

Title: Towards financial inclusion

Author: Hong Nhung

Source: Vietnam Economic Times on 15 January 2019

Online link: <http://vneconomictimes.com/article/op-eds/towards-financial-inclusion>

OP-EDS

Towards financial inclusion

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Mr. Vo Tan Long, Technology Consulting Partner at PwC Consulting Vietnam, tells VET how banks and fintech companies can play an even bigger role in making financial inclusion a reality.

by Hong Nhung

How far has Vietnam come in terms of achieving financial inclusion?

Vietnam has made significant improvements in financial inclusion over the last few years. The first and foremost indicator is the percentage of the population having access to banking services, which reached 59 per cent in 2017, according to the State Bank of Vietnam (SBV).

Moreover, consumer finance is an area that has seen significant double-digit

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growth in lending balance in recent years, despite some higher barriers to entry and risk exposure control.

There is a general understanding of the important role that financial institutions such as banks and emerging startups such as fintech companies play in widening access to financial services. So, the SBV has placed a strong emphasis on supporting new forms of banking services that are provided on the internet and mobile devices. The newly-established Fintech Steering Committee aims to encourage the development of fintech companies in Vietnam by creating a legal corridor for this new form of banking service.

Moreover, the government has introduced several policies to promote cashless transactions, thereby encouraging the wider use of financial services. Most recently, the government's Resolution No. 02 was issued, stipulating that cashless transactions are made possible for all household bill payments by urban residents by the end of this year. All schools and hospitals, as well as electricity, water, sanitation, telecommunications, and postal companies in urban areas are to work with banks and intermediary payment service providers to collect bill payments via mobile channels and card readers, etc. The SBV has also been asked by the government to promote the use of electronic wallets and QR code standards.

What have banks and fintechs done in recent years to support the country's long-term and sustainable financial inclusion goals?

Most financial institutions and fintech startups see financial inclusion as a critical mission in their strategy to acquire market share. With high internet penetration and smartphone use, banks see significant potential in using the internet and mobile channels to reach customers.

Around 30 banks are providing some form of internet banking and/or mobile banking to customers, mostly focusing on moving banking transactions out of physical branches. Some banks are pioneering the onboarding of customers on those channels and creating a complete customer life cycle on digital channels, from engagement, sales, service and support to retention.

Banks have been making major efforts to diversify access to banking services through digital channels, expand networks through partnerships with non-bank enterprises, and create a cross-industry ecosystem. When banking services are embedded into the daily life of customers, they become an important success factor in achieving financial inclusion goals. Digital commerce, taxi hailing, food ordering

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and delivery, and utilities billing and payment are all practical examples of making financial services transparent to consumers, thus easing access and creating enthusiasm for cashless transactions.

Regarding fintech, the number of fintech companies in Vietnam is not very high compared to other ASEAN countries. There are around 80 fintech companies in Vietnam, most of which focus on payments, personal finance management, and investment platforms. Twenty-six licenses have been issued by the SBV to different payment centers/intermediaries, most of which focus on e-wallet services as a simplified payment vehicle.

While some fintech companies have received investments from external investors (for e.g. Momo, Moca, Payoo, and Zalo Pay) or leveraged on their core competency (for e.g. VNPay, Viettel Pay, and Money Lover), the majority of e-wallet providers are struggling to find a base for growth. Despite these challenges, the fintech community has been successful in driving different forms of payments in Vietnam, catching up with countries in the region in areas such as bill payments, QR payments, and personal finance management.

What should banks and fintechs in Vietnam do to popularize financial services even more and move the country towards a “non-cash” economy in the years to come?

Financial institutions and fintechs already have a strong focus on new technologies that allow them to expand access to their customers and lower the cost of servicing, thus providing much more affordable financial services to people in Vietnam. This is not only to serve the common goal of moving Vietnam towards a cashless economy but it is also essential for banks themselves to be successful in the new digital era led by Gen X, Gen Y, and digital-native customers.

Banks and fintechs will need to attract more customers to their services by diversifying their offerings. Fintechs, in particular, should be able to move beyond the focus on payments to other services. At the same time, they should create a secure environment for customers to conduct transactions with confidence. Technological solutions that allow seamless access to different products and services while securely managing customer identities and preventing risk exposure are in demand. Key words are e-KYC, cyber security, identity management, and fraud prevention.

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However, financial services are only one component of the whole economy. The roles of retail and distribution, F&B, entertainment and transportation, travel and hospitality, education and healthcare, etc. are no less important. It is critical to create a complete set of services with non-cash transactions that cater to customers' daily life. Such ecosystems might require inter-organizational integration of business processes and technologies, and financial institutions and fintechs can play a leading role in creating them.

What policies should the government put in place to stimulate financial inclusion?

Financial inclusion is all about lowering the barriers to access to financial services. Digitization of financial services, partnerships between traditional financial services and other components of the economy, network expansion to reach geographical locations with limited access, and regulatory drivers to discourage cash transactions are solutions that have proved to be successful around the globe.

First of all, financial institutions and fintechs need support from the government and the SBV to be able to implement a number of technological solutions to digitize their services. Building an uninterrupted customer journey across all channels requires a legal framework as banks and fintechs try to identify, onboard, and start providing services to customers consistently. While the technologies available in the market provide an unprecedented customer experience and innovative business processes, not all of them are legally supported by existing regulations. There are a number of examples on how countries can support emerging technologies and innovative business models, yet provide enough risk containment, that we can learn from.

Second, enforcement of data privacy and information security, while at the same time creating a legal framework for open data exchange between different components of the cashless economy, is another key area for the government and the SBV. While security exposure and data privacy are key concerns for digital banking service users, fraud prevention, customer identity management, and customer insight would not be possible without open data exchange. This exchange can be between governmental organizations, social security, and credit information bureaus on one side, and financial institutions, fintechs, and their ecosystem partners on the other side. Data exchange between the enterprises themselves is also very important.

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Last but not least, a legal framework that facilitates cross-industry collaboration in providing financial services and non-bank industry products and services would be a catalyst to popularizing banking services to every corner of the country and in every daily activity. In this regard, we look forward to supporting regulators with business models such as agent banking.