

# Analysing bank employees' knowledge of Deposit Insurance of Vietnam to ensure its effectiveness

The case Asia Commercial Joint-Stock Bank Vietnam

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## ABSTRACT

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<p>The aim of this research is to study Deposit Insurance of Vietnam (henceforth DIV). The first objective of this research is to discuss the benefits of DIV to the national banking system, and to the bank depositors. The second objective of this research is to analyse the knowledge of DIV among the bank employees in Asian Commercial Bank (henceforth ACB), Vietnam.</p> <p>I researched relevant literature on the concept of Deposit Insurance and its key elements in order to fulfil the research objectives. Relevant sources were gathered for the purpose of creating the theoretical framework for this research. Moreover, I implemented research into DIV, including the overview of the insurer organisation, the key elements, benefits, and current limitations.</p> <p>Qualitative research method was used as a single case study for the case bank ACB in Vietnam. The approach of this research is deductive which works from general aspects to specific aspects. Firstly, the work started from researching the general aspects of DIV. Secondly, it proceeded to find out the particular experiences of the case bank with DIV. Within the case bank, a specific approach was conducted to analyse the knowledge and perceptions of the case bank employees about DIV. In order to achieve the research objectives, the knowledge of DIV among bank employees was analysed through the interviews with the manager, and three employees of the case bank.</p> <p>With the data collected from the relevant theories and the interviews, the research results describe the importance of DIV to the national banking system and the bank depositors. Deriving from the research results, it is pointed out that the basic information of DIV is well-perceived by three of the four bank employees interviewed. Depending upon the duties of bank employees interviewed in the case bank, their knowledge of DIV's key elements, benefits, and limitations might be improved.</p> <p>The research outcome is a set of recommendations to increase bank employees' acknowledge of DIV in both case bank and insurer organisation. In terms of the case bank, it is recommended that some training methods should be implemented, for example professional training and consulting in forms of lectures, workshops, and seminars. With regard to the insurer organisation, it is recommended that different communication tools should be utilised to publicize DIV effectively.</p>	
Keywords: Deposit Insurance, ACB, DIV, Knowledge, Bank Employees	

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## ABBREVIATIONS

ACB	Asia Commercial Joint-Stock Bank
DIS	Deposit Insurance System (Scheme)
DIV	Deposit Insurance Vietnam
IADI	International Association of Deposit Insurance
FDIC	Federal Deposit Insurance Corporation
FSF	Financial Stability Forum
SBV	State Bank of Vietnam

## 1 INTRODUCTION

Firstly, the background and motivation of the research are presented. Secondly, the research objectives and the research questions are demonstrated. Next, the research methodology, scope, and the research limitations are illustrated. In the end, the structure of this thesis is revealed with a brief explanation.

### 1.1 Background and Motivation

Recently, when the deregulation, increased competition, and the negative shock for the world's economy affected bank sectors deeply, a financial crisis has occurred. During the financial crises, there have been many business failures, and banks have been not an exception to this. Bank failures happen when people lose confidence in the solvency of their bank and their trust in monetary authorities. Under such circumstance, several attempts have been made in order to prevent bank failures, and to assist banks performing effectively. Economists and politicians have raised their concern about the robustness of the financial safety net (Bartiloro 2011, 5). On the other hand, economic theory states that bank failures can be prevented by Deposit insurance (Diamond & Dybvig 1983, as cited by Bartiloro 2011, 5). Deposit insurance is a very special agreement between the financial institution and the deposit insurer. The financial institution or bank, purchases insurance by paying insurance premium, and the deposit insurer will pay an indemnity to the depositors of the bank when an accident occurs (Niinimäki 2000, 22). In addition, Deposit insurance is one component of the national safety net which is set up in order to protect depositors, and to increase the confidence in banking system. In Vietnam, the financial crises in 1997 had impacted significantly on the national banking activities. As consequence, a large number of customers withdrew their deposits from banks within a short period of time during the last financial crisis. Under this circumstance, the Deposit Insurance of Vietnam (henceforth DIV) was created in order to contribute to the security of the entire financial system and the stability of the national financial markets as well as to protect the rights, and interests of depositors (DIV 2009, 5). DIV is governed, and administrated by the government. It is the unique deposit insurer in Vietnam and it is given the power to inspect its member institutions. In addition, it plays a major role in giving failure resolution, and participating in the system is compulsory for all financial institutions (Canada Deposit Insurance Corporation 2008). On the basis of the discussions of

deposit insurance and DIV, this research focuses on illustrating both theoretical and empirical value of these two aspects. In the framework of this research, the theoretical discussions of DIV cover the concept of deposit insurance, DIV's role, key elements, limitations and benefits.

The reason for conducting this research derives from the fact that the awareness of DIV is inadequate among the national citizens, even among the bank employees. It is argued that the knowledge of the existing DIV is unnecessary due to the belief that Vietnamese authority will never let a bank to go bankrupt (Vietnam Business Forum 2011). Therefore, I am motivated to analyse the knowledge of bank employees in Vietnam of DIV. In addition, the banks in Vietnam rarely mention such a security protection tool as deposit insurance when offering a deposits contract with their customers (DIV b 2011). The question raised in here is whether the bank employees of domestic banks in Vietnam are well-informed of deposit insurance in order to ensure the effectiveness of the national Deposit Insurance System (henceforth DIS). The extent of knowledge of bank employees interviewed will be an indicator for the national authorities to develop suitable strategies to communicate DIV to bank employees, and public effectively. Financial Stability Forum (2001) indicates that it is essential that the public is informed of the benefits and limitations of the existing DIS. Once its characteristics are well-known among the public, its credibility can be maintained and strengthened. Financial Stability Forum (henceforth FSF) is created by the G7 Finance Ministers and Central Bank Governors in order to promote international financial stability. Its working group on Deposit Insurance creates guidance for an effective deposit insurance system which benefits on increasing financial stability and protecting small depositors. (Sträter & CorneliBen & Pfingsten 2008, 3.) In order to ensure the effective development of the national DIS, bank employees' knowledge of DIV is crucial. Communicating adequately DIV to bank's customers by bank employees is considered to be a useful way of increasing public confidence on banking system. On the basis of this presentation, it is essential to analyse bank employee's knowledge of deposit insurance as considered as my motivation to conduct the research work.

## 1.2 Research Objectives and Research Questions

The first objective of this research is to discuss the benefits of DIV to the national banking system, and to the bank depositors. This research objective derives from the



fact that DIV plays an important role in contributing in the stability of the national financial system, and in protecting the rights of depositors (DIV 2009, 8). Therefore, DIV's role is in relation to its benefits are crucial to the national banking system, and to bank depositors. The second objective of this research is to analyse the knowledge of deposit insurance of bank employees in Asian Commercial Joint-Stock Bank (henceforth ACB) Vietnam. On the basis of the research results, a set of recommendations is provided to increase bank employees' acknowledge of DIV in both case bank and insurer organisation. The research outcome is beneficial for not only the case bank but also other local banks in Vietnam.

Two research questions are formulated to achieve the research objectives. They are presented and explained briefly as follows:

1. What is the role of Deposit Insurance of Vietnam?

Concerning the benefits of Deposit Insurance of Vietnam, it is essential to indicate its role in the banking sector. In addition, the background, the meaning, and general information of DIV are initially introduced prior to presenting the role of DIV. In the context of this research question, the role of the unique deposit insurer organisation in Vietnam which is Deposit Insurance of Vietnam (henceforth DIV) is also illustrated.

2. What do the employees interviewed of Asia Commercial Joint-Stock Bank Vietnam know about Deposit Insurance System?

In the relation to the case bank's experiences, this research question aims to analyse the case bank employees' knowledge of DIV. In addition, it is to find out how they acknowledge DIV, and where they obtain deposit insurance's information from. By benchmarking the interviewees' answers against the sample answers which derive from the theoretical framework of this thesis, I analyse their knowledge of DIV.

### 1.3 Research Methodology, Scope and Limitations

The research methodology in this research is qualitative study which was conducted as a single case study. The research approach of the work is deductive which works from the general aspects to the specific aspects. The single case study on Asia Commercial Joint-

Stock Bank (henceforth ACB) in Vietnam is chosen. The case bank is selected based upon my personal experiences since I am a customer of the bank. Qualitative data were collected by conducting the interviews with the manager and three employees in different departments in the case bank. Moreover, literature analysis is also used to identify the necessary theoretical framework for this research work. The theoretical framework is created in order to benchmark and analyse the research findings as well as to reflect on them.

The analysis of bank employees' knowledge of DIV in Vietnam is included in the scope of the research. It is narrowed down to the experiences of the case bank with DIV. The main focus is to analyse the knowledge of the chosen bank employees in the case bank about DIV. The knowledge of DIV among bank employees in other banks in Vietnam is out of the scope. Therefore, the research work focuses on the suitable methods which help to increase the case bank employees' knowledge of DIV. The aim is to increase bank employees' knowledge of DIV. By communicating adequately DIV to bank depositors, bank employees contribute in consolidating bank depositors' confidence on the bank's operation. Lastly, the outcome of the research is a set of recommendations on the methods which assist bank employees in increasing their knowledge of DIV. The case company can use this thesis to introduce to bank employees about DIV. The outcome of the research can be beneficial in terms of increasing bank employees' knowledge of DIV.

The first limitation of the research work is the access to the unpublished data for not being an employee of ACB Bank. Therefore, I collected data from DIV's annual report, the interviews with the employees of the case bank. Secondly, the knowledge of deposit insurance among other banks' employees in Vietnam is not considered since this research is conducted in the single case study of ACB. Therefore, the knowledge of DIV among bank employees interviewed is not considered as the common knowledge of DIV among all bank employees in Vietnam. Next, due to the limited statistics and political reasons, the various and different information in governmental reports are not always precise and concrete. The most recent statistics are presented in the theoretical framework for the research in order to show the current facts of DIV. Additionally, because of time and distance differences between my current location and the interviewees' location, the research methods were conducted online. It was challenging to arrange the suitable time to conduct the interviews. Furthermore, the length of the

interviews with three bank employees was not sufficient in order to discuss the methods to increase bank employees' knowledge of DIV. Lastly, since deposit insurance is a new concept in Vietnam, relevant literature about the knowledge of DIV among bank employees in Vietnam is limited. Consequently, finding the relevant literature concerning analysing bank employee's knowledge of DIV is quite challenging.

#### 1.4 Structure of Thesis

The table below describes the structure of thesis, and the contents in each chapter.

**Table 1.** Structure of thesis

Chapter	Title	Contents
Chapter 1	Introduction	To describe the background, motivation, objectives, core concepts, methodology, and limitations of this study
Chapter 2	Research Methodology	To explore the methodology To address method of collecting and analysing data
Chapter 3	Deposit Insurance of Vietnam	To introduce and review recent study in the line of DIV 1. DIV 2. Key elements 3. The case bank's experiences with DIV
Chapter 4	Acknowledge and perceptions of DIV	To reveal, and analyse the outcomes of the interview research
Chapter 5	Discussions and Conclusions	To discuss the importance of bank employees' knowledge of DIV to an effective DIS To give conclusion and suggest further studies

The thesis work is presented in five chapters. An introduction which explains the main topic of this thesis is presented in chapter 1. The research methodology is discussed in Chapter 2 in which the research methods, research data collection, and analysis are presented. Chapter 3 presents DIV, and its relevant elements which draw from relevant researches, and literature. Chapter 4 shows the experiences of the case bank with DIV in which the research results and recommendations are also provided. Lastly, chapter 5 reveals the discussions, the conclusions of the research and the suggestions for further studies.

## 2 RESEARCH METHODOLOGY

This chapter focuses on discussing the methodology of this research. The methodology of the work, including the research methods, research techniques, data collection, and data analysis are presented. Firstly, the choices of methodology are justified. Next, data collection method, including the interview research process is described. At the end of this chapter, data analysis method is illustrated.

### 2.1 Choices of Methodology

When implementing a research, it is vital to have suitable research methodology based on the research objectives in order to collect the correct research data. Qualitative research method is chosen in this thesis research. The research approach in this thesis research is deductive which works from the general aspect to the specific aspects (Bruney 2008). Qualitative Research aims to provide a complete, specific description of the research topic while quantitative research concentrates more on counting, classifying features, and constructing statistical models and figures to expand what is observed (Explorable.com 2014). In this research, I choose the qualitative case study as a research method in order to fulfil the research objectives. In other words, the qualitative case study gives an access to analyse the bank employees' knowledge of Deposit Insurance of Vietnam (henceforth DIV) based on a literature review. In addition, I choose deductive as an approach of this research because it allows me to introduce DIV in general aspects into the special aspects. Initially, this research work started from the general aspects of the Deposit Insurance System (henceforth DIS) in Vietnam in relation to the Vietnamese banking system. On the basis of this presentation, the research proceeded to the unique insurer organisation in Vietnam which is DIV. Next, the particular experiences of the case bank with DIV were addressed. Within the case study bank ACB, a more specific approach was taken in order to analyze the knowledge and perceptions of the case bank employees about DIV.

Within a single case study for the case bank, the research is done through the analysis of documents, and the interviews. Particularly, the documents which are newspapers, DIV's reports, magazines, and deposit insurance survey reports are analysed in order to find the most recent facts of DIV. In addition, the interviews with the manager, and three employees of the case bank were conducted in order to analyse the knowledge of

DIV among the bank employees interviewed. Miller and Glassner (1997, 100) point out that qualitative interview provides the means for exploring the points of view of the research subjects, while “granting these points of view the culturally honoured status of reality”. In addition, interviewing provides “the access to the meanings which people attribute to their experiences and social worlds.” The interview is itself a symbolic interaction which does not discount the possibility that knowledge of the social world beyond the interaction (Miller et al. 1997, 100). Therefore, interview research technique is relevant to this research because the analysis of bank employees’ knowledge of DIV is done based on the qualitative data collected from interviewing with the chosen bank employees. Moreover, interviewing is a way to explore the point of view of bank employees of DIV in reality. The interviews allow me to interpret the factors which might influence on the knowledge of DIV of bank employees interviewed. Furthermore, another reason which leads to the choice of interviewing is that it reflects the current knowledge of bank employees about DIV without the needs of interaction.

## 2.2 Data Collection

In the research process, the data are collected from primary and secondary sources. Kothari (2004, 96) indicates that the data of an empirical part are composed of secondary data, such as in the theory part but also primary data such as interviews, which are collected for the first time. By using some forms of unstructured and semi-structured interviewing, the interviews with the case bank employees are the primary sources for this research. The secondary data, on the other hand, is the data which has already been collected by someone else (Kothari 2004, 96). In the theory part of this research, secondary data derives from various sources. For example, professional literature, a case study, annual reports, publications, news, and articles. Particularly, secondary data is used to contribute to the theoretical framework and to assist in analysing the collected primary data.

In order to collect primary data from the interviews, the initial steps were to prepare the interview questions, and arranging the suitable time for implementing the official interviews. The interview questions in English were sent by email to the interviewees beforehand. The interviews were conducted by Skype in Vietnamese for easier communication, time-saving, and avoiding confusion due to the various meanings of

banking glossaries. The interviewees were mostly asked the prepared questions. Particularly, I used a theme of the interview in which the initially general questions about deposit security were given. In addition, the questions concerning the role of DIV to the national banking system and to bank depositors are also included. Following them, the key elements, the benefits, and limitations of DIV are discussed through specific questions. The components forming the theme of the interview, which are seven issues under two following groups:

1. The basic knowledge of DIS: the importance of deposit security, the costs, and benefits of DIS.
2. The key elements of DIV: type of insured deposits, type of participants, premium, maximum coverage.

The total number of employees selected for qualitative interview research is four. The interviewees consist of one employee working in the Marketing office, one person working in HR Development office, one staff member working in Service Delivery office, and one manager working in credit-transaction office of ACB, branch Hoc Mon, Ho Chi Minh city, Vietnam. The manager of branch in Hoc Mon was chosen due to his in-depth knowledge of banking services and his efficient working attitude. Three employees were chosen randomly in order to collect the current knowledge of DIV.

With references to the bias in implementing interview, as an interviewer, I did not give my own assumptions or opinions during the interview. Holstein and Gubrium (1997, 114) remark that the interviewer takes a more “active” perspective and begins “to acknowledge, and capitalize upon”. In addition, it is recommended that “interviewers and interviewees constitutive contribution to the production of interview data.” (Holstein et al. 1997, 115). On the basis of this suggestion, the interviewees were guided to mention information instead of being asked the questions directly. In addition, in order to analyse the limited interviewees’ knowledge, I also noticed on their reaction during the interviews. Moreover, I also took notes and the interviews were recorded properly. As agreed by the interviewees on the English transcription, the interviews were transcribed in the thesis work. However, due to the requests of interviewees, their identities and the transcript of records are not allowed to be published. This interview information is available for the reviewers of this thesis research. Deriving from

interview with the manager, a few statements are quoted in order to analyse the research findings. The data collected from the interviews with three front-line employees are analysed. However, their specific answers are not quoted. Further discussion on the analysis of the research is presented in sub-chapter 4.2, and a list of the interview questions is enclosed in Appendix 1.

In relation to secondary data collection, I collected relevant information from relevant literature and researches. In the Electronic Library of the Universities of Applied Sciences in which students' publications are presented, there have not been many previous studies about analysing bank employees' knowledge of Deposit Insurance generally. In return, there are a few studies regards to DIS, banking crises, banking liquidity. The found published relevant researches from the Internet are those which deal with the knowledge and perceptions of DIS among depositors, households as well as the public awareness of DIS in most of European countries. Moreover, the secondary data concerning DIV were collected, for instance from Deposit Insurance of Vietnam's reports, Asia Commercial Bank's annual reports, Deposit Insurance Survey Reports, and online articles.

### 2.3 Data Analysis

Qualitative data which draws from the interviews was collected in order to analyse the knowledge of the interviewees about DIV. In particular, I use a multi-component measurement approach to analyse the qualitative data collected. The component measurement approach utilises five criteria. Five criteria chosen are: the limitations, benefits, role, premium rate, and maximum coverage of DIV. I set sample answers of these components in order to analyse the answers of the interviewees by benchmarking the sampled answers against the interviewees' answers. The sample answers are drawn from relevant literature in the theoretical framework of the research. In reference to analysing the quality of the research findings, Holstein and Gubrium (1997, 127) argue that active interview data can be analysed to show "the dynamic interrelatedness of the whats and hows". The answers from interviewees are not viewed as the reality reports which are delivered from a fixed repository. They are considered for the ways that they construct aspects of reality in collaboration with the interviewer. (Holstein et al. 1997, 127.) In this thesis research, I do not only analyse the answers of the interviewees but also the reactions of them during the interviews. Particularly, the interviewees' reactions

might indicate their confidence in providing information. Their confidence might reflect their extent of knowledge of deposit insurance.

In terms of the reliability of this research, Kirk and Miller (1986, 20 as cited by Peräkylä 1997, 203) define reliability as “the degree to which the findings is independent of accidental circumstances of the research.” Since the same interview questions were sent to different people, the answers might vary slightly. The reliability of my research findings is also based on the honesty of the interviewees. Since the interviewees were honest in providing information concerning DIS, I could analyse their knowledge by benchmarking the given information against the sampled information which derives from the theoretical framework of this thesis. Therefore, I could be able to make conclusions on their knowledge and perceptions of DIS as the results of this research. Moreover, I try to transcribe and translate the interview as exactly as possible in order to increase the reliability of this research under the evaluation of the reviewers. In connection to the validity of the research, Kirk et al. (1986:21, 42 as cited by Peräkylä 1997, 216) argue that “the primary emphasis is laid on the validity rather than on reliability in conducting and evaluating qualitative research.” This research thesis generates information and data from various sources in order to create triangulation in theory. The triangulation in theory contributes to strengthen the validity of this research.

In conclusion, all methodological choices discussed above are crucial to fulfil the research objectives. The data collected from previous relevant literature, and four interviews with the case bank employees are necessary for the analysis of this research. By benchmarking the interviewees’ answers against the sampled answers which are drawn from relevant literature, the primary data collected from the interviews are analysed. Five main components which are used in order to analyse the primary data collected, which are: the costs, benefits, role, premium rate, and maximum coverage of DIV.



### 3 DEPOSIT INSURANCE AND DEPOSIT INSURANCE OF VIETNAM

In this chapter, a discussion on the concept of Deposit Insurance is presented to start with. Next, the background, and the establishment of the unique deposit insurer in Vietnam which is Deposit Insurance of Vietnam (henceforth DIV) are introduced. On the basis of the presentation of DIV, role, main objectives, and activities of DIV are given, following by its key elements, current limitations, and benefits.

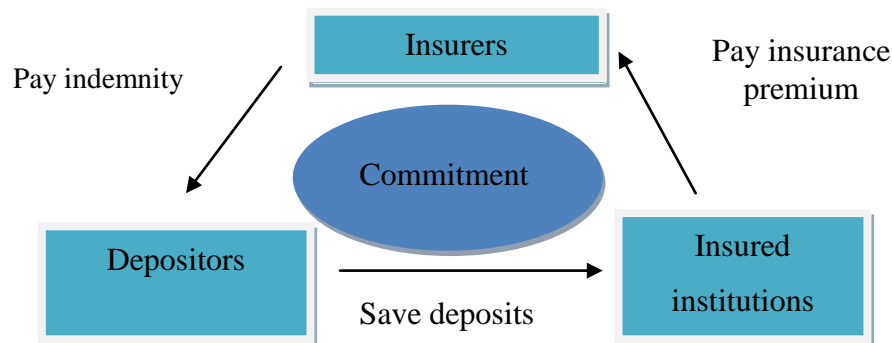
#### 3.1 Deposit Insurance

For the purpose of this thesis, the concept of Deposit Insurance is relevant because it is the principle subject of the thesis objectives. The objectives of this thesis are to firstly discuss the benefits of the existing DIV, and secondly to analyse the bank employees' knowledge of DIV. This paper draws from Federal Deposit Insurance Corporation (2013), Khan (2009) Niinimäki (2000) and Oborn (2000) for defining the concept of deposit insurance. In addition, the concept of Deposit Insurance System (henceforth DIS) is also addressed in order to further clarify deposit insurance's concept.

Concerning the concept of deposit insurance, first of all, the Federal Deposit Insurance Corporation (2013) defines that "Deposit Insurance is one component of many countries' financial system safety net, which includes the prudential regulation and supervision, the lender-of-last-resort function." "Safety net is a group of components that underpin the financial system which includes the central bank, ministry of finance, and entity responsible for prudential regulation and supervision and a deposit insurance agency." (Federal Deposit Insurance Corporation 2001, as cited by Mwoyogwona 2003, 1). The Federal Deposit Insurance Corporation (henceforth FDIC) is a US government corporation which takes the form of "insurance of small deposits through some form of deposit insurance scheme. FDIC has the power to "take over and manage a bank in financial difficulties or one that is about to fail." (Koch & MacDonald 2006, as cited by Oborn 2000, 1-2.) Based on FDIC's definition (2013), Deposit Insurance is perceived as a deposit protection tool in the national financial safety net of each country which is governed under a specific regulation. Its function is considered to be a huge financial source to other financial institutions, including banks. On the other hand, Khan (2009, 26) proposes the definition of DIS by indicating that it is a guarantee to the bank depositors. The guarantee is that a partial or total amount of the principal and also "the

ensued interest on shelter accounts will be paid”. In the light of Khan’s (2009, 26) perception, it denotes the main role of deposit insurance is to return the insured deposits to bank depositors in case of bank failures. However, the organisations involved in a DIS and the interrelationship among the member organisations is limited. In addition to it, Niinimäki (2000, 22) points out that deposit insurance is a very special agreement between a bank and an insurer organization. The bank purchases insurance, and the insurer organization will pay an indemnity to the bank’s depositors when the bank fails. Likewise, Oborn (2000, 4) perceives that deposit insurance guarantees the return of the capital and interest on small deposits with banks and other regulated financial institutions. Deposit insurance is perceived in different angles by different researchers. Therefore, the perceptions concerning deposit insurance discussed above are different from each other.

Deriving from Niinimäki’s (2000) perception, figure 1 below illustrates how deposit insurance works within the involved organisations. The concept of deposit insurance perceived by Niinimäki (2000) is most relevant to the research topic compared to other concepts proposed by other researchers.



**Figure 1.** Deposit Insurance works within the involved organisations (adapted from Niinimäki 2000, 22)

In Figure 1 above, deposit insurance is a committed agreement which is done by the insured bank and the deposit insurer organization to protect the bank depositor. Particularly, bank depositors save their deposits in an insured bank, and the insured bank pays in insurance premium to the insurer organization. In case the insured bank goes bankrupt, the deposit insurer organisation returns the deposits to bank depositors.

In connection with the concept of deposit insurance, different researchers suggest the concept of DIS. Hoelscher, Taylor and Klueh (2006, as cited by Bijlsma & Van der 2012, 2) perceive DIS as a system which ensures to return the deposits to banks' depositors in case of banks' failure. The returned deposits include the principal and the interest. From their point of view, DIS is perceived as a system which mainly deals with the insured financial institutions in terms returning a sum of money which includes both capital and interest on the saving deposits when the insured financial institutions fail. In addition, DIS aims to improve the financial stability by preventing bank run. Viewing DIS from the internal perspective, Demirgüç-Kunt and Kane (2002, 11) emphasize that every country's deposit insurance system has three dimensions, for instance "the extent to which the system relies on private management and/ or private funding, the breadth of its formal and informal coverage, and its susceptibility to hidden risk-shifting by insolvent banks." In the light of Demirgüç-Kunt and Kane's (2002) perceptions, DIS can be considered as a system in which the inner management or funds, the maximum coverage as well as the facts of hiding risk of member banks are involved. In other words, DIS is established based on funds which generate from different sources in determining the maximum amount of money which it covers in cases the bank fails.

In conclusion, DIS is one component of a financial system which works on the principle of Deposit Insurance. DIS operates for the purpose of protecting bank depositors from losses caused by banks failure, and promoting financial stability. On the basis of presenting two core concepts above, it proceeds to show the unique deposit insurer organisation in Vietnam which is Deposit Insurance of Vietnam (henceforth DIV).

### 3.2 Deposit Insurance of Vietnam

Deposit protection in Vietnam was initially founded in the national renovation plan of 1998 in order to reduce the inflation and consolidate the public confidence in Vietnamese banking system. In 1998, Vietnamese banking system started its reform process due to the increasing competitiveness and potential risks in banking operation. The regional financial and monetary crisis in 1997 affected significantly to the national financial system, which leads to the necessity to build up the public confidence in banking system. In addition, the failures of the People's Credit Fund System in Vietnam in the early 1990s in rural as well as in remote area also raised a necessity to establish a financial institution for protecting and contributing to maintain the stability of the

financial system. (Canada Deposit Insurance Corporation 2008, 3.) On the basis of such circumstance, DIV was officially established on 7<sup>th</sup> July 2000 in order to protect the legitimate rights of depositors, provide financial assistance, to financial institutions in their difficult time, to supervise, and to prevent risk in banking sectors (Oborn 2000, 1). Canada Deposit Insurance Corporation (henceforth CDIC) is “a federal Crown corporation created” by the Canadian Parliament to protect depositors of the insured financial institutions in case of these financial institutions fail.” (CDIC 2014). In the national financial system, other participants are the State Bank of Vietnam (henceforth SBV), the financial supervisor which is Ministry of Finance, and the National Financial Supervisory Committee. Currently, among these players in the national safety net, there is a shortage of formal mechanism of exchanged information. It is stated that there is no “Memorandum of Understanding (MOU) or official commitments” which are made within the national safety net. The provisions on this issue are required commonly in different applicable laws. (CDIC 2008, 10.) From the perspective of legislation, DIV is a state-owned financial institution which was established under the Prime Minister’s Decision (CDIC 2008, 1).

With regard to the activity of deposit insurance in Vietnam, it is essential to present how it works in reality. In Vietnam, the policy regarding deposit insurance is understood to be a transparent public commitment of deposit insurers to pay the principal and interests to depositors in the event when the insured institutions fails or insolvent (Oborn 2000, 3). The public commitment in which the three involved players: the deposit insurers, the insured financial institutions or banks and their depositors. The deposit insurers in Vietnam have broad mandates in order to minimize loss or risk. In other words, the Vietnamese insurers are considered as “risk minimisers” (CDIC 2008, 4). The deposit insurers as the “risk minimisers” have the power of controlling the entry and exit of members from the Deposit Insurance System. They also evaluate, manage their own risk and conduct examinations of banks or request the examinations to be conducted by supervisors (International Association of Deposit Insurers 2009, 10.) International Association of Deposit Insurers (henceforth IADI) is a forum for deposit insurers around the world to share the knowledge and expertise. IADI provides training, educational programs, and produces research, guidance on issues related to deposit insurance and financial assistance to trouble banks (IADI 2011, 7-8; DIV 2009, 28). According to CDIC (2008, 18), the following actions which are taken by the DIV when the insured institutions are causing concerns:

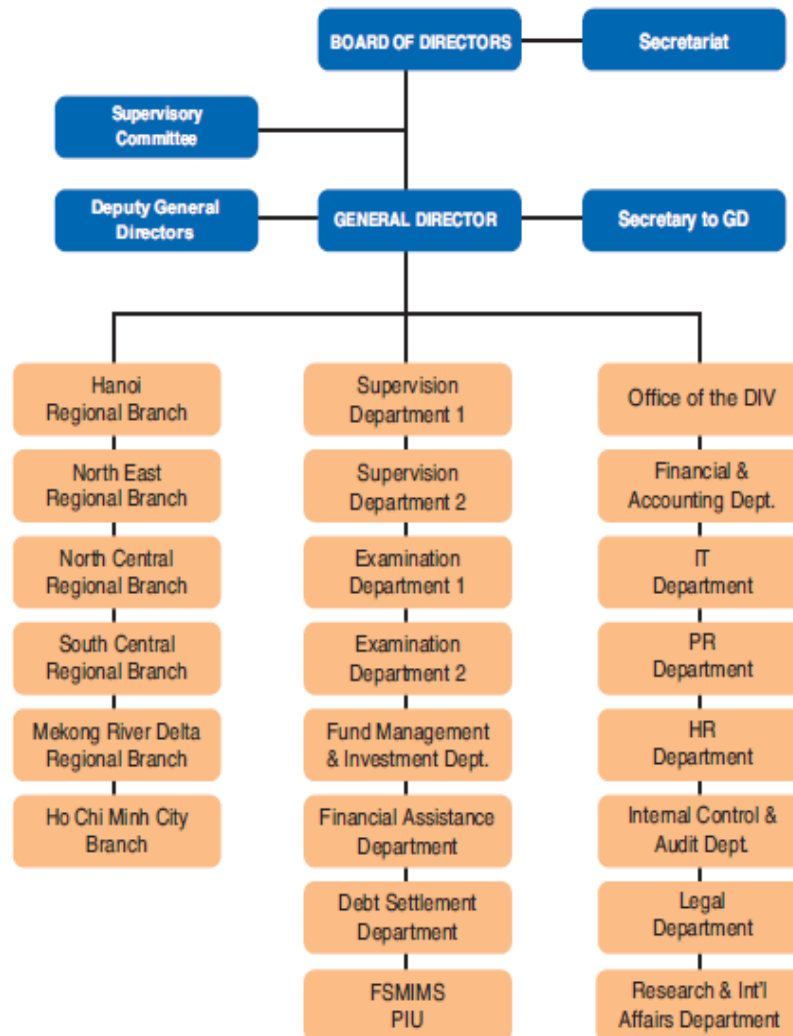
1. Violation of the prudential banking regulations, deposit insurance discipline, and other provisions of applicable laws.
2. Risk of insolvency when the insured institutions may risk insolvency and great loss of capital and assets leading to serious impact on other credit institutions.

In case of the concern (1) as stated above, the insurer organisation may request the insured institution to take immediate remedial measures and report in writing to the SBV for monitoring and finding the corrective measures. When the concern (2) happens, the insurer organisation shall report to SBV and request the insured institutions to take remedial measures. Particularly, “when an insured institution is in danger of insolvency but not to the extent of being placed under special control and its continuation of operation is considered to play an important role in maintain the safety of the whole financial system; insurer organisation may support that institution in 3 following ways.” (CDIC 2008, 18.) Insurer organisation might either “extending loans, providing guarantee for special loans to the insured institution for the purpose of paying insured deposit or buying back the insured institution’s guaranteed debts.” All the earlier mentioned support shall be considered and decided by the Boards of Directors of insurer organisation On the basis of the Governor of SBV on “refinancing, guarantying and repurchasing the debts.” (CDIC 2008, 18-20.)

The organizational structure of DIV includes: the Board of Directors, the Board of Management, Departments of Head Quarter, and 6 Regional Branches. These branches are located in: Hà Nội capital area, Eastern-North Area, Middle-North Area, Middle-South are, Hồ Chí Minh city, and Cuu Long area in the South. The Board of Directors in DIV implements the managerial function. Furthermore, The Board of Directors in DIV is responsible for the operation of deposit insurance, and it consists of 5 members. These members including chairman, CEO Commissioner, a commissioner, chief Supervisory Board members, Ministry of Finance and the central bank's deputy governor. (DIV 2009, 6.)

Figure 2 below represents the organisational structure of DIV

## ORGANIZATIONAL STRUCTURE OF THE DEPOSIT INSURANCE OF VIETNAM



**Figure 2.** Organisational Structure of DIV (2009, adapted from DIV 2009, 6)

### 3.2.1 Role, Main Objectives and Main Activities

In reference to the role of DIV, it is considered as a macro policy advisor since it carries on the meetings with the National Financial and Monetary Policy Advisory Council for professional quality of reports (DIV 2009, 18). Moreover, DIV plays a vital role in maintaining the safety of the whole national financial system and the stability of the political and socio-economic system. Since DIV participates in the process of receivership and liquidation of the insure institutions, DIV also play an important role in

the claims of recoveries process. Particularly, when an insured institution fails, DIV shall be the credits of it for the amount pay to the insured depositors (CDIC 2008, 20). Moreover, this deposit insurer also plays an important role in providing support, guaranteeing loans for the insured institutions, and buying debts of the insured institutions in order to meet the withdrawal of deposits (CDIC 2008, 18). So far, DIV has been asserting itself under the judicious decision to establish a new financial institution, which plays a crucial role in the national financial system regarding the market's economy and international economic integration (CDIC 2008, 3).

With regard to the main objectives of DIV, first of all it is to protect the legitimate rights and interests of depositors. Secondly, DIV's goal is to contribute to the maintenance of depository institutions' stability, and the effectiveness of the banking system (DIV 2009, 8). DIV has built up the Strategic Development Plan (henceforth SDP) for the period of 2007-2010 and vision to 2020 in which defines effective deposit insurance's model in terms of fully minimizing risks. In addition, DIV also draws law on deposit insurance as concerns its extra objectives which are: -"to create official mechanism of insolvency resolution and -to prevent the financial crises in financial sector as well as in the national economy." (CDIC 2008, 3.)

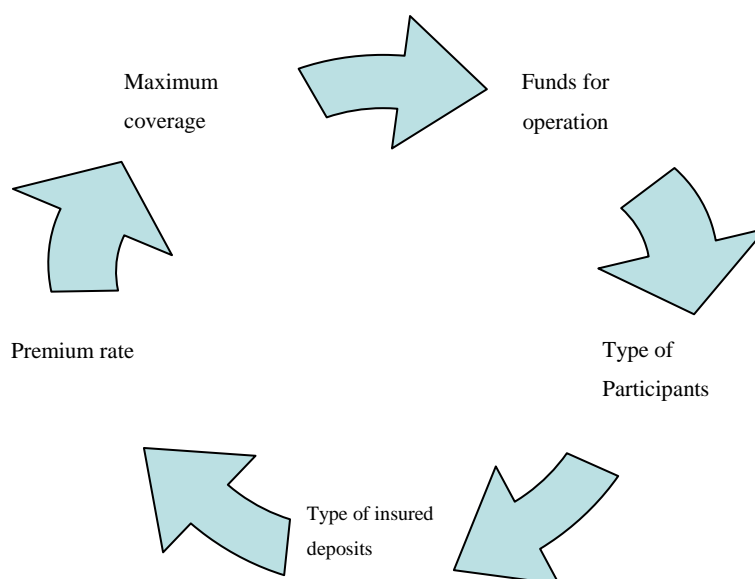
Concerning the principle activities which DIV conducts, the organisation collects deposit insurance premium from the insured institutions, and returns deposits to depositors in case the insured institutions fail or bankrupt. In addition, DIV also takes part "in monitoring, supervising and inspecting the observance of regulations on deposit insurance and the prudential regulations of the insured institutions." (Oborn 2000, 15.) Since DIV is a public organisation, it needs capital from other sources in order to operate effectively. Therefore, DIV is mandated to get loans from credit and other institutions to settle temporary capital difficulties. On the other hand, it also receives the financial support from domestic, foreign organizations, and individuals. In addition, DIV borrows or receives the special capital support from the Government in special cases of lacking operational capital. (CDIC 2008, 5.) DIV also buys "Government bonds, and bills and bonds of the State Bank of Vietnam as well as State-owned credit institutions." It deposits money with the State Treasury, the State Bank of Vietnam and State owned credit institutions for "capital adequacy and self-financing". Under the decision which made by DIV's Board of Directors, the investment of its fund in the above mentioned bonds and bills shall be decided. (CDIC 2008, 14.) In terms of the

public relation and promotion activities, DIV responsible for publicizing deposit insurance operations, organizing training courses, workshops and consultancy on deposit insurance operations as well as other operations related to deposit insurance (DIV 2009, 27). DIV conducts the service of exchanging the information of DIV's operations to the other players in the national safety net system. Moreover, DIV also carries out other operations under the permission of the National Prime Minister. (CDIC 2008, 18.) A list of main activities which DIV carries out is presented in Appendix 1.

After 5 years of operation, DIV has achieved a number of expected targets. For example, it has contributed to the implementation of the national revolution policy, especially in the financial markets. In addition, it has prompted the payment of insurance money to a number of depositors at people credit funds in different cities and provinces throughout the country. It also stimulates fund mobilization particularly in the case of People Credit funds that started to reform the banking system. The most important that DIV's payment to depositors of Phuong Nam Bank in 2003 and ACB Bank in 2005 which raised the public confidence during bank runs. (Oborn 2000, 22.)

### 3.2.2 Key Elements

Figure 3 below illustrates the key elements of DIV, in which five integrated elements are presented.



**Figure 3.** Key elements of DIV



First of all, the funds for operating consist of the charter capital from the State, the loans from local and foreign sources, capital donated by organisation and individuals, and other sources (DIV 2009, 8). The funds of DIV are operational reserve fund, financial reserve fund, provisions fund for severance allowances, development and investment fund. The operational reserve fund was formed mainly from collected insurance premium and has been used for reimbursement of insured deposits DIV (2004, as cited by Oborn 2000, 16). As of December of 31<sup>st</sup>, 2009 the total investment fund was VND 4,904 billion (as approximately \$233 million currently) (DIV 2009, 17).

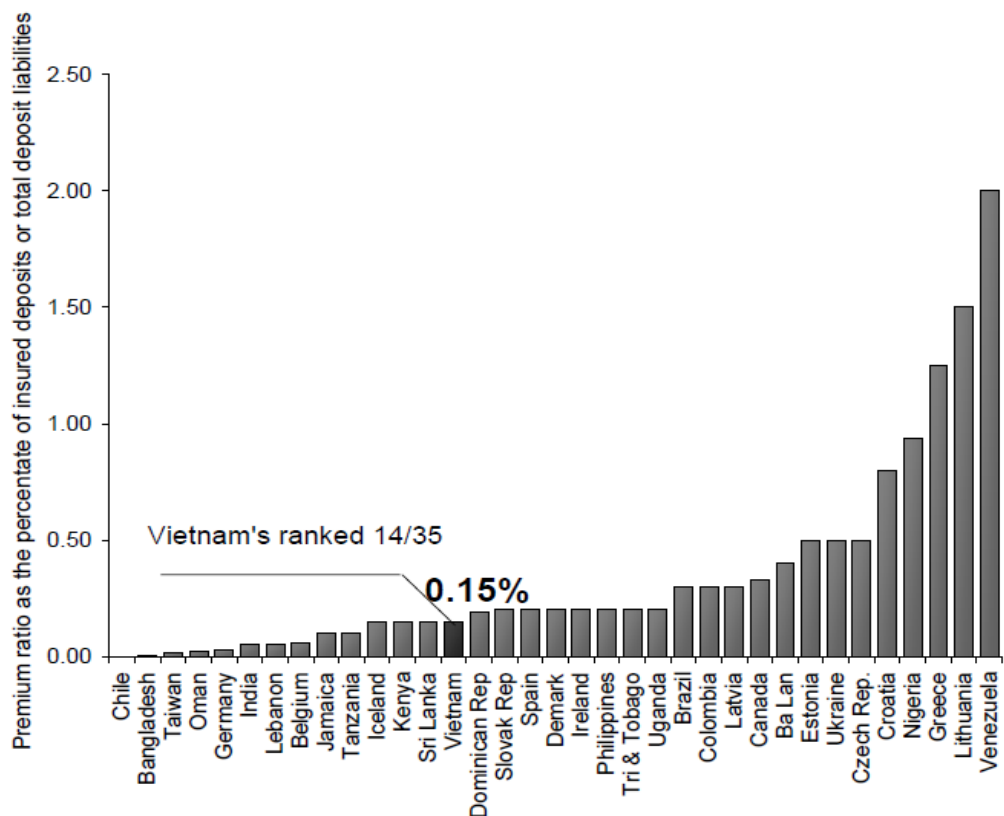
Within the context of DIV, the membership is compulsory. There are various types of institutions which could join the system under the law of the deposit insurance. The types of institutions include State-owned commercial banks, Joint-stock commercial banks, Joint-venture commercial banks, Branches of foreign banks, Finance companies, Finance lease companies, and People' credit funds. (Oborn 2000, 16-17). In 2009, there are 1,136 insured institutions, including 3 state own commercial banks, 39 joint-stock banks, 5 joint-venture banks, 33 branches of foreign banks, 5 hundred foreign funded banks, 11 financial firms, the central people's credit fund, and 1039 local people credit's funds. (DIV 2009, 13.)

With reference to the type of insured deposits, deposit insurance deposits are insured by the local currency which is Vietnam DONG deposits according to regulation in Decree No. 109/2005/ND-CP (as cited by Oborn 2000, 19). The insured deposits include "savings deposits (short-term and long-term deposits), term deposits on individual accounts, purchases of certificates of deposit and bonds registered by the state agency authorized to organize the insured deposits of depositors release individuals, households, cooperatives, private enterprises and partnership organization sent in insured deposits" (DIV 2009, 9). However, the types of depositors which are not eligible for coverage in DIS in Vietnam are listed as follows (CDIC 2008, 12):

- Deposits of depositors are shareholders owning more than 10 % of the charter capital or holding more than 10% of the share capital with voting rights of the participating organizations that deposit insurance;
- Deposits of depositors are members of the Management Board, Supervisory Board, General Director (Director), Deputy General Director (Deputy Director) of participating organizations that deposit insurance;

- Deposits used to secure the performance of obligations of the depositor;
- Purchases anonymous valuable papers held by insured deposits issued;
- Foreign currency deposits.

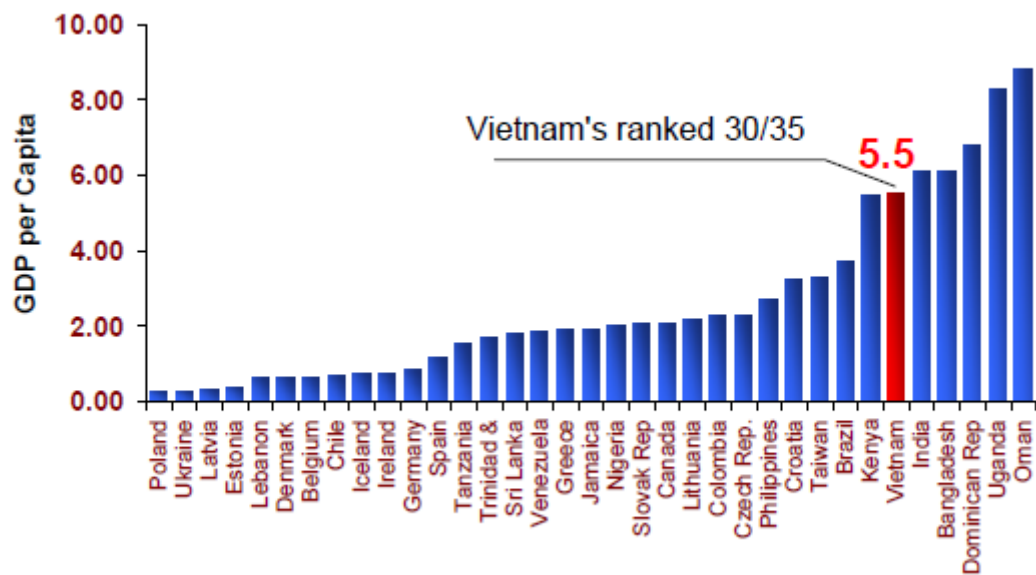
In connection to the premium rate, the flat rate is used by DIV to make collection of “deposit insurance premium at 0.15% per year on average deposit balances of the individual insured institutions” (CDIC 2008, 13). Cull (1998, as cited by Oborn 2000, 10) indicates that DIS adopting flat-rate premium will encourage their member banks in taking excessive risks. The DI premiums are adjusted under the decision of the Prime Minister on the proposal of the deposit insurance institutions and ideas of the State Bank and the Ministry of Finance. Fees are divided into 4 times specified in the first month fee. (CDIC 2008, 5-9.) Following is figure 4 which shows the plat-rate premium ranking of 35 selected countries in which the flat premium of DIV ranked at the place of 14<sup>th</sup> by the year of 2000.



**Figure 4.** Flat premium of 35 selected systems (Kunt & Sobaci 2000, adapted from Oborn 2000, 18)

In relation to the maximum coverage, under current regulations regarding deposit insurance in Vietnam, the amount of insurance paid for all deposits (including principal

and interest) of a depositor (individual or legal representative) at an insured institution maximum of 50 million VND (as current US\$2,375). Currently, Vietnam is applicable deposit insurance mechanism under limited scope (for example fixed term deposit rates paid maximum). (Oborn 2000, 19.) Complying with that regulations, for the total insured deposit which is more than 50 million, that the insured depositor or financial institution will only receive a maximum of VND 50 million, the excess will be paid to the process of liquidating assets the insured institutions (CDIC 2008, 15). Figure 5 below illustrates the rank of 35 systems based on their maximum coverage.



**Figure 5.** Maximum coverage of 35 selected systems (Kunt & Sobaci 2000, adapted from Oborn 2000, 19)

As illustrated in figure 5 above, the coverage of DIV was ranked 30th out of selected 35 systems in 2000.

### 3.2.3 Limitations and Benefits

In connection with the limitations which might appear toward the current DIS in Vietnam, firstly, Oborn (2000, 20) argues that the “legal infrastructure of DIV is inconsistent with its mission and international standards.” In addition, there is a shortage of sanctions in terms of violating in banking operations and regulations on reporting information. It is pointed out that the enforcement of regulations on mentoring the activity of sharing information among deposit insurance agencies in the national financial system is still low. Moreover, the current regulations are not clearly defined in

terms of supporting the financial operations. There is still no regulation on the rights of insurer origination towards the insured institution, particularly to the weakly insured institutions. (DIV a 2012.) Secondly, the scale, and content of the current organisation's operation is narrow. In addition, the role of DIV is limited in the risk control system of the national financial system due to the limited supply of skilled resources in Vietnam currently. Meanwhile, the insured institutions in Vietnam have a higher level of sophisticated and technical expertise than the insurer. (Oborn 2000, 11-14.) Mrs. Duong Thu Huong, the Chief Secretary of Vietnamese Banks Associations (as cited by DIV a 2011) argues that the role of deposit insurer organization in terms of being a financial supervision has not been clearly defined. Next, DIV's funds are considered to be inadequate to assist the insured institutions and to reimburse the insured depositors when an insured institution fails (CDIC 2008, 4). As a consequence, depositors may lose their confidence in the whole financial system. It might affect the reputation of the financial institutions. The implementation of remote monitoring and spot checking the insured institution by the insurer organization is not effective. (DIV 2010.) Moreover, Mr. Le Xuan Nghia, (2013, as cited by the Saigon Times 2013) emphasizes that the practices in the process of dealing with trouble banks in Vietnam is very different from what is stated in the legal regulations on deposit insurance. Especially there is a big difference between the level of deposit insurance coverage in law and in practices in Vietnam. Mr. Le Xuan Nghia is currently the Vice Chairman of the National Financial Supervision Commission in Vietnam. The issues discussed above are considered as the limitations, and difficulties that DIV are facing currently.

In accordance with the benefits of DIV, it is believed that DIV strengthens the confidence of deposits on financial institutions, and contributes to the mobilizations of deposits in development and investment. Moreover, DIS also enhances the credibility of financial institutions, and increases the stability of the banking system. (DIV 2009, 3.) Another benefit of DIS is that it ensures effectiveness of the current banking system in Vietnam. DIV has been conducted promptly, and properly the financial assistance to the insured financial institutions, especially to Local People's Credit Funds (CDIC 2008, 3). In 2009, DIV assisted Phuong Tu Local People's Credit Funds in Hanoi with the amount of VND 1 billion as approximately US\$47,460 currently (DIV 2009, 17). In the meaning of protecting depositors, DIV has given the depositors of Phuong Nam bank in 2003 in ACB Bank in 2005 during their crises (Oborn 2000, 20). In 2009, DIV made payment to insured depositors at Vinh Phong local people's credit fund, Kien Giang

province with totally VND 372.3 million (as around US\$17670 currently). By the end of the year 2009, DIV had made payment to 37 institutions with total amount of almost VND 19 billion DIV (approximately US \$971,756 currently). (DIV 2009, 17.) Oborn (2000, 20) asserts that DIV contributes in maintaining the stable growth of the insured institutions in Vietnam, and in “ensuring social and political stability through the mobilisation of internal resources for socio-economic stability and development.” In the case of the People’s Credit funds which started the banking reforms, DIV plays a crucial role in creating the fund mobility within the financial institutions in Vietnam (DIV 2009, 18).

In conclusion, DIV is a new established and unique deposit insurer organisation in Vietnam. The role of DIV is to contribute in the stability of the national banking system, and to protect the bank depositors. Participating in DIV is compulsory for most of the domestic banks in Vietnam. DIV’s principle activities are to collect deposit insurance premium from the insured institutions, and returns deposits to depositors in case the insured institutions fail or bankrupt. In addition, it provides financial support, and guarantees loans for insured organizations. There are various types of insured institutions which could join in DIV, and the insured deposit insurance deposit is in the national currency which is Vietnam DONG. The deposit insurance premium at 0.15% per year and the maximum coverage is 50 million VND. Over ten years of operating, DIV has achieved significant targets in terms of assisting insured financial institutions when the financial events happen, and in protecting bank depositors. However, DIV are facing many challenges in practices in order to ensure its effective operation, and development.

## 4 EXPERIENCES OF CASE BANK WITH DIV

This chapter presents the experience of the case bank ACB with DIV. Deriving from different articles and newspaper, the discussion of the relationship between DIV and ACB is demonstrated. Next, the research findings which draw from the interviews with the case bank manager and three front-line employees are analysed. At the end of this chapter, a set of recommendations concerning the methods which assist in increasing bank employees' knowledge of DIV is given.

### 4.1 ACB and DIV Relationship

The case Asia Commercial Joint-Stock Bank (henceforth ACB) is one of the largest commercial joint-stock banks in Vietnam, which was established in 1993. At the moment, ACB has a network of more than 200 branch offices offering a variety of financial services. Particularly, ACB provides personal, commercial, corporate, and investment banking services to different types of customers. The customers of ACB are individuals, small-medium-sized businesses and corporation in Vietnam. (ACB 2014.) Over 20 years of operating, ACB has been one of the most successful and reliable bank in Vietnam. In addition, ACB's customer service is considered to be prudent, innovative, and high quality. Since 9<sup>th</sup> of October 2006, ACB has been an official-insured member of DIV (DIV 2010). During its operating time, there have been a number of challenges for ACB due to the unfavourable business conditions, rapidly changing regulatory policies, and unpredictable market developments. In 2012, an unexpected event happened which led to changes in upper management itself. It is considered that the event significantly impacted on the operations of ACB. Moreover, it led to a massive panic withdrawal in Vietnam. BBC News a (2012) reported that shares in ACB slid which caused depositors to panic and withdrew in connection with \$ 240 m from ACB. To the bank, it was a lesson to practice effectively in terms of providing high-quality customer service to "enhance customer satisfaction, performing proficiently in order to increase the trust of shareholders and depositors as well as practicing their best to achieve well corporate governance." (ACB 2012, 9.) In order to assist ACB to overcome its challenging situation, the Government stimulated economic policies in associating with the strategic financial plan from the State Bank of Vietnam (henceforth SBV). SBV generated much-needed liquidity from other commercial banks in Vietnam in order to assist ACB financially. Moreover, SBV published updates of the

monetary market situation at that time for the purpose of consolidating public confidence in the national banking system as well as in ACB's operation (DIV a 2012).

There were different opinions concerning the role of DIV during ACB's downturn period. DIV b (2012) asserts that the belief of depositors could be reinforced by publishing the existence and the role of DIV widely and frequently. However, BBC News b (2012) argues that it was not successful way to consolidate bank depositors' confidence in ACB's operation due to the fact that worried depositors continued withdrawing money from ACB. In addition, it is pointed out that the maximum coverage (VND 50 million) per each deposit is not enough as depositors could not rely on it if their deposits are over VND 1 billion. However, from the point of view of a bank depositor in Vietnam, it is remarked that DIV supported ACB partially during its difficult time. Specifically, DIV returned deposits to a number of ACB's depositors. Despite the fact that the maximum coverage of VND 50 million is not sufficient to cover the exceeding deposits, the public panic was reduced by DIV.

All in all, there has been different discussion concerning the experiences of the case bank with DIV. Particularly, the relationship between the case bank and DIV which derives from relevant literature is reflected by the empirical findings. On the basis of this presentation, the analysis of the research findings is further described in the following sub-chapter.

#### 4.2 Analysis of Research Findings

This sub-chapter presents the analysis of qualitative data collected from the interviews based on the interviewees' answers. Specifically, the knowledge of the bank employees interviewed about DIV is analysed.

Deriving from analysing the primary data collected from the interviews, it shows that the demand for deposit security is high in Vietnam. In addition, among the interviewees, the basic information of DIV is perceived in the same way by three of the four interviewees. However, the information concerning DIV's key elements, limitations, and benefits are not perceived adequately. It is noticed that the bank employees interviewed are confident in their bank's performance in spite of the current unstable economic situation in Vietnam. Furthermore, the use of Internet is considered as an

effective way of acquiring information of DIV. Particularly, Internet is indicated as the common sources to get to know deposit insurance from all interviewees.

During the interview, all interviewees dealt with the three main questions as follows:

- How is the current degree of deposits security in Vietnamese banking system?
- What do you know in connection with the role of DIV and its key elements?
- Are there any training programs for employees in connection with DIV at ACB currently?

Only the manager (referred as Interviewee 1) was offered to give suggestions on the suitable training methods which could increase bank employees' knowledge of DIV. In order to give the suggestion, it is required to have an in-depth knowledge of DIV in accordance with the realistic situation of banking operation in Vietnam. Other three bank employees interviewed are referred as Interviewee 2, 3, 4, respectively. A list of interview questions is enclosed in the Appendix 2. During the interviews, I noticed on the interviewees' reactions to ensure the reliability of their answers. At the beginning of the interviews, interviewees' assessment of the current level of deposits security was asked. Next, the discussions of the existing DIV were conducted, including the concept of deposit insurance, the role, the cost and the benefits of DIV. Moreover, the experiences of the case bank with DIV were also asked. In the interview with the manager, the training methods to increase bank employees' knowledge of DIV were raised for discussion. In order to analyse the knowledge of the bank employees interviewed, I benchmark their answers about DIV with the sampled answers which derive from the theoretical framework of this research.

In the analysis of the bank manager's knowledge and perceptions of DIV, it is shown that the bank manager perceives adequately deposit insurance, DIV's key role and key elements. Depending upon his current duties in the case bank, the knowledge of DIV's limitations and benefits could be improved. Particularly, the manager mentions Deposit Insurance as: "Deposit Insurance is a type of insurance which guarantees the deposits will be returned to the depositors in case the bank fails. Deposit Insurance System is initially developed in the U.S and then it has been growing in other countries. In Vietnam, Deposit Insurance has been introduced since 2000" (Interviewee 1 2014). Deriving from the given information, Deposit Insurance is not explained specifically in terms of the involved organisations which are the banks, the deposits insurers, and the



banks depositors. The model answer of the question was introduced in sub-chapter 1.3: “Deposit Insurance is a very special agreement between the financial institution and the deposit insurer. The financial institution, or bank, purchases insurance by paying insurance premium and the deposit insurer will pay an indemnity to the depositors of the bank when an accident occurs.” By benchmarking two answers above against each other, the concept of deposit insurance is adequately described by the manager interviewed. In connection to the role of DIV, the manager interviewed explains that DIV “protects the rights of depositors, and contributes in the stability of the financial system” (Interviewee 1 2014). The sampled answer concerning the role of DIV is additionally about: “enhancing the quality of banking operation, attracting temporary un-used funds from community and fostering the participation of community with banks and being a macro policy advisor and a claimer in recoveries process” (Oborn 2000, 9). It is considered that the manager explained adequately the two basic roles of DIV despite the fact that there are other roles of DIV.

The limitations and benefits of DIV are not adequately mentioned by the manager interviewed. He points out “the information concerning the current activities of deposit insurance in Vietnam in practices is not widely noticeable”. Deriving from the given answer, it is considered that one of the limitations of DIV is concerning its Public Relation’s (PR) promotion plan for not publishing deposit insurance, and itself effectively. As a consequence, the bank manager interviewed could not sufficiently inform DIV’s limitations and benefits. In terms of the key elements of DIV, it was remarked from the bank manager interviewed that “joining the DIS in Vietnam is obliged for all banks in Vietnam so all banks should pay a fixed to DIV in a specific period and in return, DIV will pay the principal plus the interest to banks depositors if the banks fail with the maximum amount around of VND 50 million” (Interviewee 1 2014). Based on the mentioned answer, the amount of maximum coverage was indicated correctly. However, relying on my notice of his responding, it is considered that the answer was given in uncertain way. In addition, instead of mentioning the specific premium rate as 0.15%, the information as “fixed rate” (Interviewee 1 2014) is given. It is considered that the maximum coverage was given in uncertain way, and premium rate was limited informed. In other words, these two key elements of DIV were not adequately given.

Next, the manager showed the deposit insurance certificate indicating that ACB has been a member of DIV. The certificate is considered as a source of information where the manager obtained the information concerning DIV. In addition, the manager pointed out that most of information related to deposit insurance is found from the Internet. However, the basic information of deposit insurance was initially provided by the top manager of ACB when the bank joined DIS in 2006. The manager also pointed out the importance of using Internet recently in Vietnam as it was the fastest and easiest way for people to access to various sources of information. It is considered as an effective way to promote deposit insurance to public, especially to bank employees via the Internet. Concerning the program of communicating deposit insurance to bank employees, the manager mentioned that “there have not been any training programs with reference to DIS at ACB”. However, it is expected that there will be relevant programs at ACB in the very near future. (Interviewee 1 2014.) In addition, the manager emphasised the importance of communicating DIV to banks depositors via bank employees. Nevertheless, it was not mentioned in a detailed way. In connection to the discussion regarding the effective methods which increasing bank employees’ knowledge of DIV, the manager focused on the possibility of holding seminar and lectures. Furthermore, he suggested that seminar, and lectures were considered as the effective ways to increase the knowledge of DIV among the current employees, and the new trainees. It was further pointed out that: “it is the responsibility of the insurer organisation and of the bank’s top management to develop realistic strategies” (Interviewee 1 2014). The methods which increase ACB’s bank employees of DIV are considered as the orders from more superior manager to lower-positioning employees. In the light of the manager’s perception, giving orders from top managers is an effective method which enforcing the front-line bank employee to acknowledge of DIV in detail.

The analysis of data collected from interviewing with other employees who are currently working in Marketing office, HR Development office and service delivery office shows that DIV’s key elements might be further informed. In particular, Interviewee 2 and interviewee 3 provided inadequate information concerning the concept of Deposit insurance, and DIV’s role. Moreover, the maximum coverage amount, the limitations, and benefits of DIV were not sufficiently given. The interviewee 4 gave less accurate information of deposit insurance comparing to other bank employees’ information interviewed. (Interview 4 2014) points out that bank’s shareholders or the bank’s owners are the receivers of returned money from the deposit

insurer organisation in case of bank failures. Based on the sample answer, the fact is the bank's depositors will be reimbursed money from the deposit insurers if the bank fails but not the bank's shareholder or the bank's owners. It is considered that the concept of deposit insurance which was given by the interviewee 4 was insufficient in terms of the reimbursement receiver. The knowledge of the premium rate, the limitations, and the roles of DIV among three employees might be improved. In order to analyse the reason which leads to the inadequate information of deposit insurance which were given by the bank employees interviewed, it is considered that PR activities of the insurer organisation in Vietnam might be further enhanced. To explain the current situation in Vietnam, deposit insurance is rarely mentioned through public communication tools, for instance newspaper, radio, television. It is considered as a cause of the insufficient knowledge of deposit insurance in Vietnam among public, even the bank employees.

In conclusion, deriving from the analysis of the data collected from the interviews, it is considered basic information of DIV was adequately informed by three of the four bank employees interviewed similarly. Depending upon the interviewees' tasks in the bank, their knowledge of DIV's key elements, benefits and limitations might be improved. In order in order to ensure the effectiveness of DIV, it is important that bank employees adequately informed about DIV. On the basis of DIV's effectiveness, bank depositors are more confidence on saving their deposits in the case bank. The analysis of the research findings leads to the recommendations of which information of DIV should be more focused when promoting itself to public.

#### 4.3 Recommendations

On the basis of the research results, recommendations are given for both the deposit insurer organisation, and the case bank concerning the effective methods to assist bank employees obtain the information of DIV in detail. The reason for giving both the insurer organisation and the case bank derives from the fact that the knowledge of bank employees about DIV is very vital in ensuring its effectiveness. Further discussion on the importance of bank employees' knowledge of DIV is presented in sub-chapter 5.2.

Regarding to the insurer organisation, communication plan aiming at publicizing deposit insurance effectively should be focused. Hence, bank employees' knowledge, and public awareness of deposit insurance could be increased significantly. IADI (2009)

points out that the deposit insurer organisation should publicize its benefits and limitations, corporate profiles and contact info, the scope of coverage, the reimbursement, and claim procedures. The core principles of organising an effective public awareness campaign targeting at member institutions which guided by IADI are found in Appendix 3. DIV (2010) asserts that it is intending to create propaganda content which is consistent with its goals in order to raise public awareness of deposit insurance. In addition, DIV has diversified its communication forms based on indentifying communication channels suitable to each target audience group. IADI (2009) recommends the effective utilisation of many different communication-tools. For example, mass media, printed materials, websites, lectures and seminars, signs and logos of deposit insurer, and product registers or toll-free lines. In particular, mass media including television, radio, newspaper, magazines, and printed materials for instance annual reports, strategic planning, handbook. In addition, a list of Frequently Asked Questions (FAQ) should be issued by insurer organisation. Websites such as the official website of the insurer organisation, e-learning modules, and interactive forums are considered as the useful tools for directly communicating deposit insurance with public. These effective communication channels help bank employees to acknowledge DIV during their spare time. Therefore, they could manage their time more effective in acknowledging DIV in detail. Moreover, it is highly recommend that DIV should educate public and organise contest about relevant deposit insurance issues, and the organisation itself. Hence, public and bank employees are encouraged to learn more about DIV

With regard to the case bank, the logo of DIV included being in print, and electronic forms should be posted in its branches. It helps to remind bank employees and bank customers that the bank has the protection of DIV. Furthermore, it is recommended that the bank should also include the logo of the insurer organisation in its brochures, website or annual reports. Figure 6 below is the logo of DIV, the insurer organisation in Vietnam.



**Figure 6.** Logo of DIV (2009, adapted from DIV 2009, 2)

The logo of DIV above should be included in any brochures or annual reports of ACB bank in order to remind bank employees of deposit insurance. As a result, it informs the bank's customers that ACB has joint DIV for the purpose of protecting bank depositors. Hence, it increases the faith of bank depositors on the bank's operation.

Bartiloro (2011, 22) remarks that watching a video inside the bank is an effective way of informing deposit insurance to bank employees or those customers who are waiting in line for services. In addition, it is recommended that the bank with large electronic message boards located in its branch offices should provide scrolling messages about deposit insurance. In Canada, CDIC issued Deposit Insurance Information by-law which stipulates how insured member institutions disclose deposit insurance information, and display DIV's signs in certain areas at every branch office in order to attract customer's attention. (IADI 2009.) ACB is a large bank which has branch offices equipped with large screen of TV. It is recommended that ACB should present deposit insurance information by text message in scrolling screen or by short presentation of deposit insurance on large screen. Hence, bank employees could entertain themselves during their free time, and bank customers could be informed of deposit insurance.

Product registers of bank for instance structured deposits should be informed to bank customers whether they are covered by deposit insurance. A register may also include additional information, for example name of bank, membership status, and contact information or even code number for financial products. As a consequence, employees of bank are frequently reminded of Deposit Insurance, and bank depositors could be adequately informed of deposit insurance via bank employees or banks' financial products. In addition, the toll-free lines offer an open channel for inquiries toward DIV or as for the safety of the deposits for depositors in the event of a bank closures. Moreover, front-line employees who interact in person with bank customers should be encouraged to mention deposit insurance in each interacting time. It is recommended that bank employees when offering deposit contract to new customer should also be motivated to mention deposit insurance either. It is considered that bank employees should know DIV in detail in order to avoid informing inadequately it to customers. Because it could affect the bank's reputation significantly in case DIV were informed incorrectly to bank customer. Therefore, it is very important to train bank employees to acknowledge deposit insurance, and DIV in detail.

Furthermore, lectures, and seminars or monthly bank- meeting should be held in order to communicate DIV to bank employees. The manager points out that it should be an obligation for employees to join in the training programs or lectures of deposit insurance (Interviewee 1 2014). It is recommended that bank employees should return tasks or assignments of deposit insurance in order to make sure that employees follow the lectures or seminars properly. On the basis of this recommendation, the employees participating in the lectures should be rewarded. The reward could include a prize by participating lectures regularly. As a consequence, it could motivate the bank employee to attend the lectures or seminars regularly. Moreover, bank could create competition or contest about deposit insurance among employees in order to motivate them to learn DIV. On the Intranet within the bank, the admin should create a space to discuss and exchange information related to deposit insurance. For new employees, in associating with the apprenticeship training, the deposit insurance training programs should be provided to them as well. By asking questions during the training, it ensures that the employees understand deposit insurance properly. Besides, the big tip is to repeat the facts referring to deposit insurance in order to remind employees of it frequently.

To sum up, both the insurer organisation and the case bank are recommended to implement strategic communication plans in order to effectively increase bank employees' knowledge of DIV. In particular, the insurer organisation is recommended to utilise many different communication tools which are suitable to each target audience group. The communication tools are, for example, mass media, printed materials, websites, lectures and seminars, signs and logos of DIV, and product registers or toll-free lines. To the case bank, it is recommended that it should include the logo of DIV in its brochures, annual reports and main website in order to remind bank employees that the case bank has joint DIV. Moreover, the bank should also offer videos on large screen inside the bank about deposit insurance, and DIV. It is also recommended that the product registers of bank, for instance structured deposits should be informed to bank customers whether they are covered by deposit insurance. Importantly, lectures, and seminars concerning deposit insurance should also be held in the bank in order to help bank employees to acknowledge DIV in detail.

## 5 DISCUSSIONS AND CONCLUSIONS

The basis for presenting the driving factors which might determine the knowledge of DIV among bank employees interviewed is described in this chapter. Following it, the discussion on the importance of bank employees' knowledge of DIV to ensure its effectiveness is raised. The conclusion of this research is drawn in which the answers of the research questions are presented. Lastly, this chapter presents recommendations for further studies in order to investigate, and analyse bank employees' knowledge and perceptions of DIV.

### 5.1 Driving Factors Determine Knowledge of DIV

Relying on the empirical analysis of the research findings, there are three driving factors which might determine the answers of the interviewees. Particularly, they are the positions, the tasks of the interviewees in the bank, and the Internet use. Firstly, it is considered that the manager interviewed perceives DIV more adequate than the other front-line bank employees interviewed. Secondly, the interviewees whose tasks are more related to interact frequently with different communication tools have more chances to know deposit insurance adequately. In other words, they have more chances to know DIV adequately more than other interviewees whose daily task is interacting in person with customers. When looking at the identification of the correct amount of maximum coverage, and premium rate of the interviewees' answers, the tasks of the bank employees become significant. It is considered that the interviewees who know more reliable sources concerning DIV give the correct amount of maximum coverage, and premium rate. Furthermore, it is also found that the use Internet is considered as a useful way to obtain detailed information of DIV from the main its website in national language. Deriving from the research findings, Internet is one of the common sources which interviewees use daily to get information of DIV. Therefore, the use of Internet can be considered as another factor which influences on how adequate DIV is perceived. The regular use of Internet increases the probability of knowing about DIV adequately by accessing to reliable sources concerning DIV's information.

To sum up, there are three driving factors which are considered as the determinants of the knowledge of DIV among the bank employees interviewed. Particularly, the

positions, the daily tasks of the bank employees interviewed, and the use of Internet might influence on the adequacy of their knowledge about DIV.

## 5.2 The Importance of Bank Employees' Knowledge of DIV

On the basis of the research results, it proceeds to discuss why it is important to improve bank employees' knowledge of DIV. Firstly, the bank employees could be able to transmit clear and coherent information of Deposit Insurance in a consistent and coordinated way to bank's customers. Next, bank's customers could be more confident on saving their deposits in the bank as the existence of this system consolidates public confidence on banking system. Bank customers might be encouraged to saved deposits in the insured bank once they knew that their saving deposits are safe. Eventually, the bank could be beneficial in terms of increasing the number of depositors. Therefore, bank employees' knowledge is very vital to the whole financial banking system, particularly to the bank.

It is pointed out that "the knowledge of the existence of and the eligibility for deposit insurance" seems to be a prerequisite for the proper function of it (Bijlsma et al. 2012, 17). Therefore, the initial necessity is the awareness of this system, and the knowledge of how it works. In Vietnam where the membership in Deposit Insurance System (henceforth DIS) is compulsory, bank employees' knowledge concerning to the key elements, the limitations, and benefits of the existing DIS should be preliminarily focused. The member institutions, especially the "front-line employees, and senior management" are major channels for promoting the brand image and communicating with the external audience (IADI 2011). Particularly, "front-line employees" are those who interact with depositors daily (IADI 2009). If they understand DIS accurately, they can publish information of DIS to depositors properly. In addition, well-trained employees, who can answer the questions which are relevant to deposit insurance, assist in maintaining the confidence among depositors. Meanwhile the senior managers, who are considered to "interact with corporate customers can help disperse deposit insurance information to institutional depositors". (IADI 2009, 9.) In addition, the knowledgeable employees of Deposit Insurance might promote risk awareness among member institutions. Their relevant knowledge has implications for bank operations and liquidity management because they are aware of the consequences of a flight-to-quality. A "flight-to-quality" is a financial market phenomenon happens when an investor sells



higher-risk investments, and purchases safer investments, for instance Government's bonds or gold (Beber & Brandt & Kavajecz 2009, 927.)

Furthermore, Bartiloro (2011, 23) emphasizes that closer contact with bank employees is considered as an effective way to communicate deposit insurance. When the bank employees' knowledge of DIV is increased, there will be more chance for depositors as well as public to obtain sufficient information of this system. Moreover, it is argued that perceiving the structure of DIV, and how it works is important for the bank managers to determine how banks can keep or acquire customers. By developing differentiated marketing campaigns, banks can better address the needs of depositors group "who differ in their need for, their knowledge in connection with and their perceptions of deposit insurance." (Sträter et al. 2008, 5.) When the characteristics of a DIS are published regularly, the credibility of this system can be maintained and strengthened. Since then, banks can increase their trustworthiness via to DIS either.

All in all, it is important to communicate effectively DIV to bank depositors in order to ensure its effectiveness. Bank employees are considered as one of the essential factors which could inform effectively DIV to bank depositors. By adequately perceiving DIV, bank employees contribute in communicating effectively it to bank depositors and to public. Therefore, the adequate knowledge of bank employees about DIV is crucial in ensuring the effectiveness of the system.

### 5.3 Conclusion

This research aims to study Deposit Insurance of Vietnam based on relevant literature, and the qualitative data collected from the single case study. In connection with the objectives of this research thesis, the benefits of DIV to the national banking system and to bank depositors are discussed. Moreover, the knowledge of bank employees about DIV is analysed within the case bank called Asia Commercial Bank, Vietnam.

The answers of two research questions in order to achieve the research objectives, which are presented in sub-chapter 1.2 are illustrated as follows:

1. What is the role of Deposit Insurance of Vietnam?

The role of Deposit Insurance of Vietnam illustrates the benefits of Deposit Insurance of Vietnam to the banking sector, and to bank depositors. Deriving the theoretical framework of the research study as was discussed in sub-chapter 3.2.1, DIV plays a vital role in enhancing the quality of banking operation, fostering the participation of community with banks, and creating favourable conditions for the development of national banking system (Oborn 2000, 8). In addition, it also promotes public confidence and the savings mobilization for investment and sustainable development (DIV 2009, 11). It also contributes to the stability of the political and socio-economic system (DIV 2009, 15). Furthermore, its role also is considered as a macro policy advisor and a claimer in recoveries process in Vietnam (DIV 2009, 18). Drawing from the answers of interviewees, DIV plays an important role in contributing in the stability of the national banking system, and in protecting the bank depositors.

2. What do the employees interviewed of Asia Commercial Joint-Stock Bank Vietnam know about Deposit Insurance System?

In order to answer this question, I benchmark the sampled answers against upon the interview questions concerning the concept of deposit insurance, and the information of DIV. The sampled answers draw from the theoretical discussions in chapter 3, and chapter 4 of this thesis. The research results, as were pointed out in the discussion in sub chapter www show that the bank employees interviewed adequately perceive the concept of deposit insurance, and the basic information of DIV. Relying upon their professional fields in the bank, their knowledge of DIV concerns its key elements, limitations, and benefits might be improved.

On the basis of the research results, a set of recommendations is developed for both the insurer organisation, and the case bank to increase bank employees' knowledge of DIV. To the insurer organisation, it is recommended that DIV should focus on creating a suitable communication plan in order to publicize effectively deposit insurance, and itself. It is recommended that DIV should publicize its benefits and limitations, corporate profiles and contact info, the scope of coverage, the reimbursement, and claim procedures. In addition, publicizing the maximum coverage, premium rate, the limitations, and benefits of DIV is considered as an effective way to ensure the effective development of DIV. With regard to the case bank, it is recommended that communication tools should be utilised to publicize DIV effectively. In particular, the

communication tools should be suitable to each group of target audience. Furthermore, the case bank should include the logo of DIV in its brochures, annual reports and main website in order to remind bank employees that the case bank has joint DIV. By offering videos in larger screen inside the bank, and the product registers of bank which are insured, the bank could effectively communicate DIV to bank customers. Moreover, lectures, training programs, and seminars concerning DIV should be held at the bank in order to help bank employees to know more about DIV.

#### 5.4 Suggestions for Further Studies

Further research is needed in order to completely reflect the knowledge and perceptions of DIV among bank employees in Vietnam. Due to the limitations of this research which were presented in chapter 1.3, it is challenged to investigate the actual knowledge and perceptions of this system among employees in other departments of the case bank or among the other banks' employees in Vietnam. On the basis of this research, I would suggest to expand further research in investigating knowledge and perceptions of DIV among employees in other banks in Vietnam. Further throughout research with large sample of bank employees, it would reflect a truly picture of bank employees' knowledge and perceptions of DIV. Once the perceptions of the current DIV in most of domestic banks in Vietnam are analysed, the insurer organisation could develop a suitable promoting plan. The recommendations of this research in order to increase bank employees' knowledge of DIV could not only be applied in the case bank but also in other banks in Vietnam. They are all considered as effective ways for employees to learn and share information related to deposit insurance within their institution. Eventually, deposit insurance will not be an unfamiliar term to public in Vietnam.

Moreover, further studies concerning the national law of deposit insurance should be further implemented in order to find out whether the current deposit insurance law is suitable. In particular, the actual implementing the policy of DIV would also be interesting to research, for instance how realistic the law of deposit insurance in Vietnam is, and how deposit insurance activities are actually implemented within the scope of deposit insurance's law. Furthermore, the research in terms of analysing whether the law of deposit insurance is applicable to the momentary situation of Vietnam could be also essential. In case of unsuitable policy of deposit insurance in accordance with the actual economic and political situation of Vietnam, the potential

researchers might make further suggestions on modifying the current law of deposit insurance. It is for the purpose of contributing the development of an effective Deposit Insurance System in Vietnam.

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## APPENDICES

### Appendix 1

#### Major mandates of DIV

According DIV (2009, 8), the major activities of DIV are listed as follow:

1. Collecting deposit insurance premium from the insured institutions.
2. Paying insurance to depositors.
3. Monitoring, supervising and inspecting the observance of regulations on deposit insurance and the prudential regulations of the insured institutions.
4. Providing support and guaranteeing loans for the insured institutions to meet the withdrawal of deposits and buying debts of the insured institutions as long as these debts are secured under Government's Decree No. 89/1999/ND CP as September 1, 1999. The total capital to can be used for these operations shall be decided by DIV's Board of Directors.
5. Getting loans from credit and other institutions to settle temporary capital difficulties. If need be, this borrowing may be guaranteed by the Government.
6. Receiving financial support from domestic and foreign organizations and individuals to enhance its operational capacity.
7. Borrowing or receiving the special capital support from the Government in special cases of lacking operational capital.
8. Buying Government bonds, and bills and bonds of the State Bank of Vietnam and State-owned credit institutions; depositing money with the State Treasury, the State Bank of Vietnam and State owned credit institutions for capital adequacy and self-financing. The investment of its idle capital in the above mentioned bonds and bills shall be decided by DIV's Board of Directors.
9. Publicizing deposit insurance operations; organizing training courses, workshops and consultancy on deposit insurance operations as well as other operations related to deposit insurance; and conducting information exchange in service of DIV's operations.
10. Carrying out other operations as permitted by the Prime Minister.



## Appendix 2

2(1)

## Interview questions

*This interview's content is confidential and serves the purpose of collecting data for the final bachelor thesis. The researcher guarantees not to disclose the identities of the interviewees in the work.*

*The mark (\*) are only for the manager.*

## Background questions:

1. Could you please tell me in connection with the current degree of deposits security in our Vietnamese banking system? How demanding it is at the moment in Vietnam?
2. In relation to ACB, to what extent do you think that the bank's reputation impacts on its deposit security level?

## Questions in connection with DI:

1. Could you tell me what Deposit Insurance is in general please?
2. What type of DIS in Vietnam? Is it volunteer or mandatory?
3. Please tell me how DI works generally? What do you know in connection with the reimbursement process?
4. Could you please tell me how much DIV reimburse to depositors in case the bank is unable to operate? To what extent do you think the depositors could be protected by DIV?
5. Is ACB a member in this system now? Does ACB's bank clerks mention in connection with DI to customers when making the deposit contract?
6. How much is the current maximum coverage and premium rate of DIV?
7. In your opinion, what are the limitations of DIS in Vietnam, particularly DIV?

## Questions related to the bank's performance:

1. How is the current performance of ACB? Are there any risks which could influence the faith of customer on bank performance at all?
2. In your opinion, did DIV assist the bank significantly to overcome the event the event in August 2012 when a massive of customers withdrew money from the bank? How so? (\*)
3. Do you think that it is important to communicate with customers in connection with DI? And why?
4. Are there any programs particularly training employees in connection with DIV at ACB? Do you have any suggestion how to get the info relative to DIV in detail, please? (\*)

### Appendix 3

Organising an effective public awareness campaign (as cited by IADI's Public Awareness Final Guidance Paper 2009, 8)

#### 3. Member institutions

The financial institutions that make up the deposit insurance system are important players in disseminating information—they offer a prime channel to reach the target audience.

Effective deposit insurers promote the confidence of the public and contribute to the stability of a country's financial system; thus, financial institutions benefit from deposit insurance.<sup>15</sup> Moral hazard is also mitigated if member institutions understand the functions of an effective limited coverage deposit insurance system.<sup>16</sup>

Member institutions can become effective partners with deposit insurers in promoting public awareness to two important target groups: front-line employees and senior management. Front-line employees interact daily with depositors; if they understand the deposit insurance system themselves, they can disseminate accurate information to depositors. Well-trained employees who can answer deposit insurance–related questions help maintain confidence among depositors. Senior managers, who are likely to interact with corporate customers, can help disseminate deposit insurance information to institutional depositors.

In deposit insurance systems with mandatory membership, knowledgeable management employees should be aware of the consequences of a flight to quality. Such knowledge promotes risk awareness among member institutions and has implications for bank operations and liquidity management. In deposit insurance systems with voluntary membership, senior management employees of non-member institutions who are educated on the benefits of the system would be encouraged to join it.

Deposit insurance education for managers should include briefings on reporting requirements, premium payment requirements, reporting forms, and the related informational requirements.<sup>17</sup>

<sup>16</sup> Moral hazard is defined in the IADI glossary as “the incentive for additional risk taking that is often present in insurance contracts and arises from the fact that parties to the contract are protected against loss” (available at <http://www.iadi.org/glossary.html>).

<sup>17</sup> Biggs and Hambric, 2006.