

Vietnam: Second Payment System and Bank Modernization Project



**Improving Access to Finance:
Providing timely and reliable payments services and new banking products**

Overview

The Second Payment System and Bank Modernization Project (PSBM2), which closed in June 2011, significantly improved the speed and reliability of interbank payments in Vietnam from two weeks in 2005 to within the day, with exponential growth (646 percent) of financial transactions nationwide (2005-June 2011). The participating banks settled customer fund transfers within minutes as compared to days in 2004-05. Centralized funds and customer management strengthened project entities' risk management capacity. Several banks can offer eBanking services to customers now (159,000 eBanking customers and 412,360 instant messaging customers).

Challenge

Vietnam embarked on banking reforms in the late 1980s. By 2004, progress was made towards a *modus operandi* that more resembled banking sectors of other newly industrialized economies. A modern interbank payment system was in operation at the SBV (the central bank). Two international-standard operational systems were adopted by several banks. However, these were pilot systems adopted under the first Payment System and Bank Modernization (PSBM) Project. Most interbank payments were still processed by the old systems, it took days to settle a transaction, and the systems could not provide timely information for risk management. The legacy systems were a major obstacle to access to finance for Vietnam's large population of bankable but under-banked households and enterprises. The pilot systems needed to be expanded urgently to reduce the risks and costs associated with running two different systems. The breathtaking pace of Vietnam's economic growth also called for further development of the National Payments System and the banks' operational systems.

MULTIMEDIA

More Results 

159,000

Vietnamese now use eBanking services

Approach

As an Information, Communications and Technology (ICT)-based operation, the PSBM2 incorporated lessons learned from the first PSBM project and the worldwide experience (including that of the Bank) in ICT projects. The project maintained the incremental approach towards technical solution design and implementation. In addition, International Development Association's (IDA) intervention focused on quality assurance, in particular regarding technical specifications, procurement planning and clarity and adequacy of procurement documents, taking into account lessons learned in failed banking ICT projects. Significant attention was paid to procurement sequencing and packaging, which helped to avoid frequent re-packaging or re-opening of bids. Procurement reviews strived to find practical solutions, in addition to checking compliance, which were incorporated, for example in the treatment of trade-in equipment and system compatibility issues. As a result, the large-scale system expansions were completed in just five years. The expanded systems function well and have the capability to be readily adapted to accommodate further changes in market demand.

1 day

is all it takes for interbank payments in 2011, compared to two weeks in 2005

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Results

The PSBM2 brought about several verifiable economic benefits in the development of a modern financial sector infrastructure, access to finance and improved banking operations. Specifically, the PSBM2 (2005-2011):

- Improved predictability of cash flows in the economy and financial management by businesspersons or households since payments were made on real time or within the day.
- Provided mechanisms for economic agents to move away from the informal sector.
- Made available timely information for the SBV to monitor market liquidity and for the banks to manage risks.
- Enabled the banks to offer services such as eBanking, one-stop customer service, 24/7 call center support.
- These benefits were achieved thanks to:
 - 98 percent per annum increase in payments system connectivity (from 49 institutions in 2005 to 97 by June 2011);
 - More than 100 percent per annum increase in bank operational system connectivity (48 times for the country's largest bank in branch network);
 - More than 1.5 times per annum growth of transactions processed by the payments system and exponential growth of transaction volumes at the banks (for example, one bank witnessed a per annum growth of 90 times); and
 - Enhanced business continuity supported by new disaster recovery and backup capacities

Direct beneficiaries were the five project entities, and the broader beneficiaries included the banking industry (for example, 788 interbank payment system members), the banks' customers (they account for over 70 percent of total banking sector loans), and the future payment system members (for example, the State Treasury).

Voices

“As a regular banking customer, I feel very comfortable with the service provided, such as money transferring. It is very easy for me to transfer money to my business partner within a day or receive money from them in 15 to 30 minutes.”

— *Mr. Nguyen Guoc Cuong, a BIDV customer from Hanoi*

Bank Contribution

- The original estimated total project cost was US\$112 million equivalent, of which IDA was to finance 94 percent (SDR67.8 million or US\$105 million). By project closure, 88 percent (SDR59.9 million) of the IDA credit proceeds were disbursed. The cancelled portion was due to savings through competitive bidding processes and readjustments of the procurement plans under two subcomponents. Counterpart funding was substantial (US\$18 million).
- Component 1: Payments system expansion (original-US\$23.5 million / final-US\$21.7 million).
- Component 2: Banks core banking/operational system expansion (original-US\$79.8 million / final-US\$71 million).

Partners

The Japanese government was the main development partner, having provided two Japan Policy and Human Resources Development Fund (PHRD) grants (US\$292,000) to the government for project preparation and implementation, respectively. The project preparation grant was particularly useful as the project entities' capacity for preparing large ITC-heavy banking projects was limited. The Spanish Government's Consultant Trust Fund (CTF) grants (US\$287,000) helped the Bank team's skills mix and project identification and preparation costs.

The implementing agencies included SBV's Information Technology (IT) Department, and the four participating banks (BIDV—Bank of Investment and Development of Vietnam; MCB—Maritime Joint-Stock Commercial Bank; VBARD—Vietnam Bank for Agriculture and Rural Development, and VietinBank).

Toward the Future

The expanded systems are performing well with no major system stoppages or service interruptions. All the implementing agencies have adopted the next five-year plan for IT infrastructure development, and continue to upgrade the systems with enhanced technical confidence and large funding of their own. The changes in organizational structure and business processes have made the banks more customer-centric. Based on the positive experience of the two PSBM projects, the government has recently adopted a strategy to promote a non-cash economy in Vietnam to further develop financial sector infrastructure and improve access to finance.