



Improving Vietnam's Financial inclusion and FinTech's role in collaboration with Credit institutions

November 2024

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Glossary of acronyms and definitions



Acronyms

AI	Artificial Intelligence
AML	Anti-Money Laundering
AMS	ASEAN Member States
API	Application Programming Interface
CAGR	Compound Annual Growth Rate
BNPL	Buy Now, Pay Later
DFS	Digital Financial Services
eKYC	electronic Know Your Customer
EmFi	Embedded Finance
FinTech	Financial Technology
GDP	Gross Domestic Product
IFC	International Finance Corporation
InsurTech	Insurance Technology
MSMEs	Business households, Micro, Small and Medium-sized Enterprises
NAPAS	National Payment Corporation of Vietnam
P2P	Peer-to-peer
POS	Point of Sale
SBV	State Bank of Vietnam
SMEs	Business households, Small and Medium-sized Enterprises
TCIs	Traditional Credit Institutions
WMSMEs	Women-owned business households, Micro, Small and Medium-sized Enterprises

Definitions

Credit institution	Includes banks, non-bank credit institutions, microfinance institutions, and people's credit funds, used when presenting information about the context in Vietnam
Financial institution	Referred to as an official financial institution, used when presenting information about the context in the region and the world
Sandbox	Controlled testing mechanism

Foreword



As innovation continues to break barriers across industries and unlocks unprecedented potential for the financial banking sector, we are pleased to present this report, examining the impact of FinTech on financial inclusion within Vietnam's evolving economic landscape. This report offers both a snapshot of the current state of financial inclusion and an informed perspective on future possibilities.

The concept of financial inclusion echoes the aspirations of millions striving to engage with a financial system from which have historically been excluded. Consumers, particularly in rural areas, have faced challenges in accessing formal credit, hindered by a lack of financial literacy and a pronounced digital divide between urban and rural communities. Similarly, MSMEs have been consistently underserved by TCIs, often unable to meet the stringent collateral and documentation requirements due to their smaller scale. Over the years, we have witnessed the power of technology to democratize access to financial services, and it is this power that is at the center of our report. We explore the human dimension of financial inclusion, recognizing the financial inclusion stories of empowerment behind each data point. The rise in account ownership and the embrace of digital transactions are not just a measure of progress, they are milestones in the journey of individuals towards economic participation and security.

The collaboration between the government, credit institutions, and FinTech has been pivotal in this journey. It is a partnership that has fostered

innovation and laid the foundation for a more inclusive ecosystem for the future. Moreover, consumer and MSME participation to accept the financial inclusion efforts has been conducive. Yet, as we highlight these achievements, we are also aware of the challenges that persist. Access to formal financial services is not universal, and the need for financial literacy is more pressing than ever.

In this report, we highlight the role of FinTech as a catalyst for change. These companies have not only provided solutions but have also inspired a movement towards a more inclusive society. FinTech demonstrates that with appropriate tools and an innovative mindset, barriers can be surmounted, paving the way for financial empowerment for everyone.

As we chart the course for the future, we must continue to work towards an environment where FinTech can thrive alongside TCIs. We must advocate for policies that support innovation while ensuring stability and trust in the financial system. Our goal is to build a framework where every individual, regardless of their socioeconomic status, can participate fully in the financial system of the nation.

As you delve into this report, we invite you to consider a future in which every Vietnamese citizen has access to the financial banking tools essential for prosperity inclusion. We trust you will find the insights within both informative and thought-provoking.

Executive summary



Noticeable strides have been made in the financial inclusion landscape in Vietnam, and driven by a synergistic approach between the Government and market participants.

Vietnam has made noticeable strides in financial inclusion, with the government and TCIs playing a pivotal role. Based on the National financial inclusion strategy to 2025, vision to 2030, public and private sectors have collaborated to extend financial banking services, particularly to underserved rural areas and unbanked and underbanked population, resulting in an increase in payments account ownership from 31%¹ during 2015-2017 to 87%² by the end of 2023. According to the Global Financial Inclusion Index 2024 by Principal Financial Group, Vietnam has been ranked No. 14, lagging only Singapore and Thailand in the ASEAN region.³

The government's efforts, coupled with the proactive stance of credit institutions, have led to substantial improvements in the financial ecosystem. The central bank's push to promote cashless payment services led to 52%⁴ average annual increase in internet payment transactions for the 2021-2023 period. Concurrently, it has advanced the financial banking industry's digital transformation agenda, issuing regulations, creating legal frameworks and favorable environment for financial inclusion goals, such as the Law on Credit Institutions, the Law on Insurance Business, the Law on Anti-Money Laundering, the Law on Identification, the Law on Electronic Transactions, etc. with major initiatives such as National Portal for Public services, national citizen database, and a unified QR standard (VietQR).

In the private sector, a collaborative model rather than a competitive one has been fostered between FinTech companies and banks. By working together, FinTech and banks are able to bridge the financial inclusion gap with FinTech providing innovative platforms and customer engagement strategies, while

banks offer the trust, regulatory understanding and financial infrastructure to support these services. This collaboration has been instrumental in expanding the reach of financial banking services and promoting a cashless economy.

The expansion of merchant networks and payment acceptance points, along with the growing user base of FinTech companies have significantly contributed to this advancement. These partnerships have enabled a seamless integration of financial banking services, allowing customers to enjoy a wider range of financial products and services.

However, certain challenges remain, where technological innovations in the financial sector are proving beneficial to overcome.

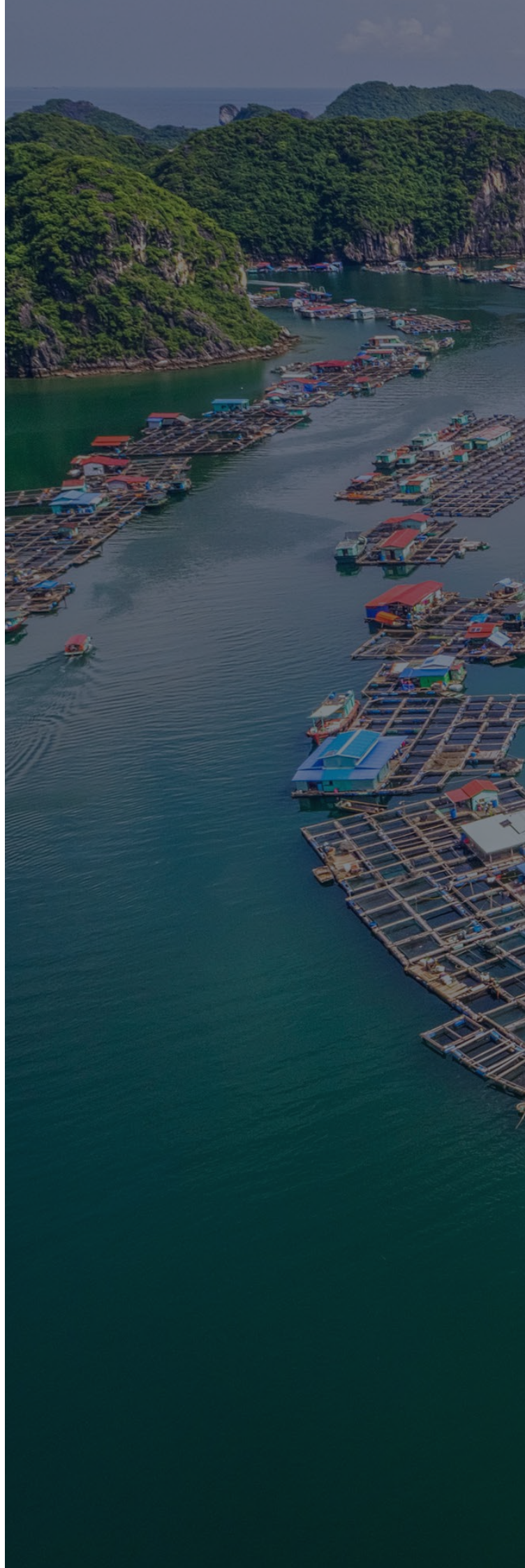
Despite the advancements, challenges remain in Vietnam's financial inclusion landscape. A significant portion of the population, especially in rural areas, still lacks access to formal financial banking services, financial literacy remains low, and there is a digital divide that hinders the full potential of financial inclusion.

By leveraging technology to overcome these barriers, FinTech companies have emerged as a helping hand that offers innovative solutions, accelerating the adoption of financial banking services in the country particularly for underbanked MSMEs and the unbanked population. For the consumers, a multifold surveys and analysis across themes of affordability, accessibility, speed of delivery, and financial literacy driven by financial technology companies, indicated a positive outlook towards financial inclusion. FinTech has fulfilled the long unmet credit need of the MSMEs by using data analytics to gain valuable insights into MSMEs' financial history and behavior for creditworthiness assessment, further driving their digital transformation for business expansion and growth.

The road ahead: Embracing the future of financial inclusion

While much has been achieved, the journey towards complete financial inclusion is long and ongoing. Enhancing collaboration between FinTech and TCIs, deepening the development of open banking, and promoting financial literacy, are the need of the hour. The regulatory framework needs to be strengthened and expanded, especially in expediting the approval of the Regulatory Sandbox, to support innovation and manage risks associated with new financial technologies.

In conclusion, Vietnam's financial inclusion journey has witnessed significant progress, driven by government initiatives and leadership, TCIs, and FinTech innovations. However, to achieve a fully inclusive financial ecosystem, concerted efforts must continue to address the remaining challenges and embrace emerging technologies and educational initiatives. The collaboration between banks and FinTech is particularly important in the application of financial technology within the current regulatory context to ensure that the benefits of financial innovation reach all segments of the population.



An aerial photograph of a floating village in a bay, surrounded by steep, green limestone cliffs. Numerous small, colorful houses on wooden rafts are scattered across the water. The water is a vibrant green. The sky is clear and blue.

Chapter 1

Overview of
financial inclusion





Introduction

In today's world, brimming with progress and innovation, a significant portion of society remains outside the protective canopy of the formal financial ecosystem. The global financial inclusion score of 49.7¹ in 2024 casts a revealing light on the current state of economic empowerment. This figure not only highlights the vast untapped potential within the financial banking landscape but also underscores the pressing need to address the persistent disparities.

Financial inclusion plays a pivotal role in fostering inclusive economic growth.

Significance of financial inclusion is profound, as it stands as one of the fundamental drivers of economic development, a powerful force in poverty alleviation, and a vital contributor to inclusive economic growth.

The scope of financial inclusion extends well beyond mere access; it encompasses the actual "access to" and "usage of" a diverse array of financial services. This concept is not just a financial imperative but also a social one, as it is interwoven with at least eight of the United Nations' 17 Sustainable Development Goals and is instrumental in realizing the World Bank Group's ambitious objectives of eradicating extreme poverty and fostering shared prosperity.

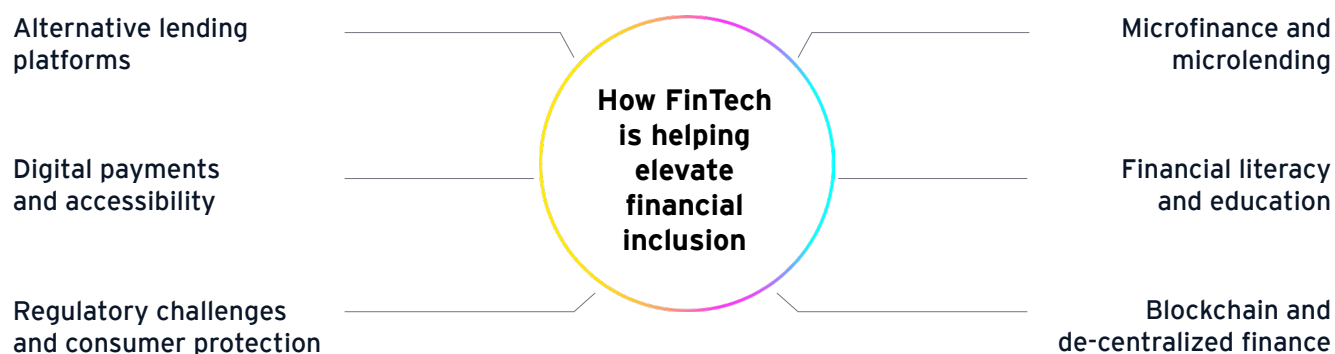
Global policymakers have intensified their efforts to elevate financial inclusion with FinTech leading the charge.

Worldwide efforts are revolutionizing financial banking services by creating easy-to-use, accessible payment systems and enhancing financial education. These initiatives are breaking down barriers for the underserved, focusing on affordability, protection, and sustainable innovation. According to the World Bank's September 2022 "Financial Inclusion" report, over the past decade, with the efforts of policymakers globally, the number of adults without access to an account has steadily declined from 2.5 billion in 2011 to 1.4 billion in 2021, marking significant progress in financial inclusion².

At the forefront of financial banking democratization, FinTech is a part of reshaping the landscape of inclusion, wielding innovative technologies to remove traditional barriers. By enhancing access to financial banking services, FinTech is extending the reach of financial banking systems to the most remote corners, connecting underserved communities to the global economy.

Financial inclusion means "Individuals and businesses have access to useful and affordable financial products and services that meet their needs – transaction, payments, savings, credit, and insurance – delivered in a responsible and sustainable way".²

FinTech is also pivotal in empowering individuals through financial education and literacy, equipping them with the knowledge to make informed decisions. Moreover, FinTech is adeptly striving to operate within the currently challenging legal framework, working in tandem with policymakers to forge a regulatory environment that safeguards consumers while fostering innovation.



Source: EY Insights analysis

Prepaid cards support financial inclusion by providing a convenient electronic payment tool to unbanked and underbanked consumers. They are projected to exceed US\$1 trillion in global transaction value across all channels in 2024.³



Global and regional progress of financial inclusion

Financial inclusion in developing economies is a non-negotiable and critical aspect for growth, ultimately leading to poverty alleviation. Globally initiatives have been undertaken to bring financial banking services to those who have been excluded from the formal banking system.

Nations across the globe, especially developing ones are intensifying their efforts towards financial inclusion

According to World Bank², since 2010, more than 55 countries have made commitments to financial inclusion, and more than 60 have either launched or are developing a national strategy. Each country has tailored its policy emphasis to address its citizens' needs and financial environment uniquely. These include important developments such as launching national strategies for financial inclusion, aiming for broader bank account access for adults, and transitioning towards electronic payments to meet defined objectives.

M-Pesa in Kenya



About: The mobile money transfer service was launched in 2007, M-Pesa, the mobile money transfer service, is used by approximate two-third of the total population in Kenya.

Impact: Before M-Pesa, Kenyan consumers were facing challenges of high banking fees, required minimum balances, and distant access points, while informal cash transfers carried security risks. Many experienced an ineffective payment system due to sparse banking facilities and low internet penetration (approximate 41%). (*) M-Pesa now provides a secure and accessible mobile money platform. As of 2023, it handles 3,000 transactions per second with 61% of the country's population using the service. (**)

PMJDY in India



About: Pradhan Mantri Jan Dhan Yojana (PMJDY) program has been instrumental in ensuring access to affordable financial services namely, a basic savings and deposit accounts, remittance, credit, insurance, pension.

Impact: PMJDY has led to the creation of over 500 million (***) new bank accounts since its inception. The scheme has been responsible for providing basic banking facilities to the underprivileged, catalyzing the government's mission for financial inclusion.

Grameen Bank in Bangladesh



About: Microfinance institutions play a pivotal role, organizations like Bangladesh's Grameen Bank provide small loans that do not require collateral and charge low-interest rates.

Impact: This has enabled access of credit to individuals, most of whom are women. The objectives for the setup included eliminating exploitation of the poor by money lenders, creating opportunities for self-employment for the unemployed people in rural Bangladesh, and extending banking facilities to poor.

PhilSys in Philippines



About: The digital identity system, Philippine Identification System (PhilSys) is a key enabler of financial inclusion.

Impact: This has simplified access to financial services and strengthened the economy (more than 88.5 million (****) people have registered their biometrics with the system), while mobile wallet, GCash is leveraging this digital identity to expand services like payments and credit to millions.

Source: EY Insights analysis

(*) "Digital 2024: Kenya", Datareportal, <https://datareportal.com/reports/digital-2024-kenya>

(**) "M-PESA: 17 years of transforming lives", Safaricom, 10 July 2024

(***) "Pradhan Mantri Jan Dhan Yojana (PMJDY) - National Mission for Financial Inclusion, completes nine years of successful implementation", Press Information Bureau, 28 August 2023

(****) "Frequently asked questions", Philippine Identification System, <https://philsys.gov.ph/faq-frequently-asked-questions/>, accessed on 26 July 2024

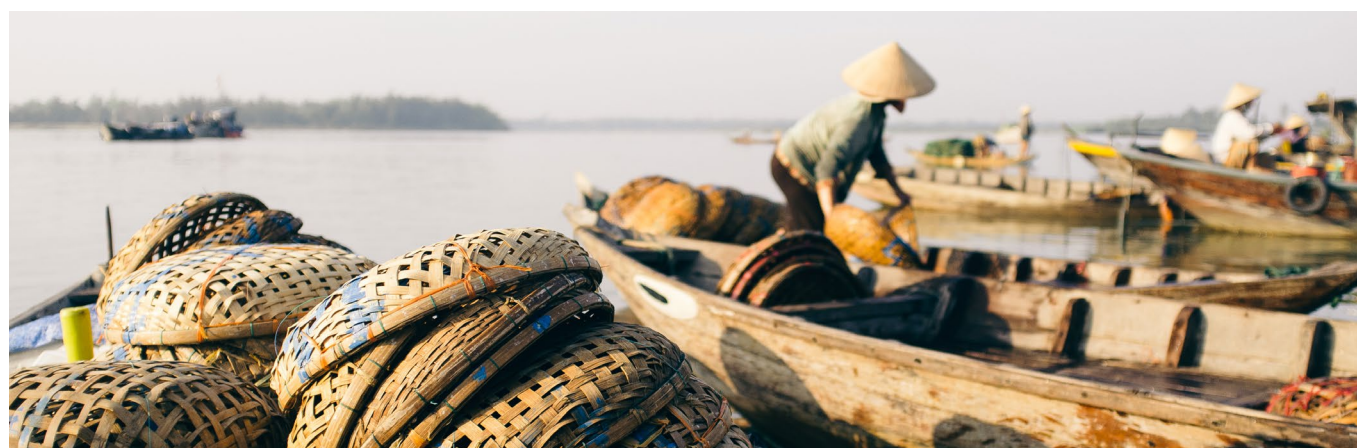
According to a report by Principal Financial Group¹, the global financial inclusion score stood at 47.4 out of 100 in 2023, versus 41.7 in 2022, and this year, it rose by 2.3 points to 49.7 majorly driven by improvements in economies across Latin America and Southeast Asia. More developed regions are showing smaller improvements in financial inclusion scores as compared to developing ones.

In support of Vision 2025, AMS have set targets for reducing the level of financial exclusion, as well as putting the enabling infrastructure for financial inclusion in place by 2025.

Current level of financial exclusion in AMS⁶ (% of adults)

AMS	2017	2019	2020	2021	2022
Brunei Darussalam	14	14	21	21	14
Cambodia	82	41	41	41	33
Indonesia	51	45	23.8	18.6	14.9
Lao PDR	71	69	48	48	42
Malaysia	15	5	4	4	4
Myanmar	74	52	42	42	35
Philippines	66	77	71	71	44
Singapore	2	2	2	2	2
Thailand	18	16	12	5.7	5.6
Vietnam	69	42	36.3	36.03	34.1

Source: ASEAN MONITORING PROGRESS Financial inclusion in selected ASEAN countries, United Nations Capital Development Fund (UNCDF), 2022



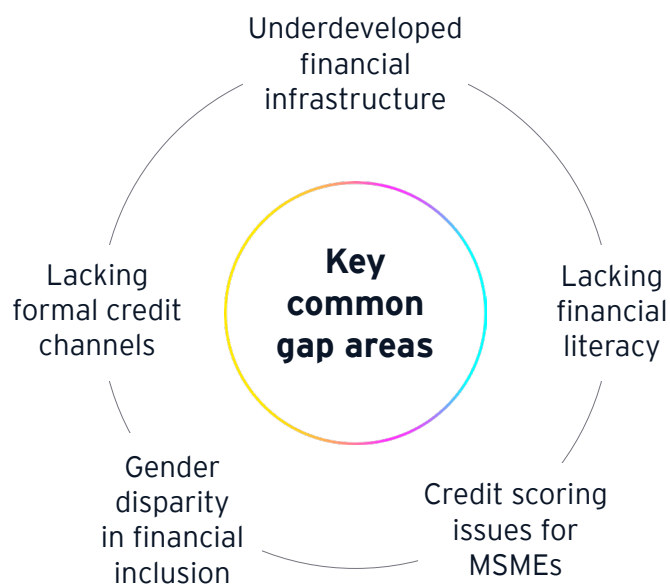
Gaps and challenges hindering progress

However, there persist certain gaps, fanned by some shared challenges, especially in the ASEAN region.

All being said, there is still an important inclusion gap in developing markets. According to World Bank², globally, about 1.4 billion adults remain unbanked – without an account at a financial institution or through a non-bank provider. While in Southeast Asia, it is estimated that as of 2021, around 225 million people lack access to a financial account while more than 350 million people do not have access to formal credit.⁴

Financial inclusion is also a gap among MSMEs, who represent 90% of all firms in most countries, generating 70% of total employment and 50% of worldwide GDP. However, the MSMEs finance gap now stands at US\$5.7 trillion, which reaches to US\$8 trillion when informal enterprises are included. In emerging markets, 70% of MSMEs lack adequate financing.⁵

A closer analysis using a multidimensional framework uncovers several shared challenges concerning the state of financial inclusion across the countries that impede their steady progress. These interlinked areas include inadequate infrastructures, gender disparities, financial literacy, and data gaps among key factors, which contribute to the complexity of the financial inclusion landscape in the ASEAN region.



Source: EY Insights analysis





These challenges get further intensified by barriers affecting majorly MSMEs and WMSMEs

The absence of **formal identification**, a significant barrier to financial inclusion for **women**, is often associated with the **lack of national identity (ID) systems**, particularly digital ones. Social and cultural norms can constrain women's property ownership, hinder their access to mobile phones, impede independent account opening, restrict mobility, and influence decision-making within households. These limitations underscore the importance of financial education for this crucial market segment. Women also tend to exhibit **lower self-efficacy concerning financial services** and decision-making.⁶

It has been widely established that lacking interoperable **payment solutions** suitable for international trade is preventing merchants, especially **MSMEs**, from tapping into international markets. Here, 37% of ASEAN's digital generation, and 42% of MSME entrepreneurs, reported that **the inability to receive and/or send payment internationally** has hampered their ability to buy or sell products to or from overseas.⁷

Additionally, accessibility presents a considerable obstacle for MSMEs seeking financial banking services. It stems partly from the perspective of conventional financial institutions, which often lack sufficient credit-scoring information to assess loan applications. Since many financial business transactions are conducted in cash or through informal payment channels, these institutions struggle to connect with customers. MSMEs encounter barriers in accessing financial products due to insufficient awareness, collateral, or adequate documentation.

Other challenges across countries include legal frameworks, providing rural financial banking services, digital adoption, knowledge gaps, and gender disparities. Initiatives are required for improving financial education, infrastructure development, and targeted solutions for underserved segments.



Opportunities for enhancing financial inclusion

Addressing gaps (*highlighted in earlier chapter*) in financial inclusion is crucial, as they hinder financial and social well-being at the individual, household, and macroeconomic levels. Barriers to financial inclusion can be addressed by collective efforts of industry stakeholders including the government, TCIs and FinTech companies.

DFS is pivotal in surmounting current obstacles, thereby democratizing access to finance on a large scale

DFS plays a crucial role in enhancing financial inclusion by providing accessible, efficient, and cost-effective tools for individuals and businesses to manage their finances. Digital platforms can reach rural or underserved areas where traditional banking infrastructure is limited or non-existent. Mobile banking, internet banking, and digital wallets allow users to access financial banking services directly from their devices.

FinTech stands as the crucial pillar in delivering transformative and affordable DFS to the populace at large, thereby improving financial inclusion across the globe.

Drawing from a United Nations report, the synergy between FinTech and traditional banking institutions can offer customers significant advantages. This cost efficiency enables FinTech companies to extend capital, potentially offering up to US\$2.1 trillion to individuals and MSMEs. Banks collaborating with FinTech firms can leverage these savings to enhance customer access to financial banking services. Such partnerships could contribute to a substantial increase in the GDP of emerging economies, with an estimated growth of nearly US\$3.7 trillion by 2025. This economic boost has the potential to create up to 95 million new jobs and could result in a GDP increase of 10%-12% for the world's poorest countries, demonstrating the transformative power of FinTech and bank collaborations for customers and economies alike.⁸

Furthermore, to unlock FinTech's complete potential, it's necessary to improve digital literacy with robust approaches. This involves investing in digital infrastructure, establishing policy frameworks, governance, and providing education. Such measures will enable FinTech benefits to reach beyond the tech-savvy and embrace a broader audience, with FinTech serving as a crucial enforcer in facilitating this inclusive expansion and ensuring that the advantages of DFS is accessible to all layers of society.

The FinTech sector has been a transformative force in advancing financial inclusion, leveraging technology to create innovative solutions that address the needs of those who have been traditionally underserved by TCIs. FinTech companies are harnessing the power of the internet, mobile technology, and data analytics to offer a wide range of financial banking services that are accessible, affordable, and user-friendly.



Paytm and PhonePe in India

Paytm and PhonePe have leveraged the widespread adoption of smartphones to offer digital wallets, Unified Payments Interface (UPI) services, and other financial services. These platforms have been driving the country's shift towards a cashless economy, especially after the government's demonetization initiative in 2016.



NuBank in Brazil

NuBank has emerged as a leading digital bank, offering no maintenance fees accounts, free and unlimited transfers, and a higher interest rate than a regular savings account. Its success is driven by its customer-centric approach, innovative marketing, and commitment to serving Brazil's underbanked population without charging traditional fees.



KakaoBank in South Korea

As South Korea's first internet-only bank, KakaoBank leverages the technological prowess of a FinTech entity while drawing upon the expertise, trust, and regulatory experience of conventional banks. It utilizes the widespread adoption of KakaoTalk to integrate banking services directly into the messaging app. The bank's focus on the underbanked market by offering low-fee services, minimal account requirements, and a simplified user experience promotes financial inclusion and literacy.




GoPay in Indonesia

GoPay, electronic money for any payment and financial transaction of PT GoTo Gojek Tokopedia Tbk, and OVO, a digital payment service, has become widely used for transactions and financial services. They offer a variety of services including payments, transfers, and bill settlements, reaching millions of users.

Additionally, the superapp model, prevalent in Asia, is reshaping consumer engagement by integrating major FinTech services with daily life applications within a single platform. In markets like China, Korea, Vietnam, and Indonesia, these superapps offer an integration of financial transactions, ride-sharing, food delivery, and online shopping; simplifying user experience and enhancing digital convenience. The model presents opportunities for growth and customer loyalty by integrating financial banking services with the everyday in a way that redefines accessibility and efficiency.

FinTech is not limited to payments and credit. Companies like Lemonade in the United States have disrupted the insurance industry with their AI and chatbots driven platforms that simplify the process of buying insurance and filing claims.

These examples illustrate the FinTech's pivotal role in providing financial banking services and in fostering a more inclusive financial ecosystem. By addressing the gaps left by TCIs, FinTech is enabling greater economic participation and empowerment for individuals and businesses in developing economies.



Chapter 2

The state of financial
inclusion in Vietnam



Progress in financial inclusion metrics

Vietnam has achieved impressive socio-economic progress, transitioning from a poor nation to a lower-middle-income country. In tandem with this growth, Vietnam's financial banking sector has experienced substantial innovation. The country has made strides in promoting financial inclusion, with a concerted effort from the government, credit institutions, and international organizations to extend financial services to the broader population.

Vietnam witnessed a sharp decline in cash circulation since 2021, plummeting from **approximately 12.11% during January 2021 to 9.98% by April 2024**. While it took a decade from 2011 to 2021 to reduce the figure by approximate 1%, the last two years saw an **approximately 3% drop**⁵. Moreover, according to a survey by Worldpay⁶, though cash remained the leading payment method at POS in 2023 with an estimated 38% of transaction value, this figure decreased by more than half from the 85% of in-person payment value cash in 2019. It is estimated that **cash will fall to 24% of POS transaction value in 2027**.

Vietnam ranks No. 3 in the ASEAN region for financial inclusion, trailing only Singapore and Thailand.

Vietnam has consistently been one of the leading countries in ASEAN region as well as globally in terms of financial inclusion. As per *Global Financial Inclusion Index 2024* by Principal Financial Group, it has been ranked No. 14, lagging only behind Singapore (No. 1) and Thailand (No. 8) from the ASEAN region.

87%¹

adults have payment accounts, increased from 31%² during 2015-2017

52%³

increase in the average number of payment transactions through Internet channels in the period 2021-2023

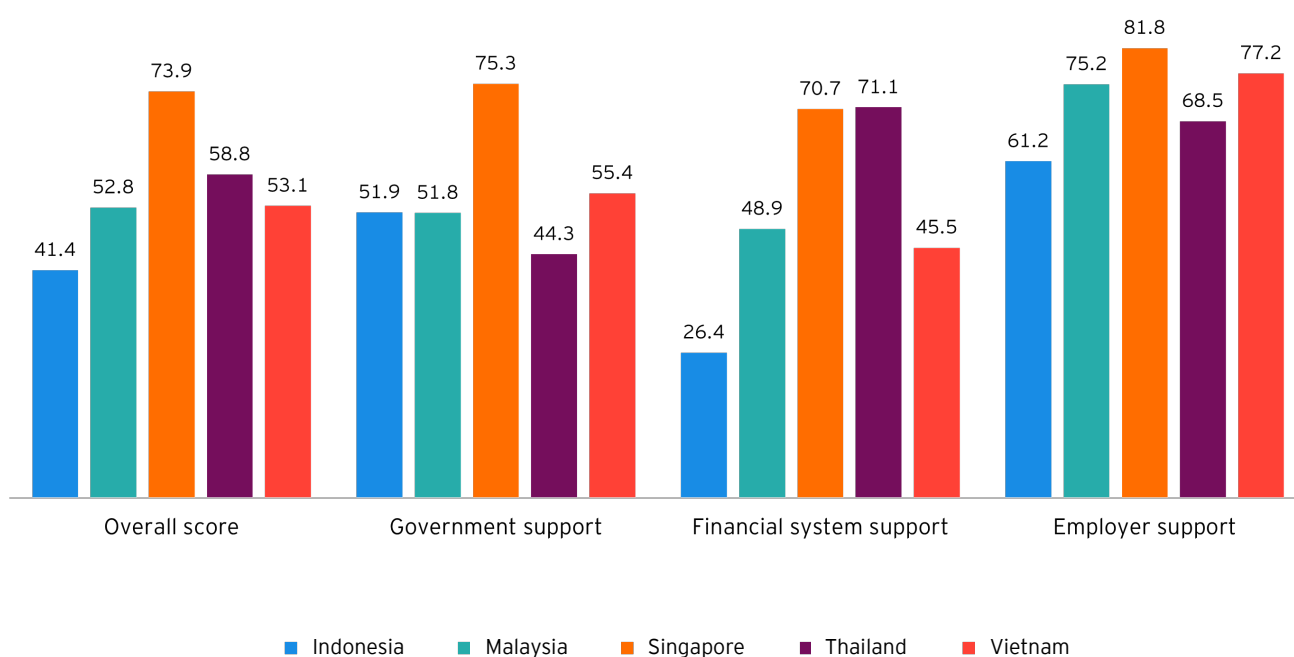
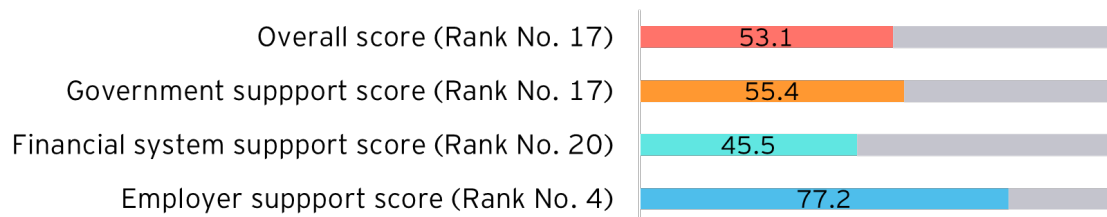
103%³

average growth rate in the number of payment transactions through mobile in the period 2021-2023

172% and 74%⁴

growth rate in the number and value of payments through QR code methods in the first 11 months of 2023

Financial Inclusion Index 2023 – Vietnam



Source: Global Financial Inclusion Index 2023, Principal Financial Group, 2023



Government and private sector initiatives

Government's increased efforts to position Vietnam as a digital hub has enhanced financial inclusion across the region.

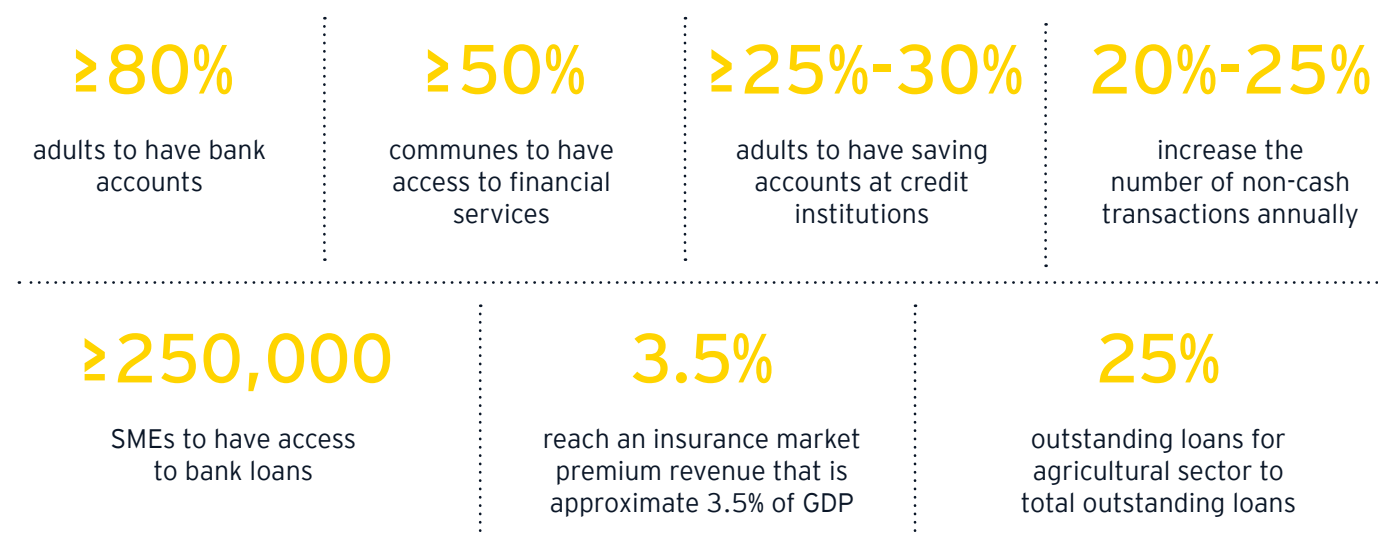
Vietnam's journey towards financial inclusion has been characterized by the close coordination between public and private sector entities. This has been pivotal in creating an ecosystem that fosters access to financial banking services for a broader segment of the population, particularly those in rural and underserved areas. The nation's central bank, the SBV, has been at the forefront of this initiative, by encouraging the development of a diverse range of financial banking products and services. Vietnam's government has defined a Decision No. 149/QĐ-TTg approving the *National Financial Inclusion Strategy until 2025, with a vision towards 2030*, with clear objective and policy directions for Vietnam's financial inclusion.

“

Financial inclusion means that all individuals and businesses have access to and use financial products and services in a convenient manner, suitable to their needs, at a reasonable cost, provided responsibly and sustainably, with a focus on the poor, low-income people, vulnerable groups, small and medium-sized enterprises, and micro-enterprises.

Source: Decision No. 149/QĐ-TTg of the Prime Minister approving the National Financial Inclusion Strategy to 2025, with a vision to 2030, Prime Minister, 2020

The key highlights of the *National Strategy* include:

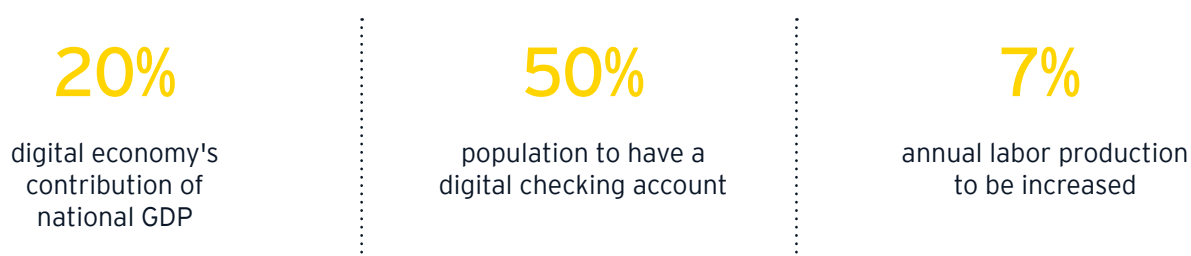


Source: Decision No. 149/QĐ-TTg of the Prime Minister: On approving the National Comprehensive Financial Strategy to 2025, with a vision to 2030, Prime Minister, 2020

In 2020, the government initiated the *National Digital Transformation Program*, with a completion strategy set for 2025 and a vision for 2030. This program aims to enhance the digital economy's contribution to 20% by 2025 and 30% by 2030 of the national GDP.

Key initiatives include the advancement of digital infrastructure and the development of digital platforms to facilitate transactions, thus improving the accessibility and convenience of financial banking services for more citizens. Additionally, the digitization of public service payments offers a wider array of payment options, fostering the adoption of inclusive finance. Efforts to increase digital literacy among the population are also integral to the program's success. These measures are proposed by policymakers who clearly recognize the challenges and the importance of their implications for the country's progress.

Key highlights of the program in 2025 include:



Source: Decision No. 749/QĐ-TTg of the Prime Minister: Approving the "National Digital Transformation Program to 2025, with orientation to 2030", Prime Minister, 2020

To realize these objectives, the strategy outlines several approaches, such as refining the legal framework; broadening the range of financial service providers and enhancing support mechanisms to increase the provision of financial services and products; improving financial infrastructure and lowering transaction costs, among other measures. Continuous improvements have been made to the legal frameworks, resulting in the enactment of new laws, decrees, decisions.

The first legal basis in Vietnam that laid the groundwork for the application of eKYC solutions is Decree No. 87/2019/ND-CP dated 14 November 2019, by the government. Along with the COVID-19 pandemic, it further accelerated the digital transformation process and made banking financial products more accessible to the public. Investment and upgrades have been made to payment systems, including the national interbank electronic payment system (belongs to NAPAS). The SBV has directed banks and payment intermediaries to promote cashless payment services, develop financial products for agriculture, rural businesses, MSMEs, and cooperatives. Concurrently, it has advanced the public sector's digital transformation agenda with major initiatives such as national portal for public services, National citizen database, and a unified QR standard for bank and e-wallet fund transfer.

In 2023, NAPAS saw over 52% rise in non-cash transaction volume and over 12% increase in transaction value compared to 2022.⁷

As per the State Bank of Vietnam, domestic payments via internet reached approximate 650 million by fourth quarter of 2023, amounting to a staggering VND17,300 trillion in value.⁸

As evidenced by the strategy goals and the improvement in the financial inclusion metrics, DFS has played a pivotal role in the transformation of Vietnam. DFS plays a crucial role by overcoming geographical and logistical barriers, reducing transaction costs, and making financial services more accessible to a broader segment of the population.

Moreover, the addition of Article 106 to the *Credit Institutions Law 2024*, which establishes a controlled experimentation mechanism in the banking sector reflects the Government's commitment to creating a legal foundation that allows financial institutions to apply new product and service models. This initiative aims to deliver a multitude of conveniences to consumers while simultaneously ensuring that risk management measures are in place to protect the public.

Private sector entities have also leaped onto the digital revolution, playing a pivotal role in advancing financial inclusion in Vietnam.

Private sector players have also made significant contributions. Banks are leveraging technology, innovation, and strategic partnerships at large scale to overhaul their internal operation, introduce new products and revamp customer experiences. In Vietnam, financial companies have stepped up their digital transformation, focusing on revamping both their front-end and back-end operations and transitioning services from offline to online. They are actively seeking partnerships with FinTech companies to expand their reach, optimize procedures, and further reduce costs. This transformation journey sees

traditional players delivering services and products through online platforms comprehensively, efficiently, conveniently, and some without complete human involvement. Moreover, many banks are now viewing FinTech companies not just as competitors, but as vital partners in the quest to deliver innovative financial banking products to customers. By collaborating with FinTech companies, banks can tap into advanced technologies and platforms that they may not possess in-house, enabling them to reach new market segments and cater to the evolving needs.

VND15 trillion⁹

allocation by banking sector for digital transformation by 2022

>96%¹⁰

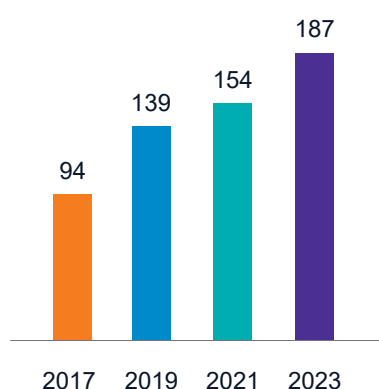
Vietnamese banks have formulated digital transformation plans

92%¹¹

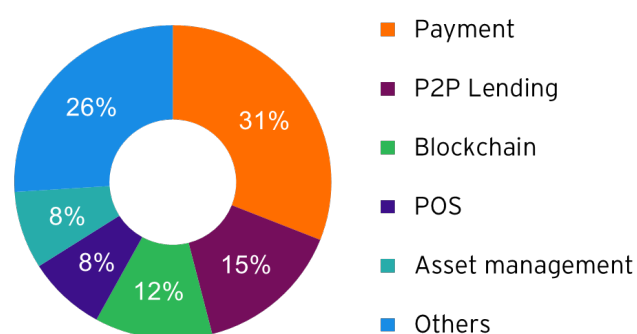
banks developed internet and mobile application services

The rise of FinTech startups, both domestic and foreign, helps stir product and business model innovations, especially innovations based on new technology and data. FinTech companies in Vietnam are innovating a range of products and services tailored to the needs of the unbanked and underbanked populations and bridging the gap between traditional financial banking services and the digital economy. Continuous innovation, combined with modern technologies and user-friendly product design, is the key to enabling FinTech companies to connect with customers. This is particularly relevant for FinTech companies that operate as independent partners rather than as subsidiaries of banks, where the capacity for innovation can maximize its strengths and creative abilities without being bound by the guidelines or direction of any parent organization. By leveraging technologies such as mobile banking, e-wallet, eKYC, Alternative Credit Scoring, BNPL, integrated POS, these companies have made financial banking services more accessible and support the process of bringing more people into the financial system.

Number of FinTech companies
CAGR: 25.7%



Payments and digital lending comprise the highest number of FinTech players



Source:

Dao My Hang, Le Thi Dieu Linh, "Su phat trien cua Fintech va thach thuc doi voi cac ngan hang thuong mai Viet Nam", SBV, 2024.

Dr. Dinh Bao Ngoc, Dr. Tran Nguyen Hong Van, "Thuc trang va giai phap phat trien cong nghe tai chinh tai Viet Nam", SBV, 2023.

Remaining challenges and upside potential

The progress however faces certain headwinds as some challenges persist.

There is still a long way for Vietnam to be considered a fully financially inclusive nation. Despite 87%¹ of the population owning bank accounts by the end of 2023, a large proportion of "poor" population still struggle to access financial and banking products and services at reasonable fees. A large portion of Vietnam's population lives in rural areas where access to formal financial services is limited. The financial landscape is further constrained by limited access to traditional banking services as some products and services still rely on the physical branch of the bank or require strict documentation, but expanding these branches to rural areas is hindered by high costs, low brand recognition, sparse populations, and a lack of financial literacy, which results in low demand. Additionally, rural branches often offer fewer products and face numerous management and operational risk. The infrastructure for banking and financial services is often concentrated in urban centers, leaving rural inhabitants underserved.

Lack of financial knowledge prevents sound decision making, whereas the concentration of digital efforts in particular demographics hinders progress.

Educational barriers worsen the situation, with a widespread lack of financial literacy preventing effective management of financial products. This lack of education manifests in two significant issues.

Firstly, individuals without fundamental knowledge struggle to access financial banking services, missing out on the benefits these services offer. The consequence is a segment of the population isolated from the formal financial system, unable to leverage tools that could enhance their economic stability.

Secondly, the lack of understanding in using and managing finances leads to high costs. People may incur these costs through poor financial decisions, such as inadequate budgeting, ineffective saving and investing strategies, or mismanagement of debt. This can result in a reliance on informal lending or peer-to-peer lending without a proper understanding of interest rates and debt management.

100.3 million

average population in 2023
(more than 0.84% versus 2022)

More than
62 million

rural population
(approximate 62% of total)

38.2 million

urban population
(38% of total)

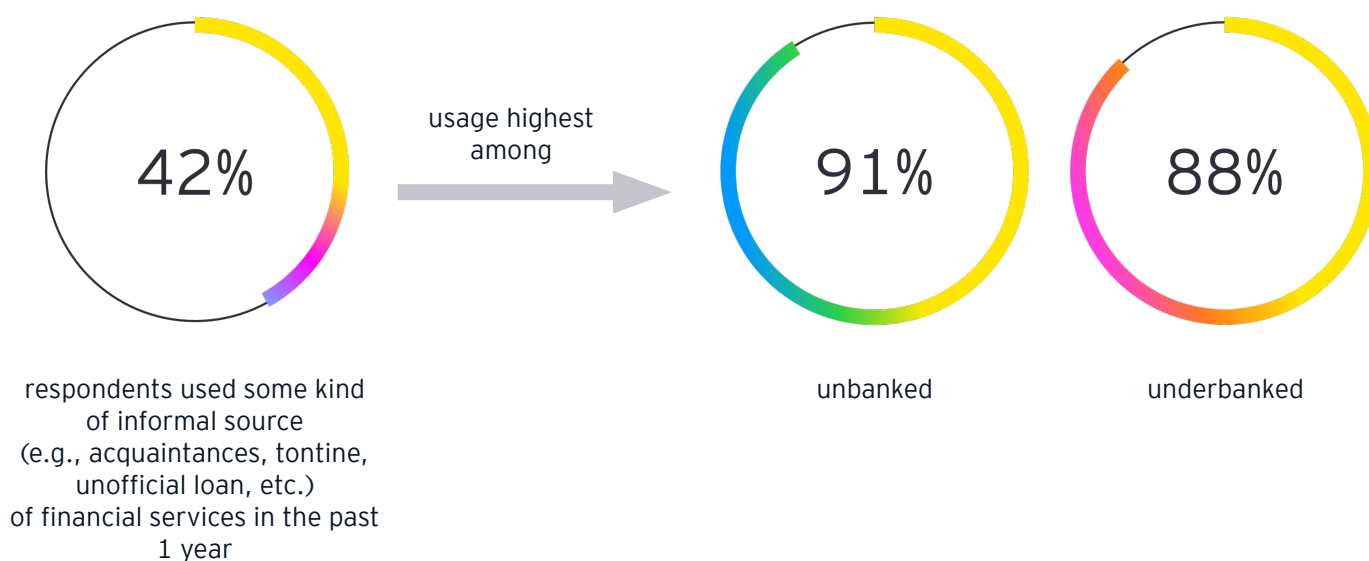
50 million

male population
(49.9% of total)

50.3 million

female population
(50.1% of total)

Source: "Thong cao bao chi ve tinh hinh kinh te - xa hoi quy IV va nam 2023", GSO, www.gso.gov.vn/tin-tuc, 29 December 2023.

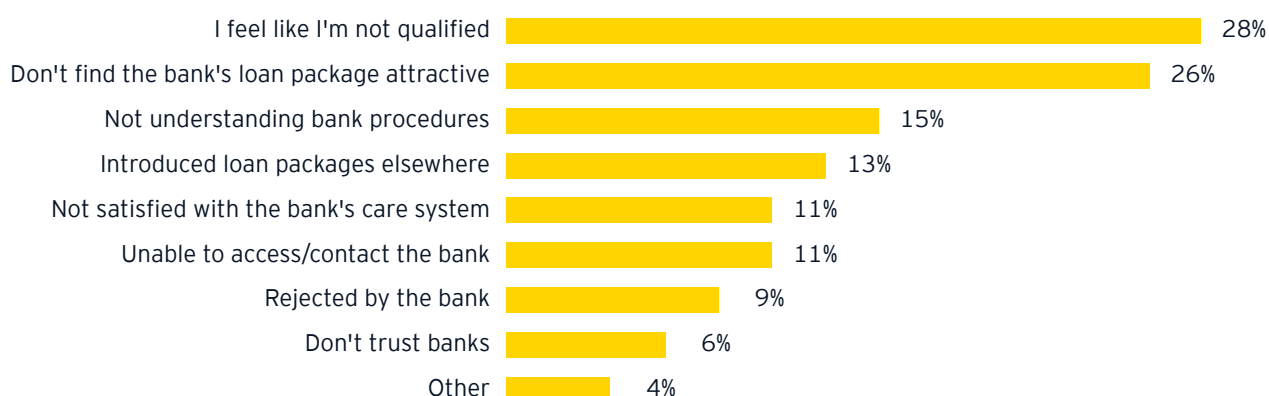


Source: EY Survey

While there has been a rapid increase in smartphone penetration and internet usage, digital divide persists, particularly among older and less educated populations. This is further aggravated in the case of MSMEs facing multiple different hurdles, including lower internet penetration rates, limited access to training resources, and greater logistical challenges in accessing markets.

Lack of documentation and collateral adds to the struggle of MSMEs to secure credit.

Talking about MSMEs, the real challenge is their struggle to secure financing from traditional lenders due to insufficient collateral or inadequate credit profiles. An IFC study estimates Vietnam's financing gap for SMEs is around US\$20.3 billion¹². When asked the reasons for not borrowing from capital from banks, the top reasons cited were as follows:

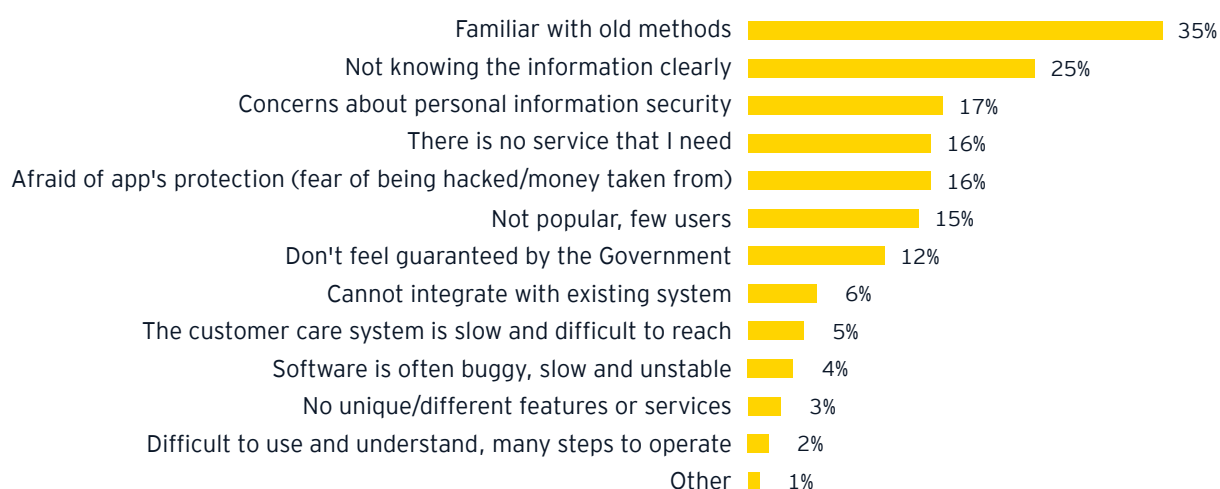


Source: EY Survey

Other challenges preventing MSMEs access include cash habits and reluctance to access and use digital services among some population segments, such as elderly people and those living in rural, remote, and isolated areas, as well as non-standardized and unsynchronized infrastructure to facilitate the connection, integration and sharing of data and to create a digital ecosystem.

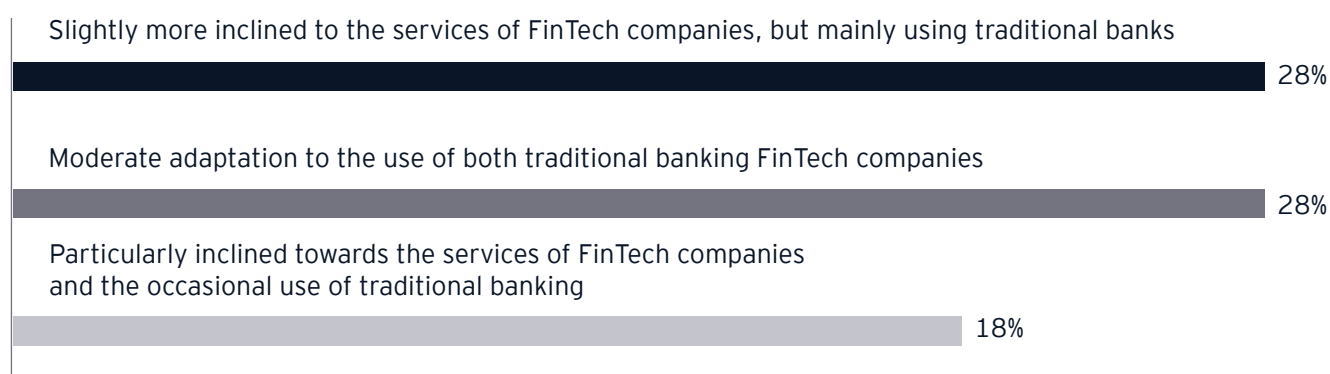
According to the survey, the top reason that prevents MSMEs from accessing various financial banking services including borrowing, savings, insurance, payments, and investment from financial technology solutions is their familiarity with older methods.

Reasons that prevent businesses from borrowing from FinTech




Source: EY Survey

FinTech companies have emerged as a key player in addressing these challenges and bridging the financial inclusion divide in Vietnam. With their innovative solutions, FinTech are overcoming the limitations of TCIs, thereby enhancing the accessibility of financial banking services for the Vietnamese populace. Their capabilities are important in driving Vietnam's financial inclusion forward. Survey respondents have indicated a shift in preference towards FinTech in facilitating access to financial banking service of choice.



Source: EY Survey



Chapter 3

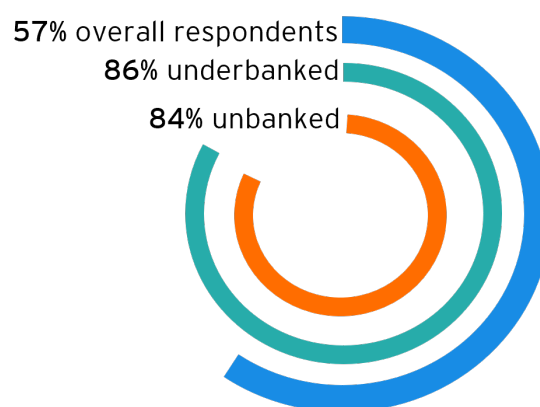
Role of FinTech in
advancing financial
inclusion in Vietnam



DFS has been recognized as a contributor to financial inclusion, particularly for low-income and rural populations as they are often characterized by lower cost, broader availability, and greater transparency. The rise of Vietnamese FinTech, along with their ever-growing portfolio of innovative DFS, has advanced financial inclusion in various ways. With a significant portion of the population previously underserved by traditional banking institutions, FinTech solutions have somewhat bridged the gap, providing access to financial services through innovative technologies. The penetration of mobile devices and the internet has further fuelled this expansion, enabling FinTech companies to reach remote and rural areas where TCIs have limited presence.

Respondents agree/totally agree that there have been more and more financial banking products and services recently

Source: EY Survey



The impact of FinTech on financial inclusion in Vietnam is particularly evident in its effect on not only consumers and MSMEs, but also credit institutions themselves. For consumers, FinTech has helped facilitating convenient and secure access to a range of financial products, from payments and transfers to savings and loans, all through their smartphones. For MSMEs, they have benefitted from FinTech through

improved access to credit, streamlined payment systems, and enhanced business management tools. For credit institutions, the FinTech revolution has spurred digital transformation where traditional banks and credit services providers are now undertaking technological innovation and forging partnerships with new age players to expand their offering portfolios and better serve the consumers.

Impact of FinTech is multifold across the following market participants

1
Consumers

2
MSMEs

3
Credit institutions

Five-pronged benefits for consumers

For consumers, FinTech has facilitated convenient, affordable, and quicker access to a range of financial products.

For consumers in particular, the impact of FinTech has been profound. The ability to conduct financial transactions quickly and securely from any location has not only saved time but also reduced the costs associated with traditional banking methods. By leveraging digital platforms, FinTech companies enable more accessible financial banking services. Innovative solutions, including mobile banking applications, e-wallets, and online lending platforms, are revolutionizing the financial banking landscape by offering convenient and efficient alternatives.

Furthermore, FinTech support the process of resolve the challenges associated with assessing the creditworthiness by employing alternative data analytics. This potentially opens credit opportunities for those who might be excluded by traditional banks due to a lack of formal credit history or documentation, especially with more than 60%¹ of the population resides in rural areas while approximate 51%² of the labor works in MSMEs. In addition, FinTech companies in Vietnam are also instrumental in promoting financial literacy and education using user-friendly interfaces and gamified learning experiences.

46%

respondents agree/totally agree that FinTech has helped them access more financial banking services than before.

The response was similar across residents of villages and communes where 46% of the respondents agreed/ totally agreed with the statement.

Source: EY Survey

Vietnam's banking revolution: from branch queues to digital ease

In the past, conducting banking transactions in Vietnam were a time-consuming process, with customers often spending hours at a branch during limited banking hours, filling out lengthy forms and waiting for manual verification. This could take 1-2 hours for account opening and even longer, up to a week, for additional services like ATM cards.

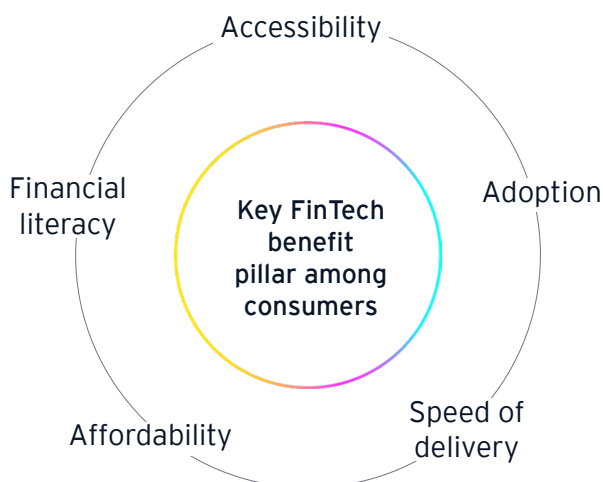
However, the scenario has drastically changed today. The rise of online banking and eKYC has revolutionized the way financial services are accessed. Now, 87% (*) of Vietnamese adults, which equates to 35 million accounts, can open an account in minutes, at any time and from anywhere.

What was once a "luxury" has now become a widespread, "universal" convenience, reflecting Vietnam's commitment to financial accessibility and inclusion.

Source:

(*) Phuong Linh, "Hoat dong ngan hang gop phan kien tao Ha Noi thong minh - Huong den xa hoi so, kinh te so", SBV, 2 October 2024.

In Vietnam, the FinTech-driven surge in financial inclusion for consumers can be characterized by five interwoven themes around:

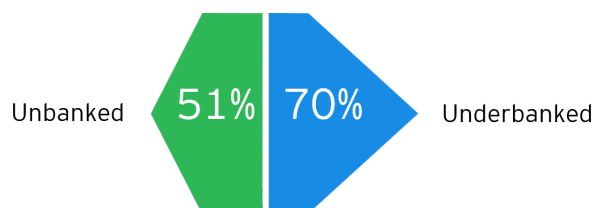


Source: EY Insights analysis

Enhancing accessibility and convenience for users

FinTech has promoted innovation in delivering financial services in Vietnam by providing accessible services with simplicity and convenience.

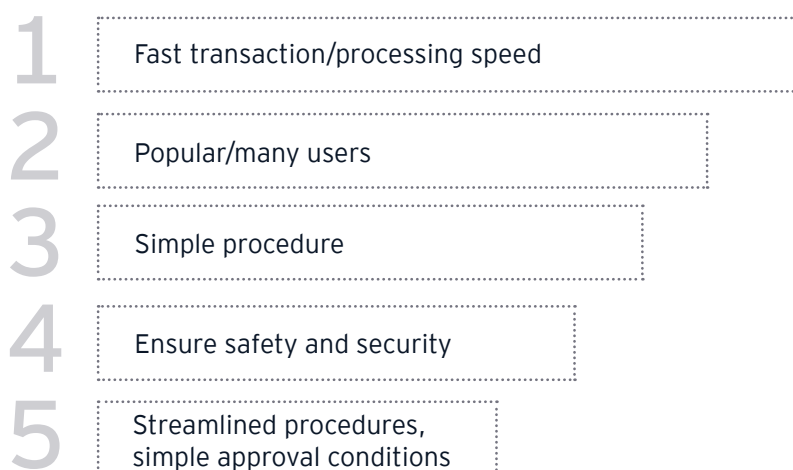
FinTech help in the process of enabling low-cost access to financial banking services for the unbanked and underbanked populations. Simple and convenient user experience offered by FinTech are suitable to get unfamiliar consumers (the youth, the elderly, the low-income and rural resident segments) to adopt digital financial banking services.



FinTech has helped developing a range of financial banking services, including efficient payment systems, streamlined loan processes, and user-friendly insurance products. FinTech innovations have not only simplified traditional financial operations but also expanded their reach, ensuring that a larger portion of the Vietnamese population can participate in the financial ecosystem.

respondents to the survey agreed that FinTech has helped them access more financial banking services than ever before

The top five reasons, as per percentage of respondents, for people in villages and communes to prioritize payments from FinTech companies include the following:



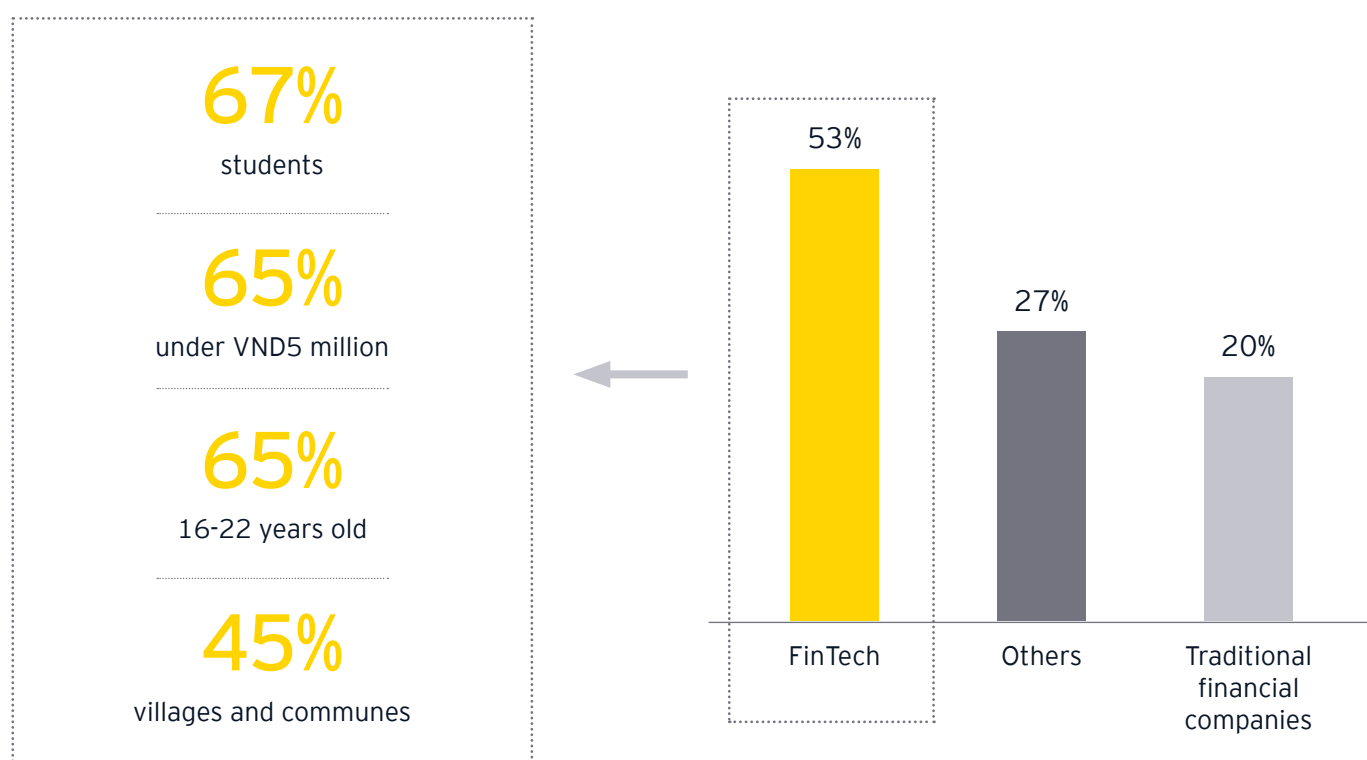
Source: EY survey

FinTech companies are bridging the banking gap especially in rural areas by enabling mobile transactions through user-friendly payment solutions and e-wallets.

FinTech companies have developed mobile payment solutions and e-wallets that allow users to make transactions directly from their phones. This is particularly beneficial in rural areas with limited access to traditional banking facilities. Players such as MoMo and Shopee Pay, allow users to make online payments, transfer money, and pay bills. By the end of 2023, there are approximately 33 million active e-wallets, with the total amount on these wallets being about approximately VND4.34 trillion.³

53% of the survey participants prioritized FinTech providers for their payment needs.

MoMo is one of Vietnam's leading mobile wallet and payment apps, offering a wide range of services, including bill payments, daily life services, and money transfers. It has played a significant role in promoting cashless transactions and providing access to financial services for people who did not have a bank account earlier.



Source: EY survey

The value of transactions via ATMs is about VND2.6 million billion, down more than 9% compared to 2022.⁴

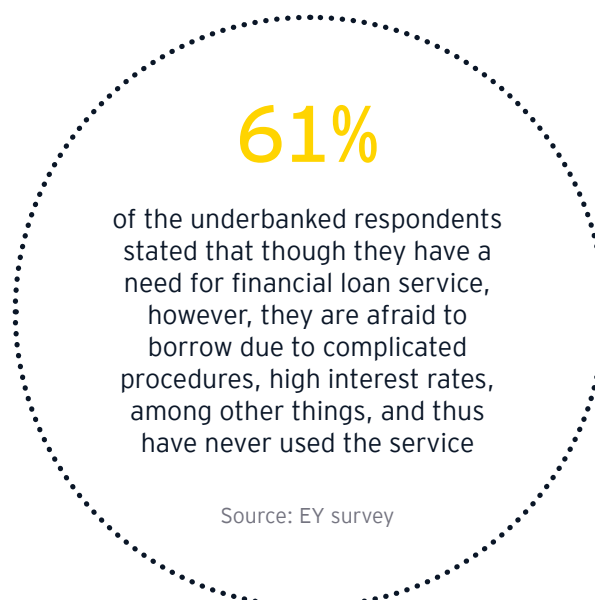
Furthermore, the government's push for a cashless society has led to initiatives like NAPAS FastFund 24/7 service. NAPAS, along with member banks launched a common standard for payment and money transfer, VietQR. The generation of VietQR led to the rapid rise of QR transactions, where payments via QR code reached approximate 183 million transactions, with a value of more than VND116 trillion in 2023 (more than 172% in number and more than 74% in value compared to 2022).⁵

While NAPAS supplies the unified QR code solution, its widespread acceptance and success is dependent on collaborative efforts of banks and FinTech companies. NAPAS, banks and FinTech companies are joining hands to ensure the seamless integration and interoperability of payment systems, thereby enabling an infrastructure that supports the growth of digital transactions across Vietnam. This synergy is the pivotal of driving the nation's transition towards a more efficient and inclusive cashless economy.

FinTech helps provide innovative and swift credit solutions for the unbanked and underbanked customer segments.

FinTech companies are supporting the process of offering innovative lending products for thin-file borrowers who could not otherwise apply for a loan at all or at affordable interest rates and fees. The small value unsecured loans from FinTech companies allow individuals to develop formal initial credit histories, which then translates to potential relationships with TCIs. FinTech firms are establishing connections with commercial banks and consumer finance companies in the country to lend unsecured loans to individuals as well as to MSMEs.

FinTech solutions often utilize alternative data sources, such as mobile phone usage, bill payments, accounting records and AI analysis, to assess creditworthiness in lieu of traditional credit scores. This also enables FinTech companies to tailor financial products to individual customer profiles. This customization extends to the terms of the loan, such as loan volume, interest rates, repayment duration, and even preferred payback methods, which can be adjusted to better suit the financial situation of the borrower. Furthermore, these scoring models allow FinTech firms to continuously monitor a customer's repayment capacity throughout the duration of the debt, enhancing their ability to recognize and forecast potential credit risks.

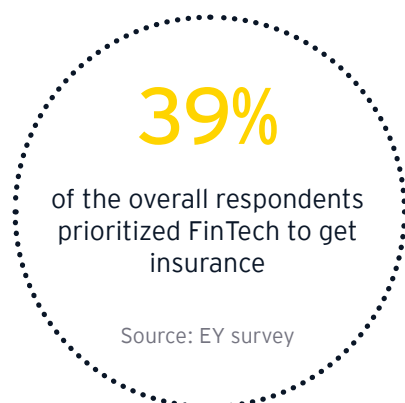


50% of the respondents with under VND5 million of monthly family income prioritized getting loan from financial institutions through FinTech. The top reasons cited are:

- 1 Safety and security
- 2 Streamlined procedures, simple approval conditions
- 3 Many incentives/promotions and high discounts
- 4 Fast transaction/processing speed
- 5 Charge reasonable/low fees and interest

Source: EY survey

FinTech enables customizable and easy insurance solutions, which is also embedded into popular platforms, for the broader population.



FinTech innovations in the insurance sector (InsurTech) are also making it easier for consumers to access and purchase insurance products. According to Circular No. 67/2023/TT-BTC issued on 2 November 2023, on the Insurance Business Law, it is permissible to purchase insurance online and issue insurance certificates online. This helps to reduce costs and empowers FinTech companies to provide insurance services to customers almost in real-time, as well as diversify products to meet the daily needs of customers. Specifically, it involves purchasing insurance and making payments online, followed by the delivery of insurance certificates directly to customers via email, with the added convenience of storing these documents within the FinTech application itself.

Though still in its very nascent stages, InsurTech in Vietnam are serving customers through their expansive array of insurance offerings. At present, to boost sales, firms are embedding insurance services onto non-insurance platforms within multi-million-user or superapps such as MoMo, ZaloPay, Viettel Money, etc., e-commerce and delivery omnichannel apps, and even telecommunications network operators like Viettel Telecom, VNPT. The number of InsurTech firms has accelerated since 2018, and the net revenue of these players has achieved an extraordinary CAGR of 255% during the period from 2018 to 2022.⁶

Incorporated within these platforms are a variety of technology-enabled insurance products. This includes convenient options for motorcycle and car insurance, accessible travel insurance for last-minute coverage, and flight delay insurance. These advancements demonstrate the InsurTech's commitment to providing comprehensive and easily navigable insurance solutions that align with the digital habits of today's customers.

New age solutions such as EmFi and postpaid wallet are integrating financial services into everyday apps, reducing access barriers, and enriching user experience .

EmFi is transforming Vietnam's approach to financial inclusion by integrating financial banking services with everyday platforms. This innovation reduces access barriers and costs, offering payments, insurance, lending, and investments through non-financial institutions.

Seamless payment integration into apps (such as ride-hailing platforms and ecommerce platforms) and digital wallets within merchant sites, along with one-click insurance services and direct lending options, streamlines transactions and financial management.

Vietnam's EmFi sector is projected to expand rapidly.



Source: Vietnam Embedded Finance Business and Investment Opportunities Databook 2024, ResearchAndMarkets, 2024

The rise of "superapps" in Vietnam is further expanding financial banking services access. These apps combine financial banking services, insurance, payment, and daily life services (cinema, OTA, digital services, etc.), offering a unified platform for a variety of financial transactions, tailored to user preferences and behaviors, simplifying the financial experience for consumers and businesses alike. Further, the integration of AI into superapp platforms enhances the personalization of customer experiences and streamlines the process of accessing financial banking services, making it more intuitive and user-friendly, thus simplifying the user's journey.

One of the key trends in EmFi is the growing popularity of BNPL

BNPL, a type of point-of-sale credit that allows customers to split the cost of a purchase into smaller, regular installments is gaining traction in Vietnam, particularly among the youth and individuals who have limited options for conventional credit.

The surge in FinTech companies collaborating with retail outlets to provide BNPL services at the time of purchase is facilitating a more convenient shopping experience for consumers. Thus, in Vietnam where a high percentage of customers don't have credit cards or cannot secure traditional credit and thus have limited access to financing, BNPL providers offer a financial lifeline. The BNPL market scale in Vietnam at the end of 2023 reached US\$1.32 billion and is expected to grow by 44% in 2024, reaching US\$1.9 billion. In the period 2024-2029, the BNPL service market in Vietnam is expected to achieve a compound annual growth rate of 29.2% and reach a scale of US\$6.89 billion in 2029. BNPL payments in Vietnam are expected to grow by 41.8% on an annual basis to reach US\$3.33 billion in 2024.⁷

31% of the respondents aged between 23-29 years have said to have used the BNPL service in the most recent year.

Source: EY survey

Like BNPL model, Vietnam also boasts of postpaid wallets that enable users to access small lines of credit for a vast range of services within the FinTech's application with term limits of 35 to 45 days. The wallets include various options like Postpaid Wallet (MoMo), SPayLater (Shopee), ZaloPay's Postpaid Account, and bePayLater (a product of Be – Vietnamese superapp). Utilizing credit scoring, customers can be pre-approved to register for these services. Once registered, these FinTech institutions determine approval based on the individual's credit history. By using these postpaid wallet services, customers not only gain immediate financial flexibility but also can build their credit history allowing them access to larger loan amounts in the future for significant expenditures such as business capital or home purchases. This credit-building aspect of postpaid wallets aids banks in assessing and approving loans, as it provides a more comprehensive view of a customer's financial behavior and credit risk.

Offering significant credit limits and tailored to actual spending patterns, these products not only meet consumer needs but also serve as an introduction to credit for many customers, potentially enhancing financial literacy. The registration process is streamlined and paperless, with no proof of income required, making it more accessible than traditional credit cards.

This strategy allows banks to extend their reach, grow their customer base, lower acquisition costs, leverage existing scoring mechanisms, and diversify their offerings, all while helping customers to become more familiar with and responsible in using credit products.

FinTech democratizes financial access for everyday use by offering innovative product integrations.

Segmenting products to cater to the specific needs of different customer niches has significantly increased accessibility and popularity financial banking services for all. FinTech has introduced innovative combinations of services. For instance, integrating payments with lending has given rise to BNPL services, while combining savings with investments has led to tailored services that align with the risk appetites of individual customers.

These innovative products not only help popularize the concept of finance but also contribute to increasing the frequency and number of users engaging with financial banking services in their everyday lives. This results in a more inclusive financial ecosystem where consumers have greater control over their financial choices and the flexibility to select products that best suit their unique financial situations.

Catalyst for digital financial banking services adoption

Penetration of mobile and internet has fuelled a greater adoption of digital financial banking services by the masses.

FinTech companies are leveraging the extensive penetration of mobile phones and internet to bring financial banking services to the masses, thereby facilitating their rapid adoption, as evident in the exponential rise in various digital financial banking services.

Service	2022	2023	Future outlook
Digital payments	-	US\$190t	US\$290t by 2030
Digital lending	US\$3b	US\$4b	US\$10b by 2025
Digital wealth	-	US\$100m	US\$300m by 2025

Source:

"e-Economy SEA 2023", Bain&Company, 1 November 2023.

NMD (by Integrated Research), "Những xu hướng thay đổi trong lĩnh vực thanh toán toàn cầu năm 2024", SBV, 2024.

The adoption of digital financial banking services is fuelled by the convenience and accessibility that FinTech platforms provide. Mobile banking apps, online payment gateways, and e-wallets allow users to conduct financial transactions from their phones, a boon for those in rural or underserved areas. This ease of access is changing the way Vietnamese people handle money.

This is further elevated by the digital transformation agenda of the traditional banks. Banks, in partnership with various FinTech and other technology providers

are developing and expanding the digital ecosystem, focusing on customer-centric product and service offerings with seamless and personalized transaction experiences. Many basic financial banking services have been completely digitalized, including deposits, bank accounts opening and using, e-wallets, and money transfers. Many Vietnamese banks now have over 90% of their transactions conducted via digital channels. By the end of 2023, about 40 banks and foreign bank branches had opened 35 million accounts via the eKYC process.⁸

After only 2 months of launch of e-KYC, VPBank had 15,000 new registered accounts, equal to 50% of the whole 2020 estimate.⁹

Striking a balance between faster services and consumer satisfaction

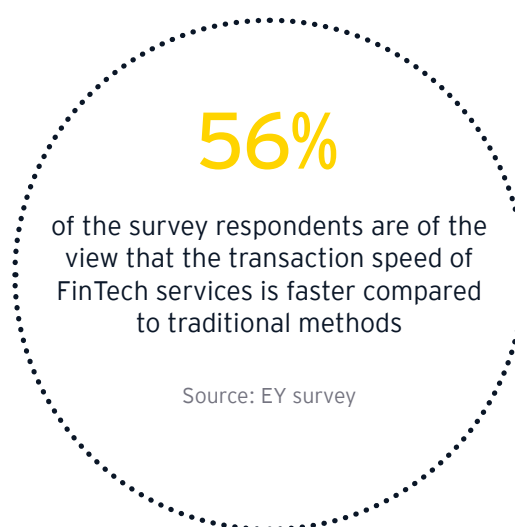
FinTech in Vietnam is supporting the delivery faster financial banking services, however, certain gaps persist impacting consumer satisfaction.

In Vietnam, FinTech is supporting the acceleration of the speed of delivery of financial banking services by harnessing cutting-edge technologies. FinTech companies offer instant, or near-instant, access to a range of financial banking services that were traditionally represented by lengthy processes.

Digital platforms enable real-time transactions, quick loan approvals, and immediate fund transfers. The agility of FinTech services also benefits consumers, who can now manage their finances on-the-go, without the delays associated with visiting physical bank branches. E-wallets such as MoMo and ZaloPay have revolutionized payments, making transactions as simple as a few taps on a smartphone. In addition to domestic payments, e-wallet services have expanded their capabilities to allow customers to conduct international payments for services from global entities with MoMo as a typical example. This is achieved through strategic partnerships with international service providers, enabling e-wallet users to complete transactions that were traditionally conducted via international credit/debit cards.

Mobile money solutions like ViettelPay and VNPT Pay provide access to basic financial banking services through just a phone number, without the need for a linked bank account. This means that even individuals without a formal bank account can engage in offline money transfers, cash in, cash out, and make payments with ease. All these expands the financial banking access to the unbanked and underbanked populations, a step towards financial inclusion.

Moreover, the use of data analytics and artificial intelligence in FinTech applications allows for rapidly build a credit scoring model and risk assessment, support further speeding up the delivery of services such as personal loans and insurance.



Despite these advancements, the speed of FinTech adoption is not uniform across all demographics and regions. Many customers still find issues with the quality of internet access, which affects the process of experiencing the financial organization's products.

51% of the overall survey respondents feel that they sometimes experience delays or speed issues with FinTech services that affect their satisfaction or trust in these services. This percentage varied across regions and demographics and stood at 51% for communes and 57% for households with less than VND5 million of income.

Source: EY survey

Lowering transaction costs with mixed customer perceptions

FinTech is reducing the cost of conducting financial transactions.

FinTech companies are "transforming" financial and banking services by launching innovative solutions and services, making them more affordable and accessible to a large number of users.

Source: EY survey

FinTech firms in Vietnam have introduced digital payment solutions and mobile wallets that reduce the need for physical cash transactions. These platforms often have lower transaction fees compared to the past traditional financial banking services, making everyday transactions more affordable for users.

38% of the underbanked respondents stated that they prioritize services from a FinTech company because of reasonable interest rate.

Source: EY survey

Online end-to-end financial products such as unsecured loans are not only directly deployed by financial institutions but, with the rapid development of technology and customer experience-oriented products, FinTech plays an important role in collaborating with financial institutions and providing solutions to deliver these products to customers. FinTech offers features with simple procedures, uncomplicated documentation requirements, and quick disbursement processes, offering reasonable loan limits. Customers can quickly access loans at reasonable prices to meet their immediate needs.

Two significant advantages for customers emerge from this evolution: convenience and affordability. The convenience of accessing financial products through digital channels, without the need for physical bank visits or lengthy paperwork. Affordability is enhanced as FinTech companies support with leveraging their technological edge to support offered products at competitive rates, thus saving customers from exorbitant lending rates found in the informal credit market.

Furthermore, the strategic collaboration between banks and FinTech firms leverages the latter's massive user base, enabling banks to tap into previously unreachable segments. This leads to cost savings for banks and revenue optimization, which is a clear advantage for businesses.

According to Migration and Development Brief by the World Bank and the Global Knowledge Partnership on Migration and Development, Vietnam remains one of the top 15 countries receiving the most remittances in the world¹⁰. Digital remittance platforms are leveraging technology to reduce transaction fees and processing times, making it cheaper and faster for Vietnamese expatriates to send funds home. These platforms often provide an alternative channel to traditional channels, which can be laden with high fees and slower transfer times, by using mobile apps and online services that provide direct peer-to-peer transactions. Additionally, blockchain technology, though still in the nascent stages, is being used to streamline remittance services. Blockchain is gaining traction as it offers even lower fees and the elimination of intermediaries, further simplifying the remittance process. Although blockchain incurs transaction fees, these are typically lower than the charges imposed by remittance services.

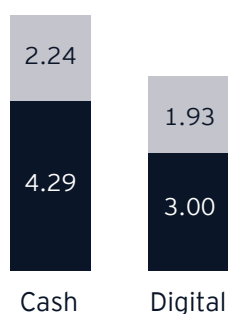
Viettel Money offers *Vay nhanh linh hoạt*, with limit up to VND30 million, approved and disbursed within five minutes, and requires no collateral or proof of income.

Mcredit offers *Vay TikTak*, with limit up to VND15 million, approved within five minutes, and requires no collateral.

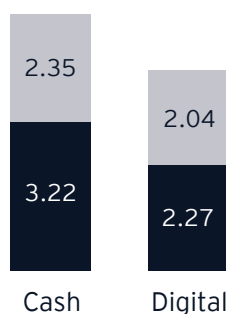
MoMo offers *Vay Nhanh*, a quick loan with limit up to VND30 million, approved within one minute, and requires no proof of income.



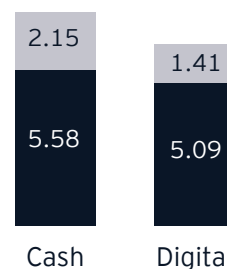
East Asia & Africa



South Asia



Europe & Central Asia (excl. Russia)



■ Fees ■ Fx Margin

Source: Remittance prices worldwide quarterly, issue 49, March 2024, World Bank, https://remittanceprices.worldbank.org/sites/default/files/rpw_main_report_and_annex_q124_final.pdf

Moreover, in Vietnam, the problem of nontraditional credit has been prevalent since a long time. By offering easy application process and access to quick cash, these loan sharks often "entice" innocent credit seekers into an entangled web of debt with exorbitant interest rates (some even as high as 1%-2%/ day), hidden fees and charges, and aggressive debt collection actions.

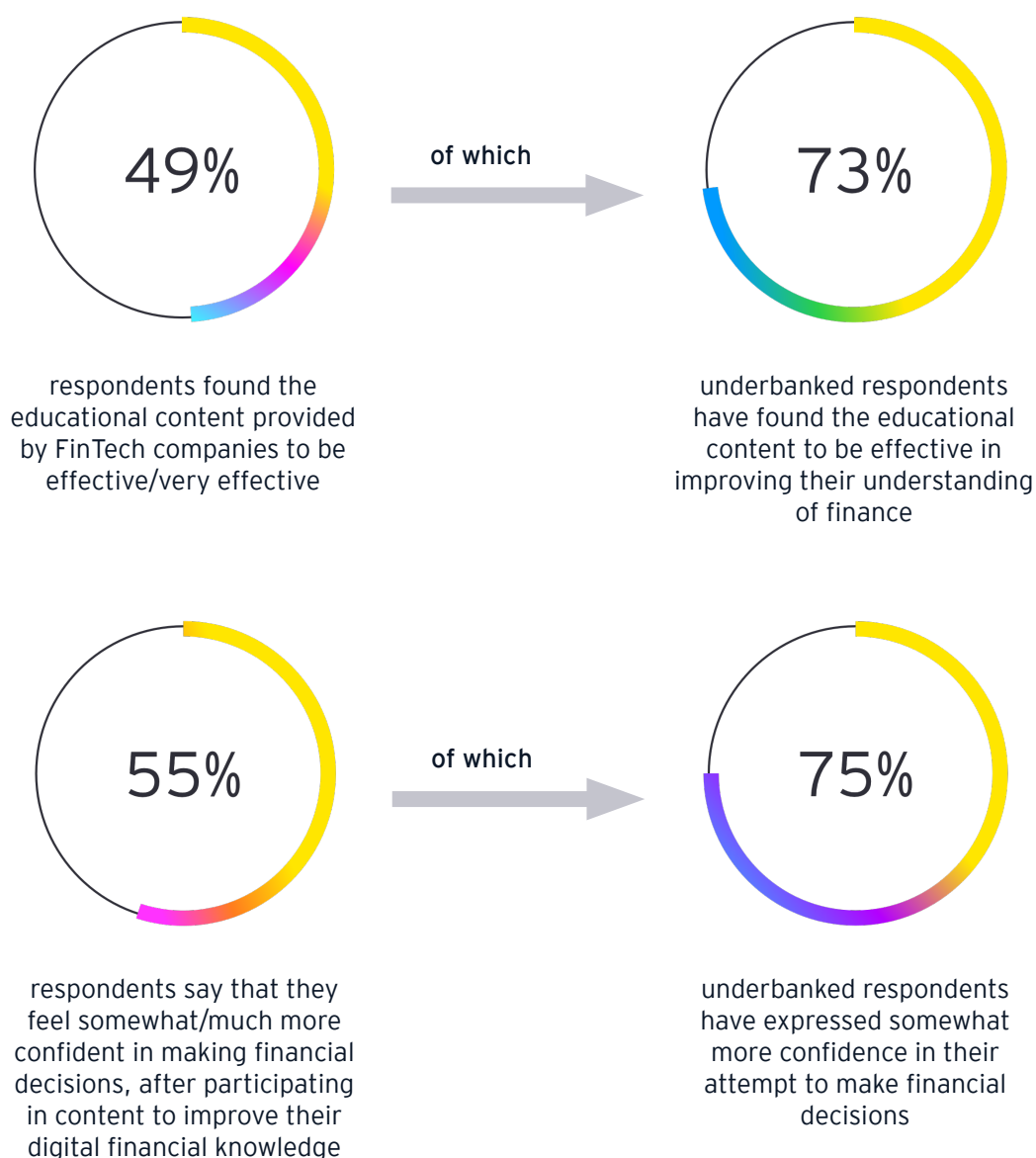
The rise of FinTech-provided financial products has the potential to disrupt the black-market credit sector. These innovative solutions bring a more formal and regulated alternative to unlicensed lenders. By leveraging technology, FinTech companies can help providing more affordable and transparent lending options with lower interest rates compared to the black credit. This shift not only enhances the security of financial transactions but also promotes financial inclusion by extending credit to underserved segments of the population.

Empowering consumers through financial literacy

Initiatives by FinTech to promote financial literacy has helped consumers somewhat more confident in their financial decisions.

Survey of Banking Academy of Vietnam¹¹ in 2022 showed that 73.7% of Vietnamese citizens want the SBV to continue implementing financial education programs. The FinTech revolution is playing a dual role as both a driver of financial banking service innovation and a catalyst for financial literacy. FinTech platforms, such as MoMo and VNPT Pay, have made financial information and services more accessible, simplifying complex transactions and concepts for the average users. Additionally, the way FinTech provides access to financial products ranging from simple to complex through detailed instructions is also a method to enhance financial understanding and comprehend customer needs.

Further adding to this educational impact, FinTech companies are enhancing customer interaction through self-service tools such as chatbots, notifications, and intuitive interfaces on applications. These tools empower customers to proactively learn, access, and utilize financial banking services independently. By integrating these educational features directly into their platforms, FinTech companies are not only simplifying the user experience but also embedding learning opportunities within the customer journey.



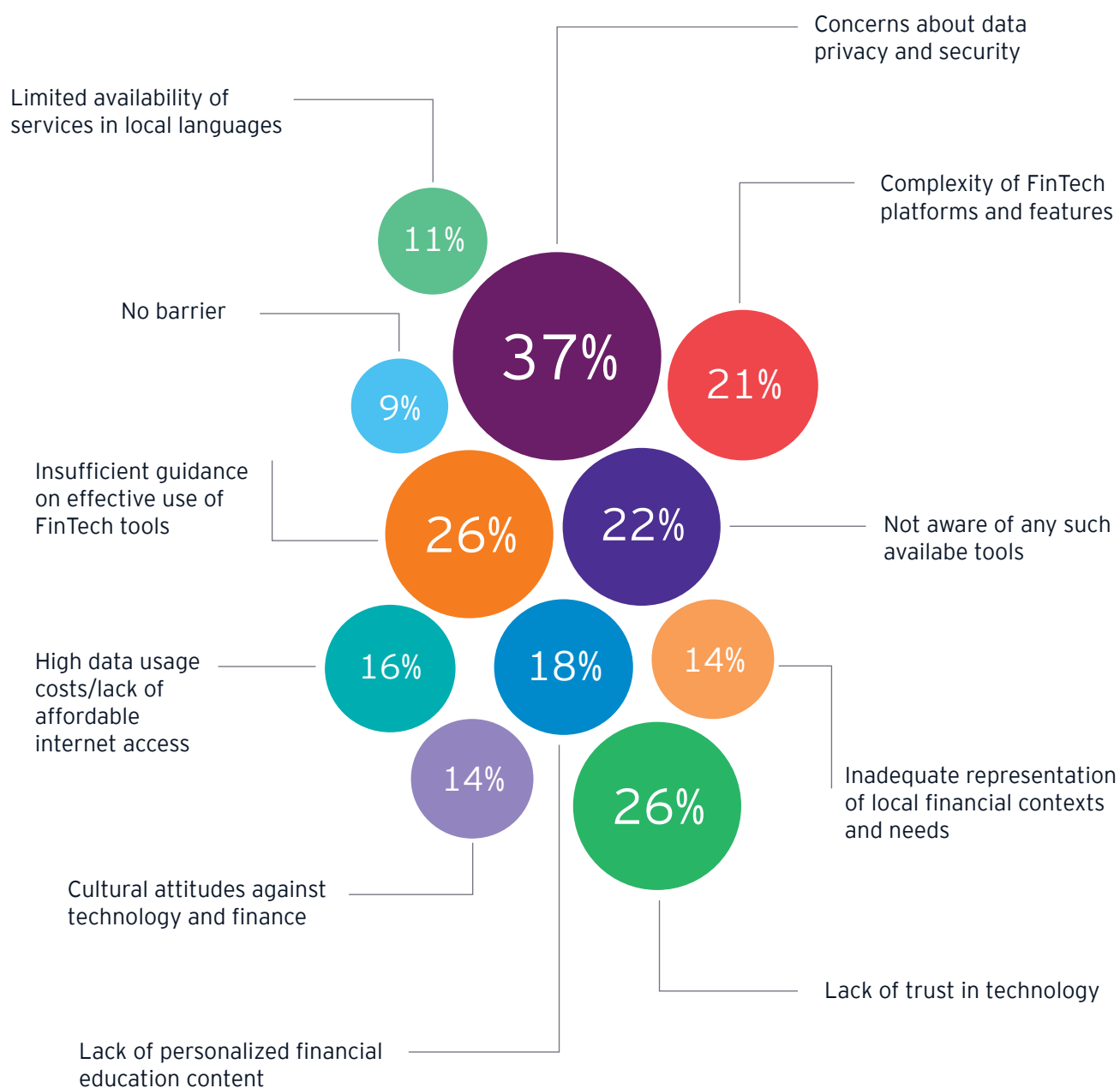
Source: EY Survey

Home Credit is delivering financial literacy content to one million consumers each month via their mobile app. In Vietnam, about half of the company's marketing budget is spent on financial literacy. Additionally, they have a prevalent channel to deliver financial literacy to young generation, with approximately 910.9 thousand of followers on 16 July 2024.

Momo provides educational content within the app and on its website. It engages with its community through social media and other channels to share financial tips and updates on new features that can help users manage their money better. MoMo also has a financial knowledge sharing community within its platform called *Mama Tai Chinh* with over 1.1 million participants as of 30 August 2024. As part of their *Cashless Day 2024*, MoMo is propelling financial inclusion in Vietnam through activities to equip users with financial and security knowledge, emphasizing the importance of safe cashless transactions. Their approach included a mix of online and offline engagement, educational content on security practices, and the promotion of user-friendly features like AI-generated QR codes and face payment technology.

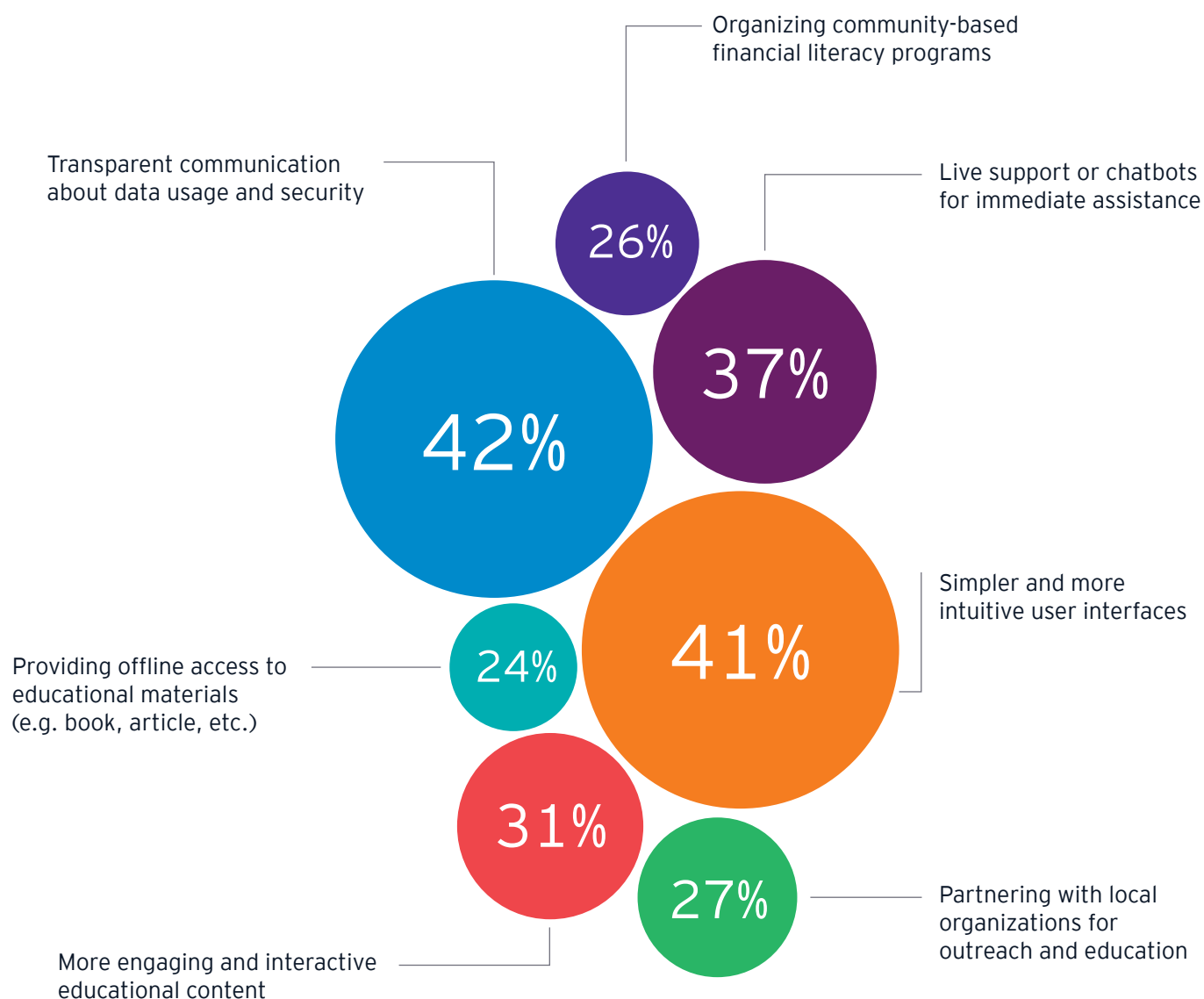
However, there are still existing barriers which prevent people from fully benefiting from FinTech's financial literacy tools, with concerns ranging from security to lack of awareness and guidance.

Major barriers that still persist



Source: EY Survey

Consumers feel that following would be effective in overcoming the barriers to financial literacy through financial technology companies.



Source: EY Survey

Three key benefits for MSMEs

For MSMEs, FinTech has facilitated easier access to credit and aided in their digital transformation.

As of 2022, Vietnam has about 800,000 businesses, of which SMEs account for about 98% of the total number of businesses operating in Vietnam, contributing up to 45% of GDP and 31% of total budget revenue and attracting more than 5 million workers.¹² Besides, in Vietnam, there approximately 5 million businesses household with about 9 million of the labor force nationwide have contributed 30% national GDP¹³.

For MSMEs, the FinTech revolution has been transformative. Access to finance, often cited as a primary obstacle to growth for MSMEs, has been

improved through FinTech platforms that offer alternative funding options with less stringent requirements. Payment innovations have simplified commerce, allowing MSMEs to transact more efficiently both domestically and internationally. Additionally, FinTech has enabled MSMEs to enhance their financial management and forecasting with tools that provide real-time insights into their operations. FinTech is empowering MSMEs throughout Vietnam to go digital and unlock business value, meet previously unaddressed credit demands, and manage governance and compliance effectively.

FinTech: The key to unlocking growth for Vietnam's MSMEs

In Vietnam's street markets, a small business household stands that characterizes the nation's MSMEs, one of over 5 million similar ventures. Many of these businesses operate on rented space with no store to call their own. They can keep daily transaction books, but this is not enough to generate financial records, which help them to access capital from the bank.

On a certain day, these businesses want to expand operations through a business loan. Approaching the bank with expectations, but the owners, like many others, face a daunting barrier: the absence of collateral assets (60% (*) cannot meet the asset's requirement). Banks, with their stringent requirements, remain out of reach of these businesses that cannot meet the collateral threshold.

Adding to the issue is the lack of credit history (80% (*) have no credit history). Without this financial track record, traditional banking institutions are hesitant to lend, leaving the businesses in a state of stagnation. Some businesses continue to operate with what they have, while others borrow from acquaintances or turn to informal sector where the cost of borrowing is extremely high.

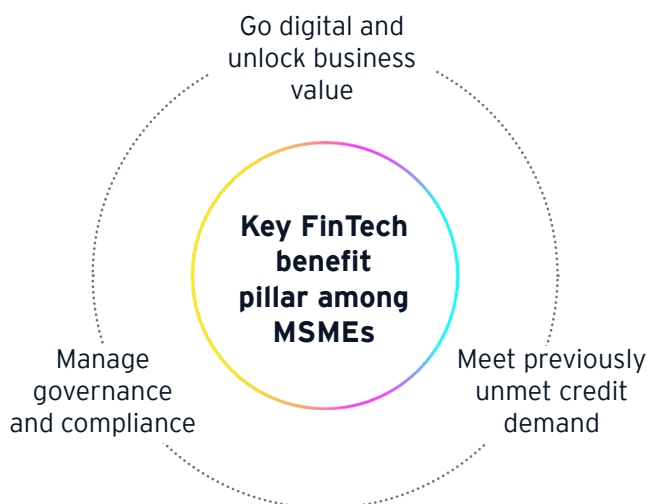
The stark reality is that only approximate 30% (**) of small businesses have access to formal financial capital. The rest get tied up with high collateral demands and complex paperwork or resort to informal credit sources – often at high costs and with significant risks.

The plight of Vietnam's MSMEs is one of unmet needs and untapped potential. It underscores the importance of innovation in financial inclusion, where the right support and policies can unlock access to capital, empowering these businesses to flourish and, in turn, strengthen the backbone of the nation's economy.

Source:

(*) Van Linh, "Lai vay giam, ho kinh doanh van kho tiep can von", Dau tu Online, 12 July 2024.

(**) Hieu Phuong, "Tang co hoi tiep can tin dung cho ho kinh doanh", Tap chi Kinh te va Du bao, 27 September 2022.



Source: EY Insights analysis

Scaling MSMEs digitalization

FinTech is spurring the digital transformation of MSMEs at scale by allowing them to offer cashless payments to customers, ...

FinTech is facilitating the digital transformation of MSMEs and unlocking new avenues for their growth. Through easier access to finance via innovative lending platforms and streamlining operations with digital tools, FinTech such as MISA (empower MSMEs to automate collecting, sending, and managing of money), KiotViet and iPOS.vn (cloud-based POS/store management software) enable MSMEs to operate more efficiently and tap into wider markets. This expansion is coupled with a reduction in operational costs as FinTech automate and streamline financial processes and simplify business operations. In addition, by integrating financial solutions directly into products (for mapping transactions, recording receipts, among others), this results in saving time and optimizing human resources. Furthermore, the data-driven insights provided by FinTech platforms allow MSMEs to tailor their services to customer needs more effectively.

9/10

businesses have adopted digitalization in at least one department

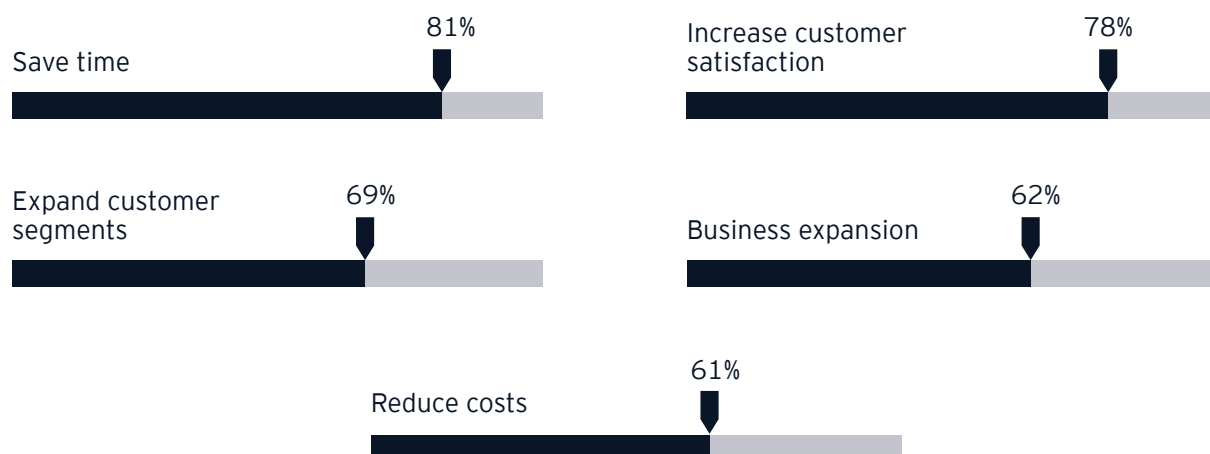
More than 7/10

businesses have seen success in their digitalization efforts

Source: UOB Business Outlook Study 2023 (SME & Large Enterprises) Vietnam Report, UOB, 2023

A study conducted by VISA released last year showed 73% of small businesses surveyed said accepting new forms of digital payments was fundamental.¹⁴

According to MSMEs, financial technology solutions from e-wallets or digital finance companies have proven effective/very effective for their business across various parameters.



Source: EY Survey

Enhancing customer experiences through convenient payment solutions and personalized services are bolstering customer loyalty. According to a survey conducted by SAPO¹⁵, 43.8% of sellers now accept payments via bank transfer, with an additional 15.3% utilizing VietQR codes, highlighting the widespread adoption of digital payment methods. FinTech also enhances customer experience by diversifying payment sources, customers can choose their payment source from different bank accounts, domestic credit cards (postpaid wallets), international credit cards, etc.

With cashless payment, MSMEs offer a better transaction experience for customers, which brings a multitude of benefits. Customers enjoy convenience without the need to carry physical cash, and transactions are completed with a quick tap or scan. Reducing waiting times at checkout points, contributing to a smoother and more efficient shopping experience.

▼ 56%

VISA survey respondents are now carrying fewer physical cash than they did a year ago¹⁶

49%

Respondents experienced an increase in their revenue or number of customers after using cashless payment methods

FinTech solutions such as POS, not only streamline payment processes but also enhance business models. Players such as KiotViet, iPOS.vn, provide cloud-based POS solutions for MSMEs, which include sales tracking, inventory management/tracking, and comprehensive business reporting.

Source: EY Survey

Commercial banks offered a wide range of promotional programmes and financial solutions to encourage cashless payments during traditional Lunar New Year (Tet) festival.

- Sacombank launched a programme featuring 352 cheques of gold as gifts and different types of refund for those making QR code payments via the *Sacombank Pay* app of Sacombank. (*)
- VPBank offered customers using the *VPBank NEO* app for transactions or opening online savings accounts the chance to win prizes from a VND20 billion (approximate US\$819,200) prize pool through a promotional game. (**)
- The *Lac Xi* program organized annually by MoMo since 2019 has become a traditional activity, attracting millions of participants (with up to 13 million people attending in 2024) and offering a total prize pool of up to VND100 billion, along with many meaningful and exciting activities. (***)

Source:

(*) "Giao dich di - Qua me ly", Sacombank website, <https://www.sacombank.com.vn/trang-chu/khuyen-mai/khcn/chuong-trinh-uu-dai/giao-dich-di-qua-me-ly.html>.

(**) "VPBank tri an khach hang khung nhan dip nam moi den hon 20 ty dong", VPBank, 20 December 2023.

(***) "MoMo Lac Xi 2023: Lac xuc xac, bat tram ty voi qua tang iPhone 14, vang mieng PNJ, trieu bao li xi, the qua tang gia tri", Financial and Monetary Market Review, 11 January 2023.

... sell their goods and services online and manage their cashflows more efficiently by utilizing digital financial tools

Moreover, digital platforms are increasingly enabling MSMEs to sell their goods and services online. E-commerce marketplaces such as Tiki, Lazada, and Shopee offer MSMEs user-friendly interfaces to set up online stores and access to a vast customer base. Moreover, the integration of these digital solutions reduces barriers to entry, helps in cost savings, and ensures compliance with regulatory standards. Superapps also support cross-selling products for merchants, who through integrating POS platforms, can create e-vouchers and send them to customers using e-wallets.

“

The initiative of e-invoice system has contributed to administrative procedure reform, reducing costs, and improving business productivity.

Thanh Xuan Mai

General Director, General Department of Taxation

Source: Binh Minh, E-invoices generated from cash registers hit 104.8 million, VnEconomy, 14 February 2024.

In the first nine months of 2024, Vietnam's e-commerce market continued to maintain growth momentum with total sales reaching 227.7 trillion VND, an increase of 37.66% compared to the same period in 2023. The volume reached 2,430 million products, an increase of 49.8% compared to the first nine months of 2023. The number of active shops was 580.3 thousand, a decrease of about 1% compared to the same period in 2023¹⁵. The number of active shops was 580.3 thousand, a decrease of about 1% compared to the same period in 2023¹⁷.

On the financial side, MSMEs can manage cash flow more effectively by utilizing a combination of borrowing, savings and cashflow management products. Borrowing options have become more accessible and tailored to MSMEs' needs, with online lending platforms offering quick and flexible financing solutions. Savings products have also been transformed; MSMEs can now easily open and manage online savings accounts with competitive interest rates.

42% of the survey respondents have been using FinTech services for their savings needs, with the percentage highest among businesses with less than VND40 million/month revenue.

Source: EY Survey

66% MSMEs respondents to the EY survey felt that their business' ability to access financial banking services has improved little/much compared to five years ago.

Source: EY Survey

Moreover, digital cash flow management tools, such as MISA, KiotViet, SAPO, iPOS.vn, give MSMEs real-time insights into their financial status. They often come with features like automated alerts for receivables and payables, predictive analytics for future cash flow, and seamless integration with other business systems, such as invoicing and payroll.

FinTech companies, with their array of products and services, can gather a broader array of data points. This plethora of information can be utilized to develop a more extensive and comprehensive credit scoring system, often referred to as alternative scoring. When these models are "trained" with ample data, they can yield more accurate assessments of an individual's creditworthiness, which can facilitate better financial decision-making and access to credit products for a wider customer base.

Fulfilling MSMEs credit needs

FinTech is helping to address the long-unmet credit needs of MSMEs.

According to an IFC report¹⁸, in 2022, Vietnamese banks supported only 21% of the country's total merchandise trade of US\$731 billion, representing a mere 22% of total banking assets. These figures are lower than the 60 to 80% coverage seen in advanced economies. Vietnamese banks rejected an average of 12% of trade finance requests, mainly from MSMEs.

MSMEs in Vietnam have historically faced significant challenges in accessing credit, majorly due to strict banking regulations, lack of collateral, and insufficient financial records. These barriers have left a substantial gap in the market, with many MSMEs unable to secure the funding necessary for growth and expansion. Moreso, WMSMEs have faced greater challenges in their access to credit than their male counterparts. Most WMSME businesses believe that limited access to finance is a major barrier to business growth.

US\$20.3 billion

unmet MSMEs credit demand in 2022, primarily due to a lack of collateral and high credit risk¹⁸

According to EY and Mambu, the cost of lending to an SME of a traditional lender is from US\$100-US\$300, and it only costs a digital lender US\$5-US\$35 to lend to a MSME, dropping around 85-95%.¹⁹

FinTech companies in Vietnam are working to fill this gap and transform the lending landscape in Vietnam. By leveraging data analytics, AI, and other advanced technologies, FinTech companies, such as Kim An, Trusting Social, Validus and MoMo can assess creditworthiness more accurately and efficiently. They develop AI credit assessment algorithms that enable the use of alternative data and predictive models to automate the credit risk assessment process for small business loans.

MISA Lending is a digital intermediary platform that connects MSMEs with financial partners for easy access to loan packages without collateral. It helps offering a variety of loans up to billions of Vietnamese dong, with a simple, digitized application process that only takes a few minutes to implement and just a day to receive the results of the application. The platform charges no intermediary fees and assists businesses in selecting suitable loan packages based on their financial situation.

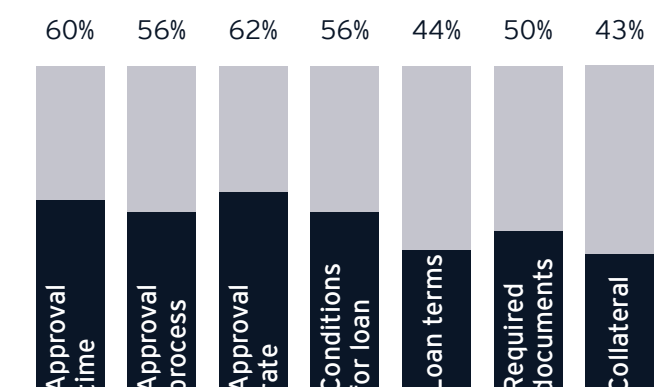
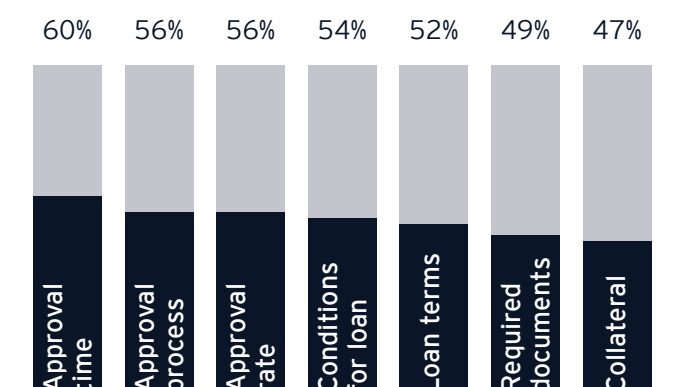
This leads to a more inclusive approach to lending, where MSMEs with no or limited credit history can still obtain loans. Moreover, the application process is also streamlined and made user-friendly, with faster approval times and disbursement of funds, flexible repayment terms and no requirement of collateral, which is crucial for MSMEs that require timely financial support. Through innovative solutions and a focus on financial inclusion, FinTech companies in Vietnam are helping in the process of bridging the credit gap for MSMEs, fostering a more dynamic and resilient economic sector.

Respondents feel that borrowing with the support of FinTech is easier than borrowing directly from banks and traditional financial companies across various parameters.

Source: EY Survey

Overall survey respondents...

... with a similar response from WMSMEs



Source: EY Survey

Boosting MSMEs compliance and growth

FinTech innovations enhance compliance and boost MSMEs growth in Vietnam's financial ecosystem.

FinTech is leveraging technology to ensure compliance, such as AI for monitoring transactions for AML purposes and digital identity verification to streamline KYC processes. The use of biometric verification, such as facial recognition or fingerprint scanning, along with document verification technologies are being leveraged to streamline the KYC process. Moreover, FinTech maintains databases that are regularly updated with the latest regulatory requirements and these databases can be integrated with compliance systems to ensure ongoing adherence to the current legal framework.

Based on the legal basis of Article 106 of the Law on Credit Institutions 2024, the SBV has proposed the creation of a Regulatory Sandbox for FinTech, which would allow companies to test their products and services in a controlled environment with regulatory oversight. The latest draft guidelines²⁰ released by the SBV are focused on three solutions, provided either by credit institutions or FinTech companies - credit scoring, open API, and P2P lending. The aim is to regulate technology-based applications, prevent risks such as money laundering and terrorist financing, and ensure that FinTech and non-banking financial companies can engage in fair competition with credit institutions.



FinTech – bank collaboration redefines finance

A collaboration between traditional banking sector and FinTech is blurring the lines in the financial sector.

Consumer data from digital payment services enable alternative credit scoring for TCIs to lend to thin-file customers. Beside credit scoring, FinTech helps in the process of offering solutions such as fraud detection and eKYC to support banks in launching a fully digital onboarding experience and managing operational risks. There are also products that help credit institutions access a broader customer base, such as financial marketplaces, mini apps, and official business accounts. Finally, emerging trends like open banking APIs potentially create a new source of income for banks and finance companies.

The online account opening has been implemented since the end of March 2021, up to now, approximate 27 million payment accounts opened by eKYC are active and 12.9 million cards are in circulation issued by eKYC.²¹

FinTech is contributing to the transformation of the financial sector landscape in Vietnam. Several major banks have formed collaborations with FinTech companies. The collaboration between banks and FinTech companies extends well beyond the realm of financial services, encompassing a wide array of strategic partnerships that leverage the strengths of both sectors. Key areas of collaboration include:

- **FinTech as a delivery platform:** FinTech companies serve as platforms and channels for delivering traditional financial bank services, enabling banks to extend their reach and offer their services through modern, digital-first platforms that customers increasingly prefer.
- **Marketing and cross-selling:** FinTech platforms act as communication channels for marketing and cross-selling bank products. This partnership allows banks to tap into the marketing prowess of FinTech companies to reach a wider range of audience and offer tailored products to existing and potential customers.
- **Customer engagement:** Interaction on FinTech platforms is utilized to increase customer engagement and maintain high levels of financial banking service usage. These platforms can also be instrumental in reactivating dormant accounts by providing a more convenient and engaging way for customers to manage their finances.
- **Data leveraging:** Within the permissible scope, banks are able to leverage the vast amounts of data collected by FinTech companies, particularly in relation to credit. This data can provide deeper insights into customer behavior and creditworthiness, allowing banks to make more informed lending decisions and offer more personalized financial products.
- **Technology solutions:** FinTech companies provide cutting-edge technology solutions to banks, helping them in the process of modernizing their operations, improve security, and enhance the overall customer experience. This includes everything from blockchain and AI to cloud computing and advanced analytics.

- VPBank cooperated with Shopee to release BNPL. The entire process from registration, approval to activation takes under two minutes, ensuring a seamless online shopping experience for customers.
- MoMo, in collaboration with TPBank and OceanBank, has launched a new product called Postpaid Wallet, an innovative credit solution with a pre-approval mechanism, where customers are granted a suitable credit limit at the moment of registration and can make payments for products and services provided by the FinTech platform.
- Standard Chartered partnered with MISA to offer Vietnamese SMEs rapid access to financing against e-invoices, with approval-in-principle within some minutes and full onboarding in a few days. This collaboration aims to enhance SMEs growth and financial inclusion in Vietnam's economy by providing uncollateralized funds efficiently.

FinTech offers APIs that allow TCIs to integrate new services and functionalities such as real-time payments, peer-to-peer transfers, into their existing systems without having to develop these technologies in-house. By adopting FinTech solutions, TCIs can improve their customer experience, making it more seamless and intuitive. Moreover, from a technological perspective, FinTech have developed innovative digital lending platforms that TCIs can use to offer credit with faster approval times. These platforms use alternative data to assess creditworthiness, reaching customers who may not have been served by traditional credit scoring methods.

According to a report by Banking Strategy Institute, the SBV, 72% of FinTech companies in Vietnam have partnered with banks, while only 14% are developing new services, and 14% are preparing to compete with banks.²²

Through these collaborative efforts, banks and FinTech companies are not only driving innovation within their respective services but are also setting the stage for a more integrated, efficient, and customer-centric financial landscape. As these partnerships continue to evolve, they will play a crucial role in the development of a financial sector that is both technologically advanced and highly responsive to the changing needs of consumers and businesses.

Chapter 4

Conclusion and
outlook



As Vietnam continues to make strides in financial inclusion, the journey is marked by both achievements and areas for improvement. It is evident that the integration of digital financial banking services has catalyzed the inclusion of consumers and MSMEs into the financial banking mainstream, yet the path ahead is not without its challenges. By addressing these challenges, Vietnam can utilize the full potential of FinTech to achieve a more inclusive financial ecosystem, ultimately contributing to sustainable economic growth and social development.



For policymakers, regulators, and industry bodies

It is imperative to strengthen its regulatory framework and upgrade technological infrastructure to foster innovation and develop high-speed financial banking services, supporting economic growth and development.

Strengthening the regulatory framework

There is an expectation to develop clear and consistent regulations that encourage innovation, while managing risks associated with new financial technologies. Vietnam have demonstrated persistent dedication to advancing the nation's financial sector over numerous years. This has been a particularly evident in their proactive approach to research and assimilate international regulations with the intent of refining the domestic legal framework in line with global progress. Notably, Vietnam has made concerted efforts to establish a regulatory sandbox mechanism. Although implementation was initially delayed due to the absence of a legal foundation within the law, the situation has evolved. With the enactment of the Credit Institution Law of 2024 creating legal basis for deploying and promulgating the sandbox mechanism has now been established.

In this context, it is essential for policymakers to expedite the approval process for the Regulatory Sandbox, establishing a legal framework that supports the growth and development of FinTech in a structured and secured manner. This would ensure that FinTech companies can innovate responsibly while contributing to the nation's economic progress. Besides, this will be a basis to encourage cooperation between TCIs and FinTech to help both parties leverage typical advantages such as FinTech supporting technology provision, models that reduce costs, and effective customer outreach. Furthermore, implementing regulations that promote open banking, will allow third-party developers to build applications and services around the credit institutions.



Digitalizing and enhancing technological infrastructure

Though the rate of mobile and internet usage is high in Vietnam, there is a need to invest in nationwide broadband and mobile network infrastructure to ensure high-speed internet access, which is crucial for FinTech services. It is imperative to promote the development of secure cloud services to enable banks and FinTech companies to scale quickly and securely, as well as support the adoption of cutting-edge technologies which can provide transparent and secure transactions. Decision No. 1236/QĐ-TTg dated 22 October 2024, on the *National Strategy for Applying and Developing Blockchain by 2025, Orientation toward 2030*, also sets out the direction for establishing a sandbox for blockchain in fields with potential for effective application, such as financial technology.

Looking beyond payments

Approximately 31.1%¹ of Vietnam's FinTech companies operate in the payments sector, which underscores the need for a broader analysis to fully understand the diverse FinTech landscape beyond just payments. In addition to the technological infrastructure, one of the reasons why these areas such as P2P lending and InsurTech categories are in need to be developed is Vietnam's legal framework is not comprehensive.



For credit institutions

Credit institutions must deepen open banking development, foster greater collaboration, and promote financial literacy to shape a forward-looking financial landscape in Vietnam.

Deepen the development of open banking

Open banking fosters a competitive environment. This not only empowers consumers by giving them control over their financial data but also paves the way for the creation of customized financial banking products and services.



Need for greater collaboration between TCIs, FinTech companies, and other stakeholders

The evolving financial landscape underscores the need for greater collaboration between TCIs, FinTech companies, and other stakeholders. Such efforts are essential for developing integrated financial solutions that cater to a diverse customer base, thereby enhancing the overall customer experience and providing a unified approach to financial banking services.

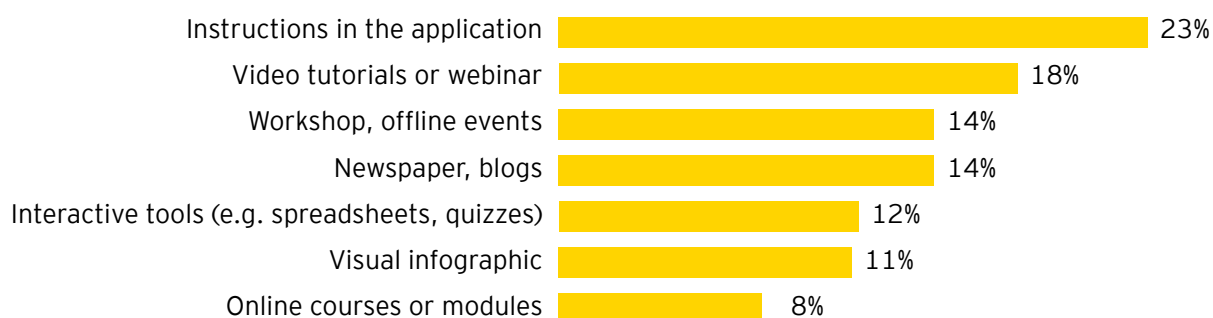
Fintech companies are increasingly joining forces with banks to fill in the gaps in traditional banking capabilities. This burgeoning partnership can manifest in several ways:

- **Expanding sales channels:** FinTech platforms can act as innovative avenues for banks to reach out to customers, providing a digital storefront for their products and services. This not only extends the bank's reach but also offers customers the convenience of accessing financial banking services through modern channels.
- **Enhancing customer benefits:** Integration with FinTech services allow banks to offer additional conveniences and rewards to their customers. This could include streamlined online transactions, personalized financial management tools, and access to a wider range of financial products.
- **Attracting more customers:** The user-friendly interfaces and cutting-edge solutions offered by FinTech can help traditional banks attract a broader customer base. This includes not only tech-savvy consumers but also those who may have been underserved by conventional banking models.
- **Alternative credit scoring:** FinTech's ability to tap into alternative data sources can lead to more inclusive credit scoring models. This enables banks to assess creditworthiness using a broader set of criteria, potentially opening credit to individuals who would otherwise be excluded by traditional scoring methods.

Furthermore, it is imperative for banks to continuously refine their partnership models, including the commercial terms to encourage large-scale collaboration that promotes inclusive finance, to forge a financial ecosystem that serves the interests of all parties involved and underpins sustainable economic growth.

Further promote financial literacy and education

Integrating financial education into the national curriculum and partnering with FinTech firms to develop educational tools will empower consumers. Public awareness campaigns, jointly conducted by FinTech companies and banks, can further demystify digital financial banking services, highlighting both benefits and risks. Understanding the preferred mode to acquire digital financial knowledge is essential for shaping financial literacy and education strategies in Vietnam. When asked about the most attractive and useful tool to acquire digital financial knowledge, the respondents stated the following:



This highlights that instructions within financial applications are the most favoured method, with 23% of respondents indicating a preference for direct, contextual guidance while using DFS. Video tutorials and webinars also hold considerable appeal, with 18% of respondents favouring these visual and auditory learning resources, which can be particularly accessible given Vietnam's high internet penetration.

Going forward, banks and FinTech firms are set to collaborate more closely to incorporate educational content seamlessly into their digital platforms, creating a blend of financial banking services and education. This is anticipated to ensure that consumers not only have access to cutting-edge financial tools but also possess the knowledge and confidence to utilize them to their full potential. This collaborative approach is expected to transform the financial literacy landscape, integrating learning naturally into the digital financial journey of consumers.

For FinTech players

FinTech, in collaboration with banks, must continue simplifying financial banking services and embracing emerging technologies to expand Vietnam's financial sector.

To optimize the strengths and capabilities of both parties, collaboration between FinTech and banks is essential, which leverages the technological prowess of FinTech, in addition to the experience and financial resources of TCIs.

Simplify the complex financial banking services into more compact solutions for customers

FinTech should continue to maintain their efforts that extend financial banking services into user-friendly, accessible offerings, which are tailored for consumers with modest financial resources. While traditional banking institutions have struggled to provide cost-efficient financial products for mass adoption, FinTech can leverage technological innovation to close the gap in accessibility. By collaborating with banks, FinTech can ensure that these simplified products not only meet the fundamental needs of users but also enhance engagement and service delivery. This partnership is crucial in creating financial solutions that are both practical and relevant, driving a more inclusive financial ecosystem.

Enhance focus on serving niche needs of MSMEs

MSMEs are set to remain a vital part of the Vietnamese economy, increasingly adopting digital technologies in their business practices. FinTech has a prime opportunity to focus on addressing the evolving needs for digitalization and market demands of MSMEs. By doing so, they can play a pivotal role in fulfilling the previously unmet credit needs of these enterprises, thereby facilitating their growth and integration into the digital economy. FinTech can leverage their innovative capabilities to offer tailored financial solutions that support MSMEs in their transition to more digitized operations.

Provide wider access to financial banking services through emerging technologies

FinTech should broaden their horizons, moving beyond conventional financial banking and payment services by harnessing cutting-edge technologies like blockchain, AI. The continued investment in these technologies is crucial for FinTech to extend the reach of financial banking services, offering a move beyond banking and payment systems. With a regulatory sandbox framework anticipated for future deployment, FinTech will have the opportunity to safely test and refine these emerging technologies. This proactive approach will enable them to offer a broader spectrum of financial banking services, meeting the dynamic needs of consumers and businesses while still ensuring the safety of users and fostering greater financial inclusion before mass deployment of technology.



Professionals interviews



In addition to the extensive survey and secondary research, EY also conducted in-depth interviews with leading professionals in the financial industry to gather additional perspectives on financial inclusion in Vietnam. The interview questions were designed to reinforce the findings in the survey, focusing on the following factors:

1

The role of FinTech companies in promoting financial inclusion in Vietnam

2

Challenges of consumers in accessing financial banking products and services through traditional channels

3

Challenges of MSMEs in accessing financial banking products and services through traditional channels

4

Collaboration between FinTech companies and TCIs

Mr. Hoang Xuan Nguyen

Vice Chairman of the Board of Directors
MISA Joint Stock Company



What is the role of FinTech companies in promoting financial inclusion in Vietnam?

FinTech contributes to the promotion of financial inclusion in Vietnam in two main aspects:

First: FinTech acts as a Payment Intermediary (PI) assisting MSMEs and Individuals in conducting financial and banking transactions more conveniently, including the following services:

- Payment intermediaries: Developing online payment gateways that allow customers to pay using various methods such as cards, e-wallets, and bank transfers. Online businesses only need to integrate the payment gateway of a Payment Intermediary to accept payments from most types of credit cards, debit cards, e-wallets, and bank transfers, which is much more convenient than having to integrate with each bank or different card and wallet providers.
- Electronic money transfers: Enabling MSMEs to conduct transactions without the need to physically visit a bank.
- Collection and disbursement services: Allowing for the collection of money and automatic payments through mobile applications, making revenue management more convenient.
- E-wallets: Promoting cashless transactions among consumers.

Second: FinTech supports digital transformation for MSMEs to improve business efficiency. For example,

MISA has provided digitalization tools through the integration of financial banking services into accounting software; helping businesses save time and increase work processing efficiency with features such as automatic transfers, transaction reconciliation, debt reminders, and cash flow management. MISA has also deployed new products on the platform to support businesses such as payment guarantee loan requests or when customers open business accounts at banks, they will be provided with accounting services by MISA and vice versa.

Can you discuss the primary challenges in accessing current financial banking products and services through traditional financial channels, especially for unbanked and underbanked population?

Traditional banks often have stringent requirements for their products and services, particularly for loan products. Customers who do not have bank accounts or only use limited banking financial products typically fail to meet the approval criteria set by these institutions, such as having a credit history, recorded cash flow through the bank, and other business-related requirements like positive cash flow statements or specific business management documentation (such as organizational structure, business strategy, management plans, etc.). Consequently, these individuals frequently face difficulties in directly accessing products and services offered by TCIs.

SMEs are facing many difficulties in accessing credit resources due to the lack of collateral; they may have collateral, but its value is low, and lenders lack information about the business. In your opinion, how can FinTech help to address this issue?

MSMEs in Vietnam struggle to access bank loans due to a lack of collateral, credit history, and detailed financial information. To address this issue, FinTech companies like MISA are providing solutions to support the demonstration of financial capacity through the recording of business cash flows in the following ways:

FinTech helps MSMEs easily access loans, addressing the issue that 70% of MSMEs cannot access bank loans due to lack of collateral and financial capacity proof. FinTech provides intermediary services, using non-credit data such as payment information on invoices to assess financial health and repayment ability of businesses, thereby facilitating easier access to unsecured capital. Since its implementation, the MISA Lending platform has supported over 1,000 businesses in accessing loans, with VND10 trillion disbursed.

How can FinTech companies and TCIs collaborate effectively to overcome limitations and optimize each other's strengths in providing comprehensive financial banking services?

FinTech is becoming an important partner for banks, helping to reach unbanked customers without incurring high costs. FinTech has also made efforts to develop innovative products; for example, salary payment products, salary advances, BNPL options, microinsurance, and AI-supported investment advice. The combination of e-commerce platforms with banks, insurance companies with technology, as well as investment and savings products, has created innovative products tailored to each customer, optimizing customer reach and cost savings.

MISA, through strategic partnerships with banks, helps businesses easily access bank products and services. Businesses can also request loans directly on the platform, reducing disbursement time and aiming for comprehensive digital transformation.

Mr. Trung Thanh Vu

Vice Chairman of the Board of Directors
Military Commercial Joint Stock Bank (MB)



Can you discuss the primary challenges that traditional banks encounter when attempting to serve remote or rural consumers? Do you feel the reliance on physical branches hindered the capacity to reach the unbanked and underbanked?

Traditional banks face numerous challenges in serving people in remote or rural areas, including:

- Infrastructure limitations such as telecommunications, internet connectivity, and transportation
- Limited awareness and understanding of financial banking products, leading to hesitation and concerns about information security
- Low income reflected in simple financial needs and limited access to modern financial banking services
- The high cost of expanding the network requires large capital and long time, while recruiting qualified personnel in remote and rural areas is also a difficult problem

The reliance on physical branches is also a significant barrier, with geographical distances causing people in remote areas to:

- Travel long distances to reach a bank branch
- Face cumbersome procedures that hinder access to financial banking services

What specific barriers do MSMEs face in accessing financial banking services, especially accessing to loans? How might FinTech offer or work with banks to offer viable alternatives?

MSMEs, face specific barriers when accessing financial banking products and services, including:

- Lack of collateral or insufficient fixed assets to secure loans
- Incomplete or unclear credit profiles
- Complex procedures and extensive documentation requirements
- Slow disbursement times make borrowing difficult, affecting their ability to meet working capital needs

In this context, FinTech can provide additional useful data for banks, helping them to develop credit scoring models and automatically determine appropriate credit limits. FinTech can:

- Share data on customer shopping and payment behaviors from e-commerce platforms
- Provide information on transaction history and engagement levels, helping banks to more accurately assess customers' income and cash flow

FinTech firms are often recognized for their faster processing and disbursement of loans. Could you share insights into how traditional banks are evolving their processes to enhance speed and efficiency? What opportunities do you see for collaboration between traditional banks and FinTech in this area?

In the context of digital transformation, traditional banks have made efforts to ensure speed and efficiency in processing and disbursing loans, matching FinTech capabilities. Traditional banks' efforts include digitizing processes through credit approval automation; simplifying procedures with fewer documents, standardizing processes; using Big Data to analyze customer data and personalize loan products; and investing in technology to improve document management systems and enhance cybersecurity.

The collaboration between traditional banks and FinTech opens up opportunities:

- To provide technological solutions (online lending platforms, data analysis tools)
- To assess credit more quickly and accurately by using algorithms and alternative data
- To expand the market, helping banks reach new customer segments

MB is a prime example, having proactively applied technology to the processing and disbursement of loans, creating a positive customer experience and developing new credit limit models. MB also integrates with partners, including FinTech, to reach customers through multiple channels, not limited to traditional banking.

What emerging trends or innovations in FinTech do you believe has been and will be most influential in advancing financial inclusion?

- AI and machine learning are bringing changes to the finance industry by improving credit assessments through fast and accurate data analysis, detecting fraud to protect customer assets, and providing personalized financial advice through chatbots and virtual assistants.
- Open banking enhances the ability to securely share data between credit institutions, opening up opportunities for the development of new products and services, and personalizing services based on customer data.
- Green finance is being promoted by FinTech with loan products supporting environmentally friendly projects and creating opportunities for individual investors to participate in sustainable investments, addressing social and environmental issues.

What are the potential risks and legal challenges associated with partnerships between banks and FinTech?

The collaboration between traditional banks and FinTech offers benefits but also poses significant risks and legal challenges:

- Information security risk: data breaches and cyberattacks, especially when the systems of both parties are integrated
- Legal risk: compliance with multiple security, customer information sharing and anti-money laundering regulations is a major challenge, along with the risk of contract disputes over intellectual property rights and profit sharing
- Business risk: includes potential damage to a bank's reputation following incidents with FinTech and the need for banks to continuously update technology to avoid obsolescence
- Management challenges: arise from cultural differences and business models between the two parties, leading to distinct goals and strategies

Mr. Diep Ba Nguyen

Co-Founder, Vice Chairman of the Board of Directors
Online Mobile Services Joint Stock Company (MoMo)



What is the role of FinTech in promoting financial inclusion in Vietnam?

FinTech has become a significant driving force in promoting financial inclusion, especially in Vietnam, serving as a bridge that widens the reach of financial banking services to the broader populace. By enhancing the accessibility of financial products, lowering expenses to offer more affordable services, pioneering customer-centric and innovative solutions and boosting financial literacy, FinTech companies are crucial in equipping Vietnamese individuals with the necessary tools and understanding to make sound financial choices. MoMo has made a positive contribution to this process by providing innovative, flexible and accessible financial solutions in cooperation with banks and credit institutions. We focus on applying technology to create financial banking products and services that meet the diverse needs of users, thereby promoting the development of inclusive finance, enabling financial access to everyone more easily and safely.

Can you discuss the primary challenges in accessing current financial products and services through traditional financial channels, especially for unbanked and underbanked population?

Customers in Vietnam, especially the unbanked and underbanked, are facing many challenges in accessing financial banking products and services through traditional channels. Notable challenges include lack of information, limited financial literacy, complex credit assessment and approval processes for unsecured loans at TCIs, especially for MSMEs.

TCIs also face numerous challenges in delivering financial products to customers. For credit products, typical issues include a lack of underwriting data, the increased cost and time due to manual underwriting processes, very high distribution costs and inconvenience stemming from the brick-and-mortar model. When it comes to investment products, problems that can be highlighted include high distribution costs leading financial institutions to cater mainly to wealthier clients, a high capital requirement for participation, a general lack of financial literacy and overall inconvenience.

To overcome the barriers in accessing financial banking products and services, MoMo has implemented multiple initiatives and developed innovative solutions such as Quick Loans (Vay Nhanh) and Postpaid Wallets (Vi Tra Sau) in collaboration with credit institutions. These solutions simplify processes, enhance transparency and diversify options to bring financial products closer to the needs of the people. We also invest significant resources in financial education to improve awareness and financial management skills for consumers, thereby helping them to access and use financial products and services more responsibly. Moreover, for FinTech to truly enhance user access to financial banking services, it must also empower banks and financial institutions by facilitating bulk sales at reduced costs, supplying sophisticated data and modeling tools, and delivering automation software that streamlines risk management and sales processes. With a large customer base of over 31 million users, coverage across all 63 provinces and cities nationwide, and more than 200 different services, the MoMo ecosystem equips users with a full range of services from essentials such as bill payments and money transfers, to advanced needs such as investment and credit products.

SMEs are facing many difficulties in accessing credit resources due to the lack of collateral; they may have collateral, but its value is low, and lenders lack information about the business. In your opinion, how can FinTech help to address this issue?

SMEs encounter similar challenges to individuals when accessing financial banking services, yet they face even greater obstacles related to business data and have more specialized needs, especially MSMEs, often face difficulties in accessing credit. FinTech companies like MoMo can help solve this problem by applying big data analytics, thereby assisting banks in credit scoring for customers without a credit history. The collaboration between FinTech and banks also helps provide more comprehensive information about businesses, thereby reducing risk for lenders and expanding opportunities for access to capital. By owning advanced technology, a large customer base, extensive data resources and partnerships with TCIs, MoMo has expanded financial access for individuals, MSMEs, contributing to the promotion of financial inclusion in Vietnam.

Have FinTech made a difference to improve accessibility, how do you perceive FinTech solutions as being more accessible in these areas, especially for payment and credit products?

Over the years, FinTech companies have made differences in improving access to financial banking financial products and services, especially in the fields of payment and credit. FinTech through the application of innovative technology and the development of customer experience centric products, has provided convenient, fast and secure financial solutions. We continuously innovate technology to optimize user experience, while also enhancing security and transparency. The collaboration between FinTech and TCIs not only expands access to financial banking services for everyone but also promotes the development of financial inclusion in Vietnam, ensuring that everyone can easily access financial banking services.

MoMo has assisted over a million people in accessing credit despite having no borrowing history and lacking conventional financial information. It has enabled them to participate in the financial market, build a credit history, and has helped banks reach a larger customer base, sell products at lower costs for better business efficiency, and make accurate decisions and manage risks effectively.

Mr. Chien Van Dinh

Deputy CEO, Head of Retail Banking
Tien Phong Commercial Joint Stock Bank (TPBank)



Can you discuss the primary challenges that traditional banks encounter when attempting to serve remote or rural consumers? Do you feel the reliance on physical branches hindered the capacity to reach the unbanked and underbanked?

Traditional banks face challenges in expanding services to three main customer groups:

- The first group includes customers in remote and rural areas, where the cost of building a network is high, brand recognition is low, and products and services need to be "affordable" to match the financial capacity of the residents. Operational and management risks also pose numerous issues that need to be addressed, along with a lack of product diversity due to small transaction needs and values.
- The second group consists of urban customers who have not yet used banking services (unbanked). This segment often lacks a stable income, is vulnerable to economic fluctuations, and has limited financial knowledge, making credit risk management challenging.
- The third group includes MSMEs – with incomplete financial data recording standards, unclear borrowing needs, and limited knowledge of financial services, preparing bank documentation and procedures becomes complicated. Moreover, they often turn to informal credit sources for convenience and immediate availability, creating additional competitive challenges for banks.

What specific barriers do MSMEs face in accessing financial banking services, especially accessing to loans? How might FinTech offer or work with banks to offer viable alternatives?

MSMEs struggle to access financial services from banks, especially loans, due to unstable and seasonal incomes, traditional operations that do not fully record transactions to transparently prove income, and non-constant needs that depend on business cycles. These businesses are limited by their financial literacy and the habit of using informal borrowing channels for immediate needs. Banks also face challenges in deploying new products tailored to the specific needs of each segment, requiring investment in research, feasibility assessment, technology, and risk management models.

To reach this customer group, banks are researching and developing simple, convenient, and transparent products. FinTech can assist banks by providing solutions with better customer experiences and alternative credit scoring models, helping to reduce the burden of risk management costs for banks. The collaboration between banks and FinTech can result in better products and services for customers, but it needs to be implemented step by step while learning from experience to minimize risks. TPBank's experience shows that this partnership model takes about 2-3 years to develop, and not all banks are willing to cooperate due to its novelty and potential risks.

Your bank is well-known for incubating and collaborating with many FinTech companies. Can you share the areas in which your bank has cooperated with FinTech?

TPBank is collaborating with Fintech to expand services to unbanked and underbanked customer groups, bringing benefits to customers and reducing investment costs for the bank. Areas of cooperation include:

- Cash on delivery (COD) financing: MSMEs can advance COD payments from third-party delivery apps to meet business needs without waiting, with fees ranging from VND100,000 to VND150,000 per transaction.
- Non-traditional credit scoring models and tools: FinTech uses alternative data and AI to score credit for MSMEs helping banks supplement information alongside traditional processes and reducing investment in AI.
- E-commerce platform-based business development loans: Analyzing business data from e-commerce platforms enable banks to provide short-term unsecured loans to sellers.
- BNPL: TPBank and Shopee offer BNPL products, leveraging customer shopping data and consumer behavior for loan approval.

From the experience of models around the world, banks should take on a collaborative role rather than directly building and operating FinTech.

How can traditional banks partner with FinTech companies to improve their offerings for underserved consumers and MSMEs?

To enhance the user experience and product features for consumers, MSMEs, traditional banks can collaborate with FinTech to:

- Personalize customer experiences by using interaction data on FinTech platforms to bring banking products closer to consumers.
- Assess customers regarding their behavior and financial stability to make appropriate predictions about behavior before, during, and after using services.
- FinTech's evaluation data will provide banks with an additional basis for making decisions and determining criteria such as duration, interest rates, and loan values.

What emerging trends or innovations in FinTech do you believe has been and will be most influential in advancing financial inclusion?

Currently, several technology trends are driving financial inclusion, including:

- EmFi: This allows customers to use banking financial services simply and conveniently when needed, aligning with the consumption habits of the younger generation.
- BNPL: A simplified and transparent version of credit cards combined with installment payments, BNPL can be applied to a wide range of products, not limited to high-value items, helping customers meet their financial needs in a timely manner and use financial services responsibly.
- AI: AI has a significant impact on financial inclusion, helping banks analyze customer behavior, provide personalized products, assess repayment capacity, and integrate into customer care systems such as call centers and chat channels.

What are the potential risks and legal challenges associated with partnerships between banks and FinTech?

From TPBank's perspective, we believe that the legal framework needs further development to help banks and FinTech play a clearer role in promoting financial inclusion.

- There should be regulations and mechanisms that allow the expansion of FinTech activities, thereby creating a separate playing field for FinTech to serve customers effectively.
- Establish legal foundations that are supportive and guide banks and FinTech to jointly deploy a variety of products and services to all segments.
- As consumer behavior changes rapidly, especially after the COVID-19 pandemic, the development of the digital economy has become more important than ever. This requires state policies to encourage and guide banks and FinTech companies to contribute more to the expansion and improvement of financial services for all citizens, aiming to achieve the goal of national financial inclusion.

Methodology



In an effort to gauge the current state and future prospects of financial inclusion in Vietnam, EY teams conducted an extensive survey over the course of one month, during the month of June 2024. The survey reached a diverse group, encompassing 1,494 individual consumers and 1,074 MSMEs that represent a cross-section of the Vietnamese market. To help ensure cultural relevance and linguistic accuracy, the surveys were meticulously administered in the local language, incorporating market-specific references to brands and products that resonate with the Vietnamese populace.

The design of the survey was meticulously crafted to elicit detailed insights into the financial behaviors, preferences, and challenges faced by both individual consumers and SMEs. This approach allowed for a nuanced understanding of the role FinTech plays in their economic activities and its impact on broader financial inclusion.

To complement and enrich the survey findings, EY teams embarked on an in-depth secondary research initiative. This involved a thorough analysis of industry reports, academic studies, and policy documents to construct a well-rounded view of the financial inclusion landscape. The research delved into the initiatives and policies that are currently shaping the trajectory of financial inclusion in Vietnam, as well as the pivotal role of industry stakeholders in driving this progress. This was further enriched by contextual professionals interviews featured in the report.

The synthesis of primary survey data with secondary research insights provided a robust foundation for the EY report, offering a broad perspective on the potential of FinTech to foster a more inclusive financial environment in Vietnam.

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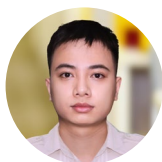
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