



Working Paper 2023.2.2.2

- Vol 2, No 2

CƠ HỘI VÀ THÁCH THỨC CỦA DỊCH VỤ MUA TRƯỚC TRẢ SAU ĐỐI VỚI CÁC NGÂN HÀNG THƯƠNG MẠI TẠI VIỆT NAM

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Tóm tắt

Dịch vụ Mua Trước, Trả sau (Buy Now Pay Later, viết tắt là BNPL) đã trở nên ngày càng phổ biến do khả năng thay thế thẻ tín dụng và hình thức vay truyền thống. Trong những năm gần đây, thị trường BNPL đã có những thay đổi đáng kể khi được sử dụng và tích hợp vào nhiều sản phẩm của các công ty fintech và dịch vụ kỹ thuật số. Điều này tạo ra một cơ hội lớn cho các ngân hàng thương mại trong việc tích hợp dịch vụ BNPL vào thẻ tín dụng của họ. Trong nghiên cứu này, dữ liệu thứ cấp đã được xử lý bằng cả phương pháp định tính và định lượng để đưa ra đề xuất cho các ngân hàng thương mại. Theo báo cáo, các ngân hàng nên cân nhắc cả cơ hội và rủi ro khi tích hợp dịch vụ BNPL. Nghiên cứu đề xuất rằng các ngân hàng thương mại tại Việt Nam nên thực hiện các bước sau để nắm bắt cơ hội mà BNPL mang lại: xây dựng và chuẩn hóa quy trình BNPL, đầu tư nền tảng dữ liệu khách hàng (CDP) vững chắc, cung cấp các lựa chọn thanh toán linh hoạt cho nhiều loại hàng hóa và dịch vụ.

Từ khóa: Mua trước Trả sau, ngân hàng thương mại, ngân hàng bán lẻ, tín dụng

OPPORTUNITIES AND CHALLENGES OF BUY NOW PAY LATER SERVICE FOR COMMERCIAL BANKS IN VIETNAM

Abstract

Due to its ability to serve as an alternative to traditional credit cards and loans, the Buy Now Pay Later service, which will be mentioned by the abbreviation “BNPL” throughout this report, has

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grown in popularity. As it was used and integrated into numerous products from fintech and digital service companies in recent years, the Buy Now Pay Later (BNPL) market has undergone a significant change. This presents a good opportunity for corporate banks to help with the integration of BNPL services into their credit cards. In this study, secondary data were processed using both qualitative and quantitative methodologies to determine suggested guidelines for corporate banks. According to the report, banks should take into account the hazards that BNPL may pose in addition to opportunities. As a result, the research's findings suggest that corporate banks in Vietnam build and standardize the BNPL credit-granting process, invest in a strong Customer Data Platform (CDP), and provide flexible payment options for a variety of goods and services in order to seize the opportunities.

Keywords: Buy Now Pay Later, commercial banks, retail banking, credits.

1. Introduction

The Buy Now Pay Later (BNPL) service is a financial offering that enables consumers to engage in transactions and postpone the payment for such transactions to a subsequent point in time. This platform offers consumers the opportunity to make quick purchases of goods or services, with the flexibility to repay the amount owed in regular installments, typically without incurring any interest charges. In general, BNPL services provide clients with the option to customize their payment terms, granting them the ability to select the number of installments and the frequency at which payments are made. BNPL has gained popularity due to its provision of an alternative to conventional credit cards and loans. This financial service offers users a straightforward and transparent method for effectively managing their costs.

The landscape of BNPL has witnessed a significant change in recent years as it was utilized and integrated into multiple products from fintech and digital service companies. However, there exists a strong prospect for corporate banks to facilitate the integration of BNPL services into their credit cards, alongside the provision of short-term unsecured loan alternatives. According to recent statistics, a significant proportion of consumers, namely 62%, have the belief that BNPL has the potential to supplant their credit cards (Caporal, 2023). Seeing the potential of BNPL in the banking industry, our group decided to look into the market more carefully to best understand the reality and potential for it, with the aim of identifying opportunities and challenges with this emerging financial services.

In this research, we aim at assessing the possible impact of BNPL services on the banking industry of Vietnam. By analyzing information and data, we will examine the extent to which BNPL can enhance customer acquisition and retention, the opportunities it presents for revenue growth as well as the challenges it may exert. This research seeks to provide valuable insights and strategic recommendations for Vietnam's financial institutions that look to navigate and capitalize on this developing landscape.

Specifically, we (i) provide an overview of retail banking in Vietnam, (ii) describe the current status of BNPL in Commercial Banks segment, (iii) state out the opportunities that BNPL can bring to Vietnamese Banks, (iv) show the challenges it may bring to banks, and (v) analyze real case studies and examples for better visualization. Lastly, in addition to providing the above

information, we also share our perspective towards this integration and present strategic recommendations for Vietnamese Bank.

The spatial research scope of the project focuses on research at a number of commercial banks in Vietnam including Techcombank, VPBank, ACB, TPBank, VIB, HDBank, Sacombank, SahaBank (SHB), Vietnam Maritime Commercial Joint Stock Bank (MSB), and SeABank. The scope of research in terms of time involving secondary data (collected research documents, books and newspapers) in the study is collected from 2017 to 2023. The scope of the research in terms of content is the analysis the concept of the Buy Now Pay Later service and the retail banking context in Vietnam to propose opportunities and prospect challenges for commercial banks when adopting BNPL services as a service-oriented product to consumers.

2. Theoretical Framework

Buy Now Pay Later (BNPL)

Buy Now Pay Later (BNPL) is a type of short-term financing that allows consumers to make purchases and pay for them at a future date. BNPL is a type of installment loan that typically allows you to purchase something immediately with little or no initial payment and pay off the balance over four or fewer payments. BNPL is an alternative payment method that allows customers to purchase products and services without having to commit to the full payment. The main difference between using BNPL and a credit card is that the credit card generally charges interest on any balance carried over to the next billing cycle. Although some credit cards offer 0% annual percentage rates (APRs), it may only be for a limited time. BNPL service usually don't charge interest or fees, and they have a fixed repayment schedule. During economic times when inflation is high and interest rates rise, BNPL may be a helpful option for people making purchases.

BNPL options can vary depending on the provider and the retailer. Some retailers may offer multiple BNPL payment options at checkout, while others may only offer one. Standard pay-in-four is the most common form of BNPL services. With this form of BNPL, total payments will be split up into four installments across six weeks. Customers need to make a payment every two weeks until the item is paid off. Other types of BNPL service include monthly payment plans, zero interest (a short-term financing option with 0% interest), long-term financing, variety of payment plans, no interest, flexible payment dates.

Retail banking

Retail banking, also known as consumer banking or personal banking, is the provision of financial services by commercial banks to individual consumers, rather than to companies, corporations, or other banks. Retail banking is a way for individual consumers to manage their money, have access to credit, and deposit their funds in a secure manner.

Services offered include savings and checking accounts, mortgages, personal loans, debit or credit cards, certificates of deposit (CDs), and more. Retail banks can be local community banks or the divisions of large commercial banks. Today, many fintech companies can provide all the same services as retail banks through internet platforms and smartphone apps.

3. Methodology

The research uses qualitative methods to comprehensively analyze the information at hand. The data is mainly collected from secondary sources, drawing from available reports and esteemed articles. By utilizing a combination of qualitative methods, we aim to glean a deeper, and more holistic understanding of the potential of BNPL in the banking industry. Qualitative methods, such as government reports and articles, will help unearth nuanced insights and perspectives, while quantitative techniques, like existing statistics from local and international firms, will allow us to quantify patterns and trends. This integrative research design and analysis enables our group to maximize the preciseness of our findings and provide a well-rounded analysis of the subject matter.

Besides, this report is conducted under exploratory research design. To be specific, the research utilizes secondary data as mentioned above to uncover emerging trends in Buy Now Pay Later service as well as potential opportunities and critical challenges within the Vietnamese banking industry, providing a foundation for further investigation and analysis.

4. Buy now pay later overview

4.1 Overview of retail banking in Vietnam

The retail banking landscape in Vietnam is dominated by state-owned commercial banks, which are focused on physical accessibility, especially beyond the key cities of Hanoi, Ho Chi Minh City, Danang, Hai Phong, and Can Tho. The retail banking segment in Vietnam is in its infancy stage, with plenty of room for growth, and is experiencing dynamic competition with other non-bank financial firms. Traditional banks have a long history in the industry and are well-established players, offering a wide range of financial products and services, including retail and commercial banking.

According to the Ministry of Finance, 70 percent of adults in Vietnam had bank accounts in 2020, but only about half of them had access to credit. As a result, the potential for retail banking in Vietnam is abundant. People choose to use retail banking for access to basic banking services, a source of credit, financial advice, convenience, and security. Retail banks in Vietnam are enhancing their digital capabilities to offer non-cash payment options such as online banking, mobile banking, mobile wallets, and QR codes to attract new customers and offer differentiated experiences. Success in the retail banking sector will require investment in new technologies, an overhaul of existing customer databases, and the ability to offer top quality customer service.

Banks in Vietnam are restructuring through mergers and acquisitions and retail banking is being bolstered. With 60 percent of Vietnamese under the age of 35, customer group demand more convenient, consistent and accessible financial services, especially in personal loans, credit cards and wealth management. Retail banking focuses on consumer lending is also a growing trend in the Vietnam banking system. This lending product, despite being interest-based, carries many fee-based services with it and is thus associated with the trend of transformation towards a well-diversified fee-based system of Vietnamese banking (Pham, 2020).

4.2 Overview of Buy Now Pay Later

Buy now, pay later (BNPL) is a type of short-term financing that allows consumers to make purchases and pay for them over time, usually with no interest. BNPL is available at most major retailers and can be a smart, low-interest way to break up an expense. BNPL is becoming

increasingly popular in Vietnam due to the rise of modern retail trade and e-commerce, which promote non-cash payments. The BNPL sector in Vietnam is expected to grow steadily over the next few years, with a compound annual growth rate (CAGR) of 45.2 percent between 2022-2028. It also reported that 62 percent of individuals were comfortable utilizing BNPL to make purchases.

Thus far, fintechs have taken the lead, to the point of diverting \$8 billion to \$10 billion in annual revenues away from banks, according to McKinsey's Consumer Lending Pools data. Digitization trends and increasing repeat usage among younger consumers foster an expanding set of players to target lending at point of sale, a service also known as "Buy now, pay later". BNPL has great potential to participate in a growing value pool. BNPL attract new customers to retail banks who are looking for flexible payment options and short-term financing. 56% of consumers who have used BNPL services say they prefer them to credit cards mainly because they're easier to pay and offer more flexibility. In fact, the proportion of the Vietnamese population who own a credit card is relatively low, at approximately 5-6 percent of the population. Moreover, it can help retail banks increase customer loyalty. A survey by Ernst & Young revealed that Vietnam had the highest percentage of bank customers looking to switch of the entire APAC region, with 65-77% ready to shut their bank account and move to another bank. Therefore, BNPL can increase customer loyalty by providing a convenient and flexible payment option that meets their needs. 38% of BNPL users say that these services will eventually replace their credit cards.

4.3 External analysis on BNPL service and retail banking (PEST)

Political

Government policies and initiatives can influence the growth and adoption of BNPL services. Vietnam's government issued strategies which aimed to ensure efficient management of monetary policies, inflation control, and increase support for economic stability. Vietnam's political situation is stable, creating advantages for the growth of the banking industry. However, the current regulatory framework in Vietnam poses constraints for BNPL providers, in that it restricts who can and cannot offer credit. Several challenges exist in ensuring fairness, transparency, and protection of consumer interests.

Economic

Vietnam's economy is thriving post COVID-19, with a 3.72% GDP expansion in the first half of 2023, predicted to grow by 6.5% this year (VGSO, 2023). GDP per capita reached approximately \$4163.5 at the end of 2022 (World Bank, 2022) and is predicted to continuously grow until 2023, signaling positivities in Vietnamese economic growth (Figure 1). Inflation is consistently under 4.5% (Figure 2).

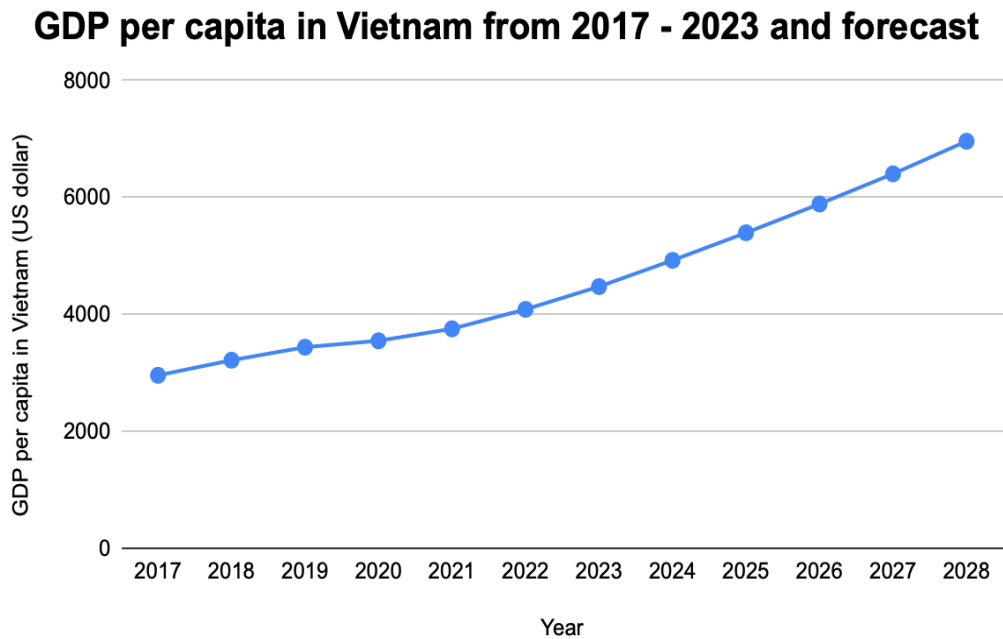


Figure 1. GDP per capita in Vietnam from 2017 - 2023 and forecast

Source: Statista (2023)

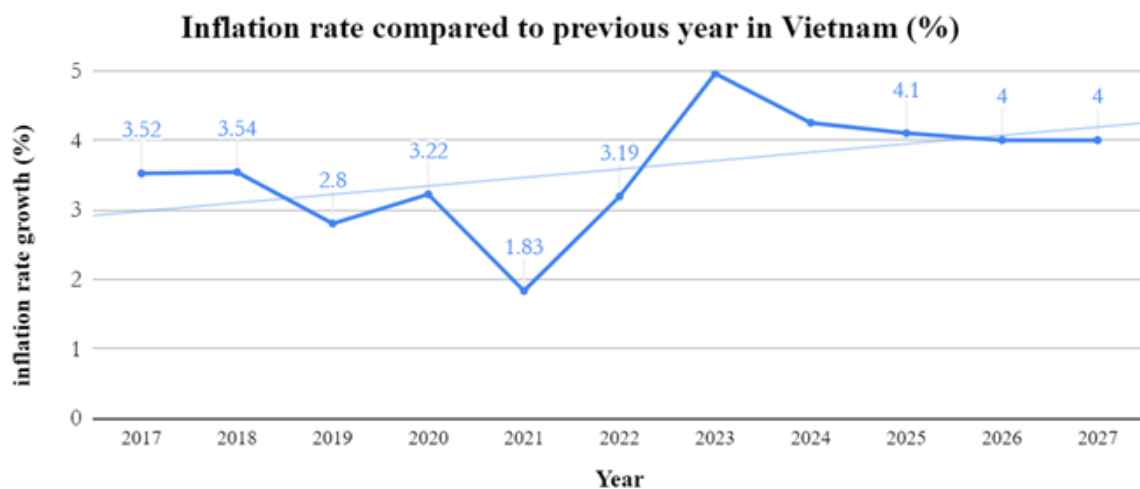


Figure 2. Inflation rate growth in Vietnam from 2017 - 2023 and forecast

Source: Statista (2023)

The unemployment rate in Vietnam decreased by 0.5 percentage points (-21.01%) in 2022 in comparison to the previous year. Nevertheless, the last two years recorded a significantly higher unemployment rate than the preceding years as a consequence of COVID-19 pandemic (Statista, 2023). In contrast, average monthly income has been observing an upward trend.



Figure 3. Average monthly income of Vietnamese from 2020 - 2023

Source: Statista (2023)

Social

According to a report by McKinsey in 2021, from 2021 - 2030, Vietnam could add 36 million people to the consuming class. In parallel, household size is shrinking due to the drop of fertility rate and urbanization. Notably, spending by seniors who aged above 60 and are predicted to account for 17% of Vietnam's population by 2030, accounts for an increasing share of consumption in various sectors such as pharmacy, education, or real estate. Directly related to BNPL, it was recorded that Millennials (26 - 40 years old) and Gen Z (14 - 25 years old) accounted for the largest portion of BNPL adoption in 2021 worldwide (Figure 4). The popularity of BNPL among younger generations suggests that it may eventually become the main form of payment.

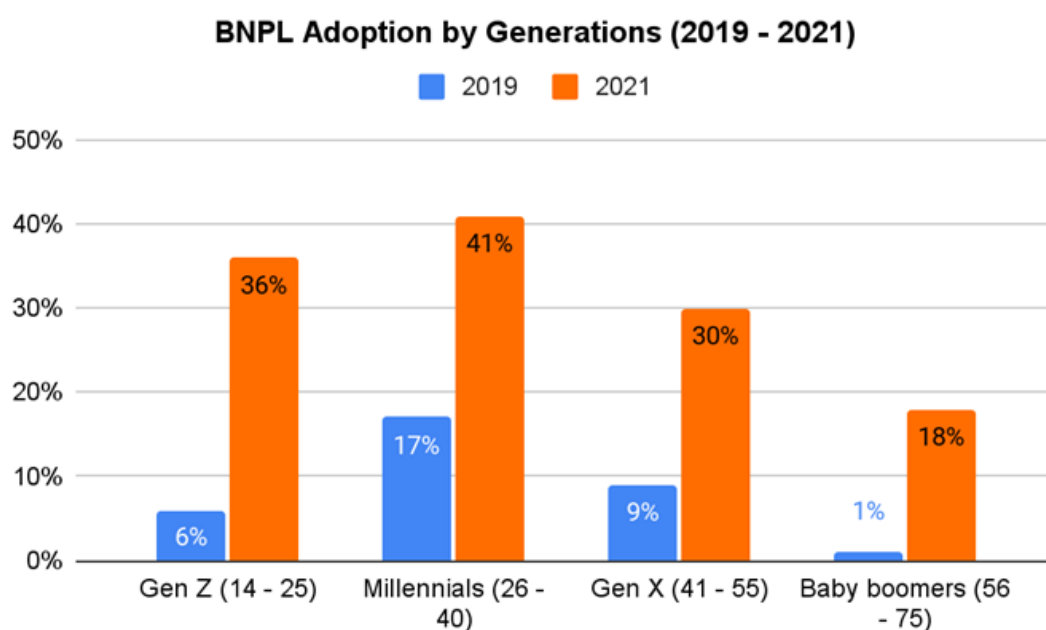


Figure 4. BNPL adoption change by generations in 2019 and 2021

Source: Shevlin (2021)

Technological

The growth of mobile payments is a trend in Vietnam. According to the State Bank, in the first half of 2022 compared to the same period of 2021, non-cash transactions increased 77% in volume and 30% in value. Payment via e-wallet has an average growth rate from 2017 to 2021 of 80.43% in quantity and 71.86% in value (VietnamCredit, 2022).

Fintech has been a trend in the market with innovative features, from startups. To stay on the competition, commercial banks offering BNPL services need to stay abreast of technological advancements, collaborate with fintech partners, and invest in digital innovation to remain competitive in the market.

4.5. BNPL in Vietnamese commercial banks snapshot

BNPL is becoming increasingly popular in Vietnam due to the rise of modern retail trade and e-commerce, which promote non-cash payments. In general, the BNPL market in Vietnam is still in its early stage of development when compared to some other regions (Table 1). BNPL barely held 2% of the market share across payment methods, accounting for roughly \$260 million in transaction volume in 2021, despite Vietnam's overall e-commerce sales being at \$13.7 billion. The BNPL sector in Vietnam is expected to grow steadily over the next few years, with a compound annual growth rate (CAGR) of 45.2 percent between 2022-2028. It also reported that 62 percent of individuals were comfortable utilizing BNPL to make purchases (Nguyen, 2023).

In 2022, the gross merchandise value of BNPL services in Vietnam was forecast to reach over 496 million U.S. dollars. The GMV of these payment services was expected to grow fast in the next few years and become a billion-dollar segment in the country (Statista, 2022).

Table 1. BNPL penetration comparison in Asia Pacific regions (reproduced from Advait, 2022)

Count ry	BNPL market share across payment methods (%) of Ecommerce	E- commerce spend (billion \$)	BNPL E- commerce transaction volume (billion \$)	BNPL market share across payment method (%) of POS	POS spend (billion \$)	BNPL POS spend volume (billion \$)
Indon esia	3	25	0.75	0.6	292	1.75
India	3	60	1.8	0.6	737	4.42
Japan	3	197	5.9	0.6	1826	10.95
Hong Kong	1	21	0.21	0.3	186	0.55

Singapore	3	7	0.21	0.8	113	0.9
Vietnam	2	13	0.26	0.4	31	0.12
China	1	1869	18.69	0.3	16674	50.02
Australia	10	37	3.7	1.3	583	7.58
Thailand	1	37	0.37	0.3	249	0.75
Malaysia	2	7	0.14	0.4	140	0.56
Korea	1	90	0.9	0.3	1033	3.1

Source: Advait (2022)

5. Buy Now Pay Later implementation in banks prospect

5.1. Opportunities for Vietnamese Banks

The emergence of the BNPL model has gained significant traction in recent years, presenting Vietnamese banks with a host of exciting benefits. In short, Vietnamese banks can make effective use of BNPL to increase their financial performance and gain good positions in the market.

The government introduces consumer lending stimulation policies

In the first half of 2023, credit growth was slower than the previous year; therefore, the Prime Minister has directed the State Bank to research on boosting consumer lending stimulation policies (VNBA, 2023). According to experts, creating a legal corridor for loan approval activities electronically will create an opportunity to "explode" online lending activities. Especially small loans to serve daily life, creating more convenience for people, quick approval, simple procedures, will stimulate consumer credit development. With a population of more than 100 million people, people's income is increasingly improving, consumer lending is considered a beneficial opportunity for credit institutions. This serves as a driving force for commercial banks to implement BNPL service, with a positive prospect of development

The rising of ecommerce and access to young customers contribute to expanded customer base

The primary opportunity that BNPL presents to Vietnamese commercial banks is the potential for expanding their customer base, which is the source of increased market share.

One of the leading banks that have penetrated into BNPL is TP Bank. The bank, with fintech company MoMo, implemented postpaid wallet service and acquired 3.7 million new customers in 2022, equivalent to 60% growth rate, leading to 40% increase in CASA (Current account savings account). There are also 1.2 million newly opened cards, which is 2.5 times as in 2021 (Table 2). Both TP Bank and MoMo target young customer segments, thus it is notable that BNPL service has paved the way for this direction.

Table 2. Growth on digital channels versus growth on the whole bank of TP Bank

	2019	2020	2021	2022
Customer transacting on digital channels / Total transactions in the whole bank	44%	49%	51%	67%
Growth rate on digital channels / Growth of the whole bank		71%	57%	86%
Transaction volumes on digital channels / Total transaction volumes	74%	87%	93%	95%
Transaction value on digital channels / Total transaction values	24%	40%	65%	77%

Source: TP Bank (2023)

This opportunity is formed by several factors.

Firstly, the booming era of ecommerce is the key driver to the surge of BNPL. In 2022, the value of Vietnam's e-commerce market amounted to US\$14 billion, and it is projected to increase by up to US\$32 billion by 2025 (Giang, 2023). Considering that only a small portion of the population use credit cards, alternate payment options will be essential, which is trialed by three most popular ecommerce marketplaces: Shopee, Tiki, and Sendo. In other words, the proportion of online shopping users opting for cashless payment methods is rising (Acclime, 2022), which can serve as a launching pad for BNPL to continue penetrating into the ecommerce market. Besides, BNPL can reduce cart abandonment rates - a frequent challenge of business, as customers may be more likely to complete a purchase when they have the flexibility to pay in installments. Thus, commercial banks can utilize BNPL to tap into the vast online consumer market and leverage the extensive customer base of these platforms.

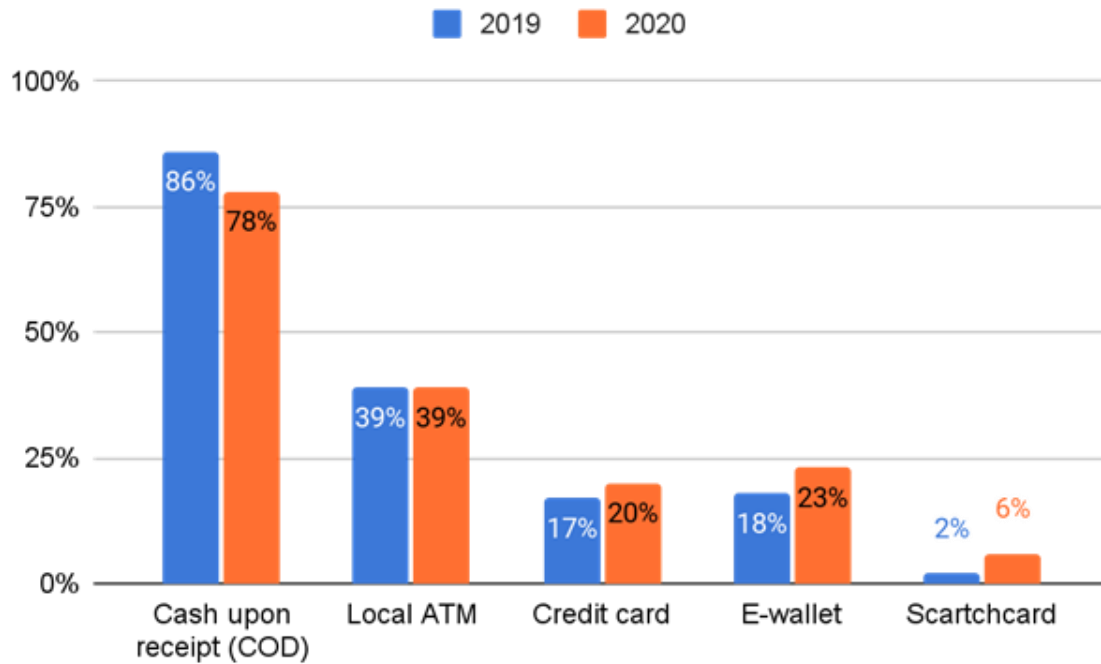


Figure 5. Proportion of online shopping users, by payment method

Source: Acclime (2022)

Secondly, the convenience of BNPL service attracts young customers. According to C+R research, easier payments, greater flexibility and saving on interest were among the top three reasons consumers choose to use a BNPL to finance their purchase in 2021. Commercial banks can focus on these motivators to attract new customers, especially Gen Z or new-to-credit customers, whose cash flow tends to be limited and credit scores are too low to access credit easily. According to the company's BNPL Tracker survey, nearly 60% of consumers say they prefer to buy now, pay later over credit cards. To afford both luxury and essential purchases, they seek for great financial flexibility, finding the interest-free installments more affordable than making the entire purchase at once. Besides, BNPL services are easy to use and can be accessed through mobile apps and banking websites. This is particularly attractive to younger generations, who are more likely to use digital channels for financial services.

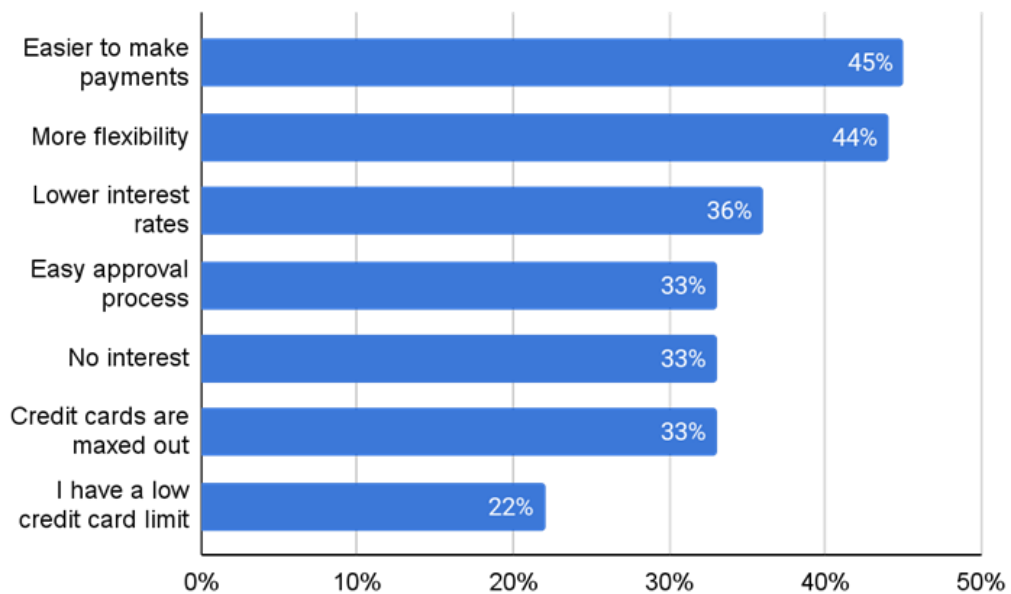


Figure 6. Top reasons why consumers prefer Buy Now Pay Later

Source: C+R research (2021)

Commercial banks have competitive advantages to deepen customer relationships

BNPL also supports commercial banks in building strong customer relationships to ensure a sustainable development. However, traditional organizations have an advantage if they wish to compete over non-bank providers in the BNPL space: their existing customer base has already trusted them to keep their money and data safe. Furthermore, research on well-known BNPL providers of the world also show that customers who used at least one BNPL providers still chose to put more trust on traditional banks (Allchin, 2023).

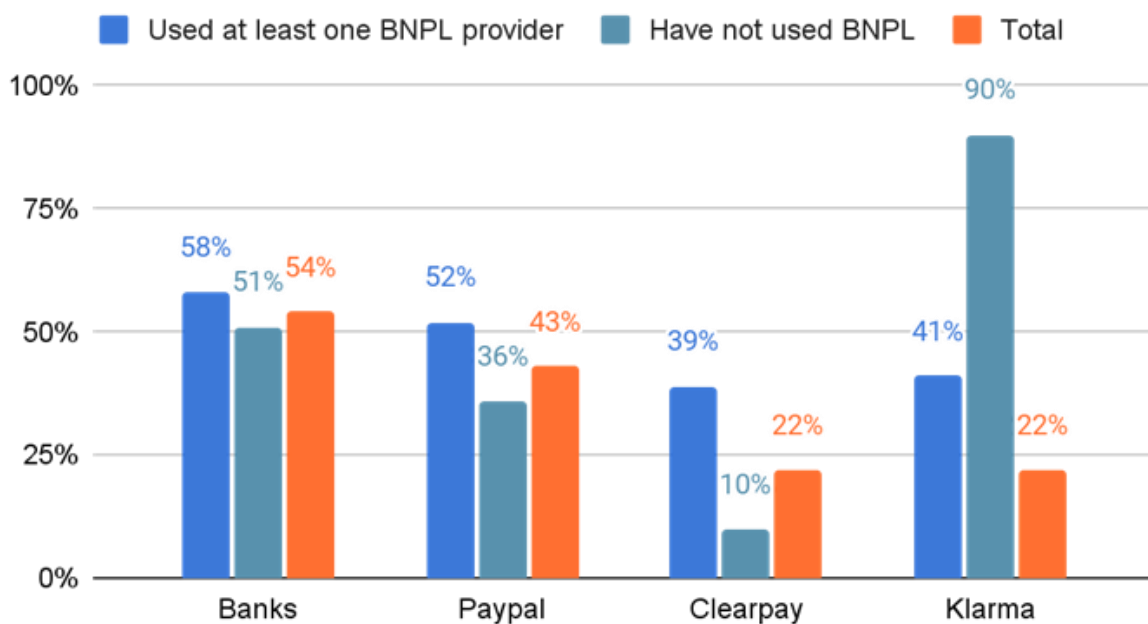


Figure 7. Proportion of consumers trust different financial institutions

Source: Allchin (2023)

The rationale behind this preference is the special characteristics of traditional banks. Banks have brand equity and are generally viewed as trustworthy by consumers. They are regulated, which can provide consumers and retailers with a sense of security when breaking purchases into payment agreements. They have an understanding of the financial strength and spending habits of customers, multiple interaction channels, and existing relationships with retail organizations. With BNPL, banks stand a better chance of leveraging customer relationships with the existing base by demonstrating their understanding of customers' financial needs and providing them with a convenient and flexible payment option. BNPL empowers individuals to manage their finances more effectively, ensuring they can afford desired purchases without straining their budgets. This increased financial flexibility can foster a sense of trust and loyalty, as customers appreciate the support provided by the bank during their purchase journey.

Additionally, by integrating BNPL services into existing banking platforms and mobile applications, banks can ensure a smooth and user-friendly experience, allowing customers to easily access and manage their BNPL transactions. By providing transparency, clear terms, and proactive communication regarding BNPL offerings, banks can further build trust and loyalty with their customers.

Nurturing this loyalty, Vietnamese commercial banks can cultivate potential cross-selling opportunities for other financial products and services. Based on a recent report issued by the Consumer Financial Protection Bureau (CFPB) in March 2023, it has been observed that individuals who availed of BNPL services have a notably higher likelihood of being burdened with debt and experiencing issues such as bank overdrafts, payday loans, pawn loans, as well as other financial services characterized by elevated interest rates. This behavior can push them to use other loan and credit facilities of traditional banks, resulting in higher retention rates and long-term relationships with their customers.

Table 3: Percent of BNPL users and non-users with various high-interest credit

Percent of consumers with at least one	BNPL Users	BNPL Non - users	Difference (Users - Non - users)
Overdraft	42.8	17.3	25.5***
Payday loan	11.5	2.9	8.6***
Pawn loan	8.6	1.6	6.9***
Auto title loan	7.2	5.0	2.1
Any alternative financial service	20.1	8.7	11.5***
Revolving credit card debt	68.9	41.6	27.2***
Observations	415	1621	

Source: CFPB (2023)

With all the above-mentioned opportunities, BNPL solutions have the likelihood to grow revenue for commercial banks. As proven above, the product fits the market potential and stands the chance of expanding a larger customer base, thus driving up transaction volumes. The world statistics has projected that BNPL offerings will account for an impressive \$680 billion in transaction volume worldwide in 2025 (Insider Intelligence, 2022). This is attributed to the ability to encourage consumer purchasing power offered by BNPL. Customers are likely to explore new product categories and make higher-value purchases, such as electronics, appliances, or even vehicles. According to the survey by Forbes Advisor, BNPL can impact how people spend, with 70% of those surveyed saying that they spend more than otherwise planned since it makes it even easier to spend money you don't have.

Besides, strengthening customer relationships is a driving factor for the diversification of revenue streams. First, although this payment solution may offer deferred payment options, some BNPL providers charge interest rates or fees if customers take out longer-term or larger loans. Second, by capitalizing on the trust and familiarity established with existing customers, banks tend to leverage cross-selling as a strategic approach to maximize revenue since it encourages customers to explore a broader range of financial products and services. “Banking Brand Beat Score Report” of MiBrand has also shown that 61% of customers only use one bank, 39% of customers use two or more banks (a significant decrease compared to 74% of customers using two or more banks in 2021). The result implied that commercial banks increasingly put focus on diversifying services to harness their customer base and there is still room for BNPL in banks to push the cross-selling. As a result, banks can generate revenue through these fees or cross-selling to other financial services.

	ABBANK	ACB	Agribank	ANZ	BAC A BANK	BIDV	MSB	MB	OCB	Sacombank	Techcombank	TPBank	VIB	VCB	Vietinbank	VPBank	Tổng
ABBANK		29%	27%	9%	1%	10%	1%	9%	3%	3%	3%	6%	1%	6%	6%	4%	117%
ACB	16%		29%	6%	2%	9%	3%	11%	7%	4%	6%	7%	2%	9%	7%	5%	123%
Agribank	8%	16%		4%	1%	11%	3%	23%	4%	11%	7%	4%	4%	11%	9%	3%	119%
ANZ	24%	28%	40%		12%	8%	0%	0%	0%	0%	0%	0%	0%	0%	4%	0%	116%
BAC A BANK	6%	17%	11%	17%		22%	6%	17%	6%	11%	0%	6%	0%	11%	0%	11%	139%
BIDV	4%	7%	15%	1%	2%		4%	23%	2%	2%	5%	4%	2%	14%	16%	2%	104%
MSB	2%	7%	11%	0%	2%	13%		39%	7%	7%	9%	7%	4%	20%	21%	4%	152%
MB	1%	3%	11%	0%	1%	8%	4%		3%	6%	6%	4%	1%	12%	11%	2%	72%
OCB	5%	22%	22%	0%	3%	11%	11%	38%		16%	11%	11%	8%	22%	22%	5%	205%
Sacombank	2%	5%	24%	0%	2%	4%	4%	28%	6%		14%	7%	4%	25%	7%	3%	134%
Techcombank	2%	6%	14%	0%	0%	7%	4%	24%	3%	11%		18%	7%	37%	20%	7%	159%
TPBank	5%	11%	12%	0%	1%	7%	5%	25%	5%	8%	27%		8%	33%	12%	12%	171%
VIB	3%	6%	27%	0%	0%	9%	6%	21%	9%	12%	27%	21%		24%	15%	3%	190%
VCB	2%	4%	10%	0%	1%	9%	4%	23%	3%	10%	17%	10%	3%		21%	5%	122%
Vietinbank	2%	5%	11%	1%	0%	16%	7%	30%	5%	4%	14%	6%	3%	32%		7%	141%
VPBank	7%	14%	14%	0%	5%	7%	5%	26%	5%	7%	19%	24%	2%	31%	29%		195%
	89%	180%	278%	38%	33%	151%	67%	337%	68%	112%	165%	135%	49%	287%	200%	73%	

Figure 8. Proportion of customers using services of more than a bank

Source: MiBrand (2023)

The diverse revenue streams and higher transaction volumes translate into greater cash inflow for commercial banks and more funds available to lend to borrowers. This can increase banks' liquidity and expand their lending activities, facilitating banks to grow their loan portfolios and generate more revenue. Additionally, banks can achieve economies of scale, which means that the cost per transaction decreases as the volume of transactions increases. Banks stand more chance of reducing their costs and improving their efficiency, contributing to increased profitability for the bank.

5.2. Challenges for Vietnamese Banks

Consumers are unfamiliar with using credits

The general retail sales of consumer goods and services in Vietnam are estimated to have increased by 19.8 percent in 2022 compared to 2021 based on (VGSO, 2023). However, most of these sales weren't made using credit. In actuality, just 5 to 6 percent of the Vietnamese people own credit cards, which is a comparatively low percentage (Nguyen, 2023). The major barrier of customers when using BNPL is the trust deficit (Finezza, 2021). Some BNPL services may have hidden fees, interest charges, or penalties that customers are not initially aware of. These unexpected costs can create financial burdens and fear for customers, making them more hesitant when borrowing loans.

Commercial banks' credit activities are not keeping up with the development speed of non-bank BNPL providers

Several BNPL non-bank companies including e-wallets such as Momo, ZaloPay, TrueMoney, and fintech companies like Finhay, PineLabs, and Hype Finance have emerged since COVID-19, providing the BNPL for consumers. Around 19.2 million people in the country used e-wallets in 2020, and it was predicted that between 2020 and 2025, that figure will virtually triple. A survey carried out in 2021 revealed that about 60% of respondents in Vietnam used e-wallets (Statista, 2022). During six years from 2015 to 2021, there were more than 40 new e-wallet providers in Vietnam as stated in the research by DecisionLab (Mai, 2021). E-wallets primarily came into existence to make transactions and online payments easier, which is true for two thirds of Vietnamese consumers. Promotions are the second most important factor in choosing E-wallets over other payment options (65%), followed by the ease of bill payment (61%).

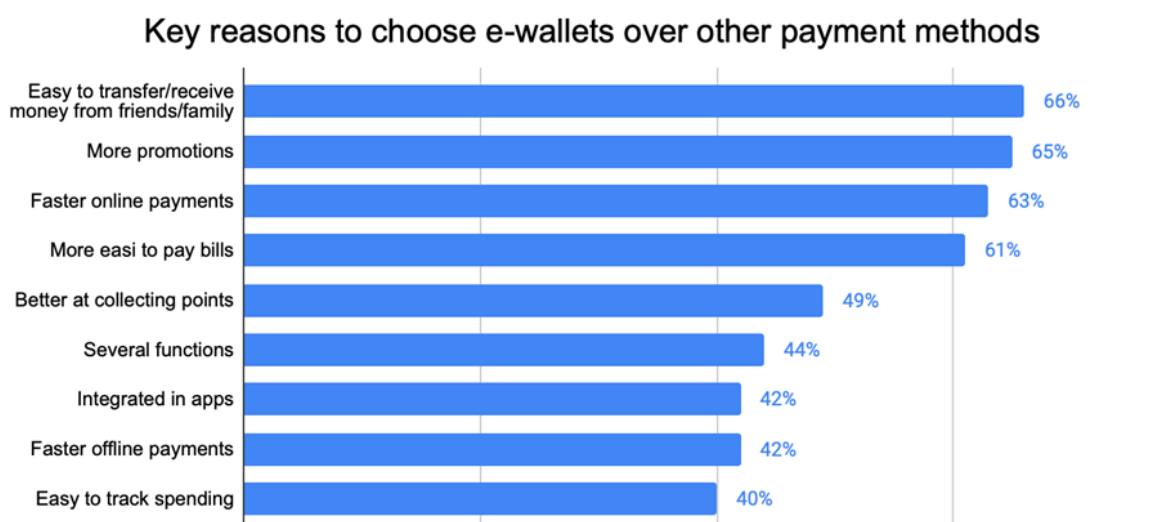


Figure 9. E-wallet outstanding conveniences

Source: DecisionLab (2021)

Meanwhile, after the pandemic, the credit growth of Vietnam has just regained momentum only in 2023, increasing by 9.87% in comparison to August, 2022 (Agribank, 2023).

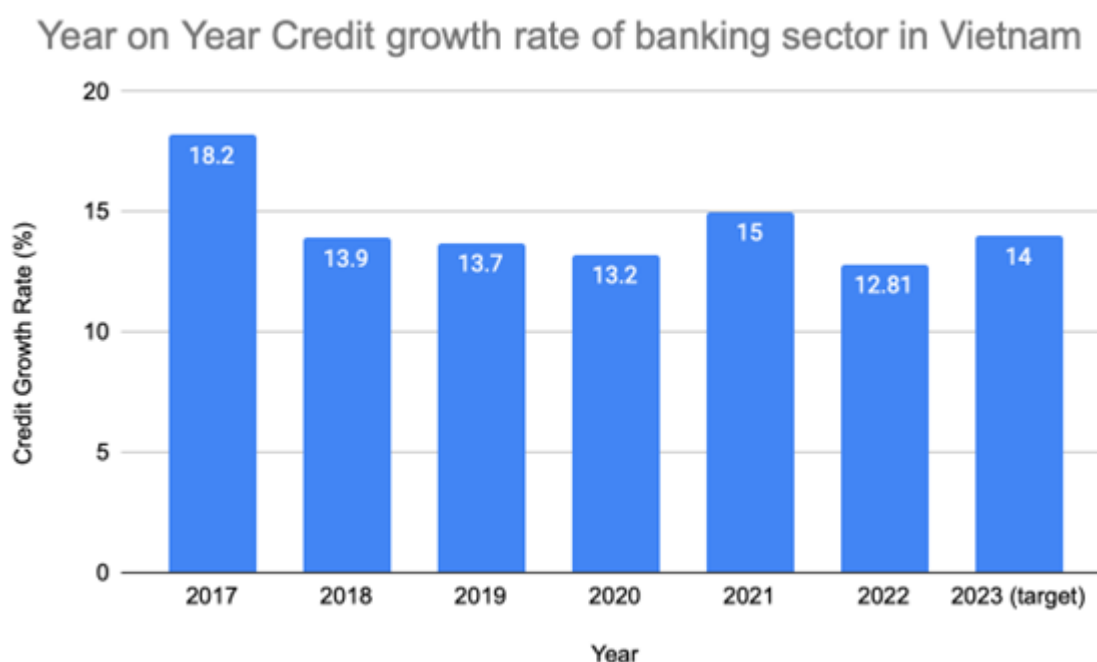


Figure 10. Year on Year credit growth rate of banking industry in Vietnam from 2017 to 2022

Souce: Statista (2022); SBV (2023); Đào (2022)

Compared to banks, non-bank institutions also have explicit competitive advantages of agility and accessibility to underbanked customers. Fintech businesses can perform better than traditional banks in terms of lax regulatory framework, start-up culture, and lack of legacy technology infrastructure (Deloitte, n.d.). Non-bank service providers frequently offer user-friendly digital

platforms and mobile applications, making it simple for customers to access. In addition, account registration procedures on e-wallets are also easy and require fewer legal documents than banks. They can also serve clients who might not have access to conventional banking services or credit, making BNPL services more inclusive.

Credit risk and delinquencies management face many barriers

Credit risk, one of the main contributors to the economic downturn and a key sign of financial susceptibility, accounts for the majority of banking risks (Koju, Koju and Wang, 2019). According to a 2022 report by the VBA, the non-performing loan (NPL) ratio for BNPL loans in Vietnam is 3%. This is higher than the NPL ratio for traditional loans, which is 1.8% (CEIC, 2023). In banking industry, TPBank, one of institutions that have applied BNPL service, is the unit that recorded the strongest increase of up to 188% to more than 3,900 billion VND in bad debts growth (Nhật, 2023). This can take a toll on banks' profitability, net working capital, and availability to issue new credits (Fredriksson and Frykström, 2019). Hanoitimes reports that household debt in Vietnam has been rising rapidly, from 25% of total loans in 2013 to 46% in 2020 (Ngoc, 2021), together with the rising unemployment rate, posing threats on the debt recovery ability of banks.

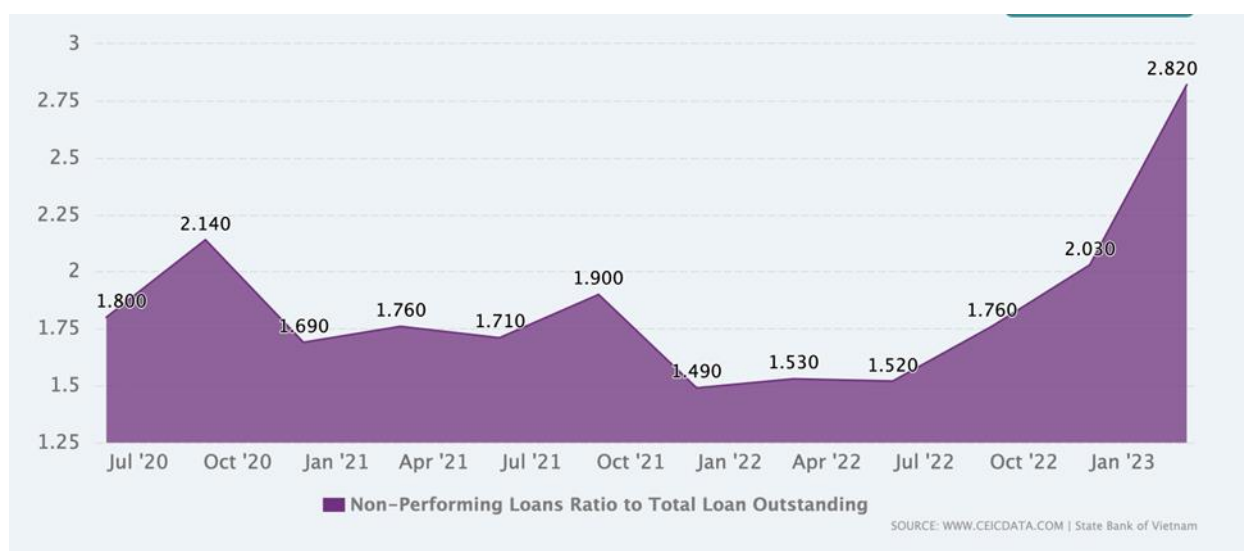


Figure 11: Non-Performing Loans Ratio to Total Loan of Vietnam in 2020 – 2023

Source: Non Bank of Vietnam (2023)

There are many reasons behind this credit risk.

Firstly, BNPL platforms have no connection with the Credit Information Centre (CIC), so that banks have to assess the creditworthiness of borrowers based on past transactions (VNA, 2023) or income verification. The lack of a regulatory framework and underdeveloped credit scoring system in Vietnam may also make it more difficult for banks to control the risks involved with BNPL services.

Secondly, consumers' financial illiteracy together with aggressive marketing practices of BNPL providers may lead customers to overspend and borrow more than they can afford to repay.

6. Recommendation and Conclusion

6.1 Recommendation

Buy now pay later is soon becoming widespread worldwide, requiring Vietnamese banks to take careful consideration on effective and sustainable development strategies:

Firstly, banks must work closely with the State Bank of Vietnam to build and standardize the BNPL credit granting process soon and conduct credit check on BNPL users before granting the service. In addition to standard credit ratings, they can use social media and internet purchasing data to get a fuller picture of a borrower's spending patterns. BNPL businesses can more accurately assess a consumer's capacity for managing debt and making on-time payments by looking at their internet presence and shopping habits. This method makes it possible for a more thorough and accurate assessment, which is especially useful for people who have little or no credit history. By extending credit to a wider spectrum of customers, BNPL providers are fostering financial inclusion and enhancing access to their services.

Secondly, educating customers about financial literacy is also of paramount importance to banks. It is essential for encouraging good financial conduct. BNPL businesses may assist clients in making wise decisions by providing information and resources on setting up budgets, managing debt, and comprehending the repercussions of late payments. This instructional component may be disseminated through emails, digital platforms, or even collaborations with groups that promote financial literacy. BNPL providers may make sure that their clients use their services properly and stay out of a debt cycle by promoting the value of good financial management.

Thirdly, in order to safeguard their clients' financial security, BNPL providers should place a high priority on responsible lending. A crucial component of this obligation is establishing reasonable credit limits for borrowers. It's critical to consider each customer's financial status and extend credit that they can afford. Companies offering BNPL services responsibly shouldn't encourage impulse shopping or tempt customers with high credit limits. BNPL providers may increase client trust, lower the chance of defaults, and develop long-term partnerships based on sound finances by continuing to emphasize ethical lending practices. Banks should also establish clear and effective standards for the industry that require cooperation between BNPL providers and regulatory agencies. These rules support consumer protection, uphold the integrity of the market, and guarantee that BNPL services continue to be a reliable and long-lasting source of funding.

Forthly, in order to utilize opportunities, banks should offer flexible payment options for a wide range of commodities and services to attract a diverse customer base and tap into different market segments. Whether it is purchasing consumer electronics, furniture, travel packages, or even educational courses, providing customers with the option to spread payments over time can significantly increase their purchasing power and drive sales. By partnering with popular merchants across various industries, banks can create a comprehensive ecosystem that encourages customer acquisition and loyalty. Besides, BNPL is not only a zero-interest loan for shopping but also a payment method included in the customer journey; therefore, customer centricity is vital.

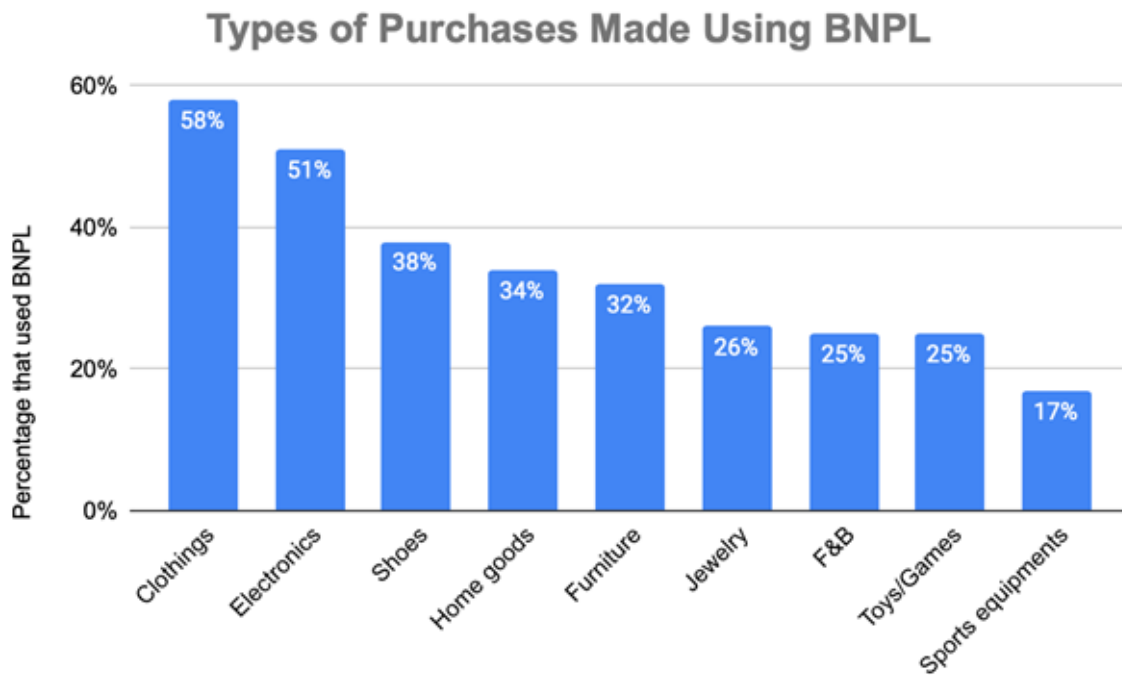


Figure 12: Types of purchases made using BNPL

Sources: Egan and Bailie (2022)

6.2. Conclusion

In conclusion, this report has shed light on the opportunities and challenges of implementing Buy Now Pay Later (BNPL) services in commercial banks in Vietnam. It has revealed that while the BNPL situation in Vietnam is relatively nascent, there are significant opportunities for banks to expand their customer base, deepen customer relationships, and promote revenue growth and profitability. However, these opportunities are accompanied by challenges such as competition with non-bank BNPL providers, regulatory considerations, and efficient delinquency management. To address these challenges and utilize opportunities, it is recommended for banks to conduct thorough credit checks, invest in robust Credit Decision Platforms (CDPs), and offer flexible payment options.

Furthermore, it is important to highlight the potential impact of BNPL services on Vietnamese bank growth. By integrating BNPL into their product offerings, banks have the potential to tap into a rapidly growing market segment, attract younger demographics, and drive increased transaction volumes. This, in turn, can lead to enhanced customer loyalty and long-term profitability for the banks.

However, it is worth noting that this report has some shortcomings, particularly the lack of primary data. While the findings and insights presented in this report are based on existing research and secondary sources, the inclusion of primary data would have provided a more comprehensive analysis and a more accurate understanding of the opportunities and challenges specific to the Vietnamese market. Despite this limitation, the report serves as a valuable resource for commercial banks in Vietnam as they explore the potential implementation of BNPL services.

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