Country Focus Note:

Vietnam

The objective of this note is to provide readers with an overview of financial inclusion in Vietnam. The note begins with an examination of the current state of financial inclusion in the country. It moves on to recent trends that have been driving usage in the financial sector. The note concludes by a view of the challenges that limit financial inclusion, and the opportunities that exist to unlock the potential of fintechs.

92.7 Million
Population

6.5 Million
Population with income <USD 2 per day

78.5 Million
Population with income <USD 10 per day

65.8%
Rural population

94.5%
Adult literacy level

139.7%
Mobile penetration

31%
Banked population

2.2%
Gender gap in ownership of bank accounts

Key Trends: Savings	Key Trends: Credit
• Low disposable income, high cost and time involved in travelling to the branch, long waiting time often with denial of transactions, complex processes, high transaction and other service charges are some of the key barriers for low-income customers	• Ranked at 88 globally in terms of ease of access to loans • Almost half of the population avails credit, of which fifth avails credit from formal financial institution • Inability to offer collateral and complex processes act as key constraints for low-income customers to avail formal credit services

General Business Environment

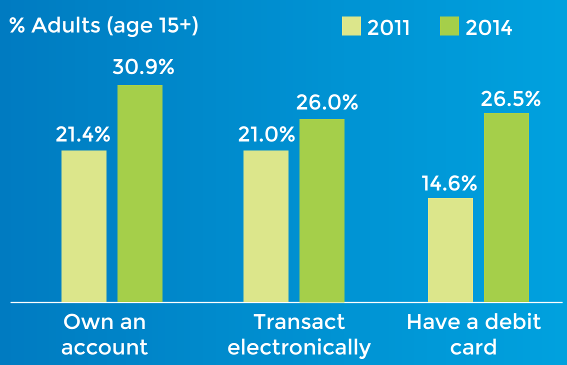
#68
Ranked on ease of doing business index

#38
Ranked on availability of venture capital

99.2%
of the population has access to electricity

46.5%
of the population has access to the Internet

Key Trends: Payments



Key Trends: SME Sector					
	40% Contribution to GDP	**51.7%** Contribution to employment	**26%** SME claim access to finance as major barrier	**USD 4.28 Bn** Total credit gap in SME sector	**USD 6,333** Average credit gap per SME

Status of Financial Inclusion in Vietnam[1,2]

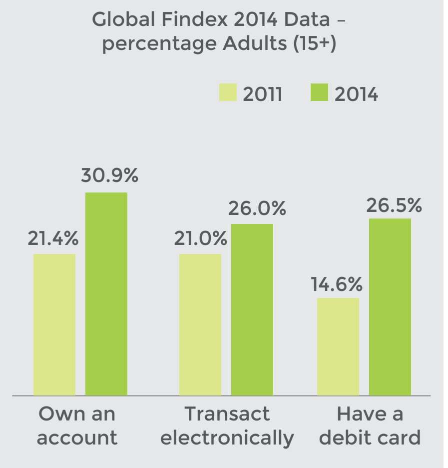
Vietnam is home to nearly 95 million people. Two-thirds of the population (over 60 million) reside in rural areas. Since 1986, various reforms under Đổi Mới[3] had spurred rapid economic growth and development in the country. As a result, Vietnam transformed from one of the world's poorest nations to a lower-middle-income country. According to World Bank data, in 2016, the Gross Domestic Product (GDP) of the country was USD 202.6 billion. Vietnam has favourable demographics of a younger workforce with around 65% of the population under the age of 35 years. Available data suggests that by 2021, over 15 million new customers aged between 10 and 19 years will enter the market.

The 2017 World Economic Forum (WEF) Global Competitiveness Report states that out of 137 countries, Vietnam ranks 78th in terms of the availability and 60th in terms of the affordability of financial services. Access to and use of formal financial services has been nominal in Vietnam. Only 31% of all adults own a bank account in the country compared to 69% of adults in East Asia and the Pacific. Only 11% of the low-income customers have access to banks. More women than men have a bank account. Moreover, Vietnam has only 3.8 bank branches per 100,000 adults, and ranks 104th out of 144 countries according to 2015 data from the World Bank. Moreover, the current regulatory framework does not permit agent banking in Vietnam. These factors have limited the expansion of formal financial services for the low and middle income (LMI) segments.

Despite a low rate of access to formal financial institutions, the banking sector in Vietnam has witnessed a revolution. Vietnam is projected to have the fastest growing retail banking market in Asia, with an expected compounded annual growth rate of 25% from 2016 to 2018. However, more than 90% of payments remain cash-based. With the entry of fintech players, however, customers are switching to digital solutions. For instance, the Asian Banker Research estimates that the total number of registered wallets in the country will surpass the 8-million-mark by 2020, which translates to a three-fold increase in the number of wallet users, compared to 2016.

There is evidence that suggests that today, Vietnam has the ingredients to ride the wave of digital financial services (DFS). Vietnam currently has a mobile penetration rate of 140%, an adult literacy rate of 94.5%, more than 40 million internet users, and smartphone ownership by 55% of the population. With a high percentage of internet users and mobile subscribers along with low banking penetration, mobile wallets have immense potential in the region. Currently, almost 10 million customers use mobile wallets from over ten different service providers.

The Government of Vietnam has made some progress to support the cause of financial inclusion, which is expected to continue. For instance, it is yet to formulate and adopt a National Financial Inclusion Strategy (NFIS). Vietnam neither is a member of Alliance for Financial Inclusion nor is it a signatory to the Maya Declaration. If the country accepts the commitments under the Maya Declaration and rolls out an NFIS, it will give policymakers and regulators in Vietnam an opportunity to introduce an approach to expand access and usage of financial services. We expect this to enhance the regulator's vision on DFS, agency banking, interoperability, regulatory sandbox, and the overall financial inclusion framework.



Key Takeaways

- Basic access to banking services and products still remains a challenge
- The government has made some progress but is yet to show a strong commitment to the cause of financial inclusion
- Digital financial services are the key drivers of financial inclusion, supported by Vietnam's demography

1. This document contains a few hyperlinks and readers are advised to read the document in conjunction with them.
2. The *MicroSave* report, titled Leveraging Technology for Meaningful Financial Inclusion in Asia, provides a detailed status on financial inclusion and usage of financial services in Vietnam.
3. Đổi Mới means 'renovation' in the Vietnamese language. It refers to the economic reforms initiated in Vietnam in 1986 with the goal of creating a 'socialist-oriented market economy'.

Key Trends in Financial Sector Usage

We can summarise the current use of the four key financial products in Vietnam as follows:

1 Limited Savings at Formal Financial Institutions

The Global Findex Database suggests that by 2014, around 14.6% of adults had been saving at a formal financial institution. This had doubled in three years, as only 7% maintained a savings account with a formal financial institution in 2011. In contrast, approximately 39% of adults prefer to save outside the formal sector, using informal means, which include savings clubs.

2 Complicated Process to Avail Credit Products

Out of 137 countries, Vietnam is ranked 69th in terms of ease of access to loans. Almost half of the population use credit services. Of these, only a fifth (18.4%) availed credit at formal financial institutions in 2014. Compared to 2011, there has been only a slight increase (2.2%) in terms of people who avail credit services from formal financial institutions. One-third of the population borrow from friends and family. Collateral-based loans and complex application and authorisation processes are the two main constraints that limit low-income customers from using formal credit services. Interestingly, only 1.8% of people approach informal lenders in the country.

3 Although Cash is King; Electronic Payments are Increasingly Accepted

A 2016 VISA study on consumer payment attitudes suggests that consumer preference for electronic payments in Vietnam has grown by 8% with the greater use of cards, increased penetration of smartphones, and growth of mobile and e-commerce. However, the growth in mobile and e-commerce did not result in an accompanying rise in digital payments in the country. This is mainly because a significant proportion of the population remains under-banked and is dependent on cash. Despite this, the VISA study also points out that almost 80% of respondents would like to use digital payments more often and move away from cash.

Government's Commitment towards 'Cashless 2020'

- The government has taken a policy decision to effectively reduce cash transactions and improve electronic payment methods by 2020.
- This plan aims to provide the required infrastructure and equipment, such as the creation of an automatic payment centre by State Bank of Vietnam to connect consumers, businesses, and commercial banks. The plan also aims to expand the use of POS and ATMs to healthcare facilities, public transportation, and the education sector.
- By 2020, the government aims to curb the ratio of cash to total liquidity to under 10% by promoting non-cash payments in the country. The official target is:
  - To provide bank accounts to at least 70% of the population (15 years old and above);
  - To equip 100% supermarkets, shopping centres, and distribution agents with point-of-sale (POS) devices to accept non-cash payments;
  - To ensure that 70% utility service providers and telcos accept non-cash payments;
  - To enable 50% of individuals and households in urban areas and metropolitan cities to use digital payment solutions.
- The initiative should enable greater transparency, prevent tax evasion, and improve documentation for both individuals and organisations.

Challenges to Financial Inclusion

Sectoral Challenges

- Business Sustainability: So far, no fintech has been commercially profitable in Vietnam. Market insights do not seem to support the business models of most fintechs. Moreover, funders and investors set the agenda for fintechs, which creates pressure on short-term returns.
- Digital Literacy: While there is a high penetration of mobile phones and social media platforms in the country, people depend on cash-based transactions. This is due to a strong cultural preference for cash and a lack of awareness and trust in DFS. Most of the population, especially in the rural areas, remain unaware of DFS.
- Capacity-building: Vietnam Bank of Social Policies (VBSP) and microfinance institutions (MFIs) are at the forefront to serve the rural and financial inclusion market. These entities have scope for improvement in their technical capabilities and will benefit from strengthening in terms of robust operational processes.
- Lack of Well-established Delivery Channel: There is a distinct lack of cash-in/cash-out (CICO) agent points in the rural areas. While mobile penetration has been rapidly increasing in Vietnam, the market is in its infancy when it comes to agent networks that can facilitate CICO transactions in the rural areas.

Challenges Related to the Design and Delivery of Financial Services

Product	Outstanding Constraints
Payments and Transfers	• Cash payments account for over 90% of all transactions. • Complex processes/menu/User Interface coupled with a limited understanding of technology has marred the uptake and regular usage of DFS/MFS among the low- and middle-income customers. • Commercial/state-owned banks are reluctant to adopt digital banking because of security issues related to ICT network, transmission, central management platform, and e-banking technology applications.
Credit	• Low-income customers and microenterprises cannot avail formal credit services because they are unable to offer the necessary collaterals or navigate the complex documentation processes. • Limited trained resources to manage, supervise, and monitor credit services.
Savings	• Factors such as low disposable income, high cost, and time involved in travelling to the branch, long waiting times coupled with denial of transactions, complex processes, high transaction and other service charges discourage LMI customers from using formal savings products and services.
Insurance	• Low-income customers lack an understanding and appreciation of insurance products, mainly due to limited access to insurers and complexity of products. • Limited range of life and non-life insurance products and absence of exclusive regulations or operational guidelines for micro-insurance have led to mass-market and non-customised products. These attract a high premium and are not suitable for the low and middle-income customers. • Limited trained resources to handle insurance products or services have led to poor management and malpractices including the fabrication of insurance claims and overcharging of premiums.

Opportunities to Unlock the Potential of Fintech

In Vietnam, the financial services that the banks provide focus mainly on the middle and higher income segments. State-owned or policy banks cover the low-income segments, especially microenterprises. As a result, fintechs have an immense opportunity to collaborate with banks to provide these microenterprises with financing options, and the lower and middle-income segments with insurance, credit, and savings products. Fintechs are still developing the best models to help finance small, micro, and medium enterprises with working capital.

The fintech market in Vietnam is in its infancy, with around 30 players involved in payments services. They are based on online transactions (such as OnePay), physical agent networks (such as MOMO and BankPlus), and POS/mPOS (such as ibox and MoCa). Other players are involved in crowdfunding (such as FirstStep and FundStart), cryptocurrency, personal finance, data management (such as CircleBi), and banking through digital channels (such as Timo). Recognizing the opportunity, the Vietnamese fintech sector raised USD 129 million in 2016. Fintech start-ups Payoo, VNPT E-Pay, MOMO, and F88 led the deal values. Available data suggests that by 2020, the fintech market in Vietnam will grow at an annual rate of 21% to reach USD 11.4 billion in terms of total transaction value. State Bank of Vietnam has established a steering committee to promote the growth of the fintech ecosystem in the country.

The fintech players in Vietnam have a huge potential to address most of the constraints highlighted before. Outlined in the following section are some ways in which fintechs can address product-specific challenges.

Digital Literacy and Meaningful Financial Awareness

Limited digital literacy and financial awareness in the target market is the cause of most of the issues cited above. In reality, digital literacy, to varying degrees, is a constraint even in countries such as China and Malaysia that have developed financial systems. Poor financial awareness limits the ability of the lower-income segments to make informed decisions concerning their household and business finances. Fintechs in Vietnam can gain tremendously by creating intuitive interfaces and use-cases to help people learn how to use technology to manage their finances.

Customised Products to Suit Cash-flows of the Low-income Segment

Fintechs can develop mobile applications that link to a goal-based savings account. Customers can use such applications to set aside funds typically used to meet vital welfare or consumption needs. Examples include 'Save 4 School' from Econet in Zimbabwe, which helps smallholder families plan ahead for their children's school fee payments and 'Goal+' from Amret in Cambodia. The Goal+ product allows customers to save for long-term goals, such as purchasing cows, meeting wedding expenses, and education. Customers sign up and make deposits through mobile tellers or third-party agents equipped with a smartphone or tablet app.

Credit Risk Assessment for Low-income Segment and SMEs

Many active fintechs have been using non-traditional data to enable credit scoring. Types of such non-traditional data include payment transaction data, insights based on psychometric tests, telecom data, and geo-positional information. These alternative data sources help the fintechs assess the credit risks of individuals who may not have existing credit history, established formal banking relationships, or verifiable sources of income. As a result, the fintechs can tap into the market of previously excluded potential borrowers who rely on informal sources for loans.

Enabling Bulk Payments and Transfers

Payments and transfers offer a huge potential in Vietnam. Fintechs can tap this potential by focusing on and enabling a critical volume of payments and transfers, such as government-to-people (G2P), person-to-government (P2G), and person-to-all (P2all). The Ministry of Public Security in Vietnam is currently developing an online national identification database of citizens, which it will make available to all government and other relevant institutions by 2019. Fintechs would be able to use this database, once functional, to digitise the databases of beneficiaries or other payees for seamless identification and verification. Fintechs could also develop an integrated financial system to administer salaries, pensions, and licensing receipts digitally in near-real-time. The bill payment aggregator can enable one-stop payments (including P2G) online – in provider branches, or through agents.

Customised Microinsurance Product Delivery and Servicing for the Low-income Segments

Microinsurance services offered through mobile phones have emerged as a medium that offers increased process efficiency through reduced turnaround times and paperwork. Mobile microinsurance makes low-value, high-volume transactions more viable. Fintechs such as BIMA and MicroEnsure act as end-to-end providers. They have tied up with MNOs that enable mobile money platforms or airtime used as a payment mode, if applicable. Fintechs, such as TongJuBao, use Internet-based platforms that allow groups to vote on premiums.

Looking Ahead

Vietnam has the right ingredients to ride the wave of digital financial services. Given the government's push towards a cashless economy by 2020, we can expect technology-driven and innovative solutions to emerge in the country through active collaborations between fintechs and incumbent financial service providers. These solutions will augment meaningful financial inclusion in the country and facilitate the integration of underserved segments into the formal financial services sector.

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MetLifeFoundation

This note is part of a series highlighting the findings of a ***MicroSave*** study supported by MetLife Foundation. The study focused on understanding how technology could be meaningfully leveraged to advance financial inclusion across six markets in Asia – Bangladesh, China, Malaysia, Myanmar, Nepal, and Vietnam.