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TRAN TRUNG DUNG

**MANAGEMENT OF MORAL HAZARD
IN COMMERCIAL BANKS IN VIETNAM**

Major : Finance - Banking

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SUMMARY OF DOCTORAL THESIS IN ECONOMICS

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**The doctoral thesis shall be completed at
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Judge 3:
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**For more information about the doctoral theses, please read references
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INTRODUCTION

1. Rationale

Moral hazard is one of the risks that need to be taken into consideration in today's business world. The operation of commercial banks generates great profits as well as potential risks. In business operation, commercial banks can not completely eliminate risks, but instead, they can control, manage and limit risks. Therefore, it is necessary for commercial banks to take risks to a certain extent for profit purposes. Moral hazard is one of the many risks that commercial banks can actually face. Moral hazard occurs in almost all business activities of commercial banks, affecting the enterprises' ability to access capital, and therefore negatively influencing the growth and development of the economy.

In the past few years, the contribution of the commercial banking system in Vietnam to the process of economic reform and growth has accelerated the process of industrialization and modernization. Commercial banks continue to be proved not only as an important channel of raising capital for the economy, but also contribute to stabilizing the purchasing power of the currency.

In compliance with the reform and innovation process, the number of commercial banks in Vietnam has increased rapidly, and gradually moved towards a compatible system of emerging and fast growing economies. Banks are a special business form which is sensitive and closely linked to money, and always faces many risks at the same time. In risky issues, Moral hazard seems to be a growing threat to banks.

In the operations, banks have the problems of governance and the most important and difficult problem to control is the professional and ethical practices of bankers. In Vietnam, experts have stated that "the security of the current system is concerned with ethical issues than professional ones." An expert from the National Financial Supervisory Commission also said: "The problem moral hazard in the operation of banking system has reached the level of warning".

Business activities are denominated in other people's currency and the operation of banks are directly related to the money, and therefore the moral responsibility of the bankers is to protect the money deposited in the bank by the public and the security of deposits is more important than the profit targets, absolutely avoiding the irresponsible use of the money. Although moral hazard is "easier to understand" than professional risks, bank executives have pointed out that in all types of risks that banks face, moral hazard is the least manageable.

Based on the insight and awareness of the theory and practice, the Ph.D student decided to select the thesis topic "*Management of moral hazard in the operation of commercial banks in Vietnam*" for his Ph.D. dissertation in economics with the desire to improve one's professional theory, do research on current situation of moral hazard management and propose some solutions to moral hazard management in commercial banks in Vietnam, and therefore contributing to promoting the development of business activities in the context of integration.

2. Overview of research related to thesis topic

2.1. Review of foreign research

(1) Bliss, Robert R. and Flannery, Mark J. (2002): *“Market Discipline in the Governance of U.S. Bank Holding Companies: Monitoring versus Influence”* European Finance Review

(2) Blum, Jurg (2002): *“The Limits of Market Discipline in Reducing Bank’s Risk Taking”*, forthcoming Journal of Banking and Finance

(3) Thomas F. Hellmann, Kevin C. Murdock and Joseph E. Stiglitz (2002): *“Liberalization, Moral Hazard in Banking, and Prudential Regulation: Are Capital Requirements Enough?”*, American Economic Review

(4) Beim & Calomiris, 2002 - David Beim and Charles Calomiris (2002), *Emerging Financial Markets*, McGraw Hill Custom Publishing.

(5) Dembe, Allard E. and Boden, Leslie I. (2000). *“Moral Hazard: A Question of Morality?”* *New Solutions*, Vol. 10.

(6) Erlend Nier and Ursel Baumann 1, (2003), *“Market discipline, disclosure and moral hazard in banking”* Cordella, Tito and Eduardo Levy Yeyati, (1998): *“Public Disclosure and Bank Failures”*, *CEPR Discussion Paper* No. 1886.

(7) J.P. Niinimäki (2007), *“Does collateral fuel moral hazard in banking?”* Discussion Paper, No 181, Helsinki center of economic research, August 2007, ISSN 1795-0562.

(8) Lewis, Holden (18 April 2007). *“Moral hazard’ helps shape mortgages”* [2007/04/18_subprime_mortgage_morality_a1.Asp?caret=3c](http://www.bankrate.com/2007/04/18_subprime_mortgage_morality_a1.Asp?caret=3c). Bankrate.com.

2.2. Review of research on the topic in Vietnam

(9) BA. Le Nam Thang (2011), *Moral hazard problem in banking operations in Vietnam, current situation and management solutions.*

(10) Assoc. Prof. Ha Minh Son (2014), *Moral hazard in banking system - Current situation and recommendations.*

(11) Dr. Nghiem Van Bay (2017), *Synthesizing lessons of risk management in commercial bank operation through several criminal trials.*

(12) Xuan Anh (2015), *Warning notice of moral hazard of bank officers*, Saigon investment newspaper, July 9, 2015.

(13) Van Giang (2016), *Moral hazard: susceptible, difficult to remove*, Viet Newspaper on 11/11/2016.

(14) MA. Vu Thi Thanh Ha (2012), *Relationship between moral hazard in banking and financial liberalization*, Banking Journal 12 June 2012.

(15) Textbooks used in teaching at universities and colleges such as Assoc. Prof. Dinh Xuan Hang, MA. Nguyen Van Loc (editors) (2012), *“Credit management for commercial banks”*, Finance Publishing House. 2012; Phan Thi Thu Ha (2009). *“Governance of commercial banks”*, Transportation Publishing House, Hanoi; Peter Rose, *“Management of Commercial Banks”*, Financial Publishing House, 2004; Asso. Prof. Nguyen Dang Don (2009), *Modern Commercial Banking Management*, Oriental Publishing House; Dr. Nguyen Minh Kieu, *Commercial Banking Operation*, Statistical Publishing House, 2006; Money - *Banking and Financial Markets* (1993) by Frederic S. Mishkin (Science and Technology Publishing House)... all deal with the process and methods of risk management in the banking system.

In summary, measures to prevent and handle moral hazard in banking activities have been mentioned in research projects on banking operation in Vietnam and in the world, little research has been done on both theoretical and practical approaches and methods of moral hazard management.

2.3. Research Deficiency

The mentioned research has made important contributions to the basic theory of moral hazard management in recent years. There are still "gaps" in research on moral hazard management, typically the moral hazard management in commercial banks in Vietnam for the period of 2011 and 2017.

The gaps in the theoretical research on moral hazard, moral hazard management and the current situation in Vietnam include:

- The rationale is not systematic and updated about moral hazard, moral hazard management in the current period, while the State Bank of Vietnam is implementing the risk management roadmap under the Basel II. In addition, Vietnam has developed and implemented economic integration with the economies in the region and in the world.

- Studies on moral hazard and moral hazard management mostly propose solutions in each aspect of ethical risk management such as "risk prevention", "risk mitigation" or "risk control" and do not go into details of "managing" the moral hazard as a whole and systematically.

- There is no scientific research on comprehensive moral hazard and moral hazard management in commercial banks in Vietnam in the period 2011 - 2017 as well as solutions to enhance moral hazard management in Vietnamese commercial banks.

Therefore, the thesis topic "*Management of moral hazard in the operation of commercial banks in Vietnam*" was developed to supplement the theoretical and practical research in current conditions of moral hazard management in commercial banks in Vietnam in 2011 - 2017, and propose measures to enhance moral hazard management in Vietnamese commercial banks by 2030

3. Research objectives

To propose solutions to enhance moral hazard management in Vietnamese commercial banks.

For the purpose of this study, the thesis raises questions to be answered, namely:

- What is moral hazard? What is moral hazard management? The content, meaning, model and process of moral hazard management?

- What is the current situation of moral hazard management in the operation commercial banks in Vietnam?

- What are solutions to enhance moral hazard management in Vietnamese commercial banks in the upcoming future?

4. Subject and scope of the study

4.1. Research subjects

On the basis of requirements of the research and the ability to research, the thesis focuses on the main subjects namely "moral hazard", "moral hazard management" and "moral hazard management in Vietnamese commercial banks."

4.2. The scope of the study

- Content: The dissertation focuses on moral hazard management in accordance with international standards

- Space: The dissertation focuses on moral hazard management in the operation of Vietnamese commercial banks with two main entities as The central bank and commercial banks.

- Time: Surveying and analyzing the current situation of moral hazard management in Vietnam's commercial banks in the period of 2011-2017. Solutions to follow the roadmap up to 2030.

5. Research Methods

The thesis has employed the following methods:

Scientific thinking methods: Conducting, interpreting, extrapolating, analyzing, synthesizing, collating, comparing, systematizing and generalizing data collected by the Ph.D student to clarify the basic theory of moral hazard management in commercial banks and the current situation of moral hazard management in Vietnamese commercial banks.

Statistical methods: Primary and secondary data collection related to moral hazard management in Vietnamese commercial banks in the time series from internal reports, reports from state management agencies and direct observation at the transaction office, some branches to collect information and data for research.

Interview method: Interviewing, consulting experts, professional staff and managers at some branches of Vietnamese commercial banks (directly, through email) for more necessary, useful information for the completion of the research.

Questionnaire survey: Distributing the questionnaire on moral hazard management in the head office and branches of Vietnamese commercial banks in Ha Noi, Da Nang, Ho Chi Minh City ... to get information for assessing moral hazard management in Vietnamese commercial banks. The commercial banks selected by the surveyor to ensure the representative standard include: Those with branches of large cities, branches in rural areas, branches with high non-performing loans, branches with low rates of bad debts. Because quantitative models, capital formulas, measurement and risk formulas have been mentioned and acknowledged for accuracy and scientific relevance in previous studies, when it comes to measuring, evaluating, quantifying risk, the Ph.D student does not go into the study of the calculation techniques but inherit the results of related research.

Methods of comparison, analysis and synthesis: Based on data from statistic reports of commercial banks in Vietnam, the author conducted the synthesis, comparison and analysis to assess the situation of moral hazard and moral hazard management in commercial banks in Vietnam in the period 2011 - 2017

Logical reasoning method: From the theoretical and practical basis, especially from the shortcomings, weaknesses and causes at commercial banks in Vietnam on moral hazard management, Ph.D student deduces logic to propose solutions and recommendations to enhance moral hazard management in Vietnamese commercial banks.

6. New contributions of the thesis

- *Theoretically:*

+ Moral hazard management in the operation of commercial banks: Based on the theory of risk in general and business risks in commercial banks in particular, the Ph.D student reasonably acknowledged the basic issues about moral hazard management: forms, causes and the impact of moral hazard are in line with the business activities of commercial banks in the market economy. This is a success in fundamental reasoning.

+ Moral hazard management in business activity of commercial banks. As Moral hazard impacts on a wide scale, with the rapid spread of the damages to many organizations, agencies and customers, the Ph.D student bases on the overall management mechanism to study Moral hazard management in a scientific way. From conceptual studies, management subjects, management tools, management content to Moral hazard management. These issues reflect the principles of risk management, the provisions of the Basel II and associated with business characteristics of commercial banks. Therefore, it can be considered as the basic theory of Moral hazard management in the complete business operation of commercial banks.

- *Practically:*

+ Content and methods of assessment of moral hazard management in business activities of Vietnamese commercial banks.

The dissertation evaluates three main points: the status of the management structure, the current status of Moral hazard management in agencies and in commercial banks. Based on such contents, the dissertation provides quite comprehensive evaluation of Moral hazard management in the management agencies and the commercial banks, which none of dissertations, scientific topics have mentioned.

+ Proposing new solutions:

* Access to international standards in banking inspection and supervision

* Renovating the model of banking management and organization

* Establishment of internal control system associated with risk management

The three new solutions are based on full theoretical and practical science, which have a strong impact on the strengthening of Moral hazard management both on the macro and micro level, so it is highly feasible compared to the published scientific works on this topic.

7. Structure of the thesis

In addition to the introduction, conclusion, structure of the thesis consists of 3 chapters:

Chapter 1: Moral hazard management in the operation of commercial banks

Chapter 2: The current situation of moral hazard management in the operation of commercial banks in Vietnam

Chapter 3: Solutions improve moral hazard management in the operation of commercial banks in Vietnam

Chapter 1

MANAGEMENT OF MORAL HAZARD IN THE OPERATION OF COMMERCIAL BANKS

1.1. MORAL HAZARD IN THE OPERATION OF COMMERCIAL BANKS

1.1.1. Operation of commercial banks

1.1.1.1. The concept of commercial banks

A commercial bank is a monetary trading enterprise that operates primarily and regularly as the one which receives deposits from customers; lends deposits, discounts and provides services to customers in the national Economy.

1.1.1.2. The operation of commercial banks

Like other business organizations, commercial banks operates for profit purposes but in the special business sector: currency trading, the inevitable demand of the market economy, banks are constantly increasing the portfolio of products to meet the increasingly diverse needs of the customers, using effective capital and gaining high profits. However, these activities basically can be arranged into one of the following three groups: Capital mobilization; Usage of capital; Providing financial services

1.1.1.3. Operational features of commercial banks

Firstly, commercial banks are intermediaries in the economy for the purpose of making profits

Secondly, commercial banks must comply with the law

Thirdly, commercial banking is a form of high risk business with fierce competition

Fourthly, commercial banks have large scale, wide scope of operation

Fifthly, diversified financial products and customers

Sixthly, sales figures are large

1.1.2. Risks in business activities of commercial banks

Risk means differently for different people and the concept of risk also changes with different attitudes, opinions and experiences. Risk is "the possibility of something that affects the goal"

1.1.2.1. Types of risks in business activities of commercial banks

The types of risks in business operations of commercial banks include credit risks, interest rate risk, operational risk, moral hazard, systemic risk, external risks, legal risks...

1.1.2.2. Risk management in business activities of commercial banks

Risk management is a process backed up by resources to cope with the threats by monitoring and controlling the potential and / or impact of threats or finding the actualization of opportunities.

1.1.3. Moral hazard in the business operation of commercial banks

1.1.3.1. Concept

Moral hazard is an economic and financial term used to refer to the risk that occurs when the ethics of the economic agent are degraded;

Moral hazard is a kind of market failure that occurs in an asymmetric information environment;

Moral hazard is a matter of information disparity that occurs after the transaction. Moral hazard occurs when the dominant party understands the asymmetric information situation between the parties to the transaction and naturally forms the motive for action to benefit itself regardless of the action that may be harmful to it.

1.1.3.2. Forms of moral hazard

The manifestations of moral hazard include: moral hazard by clients and moral hazard by the bank

1.1.3.3. Causes

Firstly, moral hazard exists due to the loss of control, the lack of lending policies, the lack of clear standards, the lack of strict and scientific control from the banks.

Secondly, moral hazard in banking business arises from the ignorance of bank executives.

Thirdly, the lack of supervision by government agencies, shareholders and depositors.

Fourthly, moral hazard of financial institutions emerges from the very backing assistance of the government to help large financial and credit institutions escape the collapse, which is one of the reasons organizations This implements the investment behavior that hides moral hazard.

Fifthly, other causes

1.1.3.4. Impacts of moral hazard

To commercial banks

Firstly, moral hazard damages the operation directly

Secondly, moral hazard leads to a decline in credibility in the bank's business

To the economy

Thus, it can be said that the harm caused by moral hazard is serious to the economy in general and to the banking system in particular.

1.2. MORAL HAZARD MANAGEMENT IN BUSINESS OPERATION OF COMMERCIAL BANKS

1.2.1. Concept

Moral hazard management is the use of a system of policies and measures to identify, measure, control, and monitor risk in order to minimize possible hazard and response when moral hazard actually occurs.

1.2.2. Regulators

Business banking is always placed under a strict regulation system issued by the government and state agencies to control banking activities. As such, the implementors of moral hazard include: (1) Macro Management Authority (2) Commercial banks

1.2.3. Factors affecting moral hazard management

In this content, the Ph.D student mentions two groups of factors that belong to the regulator and the factors belonging to commercial banks.

1.2.4. Process and content of moral hazard management

1.2.4.1. Process of moral hazard management

a. Horizontal administration

At present, there are many risk management models in the world, however, the proposed 3-line IIA defensive line model, the First Defensive Route, is built into standard procedures, with real controls presented by staff in departments; Second defense line: Compliance department; Third defense line: Internal audit

b. Vertical Risk Management

Identifying the risk factors for prevention, there are seven steps:

Step 1: Specify the entire system of the enterprise and the operating environment; Describe these instructions in detail on the document.

Step 2: Based on detailed descriptive documentation, seek to identify possible threats from inside and outside the system.

Step 3: Based on detailed documentation, find ways to identify vulnerabilities through which risk can penetrate the system.

Step 4: Based on the results of Steps 2 and 3, combine risk and vulnerability to form a list of potential risks.

Step 5: With each risk the possible controls should be put out.

Step 6: Based on the actual situation, select one or some of the most feasible controls.

Step 7: Plan the implementation of controls or troubleshooting plans.

1.2.4.2. Content of moral hazard management

a. Content of moral hazard management in Government agencies

The issue of moral hazard management is not only a managerial role in business activities of each commercial bank but also issues of the macro level such as the State Bank, the financial inspectors, the state audit, State inspectors.

b. Content of moral risk management in commercial banks

In commercial banks, the content of moral hazard management is as follows: Comply with the principles of corporate governance; To set up internal control and audit systems; Conditions for credit extension and implementation of investment activities; Loan security requirements; Provisions on loan appraisal and approval, supervision and recovery of loan capital; Incentive policies

1.2.5. Tools of moral risk management

The state bank of Vietnam, commercial banks have to use a lot of different tools:

- The legal framework, system of policies and legal documents of the State and the Government; SBV's decisions, regulations and guidelines for all business lines in the banking business.

- Approving policies, regulations, regulations, procedures and documents guiding the implementation of commercial banks in terms of business operations in accordance with the SBV and the law.

- The internal control and audit system of commercial banks

- Independent auditing reports of auditing companies qualified for commercial bank auditing in accordance with the law.

- The most important tool is through the central bank's banking inspection and supervision agency, from the combination of remote monitoring and on-the-spot inspections.

1.3. INTERNATIONAL EXPERIENCE ON RISK MANAGEMENT IN BANKING ACTIVITIES - LESSONS FOR VIETNAM

In this thesis, the author deals with the experiences of the 1980s crisis of lending and savings, the experience of the Asian financial crisis in 1997, the experience of the subprime debt crisis of 2007 ... to draw lessons for Vietnam in moral hazard management.

CONCLUSION OF CHAPTER 1

The contents of Chapter 1 outline the basic issues of moral hazard in business operation of commercial banks including the nature of moral hazard, classification, causes and impact of moral risk management on the operation of the bank. An important content in this chapter is the moral risk management, clarifying the concept of moral risk management, the need for moral risk management, the content of moral risk management, including awareness, evaluation, analysis, control and deal with moral risk management. In order to have a comprehensive view on moral risk management, the author has studied the experience of moral risk management in some countries in the world with highly developmental level or those with the same economic condition as Vietnam to draw lessons for the commercial banking system in Vietnam.

Chapter 2

SITUATION OF MORAL HAZARD MANAGEMENT IN BUSINESS OPERATION OF VIETNAMESE COMMERCIAL BANKS

2.1. OVERVIEW OF BUSINESS OPERATION OF VIETNAMESE COMMERCIAL BANKS

2.1.1. History and development of the commercial banking system in Vietnam

In this content, the thesis summarizes the formation and development history and basic indicators of Vietnamese commercial banks. Up to December 31st, 2017, commercial banks in Vietnam include 39 banks (4 state owned commercial banks, 31 joint stock commercial banks and 4 joint venture banks.)

2.1.2. The operational system of commercial banks in Vietnam

Vietnam's commercial banks are governed by the State Bank of Vietnam, consisting of two groups, state-owned commercial banks and joint-stock commercial banks. For the state-owned commercial banks basically carried out equitization according to the roadmap, the organizational structure of each specific commercial banking system was identical to that of the commercial joint stock banks.

2.1.3. Situation of operation of commercial banks in Vietnam

2.1.3.1. Mobilizing capital

In the period of 2013 - 2017, the capital mobilized from these commercial banks has increased over the years, the market share of capital mobilization of commercial banks in Group 1 still occupied a high proportion in the banking market. The capital mobilized from each bank in group 1 was about three times higher than that of banks in group 2 and 15 times in banks in group 3.

2.1.3.2. Credit activities

In Vietnamese commercial banks, the loan portfolio is a major item in bank assets. Normally, this item accounts for about 50% of assets of banks. The outstanding credit balance of commercial banks of group 2 and 3 is not as high as Group 1.

Credit quality is a determining factor for a bank's income because credit is the principal use of the bank's capital. As the credit quality of the bank increases, the bank's income will be guaranteed and vice versa. The period 2013 - 2015 is the period of the whole banking system "steady" to deal with bad debts

2.1.3.3. Profitability

Table 2.12: ROA ratio of some commercial banks in Vietnam 2011 - 2017

Unit: %

Ratio	ROA						
	2011	2012	2013	2014	2015	2016	2017
VCB	1,50	1,25	1,13	0,99	0,88	0,94	0,88
VietinBank	1,51	1,70	1,40	1,20	1,00	1,00	0,84
BIDV	0,83	0,74	0,78	0,83	0,79	0,67	0,58
ACB	1,32	0,34	0,48	0,55	0,54	1,32	0,93
MB	1,71	1,20	1,18	1,30	1,28	1,47	1,47
SHB	1,23	1,80	0,65	0,51	0,43	0,63	0,67
NCB	0,78	0,01	0,07	0,02	0,02	0,02	0,03
KienlongBank	2,21	1,90	1,50	0,80	0,70	0,60	0,54
Agribank	0,33	0,55	0,35	0,33	0,33	0,34	0,35
Sacombank	1,44	0,68	1,50	1,31	0,22	0,02	0,34

Table 2.13: ROE of some commercial banks in Vietnam 2011 - 2017*Unit: %*

Ratio	ROE						
	2011	2012	2013	2014	2015	2016	2017
VCB	17,08	12,60	10,33	10,76	12,03	14,69	17,33
VietinBank	26,83	19,90	13,70	10,50	10,30	11,80	14,44
BIDV	13,20	12,90	13,08	15,27	15,50	14,70	17,74
ACB	27,49	6,40	6,58	7,60	8,17	20,73	16,57
MB	22,96	20,49	16,25	15,62	12,75	11,91	15,59
SHB	15,04	21,99	8,56	7,59	7,32	7,61	13,11
NCB	6,35	0,07	0,58	0,25	0,20	0,19	0,68
KienlongBank	11,42	10,2	9,0	5,20	4,90	3,60	5,68
Agribank	6,88	9,86	6,04	5,64	6,18	6,88	7,56
Sacombank	14,60	7,15	14,5	13,21	2,72	0,35	5,20

2.2. SITUATION OF MORAL HAZARD MANAGEMENT IN THE OPERATION OF COMMERCIAL BANKS IN VIETNAM

2.2.1. Situation of moral hazard in the operation of commercial banks in Vietnam

2.2.1.1. The process of accessing moral hazard in Vietnam

Since the early 21st century and especially after a series of bankruptcies of US banks in 2008, moral hazard issues have been highly evaluated and built as one of the pillars to ensure sustainable development of the bank by commercial banks around the world.

At some commercial banks in Vietnam, typically BIDV (classification of risks in banking operations under Basel II into three main risk categories: credit risk, market risk and operational risk), and moral hazard is understood as a risk coming from the human factor.

Most banks in Vietnam do not have a department managing moral hazard, some small joint-stock banks have only one section of risk management. Some other banks started to learn about moral hazard but not all banks have the same system of moral hazard management. Some large commercial banks such as BIDV, Vietinbank, Techcombank, Maritime Bank, VIB already have a division of moral hazard management. Other banks started negotiating with foreign auditing firms to develop moral hazard management policy at the bank. Maritime Bank has officially introduced Kondor + system by Thomson Reuters to operation in risk management

2.2.1.2. Situation of moral hazard at commercial banks in Vietnam

The situation of moral hazard in the banking sector in Vietnam is very complex, with the increasingly sophisticated nature, scale, tricks. Moral hazard is increasingly diverse, including both Vietnamese and foreigners, operating in the country or transnationally.

On considering the 50 criminal cases that have been tried in the 2011-2017 period, typical ones relating to moral hazard in trading activities of Vietnamese commercial banks, we can see:

According to the banking profession, in 50 cases we have: Credit business accounted for more than half of cases 54% and similarly accounted for more than half of 51%. In terms of deposits, this accounted for a quarter of the 24% of cases, losses were up to 44%, with losses on credit operations. So sometimes we just focus on the management of credit business but forget to manage the deposit business ...

According to the economic sector, out of 50 cases, 31 state-owned commercial banks accounted for 62% of cases and accounted for 53% of damages. This is also a case when state-owned commercial banks make up a large proportion of lending and mobilizing capital in the whole national economy.

The dissertation outlined tricks of the defendants in the total of 50 studied cases, showing that 11 cases used tricks to fake seal signature. The percentage of these cases was only 32%. But losses on money were worth up to 9,824. Because of this situation, the rate was very high at 89%. This shows that in banking operations, the management of sealed documents remains extremely important. Recent cases have also shown that the use of fake signature seals has resulted in the defendants taking huge sums of money.

In fact, one of the difficulties in investigating and dealing with crimes of ethical violations that lead to risks in the banking sector is the crime of delinquent criminals. Some bankers take advantage of their vested powers to commit criminal offenses. Criminal offenses are very sophisticated such as the creation of fake documents, false papers, forgery of customers' savings deposited in order to embezzle or deceive.

Because qualified offenders often seek to hide the crime, to destroy evidence, to use a variety of tricks to deal with management agencies and organizations conducting legal proceedings. Due to the relationship with many leaders, when the tricks were discovered, investigated through many "complex" relationships escape the crime. These subjects have made it difficult to investigate and prosecute

2.2.2. Current situation of moral hazard management in operation of Vietnamese commercial banks

2.2.2.1. Situation of structure of moral hazard management

Moral hazard (Basel II) is defined as the risk of loss due to inadequate or inoperating processes, human and internal systems, or external events. The "human factor" referred to here is the banker, the risk to the bank can come from their morality.

In Vietnam, most commercial banks have established the moral hazard management division in "risk management". This unit is responsible for general management of issues related to moral hazard, not classified as management units. The moral hazard management part will report directly to the Deputy CEO in charge of risk management.

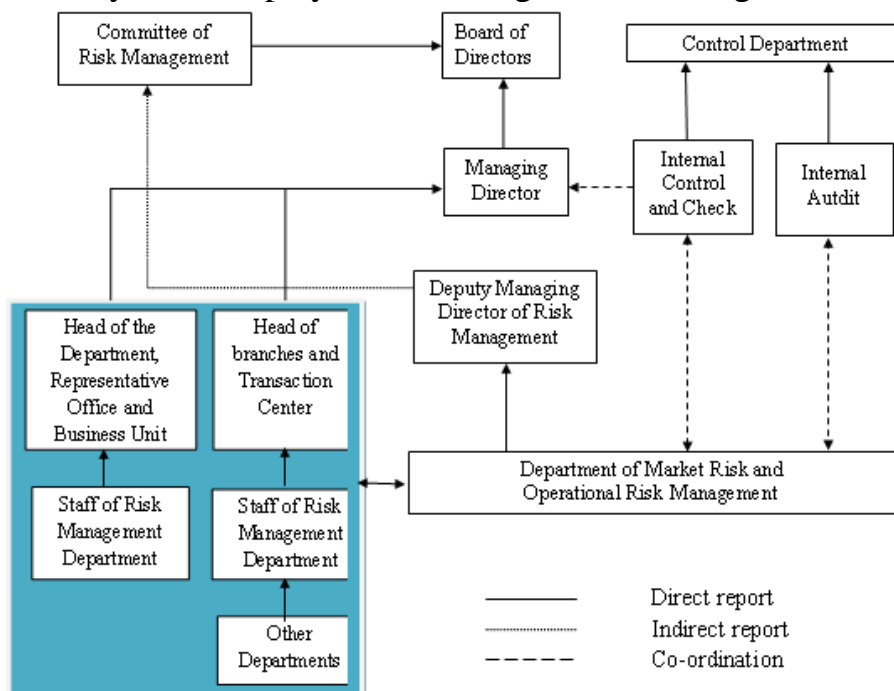


Figure 2.3: Organization Structure of Market Risk and Hazard Management

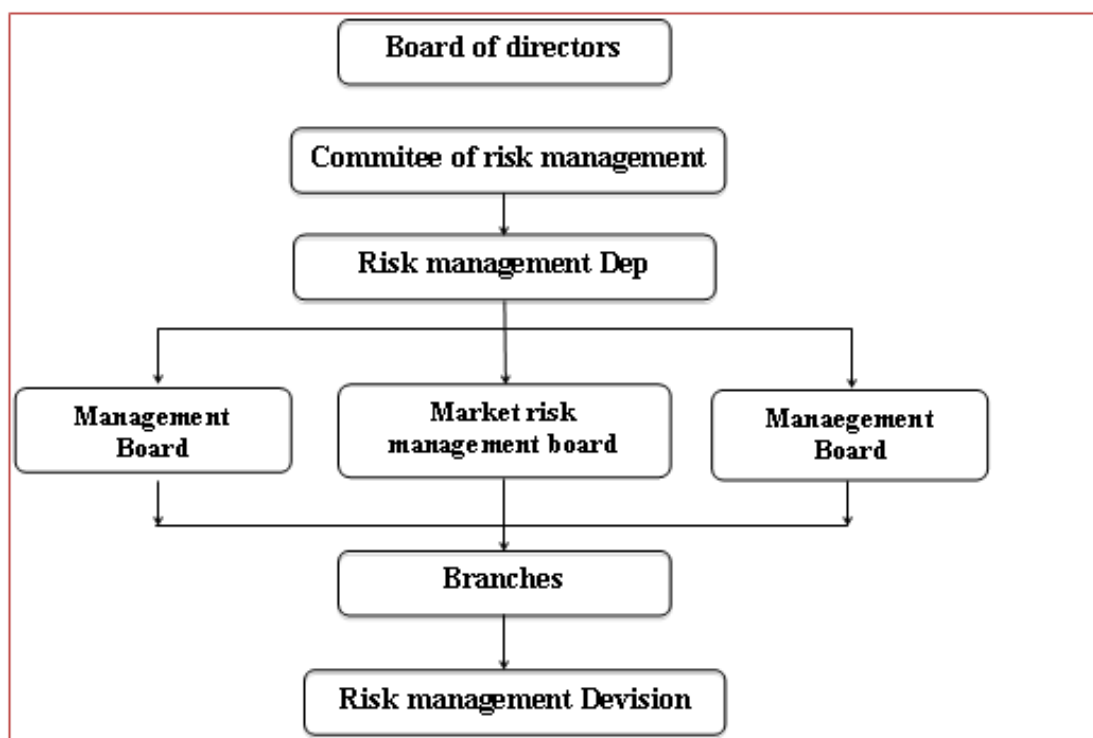


Figure 2.4: Risk management structure at some commercial banks

2.2.2.2. Status of moral hazard management by the SBV

According to the Law on the State Bank of Vietnam, "the SBV performs the function of state management of monetary and banking activities", "operation of the SBV is aimed to stabilize the value of money; Ensure the safety of banking operations and the system of credit institutions. " In the organizational model of the SBV, the task of ensuring the safety of banking operations is entrusted to the Supervising Inspection Agency, because "banking inspection and supervision is aimed at contributing to ensure the safe and healthy development of the banking sector. Strengths of the system of credit institutions and financial system; protect the legitimate rights and interests of depositors and customers of Credit Institutions (CIs); maintain and raise public confidence in the system of CIs; to ensure the observance of monetary and banking policies and legislation; contributing to improve the efficiency and effectiveness of state management in the monetary and banking sector ".

The management of moral hazard in banking activities of the Banking Inspection and Supervision Agency is reflected in the following contents: Regarding the regulation on licensing the establishment and operation of banks; On the minimum capital level; On other controls: controlling interest rates, limiting lending to investment, limiting growth, transparent disclosure ...; On the issue of limiting cross-ownership

2.2.2.3. Status of moral hazard management at commercial banks

a. Status of moral hazard management regarding professional issues

In fact, the commercial banks in Vietnam always pay attention to the professional level of the bank staff, focus on risk management, especially moral hazard, when professional expertise of the bank management team, moral hazard of other related subjects will be detected in time. In reality, over the past few years, the lack of professional skills rarely causes the loss of property, only 4 out of 50 cases, accounting for 8% but causing damage more than 1 billion, accounting for 9% of total damage.

b. Current status of moral hazard management through interest rate tool

High interest loans are not base in an economy. The user of the capital is prone to loss due to the cost of using the capital since it is not possible to pay back the lender. On the other hand, high interest rates are lucrative for those who raise capital and commit fraud.

c. Current status of moral hazard management through control of tricks

First of all, in these cases it is necessary to draw a triage to set up many companies to deceive: they need to control the dossier on the establishment of the company, controlling the purchase documents, regularly checking the security assets related to debt financing is also a way for banks to reduce risks.

d. Current status of moral hazard management by improving the ability to assess loan management

Banks may be able to exercise control over the Core Banking system to find out which branch outperforms any client. Although being authorized to lend, the head office of commercial banks should perform regular checks on all arising transactions.

e. Current status of moral hazard management through signatures, seals

Headquarters should not be authorized to transaction offices to directly sign loan contract. Transaction offices should focus on mobilizing customer deposits and savings from individuals. The signature control is also important, treasurers and accountants strictly control the signature.

f. Current status of moral hazard management through asset management, borrowers

State agencies should make a definitive decision on asset certificates, customer management

g. Current status of moral hazard management through the management of savings books, late payment

In the long term, to limit the moral hazard, commercial banks have focused on the risk management in banking business, the issue of moral hazard is related to the human factor, so in order to manage this issue, operational risk should be managed.

2.3. EVALUATION OF MORAL HAZARD MANAGEMENT IN BUSINESS OPERATION OF VIETNAM COMMERCIAL BANKS

2.3.1. Achievements

2.3.1.1. The state bank of Vietnam

Firstly, the regulations on prudential ratios in the operations of credit institutions have been issued

Secondly, using administrative measures

Thirdly, the inspection and supervision work has been carried out drastically

Fourthly, the SBV's inspection and supervision also pointed out errors and mistakes

2.3.1.2. Commercial banks

Vietnamese commercial banks have focused on risk management in banking business. With respect to moral hazard, some banks have started to implement risk management in a practical way:

1. Establish a specialized unit for risk management
2. Develop operational risk management policies and procedures
3. Develop operational risk assessment indicators and initially develop a database of operational risk losses

4. Perform periodic self-assessment, self-assessment.
5. Pay more attention to the training and development of human resources
6. There are strict measures to deal with violations of moral hazard
7. Changes in organizational model and internal process improvement in the direction of separating the functions of business, risk and operational to avoid conflicts of interest between functions and limit immoral behavior in managers and bank staff

2.3.2. Limitations

2.3.2.1. On the management side

Firstly, the ability of detecting and dealing with violations of the inspection bodies for banks is not high

Secondly, the capacity of inspection bodies to prevent and prevent violations of banks is still limited

2.3.2.2. On the side of commercial banks

Awareness of the importance, content and principles of corporate governance of many commercial banks is not sufficient

Internal controls, internal audit in banks are still limited

Performing business process, inspection, internal control of market discipline is not serious

The banking sector's information has not been transparent:

Information system for rating customers:

Unassigned staff and professional qualifications:

2.3.3. Causes

2.3.3.1. Causes on the management side

Firstly, the organizational model of the bank inspection has many inadequacies, not suitable features

Secondly, the regulatory framework for banking inspection has many deficiencies

Thirdly, resource constraints are a barrier to innovation and improved efficiency in banking inspection and supervision.

Fourthly, the infrastructure supporting effective banking supervision and supervision has not been ensured

Fifthly, the contents and methods of inspection and supervision are slow to be reformed

Sixthly, lack of effective information exchange and coordination mechanism

2.3.3.2. Causes on the side of commercial banks

- *Due to awareness, management skills and leadership*

- *Data is not complete and transparent*

- *Limited IT infrastructure*

- *Inadequate management models, processes and plans*

CONCLUSION OF CHAPTER 2

Based on the basic problems of moral hazard management mentioned in Chapter 1, the Ph.D student assessed the situation of moral hazard management in business activity at commercial banks in Vietnam in the period of 2011 - 2017. Based on this, the achievements, limitations and causes are figured out. The research results of chapter 2 are the basis for the solution proposal in chapter 3

Chapter 3

SOLUTIONS TO PROMOTE MORAL HAZARD MANAGEMENT IN OPERATION OF COMMERCIAL BANK IN VIETNAM

3.1. ORIENTATION TO PROMOTE MORAL HAZARD MANAGEMENT IN OPERATION OF COMMERCIAL BANK IN VIETNAM

3.1.1. Strengths, weaknesses, opportunities and threats in moral hazard management

3.1.1.1. Strengths

Currently, only few banks have applied centralized credit management. In particular, the head office strictly controls the credit records, the credit control staff was granted the right to organize and especially the right to disburse disbursement which can limit many cases of moral hazard.

One of the strengths of the moral hazard management system is the active research and application of international standards and practices into the operation. Many banks have been studying to apply the Basle II and Basle III standards. With the spirit of ahead, the application of world practices to general risk management and moral hazard management in particular has been improving rapidly in recent years.

3.1.1.2. Weaknesses

- Inconsistency in the moral hazard management approach of banks
- Difference in approaches between Vietnamese commercial banks and international banks
- The system of software tools and technologies for moral hazard management is still very rudimentary
- The technology system in service of moral hazard management has not been promoted due to inadequate database system.
- Human resources of banks need to be paid more attention
- The reassessment of banks should be strengthened
- The current staff in charge of moral hazard management has not met the demand

3.1.1.3. Opportunities

With the integration of Vietnam into the international market, a lot of auditing companies, law and policy consultants have been approaching the Vietnamese market, bringing with them the skills of moral hazard management and management of general banking. Currently many companies have been introducing their products to Vietnamese banks (eg GBRW, Signpost, Dion ...).

The growing interest of managers, leaders that has arisen at the bank will force banks to pay close attention to the risk management activities, thereby overcoming the weaknesses.

3.1.1.4. Challenges

In Vietnam, due to the lack of strict and overlapping legal system at present, the biggest challenge for the moral hazard management systems is the risks stemming from human fraud both inside and outside the bank. The complexity of the assets and reputation of the bank are often difficult to detect.

3.1.2. Orientations for development of Vietnam's commercial banking system up to 2030

In the coming time, the world economy will continue to recover but with many complicated and unpredictable developments. With the opening of the economy, the developments of the world economy will have the effect of intermingling the opportunities and challenges to our economy in general and the banking system in particular. Deepening the spirit of the resolution of the party congress, the banking sector has set the development orientation of the banking system in Vietnam which is to develop a modern banking system, versatile, reaching the average advanced level in the region, It has a large scale of operations, healthy financial status and international competitiveness with local banks. Developing a safe and effective commercial banking system in Vietnam based on advanced technology and management, application of international standards and practices on banking operations, enhancement of capability and efficiency of management, including risk management.

3.1.3. The orientation for strengthening moral hazard management in operation of Vietnamese commercial banks until 2030

- To consolidate the inspection and supervision of banking activities, to strictly control the operation quality of credit institutions so as to take measures to deal with violations and problems arising in order to ensure stability. Assist the system and support CIs to develop safely and sustainably.

- To improve the quality and technical infrastructure of information technology and payment activities; expanding the forms of payment through bank and non-cash payment, completing the legal framework on payment activities in the economy, diversifying and improving the quality of payment services.

- To renovate the training, fostering and synchronizing policies on human resource management to improve the capacity to perform professional tasks of staff and develop high quality human resources in banking sector.

- To focus on effective implementation of administrative reform, promoting information and communication, transparency of monetary and banking activities.

3.2. SOLUTIONS TO PROMOTE MORAL HAZARD MANAGEMENT IN COMMERCIAL BANKS

3.2.1. Group of macro solutions for regulatory agencies

3.2.1.1. To improve the legal framework for supervision and inspection activities

The objective of the banking supervision and inspection is to ensure the maintenance of a stable and healthy development of the financial system and the protection of the interests of investors and depositors. To achieve these objectives, the inspectors often uses tools such as management tools, monitoring tools, "market discipline" tools ... tools, functions and violations, the operation of the supervisory authority must be clearly defined in the law, creating a prerequisite for effective and non-overlapping supervision.

The legal system is the first factor that greatly affects the effectiveness of supervision by the banking supervisory board, because the provisions of the law on supervision are the legal basis for the regulatory agencies' ability to achieve clear goals as prescribed. Effective banking supervision requires an appropriate regulatory framework for monitoring, which includes provisions on monitoring objectives, establishment licensing and regular

monitoring activities. The right to handle the lawfulness and the issues of safety and efficiency of financial institutions should be acknowledged.

In reality, the legal framework for banking inspection and supervision in Vietnam is not in line with the requirements of renovation and modernization of the banking inspection and supervision system in accordance with international practices and standards. The organization and operation of the banking inspectorate are governed by the Law on Inspection, the Law on State Bank and the Law on Credit Institutions and the system of by-laws, which regulates banking supervision. However, all three laws do not have enough regulations in line with the nature of the banking sector's inspection and supervision activities, and there are no strong legal bases for the application of inspection and supervision methods. Risk-based (the law on inspection only regulates compliance inspection). Inspection Law provides general regulations on the organization and operation of state inspection agencies and there are no specific regulations to apply to specialized inspectors while the Law on State Bank and Laws of Credit Institutions do not specify the nature, contents of specialized banking inspectorate.

3.2.1.2. Strengthen the effectiveness of inspection and supervision agencies of the State Bank of Vietnam

The effectiveness of the banking supervisory authority is the level of implementation of the supervisory objectives and the ability of the supervisory authorities to address the issues set forth by the supervisory authority. The effectiveness of monitoring is high or low, depending on how the monitoring body performs its monitoring function in accordance with the law, as well as the conclusions reached from the monitoring activities of the agencies and organizations. Individuals and organizations strictly or not. In order to be effective, monitoring activities need to be of good quality, meaning that the right conclusions should be drawn, and the need for strict observance by the supervised actors of the results. Suggestions are drawn right from the monitoring. In addition, there should be measures to deal with those who do not strictly comply with the proposed conclusions.

Regularly monitoring the effectiveness of supervision, through which appropriate adjustments will help the monitoring and inspection activities achieve the objectives set out:

- (i) Maintain the stability of the financial system,
- (ii) Ensure the safety and soundness of financial institutions,
- (iii) consumer protection,
- (iv) Ensure the effectiveness of the financial system.

Assessment of the effectiveness of the inspection may be carried out according to the following criteria:

Group of Compliance Indicators: This group of indicator represents the level of compliance of financial institutions with regulations, monitoring regulations and the ability of financial supervisors to handle violations. Some financial indicators include: *Number of violating organizations; Number of organizations to be handled / Number of offending organizations; The ability of financial watchdogs to prevent unqualified stakeholders from participating in the market.*

Group of safety indicators: This group of indicators shows the results of the implementation of the objectives of the inspection and supervision agency: the level of safety and efficiency in the operation of the financial system and the protection of the

rights of lender. Thus, the effectiveness of the banking supervision and inspection agency will be reflected in the operational safety of the financial system. It can be assessed through the following main criteria: *Number of credit institutions collapsed each year; The number of times to act urgent assistance for credit institutions in a certain period; bad debts, outstanding loans of credit institutions / year; Capital adequacy ratio of CIs*

Customer Satisfaction Criteria: *Percentage of customers complaining or inquiring divided by the total number of customers of the financial institution.*

3.2.1.3. Approaching international standards in banking inspection and supervision

In 1997, the Basel Committee issued a set of revised Core Principles for Effective Banking Supervision (2006) to provide a framework for the system of effective banking supervision. The 25 Basel Core Principles are documented for agencies conducting banking supervision in countries and internationally. The basic rule covers a number of major content groups. In particular, there are groups of regulations on banking inspection and supervision as follows:

- Principles in the subject cluster on safety regulations and requirements (principles from 6 to 15). The main content of the rule group is to set the standards that banking supervision specialists are required to perform and to be aware of in their operations such as the requirement for capital adequacy for banks. Identify which areas of the bank capital are at risk; evaluating policies, practices, loan procedures, investments, current control over loans and investment records; assess asset quality and appropriateness of the provisions against losses and loan loss reserve funds.

- The core principles of banking supervision are now included in Principle 16: Rule 16, which sets out the requirements for a banking supervision system. Effective including the form of remote monitoring and inspection in place.

International Treaty on Basel II (Basel II) was enacted in 2004 with a new approach based on three pillars:

- (1) minimum capital requirement on Basel I basis;
- (2) Strengthening the monitoring mechanism, especially the bank's risk assessment;
- (3) Compliance with market discipline. The second pillar emphasizes the role of risk-based supervision

3.2.1.4. To train human resources for professional banking supervision and inspection

At present, the capacity of staff in the inspection system is limited compared to the need to secure the operation of the financial sector. Basically, the inspectors are not able to use the verification model and examine the effectiveness of the risk management model of financial institutions. In addition, as noted by some experts in the banking and finance industry, the supervisory culture as well as the inspector's on-the-spot inspector motivation is weak. The constraints on human resources of banking supervision and supervision will be further increased if the issue of human resource training and development is not properly addressed. The basic requirements for banking inspection and supervision are to master macroeconomic knowledge, knowledge of banking and finance; in-depth banking supervision on the basis of risk; the skills of each job; proficiency in foreign languages and computer software are considered as 2 tools to support professional work.

3.2.1.5. Build up information technology system to support inspection activities

Firstly, the supervisory authority must be able to collect the information and data necessary for surveillance at any time. In addition, the establishment of an informative, systematic data collection process also greatly reduces the burden on supervisors, as well as the cost of paperwork for monitoring.

Secondly, ensure the uniformity of technology, ensure prudence and step by step

Thirdly, ensure that data is managed efficiently, build databases, and optimize data analysis.

3.2.1.6. Complete the legal corridor

The SBV should issue additional documents to help the SBV take more initiative in managing and ensuring the safety of commercial banks and credit institutions.

Firstly, the issuance of the "Regulations on Risk Management at Credit Institutions" stipulates that CIs must establish and operate risk management and apply risk-minimizing activities to CIs, focusing on managing at least four the principal risk

Secondly, to improve the "Regulations on safety ratios in the operation of credit institutions" to reach international standards, in which the minimum capital adequacy ratio should include additional capital requirements of credit institutions. must maintain two types of operational risk and market risk.

Thirdly, in the restructuring plan of the Vietnamese banking sector, the SBV may consider introducing specific corporate governance rules for CIs based on Basel Committee, OECD Principles and Other international organizations, supplementing the existing laws and regulations related to banking administration.

Fourthly, to impose strict sanctions on credit institutions that have committed violations, violated the laws and regulations of the SBV.

Fifthly, to promulgate documents guiding the application of international accounting standards on presentation of financial statements and explanations of information.

3.2.1.7. Stabilize the interbank currency market

Continuing to maintain the monetary market discipline in general and the interbank market in particular, creating a healthy, competitive and favorable environment for the operation of commercial banks as follows:

(1) Continue adjusting refinancing interest rate, discount interest rate, basic interest rate, open market interest rate and mobilized deposit interest rate in a direction that reflects closely the signal of supply and demand on the market.

(2) Based on safety standards for prudent assessment, clearly identifying unsound commercial banks, excessive capital growth rate, excessive credit growth, Loans, usually based on short-term loans in the interbank market

(3) Strictly follow financial discipline, avoid creating bad beliefs for commercial banks on concessions of the State Bank whenever there is instability in the operation.

(4) It is necessary to establish a systematic linkage between commercial banks to ensure payment safety and create a healthy competitive environment.

(5) Strengthen coordination with ministries and branches in the management of monetary policy with fiscal policy and investment policy, improve the quality of analysis and forecast of domestic financial - monetary and international.

3.2.2. Micro solutions at commercial banks

3.2.2.1. Strengthening corporate governance and risk management culture in banks

In order to limit moral hazard in banking operations, commercial banks should apply governance structures, processes and standards in combination with rational allocation of responsibilities, while paying attention to the quality of supervision and control.

Principle 1: The board of directors is responsible for all banking operations including approving and monitoring the implementation of the Bank's strategic objectives, risk management strategies, enhancing corporate governance and lifting corporate governance. high value company. The Board is responsible for overseeing the management.

Principle 2: Board members should and should require standards, including training for their position. They need to have a thorough understanding of their governance role in the bank and can assess the bank's financial goals and financial position.

Principle 3: The Board of Directors should define appropriate governance practices for the work of the Board and have the means to ensure that performance is monitored and periodically reviewed for continuous improvement.

Principle 4: Banks must have adequate information systems to measure, monitor, control and report risk. Risk reports must be promptly implemented and reported to the Management, Board of Directors, and relevant departments.

3.2.2.2. To tighten the process of management, strengthen the system, improve the structure of risk management

By issuing strict and scientific regulations and procedures; Strict control policies, regulations, and control systems are in place to prevent the exploitation of gaps for the benefit of both customers and bankers. To modernize risk management by modern methods, it is necessary to renovate the methodology as well as improve the mechanism and policies concerned.

For the risk management policy, banks should formally formulate and specify the following: The purpose of the policy is to define the content to be implemented in order to limit and control risks. The Specifying the divisions and individuals responsible for the risk management decisions; Establishing a comprehensive risk measurement system; Identification of risk limits acceptable to the bank for the entire business of the bank; To define the strategies, measures and risk-prevention tools that the bank can use; Determine the method of assessing the extent of damage that may occur in a market environment where there are bad fluctuations beyond the initial expectations of the bank; Prescribes the establishment and use of risk reports.

3.2.2.3. Renovating the organizational model of banking management

Improving the organizational model is an indispensable requirement for modern commercial banks. In the challenge of the risk of competition from foreign banks, Vietnamese commercial banks need to reform vigorously and comprehensively so that their organizational structure and management approach to new international practices can take the initiative. Receive capital, technology, technology, management experience to serve effectively for the development and stand firm in the competition. For Vietnamese commercial banks, the reform of the organization model is to restructure the departments at the head office to meet the change and strengthen the risk management in the modern banking model. The current trend, the organizational model of commercial banks should

focus on customers and products (vertical) instead of Branch (horizontal) as before restructuring so that each group of customers, products is actively managed by a unit and this unit is responsible for profitability, product life cycle development and customer relationships, as well as controlling the level of risk in limit threshold acceptable for the customer and the product.

In particular, the organizational model of banks must meet the risk management requirements of the Bank's operations in the principle that its products and business processes are separated by three functions: Front Office, Middle Management and Back Office. The risk management function is designed to be in the business process, therefore the risk management will be the approval before the actual business operation, not the process of monitoring after the real business incurred.

3.2.2.4. Strict adherence to disclosure and transparency to improve market discipline

The Basel II based on 3 main pillars requires banks to disclose information adequately, fully and transparently in accordance with market principles. With this pillar, Basel II issued a list of requirements forcing banks to disclose information, from information on capital structure, capital adequacy, to information regarding sensitivity. The bank's exposure to credit risk, market risk, operational risk, and bank assessments for each type of risk.

Close disclosure of information will help managers and depositors supervise commercial banks, helping to reduce or stop the motivation to carry out venture capital activities, limit moral hazard of commercial banks. The disclosure of information should note the following:

- + Announcing information on financial results and operation of banks
- + Publishing information on risk factors

3.2.2.5. Establishment of internal control system associated with risk management and practical conditions

Internal control must be the tasks of everyone, at all stages of work: strengthening internal control through cross-checking and mutual monitoring.

- Building corporate culture, setting up a special control system for behavior in the bank's operations, and letting it operate effectively effectively prevent the introduction of a control system. in a formal way.

- Place posters at the transaction points; set up a hotline to receive fraudulent information; Use modern software to test the logic in every business to give early predictions...

Periodically, the internal audit department checks the performance of all departments and finally the risk management team meets monthly to discuss and address the operational risk issues of the bank.

3.2.2.6. Developing human resources with high qualification and moral qualities

Recruiting, employing, training high-quality human resources should be in accordance with capacity; To have appropriate and reasonable remuneration policies for employees: Ethics must be considered as a prerequisite criterion for recruitment.

Banking is a highly transparent and professional field. Therefore, banks need to focus on the recruitment and training of high quality human resources - ethics education - because low-quality human resources not only affect the efficiency, business objectives but also involves big moral hazards.

In the process of employing, the bank has adequate remuneration policy through the accurate assessment of different values of bank staff and the results of striving to help them have the motivation to bring into full play potential. It also contributes to preventing misbehavior for personal gain.

The commercial banks should pay special attention to the recruitment, training and retraining of personnel. In recruiting, commercial banks need to select candidates who not only have high professional qualifications but also have good moral qualities appropriate to the culture of the business. Ethics must always be considered a prerequisite in the recruitment process

3.2.2.7. Solutions to improve incentive system for employees

Rule II of the BIS: Employee Reward Policy should be prudent and appropriate to the risks: Compensation / reward must be adjusted for all risks; Compensation / reward plan should be flexible in line with sensitive times of risk; and cash, stock and other forms of compensation / reward must be consistent with the risk policy.

In fact, the incentive policy has always been a fundamental issue in motivating employees to devote and work more effectively, limiting moral hazard behavior. A good incentive policy can be a leverage to improve productivity, quality and efficiency, and also contribute to the progress in building corporate culture, thereby improving management capacity as well as the competitiveness of enterprises and organizations.

An effective incentive policy must ensure three main objectives. *Firstly*, to motivate staff to work and be self-motivated and active through creating a fair and open working environment. *Secondly*, to support the achievement of the company's overall goals including short-term goals and long-term goals. *Finally*, to attract and keep the most productive employees.

There are two forms of incentive policy: *financial incentives and non-financial incentives*.

Financial incentives includes such forms as salaries, bonuses and other incentives such as car pick-up and monthly telephone allowances. These benefits should be transparent, fair, competitive and reasonable. 'Reasonable' here means to be reasonable incentives granted by room sales, company turnover, by position, responsibility authority...

Non-financial incentives reflect the cultural essence of organizations and businesses. Corporate culture must be one that makes the members feel "*being themselves*". Non-financial incentive policies should demonstrate transparency, fairness and in particular respect for workers. This is the basis for motivating them to work more effectively.

3.2.2.8. Developing a code of professional ethnics, strict enforcement and punishment

In order to limit the number of moral hazards, many banks have developed principles of business morality applied in banks. But these standards are not really effective because these regulations are still general but do not reflect the nature of the problem.

Therefore, in order to limit moral hazards, banks should develop a more detailed set of code of ethics, which specifies the rights and responsibilities of each department, followed by implementation and cross-checking to minimize possible risks.

On the internal side, corporate governance is a group of agreements, internal commitments, defining the relationships, powers and obligations, roles and responsibilities of different groups within the company, including Board of Directors, Board of Supervisors, controlling shareholders and minority shareholders. These agreements / commitments are expressed in the company charter, internal management rules, internal labor regulations and other internal regulations. On the external side, corporate governance

is reinforced by external rules, regulatory rules and regulations that create a level playing field and discipline to avoid the lack of transparency and fairness, whether to management or the board of directors. Internal dynamics (defining relationships among key members of the company) and external drivers (typically policy, regulatory, rules, and market issues) dominate the management, behavior and operation of enterprises.

3.2.2.9. Solutions to upgrade and monitor IT system

The model of Basel-based modern banking management can only succeed when dealing with the exchange of information, ensuring the separation of functional areas for specialization and enhancement. Objectively, it does not detract from the ability to capture and control the information of the risk division. The management information system is a key element in helping to make accurate and effective risk management decisions. In the process of modernizing information technology, commercial banks need to develop a comprehensive management information system for identification, measurement, monitoring, control and risk reporting. Therefore, the key information in the business must be periodically and / or irregularly updated by the customer relations department and forwarded to the risk management department for an analysis and assessment of potential and hidden risks. Thus, the operation of the new model can smoothly and relieve the possibility of the credit risk division in the credit assessment. At the same time, the bank needs to build a comprehensive information and technology system, providing accurate, reliable sources of information for the relevant professional sections. Sectoral analysis of the economy is being undertaken by banks to build analytical data storage but is not sufficient and lacks connectivity and support among banks in sharing information. Comprehensive cooperation between banks in building and sharing information databases is the shortest way to improve information systems and reduce the cost of information in the most reasonable way.

3.2.2.10. Focusing on training and awareness

To put importance to the education and awareness orientation to raise the sense of behavior and moral responsibility for all bank staff. Obviously, the banking industry must be aware of the importance of professional ethics and regard it as a top priority in the restructuring process.

First and foremost, the banks must pay attention to the working environment, in which leaders regularly provide training and guidance to improve the capacity and knowledge of junior staff to help them identify the potential risks that may occur. Provide orientation program for new employees, warning about fraudulent damages to the bank and their responsibilities.

3.3. RECOMMENDATIONS

In the thesis, a number of recommendations have been proposed including: the State needs to build a comprehensive legal framework in compliance with the international standards; Select an appropriate pathway for financial liberalization; The State should also have policies to encourage and support commercial banks in the process of technology modernization; Facilitate the construction of a private credit information center

CONCLUSION OF CHAPTER 3

Based on the orientation of business development, the implementation orientation of moral hazard management in Vietnam commercial banks in the near future, in chapter 3 of the dissertation, the author has proposed a system of solutions based on scientific argument, observing the ability to perform of Vietnamese commercial banks and guidelines of the State bank of Vietnam. At the same time, the PhD student has also proposed some recommendations to the Government and the State Bank to create favorable business environment and legal corridors as well as to support Vietnamese commercial banks in the implementation process to ensure the feasibility of solutions.

CONCLUSION

The supervision of the macro management agencies for commercial banks is implemented through the system of policies, laws, regulations, rules... and banking inspectors and supervision agencies help commercial banks to issue policies, regulations and procedures in accordance with the actual situation of banks, in compliance with the provisions of law to ensure safety in operations of credit institutions; The implementation of the above regulations helps commercial banks limit the risks that may occur in the operation of banking. However, minimizing the risks that may occur, especially moral hazard is the issue that should be considered the top priority for commercial banks in the current period.

From a systematic point of view, many studies have concluded that moral hazard is a major cause of banking crises. In the context of the depression in large financial markets in the region and in the world, business activities of commercial banks must always meet the requirements and ensure the supervision and safety of the system. However, in the process of integration, the banking system in Vietnam is not out of the trend of financial liberalization, the level of competition is harsh and an inevitable trend is inevitable that with moral hazard increase in the operation of banks, it is necessary to find effective management solutions and this thesis has contributed to the achievement of the stated objectives. Specifically:

Firstly: The thesis has studied and systematized the theoretical foundation on moral hazard, moral hazard management in the operation of commercial banks.

Secondly: The thesis has studied the experience of some countries in the world regarding moral hazard management in banking and draw lessons that can be applied in Vietnam.

Thirdly: To analyze the situation of moral hazard management and its impact on the stability and growth of the banking system in Vietnam through the data provided by the State Bank of Vietnam and commercial banks to identify the limitations in the management of moral hazard in commercial banks in Vietnam, which obviously requires to improve moral hazard management at commercial banks in Vietnam.

Fourthly: The dissertation proposes a system of solutions to improve moral hazard management in commercial banks, ensuring the safety and stability of the system, ensuring scientific and feasibility, contributing to raising the effectiveness of business activities of Vietnamese commercial banks.

However, this is a broad and complicated issue. Therefore the thesis will inevitably be deficient, and the author expects to receive reviews from teachers and researchers for further studies.

LIST OF PUBLISHED PUBLICATIONS

1. Tran Trung Dung (2017), "Moral Hazard Management in Lending in Commercial Banks", *Journal of Finance and Accounting Research*, No. 9 (170), page 70-72.
2. Tran Trung Dung (2017), "Business Ethics in Banking", *Journal of Finance Research*, No. 12 (173), page 28-30.