

# Digital Banking in Vietnam Current Situation and Recommendations

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**Abstract** – Nations all over the world have been and will be entering the fourth industrial revolution which is the digital era with technologies such as virtual reality, internet connection, 3D printing, large data, and artificial intelligence. Therefore, the banking industry has to be reformed in order to utilize the resources and technologies for development. One of the key aspects for this process is Digital Banking. At the moment, digital banking services are being developed at a rapid pace and it helps the banks shorten transaction time, reduce costs, and promote competitiveness. Digital banking is now considered as the future of the banking industry. In a developing country like Vietnam, the development of digital banking is not only an opportunity or a trend but also a significant challenge.

**Keywords** – Banking Development, Banking Industry, Digital Banking and Rapid trend.

## I. DEFINITIONS OF DIGITAL BANKING

Digital Banking is a new term emerging in the Vietnamese banking industry and began to receive a lot of attention from both professionals and customers. In fact, Digital Banking is a form of banking that digitizes all traditional services and operations of the bank (Skinner, 2014). In other words, all traditional services such as withdrawals, money transfers, term deposits, demand deposits, saving and funding account management are all digitized and integrated into a single digital banking application. All of these services could be access through the websites or mobile devices. Customers only need to have internet connection to be able to manage or execute their transactions.

Although digital banking and e-banking are similar in the execution of online transactions, e-banking is only a convenient simple utility for bank transactions, bill payments or account management while digital banking is a much boarder term. In other words, e-banking only focuses on digitizing some of the core banking features while digital banking implies all the features and operations of the bank (SCN Education B.V., 2001). Thus, Digital banking is a modern banking model that operates on the basis of digitizing all activities while E- Banking is only an additional service on the traditional banking platform with services such as: Internet Banking, SMS Banking.

It is possible to consider Digital Banking as a modern form of banking - a new type of digital business. Digital Banking can cover all aspects a common bank such as organizational structure, human resource management, operations and services (Kelman, 2016). All administrative paperwork could be digitized and simplified. Digital banking has many advanced features such as 24/7 services with all transactions through the Internet and applications.

Digital banking also could be considered as no-branch banking or auto banking (Scardovi, 2017). Generally, Digital banking is a technology-based platform for exchanging information as well as performing transactions and services between banks and customers (Wewege, 2017). This whole process is executed through digital devices. Customers do not have to go to the bank to make transactions and vice versa. The bank also does not have to meet customers to complete their transactions. Digital banking is a combination of emerging technologies in financial institutions to changes in internal and external relationships in order to effectively improve services for customers. Moreover, it is also critical in enhancing the ability to adapt to the competitive business environment and improve the business management of commercial banks in the near future (Bachoo, 2017).

## II. THE IMPORTANCE AND THE POTENTIAL OF DIGITAL BANKING DEVELOPMENT IN VIETNAM ECONOMY

### *The Importance of Digital Banking Development in Vietnam*

Digital banking and digital finance is playing critical role in the forthcoming fourth industrial revolution in the world. In Vietnam, the race to survive in the banking sector has become more intense than ever (Leung, 2009). The technology has helped to remove many barriers so financial institutions and commercial banks can provide services and create more accessible products for their customers at lower cost. Moreover, these financial institutions also contribute to the reduction of cash payments on the market. According to the latest data of State Bank of Vietnam, the investment capital for technology in the banking industry is constantly increasing. Particularly, State Bank of Vietnam has a project to initiate information technology infrastructures for the entire banking industry with total value of USD 70 million, equivalent to VND 1.5 billion (State Bank of Vietnam, 2017).

At the moment, digitization in both services and operation is a race between banks. Vietnamese banks have to take steps in building a comprehensive information technology system before foreign banks infiltrate and gradually gain the market share. This competitive trend has been and will continue to open new opportunities for banking industry in Vietnam. It is forecasted that by 2020, about 40% of banking transactions will be carried out via mobile networks and devices, and about two thirds of banking operations will be carried out by the IT system. The application of digital technology has enabled banks to increase their profitability in the retail segment by up to 45

% (State Bank of Vietnam, 2017).

The explosion of information technology has led to the development of digital banking and Vietnam banking industry is not out of this trend. As income from credit activity of banks is decreasing, the development of digital technology-based products and services is needed to increase the proportion of fee-based services in total income. Digital banking services, mobile banking are developing at a rapid pace to help customers have new experiences with shortened transaction time while the banks enjoyed enhanced operation capacity, reduced costs and improved competitiveness. In the world, digital banking is also growing every second with many different trends: building customer-centric models; optimizing distribution systems; simplifying business models; creating competitive advantages in terms of customer information; breakthroughs and capabilities for breakthrough; proactive risk management, capital management and management of regulatory changes. In order to keep surviving and developing, commercial banks in Vietnam cannot "run" slow in this race.

The trend of customers using digital banking is growing rapidly. Over 3.4 billion people (about 46%) of the global population are using the internet with growth rates of 16% per year (Internet World Stats, 2017). The World Bank Open Data in Financial Sector also emphasizes that the proportion of customers using mobile banking services in 2015 is 30%, up to 33% in 2016, corresponding to the decrease in percentage of internet banking users that has been slightly reduced from 65% (2015) to 59.4% (2016). The proportion of customers using social networks for transactions with banks increased from 9.8% (2015) to 11% (2016), corresponding to the reduction of customers to bank branches trading from 16, 2% (2015) to 13% (2016) in all over the world.

Digital technology is expected to have stronger and stronger impact on the banking system as modern distribution channels such as Internet banking, Mobile Banking, Tablet Banking and Social Media. These channels will gradually overwhelm and replace traditional distribution channels such as branch / ATM / POS, Home Banking, Call Center. In fact, digitalization is affecting almost every aspect of the banking business, with 52% of the Fortune 500 companies going bankrupt, having taken over or ceasing to exist since 2000 (Capgemini Consulting, 2015). Likewise, digitization is transforming the banking, product, service and customer experience paradigms across the Asia Pacific region (APAC) and around the world. Facilitated by the huge amount of data and technology, the shift towards digital technology is reforming the banking industry, focused on meeting the diverse needs of consumers. However, it might decrease the loyalty of customers with intestinal banks. Traditional banks are also being threatened by the expanding limitations of new banking business and innovative products coming from more organized, modern and non-traditional competitors. Customer preference on using ATMs and online / internet channels rather than branches or transaction centers is threatening to change the status of traditional banking business models not only in Asia Pacific region but also in

global scale (Chavan, 2013). According to McKinsey (2014), the impact of digital technology on the net profit of banking institutions \ ranged from 43% to 48%, while the requirements for bank profitability fluctuate in the range of 29%-36%. This suggested that the role of digitization in banking operations is significant.

According to digital banking research, rapid escalation in supply and demand for digitized banking sector is happening. On the supply side, not only bank but also other financial institutions participate in providing banking products and services that is becoming more and more convenient. On the demand side, the proportion of customers favor seeking information, consulting and shopping on the internet through mobile devices and tablets is increasing gradually along with the development of technology in daily life. As customer behaviors change rapidly following the digital trend, it is more and more favorable for banks as well as financial institutions to reach their potential customer in digitized environment (Tran, 2008). These are the basic factors that force banks to participate in an unavoidable process that is digitizing their banking operations and products. Digital trading in general, digital banking in particular is not only the opportunity, the trend but also the mandatory requirements; otherwise the non-participated bank will be eliminated from the market.

#### *The Potential for Digital Banking Development in Vietnam*

By the time of January 2017, Vietnam has 47.3 million internet users (50% of the population), 35 million social network users (29 million mobile users) with 143 million phones (152% of the population). 55% Of Vietnamese adults are using smartphone, 46% have computers and 12% have tablets. According to statistics of the General Statistics Office of Vietnam, the percentage of Internet subscriptions in Vietnam is 48.3% (General Statistics Office of Vietnam, 2016).

In terms of supply in the banking market, the number of service providers in Vietnam has continued to accelerate the adoption of digital technology in their operation to meet the demands of non-cash payment and business digitization such as the Government's non-cash payment scheme, e-customs; Tax payment via internet; Collection of electricity bills via Internet / Mobile Banking / POS channels of the bank or collected via e-wallet of payment intermediaries; Payment of train tickets, air tickets through online payment system or bank cards; Tuition fees, hospital fees through e-banking channels; All telecommunication units have payment services or telephone cards on the internet. Thus, Vietnam's market with large population size, the high rate of users of telephone and internet is a potential market for digital banking.

However, according to habits and market characteristics, the digital banking sector has also encountered certain obstacles when it comes to the e-commerce market of Vietnam. According to a survey conducted by the E-commerce and Information Technology Agency, revenue from B2C e-commerce reached about 2.97 billion US dollars, accounting for 2.12% of total retail sales of the nation. In Vietnam, the vast majority of shopping customers choose online cash payment (64%), and bank payments acc-

ount for 14%.

With Internet growth of 9% per year and ranked 15th in the world, Vietnam has a good foundation to build digital banking system. In addition, Vietnam's Internet use is up to 52% and the proportion of Vietnamese customers using digital banking services by commercial banks accounts for 44%. Furthermore, about 28.5 million people (equivalent to nearly 30% of the population) are using smartphones and Internet access is about 52% of the population. Compared to other countries in the region, Vietnamese are tend to use Internet more than Thailand and Malaysia (42%), Indonesia (20%), Philippines (43%).

The proportion of digitalized banking users in Vietnam is constantly increasing. In 2011 this figure is only 7%, but it rocketed to 44% in 2014. Moreover, it is expected to continue to increase in the upcoming years. This is the average of Asia, compared to China (57%), Japan (83%), South Korea (96%), Singapore (94%) but higher than ASEAN countries such as Malaysia (41%), Thailand (19%), Indonesia (36%), Philippines (13%).

### III. SOME RECOMMENDATIONS FOR THE DEVELOPMENT OF DIGITAL BANKING IN VIETNAM

Although the trend of technology banks has spread to Vietnam, the digitization level of Vietnamese banks is still considered as stubborn and slow. Therefore, the development of the digital banking industry requires the efforts of each commercial bank as well as the support of the State Bank. As a manager of the national banking industry, the State Bank of Vietnam should strengthen the legal corridor and create encourage environment plus supportive policies to facilitate the rapid application of digital technology. Furthermore, the State Bank needs to amend the current regulations and operational procedures in accordance with the Law on Electronic Transactions and other related legal documents. At the same time, it is also necessary to promote the application of modern technologies alongside with investments in high-tech research and development activities to efficiently support policy-making process.

In order to build a clear and professional banking model in line with the digital banking trend of some commercial banks in the region and in the world, commercial banks should build a breakthrough business model through the application of digital technology to enhance their service convenience and cost savings. In addition, commercial banks need to digitize their existing banking operations in order to gradually transform their traditional business model into more modern one. Banks should digitize customer contact points, boost digital technology for products and services to meet customer demands, and increase value for customers in the long run.

Vietnamese commercial banks also need to reorganize their management and strategy to match the requirements of the new business model. Accordingly, banks need to adjust their business culture while developing appropriate human resources. In addition, commercial banks should also focus on managing communications, information on

social networks, upgrading information technology platforms, developing network security management and client classification schemes for better management in this digital era.

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