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FINTECH

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I. Introduction:

According to “ASEAN FinTech Census 2018” from Ernst & Young, Vietnam currently ranks second amongst ASEAN member states in the number of incubators, accelerators, and innovation labs in the region. The Vietnamese Fintech market was worth \$4.4 billion in 2017, and is predicted to reach \$7.8 billion by 2020, equalling a 77% increase over three years¹. Fintech development in Vietnam is accelerating with companies in the sector attracting US\$117 million in startup capital, surpassing e-commerce at US\$104 million and other sectors² which makes Fintech the most funded sector for start-ups in 2018.

The Vietnamese Fintech start-up ecosystem is now home to more than 120 companies and brands covering a broad range of services, from digital payments and alternative finance, to wealth management and blockchain.

Table: Fintech Vietnam start-up map 2019

Source: Fintechnews.sg



¹ Casey Hynes, How Vietnam's Fintech Market Could Reach Nearly \$8 Billion By 2020, Forbes, May 18, 2018, <https://www.forbes.com/sites/chynes/2018/05/18/vietnams-fintech-market-could-reach-nearly-8-billion-by-2020/#196efd24456f>
² Nguyen Tung, Vietnam’s top 5 most-funded fintechs in 2018, Hanoi Times, Feb 23, 2019 <http://www.hanoitimes.vn/economy/2019/02/81e0d385/vietnam-s-top-5-most-funded-fintechs-in2-018/>

FinTech in Vietnam mostly focuses on payments with 47 % of Vietnamese companies working on payment services³, the highest rate in the region. Cashless payments are booming in Vietnam, more than doubling in value over the first three quarters of 2018. In particular, payments through mobile banking services have surged to 144% per year over the past five years⁴; transactions over mobile apps and digital wallets rose by an impressive 126% and 161% respectively⁵. A report published in late 2018 by Allied Market Research estimated that the Vietnamese mobile payment market could reach US\$70,937 million by 2025. Notable companies and brands in this segment include:

- M_Service: providing financial services for the population in Vietnam through mobile phone technology under the brand name of MoMo. MoMo started out offering an e-wallet and mobile payment app, enabling users to pay online and make peer-to-peer (P2P) transfers. As of October 2018, MoMo had nearly 10 million users on both iOS and Android and was named one of the 2018 Fintech 100 Leading Global Fintech Innovators by H2 Ventures and KPMG last year⁶. According to a report by Ernst & Young (EY) MoMo recently received an investment of US\$33.75 million from Goldman Sachs and Standard Chartered and \$100 million from U.S. private equity firm Warburg Pincus.
- Moca: a free mobile payment application for Vietnamese consumers. The company was granted a license for payment services by the State Bank of Vietnam (SBV) in 2016 and has a network of 11 local banks as partners. Grab last year signed a strategic partnership to offer digital payment services with Vietnam's Moca.
- ZION: the company behind Zalo Pay, a service integrated with Vietnam's popular messaging platform Zalo that let users link a payment card to make P2P payments, pay via NFC, QR codes, as well as purchase products, online services, mobile top-ups, and pay their utility.

Peer-to-peer (P2P) lending is the second largest Fintech segment in Vietnam with over 20 start-ups. Major players in the area include:

- Tima: a consumer financial marketplace and peer-to-peer (P2P) lending platform. The company has signed partnerships with financial institutions, including VietinBank and Nam A Bank, and claims to have disbursed about US\$1.7 billion in loans to 2.8 million borrowers and over 30,000 lenders on its platform. Tima claims to have raised US\$3 million Series B funding round in October at a near US\$20 million valuation and recently began the process of raising a Series C investment⁷.

Blockchain and cryptocurrency is another area that has witnessed significant tractions in recent years. Since the launch of Bitcoin Vietnam in 2014, several companies have emerged to tap into the blockchain and crypto frenzy. Notable companies include:

³\$129 million poured into fintech industry, Vietnam Investment review, April 14, 2018 <https://www.vir.com.vn/129-million-poured-into-fintech-industry-58323.html>

⁴ Vietnam's top 5 most-funded fintechs in 2018, Vietnam net, March 5, 2019 <https://english.vietnamnet.vn/fms/business/219101/vietnam-s-top-5-most-funded-fintechs-in-2018.html>

⁵ Department of Payments at the State Bank of Vietnam Statistic.

⁶ **MoMo named in Fintech100 report, Vietnam News, November 5, 2018,** <https://vietnamnews.vn/economy/469220/momo-named-in-fintech100-report.html#oIgBI36Dx6JXGAGz.97>

⁷ 5 of Vietnam's Top Funded Fintechs, Fintechnews.sg, February 21, 2019 <http://fintechnews.sg/29012/vietnam/top-funded-fintech-vietnam/>

- TomoChain: a public blockchain promising faster and cheaper transactions designed to support decentralized applications. The start-up raised US\$8.5 million⁸ in its initial coin offering (ICO) last year and is backed by several well-known investment firms such as Signum Capital, Connect Capital and 1KX.

Other segments present in the Vietnamese market include comparison platforms, with players such as TheBank and ebaohiem, insurtech, with players like Papaya, Inso and Wicare, as well as point-of-sale (POS) system providers like bePOS, wealth management platform like Finsify, digital banking platforms such as Timo. and credit scoring start-ups such as TrustingSocial.

II. Opportunity:

Supportive government policies and ecosystem can provide a conducive environment for Fintech:

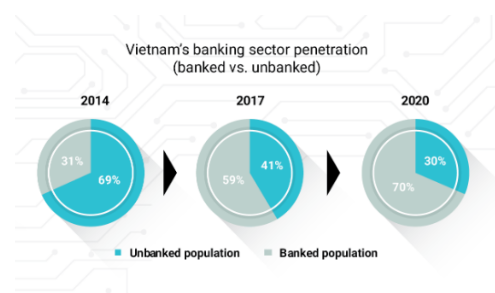
1. Ecosystem:

The advent of FinTech in the country can be attributed to the country’s high internet penetration of 69%, a high rate of smartphone users at 72% as of January 2019⁹ and rapidly growing e-commerce. The percentage of unbanked population is very high - only 59% of Vietnam’s population have a formal bank account, while the rest do not have access to banking services¹⁰. Furthermore, the number of non-cash transactions in Vietnam is the lowest among South East Asia nations. According to a World Bank survey, the number of non-cash transactions in Vietnam is 4.9 per capita compared to 59.7 in Thailand, 89 in Malaysia and 26.1 in China respectively. This creates a big opportunity for FinTech.

There are also several accelerator programmes in the country giving assistance to start-ups. For instance, the Vietnam Innovative Start-up Accelerator (VIISA) has invested US\$6 million in start-ups to help build global companies in Vietnam. The institutional support given to start-ups has led to the flourishing of many local Fintech firms. As a result of this, investments from all over the world are pouring into Vietnamese Fintech companies.

2. Government support:

Vietnam has become such fertile ground for Fintech start-ups due to the government’s support in helping to foster it:



⁸ 5 of Vietnam’s Top Funded Fintechs, Fintechnews.sg, [February 21, 2019, http://fintechnews.sg/29012/vietnam/top-funded-fintech-vietnam/](http://fintechnews.sg/29012/vietnam/top-funded-fintech-vietnam/)

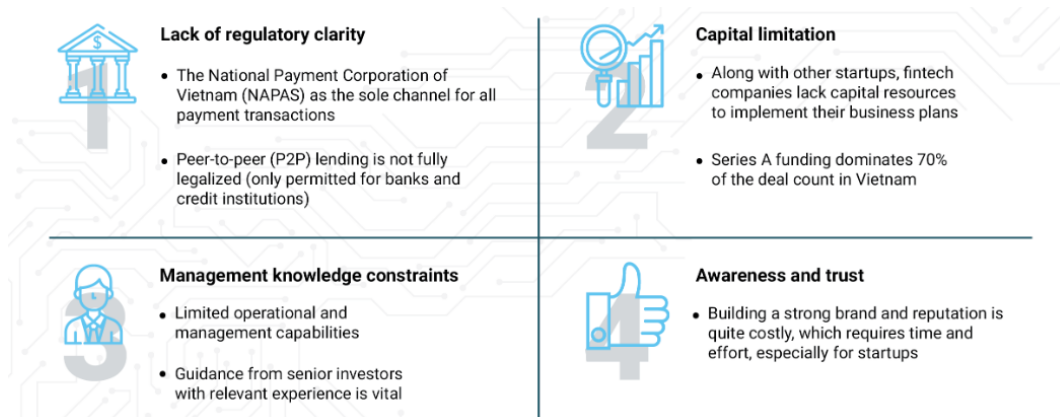
⁹ Vietnam Digital 2019 report, Hootsuite, January 2019

¹⁰ SHAUN TURTON, Vietnam fintech sector set for 'bloodbath' competition, NIKKEI ASIAN REVIEW, JUNE 17, 2019, <https://asia.nikkei.com/Business/Startups/Vietnam-fintech-sector-set-for-bloodbath-competition>

- In January 2017, the Vietnamese Government announced an initiative aiming to significantly reduce cash transactions and improve electronic payment methods by 2020. Under the plan, by 2020, total cash transactions would take up less than 10% of total market transactions; all supermarkets, shopping malls and distributors would accept credit cards; 70% of water, electronics and telecommunication service providers would accept cash-free payments from households and individuals, and 50% of total urban households would use electronic payment methods for daily transactions.
- In 2016, the government established the National Agency for Technology Entrepreneurship and Commercialisation Development (NATEC). NATEC is a platform under the Ministry of Science and Technology which aims to provide training, mentorship, business incubation and acceleration and financial aid to new technology start-ups.
- The government of Vietnam also has special tax schemes for start-ups under certain conditions. It will provide corporate income tax breaks for companies working in the high technology sector or in high-tech zones. The preferential tax rates are 10 % for 15 years or 17% for 10 years, as opposed to the regular rate of 20%.
- *Due to the lack of talented workforce available to work in high-tech companies, the Vietnamese government is currently focusing on STEM education (science, technology, engineering and mathematics) by organizing STEM education in curricular teaching programs in general schools. Several leading universities have begun training in data science, thus the labour shortage in the field is expected to ease in three years.*

III. Barriers:

Although Fintech in Vietnam is garnering considerable market attraction, this sector still have some barriers:



IV. Further outlook:

The fintech sector has a very high growth potential in Vietnam and will continue to attract funding, especially from venture capital funds. Digital payment solutions is the current leading segment. P2P lending, the second biggest fintech investment sector according to a CB Insights report on Vietnamese fintech, and other fintech areas such as credit scoring, wealth management, and personal finance are in the development stage, with high potential to grow.

Mergers and acquisitions (M&A) could be the future trend for fintech in Vietnam. Most banking systems in Vietnam are considered to be outdated. Therefore, acquiring a fintech firm can increase a bank's digital footprint and shortcut the development of new technology. Large local banks have been engaging in this fintech approach due to its benefits. According to an EY ASEAN fintech census report, 59 % of surveyed banks have budgeted to invest 10% more in

technology in 2018, and 44% of them plan to buy new technology from third parties, while 17% are interested in acquiring a fintech company to possess its technology. With forecasted compound annual growth rates of 31.2-35.9% between 2017 and 2025¹¹, we believe that more banks will look to build their own Fintech products and that more Fintech M&As could follow in the near future.

¹¹ How Vietnam will adapt to the fintech revolution, Vietnam Investment Review, September 07, 2018,

<https://www.vir.com.vn/how-vietnam-will-adapt-to-the-fintech-revolution-62232.html>

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