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Where Risk Policies Going – A Case of Sacombank Vietnam in 2 Periods

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Abstract **Original Research Article**

In emerging markets such as Vietnam with stock market development, enhancing risk management for big corporation such as banks is vital to survive. We developed our studies from analysis of bank stock price to bank beta CAPM and now is bank cost of equity. Therefore, we select a big bank in Vietnam (STB Sacombank) and one of this study's purposes is to make Assessment of relation between cost of equity, beta capm and market risk premium in a case of sacombank Vietnam in 2 periods. Our research results tell that: As R, G and VNIdex have positive impact on COE in both periods (see table 11) whereas IM has negative impact on COE (cost of equity) we would suggest that reducing R and G slightly to reduce cost of equity and increasing IM. Finally, because exchange rate has negative impact on COE in both periods while trade balance has positive impact on COE in both stages, we would recommend that increasing exchange rate and reducing trade balance to reduce COE. Therefore, our study can be expanded for other markets.
Keywords: Assessment, Macroeconomic, Cost of Equity, Risk Policies, Vietnam Banks, Beta CAPM, Effects Comparison
JEL: M21, G30, G32, G38

1. INTRODUCTION

DTN Huy, NT Hang (2021) stated that roles of risk management in bank system need to be enhanced by econometric model.

Recently, Sacombank was certified to complete the implementation of risk management standards according to Basel III from EY Vietnam Consulting Joint Stock Company, becoming the next bank in Vietnam to successfully apply a set of management standards. Risk at this high level.

Previously, from 2021, Sacombank has officially implemented the application of Basel II in operations, thereby upgrading the Risk Management System, improving safety and sustainability for the Bank. At Sacombank, Basel is not just written regulations but is also applied to all aspects of operations with advanced technology systems.

Sacombank leaders said that Basel III is considered a high-level set of standards in banking risk management; to ensure the stability of capital and liquidity, helping banks have enough capacity to overcome crises. Basel III standards not only manage risk in current conditions but also predictions for the future, more importantly, risk is measured not only in normal conditions but also in stressful scenarios. straight.

Successful implementation of Basel III helps Sacombank upgrade its Risk Management System

During the last 6 months of 2023, with the companionship and advice of EY Vietnam, Sacombank conducted a comprehensive assessment of the risk management framework and implemented important aspects of Basel III according to a standard method.

Specifically, these include: (i) Regulations and methodology for calculating safety ratios according to Pillar I of Basel III such as Capital Adequacy Ratio (CAR), Leverage Ratio (Leverage Ratio - LR); (ii) ILAAP practice process includes regulations and methodology for calculating liquidity ratios such as

Liquidity Coverage Ratio (LCR), Net Stable Funding Ratio Ratio – NSFR) according to Basel III;

(iii) Regulations and methodology for implementing the Internal Capital Adequacy Assessment Process (ICAAP) according to Basel III; (iv) Other regulations on information disclosure, major risk management, and behavioral modeling methodology. At the same time, Sacombank has also successfully built an automatic calculation and reporting system for CAR, LR, LCR, NSFR and ICAAP calculations.

(source:baophapluat.vn)

Research Questions:

Question 1: What are recommendations for risk management in the bank?

2. LITERATURE REVIEW

Then, we summarize previous studies as follows:

Table 1: Summary of previous studies

Authors	Year	Contents, results
Easley & Ohara	2004	The quantity and quality of information affect asset price. Firms can influence their cost of capital by choosing accounting treatments, market microstructure.
Avegrou, C.	2008	Information system (IS) in emerging markets research has expanded the IS research agenda and developed new understanding of IS innovation phenomena, mainly through its attention to social context and strategic concerns associated with socio-economic development.
Sattar	2015	there is a significant impact of Weighted Average Cost of Capital on Firm Value and Return on Asset.There is a positive effect between Firm Size and Return on Assets if there is any change occurs in Independent Variables except one variable i.e. WACC. WACC gives negative impact on Firm Value and Return on Assets. Any change in WACC can affect the return on assets of the firm. Another evidence found that there is no effect of Total Debt Ratio on Return on Asset
Davis	2014	estimate the response to an exogenous shock to debt or equity-based capital inflows in a structural VAR model that includes domestic variables like GDP, inflation, the exchange rate, stock prices, credit growth, and interest rates. An exogenous increase in debt inflows leads to a significant increase in GDP, inflation, stock prices and credit growth and an appreciation of the exchange rate. An exogenous increase in equity-based capital inflows has almost no effect on the same variables. Thus the macroeconomic effects of exogenous capital inflows are almost entirely due to changes in debt, not equity-based.
Rehman	2016	Public debt, interest rate, exchange rate negatively related while CPI, stock market development, GDP growth positively related with economic leverage.
Dat PM *et al.*,	2020	We need to enhance risk management in corporate governance
Topyan	2021	shows that the change in the value of beta due to alternative leverage levels or other risk factors will alter the cost of capital insignificantly and has no impact on the optimal capital structure due to those firms' extra-strong bond ratings. As a side-benefit of the synthetic rating method, one may also observe the market-level variables' impacts on the cost of capital computations and the optimal debt ratio

3. METHODOLOGY

Method and Data

This study mainly use combination of quantitative methods and qualitative methods including synthesis, inductive and explanatory methods. And it emphasizes again important roles of internet data in sustainable modern bank management.

For quantitative analysis, the study is supported with OLS regression.

Data is collected from reliable internet sources and websites.

Looking at Descriptive Statistics Below, We See That:

	COE_STB	EX_RATE	TRADE_B...	SP500
Mean	0.010000	22809.67	-28.85000	2670.148
Median	0.010000	22923.00	-100.0000	2590.230
Maximum	0.640000	23230.00	410.0000	3703.060
Minimum	-0.680000	21780.00	-600.0000	2043.940
Std. Dev.	0.306476	427.6367	355.7904	513.0916
Skewness	-0.233631	-1.235511	0.045436	0.526233
Kurtosis	4.388962	3.825801	1.852065	2.340080
Jarque-Bera	1.073776	3.393948	0.663006	0.771590
Probability	0.584565	0.183237	0.717844	0.679910
Sum	0.120000	273716.0	-346.2000	32041.77
Sum Sq. Dev.	1.033200	2011605.	1392455.	2895893.

Figure 1: Descriptive stat of external factors (post L inflation)
(Source: author analyze with Eviews)

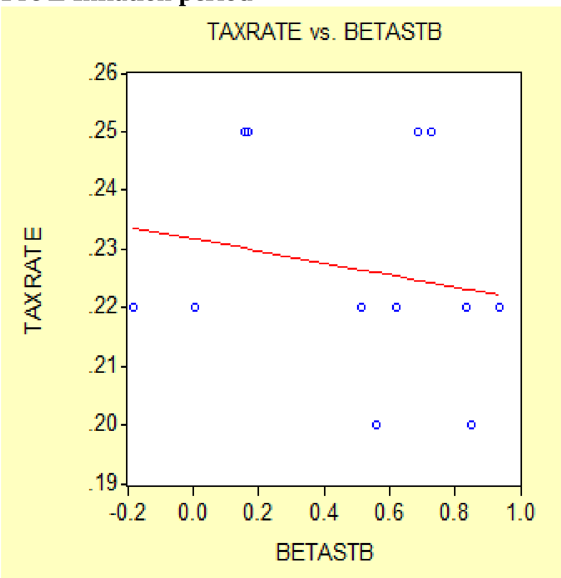
4.MAIN RESULTS

4.1 Overall results

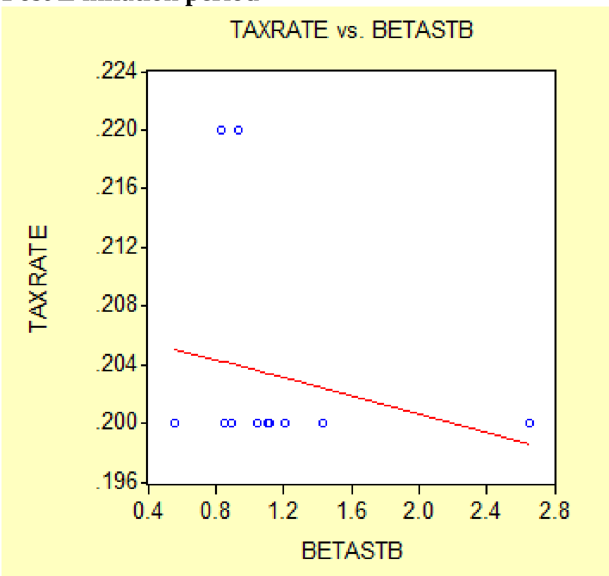
- **Chart 1:** shows that in both periods pre and post L inflation, tax rate and beta have negative correlation
- **Chart 2:** shows that in pre L inflation stage, beta and cost of equity have positive relation but in post L inflation, they have negative correlation
- **Chart 3:** shows that in both periods pre and post L inflation, MRPremium and cost of equity have positive correlation

Chart 1: Tax rate and beta

Pre L Inflation period



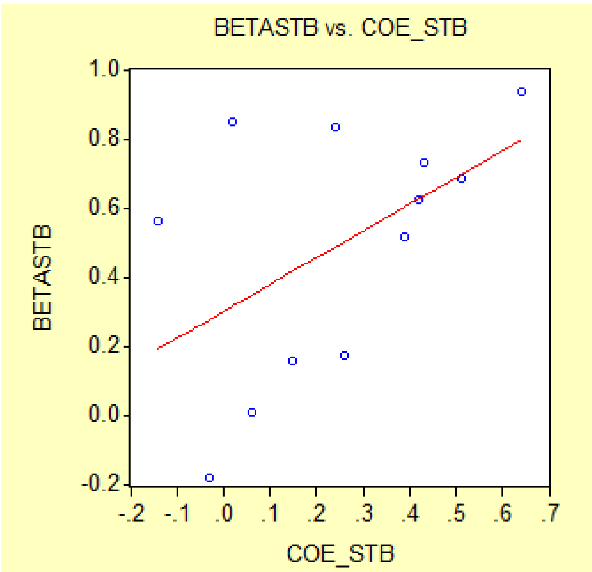
Post L inflation period



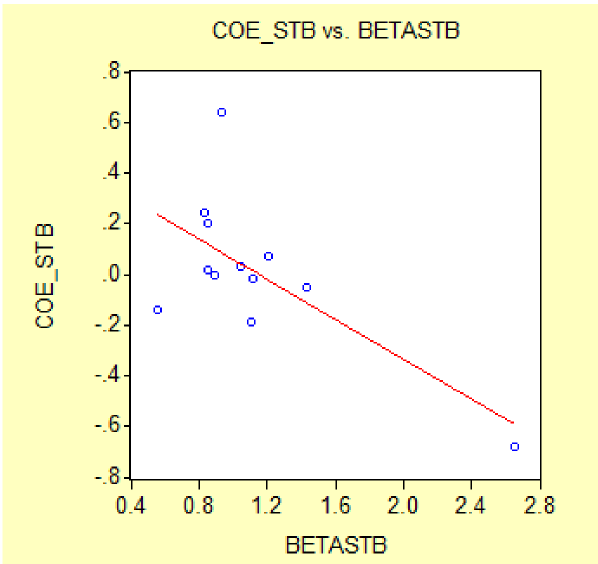
(Source: author analyze with Eviews)

Chart 2: Cost of equity and beta

Pre L inflation



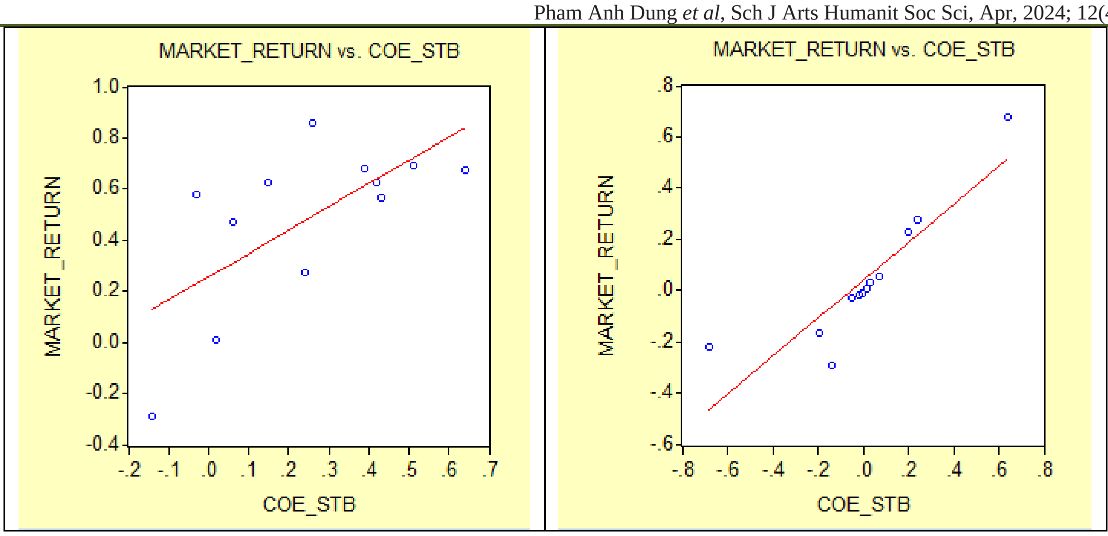
Post L inflation



(Source: author analyze with Eviews)

Chart 3: Market return and cost of equity

Pre L inflation	Post L inflation



(Source: author analyze with Eviews)

4.2 OLS Regression Results
4.2.1 OLS results for Beta ACB
We analyze that:

Table 2: OLS 1 factor market risk premium

	Pre - L	Post - L
MRPremium	1.05	0.5
C	0.003	0.03
R-squared	0.78	0.45
SER	0.14	0.18
Akaike info criterion	-0.83	-0.37

(**Source**: author analysis with Eview)

Table 3: OLS 2 factors

	Pre - L	**Post - L**
Beta	**-0.28**	**0.4**
CPI	**-13.4**	**1.1**
C	**0.7**	**-0.03**
R-squared	**0.71**	**0.3**
SER	**0.18**	**0.21**
Akaike info criterion	**-0.3**	**0.02**

(**Source**: author analysis with Eview)

Table 4: OLS 5 factors

	Pre - L	**Post - L**
Beta	**-0.2**	**0.4**
CPI	**1.9**	**-0.4**
Market return	**0.8**	**0.5**
MRPremium	**0.18**	**0.1**
R	**-1.5**	**0.3**
C	**0.3**	**-0.29**
R-squared	**0.98**	**0.95**
SER	**0.05**	**0.06**
Akaike info criterion	**-2.8**	**-2.2**

(**Source**: author analysis with Eview)

Table 5: OLS 7 factors

	Pre - L	Post - L
Beta	-0.2	0.4
CPI	2.1	-0.4
Market return	0.5	0.03
MRPremium	0.4	0.4
R	-0.8	-0.1
Tax rate	0.9	3.1
IM	-0.0004	-0.001
C	0.16	-0.6
R-squared	0.98	-0.95
SER	0.05	0.07
Akaike info criterion	-2.6	-1.9

(**Source**: author analysis with Eview)

4. DISCUSSION

Impact on beta: CPI and R have positive impact on beta (see table 4) while cost of equity has negative impact on beta

Impact on Cost of Equity:

R, G and VNIdex have positive impact on COE in both periods (see table 11) whereas IM has negative impact on COE (cost of equity)

Last but not least, for external factors:

Looking at table 12: exchange rate has negative impact on COE in both periods while trade balance has positive impact on COE in both stages.

Also, from sacombank.com.vn, On June 7, 2023, Sacombank officially launched the project "Implementing Basel III and improving risk management system capacity" with the advice of EY Vietnam Consulting Joint Stock Company to continue its operations. Move risk management to higher standards. With this project, Sacombank will build an organizational structure for risk management in accordance with practices and strategies; improve the quality of assets and capital to ensure stable and sustainable business operations, and meet the increasingly stringent requirements of the banking industry; promote the process of identifying, measuring, monitoring, controlling and overcoming risks; Developing quality human resources with modern information technology systems.

5. CONCLUSION

Risk Management Information System (RMIS) implications

As we realize R, G and VNIdex have positive impact on COE in both periods (see table 11) whereas IM has negative impact on COE (cost of equity) we would suggest that reducing R and G slightly to reduce cost of equity and increasing IM.

Finally, because exchange rate has negative impact on COE in both periods while trade balance has positive impact on COE in both stages, we would recommend that increasing exchange rate and reducing trade balance to reduce COE.

Then, Trivelas and Satouridis (2013) stated that in Greece a) the externally focused Management Information System (MIS) effectiveness archetypes (OS, RM) reflecting innovation, creativity, goal setting and planning enhance task productivity b) the Internal process (IP) model of MIS effectiveness influences negatively task productivity.

Limitation of Research: We can expand our research model for other industries and other markets.

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