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Commentary Commentary

Commentary: Thugs with strong-arm debt collection tactics? Vietnam's misunderstood informal credit sector

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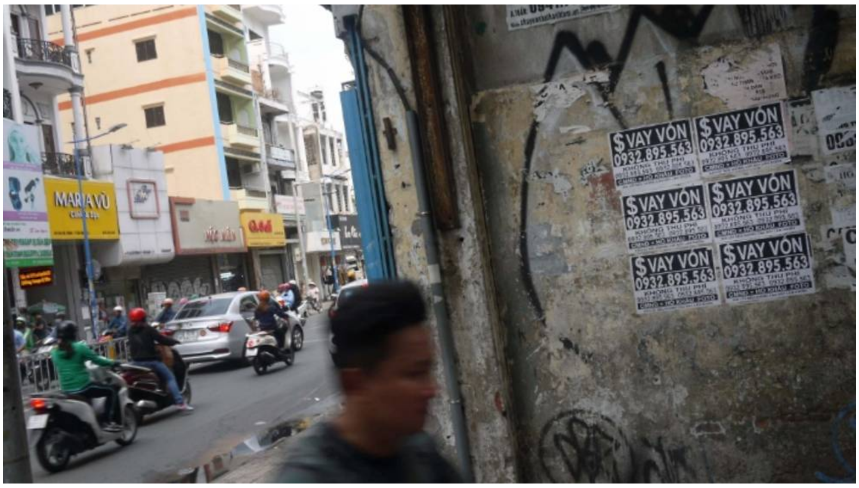
The problems of black credit run deeper, suggesting what is truly needed is reform of the formal finance and micro-lending system, says Nicolas Lainez.



Posters for black credit are glued on the walls of Ho Chi Minh City. The message says "borrow funds". (Photo: Nicolas Lainez)

SINGAPORE: Quang Rambo, a notorious moneylender operating in Hanoi, is the epitome of the ugly usurer.

His brawny chest is covered by a colourful tattoo of a dragon, he sports a huge gold medallion around his neck and the expression on his face is one of severity.

A quick look through his Facebook page shows photos of fancy vehicles, flashy jewellery, stacks of cash and an extravagant lifestyle.

However, behind the bling and swank lurks the darker side of the moneylending business, what the Vietnamese media and authorities call "black credit".

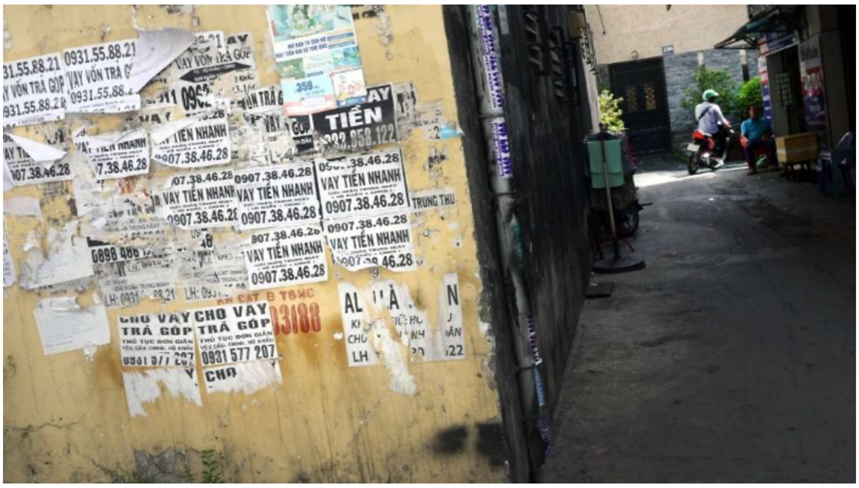
IS THIS WHAT UNLICENSED MONEYLENDING LOOKS LIKE?

Media reports would have you believe "black credit" is a nationwide phenomenon associated with unlicensed moneylending, exorbitant interest rates and strong-arm recovery practices.

Their activities of harassment include seizing borrowers' assets, entering their homes to watch TV and play loud music, blocking their entrance door and iCloud accounts, throwing rotten eggs at their children on their way to school, mailing them obituary notices, and in rare cases, kidnapping and torture.

Their helpless victims are landless farmers, urban poor, street vendors, gamblers and sex workers who desperately need capital, the narrative goes.

The arrest of Quang Rambo was reported by Vietnamese media in August and is the latest highly publicised police sting operation against black credit.



Posters for black credit are glued on the walls of Ho Chi Minh City. The messages say "lend money quickly", "borrow capital, pay on instalments". (Photo: Nicolas Lainez)

Extensive and sensationalised media coverage in recent months about the abuse that unscrupulous moneylenders inflict upon vulnerable borrowers has stirred public indignation and led to a call for strong political action.

RAMPING UP CREDIT LIBERALISATION

By way of remedy, the Vietnamese government is promoting rapid credit liberalisation to curb black credit.

At present, state-owned banks like the Bank for Agriculture and Rural Development and the Vietnam Bank for Social Policies are expanding their services and developing micro-financing schemes that provide consumer lending in remote and under-served areas.

Private credit providers are also at work. The major financial company, FE Credit, has issued a million credit cards and provided 8 million loans since 2010.

Smaller FintTech start-ups like Vaymuon, Tima and HuyDong are proposing peer-to-peer lending, whereas MoMo, ViettelPay and ZaloPay are developing mobile payment systems and e-wallet apps.

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A woman rides a bicycle past the building of the State Bank of Vietnam in Hanoi on May 17, 2016. (Photo: REUTERS/Kham)

Still, this all-out race for credit liberalisation rests on the superiority of a formal credit sector over an archaic informal credit sector typified by the ugly moneylender.

But this characterisation of the informal credit sector in micro-financing, based on my current research on moneylenders and precarious borrowers in Ho Chi Minh City, is unfair.

THE MYTHS OF INFORMAL CREDIT

First, the frequent conflation of informal credit with black credit is problematic. Since the launch of the Doi Moi economic liberalisation reforms in 1986, informal credit has served – and continues to serve – as a potent tool for development.

In particular, small, unsecured and short-term loans have funded the needs of many individuals, families and modest entrepreneurial ventures.

Research shows that households, garment traders and migrants, to name but a few actors, rely extensively on informal credit to operate. Conversely, the sudden disappearance of informal credit is unlikely to happen anytime soon.

In addition, informal credit cannot be reduced to moneylending, as it is only one of its domains.

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An advertisement for a credit card by VIB on Dien Bien Phu street, Ho Chi Minh City. Vietnamese banks are issuing millions of credits cards to promote consumer credit. (Photo: Nicolas Lainez)

This sector is highly diversified.

Some moneylenders like Quang Rambo do indeed apply high rates and harsh tactics and run large operations that cover entire cities or even regions. This was the case with Nam Long Finance, a dismantled company with 26 branches nationwide that employed barbaric methods to discipline clients and employees.

But most of the borrowers I have met in the past 10 years borrow money from small and individual moneylenders operating in their neighbourhood. They provide cheaper, valuable and needed services to a known clientele in their proximity under more lenient conditions.

Whereas some try to make a living out of moneylending, others just aim at making "pocket money" and help their acquaintances.

Second, formal credit is often praised for being cheaper than informal credit, yet this is untrue. Many banks and financial companies charge annual interest rates of 40 to 50 per cent on consumer loans.

Although this is lower than those applied by unlicensed moneylenders, it is irrelevant for many borrowers who take short-term loans payable within a few days, weeks or months.

Formal credit is booming in Ho Chi Minh City. On the left, a pawnshop that pledges vehicles, gold, mobile phones and laptops. On the right, an office from the Bank for Agriculture and Rural Development that proposes retail banking services. (Photo: Nicolas Lainez)

A US$560 loan from FE Credit ended up costing one client I saw US$1,550 over three years. This was the maturity she agreed upon with the bank. She did not dare to change it due to a lack of understanding on how formal loans work.

> *This amount is too much so I don't want to borrow from them. Paying in three years is too long for me. For the loans I get from moneylenders, I can pay it off faster. And if I can pay it off fast, it won't cost as much money.*

Another problem is that many borrowers have a hard time figuring out the real cost and the terms of consumer loans, which are often detailed in the fine print of their loan agreements.

This problem is aggravated by lending technologies like $NAP, an automated platform from FE Credit that digitises the loan application process and shortens the time for approval and disbursal to a few minutes.

These apps make the borrowing experience easy and fast, but also creates opacity and risk because they do not provide clear information about the terms and conditions of the loan to the client.

Third, formal credit is described as being free from aggressive recovery practices. But anecdotal accounts suggest that such harsh recovery methods involving harassment and threats are also employed by some financial institutions, which hire debt collecting businesses to recover debts.

These colonial buildings sit near the city's growing metropolis in Ho Chi Minh. (Photo: AFP/Hoang Dinh Nam)

The irony is they involve the same moneylenders involved in black credit operations.

Duc, is an ex-convict who works for a gang of moneylenders that provides debt collection services, operates pawnshops and provides unsecured loans to a vast number of clients in Ho Chi Minh City.

"The reality is that banks hire debt collecting companies to collect the money from you ... it's like the bank was hiring an outlaw to recover debt. But it's legal because they hired from a legal company," he says.

FINANCIAL EXCLUSION

Fourth, formal credit should be more accessible than informal credit. Yet, this might only be the case if most citizens are registered and able to access formal lending.

However, currently, 5 to 6 million people or more lack household registration in Vietnam, including 36 per cent and 18 per cent of Ho Chi Minh City and Hanoi's population respectively according to the World Bank.

Many unregistered citizens are internal Vietnamese migrants who represent 13.6 per cent of the population according to the United Nations Population Fund.

Every year, more than 260,000 migrants stream into Hanoi and the southern megacity of Ho Chi Minh City to study or work. (Photo: AFP/Manan VATSYAYANA)

Household registration is also required to secure permanent registration and access to public services including subsidised credit and other types of consumer loans.

This perpetuates financial exclusion, vulnerability and reliance on informal credit.

REFORMS NEEDED

Overall, current debates about black credit in Vietnam and its magic solution, credit liberalisation, should reflect more thoroughly on the role of informal credit.

They should also protect borrowers from predatory practices in the formal credit sector and prevent the accumulation of bad debts and non-performing loans.

This requires regulating formal credit markets. The State Bank of Vietnam has already taken this step by issuing numerous decrees and circulars to set ground rules on transparency and culpability, and by circulating a recent proposal to limit unsecured personal loans in cash by consumer finance companies.

It also requires a renewed effort towards registering Vietnamese citizens, in particular long-term migrants who form the bulk of the population of Ho Chi Minh City's and its surrounding industrialised provinces.

Nicolas Lainez is a Research Associate at the Southeast Asia Centre, Paris. France. His research areas include debt, credit and migration in Vietnam.

Source: CNA/sl

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