

Policies for The Development of The Smart Finance Ecosystem in Vietnam

Hanh Dao Thi

Faculty of Accounting – Finance, Dong Nai Technology University, Bien Hoa City, Vietnam

Corresponding author. Email: daothihanh@dntu.edu.vn

ABSTRACT

This paper examines the development of Vietnam's smart financial ecosystem, focusing on the policies driving the growth of financial technology (fintech) in the country. Despite notable progress, challenges such as infrastructure limitations, cybersecurity concerns, and the need for enhanced regulatory frameworks persist. The study compares Vietnam's fintech landscape with leading countries like Singapore, India, and China, highlighting best practices. Using a combination of literature review and expert interviews, the paper discusses the key drivers, challenges, and opportunities for growth. It concludes with policy recommendations to strengthen infrastructure, improve security, and support fintech startups, aiming to foster a sustainable and inclusive financial ecosystem in Vietnam.

Keywords: *smart financial ecosystem, fintech, Vietnam, digital transformation, financial inclusion, cybersecurity.*

1. INTRODUCTION

Fintech is playing an important role in promoting the development of the global digital economy, including Vietnam. This technology enhances access to financial services, especially for those who do not have access to traditional banking (Morgan, 2022). In Vietnam, Fintech has created opportunities for people and businesses to access financial services more effectively, especially in the context of the COVID-19 pandemic (Nathan et al., 2022). However, the study shows an inverse relationship between financial literacy and the adoption of Fintech in Vietnam. This may indicate that Fintech is playing a role in promoting financial inclusion, allowing people with lower levels of financial literacy to use the technology for financial transactions that were previously inaccessible to them (Nathan et al., 2022).

On the other hand, this may also imply that Vietnamese people with a higher level of financial literacy do not see Fintech as an important tool for their financial transactions. To promote the development of Fintech and the digital economy, policymakers need to focus on building an enabling environment for Fintech innovation, including the development of Fintech business infrastructure and regulatory "sandboxes" to promote Fintech startups (Nathan et al., 2022). This will help strengthen access to finance for Vietnamese consumers, while promoting the development of the digital economy.

The Vietnamese government has made significant efforts in creating a favorable legal environment for the development of digital financial services. According to (Nathan et al., 2022), the government has significantly supported the adoption of fintech in Vietnam. The study found that government support has a significant correlation with fintech adoption, contributing to the growth of this industry. However, there are some interesting points to keep in mind. (Nathan et al., 2022) also pointed out that the relationship between financial literacy and fintech adoption in Vietnam is negative. This may indicate that fintech is playing an important role in bringing financial inclusion to people with lower financial literacy. Those who previously could not access traditional financial services. In conclusion, the policies of the Vietnamese government have created a favorable environment for the development of fintech, contributing to the promotion of financial inclusion. However, there is still a need for more policies to promote the development of fintech business infrastructure and regulatory "sandboxes" to promote fintech startups, as proposed in (Nathan et al., 2022).

In order to build a comprehensively developed smart financial ecosystem, it is necessary to make policy adjustments and learn from international experiences. Studies indicate that green finance development, technological innovation, and energy efficiency have a positive impact on sustainable development (Moslehpour et al., 2023; Sadiq et al., 2023). Increasing the issuance of green bonds and attracting environmentally-focused foreign direct investment are also recommended (Han & Gao, 2024). It is also worth noting the challenges in balancing innovation and regulatory compliance, especially in the field of FinTech and personal data protection (Oyewole et al., 2024). The development of appropriate governance and regulatory frameworks, as in the case of Islamic crypto assets, is necessary to protect

consumers and encourage innovation (Wiwoho et al., 2023). To develop a comprehensive smart financial ecosystem, there needs to be a combination of policies that promote green finance, technological innovation, and a flexible legal framework. At the same time, learning from international experience and applying best practices also plays an important role in this process.

2. OPPORTUNITIES AND CHALLENGES IN DEVELOPING A SMART FINANCIAL ECOSYSTEM IN VIETNAM

Vietnam is emerging as a potential market for the development of a smart financial ecosystem. Research shows that Vietnam is one of the countries with the highest potential for the growth of Fintech in the ASEAN region (Loo, 2019). Driving factors include the high demand for financial inclusion, especially in rural areas, as well as the rapid development of the internet and digital technology. However, compared to leading countries such as Singapore, China and India, Vietnam still has a significant gap. Singapore has implemented "supply-led" financial restructuring strategies, contributing to economic growth (Murinde & Eng, 1994). China has become a global leader in Fintech, with the rapid growth of technology companies and a favorable policy environment (Chorzempa & Huang, 2022; Hua & Huang, 2020). India has also made significant strides in promoting financial inclusion through Fintech (Morgan, 2022). To bridge the gap, Vietnam needs to focus on improving factors such as performance expectations, effort expectations, enjoyment motivation, habits, and users' trust in digital banking services (Thu Nguyen et al., 2020). At the same time, strong supportive policies from the government are needed, creating a favorable legal environment for innovation, and promoting competition in the banking industry to optimize efficiency and innovation (Nguyen et al., 2016).

Support policies from the government, a favorable regulatory environment and promoting competition in the banking industry have a positive impact on the efficiency and innovation of the banking system. Research shows that higher competition motivates banks to improve operational efficiency and increase innovation to compete successfully (Lim & Randhawa, 2005). In developing countries, banking sector reforms have helped to increase competitiveness and efficiency, as was the case in Uganda (Hauner & Peiris, 2006). In Egypt, financial reform has had a positive impact on the competitiveness and productivity of the banking sector (Poshakwale & Qian, 2011). However, the relationship between competition and innovation is not linear. Research in Vietnam, China, and India shows that the relationship between competition and cost-reducing innovation has an inverted U-shape, with optimal levels of competition to achieve the greatest innovation (Nguyen et al., 2016). In addition, the effectiveness of policy interventions is also not uniform for all banks or in all circumstances (Pedraza et al., 2020). In conclusion, supportive government policies, a favorable regulatory environment, and promoting competition can optimize efficiency and innovation in the banking industry. However, careful consideration is needed to achieve an optimal level of competition and ensure the effectiveness of policy interventions in the specific context of each country.

3. CURRENT STATUS AND BARRIERS TO OVERCOME

3.1. The development of the smart finance ecosystem in Vietnam

Vietnam has made great strides in developing a smart financial ecosystem. Digital financial services such as mobile banking, e-wallets, and online payments have become popular and have received widespread support from people and businesses. According to a report by the State Bank of Vietnam (2020), the percentage of people using e-banking services increased sharply, reaching 72% in 2020, while the number of payment transactions via e-wallets such as MoMo, ZaloPay, and VNPAY also grew significantly. Along with this development is the rise of fintech companies, which play an important role in providing innovative financial services, helping to improve the quality of life for people.

A study by PwC (2019) indicates that Vietnam is among the countries with the largest fintech development potential in Southeast Asia, thanks to its young population, high mobile phone usage rate, and the strong increase in digital financial services. Services such as peer-to-peer (P2P) money transfer and peer-to-peer lending (P2P lending) have created a huge potential market for fintech businesses.

3.2. Policies to develop a smart financial ecosystem in Vietnam

The Vietnamese government has implemented a number of important policies to promote the development of the smart financial ecosystem. One of the important policies is the "National Digital Transformation" program, approved under Decision No. 749/QĐ-TTg of the Prime Minister in 2020. This program sets out the goal of building a digital economy and developing digital financial services, contributing to building a favorable environment for fintech businesses.

The State Bank of Vietnam has also issued adjustment policies, such as Decree 101/2012/ND-CP on electronic payment, and Decision 957/QĐ-NHNN on the national e-payment development strategy to 2025. These policies create a solid legal basis for the development of e-financial services, while helping to ensure the safety of consumers during online transactions.

However, according to the IMF report (2021), although the policy has created clear legal frameworks, practical implementation still faces many difficulties, especially in raising awareness and protecting the rights of users in the digital payment environment. In addition, the problem of the lack of policies to support fintech businesses, especially startups, remains a major challenge.

3.3. Challenges in developing a smart financial ecosystem

Despite achieving many positive results, the smart financial ecosystem in Vietnam still faces some major challenges. The first is the problem of technological infrastructure. Although digital financial services have become popular in big cities, in rural and remote areas, access to the Internet and e-banking services is still limited. According to a study by the World Bank (2020), the use rate of digital financial services in rural areas of Vietnam is still very low, only about 30% compared to big cities.

In addition, the issue of security and cybersecurity is an important factor affecting the development of the smart financial ecosystem. Cyber scams and cyberattacks are on the rise, threatening user safety and negatively impacting people's trust in digital financial services. According to a study by McKinsey (2021), countries with strong fintech development such as Singapore have focused a lot on improving cybersecurity and personal information security, which Vietnam needs to do more strongly in the coming time.

The lack of policies to encourage investment in research and development (R&D) for fintech businesses in Vietnam is a problem that needs to be overcome to promote the development of the industry. Fintech is a field that requires constant innovation to create modern and effective financial solutions. However, without strong support policies, businesses will have difficulty improving their competitiveness and maintaining sustainable development. To solve this problem, incentives such as corporate income tax reductions on R&D activities, provision of concessional loans or investment funds for research projects, as well as the creation of mechanisms for close cooperation between businesses and research institutions are needed. In addition, minimizing administrative procedures and supporting the development of high-quality human resources in the field of fintech will also play an important role in creating a favorable environment for businesses to develop sustainably. When these policies are implemented synchronously and effectively, the fintech industry in Vietnam will have the opportunity to rise strongly, contributing to promoting the digital economy and improving the country's position on the global financial technology map.

4. CONCLUSION

The policies of the Vietnamese Government have created a relatively favorable legal environment for the development of the fintech industry, however, there are still many challenges that need to be solved so that this industry can develop strongly and sustainably. One of the prominent problems is the technology infrastructure, which currently does not meet the requirements for the rapid and breakthrough development of fintech businesses. Information technology systems need to be upgraded and perfected to ensure stable operation and meet the increasing requirements for speed and reliability.

In addition, information security is still a big challenge in the fintech industry, as online financial transactions are increasing, which means that the risk of cyberattacks and the risk of user information security is also higher. Governments and authorities need to take strong measures to strengthen data protection and ensure compliance with international security regulations.

Finally, the support policy for fintech businesses still has many shortcomings. While there are a number of policies that encourage investment in research and development, the financial, tax, and collaboration opportunities between businesses and research institutions are not enough for fintech businesses to unlock their full potential for creativity and innovation. Therefore, it is necessary to have far-reaching reforms and more practical support policies to create conditions for fintech businesses to develop and compete in both domestic and international markets.

REFERENCES

- Asian Union (2022). Report on the development of fintech in ASEAN countries.
Government of Vietnam. (2020). Decision No. 749/QĐ-TTg on approving the national digital transformation program to 2030.

- Han, J., & Gao, H. (2024). Green finance, social inclusion, and sustainable economic growth in OECD member countries. *Humanities and Social Sciences Communications*, 11(1). <https://doi.org/10.1057/s41599-024-02662-w>
- Hauner, D., & Peiris, S. J. (2006). Banking efficiency and competition in low income countries: the case of Uganda. *Applied Economics*, 40(21), 2703–2720. <https://doi.org/10.1080/00036840600972456>
- Lim, G. H., & Randhawa, D. S. (2005). Competition, liberalization and efficiency: evidence from a two-stage banking model on banks in Hong Kong and Singapore. *Managerial Finance*, 31(1), 52–77. <https://doi.org/10.1108/03074350510769479>
- Nguyen, T. P. T., Roca, E., Sharma, P., & Nghiem, S. H. (2016). Efficiency, innovation and competition: evidence from Vietnam, China and India. *Empirical Economics*, 51(3), 1235–1259. <https://doi.org/10.1007/s00181-015-1045-5>
- Pedraza, A., Ruiz-Ortega, C., & Demircuc-Kunt, A. (2020). Banking Sector Performance during the COVID-19 Crisis. World Bank Washington DC. <https://doi.org/10.1596/1813-9450-9363>
- Poshakwale, S. S., & Qian, B. (2011). Competitiveness and Efficiency of the Banking Sector and Economic Growth in Egypt. *African Development Review*, 23(1), 99–120. <https://doi.org/10.1111/j.1467-8268.2010.00275.x>
- IMF. (2021). Vietnam: Fintech Development and Policy Recommendations.
- Loo, M. K. L. (2019). Enhancing Financial Inclusion in ASEAN: Identifying the Best Growth Markets for Fintech. *Journal of Risk and Financial Management*, 12(4), 181. <https://doi.org/10.3390/jrfm12040181>
- Morgan, P. J. (2022). Fintech and Financial Inclusion in Southeast Asia and India. *Asian Economic Policy Review*, 17(2), 183–208. <https://doi.org/10.1111/aepr.12379>
- Murinde, V., & Eng, F. S. H. (1994). Financial development and economic growth in Singapore: demand-following or supply-leading? *Applied Financial Economics*, 4(6), 391–404. <https://doi.org/10.1080/758518671>
- Nguyen, T. P. T., Roca, E., Sharma, P., & Nghiem, S. H. (2016). Efficiency, innovation and competition: evidence from Vietnam, China and India. *Empirical Economics*, 51(3), 1235–1259. <https://doi.org/10.1007/s00181-015-1045-5>
- Thu Nguyen, T., Thi Nguyen, H., Thi Minh Tran, T., & Thi Mai, H. (2020). Determinants of Digital Banking Services in Vietnam: Applying UTAUT2 Model. *Asian Economic and Financial Review*, 10(6), 680–697. <https://doi.org/10.18488/journal.aefr.2020.106.680.697>
- McKinsey & Company. (2021). Building Trust in Fintech: Lessons from Leading Countries.
- Nathan, R. J., Quynh, M. N., & Setiawan, B. (2022). Fintech and Financial Health in Vietnam during the COVID-19 Pandemic: In-Depth Descriptive Analysis. *Journal of Risk and Financial Management*, 15(3), 125. <https://doi.org/10.3390/jrfm15030125>
- Oyewole, A., Oguejiofor, B., Eneh, N., Akpuokwe, C., & Bakare, S. (2024). DATA PRIVACY LAWS AND THEIR IMPACT ON FINANCIAL TECHNOLOGY COMPANIES: A REVIEW. *Computer Science & IT Research Journal*, 5(3), 628–650. <https://doi.org/10.51594/csitrj.v5i3.911>
- Wiwoho, J., Trinugroho, I., Kharisma, D. B., & Suwadi, P. (2023). Islamic crypto assets and regulatory framework: evidence from Indonesia and global approaches. *International Journal of Law and Management*, 66(2), 155–171. <https://doi.org/10.1108/ijlma-03-2023-0051>
- PwC. (2019). Fintech 2020: The Future of Financial Services in Southeast Asia.
- State Bank of Vietnam. (2020). Report on the development of electronic payment in Vietnam.
- World Bank. (2020). Financial Inclusion and Digital Payments in Vietnam.