Vietnam taken by fintech revolution

Vietnam's fintech market is predicted to reach $7.8 billion by 2020. What elements will provide the basis of this confident forecast and what pressures will face them? Dr. Nguyen Thanh Binh, lecturer in Finance at the Department of Economics and Finance at the School of Business and Management, Royal Melbourne Institute of Technology's (RMIT) Vietnam Campus, provides an insight.

May 2019 - According to Solidiance, an APAC-focused consultancy firm, the Vietnamese fintech market was worth $4.4 billion in 2017, and is predicted to reach $7.8 billion by 2020, equalling a 77 per cent increase over three years. This predicted fast-paced development is driven by numerous factors, including regulatory efforts to increase financial inclusion and to reduce cash payments, rising income and consumption which fuel the e-commerce sector, high Internet and smartphone penetration rates, and a young and tech affine population.

In line with the United Nations' goal of promoting financial inclusion, the Vietnamese government has made significant efforts to tailor regulations to increase banking penetration to 70 per cent from 59 per cent in 2017, and to shift to a non-cash payment economy where the cash to total liquidity ratio should be less than 10 per cent by 2020 (Decision No.986/QD-TTg). The Vietnamese government recognises fintech as one of the key factors enabling the aspired fast transformation of the financial landscape and, therefore, established the State Bank of Vietnam's Steering Committee on Financial Technology in 2017 to promote the development of fintech firms in Vietnam. The committee designs programmes focusing on electronic Know Your Customer (e-KYC), Open Application Programming Interfaces (Open APIs), peer-to-peer (P2P) lending, e-payments, and blockchain technology.

The continuous economic growth in the past years (higher than 6 per cent per year in the last five years and 7.08 per cent in 2018) with the associated increase in income has been boosting the e-commerce sector which counted 35.4 million of users with an average spending of $62 in 2017, and is expected to increase to 42 million users (42.5 per cent of the projected population) with an average e-commerce consumption of $96 by 2021 (predicted by Solidiance). This predicted boom of the e-commerce sector coupled with the government's efforts to reduce cash payments will naturally spur the development and expansion of fintech solutions. Moreover, according to the World Bank, the high level of Internet (52 per cent) and smartphone penetration (72 per cent) make Vietnam one of the fastest adopters of smartphones and Internet (at low cost) in Southeast Asia, and provide the necessary infrastructure for fintech services, even in remote rural areas.

The population in Vietnam is young (60 per cent under 35 years old) and technology affine, which has given rise to a vibrant tech entrepreneurship scene, particularly for fintech solutions. One prime example of a fintech product from Vietnam is MoMo, a service of M_Service, which provides a digital wallet and a payment app, and is included in the list of the 100 leading global fintech innovators, according to the Fintech100 report by KPMG and H2 Ventures. As the leading digital payment solution in Vietnam, MoMo has raised $32.75 million of funds from Standard Chartered and Goldman Sachs.

Within the fintech market, digital payment solutions accounted for about 89 per cent, personal finance (9 per cent), and corporate finance (2 per cent) of the total market volume in 2017. In the coming years, personal finance and corporate finance services are expected to grow faster than digital payment solutions and will account for 24 and 6 per cent of the total fintech market volume by 2025, respectively (predicted by Solidiance).

For personal finance, fintech will provide solutions to the demand in the P2P lending and consumer finance segment, particularly in remote areas like fintech solutions which require less face-to-face interactions compared to traditional banking. For example, MoneyBank is a pioneer in P2P lending and provides loans 24/7 without paperwork and is available throughout Vietnam (only excluding island districts). Moreover, Artificial Intelligence (AI)/robo-advisor solutions aspire to (partly) replace wealth managers in providing saving and investment advice to clients. Finhay offers portfolio investment advice based on AI, which accepts an initial investment as low as around $2. Fintech in the corporate finance segment might focus on crowd funding and P2P lending solutions to provide funds for small- and medium-sized enterprises (SMEs) that still account for a large part of the Vietnamese economy, but often struggle to get the necessary loans.

Pressure on traditional banks

The rise of new fintech products and services puts pressure on the traditional banking model that has high operating costs of maintaining physical infrastructure with a high level of manual labour. Established financial institutions need to become more efficient in order to remain competitive with the new rising fintech players.

To this end, financial institutions can incorporate fintech products as well, and can collect user data combined with machine learning to improve the accuracy of their evaluation of the credit risk of borrowers and, therefore, potentially reduce losses and broaden lending, making them more profitable.

For example, in the Philippines, a country next door, Lenddo builds credit score for applicants by accessing their social media activity, browsing history, geolocation, and other smartphone data. These kinds of risk quantification are particularly promising in countries with a low level of financial data on the customer, such as Vietnam.

For customers, the emergence of fintech grants access to more products and services which are conveniently available anytime and anywhere at a lower price tag. Corporations, especially SMEs, have additional sources of funding through fintech platforms which is likely to encourage innovation and the implementation of new business ideas.

From the macroeconomic perspective, the emergence of fintech accelerates the transformation of the Vietnamese financial landscape to a more efficient financial market with more diversified products which are available to more people and companies at lower prices. The transforming financial market is becoming more and more efficient in terms of efficiently allocating funds to necessary business projects and households and, thus, will help the economy to grow even more in the long-run.

However, there are still considerable challenges facing the fintech industry in Vietnam which require urgent attention. First of all, since the fintech industry is fast-paced, quick adjustments of regulatory guidance and approvals are necessary to decrease compliance and investment risk.

For instance, P2P lending is not regulated yet, and these kind of monetary brokerage services can only be carried out by licensed financial institutions. Moreover, using technology-based fintech products and services online leave customer more exposed to cybercrime or the misuse of proprietary personal data. Last but not least, the reduction of face-to-face support with traditional bank clerks requires a higher level of financial literacy by fintech product users in order to decrease premature financial decisions.

Fintech and global trends

Fintech is disrupting the finance industry by providing innovative financial services that include, for example, cashless payments, P2P lending, crowdfunding, and robo-advisory. In fact, global investment in fintech has increased from $19.9 billion in 2014 to $41.7 billion in 2017, with payment and lending technologies having attracted the majority of the funding. The fast-paced development in fintech is due to the fast adoption rate as consumers can conveniently use their smartphones to use the provided services.

With the new fintech products, consumers can open bank accounts over the Internet without having to physically visit a bank and can monitor their accounts, make payments or even get a loan using their smartphone. To manage their investment portfolios, customers can now get recommendations from robo-advisors, which provide algorithm-based financial advice and automatically optimise clients' asset allocation.

These kind of automated financial planning services are available 24/7 and can be offered at a much lower cost compared to the traditional services provided by personal wealth managers.

Compared to the traditional financial services that rely more on face-to-face interactions, the new fintech services enrich the diversity of financial products that are independent from the location of the customer (urban or rural), enable faster and more convenient access to financial services, provide more personalised products, and create cheaper deals as fintech companies can reduce investment into infrastructure such as the maintenance of a heavy branch network.

According to a study conducted by CNBC, one-third of the population in the 20 major economies have already used fintech products. In particular, China (68 per cent), India (52 per cent), and the UK (42 per cent) are the leading countries in terms of fintech adoption rates. Moreover, popular cashless payment services that use near-field communications terminals, such as Apple Pay, Samsung Pay, and Google Pay, are already available in 27, 24, and 18 countries, respectively.

The popularity of fintech products is expected to continue to increase as 1.7 billion people are still without bank accounts and global institutions, such as the World Bank Group or the United Nations, are investing in and promoting financial inclusion programmes as means to reduce poverty.