The current state of play

Vietnam’s banking sector consists of four state-owned commercial banks, 31 joint-stock commercial banks, nine wholly-foreign-owned banks, two joint-venture banks, two policy banks and one cooperative bank. In addition, there are 48 foreign bank branches currently operating in Vietnam.

Vietnam had almost 19,000 ATMs and 270,000 point-of-sale (POS) terminals in place in 2019. To date, 78 banks offer internet payment solutions. Mobile payment is available at 47 banks, and 29 banks accept QR code payment. Real-time payment systems are enabled by the National Payment Corporation of Vietnam (NAPAS) while the National Credit Information Center of Vietnam (CIC) provides credit information infrastructure. The country’s national identification database is still under development.

The State Bank of Vietnam (SBV) is the country’s central bank and a ministerial-level government agency. SBV manages monetary and banking activities alongside Vietnam’s foreign exchange. It also issues banknotes, acts as the central bank for credit institutions, and as the government’s monetary service provider. In March 2017, SBV established a Fintech Steering Committee and Working Group. This group was set up to develop an enabling regulatory framework to support the development of Vietnam’s fintech ecosystem.

Source: BMI, 2020

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Vietnam banking infrastructure

- **19,000** ATMs nationwide
- **270,000** POS terminals
- **78 banks** offer internet payment solutions
- **47 banks** offer mobile payment
- **29 banks** accept QR code payment

**CURRENT STATE OF PLAY**

**State Bank of Vietnam**
manages monetary and banking activities as well as foreign exchange

**National Credit Information Center of Vietnam**
provides credit card infrastructure

**National Payment Corporation of Vietnam**
enables real-time payment systems

Source: State Bank of Vietnam, 2019

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Recent developments and trends

Digital transformation

Digital transformation is expected to change the management of banks towards leaner, smarter and more modern business models. Digital transformation has the potential to allow banks to capture a much larger amount of data from an increasing number of sources and better utilise this data to serve business decision making. It could also enable banks to reduce costs while increasing both operational efficiency and revenue through innovation in products, services and distribution channels.

More importantly, with the right implementation, customer experience can be greatly enhanced. Banks are making continuous efforts in the digital transformation race in the hope of gaining a competitive advantage and capturing a bigger share of the market.

To this end, the majority of Vietnamese banks have either implemented or are in the process of developing their digital transformation strategies. In fact, by the end of 2019, 60 per cent already had digital transformation initiatives in place.

There are two basic approaches to the digital transformation of banking in Vietnam. The first involves the digitalisation of an existing bank. This consists of digitising certain business segments, internal processes and front-end channels. Examples of front-end channel developments include innovation in mobile banking, e-know your customer (eKYC), QR code payment, virtual assistants/chatbots and 24/7 call centres.

Meanwhile, developments in internal processes include online real-time trading systems, robotic process automation and the application of artificial intelligence and third-party data in risk management. Digitising the information database and the utilisation of technologies and tools such as big data warehousing, automated data collection, cloud computing, data analytics, artificial intelligence, open API and blockchain are still in their infancy. However, looking ahead, they present significant growth potential.

Vietcombank, TPBank and Techcombank are just some examples of this first approach. These banks operate on an omni-channel platform to ensure a consistent customer experience. They aim to become smarter at analysing customer behaviour and obtaining customer insights. This will enable them to provide personalised products and services and, in turn, gain a competitive advantage in the market.

The second approach is a combination of the first along with the development of stand-alone, digital-only banks. This will usually focus on a specific target customer segment. VPBank, with the launch of the digital-only bank Timo, as well as the recently-launched YOLO, are two examples of this.
Notable initiatives

**TPBank – automated banking services from TPBank**

TPBank launched LiveBank in 2017. It provides 24/7 automated banking services through around 250 LiveBank stations nationwide. LiveBank offers the usual functions of ATM. However, customers can also open new deposit accounts, scan thumbprints, and obtain new debit cards on the spot. LiveBank applies innovative technologies such as eKYC, OCR, QR code, cash recycler and biometrics.

**Timo – a fully digital bank**

Through the strategic partnership with VP Bank, Timo was launched in 2016 as Vietnam’s first digital lifestyle bank. This service includes a mobile app and allows customers to request a new debit card. Two of Timo’s unique functions include its versatile online account management and ‘Timo Hangouts’, which are described as laid-back ‘atmosphere spaces’ instead of traditional bank branches. New customers can make an appointment to attend a ‘Timo Hangout’ to complete KYC requirements.

**BIDV - digital banking centre**

BIDV established its Digital Banking Centre in 2019 as an innovation hub to build advanced and modern customer-centric products. BIDV launched the “BIDV Home” mobile app, allowing customers to get a home loan easily with mobile devices. Using BIDV Home, customers can apply for BIDV-financed housing loans at competitive interest rates, get consultation online before visiting a transaction office, and track the loan application progress.

**iPay – a mobile banking app from Vietinbank**

Vietinbank launched the latest version of its iPay mobile banking app in December 2019. It added 50 new functionalities and improved the user experience through consumer deals, fast speed and strong security.
Financial inclusion

A large majority of Vietnamese – 69 per cent of the adult population - do not have a bank account. This is the highest rate in Southeast Asia. To increase bank penetration and achieve financial inclusion, Vietnam faces some important challenges. Firstly, ATMs and POS terminals are mainly concentrated in urban areas. Secondly, there is a lack of suitable products and services for people in remote and rural areas. And, thirdly, most banking transactions need to take place in physical branches, because they cannot be executed digitally. These challenges present opportunities for companies to develop and bring to market fintech solutions which serve Vietnam’s large under-banked and unbanked population.

Southeast Asia adult population and banking penetration 2018

Source: Euromonitor, World Bank, Bain and Temasek, 2018
FINTech Landscape

Start-up ecosystem map

Vietnam had around 136 fintech start-ups as of Sep 2019, up from 77 in 2017. Payments account for a large proportion of these enterprises, with the majority operating in the e-wallet and mobile payment space. To date, SBV has granted licences to 30 companies to provide payment intermediary services. Innovation in lending is mainly seen in peer-to-peer (P2P) lending and credit scoring.

The fintech players in Vietnam’s ecosystem do not just include pure-play fintech companies such as Finhay and Trusting Social. They also include consumer tech platforms such as Grab (ride-hailing) and Zalo (content/social media), well-known consumer brands like Viettel (telco), as well as established financial service organisations such as NAPAS, TPBank and VPBank.

Under the latest Draft National Strategy on Fourth Industrial Revolution in Jul 2019, Vietnam aims to have at least 5 technology unicorns by 2025 and 10 technology unicorns by 2030. To date, Vietnam has nurtured a single unicorn, VNG Corporation, which is a digital, content, entertainment and technology company.

Source: fintechnews.sg

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5. Ernst & Young, 2018.

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10 DIGITAL BANKING IN VIETNAM
Funding

Vietnamese start-ups received a record US$889 million in investment in 2018. That was three times higher than the US$291 million reported the previous year. Fintech accounted for the largest amount of this funding, with eight deals worth US$117 million. That was closely followed by e-commerce with five deals worth US$104 million.7

Notable investments to date include SoftBank and GIC’s investment in VNPay (US$300 million), Goldman Sachs’ and Standard Chartered’s investment in Momo (US$34 million), Belt Road Capital Management’s investment into Tima (US$3 million) and Insigna Venture Partners’ investment into Finhay (US$1 million). Significant M&A deals include Grab’s 2018 strategic partnership with and acquisition of a stake in Moca – a Vietnamese digital payment service company.

Vietnam had 24 incubators, accelerators and innovation labs supporting start-ups in 2017. That’s more than many other countries in the region such as Indonesia (20), Malaysia (10), Thailand (5) and the Philippines (5); and below only Singapore (52).8

ENABLERS FOR DIGITAL BANKING AND DIGITAL FINANCIAL SERVICES IN VIETNAM

Over the next five years, Vietnam is forecast to see the fastest growth in digital financial services revenue in Southeast Asia.

A number of internal enablers will be important in driving this growth.

Southeast Asia digital financial services revenue forecast (US$ billion)

Source: Euromonitor, GlobalData, Bain and Temasek, 2019
Macroeconomic and demographic factors

Together, strong economic growth and a young, tech-savvy population will drive demand for fintech solutions. Vietnam has seen impressive annual GDP growth of 6 per cent in the last five years and 7 per cent in 2019 alone. Meanwhile, GDP per capita is predicted to increase from US$2,516 in 2018 to US$4,449 in 2025. This rapid rise in incomes is expected to boost demand for consumer products and services. At the same time, Vietnam boasts favourable demographics. Its large and growing population stood at 96.5 million people in 2019. Vietnam is also a young country, with 70 per cent of people aged between 15 and 64 and a median age of 30.4.

Entrepreneurial business environment

Vietnam is renowned for its entrepreneurial environment. This, together with the increasing openness from the community and businesses to work with start-ups, accounts for the recent growth in start-up enterprises over the last five years. To put that in perspective, Vietnam jumped from being the fifth to the third most active start-up ecosystem among the six largest ASEAN countries in just two years. Only Singapore and Indonesia ranked higher in 2019. Most bank and credit institutions in Vietnam have chosen to cooperate with fintech companies to develop and grow together. Examples include Vietinbank and Opportunity Network, as well as Vietcombank and M_Service.

Consumer digital readiness

Vietnam is ready for digital adoption. Consumers have a high degree of digital literacy and are likely to adopt a range of online services. This, in turn, offers opportunities for embedded financial solutions.

Firstly, internet access is widespread. Penetration rates have risen from 48 per cent in 2016 to 66 per cent in 2019. Mobile subscriptions are even higher, with a penetration rate of 130 per cent. There are 51 million mobile internet/phone customers on the country’s 3G/4G network. Meanwhile, around 72 per cent of the adult population own a smartphone. Vietnam has also seen strong growth in e-commerce. The gross merchandise value (GMV) of e-commerce was just US$0.4 billion in 2015. This grew to US$4.6 billion in 2019 and is projected to rise to US$23 billion in 2025. That amounts to a compound annual growth rate (CAGR) of 49 per cent between 2015 and 2025 – the highest in Southeast Asia (SEA).

Banking penetration

Banking penetration remains low in Vietnam with just 30 per cent of the adult population having a bank account. Credit card penetration rates are even lower, at just 2 per cent of the population. On top of this, Vietnam has some of the fewest bank branches (3.8 per 100,000 people) and ATMs (24 per 100,000 people) in ASEAN.

Digital infrastructure

Vietnam has almost full 3G/4G network coverage, provided by major telecommunications companies such as Viettel, VNPT and Mobifone. The country has seen rapid development in mobile communications technologies, with 4G networks now covering over 95 per cent of households. Furthermore, after conducting trials in market, Vietnam seeks to launch commercial and military 5G mobile services in 2020, bringing with them the potential for further digital transformation.

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11. BBVA Research, 2016.
18. BBVA Research, 2016.
Government support

The Vietnamese Government and its regulators are supporting and encouraging industry adoption of advanced technologies. In particular, the government and SBV have introduced regulations to guide the banking and financial services sectors in this direction.

This began in March 2017, when SBV established a Fintech Steering Committee. The committee was set up to study and improve the fintech ecosystem and to create an enabling framework that would support fintech development in Vietnam.

Then, in August 2018, the Prime Minister of Vietnam issued Decision 986/QD-TTg. This approved the ‘Development strategy for the Vietnam banking industry to 2025 with the vision towards 2030’ (the Banking Strategy). Later, in January 2019, Decision 34/QD-NHNN was published. This outlined an action plan to implement the Banking Strategy, and included four objectives relevant to fintech:

**Compliance:** Firstly, the Banking Strategy aims to increase the institutional capabilities, effectiveness and efficiency of SBV’s bank inspection and supervision. By the end of 2025, banking inspection and supervision should meet most of the Basel principles of effective banking supervision.

**Cashless payment:** Secondly, cashless payment has been one of the top priorities for the government and SBV over the last few years. Recent developments in this area include Circular 39/2014/TT-NHNN on intermediary payment services, Decree 80/2016/ND-CP on non-cash payments and Decision 2545/QD-TTg approving the plan for development of non-cash payment in Vietnam during 2016–2020.

Decision 241/QD-TTg provided further support in February 2018. This approved a plan to increase payment for public services – including tax, electricity, water, tuition fees, hospital charges and social security programs – via banks. Meanwhile, the Banking Strategy contained provisions to develop non-cash payment and optimise ATM and POS networks. It also included a target to reduce the ratio of cash to total payment instruments to less than 10 per cent in 2020 and 8 per cent in 2025.

**Financial inclusion:** The government began to address this third objective in September 2016 with Decision 1726/QD-TTg. This approved a plan to enhance access to banking services across the economy. The Banking Strategy developed this further in 2018, and set out to increase the number of people and businesses with access to banking and financial services. It also aimed to develop products and services for the unbanked and under-banked, disadvantaged people and those in rural and remote areas. Vietnam’s drive towards financial inclusion was further reinforced in 2018 through Decision 1731/QD-NHNN which introduced an action plan for the banking sector to implement the 2030 agenda for sustainable development.

**Green credit:** The fourth objective relevant to fintech is to promote the growth of ‘green credit’ and ‘green banks’. In particular, the Vietnamese Government aims to increase the rate of bank loans for investment projects in renewable energy, clean energy, and low-carbon manufacturing and consumption industries.

The Government of Vietnam has also introduced broader reforms to support the growth of digital banking and financial services. In December 2018, for example, SBV issued Decision 2617/QD-NHNN on the ‘Action plan of the banking industry to realise Directive 16/CT-TTG of the government on enhancing the nation’s capability to embrace the 4th industrial revolution technologies by 2020 with the vision towards 2025.’

The action plan has four main objectives. Firstly, it aims to facilitate significant developments in IT and payment infrastructure. Secondly, it seeks to modernise banking channels such as internet and mobile banking. Thirdly, it hopes to enhance the effectiveness of banking and risk management, while strengthening information protection and cyber security. Finally, it aspires to institute regulatory frameworks to foster the development of digital banking and the fintech ecosystem associated with comprehensive financial inclusion.

The action plan includes three specific targets to achieve this:

- Firstly, commercial banks with over US$5 billion in assets are encouraged to spend at least 5 per cent of their operational cost on IT infrastructure and equipment.
- Secondly, at least 20 per cent of processes should be automated by 2020, rising to 35 per cent by 2025.
- Finally, by the same year, almost all credit institutions should have eKYC technology and automate many back- and front-end processes.

Some specific actions in the plan include developing a national strategy on financial inclusion, building agent banking and establishing a P2P lending regulatory framework. Other steps include improving anti-money laundering (AML) regulations and issuing eKYC guidelines, researching the application of blockchain and Open API, as well as submitting the regulatory sandbox proposal to the Prime Minister. The management of bitcoin and other virtual currencies is also on the agenda. Finally, the plan includes completing the information security and cyber security management system and its regulatory framework.
ENABLERS FOR DIGITAL BANKING AND FINANCIAL SERVICES IN VIETNAM
Vietnam has strong internal enablers for the adoption of digital banking and financial services

FAVOURABLE MACROECONOMIC AND DEMOGRAPHIC FACTORS

01
GDP growth of 7% in 2019
GDP per capita expected to be US$4,449 in 2025
Growing & large population of 96.5 million. Young population with 70% of people aged 15-64, median age of 30-4 years old

02
Internet penetration rate at 66%
Mobile subscription rate at 130%
Smartphone penetration rate at 72% of the adult population - one of the highest rates in Southeast Asia
E-commerce GMV at US$0.4 billion in 2015 & projected to be US$23 billion in 2025, a CAGR of 49% - the highest in Southeast Asia

03
Bank account penetration at 30%
Credit card penetration at 2%
3.8 bank branches per 100,000 people
24 ATMs per 100,000 people

04
Vietnam is the 3rd most active start-up ecosystem in ASEAN, behind Singapore and Indonesia

05
4G networks now cover over 95% of households. 5G networks are set to follow in 2020

06
The adoption of new technologies in banking and financial services are highly encouraged
Some initiatives include:
- SBV’s Fintech Steering Committee
- The Banking Strategy
- Directive 16/CT-TTG
OPPORTUNITIES FOR AUSTRALIAN COMPANIES

Commercial opportunities

Data-driven insights and recommendations: Data analytics, big data and artificial intelligence technologies. Banks and financial service companies are just beginning their digital transformation journeys. So, tools that can help these organisations to digitise their data and gain actionable insights are in high demand.

Customer acquisition: Financial inclusion. Vietnam welcomes services and solutions for unbanked and under-banked customers. SMEs, for example, are particularly underserved by established financial service companies. Vietnam has begun to utilise eKYC and innovation in biometrics and digital identity management. However, continuous product and technology improvement is needed to keep up with the country’s developments and rapidly evolving customer demand and increasing sophistication.

Product innovation: eKYC, lending, wealth management, insurance and mobile banking. Innovation in all aspects of banking and financial services including payment, financing, insurance and investment are welcomed. The least crowded sub-sectors currently lie in lending, insuring and investing/wealth management. With the credit card penetration rate at just 2%, lending is the 2nd largest fintech segment in Vietnam, after payment. This presents tremendous opportunities for innovative lending platform and solutions as an alternative to traditional credit products. In addition, with high smartphone usage and increased mobile transactions, most banks are looking to aggressively grow and innovate in the mobile banking space.

Risk management: Cyber security, fraud, AML and compliance management. Cyber security has become increasingly important given the development of many new open and unsecured digital connections. Banks and financial service organisations also value regtech solutions that enable them to automate internal processes and improve their risk management and compliance.
COMMERCIAL OPPORTUNITIES IN DIGITAL BANKING AND FINANCIAL SERVICES IN VIETNAM

DATA-DRIVEN INSIGHTS AND RECOMMENDATIONS

There is strong demand for tools that can help banks and financial services companies to digitise their data and gain actionable insights.

- Data analytics tools
- Big data solutions
- Artificial intelligence technologies

FINANCIAL INCLUSION AND CUSTOMER ACQUISITION

There is significant potential for services and solutions catering to the large under-banked population and underserved SMEs.

- eKYC and innovation in biometrics and digital identity management

PRODUCT INNOVATION

Innovation in all aspects of banking and financial services including financing, insurance and investment are welcomed

- Mobile banking
- Lending, insurance and wealth management

RISK MANAGEMENT

Banks and financial services companies also value solutions that provide comprehensive cyber security, and enable them to automate processes and achieve their risk management and compliance goals.

- Cyber security solutions
- Fraud, anti-money laundering and compliance solutions
Considerations for market entry

To succeed in the Vietnamese market, it is important to consider several important factors. These include adapting to the local business culture, finding the right local partners and staff, and ensuring products and services are suitable for the local market.

There are a number of challenges for new market entrants. Business relationships are formal and can take time to develop. Meanwhile, meetings are an integral part of the business process and people often prefer to meet their prospective partners face-to-face. Other challenges in the market include bureaucratic procedures, unclear legislation and a lack of intellectual property rights enforcement.

Partnering with a local company can help you faster and more easily navigate the complex relationships and decision-making processes within target end-customer organisations. This, in turn, can shorten time to market.

Vietnamese banks view fintech start-ups and companies not as disrupters, but as beneficial and necessary partners that can provide them with the complementary elements to gain a competitive edge in the digital economy. Selected banks are actively looking for both domestic and international fintech partners to provide them with innovative solutions and help them gain a competitive advantage in the market.

To learn more about possible business opportunities for your products and services, get in touch with Austrade Vietnam. Our advisers can discuss market entry pathways and help you work out an action plan. We can also provide local market intelligence, assist you with your market entry strategy, and help you get started in this fast-growing market.
ABOUT AUSTRADE

The Australian Trade and Investment Commission – Austrade – is Australia’s leading trade and investment agency.

We are experts in connecting Australian businesses to the world and the world to Australian businesses.

We have a proud history of helping Australian businesses pursue their global ambitions and have the power to open doors, unlock opportunities and help Australian businesses go further, faster.

We help attract game-changing investment to Australia, to support new industries, enhance existing ones and bolster our world-class research and development – strengthening global supply chains, creating local jobs and boosting the economy.

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Our diverse team, consisting of country experts, industry specialists, and trade and investment analysts, provides clients with actionable macro and micro insights.

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And, our work continues. At a time of increasing global uncertainty, we are transforming our services, to help ensure Australia’s growth and a global future for all.

AUSTRADE VIETNAM

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