

**OPPORTUNITIES AND CHALLENGES FOR FINANCIAL TECHNOLOGY
(FINTECH) DEVELOPMENT IN VIETNAM**

MBA. Nguyen Thi Thanh Binh, MBA. Bui Thi Huyen
Thai Nguyen College, Vietnam

ABSTRACT

The development of financial technology, or Fintech, has become one of the primary drivers fueling innovation and economic growth in Vietnam. With the emergence of Fintech since 2017, the Vietnamese market has witnessed an explosion in the number and diversity of products and services, as well as significant attraction of investment capital. This reflects a vibrant landscape of opportunities and challenges that Fintech brings to the country's economy. To further enhance the development of Fintech in Vietnam, it is necessary to leverage opportunities and devise solutions to overcome challenges. This article analyzes the current situation and proposes some solutions to boost the development of Fintech in Vietnam in the present context.

Keywords:

Opportunities, challenges, financial technology (Fintech), development, Vietnam.

1. INTRODUCTION

In the modern era, the development of financial technology (Fintech) is not merely a trend but also an undeniable factor playing a crucial role in driving innovation and global economic growth. Vietnam, a rapidly developing country, is not exempt from this Fintech revolution. The explosion of Fintech has opened up new opportunities and posed significant challenges to Vietnam's economy and financial system.

Amidst rapidly changing business environments and the ever-growing development of technology, seizing and leveraging opportunities from Fintech has become an urgent task for Vietnam. However, accompanying these opportunities are considerable challenges, particularly in promoting and developing Fintech sustainably and effectively. Leveraging opportunities and confronting challenges are the keys to building a sustainable and progressive financial technology system for the future. By creating favorable conditions for innovation and collaboration, Vietnam can continue to lead in the Fintech sector in the Southeast Asia region and globally.

2. THE CURRENT STATE OF FINTECH DEVELOPMENT IN VIETNAM

In recent years, Vietnam's Fintech sector has experienced remarkable growth, characterized by a multitude of advancements in product and service offerings, heightened standards of quality, and a surge in investment influx. While the initial emergence of Fintech in the country dates back to 2017, it wasn't until the subsequent years, notably 2020 and 2021, that a notable proliferation of startups in this domain was discernible. Over time, there has been a substantial uptick in the number of Fintech users in Vietnam, indicating a burgeoning market. Notably, in 2019, approximately 42 million individuals were using Fintech services, a figure that has steadily risen annually owing to the expanding Fintech landscape. According to Statista's data from 2023, by 2022, the number of Fintech users had surged to nearly 69 million individuals.

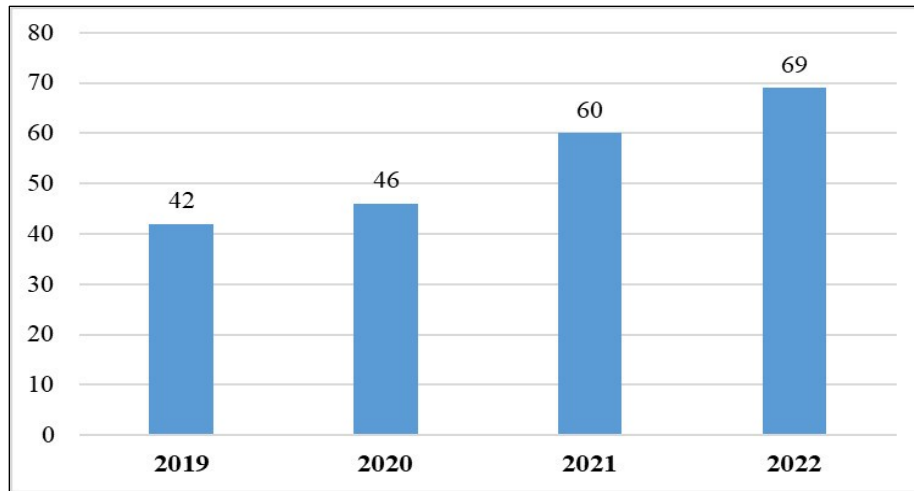


Figure 1. Number of customers using Fintech products in the period 2019-2022 (million people)
(Source: Statista, 2023)

The Vietnam Fintech Market Report 2022 by Nextrans highlights a notable expansion within the Fintech sector, showcasing a diverse array of startups. By the end of 2022, the report identified over 260 active companies operating within this domain. Among these, payment services emerged as a dominant focus, with 81 companies specializing in this area, representing 31.1% of the total Fintech entities. Moreover, peer-to-peer lending (P2P Lending) constituted another significant segment, with 42 dedicated companies, comprising 14.7% of the market. Additionally, the Blockchain/Crypto sector witnessed notable activity, with 31 companies operating in this space, contributing 11.9% to the overall Fintech landscape, as detailed in the Nextrans report of 2023.

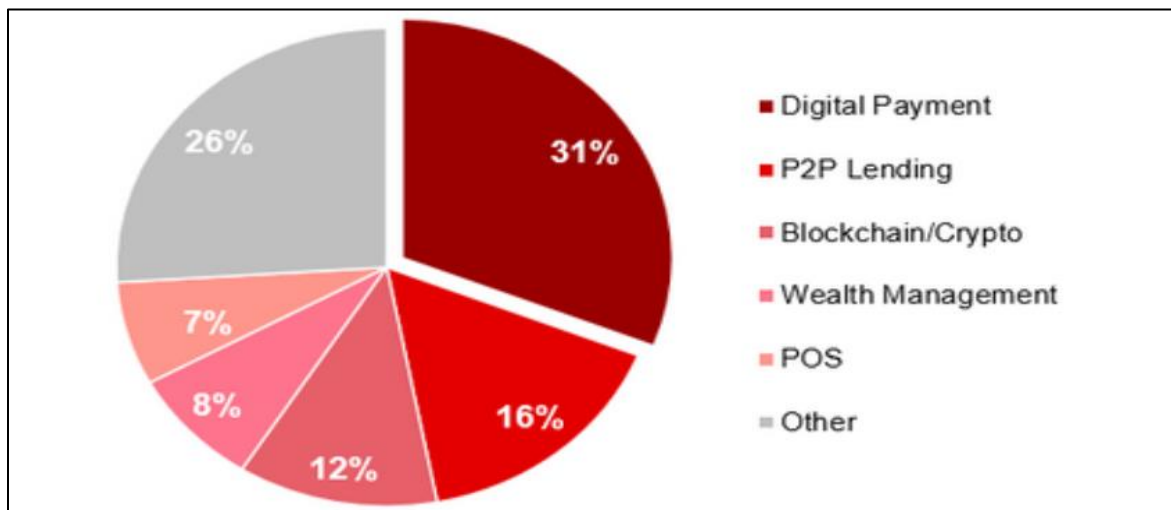


Figure 2. The number of startups in the Fintech sector in 2022

(Source: Nextrans, 2023)

Data sourced from both the State Bank of Vietnam and the Vietnam Fintech Market Report 2021 underscores a remarkable growth trajectory within the Fintech landscape. Between the years 2015 and 2021, the number of Fintech companies surged from a mere 39 to well over 154, showcasing a quadruple increase. Notably, approximately 70% of these entities were classified as startups, indicating a dynamic and burgeoning entrepreneurial ecosystem within the

sector. The year 2021 emerged as a pivotal juncture for Vietnam's Fintech market, with the Internet economy achieving a substantial valuation of 21 billion USD. This achievement propelled Vietnam to the 14th position in Asia and the 70th globally in terms of economic significance, as elucidated in the Nextrans report of 2023.

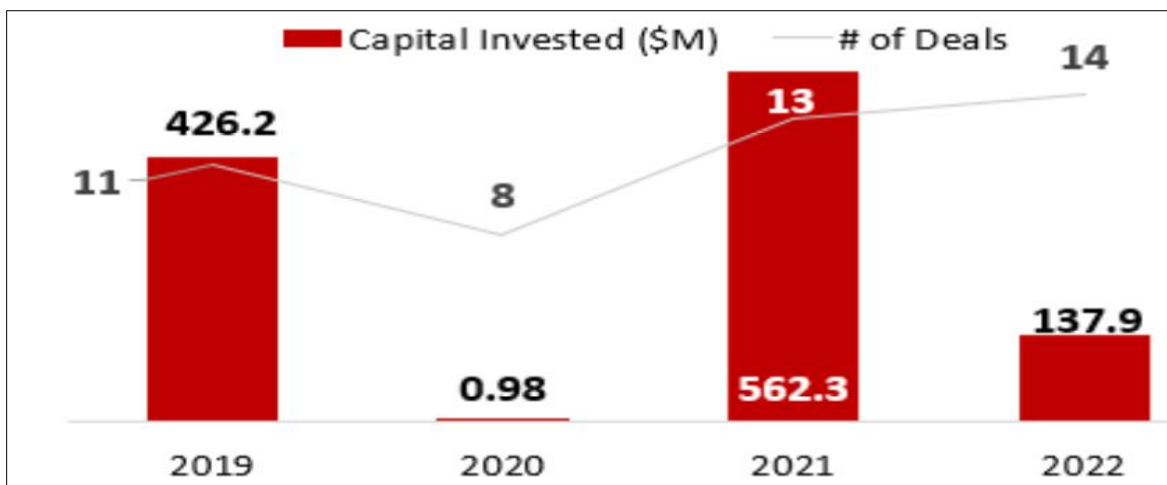


Figure 3. Fintech Deal Count & Deal Value (USD billion) 2019 – 2022

(Source: Nextrans, 2023)

Experiencing a remarkable expansion, Vietnam's Fintech sector, particularly since 2021, has undergone a surge in growth fueled by the increased demand for digital financial services amidst the backdrop of the pandemic. By 2022, the number of Fintech startups in operation within the country has exceeded 260, marking a significant leap from the 144 recorded in 2018. These startups span across five primary segments, namely Digital payment, Lending, WealthTech, InsurTech, and Blockchain/Crypto.

Despite its nascent stage, Vietnam's Fintech industry has attracted considerable attention and active support from various governmental bodies, including the Prime Minister and relevant ministries and agencies. A slew of programs and initiatives has been rolled out to diversify financial products, establish robust business models, enhance electronic payment systems, bolster Fintech infrastructure, and nurture startup ecosystems. The overarching objective is to construct a supportive legal framework conducive to fostering Fintech growth in Vietnam.

The State Bank of Vietnam, in tandem with the Government, has taken the lead in implementing programs such as Mobile Money, establishing direct channels of communication with Fintech companies to offer support and address operational challenges. The Regulatory Sandbox Mechanism for Fintech activities within the banking sector has undergone enhancements, with proposals presented to the Prime Minister aimed at further augmenting the Fintech ecosystem. In alignment with the development strategy outlined for Vietnam's banking sector until 2025, with a vision extending to 2030, considerable emphasis is placed on fostering collaboration between banks and Fintech enterprises, fostering a competitive environment, and establishing standards for linking financial institutions with Fintech entities. To fortify the legal framework and stimulate growth within the financial services market, the Minister of Finance issued Decision No. 446/QD-BTC in 2018, outlining an Action Plan for Implementing Industry 4.0 Technology in Finance and Budget. Furthermore, the government has introduced specialized tax programs and incentives tailored for startups and enterprises within the information technology sector, including those operating within the Fintech domain, under Resolution No. 41/NQ-CP (2016). As Vietnam's Fintech sector continues to evolve rapidly, it presents substantial potential for socio-economic development. To sustain and enhance its regional and global standing, Vietnamese Fintech entities must persist in innovating, improving service quality, adhering to legal regulations, and fostering close collaboration with stakeholders.

3. OPPORTUNITIES FOR THE DEVELOPMENT OF FINTECH IN VIETNAM

The Fintech sector in Vietnam presents a landscape brimming with significant potential and abundant development opportunities. Primarily, the escalating demand among Vietnamese consumers for convenient, secure, efficient, and transparent financial services acts as a potent catalyst for growth. Fintech stands poised to address these demands by harnessing emerging technologies such as mobile, cloud computing, artificial intelligence, and blockchain. With a population of 100.3 million, including a substantial 62.2% within the working-age category (General Statistics Office, 2023), Vietnam boasts a ripe market for Fintech innovation. The country's burgeoning digital economy stands to benefit from a new wave of tech-savvy talent, positioning Vietnam to align with global trends and potentially emerge as a frontrunner in the international market. Moreover, there's a noticeable uptick in Fintech interest from residents in rural, mountainous, and remote areas, signaling a shift in accessibility to internet and modern technology applications. This evolving landscape promises increased access to the financial technology market for these regions in the foreseeable future (Pham Thi Linh, 2023).

Furthermore, the Vietnamese Government has taken proactive steps to bolster Fintech development through policy interventions and incentives. Establishing the Financial Technology Department within the State Bank of Vietnam in 2017 marked a pivotal move towards managing and regulating Fintech activities. Additionally, the government has initiated sandbox programs, enabling select Fintech companies to test and refine their products and services in a controlled environment. The issuance of Decree 80/2021/ND-CP on business operations and provision of financial technology services has further solidified the legal framework, offering clarity and favorable conditions for Fintech growth in Vietnam.

Moreover, stakeholders across the Vietnamese Fintech landscape, including Fintech firms, traditional financial institutions, investors, regulatory bodies, non-governmental organizations, and universities, have actively collaborated to nurture an enabling environment for Fintech advancement. Strategic cooperation agreements between Fintech entities and traditional financial institutions are becoming increasingly prevalent, leveraging complementary strengths. Investors have demonstrated confidence in the sector by injecting substantial capital into Fintech ventures in Vietnam. Regulatory bodies and non-governmental organizations have played a pivotal role in organizing events, workshops, and training sessions, offering valuable guidance and support to Fintech enterprises. Simultaneously, universities have revamped their curricula to introduce courses and programs focused on Fintech, aiming to cultivate a skilled workforce capable of driving innovation within the industry.

4. CHALLENGES AND DIFFICULTIES FOR THE DEVELOPMENT OF FINTECH IN VIETNAM

The Fintech sector in Vietnam, while experiencing rapid growth and holding immense promise, grapples with a host of challenges that necessitate continual innovation and adaptability from both businesses and regulatory bodies. Foremost among these challenges is the scarcity of high-caliber human resources within the Fintech domain. This scarcity not only intensifies competition but also drives up the costs associated with acquiring and retaining skilled personnel for Fintech enterprises.

Another formidable hurdle lies in the realm of legalization and transparency surrounding Fintech activities. Vietnam currently lacks a robust and comprehensive legal framework to govern various facets of Fintech services, including electronic payments, online lending, crowdfunding, and robo-advisors. This dearth of clear regulations poses operational challenges for Fintech firms, impedes market expansion efforts, and introduces risks for consumers and national security. Moreover, the oversight mechanisms by regulatory authorities over the collaborative relationships between banks and non-banking entities in this sector remain lax and ineffective, further hampering the development of the Fintech ecosystem (Dinh Bao Ngoc, 2022).

Furthermore, fierce competition from both international giants and domestic counterparts presents a significant obstacle. As technology advances and globalization proliferates, Vietnamese Fintech enterprises find themselves not

only competing against established international players but also contending with traditional banks and domestic technology firms venturing into the Fintech arena. To navigate this fiercely competitive landscape successfully, Vietnamese Fintech entities must prioritize enhancing the quality of their products and services, capitalizing on the inherent advantages of the domestic market, and fostering differentiation to deliver added value to customers.

5. SOLUTIONS TO PROMOTE THE DEVELOPMENT OF FINTECH IN VIETNAM

To foster sustainable and effective development in Vietnam's Fintech landscape, it's imperative to capitalize on opportunities while proactively addressing challenges. Implementing fundamental solutions can significantly propel Fintech growth in the country:

Firstly, prioritizing the training and attraction of highly skilled personnel for the Fintech sector is paramount. In order to address the growing demand for skilled professionals in the Fintech sector, a comprehensive approach to training and talent acquisition is paramount. Collaboration between educational institutions, research organizations, businesses, and regulatory bodies is essential to establish robust training programs tailored to the specific needs of the Fintech industry. These programs should incorporate the latest technological advancements and industry best practices to ensure that graduates are well-equipped to meet the evolving demands of the sector. Furthermore, leveraging the expertise of experienced international Fintech professionals can greatly contribute to knowledge transfer and skill development within the domestic workforce. This can be achieved through initiatives such as exchange programs, mentorship opportunities, and collaborative research projects. By fostering a culture of continuous learning and professional development, Vietnam can cultivate a pool of highly skilled talent capable of driving innovation and growth in the Fintech sector.

Secondly, enhancing technology infrastructure to bolster Fintech operations is crucial. A robust technology infrastructure is essential to support the operations of Fintech companies and facilitate their growth and scalability. Investment in critical areas such as network bandwidth, information security, electronic payment systems, big data, and artificial intelligence is imperative to ensure that Fintech enterprises operate efficiently, securely, and adaptably. Modernizing and expanding technology infrastructure requires a coordinated effort between government agencies, private sector stakeholders, and industry experts. Collaboration between Fintech firms, banks, investors, customers, and third-party service providers is essential to identify infrastructure gaps and develop targeted solutions to address them. For example, the development of a national electronic payment platform can streamline transactions and enhance the overall user experience, while also improving security and compliance with regulatory requirements. Additionally, fostering international cooperation in Fintech can facilitate the exchange of knowledge and best practices, as well as the adoption of cutting-edge technologies. By leveraging insights and expertise from global partners, Vietnam can accelerate the development of its technology infrastructure and position itself as a regional hub for Fintech innovation.

Thirdly, refining legal and managerial frameworks for the Fintech sector is imperative. Clear and transparent legal and regulatory frameworks are essential to foster a conducive business environment for the Fintech sector. Vietnam should prioritize the refinement of existing regulations and the development of new ones to address the unique challenges and opportunities presented by Fintech. Establishing unified legal frameworks for various Fintech activities, harmonizing them with international and regional standards, is crucial to provide clarity and consistency for businesses and investors. This requires active engagement and collaboration between government agencies, industry stakeholders, and regulatory bodies to ensure that regulations are relevant, effective, and responsive to changing market dynamics. Encouraging active participation from Fintech enterprises and industry associations in the development and enforcement of regulations can further enhance regulatory efficacy. By soliciting input and feedback from key stakeholders, Vietnam can develop regulatory frameworks that strike the right balance between innovation, consumer protection, and financial stability.

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Fourthly, promoting financial inclusion is crucial to ensure that all segments of society have access to Fintech products and services, regardless of their socioeconomic status or geographic location. In Vietnam, there are still significant portions of the population, particularly in rural and remote areas, who lack access to traditional banking services. To address this challenge, Fintech companies can play a pivotal role in expanding financial inclusion by developing innovative solutions tailored to the needs of underserved communities. For example, mobile banking applications, digital wallets, and peer-to-peer lending platforms can provide convenient and affordable financial services to individuals who may not have access to brick-and-mortar banks. Collaboration between Fintech firms, government agencies, non-profit organizations, and community-based groups is essential to identify and address barriers to financial inclusion. This may include initiatives such as financial literacy programs, community outreach efforts, and partnerships with local businesses and service providers. Furthermore, leveraging technology such as biometric authentication and block chain can enhance the security and accessibility of financial services, particularly for individuals who may lack official identification documents or have limited literacy skills. By promoting financial inclusion through Fintech, Vietnam can empower underserved populations, stimulate economic growth, and build a more inclusive and resilient financial system for the future.

6. CONCLUSION

Fintech has immense potential to drive the socio-economic development of Vietnam. To fully harness this potential, it requires the collaborative efforts of the government, businesses, and citizens. The government needs to refine the legal framework and create a favorable business environment for Fintech companies. Businesses need to invest in research and development of new products and services while enhancing the quality of customer service. Citizens need to raise awareness of Fintech and use Fintech products and services safely and effectively. With the collective efforts of stakeholders, Fintech can become a significant force in driving the socio-economic development of Vietnam in the years to come.

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