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FINTECH INSIGHTS - VIETNAM

OUR RESPONSES TO QUESTIONS ON THE ROLE OF DIGITAL PAYMENTS AND FINTECH DEVELOPMENT IN VIETNAM

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How would you comment on the development of digital cross-border payments and the growth of outbound and inbound remittance value in Vietnam market over recent years?

Vietnam's GDP expanded 7.02 per cent in 2019. According to a report published by J.P.Morgan, Vietnam's business to consumer e-commerce market is worth $6.2 billion. Vietnam's internet penetration rate is about 60%. Given that granted cash-and cash-on-delivery has had a principal role in Vietnam, everything recently has been changing. There are currently 37 licenses granted to non-bank intermediary payment service providers. Most of them offer e-wallet services. The big names include MoMo, ViettelPay, ZaloPay, Airpay and Moca.

Non-cash payment methods which include electronic payment and mobile payment are becoming more popular in urban areas. Non-cash payments have begun to be used more widely in retail and public services, and are also being used in sectors such as healthcare and education. According to a survey conducted by the State Bank of Vietnam (the "**SBV**"), by March 2019 the number of financial transactions conducted through online platforms increased by about 66%, the transaction value increased by 14% compared to the same period in 2018; the number of financial transactions conducted through mobile phones increased by about 98%, the transaction value increased by 232.3% compared to the same period in 2018.

What potential do banks, fintech startups and intermediary payment service companies have in Vietnam to promote cross-border payment services?

Although Vietnam has remained among the Top 10 remittance receivers, the SBV is applying a zero-interest rate for deposits in US dollars hoping to encourage remittances into Vietnam to be used for investments rather than being kept in banks. The remittance rate of Vietnam is still high because Vietnamese citizens who have been working and living overseas are seeing investment opportunities in the Vietnamese markets. The stability of the Vietnamese economy is a key factor for these investors to trust local markets and believe that they can have better investment opportunities in the domestic market. This trend is driven by a stronger economy in the United States where there are around 2 million Vietnamese-Americans living.

In order to promote cross-border payment services, Vietnam should improve the legal framework in this field. Recently, Cross-Border E-Payments (CBEP) have become popular all over the world, especially in destinations favored by Chinese, Japanese and South Korean tourists. Therefore, the establishment of collaboration mechanisms accepting CBEP through e-wallets for tourists when they travel to Vietnam and make payments at sale units in Vietnam is necessary.

A growing trend globally is that big commercial banks are acquiring fintech companies so that banks and fintech firms can better collaborate together in order to reap the benefits of new technologies. However, this trend does not seem to be common in Vietnam. The M&A deals in which commercial banks acquire fintech companies is very limited. In order to promote this trend, the Government must put more effort into developing a legal framework to allow more foreign investors to invest into the fintech industry and to promote new technologies in non-cash payment services.

How have local banks been cooperating with fintech startups to boost cross-border fund transfer in Vietnam?

Banks may lose their market shares if they are unable to match the speed of the digital revolution. By entering into a partnership with fintech companies, banks will have the chance to expand their market shares, diversify their services and reduce their operation costs.

Recently, there have been a number of acquisitions of fintech companies made by banks in the US and EU; such as, Goldman Sachs acquiring majority shares in FinanceIt, a POS lending startup; BNP purchased Compte Nickel, an online bank and took a majority stake of Gambit, a robo-advisor; and BBVA, a Spanish bank, acquired stakes in Madiva Soluciones, Holvi Payment Services, and Openpay.

At the local level, in order to expand market shares and improve service quality, banks should either collaborate with fintech companies through business cooperation models or acquire equity in fintech companies. By doing it that way, banks can utilize the innovation of fintech companies and in return, fintech companies can access the banks' customer networks, IT infrastructure, and risk management systems which are the banks greatest advantages.

What challenges are payment organizations facing in the Vietnamese market?

The lack of a comprehensive legal framework on e-payment transaction is vital. Most countries consider "intermediary payment services" as part of the payment service. Unlike other jurisdictions, Vietnam differentiates between intermediary payment services and payment services. For example, there are no specific regulations allowing foreign tourists to

make payments through their apps when they travel in Vietnam. For people living in Vietnam, the SBV requires e-wallet users to have a local bank account in order to use the e-wallet services.

From a licensing perspective, if a foreign investor would like to acquire equity in an e-wallet company, they need to get M&A approval from the Department of Planning and Investment at the provincial level (the "**DPI**"). According to the Investment Law, this process is quite straight forward. However, in practice, the DPI often consults with the SBV, therefore the licensing process may take longer, and even the SBV may impose a foreign ownership limit (i.e, 49%) in the target company.

In the first draft of new decree replacing Decree No. 101/2012 on non-cash payments, the SBV proposed a foreign ownership cap on intermediary payment service companies (IPS). However, we understand that in the most recent version of that draft decree the SBV has removed this cap from their proposal. Unfortunately, at this moment this issue has not been resolved due to the fact that the draft decree is still in the consultation process.

What regulatory policies should the Government adopt in order to ensure the safety of the national payment ecosystem and promote the e-payment business?

First, the Government should establish a comprehensive legal framework on e-payments which can navigate change, ensure that new commercial solutions are available for merchants and consumers, and to reduce the risks to consumers.

Second, the Government may also need to consider the degree to which licensing requirements for the provision of e-payment services are transparent, objective and accessible by suppliers, including those not based within the territory.

Third, the Government should consider accepting WTO modes of service supply and maintain a balanced-oversight and supervision approach to ensure these policies and regulations reflect the nature of business operations and meet the demand of consumers.

Fourth, legislation covering KYC, anti-money laundering, cybercrime, and data protection should all be applied in a way that is commensurate with the associated risk regardless of who is supplying that service.