



## VIETNAM FINTECH CLUB

# Vietnam's Fintech Market in the Digital Era

## The Vietnam Fintech Market at a Glance

The COVID-19 pandemic has spread with great speed and impacted negatively all industries around the world. It has disrupted all economies and posed huge challenges to national leaders to maintain the sustainability of their countries. Consumers' behavior and demand have been changed in response to the COVID-19 pandemic bringing a good opportunity for Fintech companies to increase their share.

According to the *Fintech in ASEAN 2021* report published by United Overseas Bank, PwC, and Singapore FinTech Association, the ASEAN region witnessed great growth in fundraising. The amount of rebounding funding for ASEAN Fintech hit over USD3.5 billion in 2021 which was 3.2 times the USD1.1 billion figure in 2020.

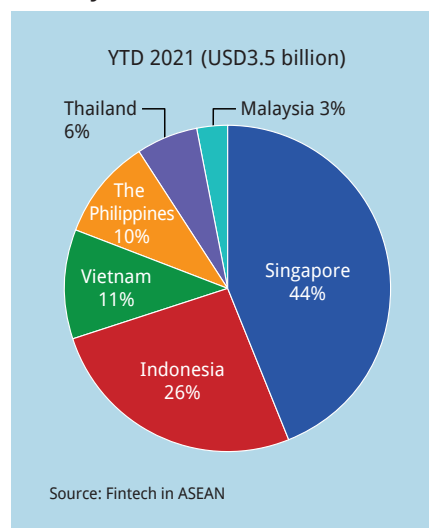
As can be seen in Figures 1 and 2, Singapore, Indonesia, and Vietnam lead the region in Fintech funding. Vietnam joined the ASEAN top three in 2021 with its stellar result of USD350 million, accounting for 11% of the total funding in the ASEAN region.

According to Vietnam General Statistics Office, 69.3% of the country's population of 98.51 million in 2021 is between the ages of 15 and 64. As reported by We Are Social, 70.3% of the population use the internet and there are 154 million mobile connections of which 64% use 3G/4G. With a young population and high rate of mobile connectivity and internet usage, smartphones are used frequently for various purposes in daily life including shopping (68.5%), banking and finance (40.1%), and entertainment (83.4%). The young generation will be the momentum to push the digitization of all industries in Vietnam, especially digital banking and Fintech.

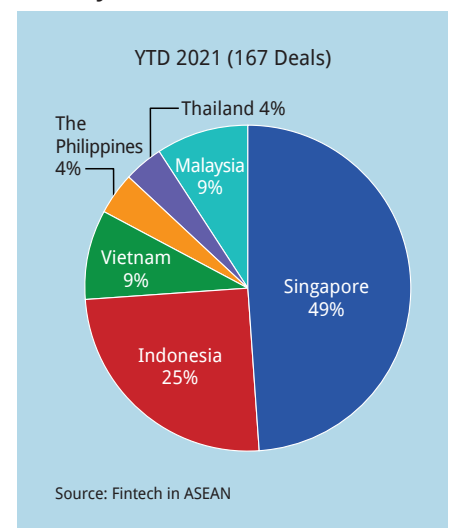
pecially digital banking and Fintech.

The Fintech market in Vietnam is expected to hit USD18 billion in 2024 with highly competitive rate according to the forecast by Robocash. Fintech in Vietnam provides customers a fast, convenient and transparent solution at lower cost than traditional financing products. In the banking and finance sector, Fintech companies are supporting the financial inclusion of the government and serving the non-bank and/or underbanked segment of the population where the network of traditional banks cannot reach. One-hundred-fifty Fintech companies are doing business in

**Figure 1: Fintech Funding Amount by Country**



**Figure 2: Number of Fintech Deals by Country**



Vietnam in a wide range of operations including intermediary payment services, peer-to-peer (P2P) lending, crowdfunding, blockchain, remittance, and insurance.

Although Vietnam's Fintech companies are attracting the attention of investors all over the world, most companies are just in the early stage. According to information in a private survey by the State Bank of Vietnam (SBV) in 2021, many Fintech companies are newly established and small in scale. Forty-seven percent are at the starting line and have not yet hit breakeven; 28% are in the development stage, with minimum viable product launches and sales volumes within the last 6 months; 13% are in the development stage of their business models; 9% are earning a profit; and 3% are in the proof-of-concept phase and have not gained sales revenue.

Only intermediary payment services are clearly regulated under Vietnamese law; the remaining sectors of the Fintech industry have not been recognized officially and do not operate under a legal framework.

The leading segment of Vietnam's Fintech market is mobile wallet and payments, with a 31% share reaching USD12,922 million in 2021 (Figure 3). Amid the COVID-19 pandemic, Vietnamese consumers are changing from using cash or traditional contact payment systems to contactless payment methods including contactless cards (The National Payment

Corporation of Vietnam [NAPAS] card or card schemes like Visa and Mastercard), QR payment (VietQR and Ewallet QR) and transfers through the NAPAS 247 provided by NAPAS.

**Card payment:** According to the direction of the SBV, by 2021 Vietnamese card issuers shall migrate all their magstripe cards to Vietnam Chip Card Specification Cards with NAPAS brand which comply with EMVCo. and the SBV Framework to provide the highest security standards to customers. The NAPAS chip card can support transactions in either contact or contactless mode to offer the most convenience to clients. All card schemes promote cashless payments, giving the most attractive benefits to all clients and making payments more competitive. According to the annual report of the Vietnam Bank Card Association, the total number of cards, including domestic and international cards, in use by the end of 2021 was over 120 million with USD128 billion total usage.

**QR payment:** VietQR is the brand of multi-purpose QR payment in Vietnam and can facilitate both payments and transfers. It was introduced to the market in March 2022 when NAPAS, the national switching company, cooperated with National Interbank Transaction Management and Exchange Co., Ltd. (NITMX) of Thailand to open a bilateral connection allowing Thai travelers to make QR payments at VietQR acceptance points in Vietnam via Thai Mobile Banking/Payment application, and

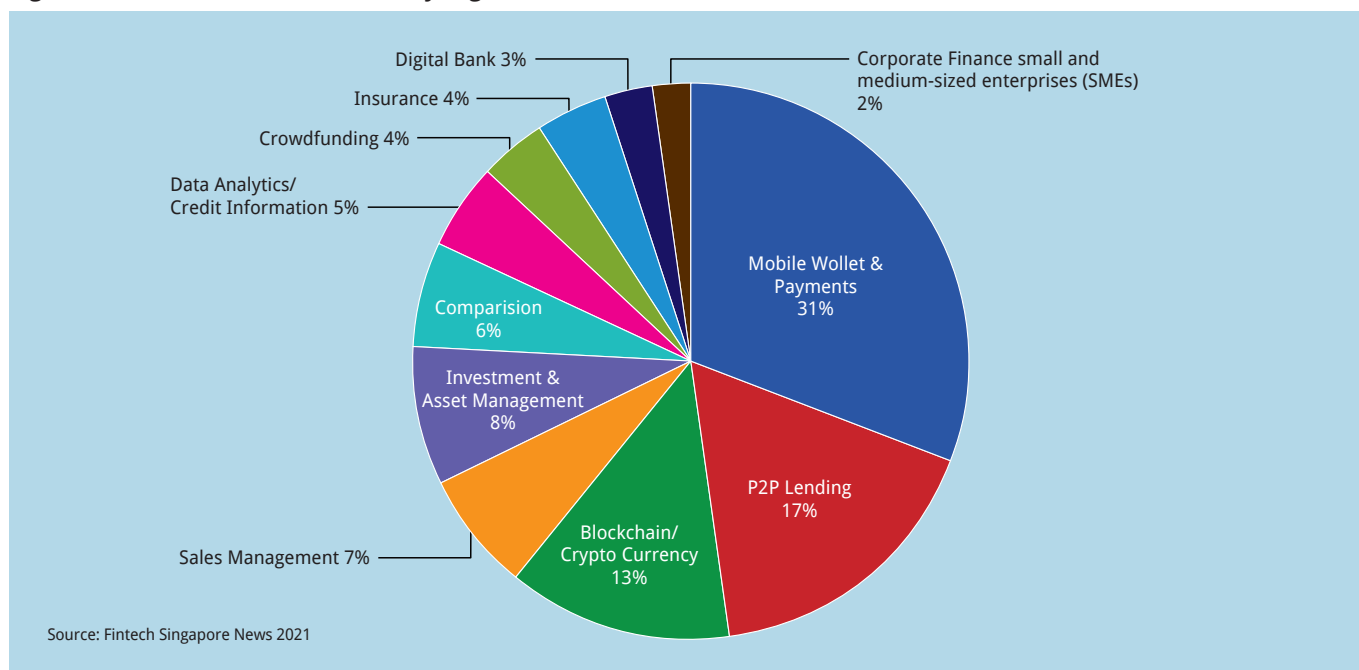
vice versa.

With the success of cross-border QR payment, NAPAS launched NAPAS 247 real time transfers with VietQR to allow originators to transfer funds to beneficiaries by scanning VietQR without manually keying in account information. This product has been welcomed enthusiastically and provides a truly satisfactory solution not only for individuals but also for small and medium-sized enterprises and other corporates. Mobile wallets notably MoMo, Moca by Grab, ZaloPay, Viettel Pay and Shopee Pay are playing a vital role in Vietnam's payments market for QR payment, utilities payment, e-commerce, and others.

**Fund transfer:** In Vietnam, transfers are now increasingly popular in retail payment for sending money from buyer to seller. Customers transfer funds for payment by inputting the beneficiary's account rather than paying by QR or card. Currently, there are two different fund transfer systems: Interbank Payment System (IBPS) which is a batch transfer system operated by the SBV and NAPAS 247 fund transfer operated by NAPAS. In 2021, IBPS processed 125 million transactions and 1.8 billion transactions were processed through NAPAS 247 system.

**P2P lending:** Approximately forty companies in Vietnam provide P2P lending services. Outstanding brands in this area are Tima, Trust Circle, VayMuon, Lendmo, WeCash, and Interloan. The SBV expressed the view that P2P lending will be useful for

**Figure 3: Vietnam's Fintech Market by Segment, 2021**



financial inclusion, restricting usury, and expanding the credit distribution channel to everyone, especially to disadvantaged social groups. However, lacking a legal framework, P2P lending has many potential risks, including privacy risk, lending risk, liquidity risk, Anti-Money Laundering (AML) risk, and cybersecurity risk, and is having a negative and unsustainable impact on the entire financial system in Vietnam.

**Blockchain:** Blockchain technology including cryptocurrency and central bank digital currency (CBDC) is controversial in Vietnam since cryptocurrency has not been recognized as a legal payment method or asset. The use of cryptocurrency is prohibited nationwide by official guidance of the SBV. CBDC is under study by the SBV and relevant ministries and will be considered carefully by authorities. On May 17, 2022, the Vietnam Blockchain Association was established by Decision 343/QĐ-BNV of the Ministry of Home Affairs. With its establishment, the association expects to apply blockchain technology to all industries, contribute to the digital economy and make Vietnam into one of the most promising lands for blockchain in the world.

**Mobile money:** Vietnam's Prime Minister signed Decision 316/QĐ-TTg dated March 9, 2021, to pilot telecommunication accounts for low-value commodities and services. The SBV gave approval for VNPT, Mobifone, and Viettel to pilot telecommunication accounts starting from November 18, 2021 to November 18, 2023. By April 2022, Vietnam had over 800,000 mobile money accounts according to the Ministry of Telecommunication and Information.

## Challenges for Vietnam's Fintech Market

### Legal framework for Fintech

Vietnam has not completed the legal framework for Fintech company operations except for payment intermediary services. Absence of a legal framework presents potential risks for the market and for clients. Some risks can be noted:

- Risk of market abuse from Fintech companies that are not managed and supervised by authorities. Lack of a legal framework and loose supervision can increase the number of small and medium-sized enterprises (SMEs) or start-up companies with little experience and knowledge that provide Fintech products and services. Loose supervision due to lack of legal framework can lead Fintech companies to commit violations and have a negative impact on clients and society.
- Risk of financial exclusion: The purpose of a corporate legal framework is fair competition, discrimination avoidance and financial inclusion. Lack of a legal framework will lead to unstable and inconsistent development, discrimination between customer segments with different financial backgrounds, knowledge, and location.
- Risk of security and data breach: Fintech companies do not have governance regulations and cannot meet the requirements of security and data protection before providing products and services to market. Personal data collection needs to comply strictly with security requirements to avoid potential risk.
- Risk of AML and combating the financing of terrorism (AML & CFT): Banks and licensed Fintech companies shall comply with AML & CFT bodies of rules. However, new Fintech companies may escape or ignore those requirements due to loose supervision.
- Risk of lack of transparency: Fintech companies are not managed under supervisory bodies. They may publish or provide clear details on their products and service policies including fees, pricing, and the like which may lead to clients' losses. At the same time, lack of transparency will lead to losses for investors in P2P lending and crowdfunding due to lack of investment products and insider trading.
- Risk of illegal loan collection: Due to lack of a legal framework, P2P lending and crowdfunding companies may commit illegal loan collection activities.

Demand to apply Fintech solutions such as e-KYC (know your customer), blockchain, big data, and open banking is quite large. With the development of technology, banks and financial institutions embrace implementing innovative products in the absence of a legal framework.

The current legal framework does not allow nonbank entities to function as settlement agent and or carry out cross-border connection or payments through QR code, card payment or transfers.

### Management bodies for Fintech

Stakeholders in financial markets like banks and insurance and securities companies are regulated and managed by the SBV and the Ministry of Finance, respectively. However, there is no authority to define management operations for Fintech companies. With the vision and mission of 4.0 industry defined by the government along with the dramatic development of technology, the government should appoint a body to manage and supervise the Fintech market to ensure the healthy development of Fintech companies in Vietnam.

### Infrastructure in Vietnam has not met the requirements of high-tech development yet, especially security technology

Vietnam is a developing country and economic limitations still hinder developing technology to approach global standards. Fintech companies have the advantage of flexibility, a young workforce and technology adoption, but their infrastructure is still a weak point.

In recent years, Vietnam has detected several scams and fraudulent cases related to mobile wallets in which many people lost money. One of the causes is the lack of two-factor-authentication (2FA) technology for cashing in or cashing out transactions. At the same time, not all intermediary payment services are complying with global payment standards like PCI DSS (payment card industry data security standard). Therefore, their systems may have vulnerabilities allowing hackers to steal customer data and information.

Flexibility is either an advantage or a disadvantage for Fintech companies. They can adopt, implement, and quickly launch products and services because they are not burdened by the same procedures and strict quality management processes as traditional financial market players. Lack of control and quality management can be a risk for Fintech companies with the spread of cybersecurity threats worldwide.

### Taxation policies attractive to investors in Fintech companies

Vietnam's Fintech market is in a nascent stage compared to Singapore or Indonesia in the ASEAN region. The legal framework for Fintech in Vietnam is under review and has not been finalized yet. Therefore, there are no tax exemption policies for seed investors or venture capitalists when they invest in Vietnamese Fintech companies. Absence of tax advantages discourages the amount of investment funds coming to Vietnam in the Fintech area.

### Management experience and strategic vision

According to research by *CB Insights*, the average failure rate of startup companies ranges from 75 to 90%. In Vietnam, there are roughly 1,000 startup projects per year and 92% of them are bankrupt within 3 years from the start date due to lack of management experience and failure to define a strategic roadmap.

Many Fintech companies in Vietnam are startups operated by a young genera-

tion that is ambitious and reckless. These entrepreneurs can define their ideas but struggle to identify a strategy for sustainable development as well as to effectively manage the team and business operations. Therefore, most of them will fail and disappear from the market.

## Prospects for Vietnam's Fintech Market and Conclusion

In recent years, Vietnam's Fintech companies have not attracted the attention of foreign investors, but they are receiving support from domestic big tech companies such as FPT Corporation, Viettel Group, Vietnam Posts and Telecommunications Group. Big tech companies are investing and supporting the Fintech companies

with their technology approaches and quality control and management. With current developments, as forecast by the Joint Stock Bank of Investment and Development (BIDV), Vietnam Fintech market is expected to increase transaction volume to USD12 billion by 2022.

Fintech payments companies are still leading the Fintech market, but the share of other segments will increase when the legal framework is established. Regarding blockchain, NAPAS completed the proof-of-concept for funds transfer by blockchain technology with 3 banks in 2018. The SBV is cooperating with relevant ministries to research CBDC as the trend is spreading among central banks around the world. Moreover, Vietnam has ten blockchain companies with capital of over USD100 million and seven of the top two-hundred blockchain companies globally were founded by Vietnamese. With the establishment of the Vietnam Blockchain Association and its potential, blockchain is ready to take off in the near future. Like blockchain, other Fintech segments including credit, P2P lending, crowdfunding, and





credit scoring are waiting to take off until the rules are set.

Recognizing the importance of Fintech, the SBV established a Fintech steering committee to supervise, build a roadmap for Fintech development, build a legal framework, and coordinate with ministries to implement the instructions of the Prime Minister in Decision number 844/QD-Ttg dated May 18, 2016 regarding “Approval for assistance policies on national innovative startup ecosystem to 2025”.

Recently, the SBV is in the process of finalizing the draft decree and the Prime Minister’s proposal to allow 7 Fintech segments to pilot a sandbox. The segments include payment, credit, P2P lending, e-KYC, open banking, blockchain, and bank support services (credit scoring, savings, fund mobilization, etc.). The result of the pilot sandbox will be the framework for the local authority to build and issue an official decree regarding Fintech operations. This action by the Vietnamese authorities is a good sign for Fintech companies.

The Vietnam Fintech Club (VFC) was set up in 2017 and is working under the supervision of Vietnam Bank Association.

VFC actively supports the operations of Fintech companies in Vietnam and provides consulting in building the Fintech framework to the SBV and other bodies. To support Fintech in Vietnam, VFC joined the Fintech Challenge Vietnam as organizer and partner, in cooperation with Vietnam Innovative Startups Accelerator (VIISA) to establish the first ever Fintech Lab. To exchange expertise on Fintech around the world, VFC has worked with peers and partners from Korea, Latvia, Singapore, Thailand, Taiwan, and the World Bank/International Finance Corporation (IFC). Discussion with these partners is valuable and will provide the material for the sup-

porting authority to build a framework for the Fintech business.

The new normal brought about by the COVID-19 pandemic, opened many opportunities for Vietnam to expand its digitization through Fintech to develop its society as well as to promote financial inclusion. As Nguyen Dang Hung, Chairman of the VFC said, “Fintech is changing the banking and finance sector in Vietnam and making the industry more crowded than ever. Once the framework of Fintech is fully set up, the Fintech market in Vietnam will boom and put its footprint on the Fintech World.”

## VIETNAM FINTECH CLUB

Vietnam Fintech Club (VFC) was established in 2017 under the supervision of the Vietnam Bank Association to initiate a channel for Fintech companies to support Fintech activities in Vietnam, share experiences and propose to authorities

to complete the Fintech legal framework. VFC is playing a vital role in the market and cooperates with numerous organizations to aid all stakeholders with the target to grow Fintech in Vietnam.

