

People Pay In Cash

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The history of the preference to use cash, especially US dollars and gold bars could be traced to the hyperinflation of the 1980s as well as the economic crisis of 2008 – 2009 which saw inflation peaking at 28.3% in Aug 2008 alone. (Boudreau, 2019)

The mistrust to banks could also be traced to the dubious nature of a lot of banks. As the economy grew in the early 2000s, some banks were set up without a deep understanding of banking or regulation. It gave rise to the creation of many poorly managed banks.

“A friend once said that the way to recognise Vietnamese tycoons is if they have a Rolls Royce, a beautiful wife and a bank. When the economy was doing well, a bank was seen as an accessory,” says Van Tan Hoang Vo, chief executive of Saigon Commercial Bank (SCB). (Palma, 2015)

The banking crisis in 2012 which exposed the mismanagement of these banks along with corruption added to the less attractive use of banks for the general public (MarketLine Industry Profile, 2019). From 2012 to the present Vietnam had seen dozens of bankers and company officials in Vietnam jailed or sentenced to death for financial crimes including fraud and mismanagement. These include Nguyen Duc Kien, the businessman and co-founder of Asia Commercial Bank (ACB), and Pham Cong Danh, the head of privately owned Vietnam Construction Bank (VNCB), who was sentenced to 30 years in jail and accused of embezzling \$400 million. (Wilson, 2018). This further cements the mistrust of the general public with the banks.

Banks become no more than a repository to receive their salary and government transfers. It is not uncommon to see snaking queues at the ATMs during pay day, usually from the 1st to 5th day of the month where Vietnamese would withdraw all their paycheck.

Recently, other forms of non-financial institution such as Paypal and other online payment service providers (e-wallet) as well as other non-banking financial service providers such as MoneyGram and Western Union are gaining traction (MarketLine Industry Profile, 2019).

This can be seen from PwC’s Global Consumer Insight Survey 2019, where Vietnam showed a 24 percentage point increase in the number of consumers using mobile payment. The jump is

the largest increase recorded among the South East Asian countries surveyed. (Telecom Asia (Online), 2019)

Recently, with the blessings of the Prime Minister, Nguyen Xuan Phuc, the telecommunications ministry as well as the State Bank of Vietnam were encouraged to work together to provide transaction services that are not linked to a customer's bank account. So far Vietnam's telcos, MobiFone, VNPT and Viettel, had submitted their proposals. These mobile money services would allow customers to transfer money using only their mobile phone. (Telecom Asia (Online), 2019)

This is a far cry from the government's 2014 central bank rule that requires e-wallet account holders to be connected to the bank account of the same named owner, essentially barring anyone without a bank account to have an e-wallet. While regulating the rule was patchy, the government did a massive clampdown in 2018 in the wake of an illegal online gambling ring run by anonymous e-wallet transactions.

The change of heart may probably be due to the fact that only 31% of the adult population have a bank account, while almost 100% of the population already have a mobile phone in hand. The strict regulation would also slow down the government's push for a cashless society, where it had targeted to have 50% of its urban household go cashless by 2020.

Currently, the 2 biggest e-wallet players are homegrown Vietnamese companies, Momo and ZaloPay, with Momo being the more popular of the two. Momo, which, in November 2018 signed its 10 millionth user, a tenfold increase in just 2 years, managed to attract and secure \$28million funding from Goldman Sachs and Standard Chartered Private Equity in 2016. (Financial Times, 2019)

ZaloPay, on the other hand is piggybacking on its parent company, VNG Corporation's network of 100million registered user to catch up. VNG is Vietnam's first unicorn (a privately owned tech start up that is valued to reach US\$1 billion) and the owner of online entertainment products and the social media platform, Zalo.

Other upcoming players in the e-wallet arena, includes Grab. It is currently offering discounted rides in its effort to persuade it's users to go cashless while also spending extensively to change Vietnam's food delivery habits as well.

While e-wallets are generally designed to handle small-value, daily transactions, average transaction is at \$19, as opposed to \$366 per mobile banking transaction, it may not be a stretch to see car owners in the future paying for their cars using their smartphones.

The figures in the first nine months of 2018 may be a strong proof, especially with e-wallets growing at 161% year-on-year and mobile banking growing at 126% year-on-year worth \$44.5 billion (1,032 trillion dong) (Financial Times, 2019).

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