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Financial Technology with Inclusive Financial Development in Vietnam

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Abstract

Comprehensive finance is considered one of the important foundations for developing a sustainable economy, ensuring security and fairness for different segments of society. On the other hand, financial technology (Fintech) has been strongly impacting the financial sector, including the comprehensive financial sector. The article systematizes the

theoretical foundation and analyzes how Fintech applications can promote financial inclusion. Next, the article analyzes the current status of Fintech applications to promote credit institutions in Vietnam, providing some policy recommendations to promote this process in the future.

Keywords: Comprehensive Finance, Financial Technology, Poverty Reduction, Sustainable Development

1. Inclusive finance and financial technology

1.1 Financial technology

Fintech is a term composed of two English words: Financial and Technology. The Financial Stability Board (Financial Stability Board, 2017) defines Fintech as innovation and creativity in technology that helps create new business models, applications, processes, or products that can transform the financial services industry. More broadly, Fintech can be understood as the application of technological innovations in identifying customer needs and behaviors, designing and providing diverse financial services to best satisfy users' conveniences. Consumption but at a cheaper cost. Fintech's strategic customers and partners are very diverse, they can be banks, insurance companies, traditional financial institutions, and even direct consumers. Advanced technologies used include the Internet, mobile Internet, big data (Big Data), artificial intelligence (AI), connection technology, distributed systems, and technology security (security technology). These new technologies are applied to a variety of financial activities. Thanks to that, many new business models, products and services, and even financial institutions were created. Specifically, Fintech is applied in the following typical areas: payment, peer-to-peer lending (P2P lending platforms), crowdfunding, big data credit, wealth management), automating stock investment (robo trading); insurance technology (insurtech); digital currency (bitcoin), blockchain technology; or personal financial management.

Financial technology is also one of the technology fields that is experiencing strong development in Vietnam with many application areas. Deploying financial technology to promote financial inclusion can help promote the nation's knowledge technology base and innovation capacity while contributing to sustainable and comprehensive economic development.

1.2 Inclusive Finance

Financial inclusion means that individuals and businesses can access and use financial products and services - transactions, payments, savings, credit, and insurance - to meet their needs. Meet their needs at a reasonable cost, delivered responsibly and sustainably. In essence, financial inclusion is all initiatives and measures to provide formal financial services (payments, money transfers, savings, credit, insurance) conveniently., suitable to the needs and at a reasonable cost to all people.

Financial inclusion is considered very important for the sustainable development of a country. Inclusive finance can create positive impacts such as: increasing savings and investment, thereby promoting economic growth. Inclusive finance also plays an extremely important role in poverty reduction, equitable distribution of prosperity, and support for inclusive and sustainable development. Because of such benefits, in October 2013, the World Bank officially set the goal that by 2020 every adult must have a transaction account and considered it an important milestone towards full financial inclusion. The United Nations (UN) identifies financial inclusion as an important solution to achieving 7 of the 17 Sustainable Development Goals to 2030 (SDGs). ASEAN countries also consider financial inclusion as one of the three pillars of the ASEAN Vision 2025 and have established

the Working Committee on Financial Inclusion (WC-FINC) in 2016 to collaborate to promote finance. Comprehensively in member countries and the region.

The 13th National Congress of the Party has set several specific goals for economic development in the period 2021 - 2025. One of those goals is to focus on sustainable economic development, associated with environmental issues, climate change, and social security, leaving no one behind. To achieve this goal, comprehensive finance is considered one of the important foundations for developing a sustainable economy, ensuring security and fairness for different segments of society.

In recent years, the Vietnamese Government has developed and issued many policies to promote credit institutions. Most recently, on February 20, 2020, the Prime Minister signed and issued Decision No. 149/QĐ-TTg approving the National Credit Institution Strategy until 2025, with a vision to 2030. This strategy clearly states The Party's views on comprehensive finance. Specifically:

1. Implementing comprehensive finance involves the participation and close coordination of the public and private sectors. In which the State plays the role of creating a favorable environment to promote comprehensive market-oriented finance, by the guidelines and policies of the Party and State.
2. Promote financial inclusion coupled with the safety, efficiency, and sustainability of the entire financial system, protecting financial consumers.
3. Applying modern technology and innovation is an important element in promoting financial inclusion.
4. Security and safety work is emphasized; Risks related to the process of providing financial products and services, especially digital financial products, are fully managed and supervised.
5. Apply international experience to breakthrough solutions to promote financial inclusion to accelerate the implementation of comprehensive financial goals in Vietnam.

1.3 The role of Fintech in promoting financial inclusion

Many studies around the world have shown the role of Fintech in promoting credit institutions. Arner and colleagues (2018) [6] believe that Fintech is currently the main driving force for comprehensive financial development through 4 main pillars: (i) Digitizing the identification system, simplifying account opening and develop e-KYC system; (ii) Rely on pillar one to interoperate electronic payment activities; (iii) Rely on pillars one and two to develop government payment activities and public services, and (iv) Digitize financial systems and markets, creating easier access to financial and investment activities. Mehrotra, A. (2019) [5] argues that Fintech is a means of financial inclusion. On the one hand, Fintech combines with the traditional banking sector by sharing innovative solutions, deep understanding of customers, improving product efficiency, minimizing risks, and innovative products and services. Easily accessible to promote the comprehensive development of traditional banking channels. On the other hand, Fintech companies provide products and services similar to and parallel to banks targeting audiences in the lower segment.

According to a survey by the International Monetary Fund (IMF) (2020) [4], low-income households and small and

medium-sized companies benefit from low service costs and collateral requirements for loans. New loans are very low or non-existent and especially customer experience is significantly improved. For small and medium-sized businesses, mobile point-of-sale devices help them collect electronic invoices and then use this sales data as a factor in determining debt repayment ability during the process. Loan process. Fintech solutions also help entities manage cash more effectively (IMF, 2020) [4].

From the above studies, it can be seen that Fintech helps promote financial inclusion through the following ways:

- Fintech will help expand the scope of service provision, and increase service accessibility thanks to solutions to connect with customers more quickly and easily when no longer dependent on geographical location factors.
- Fintech supports cutting administrative management and operating costs for financial institutions and Fintech service providers.
- Fintech supports financial institutions and service providers in diversifying products and services as well as improving efficiency and service quality.

2. Some specific application directions of Fintech to promote comprehensive finance

Effective digital financial solutions have a huge impact on low-income populations, women, and small businesses. Some Fintech application directions to promote financial inclusion include:

+ Use mobile phones and digital technology application solutions to expand service access to every corner of people's lives. This application can reach even those who have never had access to financial services, and those in remote areas where there are no bank branches or bank accounts. A typical example is the Mobile money service - this is an application that uses mobile phone features to allow individuals to transact without cash. This type of service has the advantage of low investment costs, ease of use, and can be used anywhere, anytime, saving time and costs of going to bank transaction offices. For example, in Rwanda, transactions using Mobile money demonstrated their advantages when the country went through a blockade period due to the Covid epidemic with a growth rate of 450% in the first 4 months of 2020. (IMF, 2020) [4].

+ Use non-financial digital information data such as biometric data to verify customers during the account opening and payment authorization process; thereby expanding the customer base and not being limited by geographical distance.

+ Use digital and transaction trace data analysis results to improve customer management and credit risk assessment; thereby improving lending efficiency and credit risk management. This application is often used by digital lending or peer-to-peer lending platforms. In digital lending, lenders use alternative data from payment service providers (through transaction history data, and digital payments) and an "algorithm". Loan" to determine the customer's ability to repay and then, provide loans (usually unsecured loans).

+ E-wallets from non-bank providers to effectively enhance customer experience in savings and payment services.

3. Fintech application to promote comprehensive finance in Vietnam

The Vietnamese government has issued many policies to promote financial inclusion. Most prominently, on January

22, 2020, the Prime Minister issued Decision No. 149/QĐ-TTg on approving the National Comprehensive Financial Strategy until 2025, with a vision to 2030; accordingly, high expectations are placed on digital financial development in Vietnam. The main goal is to promote the application of digital technology, increase innovation in the design and distribution of financial products and services in the direction of simplicity, convenience, ease of use, reducing costs, suitable for the needs and affordability of all people and businesses, especially small and medium-sized businesses and low-income residents.

Leveraging the power of Fintech applications to promote financial inclusion has only recently been concretized into policy. Specifically, on March 9, 2021, the Prime Minister signed Decision 316/QĐ-TTg approving the pilot implementation of using telecommunications accounts to pay for goods and services of small value (Decision 316). In essence, this regulation aims to pilot the implementation of mobile money service targeting customers who are people in mountainous areas, remote areas, and rural areas who do not have bank accounts as well as conditions conditions for using modern payment services. Meanwhile, customers opening and using the Mobile-Money service are not required to have a bank account. Customers need to have a mobile subscription SIM that is identified and authenticated according to the provisions of law and has been activated and used continuously for at least 3 consecutive months to be able to open and use the Mobile service. Money. To limit risks during the pilot phase and be suitable for small-value transactions, Mobile-Money's transaction limit is 10 million VND/month. Thus, the biggest difference between a Mobile Money service and an e-wallet is that it does not require a bank account. Thanks to that, the Mobile-Money service will support the development of non-cash payments to increase access and use of financial services, especially in rural, mountainous, and remote areas., borders, and islands of Vietnam. Mobile-Money is expected to provide customers without bank accounts with a quick and convenient transaction channel, 24/7 use, and payment anytime, anywhere with mobile devices. From there, mobile money contributes to popularizing financial knowledge as well as promoting financial inclusion for the entire population.

Mobile banking services have been piloted at 03 major telecommunications companies: Viettel, VNPT, and Mobiphone since the end of 2021. As of August 2022, the number of people registering and using Mobile services - Money reached nearly 2 million people, an increase of 440% compared to the end of 2021, of which the number of registered and used people in rural, mountainous, remote, border and island areas is more than 1.3 million people, accounting for 68% of the total number of people registering and using the service (Ha Thi Thieu Dao and Phung Thi Hoang An, 2022) ^[3]. This number shows the impressive growth rate of the service when reaching a population that has difficulty accessing banking services. However, the rate of subscribers registering to use Mobile Money tends to decrease over the months. January 2022 recorded the highest growth rate of 64%, but by July 2022 this speed decreased to 11%. (Ha Thi Thieu Dao and Phung Thi Hoang An, 2022) ^[3]

In addition, in the practice of microfinance institutions in Vietnam, the application of Fintech technology is also gradually becoming more popular; and creating positive

impacts on the process of microfinance institutions providing financial services to disadvantaged groups such as women and poor households in rural and mountainous areas (Nguyen Kim Anh *et al.*, 2019) ^[1].

For example, in 2020, microfinance cooperated with Canal Circle Company to introduce the Mini, Core B, and Tizo trio to help credit officers use tablets to travel in the field and enter data right at the guest house. Goods and from there, information is updated immediately on the system according to implementation time. This information system was first applied at a Microfinance Institution, helping to reduce paperwork and increase work productivity for credit officers by at least 30%. A fast credit scoring system that uses a lot of data about customers' loan history at the same time helps credit officers have an overview, and transparency and easily provide appropriate financial advice to customers. Row.

In addition, the Tizo application installed on the phone helps connect customers with real Microfinance Institutions by sending loan requests, texting account balances, receiving information about products and services, etc. Not only stopping at the trio of applications provided by Canal, microfinance also researches and develops its information system to help bring all current transactions online on its website.

4. Some solutions to enhance Fintech applications to promote comprehensive finance in Vietnam.

The above analysis shows that the application of Fintech to promote credit institutions in Vietnam is still in the early stages of implementation. Some solutions that need to be focused on shortly so that Fintech applications can promote the development of credit institutions in Vietnam are as follows:

+ The State Bank needs to accelerate research and build a legal framework for Fintech applications in banking activities, including microfinance activities. In cases where it is not possible to immediately issue an official, comprehensive legal framework for operational areas in the Fintech field, the State Bank can consider promulgating a pilot legal framework (regulatory sandbox) to have more information and data to evaluate the benefits and effectiveness of the pilot implementation model and related risks to serve the development and promulgation of an official legal framework appropriate to the circumstances and conditions of the Vietnamese market. In addition, in the long term, the Government needs to build an effective legal framework to protect consumers, suitable for the digital environment.

+ For technical and technological infrastructure, it is necessary to build information technology infrastructure in underdeveloped areas and mountainous areas. This is a necessary condition to achieve coverage and increase financial access for people and businesses, especially low-income people in rural and remote areas.

+ Fintech applications need large amounts of input information in the form of data. Therefore, the government needs to create a coordination mechanism to share information between ministries, branches, and management levels; and create conditions for the formation of organizations that act as focal points to gather information from different sectors of the economy. Population data and financial data are the basic data needed. This database system will help the government and relevant organizations

identify opportunities to promote digital finance and design appropriate Fintech applications.

+ Develop a national financial education strategy. At the same time, promotes information, propaganda, guidance, and education for people in accessing and using financial services, especially digital finance, improving skills in financial management as well as application of financial services. Using technology in performing financial transactions. Integrate financial management skills education for many different subjects with appropriate methods to improve financial knowledge about risk management tools, insurance services, financial leasing, financial technology services.

5. Conclusion

Fintech has been having a strong impact on comprehensive finance by changing the way financial services are provided with some typical applications such as mobile money (mobile banking) or technical lending in several countries in the world. The application of Fintech to promote credit institutions in Vietnam has just been implemented in the early stages. Therefore, in the coming period, Vietnam needs specific and drastic solutions to promote Fintech applications in the comprehensive financial sector of Vietnam.

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