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Vietnam's thriving lending apps all seek to provide a fast and easy credit experience by gleaning personal data to assess and mitigate risk. (Photo: Nicolas Lainez)

Navigating Vietnam's Lending App Maze

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Consumer protection and education is needed to tame the expanding digital lending industry.

Credit is at your fingertips in Vietnam. Consumer lending was virtually non-existent a decade ago. Today, anyone can download a lending app on a smartphone and obtain an unsecured loan within minutes. Lending apps are thriving in Vietnam. Some are legal and safe, others are not.

Together, the dozens if not hundreds of lending apps form an expanding financial landscape similar to the vast maze of densely populated, narrow and tortuous alleyways surrounding Vietnamese cities. This lending app maze though is more treacherous for borrowers to navigate than the alleyways are for pedestrians. Borrowers cannot undo their steps and may find themselves in a dark dead-end if they choose the wrong app.

Vietnam's thriving lending apps all seek to provide a fast and easy credit experience by gleaning personal data to assess and mitigate risk. Aesthetically, they all have two horizontal sliders: the upper one sets the loan amount and the lower its terms. These similarities often sow confusion among borrowers.

Despite the resemblances, these lending apps can be classified into three main categories.

The first stems from banks and consumer lending companies. The leading player in this field is FE Credit, the consumer finance division of VPBank. In 2019, FE Credit launched $NAP, an automated lending app that digitises the loan app process and shortens approval time and disbursement to a mere 15 minutes. Loans range from VND5 to 50 million and their interest rate varies from 35 to 69 per cent per annum. In case of delay or default, FE Credit allegedly has hired private debt collectors, which have been banned recently for colluding with criminal gangs and using strong-arm recovery methods.

> **Increasingly popular (super)apps from FE Credit and other credit institutions are developing a fast and easy automated lending process in Vietnam.**

In 2020, the firm launched FE Credit Mobile, a super app that consolidates access to all its apps and services, including $NAP. This super-app allows users to apply for loans and credit cards, purchase insurance, movie and air tickets, pay for daily transactions, utility bills and loans, top-up mobile phones, and locate the closest ATM. Increasingly popular (super)apps from FE Credit and other credit institutions are developing a fast and easy automated lending process in Vietnam.

The second category encompasses peer-to-peer (p2p) services, a fast-growing market with over 40 players operating in legal limbo. Major players include Vaymuon, Tima, Interloan, Huydong, Mofin, and MoneyBank. The government and fintech industry promote p2p lending as a quick financing tool to foster financial inclusion and discourage the use of predatory lending firms. They also promote it as an attractive investment channel for investors. Like banks, p2p start-ups seek to provide a hassle-free lending experience. To assess risk and provide customised prices for borrowers, p2p apps glean economic and alternative data from borrowers and process them with AI-powered algorithms.

Vaymuon is the first and largest p2p lending platform. Its app digitalises the lending process and requires no collateral and paperwork from borrowers. It takes applicants three minutes to apply for a loan and 30 for a decision. Vaymuon has gathered over two million borrowers and 400,000 investors. In addition, this firm has recently partnered with VietinBank Insurance to protect borrowers and investors and expanded to Myanmar and Cambodia.

However, despite the positive hype around p2p lending services in Vietnam, this nascent industry has a rather notorious reputation. Accusations of high-interest rates, money-laundering, and fraud are prevalent in the news. Cashwagon, a start-up based in Singapore that began operating in Vietnam in 2020, is **under investigation** in Ho Chi Minh City for providing loans of up to VND10 million with monthly interest rates ranging from 22 to 44 per cent. This rate is considered usurious according to the Civil Code. An urgent call for regulating the p2p industry has led the government to develop a regulatory sandbox to be launched soon to allow start-ups to experiment with new technologies and legal frameworks.

The third category encompasses dozens of unlicensed p2p lending services, loan companies and 'black credit' moneylending gangs operating under pawn service, financial consulting, investment consulting and financial brokerage licenses. These lenders develop sophisticated apps which they advertise heavily online. These apps provide a fast and convenient lending experience and require no collateral or paperwork. They collect personal data from borrowers to assess risk and their relatives and friends to use as leverage in case of payment delay or default.

This flourishing industry is raising **public concern**. Some p2p services deceive investors and consumers that their lending business is legally protected and insured against risks. In addition, predatory Chinese p2p lending services appear to be moving their **target market** to Vietnam due to the legal tightening of China's controversial p2p lending industry. Recently, three of these apps were dismantled in Ho Chi Minh City: Moreloan, Vaytodco and VD Online. They offered loans of up to VND1.5 million, of which VND600,000 were deducted as a service fee, and charged a daily interest of 2 per cent to borrowers who failed to repay their loan within a week. Debt collectors threatened borrowers in default and spammed their relatives and friends with defamatory messages.

Banks, the media and authorities should advise borrowers to examine service providers before taking loans. Borrowers should verify the firm's name, contact details, business registration, and history; be suspicious of lenders with no business address, fast approval times, charging excessive fees, and using unsecured websites for transactions; and closely examine the privacy policy, fee schedule, and lending contract.

Borrowers may not heed such advice as it goes against the fast and easy credit experience promoted and delivered by digital lenders. In the end, it is up to borrowers to shed light to the obscure maze of lending apps to avoid getting trapped in a dead-end credit alleyway.

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