Driving growth through innovation in Vietnam
Keeping an eye on the prize and an open mind
In mid-December 2017 in Hanoi, more than a dozen leaders of Vietnam’s banking, finance and FinTech industry joined a roundtable luncheon hosted by EY to discuss developments in the sector and how competing interests can be aligned to drive future growth.

Finding synergies between legacy financial institutions and the more disruptive FinTech start-up players was a key part of the discussion, as was how these new developments in the financial services industry are facing the challenge of being ahead of a more conservative regulatory environment.

Finally, the discussion also addressed ways in which technology could be used to streamline services and drive down the cost of service provision using automation and other technological advances.

Competition and Cooperation

Like many industries in Vietnam, the FinTech sector has seen rapid growth in recent years. While it is difficult to gauge the exact amount of investment new FinTechs have attracted, an estimate published in Vietnam Investment Review from the Topica Founder Institute put the total investment in Vietnamese FinTech start-ups in 2016 at $129 million dollars, accounting for 63 per cent of all start-up contract value, with companies such as Payoo, VNPT E-pay, M_Service (Momo), and F88 leading in terms of deal value.

Much of the development in the sector has been driven by technology entrepreneurs from outside traditional financial institutions. This has created some tension between these digital disruptors and legacy banks as the latter have moved to also create tech products for their customers.

Nguyen Hoa Binh is the founder and chairman of NextTech, a digital commerce group with dozens of platforms and a presence in six Southeast Asian countries and the USA. He kicked off the afternoon’s discussion by sharing what he had learned from studying the development of the FinTech industry in China, which he saw as similar to the Vietnam experience.

He said banks have generally not welcomed the emergence of the FinTech companies. “The partnership between FinTech players and the traditional finance industry has always been a struggle in the early days”.

“We have seen similar struggles in recent years, particularly in the payment business. And then we moved to the lending business and we are facing similar difficulties.”

Binh related his experience with establishing an online loan platform in which the entire process was conducted digitally, without any face-to-face interaction between the institution and the customer.

“We started looking at the lending sector using a FinTech approach by using unconventional data points to evaluate the customer’s credit score in order to get them loans totally online,” he said.

“We launched the first and only platform in VN to ever give lending to consumers without collateral or without meetings, based on proper data analysis. So, we brought that platform to several banks and some were very interested in that and we explored it with some banks with a view to signing a memorandum of understanding (MOU) but did not work out.”
In response to the challenges the project faced, it was converted to a peer-to-peer lending model, where the platform connected those willing to loan money directly to the borrowers. Binh said the move had been a successful one, with currently a queue of some 500 lenders on the books. “We find that the bank is not necessary,” he said.

When questioned about the scalability of the operation, and the inherent risk of his company guaranteeing the loans, Binh pointed to the experience of Lending Club, a similar peer-to-peer lender in the United States. He said that after launching in 2008, they gradually moved into partnerships and now had about 60 per cent of their loans underwritten by traditional financial institutions.

“In the long run, I am a big believer in the partnership between FinTechs and the financial sector,” Binh added.

EY ASEAN FinTech Leader, Varun Mittal painted a positive picture of what the future of collaborations between FinTechs and banks could be because of the size of the potential market. “Considering the model of financial inclusion which is needed in Vietnam, the number of potential customers that are free and untouched is so huge, the potential is there for Vietnamese start-ups and Vietnamese banks, the question is who grows and by how much.”

He said the obvious benefit of such a program was to get access to FinTechs doing new and interesting things. “There are two propositions that I broadly pursue as part of this. The first is identifying start-ups or FinTechs where synergies exist between VP Direct and the start-up or FinTechs, where VP Direct could be the first anchor customer, because that’s what a start-up needs – that one customer to start getting them momentum” he said. “Secondly, explore opportunities where we can participate financially or strategically to add value.”

Bhargava also said he believed the digital sector was currently too fragmented, and that an organized process would assist in generating better support and development. “A lot of these start-ups are operating with small boot-strapped capital, in some cases as little as 10 thousand dollars, they are going to run out of money every two months and that is not the way to sustain momentum or create scale. I think if we start looking at the ecosystem holistically and help build a few large FinTechs, capital will flow into Vietnam faster and folks are going to attract better funding.”

In a move to encourage greater development and collaboration in the sector, EY Financial Services Leader for Vietnam, Duong Nguyen pointed to the FinTech Challenge Vietnam event being held from November 2017 through to May 2018. The event involves a global call for new FinTech proposals, with 30 semi-finalists chosen to enter an incubation period before demonstrations and pitches are held for up to 15 finalists at a national FinTech event in Hanoi.

The challenge is supported by the State Bank of Vietnam, as well as seven local banks and other organizations such as the Australian Government and the Asian Development bank. The goal of the project is to use technology to promote financial inclusion in Vietnam.
Meeting the Regulatory Challenge

The emergence of FinTechs has raised questions and posed challenges for regulators around the world. Should these new outfits offering digital financial products and services be regulated and subject to the same standards at traditional institutions, or should new sets of rules be created which reflect the unique nature of FinTech and the rapid emergence of new technology?

Some countries have adopted an approach that encourages innovation. This is the case in the UK, where the Financial Conduct Authority has a special office that works closely with FinTechs to guide them through the legal and compliance process. Other jurisdictions are making more modest reforms that would make some allowances for the new digital service providers while more or less still keeping Fintechs to the same standards as banks. This is the approach put forward in draft legislation currently before the House Finance and Banking Committee in the US.

In Asia, Managing Partner for EY ASEAN Markets, Liew Nam Soon pointed towards the work being done by the Monetary Authority of Singapore as setting the standard of how regulators are trying to meet the challenge of building a framework around FinTech models. “Almost every month there is a new consultation paper coming out. So I would argue they are probably one of the most proactive regulators globally,” he said.

In Vietnam, the rapidly evolving nature of the sector has outpaced both banking regulators and legislators. Several participants at the roundtable discussion noted the long amount of time it took even to be granted a pilot program license from the central bank.

Bank for Investment and Development of Vietnam (BIDV)’s Senior Executive Vice President Tran Huong remarked on the strength of the regulatory framework around FinTechs in the UK, but also noted the length of time it had taken for his institution to be granted a pilot program license.

“You have to be very patient,” he said. “But markets without innovation, without disruption, will not move.”

Proposals often flounder when they confront a legal system design without anything like FinTech services in mind. In many cases, the necessary legislation and related regulations simply do not exist.

This was a situation faced by TP Bank CEO Nguyen Hung when his organization was developing virtual teller machines (VTMs), and submitted a proposal to the State Bank of Vietnam (SBV). His team had extensive meetings and a thorough vetting process from a range of departments at the State Bank of Vietnam (SBV).

“Their conclusion was it was very good and more secure than traditional banks,” Hung said. “But when it came back to the legal department at SBV they said it did not comply with the current circular. And that they did not have the function to allow anyone to pilot something like that.”

After further meetings with the central bank’s deputy governors and legal department, TP Bank was eventually granted a provisional license and TP Bank now nearly 50 VTM throughout the country is averaging around 1200 transactions per month per VTM, including opening accounts, transfers, withdrawals and deposits.

As one of the pioneers of FinTech start-ups in Vietnam, NextTech’s Binh is all too familiar with the challenges faced by organizations looking to quickly take advantage of technological developments.

“As a FinTech company, we are small. We are a bit more aggressive than the banks, we just do it,” Binh said. “It was the same in 2009 when we started out the first online payment system. It took us two years to get the pilot license. It is too long, and this is the problem with the regulatory system. It is limiting innovation. There must be some way to address that. That is our common problem.”

However, EY’s Duong said that SBV was aware of the need to develop policy around FinTechs and was taking active steps to do so. She said that the banking authorities had agreed to participate in a seminar in late December co-hosted by EY to discuss potential frameworks for digital banking.
“On top of all the banks’ requests, we as independent consultants raised concerns that we are moving backward instead of towards the future if we do not recognize the trends,” she said.

“I think in the banking sector, the government and the State Bank of Vietnam have been quite open, but they have a lot of other things to consider and payments is the next thing. In order to have a decree at the government level will take a while. That is why they are very supportive of the seminar.”

Duong also noted the recent launch of the Vietnam FinTech Association under the auspices of the Vietnam Banking Association. “I think in Vietnam we need to be very patient,” she added.

Innovation, Automation and Changing Attitudes

Vietnam is an increasingly connected country, and so it is a natural fit for the development of FinTech products. About 36 per cent of the population have a smartphone, and this is obviously much higher in urban areas. According to research from DI Marketing, for nine out of ten smartphone users, the device is their sole means of accessing the internet.

This fact, and the market potential for digital banking has spurred innovation according to Nam Soon. “Just going around the region, listening to what is happening in Vietnam, there is a lot of innovation, actually more than some of the other ASEAN countries,” he said, “A large part is driven by the size of the prize.”

Several participants at the roundtable mentioned the need to be adaptable in ways of thinking to take advantage of new developments in the banking sector.

Bhargava spoke about what it would take to make Vietnam a cashless society in the next decade. He believed that besides the obvious need for strong enablers to increase digital payment and bank account penetration like E-KYC, there should also not be competition between banks and other FinTech in terms of establishing digital acceptance. There should also be tax incentives for merchants to convert from cash to digital.

“Ninety per cent of transactions in Vietnam happen through mom and pop stores which are 90 per cent cash. We need to think differently, and what we want to do now is turn it on its head,” Bhargava said.

“We can compete on customer experience, features and so on. But we should cooperate and pool capital to create digital acceptance and standardize it. So let’s get every mom and pop store to accept digital payments, that’s the only way we can make things cashless”.

“And to get those guys to accept digital payments, it is intuitively wrong to tell a merchant to pay the card companies two per cent and give a rental for a POS machine and stop accepting cash. We need conversely to incentivize merchants to embrace digital.”

He continued, “There is little value in the 2 per cent that acquirers charge merchants according to our belief. The real juice lies in capturing the data points related to those 90 per cent cash transactions that are going through, outside the banking system. This data would be valuable to the entire supply chain from manufacturers, distributors as well as companies that lend to small businesses. If we can incentivize merchants to capture that data, it gives us tremendous opportunities to monetize that data.”

Using new technologies to streamline processes and reduce costs was also a topic touched on by FE Credit Innovation Center’s Director, Nguyen Thien Tam. He explained how his organization was using technology, especially FinTechs, to increase efficiency in many of its operational activities.

“We actively explore new opportunities to digitalize the customer lending journey and to automate the back-end operations, in particularly the on-boarding process to underwriting, customer service and finally collection. We try to reach out to FinTechs whenever possible to explore the opportunity to cooperate” he said.

“Our philosophy is we are not afraid to fail, and with that mindset we leverage on a lot of FinTechs, so we treat them as partners not competitors.”

A fitting final word came from the digital entrepreneur Binh, when he spoke of the importance of keeping an open mind when it comes to new developments in the financial industry.

“Whenever we have an innovative idea to change things, the conservative mind always thinks it is risky. But I find it is not that much,” he said. “In order to have disruption, evolution, you must give up the negative thinking. That is of very key importance for innovation.”

Conclusion

Overall, the discussion at the roundtable reflected a positive outlook for the FinTech sector, and digital banking products in general, in Vietnam. Though the future may be bright, that light is still some way below the horizon as central bank authorities are supportive and taking steps to build a robust regulatory framework while trying to keep pace with the speed of innovation. In a sector moving so fast, it seem patience is the key.
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