

A new trend of investment in Vietnam: Fin-Tech

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ABSTRACT: In recent year, when the 4th industrial revolution explored around the World, digital age has opened a new trend of payment. One of its achievement is using fin-tech to develop bank and finance field. Following that trend, there are many fin-tech companies established in Vietnam now. The fast increasing in the number of Vietnam start-ups of the financial services sector has attracted the attention from society. However, Fin-tech in Vietnam is still facing with many problems, such as the lack of legal system to govern inclusive activities of fin-tech companies. In this article, the author will give some statistic and information of status using Fin-tech in Vietnam. The author will analyze the problems Vietnamese fin-tech company facing now. Then, the author will give recommendation some solutions to improve the stature of Fin-tech in the next period. To do this research, the author use many methodologies such as using data base of some organization, analysis and assessment them, make survey, refer regulation and law of Vietnam, etc.

KEYWORDS: E-wallet, Fin-tech, international trend, investment.

1. GENERAL INTRODUCTION

Fin-tech (Financial technology) is the technology and innovation. There is a definition: "*Fin-tech is a new financial industry that applies technology to improve financial activities.*" Fintech is the new way to compete with traditional financial ways in supplying of financial services.

Fin-tech firms are business models using products of the new applications, processes in the financial services, composed of one or more complementary financial services and provided as an end-to-end process via the Internet. Fin-tech can also be considered as "*any innovative ideas that improve financial service processes by proposing technology solutions according to different business situations, while the ideas could also lead to new business models or even new business. It is an emerging industry that uses technology to improve activities in finance.*" The smartphones are used for mobile banking, investing services and cryptocurrency are examples of technologies aiming to make financial services more accessible to the general public. Fin-tech companies consist of both Start-ups and established financial companies trying to replace or increasing the usage of financial services provided by existing financial firms.

In Vietnam, Fin-tech has just appeared more than ten years but it is developing very quickly recent year¹. Many individual and organization have plans and projects to invest in fin-tech sector recently. Especially, foreign investors from Asia, Europe or America have invested in Vietnam to establish FDI fintech companies. This is a good trend and need to research and develop in the future.

2. LITERATURE REVIEW

In Vietnam, the Government has orientations in supporting innovative start-ups, including Fin-tech businesses because Fin-tech is a potential market of finance and will be applied in many different fields. Therefore, it should be managed under the responsibility of many ministries and agencies². However, the Vietnam legal system has lacked of regulations and mechanism to govern and support or advice in the Fin-tech sector.

By 2019, Vietnam ranked at position of second in ASEAN because of achievement of the attracting 36% of the region's fin-

¹ The market was worth \$4.4 billion in 2017, and is predicted to reach \$7.8 billion by 2020, equaling a 77% increase over years. Fin-tech development in Vietnam is accelerating with companies in the sector attracting US\$117 million in start-up capital, surpassing e-commerce at US\$104 million and other sectors which makes Fin-tech the most funded sector for start-ups in 2018.

²Following Mr. Nghiem Thanh Son, Facts and Solutions to completing legal system on Fin-tech in Vietnam, Journal of Banking, and Volume 3

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tech investment, only after Singapore (rate 51%). Some foreign organization³ supposed that Vietnam has a fast growth in funding and attributed to two large deals going to payments companies⁴. In Vietnam, fin-tech firms are most particularly in the payments space (took 98% of total fin-tech funding amount). They are managed by the potential business include bank or unbanked organization, as well as the high rates of mobile and Internet penetration.

Innovative technologies are a bridge to connect financial institutions and Fin-tech Start-ups. Start-ups are established financial institutions to form a market support their digital banking strategy growth. In ASEAN, banks have been actively collaborating with Fin-techs to drive efficiency and enhance customer experience. Most banks have an incubator, accelerator, or innovation lab which helps drive collaboration with Fin-tech firms. Some ASEAN banks have also launched Fin-tech-focused investment funds.

3. METHODOLOGY OF RESEARCH

When research this paper, the author used many kinds of the methodology such as analysis Vietnam's laws and regulations related to or governed field of fin-tech. Besides, the author refers the hypotheses developed in the study show how to use law and regulation to govern fin-tech firms in Vietnam. Moreover, the author also used statistic and survey method to finish this research. The author used the poll to survey the clients who use app of fin-tech for payment when buy or sell something on the internet. The author also sent the questionnaires to the fin-tech company to ask them some question related activities of fin-tech firm.

4. FINDINGS AND DISCUSSION

4.1. The fact of using Fin-tech in Vietnam

Following the trend of fin-tech around the World, Vietnamese people use fin-tech more day by day recent years. By 2019, there were about 136 fin-tech companies incorporated in Vietnam. Some popular fintech app of successful startup known in Vietnam such as Momo, Moca (Grab), Viettelpay, Zalopay, VNPTpay, etc. Notable is ZaloPay, a service integrated with Vietnam's popular messaging platform Zalo that lets users link a payment card to make P2P payments, purchase products and services online, and pay their utility bills via NFC, QR codes. The form of this fintech is a mobile wallet (e-wallet). By 2020, Vietnam's fin-tech market has been worth about US\$9 billion with more than 30 start-ups and platforms of payment, making it ASEAN's 4th largest market.

Peer-to-peer (P2P) lending is the second largest fin-tech segment in Vietnam. There are more than 20 start-ups make business in this field. So far, some P2P lending platform is successful in Vietnam such as Tima, Growth Wealth, Trust Circle, and Vay Muon, etc.

The other form of fin-tech is Block-chain or crypto-currency. After launching at the first time in 2014, several companies have emerged to tap into the block-chain and crypto frenzy. One of the famous Blockchain firm is Tomo-Chain. It is a public block-chain to perform faster and cheaper transactions. It is designed to support decentralized applications. The other is Kyber Network, an on-chain liquidity protocol that enabling instant and secure token exchange.

Until now, there is about a half of population in Vietnam have a bank account, while the rest never use any kind of banking services. This is a challenge and barrier to develop fin-tech market in Vietnam. But Vietnam is a potetial market to develop fin-tech service. Since 2016, the State Bank of Vietnam has been partnering with the World Bank on a comprehensive approach to financial inclusion to build and perform a national financial inclusion strategy towards a cashless economy. In fact, fin-tech is created from the desire for change of financial behavior. With all the favorable factors – from the rapidly expanding economy. The young, urban, digital-savvy population to the increasing mobile and internet penetration. Fin-tech plays a key role to change the way Vietnamese use financial services.

Following the international trend of the Fin-tech development, and the transformation of digital payment, Vietnam recently have developed many App (e-wallet) to pay without cash in the society such as VNPT e-pay⁵. Many Fin-tech firms has established in the payment sector. These firms have many project of business and change the way of payment in Vietnam.

The fin-tech opens a new age of financial services in the World, include Vietnam. Although Vietnam's banks are in the first phase of their digital revolution, but almost they have collaborated with Fin-tech firms to offer their clients a high-quality online banking via application on websites, mobile, and other digital initiatives such as payment processing, loan origination, front-end customer acquisition, etc. These institutions started providing new and digitally differentiated ways of offering financial services to the clients.

³ such as Price water-house Coopers (PWC), United Overseas Bank (UOB), and the Singapore Fin-tech Association

⁴ VNPay (US\$300 million) and MoMo (US\$500 million)

⁵ the co-operation between South Korea's UTC Investment Group and VNPT Electronic Payment Company (VNPT E-pay), as part of which UTC spent VND542 billion (US\$24 million) acquiring a 65-per-cent stake in VNPT E-pay from VMG Media and a number of individual shareholders

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A model of this form is the co-operation between a Vietnamese bank and FDI bank to create a digital platform which supports their clients acquire funding more quickly. In the next period, Vietnamese banks will increasingly apply Fin-techs across their entire value chain, to enhancing clients service and using better productivity.

4.2. The trend of M&A in Vietnam's fin-tech market

Mergers and acquisitions (M&A) is the fastest way to accessed the market of FDI want to invest in fin-tech field in Vietnam. M&A will be the future trend for developing Fin-tech market in Vietnam. M&A has used to establish many financial institutions. Global financial institutions are increasingly looking to "market infrastructure" Fin-techs as a cure for internal cost management and an enabler to unlock the benefits of disruptive technology. Acquiring a Fin-tech firm can increase a bank's digital footprint and boost the development of new technology more quickly. Some big global banks have been engaging in this Fin-tech approach due to its benefits, such as a rapid route into new markets, new clients at low cost, opportunities to cross-sell, various products, and access to talent and innovative culture.

At position of management, due to the complicated structure of financial institutions in Vietnam, acquiring a Fin-tech firm may impact the bank's company culture and lead to internal tension. Moreover, the lack of successful model of M&A fintech is a challenge for Vietnam. Therefore, Vietnam's banks are choosing a conservative approach when it comes to acquiring Fin-tech firms.

In the next period, there will be more Vietnam's banks look to build their own Fin-tech products and more cases of Fin-tech M&As or acquire-hires could follow. Mergers between Fin-tech firms are another possible outcome because there are about 80 Fin-tech firms in Vietnam but only half of them are active.

Besides, the rapid growth of Vietnamese Fin-tech is garnering increased interest from foreign banks. Foreign investors at odds with the regulated caps on foreign ownership in banks (currently 30 per cent) may look for opportunities to collaborate with Fin-tech firms to tap into the banking sector⁶. When invest in Vietnam, FDI banks have plans to add value to their banking products and services, especially focused on the retail market, where clients experience is key.

Not only internal but also FDI banks in Vietnam are looking for more diversified Fin-tech products, because the current Fin-tech in Vietnam focuses mostly on payments activities. P2P lending, the second-biggest Fin-tech investment sector⁷, and other Fin-tech areas such as credit scoring, wealth management, and personal finance are in the development stage, with high potential to grow.

4.3. Legal Policy and Regulation on Fin-tech in Vietnam

Although Fin-tech is very new in Vietnam as the technology achievements of the 4th Industry Revolution but Vietnam Government is trying to make inclusive policy and regulations to govern this field. However, the legal framework of Fin-tech in Vietnam is still infancy, just have some regulations to guild people establishing a common direction and giving principles. Accordingly, Vietnam currently has only a few macro-economic projects for Start-ups in general, such as the Scheme on Supporting National Innovation and Ecosystem of Innovations until 2025 (Project 844); or broad projects such as the Project on Improving the accessibility of banking services for the economy, the Project on developing cashless payment in the period of 2016-2020, the Project on Improving the legal framework for management, dealing with all kinds of virtual assets, electronic money, virtual money. Meanwhile, the specific legal provisions for this type of "unprecedented money" business such as defining operating models, status legislation, conditions of establishment and operation, nature of products and services; standards of products / services, or regulations on the protection of consumers of financial products, the protection of personal information have not yet been formally established.

Crypto currencies (Bit-coin) are not considered a legal means of payment in Vietnam. They also have not been recognized as an asset in the Vietnamese legal system. The Ministry of Industry and Trade currently does not recognize Bit-coin as a goods or service, and denies its authority, which also removes the basis for tax collection. The exchange of Bit-coin still takes place but it is not protected by law. Bit-coin trading contracts are not a civil transaction under the scope of the Civil Code, if a contract dispute occurs will not be resolved by the court.

A fairly important sector in the financial industry is credit (lending). This is the district for banks and they are subject to the Law of Credit Institutions (2010, 2017) as well as international standards such as Basel II and III. Currently, there are many Fin-tech participating in peer-to-peer lending (P2P lending) that directly connects capital holders and those who need capital through online platforms without intermediaries such as banks. Basic peer lending is only governed by the Civil Code (2005, 2015) as a regular loan, but this law only outlines the general principles of personal transactions and is considered to be " not enough" to coordinate

⁶ For example, the Shinhan Bank and KEB Hana are both looking at and studying opportunities for investment in local Fin-tech fi
⁷ according to a CB Insights report on Vietnamese Fin-tech

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a P2P relationship. If a Fin-tech company only has the task of intermediating the responsibility, the responsibility will be settled by the two borrowers, but it will not exclude the possibility that Fin-tech companies will raise capital by many ways. How to lend while the legal corridor is still sketchy. This also has the potential to infringe on consumer rights and the risk of money laundering.

While Fin-tech enterprises registered in Vietnam are subject to domestic regulations, foreign companies entering Vietnam are more difficult to control and can do whatever they want. Recently, Facebook has launched an ambitious blueprint for the Libra crypto currency (expected to appear in mid-2020) that has a global scale shocking central banks of many countries. The delay in Vietnam's legal policies has made it difficult for domestic companies to grow in size, invisibly clear the way for foreign companies to dominate the market or make it difficult for Vietnamese enterprises. Accumulate enough domestic experience to complete the product, reach out to foreign markets.

4.4. Challenges to Policy Makers of Vietnam on Governing Fin-tech Field

Fin-tech is associated with many risks such as personal security, customer protection, credit, network security, technology dependence, money laundering, etc. Therefore, the legal regulations on the one hand must be separate to create space for Fin-tech enterprises to develop, and on the other hand, the risks attached must be minimized.

Although slower than some regional countries, Vietnam also has certain moves related to Fin-tech policy. In March 2017, the State Bank of Vietnam (SBV) established a Steering Committee for Financial Technology with the goal of perfecting the legal framework and Fin-tech ecosystem in Vietnam. The Payment Department of SBV is assigned as the Standing Committee of the Steering Committee. It is known that the SBV is focusing on researching five key issues such as block-chain technology, peer-to-peer lending (P2P Lending), electronic customer identification (e-KYC), and application program interface. Open (Open API), electronic payments (e-payments). SBV and some ministries such as Ministry of Science and Technology, Ministry of Information and Communications, Ministry of Justice, had quite a number of international seminars taking place to exchange Fin-tech experiences with countries as well as consult with enterprises.

The establishment of Vietnam's legal framework for Fin-tech is considered to be "cautious step by step". Experience from leading countries such as Thailand and South Korea shows that it also took them more than two years to go from research to policy issuance, but basically enough policies and to take advantage of a few years ago. The experimental legal framework (Regulatory Sandbox) is a promising model that is being prioritized by the SBV. This is also the pressure to ask for more than 1 year continuously from businesses and investors. The international organization's evaluation indicators show that Vietnam's policy changes are slow and many technology - related areas are considered "behind life".

One of the barriers that caused the Fin-Tech legal framework to be incomplete early was due to limited management knowledge. In addition to being well-versed in the financial field, Fin-tech's newness and technical complexity requires legal builders to understand the technology in order to see the nature of social relations regardless how the new "crust". Foreign language is also a requirement because the most complete Fin-tech documents are usually in international reports and research in English. Understanding the legal system is fundamental. In addition, Fin-tech management (and many new areas in IR. 4th) requires risk - taking thinking - something that only a part of Vietnam's public sector has started to change.

But it is undeniable that the Vietnamese legal system is gradually changing to meet the requirements of the 4th industrial revolution and the trend of international integration. The SBV supported the development of Fin-tech and said that the management direction in the coming time for this industry would change from the management based on principles of risk assessment (risk-based) to address each specific activity and situation.

Along with that, a series of fundamental legal documents of the country are being amended and supplemented. In order to accelerate the process of perfecting the mechanisms and policies for the Start-up ecosystem in general. Mr Bui The Duy, Deputy Minister of Science and Technology, urged businesses to persevere to raise their voice more firmly about problems in order to contribute to promoting the inter-branch of state agencies in supporting businesses.

As planned, in August 2018, the SBV must submit to the Prime Minister Draft documents on crypto currencies and peer-to-peer lending. The Ministry of Finance shall research, propose amendments, supplements and new legal documents on taxes on virtual assets and virtual currencies to be completed in June 2019. The Ministry of Public Security proposed measures to prevent, handle criminal violations of fraud, money laundering, terrorism financing and other crimes related to virtual assets and virtual currencies in September 2019.

5. CONCLUSION AND RECOMMENDATION

From the analysis above, we can see that Legal bases that grant oversight authorities sufficient powers to oversee all the participants of their NPS, including non-financial entities. The state needs to build own internal legal capacity on-demand to legal

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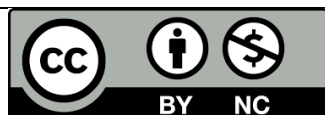
expertise department.

We need to design to extend beyond systemic importance considerations, to cover systems that large enough to have potential effects on public confidence, and widely-used payment instruments. For non-designated systems, it is critical that central banks can gather and analyze the necessary information to identify cases requiring closer scrutiny – legal and capacity issues. Need to bring intermediaries such as online payment gateways under direct oversight, while keeping a balance between light-touch regulation on one hand, and a focused oversight including authorization on the other hand.

Payment systems and services are characterized by constant innovation and changes deliberately introduced from the outside or emerging as part of the internal dynamics of the systems. Oversight authorities should be able to assess the extent of the impact of such changes, and in a position to intervene if and when necessary, possibly before they become effective. Policy dialogue is more generally used as a means to improve overall NPS policy and to align the overseer's objectives with NPS participant need to have the appropriate forum in place.

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