VCB, CTG, VPB

Unit: VND billion

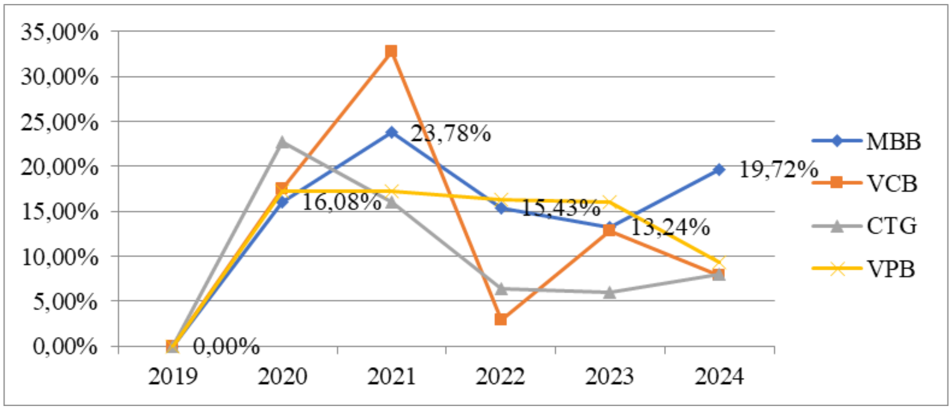


	2019	2020	2021	2022	2023	2024
MB	197859,0	229670,0	284277,0	328152,0	371602,0	444883,0
VCB	629222,0	739790,0	982735,0	1011847,0	1141836,0	1232135,0
CTG	723373,0	888261,0	1031296,0	1096973,0	1163357,0	1256025,0
VPB	180488,0	211593,0	248057,0	288541,0	334994,0	366233,0

(Source: MB, VCB, CTG, VPB annual reports 2019 - 2024)

Figure 2. Growth rate of liabilities of MB, VCB, CTG, VPB

Unit: %



(Source: MB, VCB, CTG, VPB annual reports 2019 - 2024)

Figure 2 shows that commercial banks reached their peak growth rate in 2021. Vietnam's GDP then gradually decreased due to the Covid 19 pandemic until now and this is the main reason why the capital mobilization growth of commercial banks has slowed down. MB reached its peak in liability growth rate in 2021 at 23.78% and decreased to 13.24% in 2023. In 2024, MB's liability growth rate showed signs of high growth again with a growth rate compared to 2023 reaching 19.72%.

Secondly, MB's liability structure

Table 1. MB's liability structure

Unit: VND billion

	2019	2020	2021	2022	2023	2024
Deposits and loans from credit institutions	7.509	24.713	46.102	60.471	50.314	50.876
Proportion of deposits & loans from credit institutions/Total liabilities (%)	*3,80*	*10,76*	*16,22*	*18,43*	*13,54*	*11,44*
Customer deposits	181.565	194.812	220.176	239.964	272.710	310.960
Proportion of customer deposits/ Total liabilities (%)	*91,76*	*84,82*	*77,45*	*73,13*	*73,39*	*69,9*
Certificate of deposits	2.450	2.367	6.022	11.158	26.289	50.924
Certificate of deposits/Total liabilities (%)	*1,24*	*1,03*	*2,12*	*3,40*	*7,07*	*11,45*
Other liabilities	4.924	7.778	10.129	13.926	22.272	32.058
Proportion of other liabilities/ Total liabilities (%)	*2,49*	*3,39*	*3,56*	*4,24*	*5,99*	*7,21*
Total liabilities	197.859	229.670	284.277	328.152	371.602	444.833

(Source: MB, VCB, CTG, VPB annual reports 2019 - 2024)

Figure 3. Proportion of MB's liabilities

Unit: %

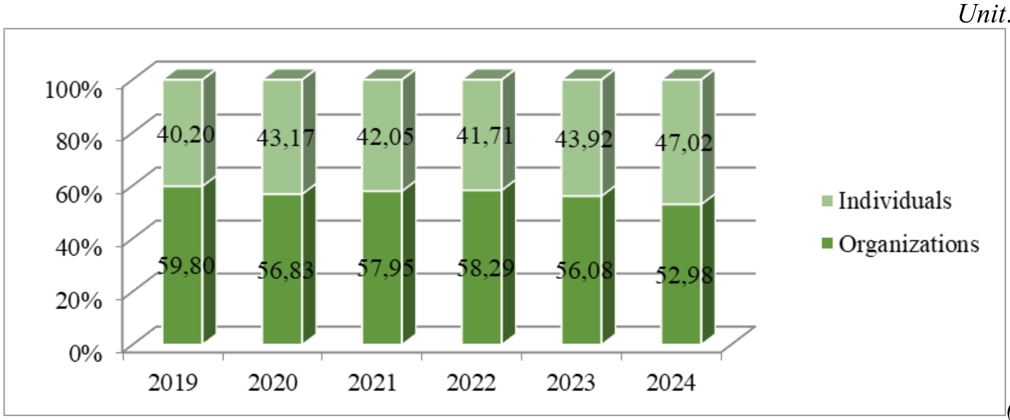
(Source: MB annual reports 2019 - 2024)

Commercial banks' liability is divided into: customer deposits, liability capital from issuing valuable papers, loans and deposits at other credit institutions and some other liabilitys. Looking at table 1 and figure 3, in general, it can be seen that MB's main liabilities are customer deposits, loans and deposits at other credit institutions are second in proportion. In terms of trends, it can be seen that the proportion of customer deposits at MB has gradually decreased over the years. In 2019, customer deposits contributed about 91.76% of MB's total liabilities, but by 2024 it was only 69.9%. MB has actively sought various sources to maintain stability. The scale of issued capital has shown a strong upward trend in recent times, from 1.24% in 2019 to 11.45% in 2024. Valuable papers for MB brought to the market often have high interest rates and stable terms, creating stability for MB's capital sources. Originating from the largest proportion of the deposit item in MB's liability capital sources, the management of the structure of this deposit item represents the management of the bank's liability capital sources.

- Deposit proportion by depositor

Figure 4. Deposit structure by customer segment at MB

Unit: %



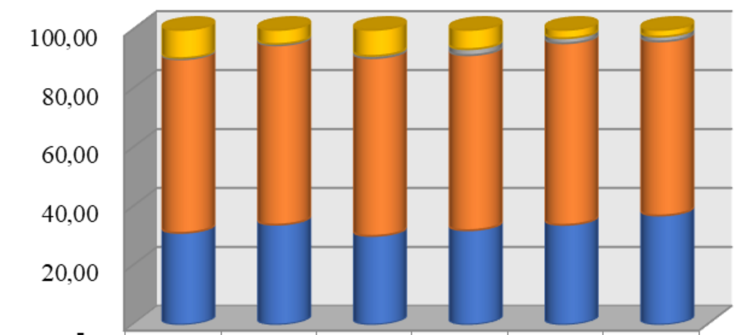
(Source: MB annual reports 2019 - 2024)

Figure 4 shows that deposits from economic organizations account for a larger proportion than deposits from individuals. This fact indicates that MB is still heavily dependent on large corporations and businesses such as Viettel, Vietnam Helicopter Corporation, and especially military units. However, the trend shows that the proportion of individual deposits is gradually increasing from 40.2% in 2019 to 47.02% in 2024. This is entirely consistent with MB's strategy of shifting its focus to retail banking.

- Deposit structure by purpose of deposit:

Figure 5. MB's deposit structure by purpose of deposit.

Unit: %



	2019	2020	2021	2022	2023	2024
Non-term deposits	9,57	4,77	8,82	6,52	2,80	2,28
Special-purpose deposits	0,41	0,45	0,75	2,05	1,71	1,62
Time deposit	58,88	60,85	60,32	59,39	61,62	59,06
Demand deposits	31,14	33,93	30,11	32,04	33,86	37,04

(Source: MB annual reports 2019 - 2024)

Figure 5 shows that MB's time deposits are the largest and remain stable over time. This creates stability in terms of maturity, meeting the demand for longer-term loans. In addition, non-term deposits also account for a significant proportion of the bank's total deposits. MB, along with VCB, are the two commercial banks with the largest amount of non-term deposits in Vietnam. This will be an important factor in saving interest costs for MB, creating conditions for increasing the bank's profits. However, the high proportion of non-term deposits also puts pressure on MB in terms of liquidity risk management. Specialized deposits and escrow deposits still account for a low proportion at MB. These are two sources of deposits with a high degree of stability, so attention should be paid to increasing their scale in the future.

5. Conclusion and solutions

Firstly, perfecting the organizational structure for Asset-Liability Management (ALM)

A streamlined ALM structure that facilitates the achievement of business objectives in all circumstances will help ALM operations achieve a high level of efficiency. Conversely, a cumbersome ALM organizational structure, with overlapping and conflicting roles within the ALM system, will lead to stagnant and costly ALM activities. MB's ALM organizational model shows that it is still cumbersome, with many departments participating in ALM activities, leading to overlaps and unclear definitions of the tasks to be performed by each position. Therefore, MB's ALM structure needs to be improved towards a more streamlined approach, with each position assigned specific tasks and responsibilities.

The "three lines of defense" management model currently implemented at MB has proven its superior advantages. However, this model needs to be implemented more specifically with regard to ALM activities in particular.

Secondly, Expanding the size of debt capital at a reasonable cost.

To contribute to the stable and effective management of debt capital, meeting business objectives, the following solutions should be implemented:

Develop and implement customer policies. Consider classifying customers to have special policies for customers with large deposit amounts. Implement marketing and promotional policies. Investigate the reasons why customers stop transacting, withdraw deposits, and switch to other banks to take appropriate measures to restore and maintain good relationships with customers. Assign skilled and ethical staff with good communication skills to handle and serve customers with large deposit balances and who use many banking services.

Reasonable costs for capital mobilization: Obtaining high-quality capital requires MB to spend a significant amount of money. Reasonable cost means achieving the highest quality capital at the lowest possible cost.

Thirdly, Developing the comprehensive liability management policies

The liability management policies needs to be presented in detail in specific regulations, as well as in MB's periodic and annual reports. Each document regulating liability management should clearly express the views and attitudes of the Board of Directors and the Executive Board on liability management activities and effectively educate and communicate to raise awareness throughout the entire MB system about the role of liability management. This will transform liability management into a cultural norm within the entire system's operations.

Liability management policies are closely linked to market factors that change daily. Therefore, liability management policies need to be developed and calculated based on market factors and the degree of change in these variables. There needs to be an independent mechanism and department to assess the feasibility and effectiveness of liability management policies when market factors change, in order to adjust the liability management policies accordingly. The independence of the Market Risk Management Department in evaluating liability management policies before submitting them to the ALCO Committee, the Executive Board, and the Board of Directors must be maintained.

Fourthly, Modernizing the information technology system

MB needs to focus on upgrading its infrastructure, investing in information technology in a modern, automated, and integrated manner within the bank's management system to serve the analysis, evaluation, and measurement of risks; creating an accurate, centralized, and unified database management information system.

Strengthening information security and network security systems, and researching and building data transmission lines, linking with the national information network to create a proactive position for the bank.

One reasonable and effective option is to import advanced technology. However, how to apply such technology needs to consider compatibility, balance, and synchronization between equipment and staff training and utilization, as well as MB's financial capacity and business performance in each period.

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