

Chief Editor: Assoc. Prof. Dr. Nguyen Kim Anh

# MICROFINANCE PRODUCTS AND SERVICES: CURRENT STATE AND DEVELOPMENT SOLUTION



**VIETNAM MICROFINANCE  
WORKING GROUP**

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With financial support from Citi Foundation - Citibank Vietnam, ADA Organization, the research were completed with the cooperation of the consulting group including Associate Prof. Dr. Nguyen Kim Anh, Dr. Phi Trong Hien, Msc. Duong Thi Ngoc Linh, Associate Prof. Dr. Le Thanh Tam, Msc. Nguyen Hong Hanh and Msc. Nguyen Thi Tuyet Mai. The views of this research report are those of the authors, which do not reflect the views of VMFWG.

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Citi Foundation



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### Appui au Développement Autonome (ADA)



For 22 years, ADA has been committed to developing microfinance services to populations excluded from traditional banking channels. Our aim is to strengthen the autonomy and capacity of microfinance institutions (MFIs), professional associations and networks. In South-East Asia, ADA supports technically and financially the national microfinance networks of Cambodia, Laos and Vietnam. ADA also provides support to governments to reinforce and structure the microfinance industry on regional and national levels. We develop and offer specific and innovative microfinance products to MFIs, trainings to microfinance professionals acting in and for the south, and support MFIs in their search for funds. In addition, we have chosen to be present in the field of research to anticipate the future needs of the world of microfinance and to measure the social impact of our actions. ADA, whose headquarters are in Luxembourg, pursues its goals with the support of the Directorate for Development Cooperation and Humanitarian Affairs. ADA benefits from the patronage of HRH Grand Duchess Maria Teresa of Luxembourg. For more information, please visit: [www.ada-microfinance.org](http://www.ada-microfinance.org)

### Vietnam Microfinance Working Group



The Vietnam Microfinance Working Group (VMFWG) was established as a forum for microfinance practitioners to share experiences knowledge, skills and ideas of the microfinance sector to policy makers. For more information, please visit: [www.microfinance.vn](http://www.microfinance.vn)

VIETNAM MICROFINANCE WORKING GROUP (VMFWG)

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We sincerely thank the efforts of organizations and individuals by sharing, supporting and providing information and valuable time to us in making this Research report.

With the information, analysis and evaluation in this Research report, we hope to be able to create an overall picture of the development process, difficulties, bottlenecks as well as lessons learned and drawn from the three successful transitions to become official microfinance institutions with the goal of incentivizing and sharing experiences to microfinance institutions, programs and projects that wish to transform. We would also like to see that the recommendations and suggestions contained in this Report will convey the initiative, experiences in developing the program, the transition plan, specific implementation path, feasibility and cost-effectiveness to microfinance organizations, programs and projects that wish to transform, in order to create momentum for the development of microfinance in Vietnam. The experiences, results and recommendations presented in this Report will hopefully have practical values and the research results be an useful material for research and reference to microfinance practitioners, policy makers, and State management agencies.

We would like to send our gratitude to distinguished guests who participated and contributed their ideas to the Draft Research Report during the Workshop on "**Financial Inclusion in Vietnam: Opportunities and Challenges**" on December 12, 2016 in Hanoi. Your useful suggestions and feedback have been used by the research team to improve report quality and make recommendations more practical.

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**On behalf of the research team  
Chief Editor**

# ACRONYM AND ABBREVIATIONS

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<b>ADB</b>	Asian Development Bank
<b>BRAC</b>	Bangladesh Rural Advancement Committee
<b>BRI</b>	Bank Rakyat Indonesia (People's Bank of Indonesia)
<b>CEP</b>	Capital and Fund for Employment of the Poor
<b>CGAP</b>	Consultative Group to Assist the Poor
<b>CIDA</b>	Canadian International Development Agency
<b>COOP Bank</b>	Cooperatives Bank
<b>GB</b>	Grameen Bank
<b>IFMR</b>	IFMR Capital
<b>INR</b>	Indian Rupee
<b>M7-MFI</b>	M7 Microfinance Institution
<b>MFI</b>	Microfinance Institution
<b>NABARD</b>	National Bank For Agriculture And Rural Development
<b>NBFC</b>	Non-bank Financial Company
<b>NGOs</b>	Non-governmental Organisations
<b>SPB</b>	Social Policy Bank
<b>SBV</b>	State Bank of Vietnam
<b>DB</b>	Development Bank

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<b>CmB</b>	Commercial Bank
<b>ODA</b>	Official development assistance
<b>FI</b>	Financial institution
<b>CI</b>	Credit institution
<b>TPHCM</b>	Ho Chi Minh City
<b>TYM</b>	Tinh Thuong One Member Limited Liability Microfinance Institution (TYM)
<b>PCF</b>	People's credit fund
<b>RBI</b>	Reserve Bank of India
<b>VND</b>	Vietnam dong

# FOREWORD

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Kotler and Andreasen (1996) said success (*in terms of being both far-reaching and sustainable*) will come to organizations who are able to identify and meet the perception, needs and wants of low-income people through designing, communicating, pricing and providing competitive and suitable services.

Microfinance institutions (MFIs) worldwide and in Vietnam are strong in providing products and services suitable to poor and low-income customers as their vision, strategy and business model from inception focus on this market segment. However, along with the robust development of information technology, digital financial services, agent banking as well as the trend and strategy of financial inclusion development across the globe and in Vietnam, these strengths have gradually become weaknesses.

In this context, this study focuses on: (i) systematizing theories and practical experiences in the world related to microfinance products and services of MFIs; (ii) analyzing and assessing microfinance products and services of MFIs in Vietnam today; and then (iii) proposing recommendations to improve quality and diversify products to serve better customers' needs, and to take advantage of science and technology to step by step mainstream MFIs in the country's overall financial inclusion strategy.

This study is published in different versions in which the full and detailed one will be published after all comments and feedback from researchers, institutions and managers in microfinance industry and investors and donors who are interested in this industry are collected. This publication is a summary of the main contents of the above-mentioned full version aiming at providing an overview of key fundamentals of microfinance products and services from two perspectives: status and solutions for development.

***We are honored to introduce to you this short version.***



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## EXECUTIVE SUMMARY

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This paper presents main findings of the “*Microfinance products and services: Current status and solutions for development*” study. The research team members are selected from and combined of microfinance practitioners, people working in regulatory or donors’ agencies related to microfinance, and experienced researchers in microfinance. Thus, approaches from various perspectives and being practical are used during the research process.

This study aims at (i) accomodating poor and low-income people’s needs; (ii) enhancing sustainability and competitiveness of MFIs; (iii) improving regulatory environment and universalizing finance for the poor; and (iv) catching up with the global development trend. The scope of the study just concentrates on such products and services as credit, fund mobilization products, payment, micro-insurance and non-financial services of microfinance institutions (*both formal and semi-formal*).

Through general theoretical background and international experiences in microfinance product and service development, reasons for successes and economic, cultural and social environments constituting those successes are consolidated. This work is considered critical by the research team in order to avoid misunderstanding and copying other countries’ experiences to an inappropriate economic, cultural and social environment. Lessons learnt for Vietnam, therefore, are analyzed in the socio-economic context of the country to draw out appropriate recommendations for microfinance product and service development, helping to promote financial inclusion in Vietnam.

The status of microfinance product and service development in Vietnam is analyzed using secondary data and primary surveys conducted on customers. Results are as follows: (1) Credit products designed for low-income customers are fairly good and generate key income source for the institutions and have achieved some impressive results, particularly among formal MFIs. However, the loan size remains small, products are not diverse, and credit information sharing among institutions is still limited. (2) For fund mobilization products, only formal

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MFIs have spectacular growth of mobilized funds after having been formalized. Overall liquidity of MFIs in Vietnam in the past years has been fairly good. Yet, for semi-formal MFIs, their funding is limited and they depend to a large extent on equity and donors' funding. Fund mobilization products are less diverse and of low quality and remain small in size. (3) For microinsurance products, there are two semi-formal MFIs that have been providing mutual microinsurance product on pilot basis, and some insurance companies have also developed this product. Yet, microinsurance industry remains in its infancy period and there is virtually no legal framework for microinsurance products. (4) For payment and remittance services: no MFIs have tested these products in the market eventhough formal MFIs are only restricted not to providing payment services through accounts for customers. There are three e-money service models being piloted between banks and IT/telecommunication companies. Besides, the legal framework for non-cash payment has also been developed and gradually accomplished. Non-cash payment services, however, are not accessed by the majority of rural people as payment infrastructure is poor and products are not appropriate. Moreover, non-bank institutions are not yet engaged in the payment service market. (5) For non-financial products: Most microfinance projects of international NGOs work on non-financial services but the extent to which formal MFIs and social funds provide these services is very limited.

Having analyzed and assessed the current status and combining with lessons learnt from international experiences and microfinance orientation toward financial inclusion in Vietnam, recommendations are brought forward for stakeholders in order to develop microfinance products and services to meet with poor and low-income people's needs and to enhance sustainability and competitiveness for institutions. The parallel introduction of microfinance and non-financial services is regarded as a conduit to sustainable poverty reduction and contributing to improving regulatory environment and financial inclusion for the poor and MFIs as well.

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Main limitations of the study are: (1) It does not cover the development of products and services by other microfinance service providers in the market such as the Social Policy Bank (SPB), Vietnam Cooperative Bank (*COOP Bank*), People's Credit Funds, and commercial banks engaging in supplying microfinance services to low-income customers; (2) It fails to take an in-depth look at the need for microfinance product and service development from customers' perspective. While the study team has designed questionnaire for in-depth customer interviews and sent it to MFIs to conduct interviews, only two of them (*one in Thanh Hoa and the other in Hanoi*) sent back responses; hence, primary data collected are not representative; (3) Data for payment and non-financial products are not fully available on both demand and supply sides; (4) The relationship between microfinance and financial inclusion and its impact on product and service development are not really clear; and (5) Time-series secondary data of all microfinance products and services are not available. It is hoped that in future studies, these gaps would be narrowed.

# CHAPTER 1: MICROFINANCE PRODUCTS AND SERVICES: BACKGROUND AND INTERNATIONAL EXPERIENCES

## 1.1. Microfinance products and services

According to the Asian Development Bank (*ADB, 2000*), microfinance is the provision of a series of financial services such as deposit taking, providing loans, payment, remittance and insurance services to poor people, low-income households and their small businesses. J.Ledgerwood (2013) defines microfinance as an economic development method to benefit low-income population in the society and to provide other financial services to serve spending and investment needs, etc.

The Consultative Group to Assist the Poor (*CGAP*) views microfinance as the provision of credit, savings, microinsurance, remittance services and other non-financial services to low-income people through an appropriate mechanism, enabling them to proceed production and career development and to earn higher income for improved life quality (*CGAP, 2013*). Hence, **microfinance products and services consist of financial products and services that are tailored and designed to meet the need of low-income customers.**

According to the general approach, microfinance products and services consist of four categories: financial intermediary products and services, social intermediary, corporate development, and social services.

## 1.2. International experiences of microfinance products and services

From success experiences of selected countries and institutions worldwide, lessons drawn are as follows:

### 1.2.1. International experiences for credit products and services

(i) Borrowing conditions are simple and flexible; (ii) borrowing procedure and process are standard, efficient and simplest possible; (iii) lending to both individuals and groups are applicable, depending on what fits customers' condition. Since each modality has its own



advantages and disadvantages, either one of the two should not be favored than the other; (iv) loan size should be designed in various sizes to fit with diverse needs of customers. A customer may have several loans at the same time provided that he/she is creditworthy. Caps on borrowings should be imposed while floors should be not, (v) borrowing time should be designed properly. Principal loans may be long tenor (*6-24 months*) while supplementary ones should be shorter (*2-6 months*); (vi) repayment modality should be flexible but install repayment makes it less pressure on customers' cashflow; and (vii) three pricing methods can be used for determining interest rates: cost structure, reference to market interest rates and legal regulation, and competitors' rates.

### **1.2.2. International experiences for fund mobilization products and services**

(i) *Saving products*: this funding source is maximized as it is stable, low cost and offers cross-selling opportunities. Customer base should be expanded and focus should not only be on microfinance customers; products are designed properly by geographical areas and season; interest rates and sizes are flexible, and cross-selling various products with savings'.

(ii) *Raising equity*: Attracting and encouraging local and foreign investors to engage in microfinance industry, issuing convertible bonds, shares and going public.

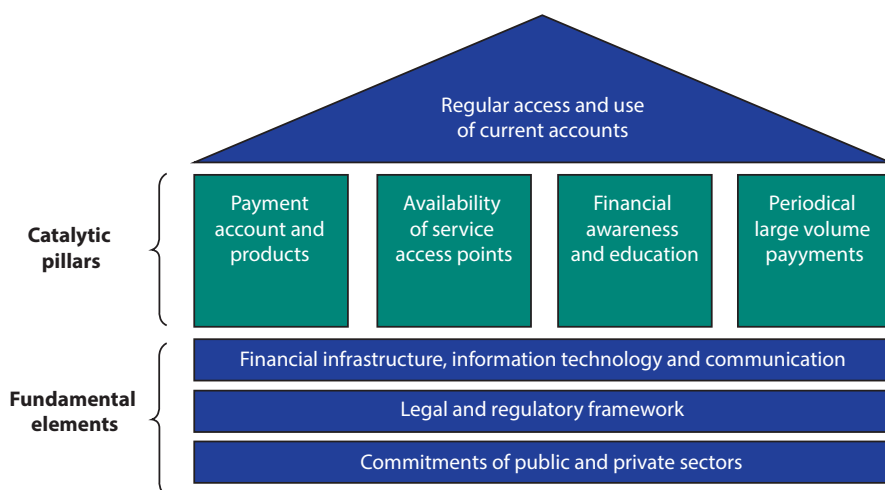
(iii) *Borrowing*: engaging in interbank market, issuing valuable papers or borrowing directly from commercial banks.

### **1.2.3. International experiences for payment products and services**

(i) In India, Russia and Turkey, non-bank financial institutions (*NBFI*) are also allowed to provide payment services. (ii) Fundamental elements for developing payment products and services include: commitments of both public and private sectors to provide services; a relevant legal

framework with a focus on risk management, customer protection and integrity; suitable financial infrastructure and information technology. The access and use of current accounts may face certain barriers from the industry’s regulators or other stakeholders. Barriers can be classified into fundamental elements and catalytic pillars. The former includes commitments from stakeholders, legal and regulatory framework, and financial infrastructure and information technology which are important elements supporting payment systems and provision of payment services in general. These elements are critical for the access and use of current accounts. Basing on fundamental elements, catalytic pillars including payment product design, convenience when using current accounts, awareness and financial knowledge, and utilization of regular large value payments for the purpose of financial inclusion create momentum for greater access and use of current accounts. The relationship between fundamental elements, catalytic pillars and the ultimate goal of access and use of current accounts is illustrated below:

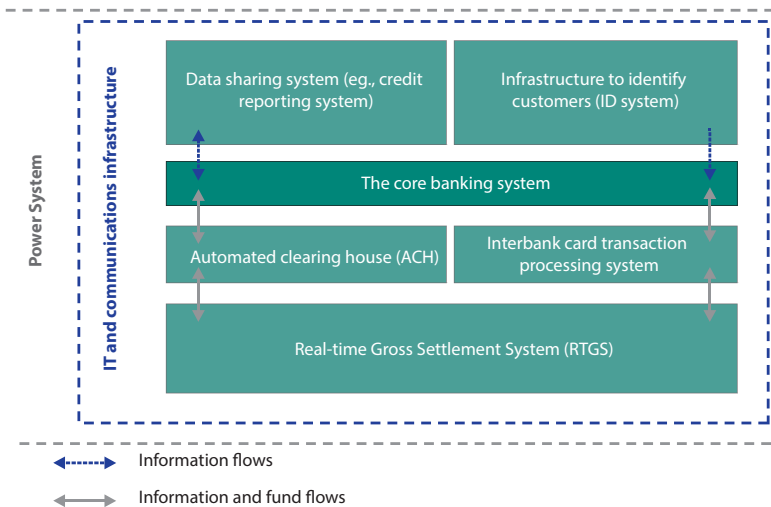
**Figure 1.1: Relationship between fundamental elements, catalytic pillars and effective use**



### Infrastructure providing platform for financial inclusion

The core infrastructure includes an interbank retail electronic money transfer system, (for example, the Automated Clearing House – ACH), a system to process card payment transactions (eg. the switching system), a high value interbank settlement system (Real time Gross Settlement - RTGS), a robust communication infrastructure and an effective ID infrastructure. Deficiency of any infrastructure mentioned above would impede the national payment system from exploiting potential benefits of modern payment instruments, and therefore, affecting negatively Financial Inclusion goal<sup>1</sup>. Credit reporting system and other shared database also play an important role, especially for current accounts to become a useful bridge connecting to other financial services. Interactions among components in this infrastructure are illustrated in the below Figure.

**Figure 1.2: Interactions among related infrastructures**



Source: The PAFI Task force

<sup>1</sup> For PSP to gain maximum benefits from these infrastructure components, they are required to equip themselves with certain fundamental internal IT systems, ie. a centralized and automated account management infrastructure (like the core banking system) to process e-payment effectively.

The RTGS has become a key concern of central banks in the past three decades and consequently, it is now being implemented in almost all over the world<sup>2</sup>. This system is a very critical platform to ensure safe and effective settlement for various other interbank payment infrastructures. Moreover, in some countries RTGS has also been used for retail payments<sup>3</sup>.

The interbank retail payment system (*called as ACH*) and card payment processing system (*the switching system*) play a more direct role in promoting Financial Inclusion as these infrastructures are designed for daily processing (*including clearing function*) of a large number of low-value payment transactions. ACH focuses on the two main retail payment services: payment order and direct collection order which are commonly defined as EFT.

#### **1.2.4. International experiences for microinsurance products and services**

(i) There are two models being used in the provision of microinsurance products and services: Partner- Agent model – cooperation with an insurance company and the insurance company provides insurance services and policies to members of the association; and the Mutual Fund model in which the Fund directly provides insurance services to its members. Requirements for mutual funds are: (i) easy-to-understand terms, simple procedure and documentation requirements, periodical premium payments that are matched with payers' income flows; (ii) Products need to be simple, easy to understand and remember, suitable with awareness and educational qualification of low-income people; (iii) Insurance coverage is practical, first of all to cover life, death, and injuries due to accidents and house fire; (iv) Low premium, premium payment is suitable with low-income people's income and

<sup>2</sup> *Global Payment System Survey (2012) of the WB concludes the RTGS is being operated in 127 countries.*

<sup>3</sup> *For example, in Mexico and Arab Saudi.*

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habit; (v) Procedures for buying insurance and getting claims need to be simple and fast; (vi) Low operating cost, particularly the available distribution and payment systems need to be used to save operating cost; (vii) More people should be encouraged to buy insurance services in order to minimize operating cost and improve performance; and (viii) Providing insurance services to low-income people can be done better with financial supports from organizations and individuals and if integrated into State policies (*such as poverty reduction credit, incentive credit, vocational training programs, etc.*) and cooperation with social and political organizations.

### **1.2.5. International experiences for non-financial products and services**

Enhancing financial management skill education for households with diversified topics such as cashflow management, creating wealth, risk management, planning for the future is needed. Microfinance customers and poor people in developing countries virtually do not have opportunities to access knowledge about setting business objectives, financial planning, expenditure management, mitigating debts and planning for the future. Lack of attention to financial management skill education for households and poor people in developing countries comes from deficiency in designing policies, programs and projects while potential benefits are clear to both poor people and MFIs.

## CHAPTER 2: CURRENT STATUS OF MICROFINANCE PRODUCTS IN VIETNAM: ANALYSIS AND EVALUATION

### 2.1. Credit

#### 2.1.1. Current status analysis

All microfinance institutions in Vietnam are operating in accordance with the international practices when designing and implementing credit products. Credit activity accounts for almost all the funding sources of the institutions' activities. MFIs in Vietnam mostly provide loans in two forms: group lending and personal loans. They mainly focus on the group lending; personal loans are being boosted recently.

The main borrowers of microfinance institutions in Vietnam are poor, low-income households. They have a local family register and are willing to take part in microfinance institutions' activities and have loan demands.

#### Box 5.2: Customer selection criteria and lending conditions of TYM fund

##### Article 1. Customer selection criteria

- Ages from 18 to 60;
- Have permanent residence registration in the locality; Or have registered long-term temporary residence in the locality (*certified by the commune/ward People's Committee, have their family's land and houses*);
- Have a monthly average income in accordance with TYM standard from time to time:
  - Rural area: have income below 800,000 VND
  - Urban area: have income below 1,000,000 VND

- TYM provides loans to customers for production, business and household consumption in areas which are not prohibited by law;
- Have income-generating activities and be able to pay back the loans;
- Have full civil act capacity and take responsibility in accordance with the law.

### **Article 2. Lending conditions**

TYM considers and decides to lend when the customers meet the criteria under Article 1. In addition, the customers must satisfy the following conditions:

#### **a) 1<sup>st</sup> year customer:**

- Good sense of compliance with the Party's guidelines and policies, the State's laws and local regulations;
- Have one loan guarantor as required;
- Apply for a loan / credit agreement in the form of TYM.

#### **b) 2<sup>nd</sup> year customer and later: Besides the conditions of the 1<sup>st</sup> year, the customers must also meet the followings:**

- 100% repayment rate for all types of loans in previous years;
- 80% or more participation rate;
- Participate actively in community activities of the groups and branches;
- The household economic growth rate reaches at least 125%;
- Have one loan guarantor as required;
- Apply for a loan / credit agreement using the form of TYM.

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The purpose of MFIs lending primarily to meet their investment needs in business, production and consumption. There are a number of organizations that implement projects and provide loans for the construction of sanitary facilities and the installation of clean water for households. MFIs are designed to have a variety of loans with different names: common loans/ business loans, consumption / multi-purpose loans, housing loans, etc. These loans are commonly less than VND 30 million and are gradually increasing in line with the timing after customers join the MFIs' activities.

MFIs in Vietnam apply the principle of monthly, bi-monthly and weekly installments (*principal and interest*). This gradual repayment schedule helps reduce repayment burden on customers compared to the end-of-period repayment, leading to the possibility of repayment of customers are guaranteed and the bad debt rate of MFIs is maintained at low level. However, the costs and resources to collect the loans of MFIs are higher. The method of calculation of average interest (flat) is applied by most MFIs in Vietnam. Due to the application of the average interest rate, the effective interest rate is higher than the announced average interest rate.

## **2.1.2. Evaluation**

### **2.1.2.1. Achieved results**

The provision of credit products by MFIs has been well implemented and effective. Loans have helped the poor and low-income people to run their businesses, diversify their incomes other than agricultural production, and earn other incomes from handicraft, small business and trade. Unsecured loans have helped set the basis for planning start-ups, business expansion. In additions, credit officers of MFIs are always close to the people, instructing loan procedures and quickly processing transactions for customers to receive the fundings in time.



**Regarding the determinants of taking loans in MFIs**, the results show that customers consider multiple factors at the same time. The agreed rate with the factors mentioned is as follows:

- 70.6% - simple lending conditions
- 98.8% - suitable interest rate
- 100% - no collateral
- 68% - simple paperwork
- 63.5% - rapid process
- 99.3% - professionalism of credit officers
- 99.5% - good service manner
- 99.4% - good staff capacity
- 99.5% - convenient location
- 99.3% - high reputation
- 99.5% - neighbors also borrow there

Thus, it can be seen that the characteristics of international MFIs have been effectively utilized in microfinance activities in Vietnam, which is noted and appreciated by borrowers. In particular, there is 100% of borrowers who consider the characteristics "no collateral" as the determinants of taking loans from MFIs. The response rates for remaining features are mostly over 99%. However, factors such as simple paperwork, rapid processes and simple lending conditions make up little of this decision.

With regard to the quality of loans of microfinance institutions/projects, on a scale of 1-5 (*very poor, poor, medium, good and very good*), the survey results are as follows:

**Table 2.1. Results of loan quality survey of MFIs**

Unit: %

Quality	5 (very good)	4 (good)	Total
<b>A. Product characteristics</b>			
1. Transparent lending conditions and procedures	42.9	53.8	96.7
2. Proper collateral/ guarantee system	37.4	54.9	92.3
3. Loan amount meets the demand	16.4	45.3	61.7
4. Simplicity and clarity in procedures – quick, convenient funding	39.6	53.6	93.2
5. Transparent level and method of calculating fee/ additional charges (if any)	33.1	53.0	86.2
6. Transparent interest rate	34.5	53.1	87.6
7. Can borrow maximum amount (if necessary)	13.7	46.2	59.9
8. Diversified loan products (in terms of loan size, term, loan type, repayment)	15.3	58.1	73.4
9. Suitable, flexible repayment schedule	30.1	54.9	85
10. Repayment frequency and system – Flexible repayment method (on a weekly, monthly basis)	23.1	57.3	80.4
11. Legal action for overdue customers	22.2	52.1	74.2
<b>B. Lending method</b>			
12. There are incentives when you borrow more	23.6	43.1	66.7
13. Reasonable loan cycle (the duration of funding cycle is in line with the demand for loans)	31.4	56.4	87.7
14. Savings /Provision Fund - The level of compulsory savings is reasonable (the amount of period premium is acceptable)	19.2	61.1	80.3
15. Information of MFIs' staff is authentic and clear	40.9	53.0	93.9

Quality	5 (very good)	4 (good)	Total
16. Good service manner - Fast service and always ready to help	44.8	49.3	94.1
17. Convenient place of loan disbursement, interest collection	51.0	43.0	94
18. Officers' attention, advice, reminder of overdue loan	48.8	40.8	89.6
19. Officers are knowledgeable, polite and trustworthy	47.5	46.5	94
20. Safety when borrowing from the organization	50.0	42.7	92.7

Source: VMFWG, customers survey results, 2015

The above results show that the characteristics and method of providing microcredit are rated "good" and above with high rates. Of those, transparent credit conditions and procedures make up 96.7%, with "very high - 5 points" accounting for 42.9%. Other factors that are over 90% include: proper collateral / guarantee system; Simplicity and clarity in procedures - Quick, convenient funding; Information of MFIs' staff is authentic and clear; Good service manner - fast service and always ready to help; Convenient place of loan disbursement, interest collection; Officers are knowledgeable, polite and trustworthy, and safety when borrowing from the organization. In particular, only the "Maximum loan (if necessary)" ratio has "a good rate and above" of less than 60%.

When being asked if the customers continue to borrow from MFIs, 72.1% said they would continue to borrow. Of 27.9% of customers who did not continue to borrow microfinance loans, the reason is that most of them have no future plans / projects; some commented on the time of group meeting, amount of loan, interest rate. This shows that loans from microfinance institutions / projects meet the needs and expectations of target groups, encouraging them to continue to develop business ideas / projects.

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### **2.1.2.2. Limitations**

Besides the achievements, the MFIs also have the following limitations on the microcredit products.

*Firstly*, the design of credit products is not based on demands and business ideas – “*market oriented*”, but mainly inherits from the financing projects. As such, the lending amount is limited or not suitable with the capital demands of each type of business or production. The repayment methods are on the periodic or end-of-period basis, there is no repayment method which is tailored in line with the cash flows of the households or the business, production projects. For loyal customers, the institutions do not give them the priority due to the long-term relationship with the microfinance organizations.

*Secondly*, there is no information system for sharing the customers’ information on credit history, repayment history and current loan amount among MFIs. This can lead to the situation where customers take out the loans and the microfinance organizations do not have the customers’ credit history when approving the loans, damaging the quality of loans.

### **2.1.2.3. Causes of limitations**

- Lack of human and financial resources
- Management information systems of MFIs are not reliable and synchronized so that they can share information with each other.
- The legal framework still has some constraints and obstacles such as lending cap requirements...

## **2.2. Fund mobilization**

### **2.2.1. Current status analysis**

As of December 2016, MFIs in Viet Nam are divided into two groups: officially transformed institutions operating under the Law on Credit

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Institutions (4 organizations namely TYM, M7-MFI, Thanh Hoa MFI and CEP); and semi-official microfinance institutions / programs / projects.

According to Article 119 of the Law on Credit Institutions 2010, official MFIs are allowed to mobilize fund in three forms: (i) receive compulsory savings deposits in VND according to regulations of MFIs; (ii) receive deposits of organizations and individuals including voluntary deposits of microfinance customers, except for payment purposes; and (iii) borrow from credit institutions, financial institutions, and other domestic and foreign individuals and organizations in accordance with the Law (National Assembly, 2010). Semi-official MFIs are also able to conduct these activities, but voluntary deposits are often limited due to their reputation and the implementation of capital adequacy measures that are not guaranteed by the authorized state agency.

The following is an analysis of the current status of fund mobilization of MFIs in Vietnam in three areas: (i) general analysis of the region; (ii) detailed analysis of some official MFIs; and (iii) analysis by customer reviews through the results of the 2016 survey.

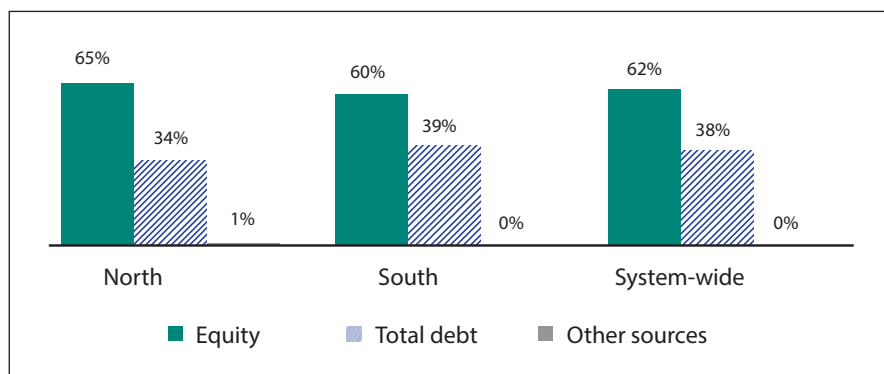
#### **2.2.1.1. General current status analysis of fund raising products for MFIs**

Currently, MFIs are allowed to raise funds from international organizations and donors, and in particular from the domestic financial market (*mobilizing compulsory savings, voluntary savings from customers and mobilizing savings from the public*). The activities of MFIs show that, with particular operating model, going into each corner and hamlet, paying attention to each of their poor households, MFIs' fundings has helped many households increase their production and improve their living conditions.

Statistics from the MFIs survey in 21 provinces and cities at the end of July 2016 show that, in total operating capital of the MFIs system, owners' capital accounted for 62% while loans contributed 37.8% and the remaining 0.2% came from other sources. When considering regional capital structure, the authors found that the dependence of

MFIs on owners' capital in the North was 65%, significantly higher than the average of the whole system; meanwhile, the MFIs in the South tend to use debt capital compared to other regions (*debt ratio of the Southern MFIs is 39%*).

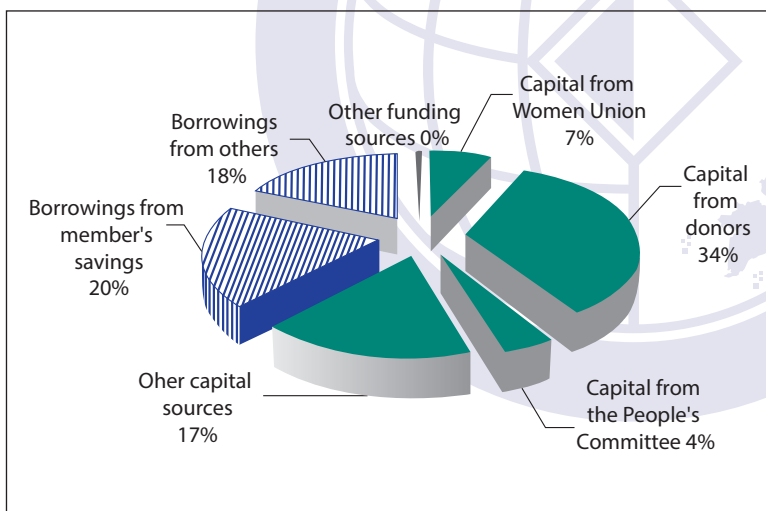
**Graph 2.1: Operating capital structure of MFIs – the North and the South comparison**



*Source: VMFWG, Calculation based on the survey of MFIs activities in 21 provinces and cities, 2015-2016*

Continuing to separate the components of the operating capital of MFIs, it can be seen that in equity, the most important contribution comes from domestic and international donors (*accounting for 34% of the total operating capital and 54.8% of equity*); Meanwhile, the most important component of the loan is savings/deposits (*20% of total operating capital - second only to finances, and 53% of lending capital*). It can be said that the mobilization of debt capital, especially from current savings, plays a very important role in creating funds for the operation of MFIs.

**Graph 2.2: Capital structure of MFIs system in Vietnam (7/2016)**



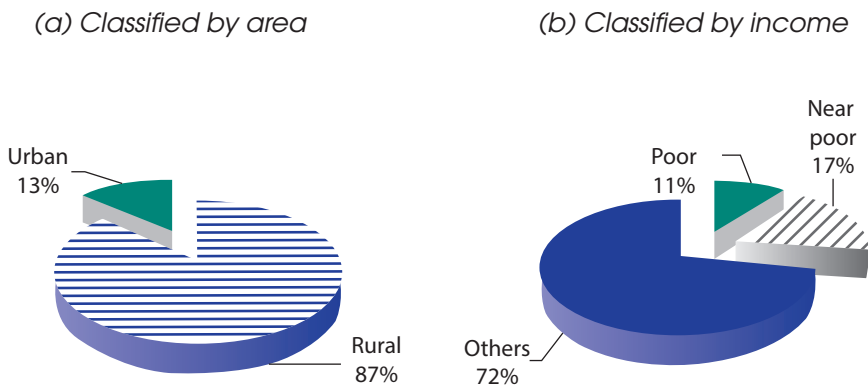
*Source: VMFWG, Calculation based on the survey of MFIs activities in 21 provinces and cities, 2015-2016.*

By assessing the level of self-sufficiency of MFIs in operations as well as in financial arrangement, it can be concluded that at the safety threshold –100% weak, there are still some MFIs in Vietnam that are not able to pay off the operating expenses based on net income; and once the internationally accepted capital adequacy thresholds have been applied in Vietnam, the vulnerability of the Vietnamese MFIs may become more pronounced. Therefore, one of the possible solutions to improve the self-sustainability of MFIs is to actively expand and exploit more efficiently the savings from potential clients in rural areas, as well as to connect their specific activities with the stated operational missions such as poverty reduction and economic development, thereby improving people’s income and living conditions.

It can be seen that the main customers of MFIs are rural households (*accounting for 87%*), while urban households are interested in participating in modest micro-savings packages (*13%*). When considering

the customers based on their income, it can be seen that the 11% and 17% ratios were recorded for two particular customer types namely, poor and near poor households who participate in micro-savings packages. This is considered to be a big leap in the borrowing of microfinance systems, as we know that in the period 2011-2015, the overall proportion of micro-savings participation across the poor customers reached approximately 10%. This fact also shows that MFIs keep getting close to and better serving the poor in managing and using their capital.

**Graph 2.3: Micro-savings customer structure, classified by area and income (7/2016)**



Source: VMFWG, Calculation based on the survey of MFIs activities in 21 provinces and cities, 2015-2016

Regarding the structure of outstanding balance from micro-savings, the savings of most MFIs operating in Vietnam mainly came from compulsory savings products (76%), while the contributions from the voluntary savings of customers are still very limited.



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### **2.2.1.2. Situation analysis: Analysis of current fund mobilization at 03 official MFIs**

The focus of this section is on research and development of fund mobilization products at official MFIs including TYM, M7, Thanh Hoa MFI and CEP. The most important common point is that all three organizations studied in this area have successfully transitioned from the semi-official MFI model to the official one. However, due to the differences in structure, model and timing of the transformation process in three organizations, this research will analyze in detail on a case-by-case basis, which provides some insights into the impact of the transition on the development of the funding products of the above three MFIs. In particular:

*(i) Relatively fragmented operating areas:* In general, the operating areas of MFIs are relatively broad in terms of province / city. However, in every province / city, only some districts have microfinance activities and this activity does not cover all wards / communes in that district / town and not just in remote districts, communes. The above distribution is relatively fragmented, making it difficult to create centralized power for MFIs, except in the case of CEP HCM City - available in almost all districts of HCM City.

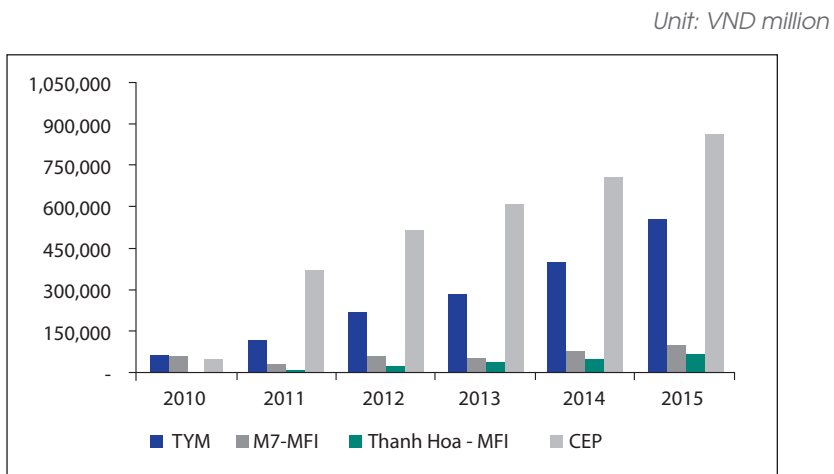
However, this feature perfectly fits into a market niche strategy, as microfinance clients are primarily low-income, inaccessible, or inadequate access to other official financial services. Therefore, some MFIs (such as TYM, CEP, M7-MFI) choose small approach in different locations (TYM has branches in 10 provinces nationwide, CEP has 28 branches in Ho Chi Minh City and 6 other provinces, M7-MFI has 03 branches in 02 provinces) or concentrated in one province (for most other MFIs). Unlike the point of view of MFIs working in remote and isolated areas only, the multi-dimensional approach to multiple sites provides better opportunities for MFIs to enhance sustainability by minimizing transaction costs in disadvantaged areas. According to the

research team, urban and suburban areas will continue to be attractive for MFIs in the coming time, as the demand for microfinance services for microenterprises and low-income households in the region is still not fully met.

(ii) The scale of savings mobilization has increased dramatically after the official transformation.

Compared in the period 2010-2015, these MFIs have impressive savings deposit growth.

**Figure 2.4: Scale of savings mobilization of the four MFIs for the period 2010-2015**



Source: Report of MFIs for SBV, 2015

Among these organizations, CEP is the largest savings mobilizer on the market, with VND 862,248 million in 2015. However, CEP's savings growth rate only averages 16-22% per annum as before the end of 2015, CEP has not been officially transformed. For TYM, the second-largest institution on the market and the first official organization, savings have risen from 71,068 million VND in 2010 to 560,147 million VND in 2015. The savings growth rate is the highest at the average of 53% in the last 5 years.

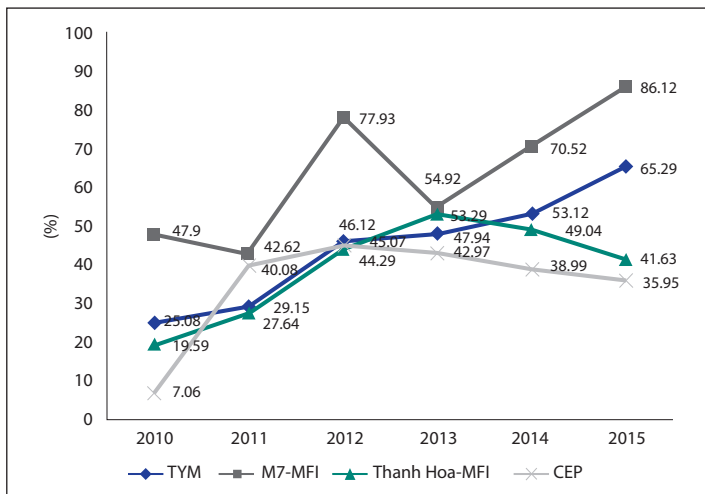
Both TYM and M7-MFI are currently operating with the main source of voluntary savings, which is 3-4 times the compulsory savings. However, the ability of these MFIs to mobilize fund from the secondary market (*among credit institutions*) and from the SBV has not been improved, as TYM, M7-MFI and Thanh Hoa Microfinance Institutions have not been allowed to participate in interbank market. In addition, TYM and M7-MFI have mobilized savings/ deposits from the public, but the method and interest rates are not flexible and attractive as other CIs in the same area (*e.g. People's Credit Funds, some commercial banks*).

(iii) *Savings become the most important source of funds for the organization.*

For these four organizations, savings/deposits have become an increasingly important source of funding for the operation. This is reflected in the increase in the proportion of savings/ deposits on outstanding loans.

**Figure 2.5: Share of savings deposits on outstanding loans of 4 official MFIs, 2010-2015**

Unit: %



Source: Report of MFIs for SBV, 2015

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The general trend of the 4 organizations is that the loan-to-deposit ratio is increasing, from 7% -47% in 2010 to 35-86% in 2015. Of the 4 organizations, M7-MFI is based primarily on deposits since 2010, and now up to 86.12% of its credit is funded by deposits. TYM is also doing well taking advantage of deposits, at 65.29% in 2015. Both Thanh Hoa and CEP are also follow the trend to increasingly consider deposits as the most important source of credit. This is a positive trend which demonstrating the autonomy and sustainable development of the organization and it is also the basis for increasing frequent customer base and cross-selling different products.

### ***2.2.1.3. Analyze the current status of fund mobilization products of MFIs from a customer point of view***

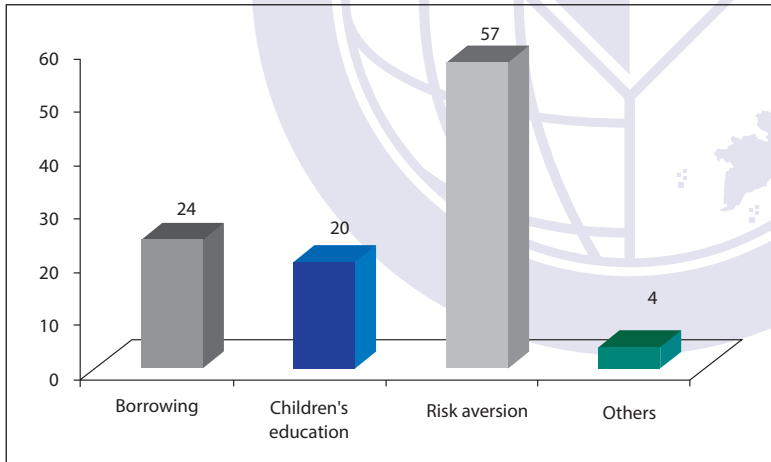
By interviewing 300 microfinance clients in five MFIs, the following sections show some of the views of microfinance clients on fund mobilization services.

Firstly, most of the microfinance clients surveyed have been saving (62%), of which 42.2% are still saving at MFIs. In addition, some clients are also depositing in MFIs and also in other organizations such as FIDF (5%), Bank for Agriculture and Rural Development of Vietnam (14%), keeping savings at home in the form of gold, silver and precious gems (2%), and up to 11.8% of customers participate in local loan club. This proves that the saving ability of microfinance clients is quite good, including both low and very low-income customers.

The purpose of depositing savings in MFIs is also varied, not just because they are members to borrow.

**Figure 2.6: Purpose of savings deposit of clients at MFIs**

*Unit: % of total savings deposit*



*Source: VMFWG, post-processing customer interview data, 2016*

Customers mainly save for risk aversion (57%), then other purposes such as to borrow money through compulsory savings (24%), and invest in children's education (20%). Thus, compulsory savings are gradually becoming partial, and customers gradually move to increased use of voluntary savings products at MFIs.

By interviewing customers about the main reasons for them to save savings in MFIs, priority is ordered as follows:

**Table 2.2. The main reasons for saving customers at MFIs**

Level	Reason	Percent (%)
1	Requisite condition for borrowing	53
2	Convenient location	42
3	Good service manner	40
4	Simple paperwork	39
5	Can make minor saving	38
6	The neighbors also save there	37
7	High capacity of staff	35
8	Flexible and appropriate tenor	35
9	High reputation	29
10	High professionalism of funding staff	24
11	Diversified products	10
12	Attractive interest rate	10
13	Attractive promotion	5

*Source: VMFWG, post-processing customer interview data, 2016*

This result demonstrates the strengths and weaknesses of MFIs in providing savings products. In addition to the reason of requisite condition to be a borrower and to participate in common activities of the organization (53%), MFIs also have some strengths in mobilizing savings that need to be promoted: convenient location (42%), good service manner (40%), simple paperwork (39%), and many other strengths.

However, weaknesses in savings products of MFIs from a customer point of view are that there is almost no promotion or marketing communication, unattractive interest rates and only few products.

**Table 2.3. Assess the priority of microfinance clients when choosing savings deposits**

(Unit: %)

Criteria	Importance (1= less important, 5= most important)				
	1	2	3	4	5
Interest Rate	5.1	0.7	6.6	8	79.6
Safety	7.1	7.1	13.4	11.8	60.6
Reputation	4.9	1.9	10.7	22.3	60.2
Service manner	6.3	10.7	12.5	21.4	49.1
Liquidity	3.4	5.2	20.7	32.8	37.9
Location	8.6	10.2	18	25.8	37.5
Paperwork	7.1	16.7	25.4	23.8	27
Maturity	7.8	7.8	35.3	24.1	25
Minimum savings amount	10.8	13.5	47.7	16.2	11.7
Payment method of periodic premium	3.7	25.2	40.2	21.5	9.3
Promotion – Customer Care	28.6	12.2	29.6	21.4	8.2
Periodic premium amount	10.6	15.9	46.9	18.6	8
Diversified products	11.1	12.1	44.4	26.3	6.1

Source: VMFWG, post-processing customer interview data, 2016.

For clients, the most important criterion when choosing savings are (1) high interest rates (79.6% interviewees think interest rate is the most important, while only 5.1% thinks it is the least important), (2) safety level (60.6% interviewees thinks this is the most important), and (3) high reputation (60.2% interviewees considers this is the most important).

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Meanwhile, issues such as payment method of periodic premium, customer care and diversified products are not the priorities of saving customers. Therefore, MFIs wanting to mobilize savings need to focus on meeting the prioritized needs of their customers.

## 2.2.2. Evaluation

### 2.2.2.1. Achieved results

MFIs have achieved significant results in fund mobilization as follows:

*Firstly*, the scale of savings deposit is increasing, especially the voluntary savings of official organizations. MFIs in Vietnam have done well in mobilizing financial resources. The resources are also diversified which ensures the growth of the organization. In particular, the M7-MFI is the first MFI to be granted a deposit insurance certificate in May 2015 which contributes to strengthening the trust of the people in the organization, making it easier for fund mobilizing and more active in fund utilization. Currently, official organizations mainly operate based on savings, with voluntary savings primarily.

*Secondly*, the liquidity of MFIs has been quite good. There is no organization that have fallen into liquidity risk. The main reasons are (i) the typical characteristic of the operation is that loan collection and distribution is performed periodically (*day, week, month*) and intraday. This makes the cash flows of MFIs simple and easy to manage; (ii) MFIs are highly trusted by clients, so massive early withdrawal rarely occurs; and (iii) the size of voluntary savings deposits is low, and usually early withdrawal is from voluntary savings.

*Thirdly*, MFIs have some strengths in the development of fund mobilization products, focusing on (i) convenient locations, near client houses; (ii) good service attitude, mobilization and credit staff are usually one and very knowledgeable, close to customers; (iii) simple paperwork, and (iv) diversified delivery sizes, including very few accepted ones.



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*Thirdly, MFIs have some strengths in the developing of fund mobilization products, focusing on (i) convenient location; (ii) good service manner, fund mobilization service and credit service is usually provided by the same staff and he/she is very knowledgeable and close to customers; (iii) simple paperwork, and (iv) diversified deposit size which means minor amount is also acceptable.*

### **2.2.2.2. Limitations**

Although some important achievements in fund mobilization have been achieved, MFIs still face a number of limitations, namely:

*Firstly, the size of savings deposits is still modest and other forms of mobilization are becoming increasingly difficult.* Total deposits account for 52% of total operating capital of MFIs and only 66 % of total outstanding loans of MFIs, which results in loan to deposit ratio is 153%. On the other hand, the sources of trust fund or borrowing from international donors are becoming narrower, due to the changing trend in project financing given that Vietnam is growing and becoming a low-average income country.

*Secondly, the products are poorly diversified and have low quality.* A significant problem observed is that many of MFIs' products and services in Vietnam are not designed based on the need and "market-orientation" but inherited from the donor project or based on the "copy" of foreign products and services. Microfinance is the only type in the world that maintains the "product orientation" model and MFIs in Vietnam need to change their approach. Although some MFIs have tried to improve their products, the number of products and services provided by MFIs is still poorly diversified, and the quality of services is not high. TYM and M7-MFI have mobilized savings from the public, but the method and interest rates are not flexible and attractive as other credit institutions in the same area which leads to limited fund mobilization. Meanwhile, semi-official MFIs mainly provide lending

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and compulsory savings deposits and virtually no other products and services. The supply of non-market oriented products of MFIs as is becoming inappropriate as MFIs are gradually officialized, operating under the law and especially in the competitive environment. The current products may not meet the needs of the customer resulting in the customer leaving the MFI.

In addition to compulsory savings, though the current semi-official MFIs have been mobilizing voluntary savings from the public, it is not specifically regulated which results in limiting access to capital. As a consequence, these organizations depend heavily on external sources (*donors, equity*).

*Thirdly, the scale of fund mobilization is still small and does not meet the needs of microfinance in the future. At present, the capital of microfinance institutions is relatively limited and not fully meet the actual needs of the poor. According to World Bank data, 79% of poor people do not have access to financial services of banks and microfinance institutions in Vietnam. In addition to the data provided by the Microfinance Working Group, microfinance currently meets only 5% of rural credit demand.*

### **2.2.2.3. Causes of limitations**

The causes of the weakness in fund mobilizing are can be categorized in two groups: MFIs' causes and objective causes.

#### ***MFIs' causes***

*Firstly, due to model and ownership characteristics of MFIs.*

Mobilization of MFIs is often difficult due to the small scale of operations, narrow scope and it takes time to enhance the prestige in the market compared to other types of credit institutions. Customers are mainly poor people, low-income people in rural, remote and isolated

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areas so the accumulation of assets is low, the contributions are usually small and odd. Therefore, the cost per capita is high.

Moreover, with the ownership characteristics of MFIs (*for example, the official organization is a limited liability company with a maximum of five members, in which a member is obliged to be a socio-political organization, also the ownership proportion of each member is limited*), increasing mobilization of equity from business partners is very difficult. With semi-official MFIs, the mobilization of equity is much more difficult due to the unclear organizational model.

*Second, the specific strategies for mobilizing of MFIs are weak or lacking.* There is almost no organization has its own strategy for raising fund, with specific policies and process. Careful market research to understand the needs and magnitudes of customer demand is almost not carried out. Meanwhile, the competitors – banks - is very professional in this regard.

*Third, the participation of deposit insurance and inter-bank market of formal MFIs is not sufficient.* Among MFIs, the official ones have better capability of raising fund than semi-official ones because they are not restricted to mobilizing from voluntary savings deposits of individuals and organizations. It has also been shown that, after being granted a transformation license, the total savings of official MFIs tends to increase, especially with significant changes in the mobilization of voluntarily savings. However, there are only a few MFIs who participate in compulsory deposit insurance, which is a mandatory condition and a basis for enhancing the prestige in banking and finance sector and expanding the scope of voluntary savings mobilization. Moreover, no organization has participated in the interbank market to carry out flexible capital trading activities and strengthen the capacity in liquidity management.

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Fourthly, marketing communication policies on fund mobilization of official and semi-official MFIs are limited or even absent in some organizations. Customers are increasingly demanding, while competitors, especially the official ones, pay much attention to this (*through promotions, customer care ...*).

### **Objective reasons**

*Legal Environment:* The legal framework for microfinance is lacking and incomplete, especially for the activities of semi-official MFIs.

*Economic environment:* competition in the field of banking and finance has become increasingly fierce; many CIs have started to pay attention to the microfinance market and have had experiment entering the market. SPB has also made some positive moves in expanding deposit mobilization from people in remote areas as well as from customers of SPB with high interest rates compared to commercial banks. This competition hence makes the mobilization of MFIs difficult.

*Natural environment:* natural disasters, floods, and environmental pollution are all issues that have not been completely resolved in Vietnam and have a very negative impact on people's incomes and livelihoods, especially for people in the remote, difficult areas. These are the areas where MFIs operate. Therefore, increasing saving mobilization in cash in these areas is a huge challenge.

## **2.3. Payment and Money transfer**

### **2.3.1. Current status analysis**

It can be said with confidence that: there have been by far no MFIs in Vietnam providing products and services on payment and money transfer. The survey with microfinance clients also show that: most of them had never used microfinance-related products and services, so

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their demand was unknown. The study team, however, believes that these are the core products and services that will help make microfinance a comprehensive finance model. Particularly, with the on-going rapid development of information technology applications, e-money, digital finance services and agent banking have become a popular trend when it comes to the expansion and development of payment and money transfer products and services. Therefore, our team focused on investigating the overall situation of electronic payment in rural areas, which can inform and give MFIs a more complete insight of this market.

Positive results have been achieved during the implementation of the Non-cash Payment Scheme, issued under Decision No.2453, in terms of the legal framework, mechanisms and policies, technical infrastructure and technology for non-cash payment; security, safety and confidentiality in e-payment; payment services and communication activities on non-cash payment.

Given the direction of the Government and the SBV on non-cash payment promotion in rural, remote and mountainous areas, the SBV introduced a scheme to pilot some non-cash payment models in rural areas for the period 2014-2015 and granted permission to the pilot of three models with the following characteristics and results:

**Bảng 2.4. Kết quả thực hiện 3 mô hình thí điểm về dịch vụ e-money**

	<i>MB Bank and Viettel Affiliation</i>	<i>PG Bank and Petrolimex Affiliation</i>	<i>Vietcombank and M-Service Affiliation</i>
Grant date	14/11/2014	31/12/2014	07/01/2015
Services permitted	Money deposit into a MB or another bank account; Money withdrawal out of a MB bank account; Money transfer into a MB or another bank account; Money transfer with ID presentation by receivers.	Money transfer to a non-PG bank account holder Money transfer with ID or passport presentation by receivers Money transfer to a PG bank account holder Money deposit into a PG bank account	C2C (Cash to Cash) money transfer for those customers without MoMo or a bank account; M2M (Mobile to Mobile) for those customers with MoMo and/or a Vietcombank bank account.
Coverage	63 provinces	62 provinces (excluding Kien Giang)	57 provinces
Network	Viettel agent network, including outlets and individual agents	Petrolimex's branches and petrol stations	M-Service's agent network
No. of transaction points	5,424 Viettel outlets and agent offices and 12,368 local agents.	2,000 points of transaction, including 65 Petrolimex branches and factories and 1,980 Petrolimex petrol stations	4,285 agents
No. of transaction points in rural, remote and isolated areas	1,300 outlets and 9,266 individual agents (24% of all outlets and 75% of all individual agents).	1,260 petrol stations (accounting for 64%)	1,865 agents (accounting for 43.5%)

	<i>Ngân hàng TMCP Quân đội phối hợp với Tập đoàn Viễn thông Quân đội (Viettel)</i>	<i>NHTMCP PG Bank phối hợp với Tổng công ty Xăng dầu Việt Nam (Petrolimex)</i>	<i>NHTMCP Vietcombank phối hợp với M-Service</i>
No. of customers	1,698,218	30,412	413,265
No. of customers in rural, remote and isolated areas	48%	55.4%	50%
No. of transactions	4.2 million transactions, 41% - money deposit in a bank account, 54% - money transfer with ID presentation by receivers, 5% money withdrawal out of a bank account	53,629 transaction, 78% - money transfer to a non-bank account holder, 22% - money transfer to a PG bank account holder	581,258 transaction, 25% - money transfer to a customer without Momo, 75% - money transfer to a customer with Momo and/or a bank account
Transaction value	22.300 billion VND, 61% -money deposit in a bank account, 35% - money transfer with ID presentation by receivers, 14% - money withdrawal out of a bank account	213.5 billion VND, 73% - money transfer to a non-bank account holder, and 27% - money transfer to a PG bank account holder	397 billion VND, 45% - money transfer to a customer without Momo, 55% - money transfer to a customer with Momo and/or a bank account
Average value per transaction	5.3 million VND/transaction	4 million VND/transaction	0.7 million VND/transaction

Source: SBV, Payment Department, 2016

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According to the Payment Department under SBV, the above models have brought in positive results, ensuring the safety and contributing to the formation of a new payment and money transfer service system which employs bank-affiliated units, to the gradual decline of unofficial money transfer networks in the society and to the State's efforts in better control of the economy and in promotion of non-cash payment in rural, remote and isolated areas in consistency with the direction of the Government and the SBV. Banks and its partners in the pilot have worked closely to provide quality services right from the start, create trust among customers and increase access to new customers, especially in those areas with limited access to payment and banking services. The number of customers using the service(s) has increased steadily over the past time, particularly in rural, remote and isolated areas.

Some difficulties encountered during the pilot include access to customers and funding for communication and promotion of benefits of the service(s) to attract and retain customers. Banks and their respective partners adopted the learning-while-doing approach to improve the relevancy, the effectiveness and the risk control of the business model. Setting low transaction limits is a measure that was expected to ensure safety and reduce risks during the pilot under the scheme; however, those piloted limits did not satisfy the demand of some customers at times. It can be learned from the pilot that a detailed legal framework should be in place as a platform for the official operation of services and service provision models, creating favourable conditions for banks and their partners to do their businesses, so that they can confidently invest for the sake of longer-term development objectives as well as the State management goals in this field.



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## 2.3.2. Evaluation

### 2.3.2.1. Achieved results

- ✓ *Legal framework, policies and mechanisms for non-cash payment activities have been further adjusted and finalized.* The legal framework, mechanisms and policies for non-cash payment activities are further supplemented and became more complete; Legal documents, ranging from laws, decrees to circulars, are promulgated quite synchronously; the review, supplementation, finalization and promulgation of legal documents which guide and regulate non-cash payment activities as stipulated in Decision No.2453 has basically been completed, creating a legal framework for the promotion of non-cash payment, resulting in unified and favourable conditions that promotes the development of non-cash payment activities, enhancing the management of cash payment as well as ensuring the security and safety in payment activities, and meeting the requirements of development and international economic integration.
- ✓ *Technical infrastructure and technology for payment activities have been paid attention to and enhanced in terms of quality.* Infrastructure and technology for non-cash payment activities, especially e-payment, have been a focus of investment and strengthened in terms of quality and effectiveness; payment technologies are quite advanced; non-cash payment security and safety systems have been paid due attention to and improved to well meet the use of new and modern non-cash payment services and applications and of the development of e-commerce.
- ✓ Safety, security and confidentiality in e-payment has been emphasized and strengthened. Technological systems of PSP

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and intermediary payment services providers which facilitate e-payment have been basically secured and safe. The number of PSPs that deploy and meet international standards on security and safety (*including PCI DSS, ISO 27001*) has been increasing year by year

- ✓ *Payment services, particularly e-payment ones, have developed extensively and diversely with a variety of new, safe and convenient products.* Over the past time, with the strong development of IT and telecommunications and the close connection between IT and payment activities, intermediary payment service providers have emerged. The SBV introduced a scheme to pilot some non-cash payment models in rural areas for the period, in which modern, user-friendly and suitable payment methods have been introduced in rural areas in order to expand and promote non-cash payment in rural, remote, isolated and island areas. After a certain period of the pilot, the services provided have brought in positive results, confirming the advantages in terms of features, convenience, safety, speed and cost and receiving more and more attention from commercial banks, product and service providers and users. The intermediary payment services have created new, convenient payment channels, initially contributing to changing people's habit of cash payment.
- ✓ *Communication of non-cash payment has been promoted.* Communication on non-cash payment services and applications has been actively carried out by the SBV in order to provide the public, users and organizations in the society with understanding, access and utilization of non-cash payment in a complete and timely manner, which in turn helps make initial changes in the habit of cash payment.

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### **2.3.2.2 Limitations and causes of limitations**

In general, many difficulties have been found during the implementation of Decision No.2453 and there are still some constraints in terms of non-cash payment in rural, remote and isolated areas. Majority of rural people have yet to get access to non-cash payment services because of the following reasons: (i) infrastructure to support such payment (*POS/ATM*) is unevenly distributed, more concentrated in urban areas and less developed in rural areas, which requires large investment but does not bring in high efficiency;

- (ii) Irrelevant payment products and services;
- (iii) Non-banking institutions have yet to get involved in the provision of payment services. Communication in rural, remote and isolated areas on non-cash payment services and facilities have yet to be promoted nor delivered timely; the habit of using cash is quite common. Some other factors that inhibit non-cash payment activities include the reluctance to access to new technology, the resistance to disclose incomes, and the use of cash for non-transparent purposes. Non-cash payment development in rural areas, in line with the Comprehensive Finance Master Strategy in Vietnam, should be soon investigated and carried out.

## **2.4. Microinsurance**

### **2.4.1. Current status analysis**

#### **a) Operations**

Microinsurance has been implemented independently in Vietnam since late 1990s with microfinance programs. Vietnam Social Insurance Agency, in cooperation with Vietnam Women's Union and Vietnam Farmer's Union, piloted selling insurance to farmers in Nghe An in 1990.

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However, this project brought little success due to its high premium (*at VND100,000 per month*). This model was later continued in Hue yet with considerably lower fee (*at VND77,000 per annum*) and achieved better result. Regarding enterprises, Bao Viet, in partnership with Ninh Phuoc Assistance Fund, piloted issuing credit life insurance products with the annual premium of 0.9% of the loan amount to low-income borrowers in 2004. This model was deemed relatively successful. Prevoir, in 2005, leveraged postal savings network to sell term insurance to low-income individuals (*with a premium of VND26,000 per annum*). These are just two of many projects targeted to low-income population.

Some insurance products are as follows:

**\* Property and liability insurance:**

Insurance companies in Vietnam, such as Groupama and Bao Viet, which plays the leading role, have launched property insurance products for farmers and low-income individuals, including crop and livestock insurance and dog owner liability insurance. However, despite almost 30 years in operation, the scope of insurance still remains the same as in pilot stage and even tends to narrow. The main reasons are as follows: (i) the majority of farmers are not acquainted with insurance; (ii) low premiums are set to meet farmers' financial capacity yet failed to ensure sufficient financial resources to compensate for the loss of insurance companies; (iii) compensation paid by insurance companies is remarkably higher than their premium income and loss provision given widespread and severe damages to livestock and crops caused by natural disasters (*such as storms, floods, extreme weather, etc.*) and epidemics (*such as bird flu, PRRS, FMD, etc.*) as agriculture production depends greatly on those above factors; (iv) as costs of implementing agricultural insurance accounts for a large share of premium income, agricultural insurance brings about little economic efficiency and even causes heavy losses, which discour-

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ages insurance companies from implementing this type of insurance. As a result, most farmers, including many low-income households are not insured against losses due to natural disasters, epidemics and other risks.

**\* Life, injury and health insurance:**

Beside agriculture insurance, Bao Viet also pioneered providing life and injury insurance for low-income individuals under individual insurance products. However, those products have only covered limited objects including pensioners and students, along with limited liabilities. Low-income people do not have full access to life insurance products, mainly due to low business efficiency. Among existing individual and life insurance products and life insurance, only term and comprehensive life insurance offer reasonable premiums for low-income people.

In addition to low-income insurance products provided by insurance companies, there are also mutual insurance funds such as TYM Mutual Assistance Fund established by the Women's Union in 1996. TYM Fund offers small-ticket loans to needy women and mortality insurance to borrowers and their family members with a premium of VND200 per week. Regarding insurance benefits, where the borrowers decease, the loan will be removed and their family will receive VND500,000 (*as stipulated in 2001*) for funeral expenses. The same compensation also applies in case their family members decease. However, after transforming into an official microfinance institution, TYM had to stop its direct insurance offer due to lack of legal basis.

**\* Pension and unemployment insurance:**

Expectations for low-income pension insurance has been concretized by mutual funds such as farmers' pension insurance in Nghe An; Di Su commune, Hung Yen (*established in 2004*), etc. In Di Su commune, the

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mutual fund is contributed by participants, rural-to-urban migrant workers and other resources as supplemented by communal authorities, and assigned to the Communal Elderly Association for management. In the past years, beside farmers' pension funds, the government has subsidized VND120 per month to seniors aged 85 and older, without pension or social insurance benefits; single seniors; poor seniors; seniors with spouses but no children and relatives to rely on. Regarding unemployment insurance, it can be asserted that the vast majority of low-income people have not yet obtained this type of insurance.

During 2011 – 2015, pursuant to Decision No.2195/QĐ-TTg dated December 6<sup>th</sup>, 2011 by the Prime Minister on approval of the proposal on establishment and development of microfinance system in Vietnam by 2020, Ministry of Finance (MOF) is responsible for studying and issuing appropriate regulations on microinsurance. Accordingly, the Government Office issued Official Letter No. 5151/VPCP-KTTH dated June 26<sup>th</sup>, 2013 assigning MOF to study, promulgate or file to competent authorities to promulgate legal regulations on microinsurance.

Following the Government's decisions, the MOF issued official documents on piloting microfinance to the Community Finance Resource Center– CFRC (*under the Central Vietnam Study Promotion Association*) and the Central Women's Union (*per Official Letter No. 16037/BTC-QLBH dated November 20<sup>th</sup>, 2013 and Official Letter No. 10418/BTC-QLBH dated July 29<sup>th</sup>, 2014*).

**Table 2.5. Microinsurance activities of some social organizations (by the end of 2015)**

No.	Pilot microinsurance project	Targeted customers	Number of valid insurance contracts/ Total number of insurance contracts	Revenue (Premium income)	Notes
1	CFRC	Customers of M7-MFI	8,030 customers (narrowed down from 11,000 in June, 2013 to 8,544 in December, 2014 due to the withdrawal of participating social funds and no participation of new social funds/ microfinance institutions)	VND6.7 billion (by the end of June, 2015).	Revenue – costs: VND3.1 billion (by the end of 2015) Total amount paid in fatal and permanent disability cases: VND199.3 billion Challenges: difficulties in expansion, unattractive products, lack of technical support on microinsurance (as RIMANSI project has ended).
2	Vietnam Women's Union	Customers of TYM			No implementation plan has been made since approved by the MOF

Source: Insurance Supervisory Authority, MOF (2015)

**Microinsurance programs were implemented by Women's Union and CFRC as follows:**

- Women's Union:

Due to difficulties in organization and human resources, Women's Union started microinsurance from June, 2016, by September 30<sup>th</sup>, 2016:

- + Product: Women's Union offers 1 product namely lending support insurance.

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- + Number of participants: 26,479.
  - + Premium income: VND1.3 billion.
  - + Total paid benefits: VND15 million.

- CFRC:

Since the end of 2013, CFRC has conducted product re-evaluation, re-developed business plan and focused on developing software to support professional management.

Over 2 years of implementation, micro insurance has achieved some certain results (*as of September 30th, 2016*):

- + Product: CFRC offers two products namely credit life insurance and basic life insurance (*hospital care, fatal / permanent disability cases*).
- + Number of participants: 8,062.
- + Premium income: VND2.35 billion.
- + Total paid benefits: VND593.5 million.

Financial expenditure: CFRC balances revenue and expenses from insurance activities.

- Current difficulties in implementing microinsurance:

Although the law on insurance business and guiding documents on the establishment, operation, financial regime, etc. have created a full legal framework for insurance businesses, the law does not include socio-political organizations and social organizations offering non-profit insurance. Thus, there has been no specific legal document on the provision of microinsurance.



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### **b) Mechanism and policies**

Insurance market development is in line with the Law on Insurance Business and Vietnam Insurance Market Development Strategy for 2003 - 2010. The Government's strategy for developing insurance industry is being implemented to create a mechanism for providing higher quality, more professional and stable insurance services in Vietnam. MOF is the main regulator of microinsurance companies and monitors the operations of insurance companies. MOF is also responsible for licensing insurance companies and acting as a certification authority for all standards and conditions. Insurance and brokerage companies shall submit dossiers to MOF prior to business registration.

Commercial insurance is governed by Decree No. 45/2007/NĐ-CP guiding the implementation of some articles under the Law on Insurance Business and Decree No.46/2007/NĐ-CP on Financial Regime for insurance companies and insurance brokerage companies. These decrees and attached guidelines namely Circular No.155/2007/TT-BTC and Circular No.156/2007/TT-BTC, have issued cautious regulations for insurance companies since 2007.

Law on insurance in Vietnam neither officially bars microinsurance and informal insurance programs currently managed by international and non-governmental organizations, nor monitor the operation of these organizations. However, in 2005, the Government issued two decrees on the operations of insurance companies as follows:

- Decree No. 28/2005/NĐ-CP on organization and operation of small-sized financial institutions; and
- Decree No. 18/2005/NĐ-CP on establishment, organization and operation of mutual insurance organizations under insurance business.
- Decree No. 28/2005/NĐ-CP allows MFIs to act as agents or distributors for licensed insurance companies; while Decree No. 18/2005/NĐ-CP regulates legal framework for mutual funds to officially transform into mutual insurance organizations. Mutual

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insurance organizations are legal entities established for insurance business with the purpose of enhancing self-reliance among Vietnamese organizations or individuals working under the same industry, occupation, geographical area and vulnerable to the same type of risks. Members of mutual insurance organizations have the right to contribute to policy development, act as organization owner and participate in the management.

Acknowledging the importance of risk prevention tools to poor and low-income population, Project of Microfinance System Development in Vietnam by 2020 has assigned MOF (*Insurance Supervisory Authority*) to develop and issue regulations on microinsurance. Insurance Supervisory Authority has just completed developing and is consulting widely about the draft decree on guiding microinsurance implementation.

## **2.4.2. Evaluation of limitations and causes**

### **2.4.2.1. Limitations**

- *Legal framework for microinsurance is unclear and not specific enough to encourage.* The policy on microfinance is limited, as Decree No. 28/2005/NĐ-CP only allows MFIs to operate as agents or distributors of insurance companies for commercial insurance products. This regulation can be proved irrational given the fact that most commercial insurance companies do not consider low-income market to be potential. Also, their products and premium mechanisms are not suitable for low-income population.

Thus, legal framework for microinsurance is unclear and not specific enough to encourage CIs with microfinance business, especially MFIs participating in microinsurance market. Without official regulation on microinsurance, the industry will face the challenges of lacking specific definitions for microinsurance product features, including rules of reducing processing time and issuing reasonable premiums. Clear guidance on microinsurance will help insurance

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companies develop tailor-made insurance products that meet the needs of low-income customers. MFI customers will also have a better opportunity to understand the products to be obtained to avoid risks.

- *Insufficient operational guidance and lack of product development parameters.* There are currently no parameters for designing insurance products suitable for low-income population. Guidance on establishment, operation, monitoring and evaluation of mutual insurance organizations are also insufficient. Unless appropriate performance standards are issued, many well-intentioned organizations will provide microinsurance in the form of mutual insurance without proper knowledge or technical support and result in failure. We expect MOF to issue regulations on implementing with more detailed guidance for potential mutual insurance organizations and other interested parties.
- *Requirements for capacity improvement of microinsurance providers face difficulties due to policy constraints.* Transforming into official mutual insurance organizations presents challenges of human resource and system development to microinsurance providers. Current mutual funds will have to struggle to recruit qualified staff, especially for key management and technical positions such as chairman and director, which require professional qualifications and experience in insurance business. Training is also required to improve staff capacity and management system to comply with new regulations. Mutual insurance organization staff need support in developing management system that addresses the following issues: standardizing operations policies and procedures; MIS; accounting system; and developing new skills such as insurance statistics, liquidity management, investment management, etc.
- *Regulators' management and supervision capacity should be practical.* As per Decree No.18/2005/NĐ-CP, MOF is the body managing mutual insurance organizations, competent to license

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mutual insurance business as well as to approve insurance products. Therefore, MOF's capacity to manage and supervise mutual insurance, an unprecedented and emerging sector, needs to be strengthened.

It would be ideal for the Government to create the appropriate legal environment and encourage microinsurance to penetrate low-income market. To achieve this goal, firstly, MOF needs to deepen understanding of microinsurance the difference between microinsurance and commercial insurance. Secondly, MOF should consider viable models and study legal framework that promotes microinsurance in other countries. Thirdly, by implementing policies and regulations in line with Vietnam's context, MOF should ensure the growth of commercial insurance organizations as well as other insurance organizations.

#### **2.4.2.2. Causes of limitations**

Despite high demand of Vietnamese people, microinsurance models are not easy to be implemented and replicated due to the following reasons:

- + Market participants, including insurance providers, agents and customer, are not fully aware of microinsurance. Even the authorities and policymakers have neither fully appreciated the benefits and potential nor paid adequate attention to microinsurance.
- + Most insurance companies in Vietnam are not interested in providing insurance products since they have to change both a part of business strategy and the products to simplify and reduce costs to better suit low-income customers. On the other hand, insurance market for the upper and middle class is easier to penetrate and still shows unexploited potential.

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- + Developing an effective and simple premium collection model to maintain and develop microinsurance is a huge challenge due to the calculation of reasonable cost for collectors and the collection of customers with seasonal income. This is the major obstacle for insurance companies when implementing microinsurance products.
  - + In addition, as microinsurance targets low-income population, it is not easy for insurance companies to find an effective distribution channel to bring insurance products to rural people. At present, insurance companies also face the problem of monthly premium collection as they sell microinsurance via associations instead of agents. Unlike urban areas, people in rural areas are more difficult to be reached for product marketing and contract signing, not to mention premium collection. Product delivery is one of the costliest activities when deploying new products. An insurance provider can spend up to 90% of its total premium income on product delivery and collection in the first year.
  - + With limited knowledge of insurance, several low-income customers feel secured to obtain this type of insurance product.

## 2.5. Non-financial services

Non-financial services come in various forms from illiteracy eradication and community development classes to business development services. In Vietnam, practically all independent suppliers are non-financial service suppliers. Most micro financial projects of international NGOs implement non-financial services along with micro credit. However, official and transformed MFIs in Vietnam only offer non-financial services despite considerably high demand. Only 21.5% of interviewed customers said they received other supporting services beside lending; whereas 93%-100% said education for children, family health and nutrition, awareness of women's rights, awareness of job

opportunities, awareness of increasing family income, awareness of farming-cultivation and awareness of business operation skills are crucial.

**Table 2.6. Results of interviewing customers on access to non-financial services**

No.	Survey question	Yes	High rating of necessity (level 4-5 /5)
1	Are you supported with other services besides lending?	21.5%	
2	Is education for children necessary?	98.1%	77.6%
3	Is family health and nutrition necessary?	99.2%	89%
4	Is awareness of social issues necessary?	94.7%	64.6%
5	Is awareness of awareness of women's rights necessary?	100%	82.4%
6	Is awareness of job opportunities necessary?	98.1%	78%
7	Is awareness of increasing family income necessary?	99.1%	80.4%
8	Is awareness of farming-cultivation techniques necessary?	93.5%	69.6%
9	Is awareness of business operation skills necessary?	93.1%	73.9%

Source: VMFWG, data analysis result on customer interviews, 2016.

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The number of respondents that have access to non-financial services is low because most institutions do not have enough resources to widely implement these programs. Most of them can only implement limitedly based on external financing or in cooperation with local institutions. Unlike MFIs in other countries, these institutions do not have budget to employ social workers to deliver non-financial services.

## CHAPTER 3: SOLUTIONS FOR MICROFINANCE PRODUCTS AND SERVICES DEVELOPMENT TOWARDS FINANCIAL INCLUSION

### 3.1. Orientation and demand for microfinance product and service development towards financial inclusion

#### 3.1.1. Orientation for microfinance product and service development towards financial inclusion *Microfinance development – foundation for financial inclusion.*

*Microfinance is “the provision of a broad range of financial services such as deposits, loans, payment services, money transfers, and insurance to poor and low-income households and, their micro enterprises. Microfinance proves that low-income people have the ability to lift themselves out of poverty given they have access to financial services”<sup>4</sup>. Microfinance development sets the foundation for financial inclusion as it mainly focuses on serving people, who have no access to financial services, which were previously solely provided by banks to higher-income clients. This reality has only been changed in recent years.*

In order to achieve the said target, it is necessary to have an overall assessment of the microfinance situation, previous and recent efforts of Vietnam in microfinance development, which set a critical foundation to promote financial inclusion, in order to draw out a roadmap for the development of financial inclusion in Vietnam.

Despite the good performance in poverty reduction, financial inclusion in Vietnam (*which is assessed mainly on the level of access to official bank accounts*) is still at relatively early stage compared to its neighbors in ASEAN and other low- and medium-income countries. In fact, the number of Vietnamese adults with official bank accounts has increased significantly, from 21.3% in 2012 to 30.9% in 2015, mainly due to: (i) development and expansion of the formal financial system; (ii) efforts by the Government and the SBV in developing non-cash payment services; (iii) economic development; and (iv) significantly higher GDP growth per capita. As a result, many people are using

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<sup>4</sup> *Microfinance as defined in “Finance for the Poor: Microfinance Development Strategy”, ADB*





increasingly diversified banking services, especially payment services. However, Vietnam's financial inclusion is ranked lower compared with peer countries and much lower compared with developing countries in East Asia and the Pacific. In 2015, Vietnam (31%) ranked in the same position as the Philippines and Indonesia, but much lower than some other neighbors (eg. Thailand 78%, Malaysia 81%, Singapore 96%). The reasons are as follows:

The government plans to launch the National Financial Inclusion Strategy (NFIS) in 2018 but has in fact implemented a number of important initiatives to promote financial inclusion. The 2010 Law on Credit Institutions has enabled microfinance to become part of the formal banking system in order to fully tap the potential of microfinance within a sound legal framework and development basis. This is a big policy shift, from a state-directed approach of credit allocation to a market-based approach, to create a strong, responsive, sustainable microfinance industry. This is also a timely action to meet the rising demand of low-income households and microenterprises for diversified and affordable financial services.

In December 2011, the Government formulated and approved Project on “*Microfinance System Establishment and Development in Vietnam by 2020*”, setting a roadmap for the development of microfinance industry based on market-oriented approach and with a more active participation of market-oriented and self-sustaining financial institutions. Meanwhile, the government will focus on creating an enabling environment for the development of microfinance through regulations on oversight, capacity building and supporting financial infrastructure.

### **3.1.2. Demand for microfinance services development towards financial inclusion**

For years, institutions adopted the one-way approach to reach the poor, taking poverty line based on income or average spending per person as the criteria for extending credit. Therefore, microfinance services themselves are not adequate to accommodate essential

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needs of the poor. Per the new direction, the poor need to be approached in a multi-dimensional way, which means that not only do they have an average income below the poverty line, but they are also lacking at least one of the social needs such as education, social security, housing, basic services at home, food ...

Having said that, in order to achieve financial inclusion, it is not enough to merely depend on microfinance services to increase income. In fact, although many people have financial access, they still lack many essential non-financial needs to supplement the use of the available financial resources to catch up with the common development of the community. Therefore, in addressing the issue of sustainable quality in poverty reduction, financial inclusion for both financial services and non-financial services is required.

## **3.2. Solutions for the development of microfinance products and services towards financial inclusion**

### **3.2.1. Solutions for policy makers**

#### **3.2.1.1. General solutions**

- a) Preparing favorable policy and legal environment for the development of a comprehensive and sustainable microfinance industry with a view to having preferential financial and legal policies for microfinance providers; Finalizing the legal framework guiding the Law on Credit Institutions and implementing the Project on “*Microfinance System Establishment and Development in Vietnam*”; Finalizing legal regulations to strengthen the corporate governance and operational capacity of MFIs; Promoting innovation for the benefit of the poor, ensuring customer protection; Developing a legal framework for microinsurance.
- b) Strengthening oversight and managerial capacity of regulatory authorities of MFIs

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c) Strengthening institutions performing activities in microfinance to provide sustainable and affordable services to the poor.

d) Supporting the development of microfinance infrastructure.

### **3.2.1.2. Specific solutions for development of each product/service group**

#### ➤ *For credit products*

Issuing credit rules based on the specific practices and characteristics of microfinance to create favorable conditions for the poor and low-income people to access fund in a convenient and rapid manner. The SBV should take into consideration the specificities of microfinance, by which their customers live in the remote villages with inconvenient means of transportation, so convenient access is an essential element when designing credit products. Regulations on the supporting network for MFIs to perform those activities should also be formulated to that end.

#### ➤ *For deposit products*

In order to develop fundraising activities at MFIs, it is necessary to improve the policy and management capacity of the State management agencies: To develop a synchronous legal environment, which is appropriate with the specificities of microfinance activities. Due to the diverse models of microfinance, it is necessary to review and study on the specific legal regulations to ensure sustainable development in line with the Project on “*Microfinance System Establishment and Development in Vietnam by 2020*”. Since the strength of the programs and projects is derived from social activities, the regulations on fund raising of MFIs should be specific and preferential to some extent. In promoting non-budgetary resources, reducing the burden on the budget, and attracting preferential loans: regarding ODA funds and preferential loans from international organizations, the SBV should take a central role in allocating and on-lending at preferential interest rates

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to microfinance programs and MFIs who propose beneficial and effective plans for both society and credit.

➤ *For payment and money transfer products*

- Promoting the development and application of modern, user-friendly and suitable methods/models for payment/ money transfer for rural areas (*payment via mobile phones, digital devices...*) so as to promote non-cash payment in rural and remote areas and islands, and for non-bank people using the existing network of CIs, post offices, intermediary payment service providers and some non-bank institutions, in association with the development of program and plan to promote financial inclusion in Vietnam. Studying and applying modern and electronic Know Your Customer (*KYC*) process suitable for rural areas to promote access to and use of retail payment services.
- Strengthening the management and oversight of international payment and money transfer. Studying and evaluating the mechanism for managing international money transfer services in Vietnam as recommended by the World Bank (*WB*), the Bank for International Settlements (*BIS*) in terms of general principles for international money transfer services; including reviewing and developing consumer protection and dispute settlement mechanisms to ensure clarity and consistency. Studying solutions to establish efficient payment infrastructure for remittance service; increased use of electronic payment facilities and renovation of remittances to increase convenience and reduce costs for remittance recipients. Studying regulation on the management of international remittance services to ensure fair competition among service providers in the market (*among banks, between banks and other money transfer institutions*). The SBV monitors the institutions providing money transfer services in Vietnam, including



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international money transfer institutions, agents, commercial banks, MFIs, as well as potential institutions in the market.

- Monitoring and applying international standards and criteria for payment systems
- Promoting communication, training, guidance and protection of consumers in non-cash payment.
- Enhancing consumer protection in non-cash payments

➤ *For microinsurance products*

***For Government, State management agencies and policy makers:***

In order for microinsurance services to reach the poor/low-income group, policymakers first need to understand that regulations on microinsurance can promote or limit the access of people in need to this type of service – i.e. low-income people. With the absence of commercial insurance companies in this market, the Government should play the lead role and encourage institutions to provide microinsurance services to vulnerable groups. Accordingly, policy-making bodies should take the following measures and basic steps:

- Revising existing regulations, aiming to expand the access of low-income households to microinsurance services. Pursuing an approach that contributes to policy formulation. A well-designed legal framework is a key factor for effective and efficient provision of microinsurance services. In order to promote more professional and open services, regulations can play an important role by encouraging formal microinsurance companies.
- Improving the understanding of regulators about microinsurance – in terms of concept, elements that distinguish microinsurance from commercial insurance and the ability of microinsurance to reach the low-income population. There should be dialogue and coordination between the Ministry of

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Finance and MFIs, NGOs to better understand the sector's practical and potential needs to support disadvantaged areas.

- Products should be designed in such a manner that is simple, easy to understand and remember, and suitable for the qualifications of low-income people. Procedures for insurance and compensation should also be simple and fast. In the immediate future, insurance companies should start with some areas where low-income people find practical and have great demand for. Insurance companies may also suffer losses but initially, they will help people become familiar with the practice of buying insurance.

#### ***a) Consumers of microinsurance products***

Based on international experience, the per capita income level is one of the basic criteria for identifying consumers of microinsurance. Based on the criteria for poor and near-poor households in rural and urban areas as well as the expectations of insurance providers about potential consumers, the research team proposes that those who participate in microinsurance programs should have a maximum income of about 2 times the poverty line level in rural areas.

In addition, consumers of microinsurance are those working in agriculture, forestry and fisheries, members of professional associations, cooperatives, farmers' associations, and women's unions. This would enable the research of appropriate insurance product development and identification of distribution channels as well as advocacy for effective participation in microinsurance.

#### ***b) Providers of microinsurance products***

It is suggested to stipulate eligible providers of microinsurance products based on the following options:

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- *Firstly*, only insurance companies shall be eligible to ensure that the product is professionally designed and developed and ease the job of monitoring and oversight. MFIs, professional associations, socio-political organizations can only act as agents for insurance companies. This option may be difficult to adopt if insurance companies do not have enough motivation to sell insurance to low-income people because of high risk and low-profit margin. Even being subsidized on tax and advocacy expenses from the state, insurance companies are still not interested in microinsurance and focus on serving consumers with relatively good income instead. In this case, based on India's experiences, the state will force insurance companies to provide microinsurance to some extent. If compliance is closely supervised and monitored, insurance companies will have to partner with social and mutual organizations, cooperatives... to provide the microinsurance. However, as profit target is not met, insurance companies do not really study customer needs, offer appropriate insurance products and identify new target customers to increase revenue.
  - *Secondly*, in addition to allowing insurance companies to provide microinsurance, lowering requirements on legal capital, solvency, qualifications of executive positions would facilitate qualified mutual organization and MFIs to be licensed to provide microinsurance. For some mutual organizations, MFIs and small-scale cooperatives, which have been providing microinsurance to their members, shall be allowed to continue to do so but have to develop a plan to improve their financial and professional capacity to be licensed. This is the Philippines' experience, which will foster the development of microinsurance and create an opportunity for low-income people to have insurance. However, the management and oversight of microinsurance activities should also be strengthened to ensure sustainability of the institutions providing microinsurance services, whether licensed or not.

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### **c) Regulations on the products**

#### *Types of product*

Based on international literature and experience, the research team proposes that regulation on types of microinsurance products shall be simple and meet the needs of low-income people (*products focusing on agriculture, health care, premium reimbursement in case of death etc.*). In addition, borrowing members shall be obliged to purchase microcredit insurance (*Indian experience*) and insurance contract shall include provisions that provide benefits to both the insured and their spouse and children.

#### *Insurance premiums and sums*

- Based on the other countries' experience, the maximum level of premiums and insurance sums shall be determined on the basis of the monthly income level of the low-income earners. The proposed premium of up to VND 7,000 per week is appropriate for the financial capacity of poor people while still meeting the insurance contract size of the majority of insurers.
- The amount of insurance should be below VND 10 million. The amount of insurance should be in correlation with the premium limit. Through observations of the implementation practices in insurance companies and mutual organizations in Vietnam as well as survey results, it is suggested that the maximum limit for insurance sums be VND 20 million.

In addition, the research team also recommends weekly or monthly collection of premiums to fit the characteristics of the distribution channel. Weekly collection of premiums may make it difficult for commercial insurers, but this can be overcome by cooperating with mutual and social organizations, and cooperatives. These organizations usually have weekly membership schedules so it is possible to weekly collect members' premiums to help ease members' difficulties when they have an insufficient fund to cover the premiums.



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### *Terms and conditions of product*

Based on the experience of the Philippines and India, these countries have rules and regulations on the terms and conditions of microinsurance products. Accordingly, the terms of products and conditions must be simple, easy to understand, not confuse the consumers. In addition, there is a provision for extending premium payment due date, the longer period of consideration than normal products and the shorter time for settlement to align with the particularities of low-income people in remote areas. Therefore, the maximum time for settlement should range from 3 to 5 days in order to help the poor get money to overcome the consequences caused by insured events.

#### ➤ *For non-financial products*

Non-financial products, as well as the education of households financial management skills, play an important role in contributing to poverty reduction in developing countries by equipping them with necessary knowledge and skills to optimize the use of resources and take advantage of opportunities. Education of households financial management skills to can enhance the capacity of the poor to take advantage of the financial products that MFIs and other financial institutions provide. In order to promote the education of household financial management skills, the first step is to develop legal frameworks for policies and programs to reduce poverty and create opportunities for the poor. Specifically, ways to integrate education in household financial management skills with a variety of development programs: vocational training, life skills, school education, informal education and extracurricular programs for youth.

### **3.2.2. Solutions for socio-political organizations and local governments**

- *Local governments need to associate micro-finance activities into the socio-economic development strategies of each locality at each stage.* Due to the different nature of each locality in

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economic strategy, as well as poverty reduction plan, it is necessary for the programs and projects to be managed, monitored and guided by local People's Committees at all levels, in coordination with the supervision of the SBV to achieve the objectives set to microfinance.

- *Encouraging the involvement of the private sector* in infrastructure development, especially in soft infrastructure such as information technology, technical assistance and training, accounting audit, etc. Encouraging greater involvement of the private sector - socialization in the provision of microfinance services to diversify options for customers, increase economic, and financial efficiency.
- *Developing other synchronous solutions (such as market, technology, agroforestry extension, investment in roads, assistance in addressing climate change, urbanization)* ... in combination with microfinance to increase efficiency in poverty reduction and economic development. Reducing the dependence of microfinance on budgets in the face of rising public debt and tightened budget management requirements.
- Promoting communication and advocacy through socio-political organizations such as the Vietnam Farmers' Association, the Vietnam Women's Union, the Vietnam Fatherland Front and the General Confederation of Labor is also very important. There should also be active participation of mass media such as newspapers, radio, and leaflets to provide information and educate low-income people on microfinance services.
- The government should have policies to encourage CIs to invest in microfinance either directly or indirectly and that businesses in carrying out social responsibility through giving charity to the poor will only fund those who are unable to generate income. For the rest, they can borrow in turn through MFIs.

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- Local authorities and associations, especially at commune level, are responsible for coordinating non-financial services of microfinance service providers in the area. Institutions and partnerships who can provide training on household financial management skills and post-training counseling include MFIs, policy banks, cooperatives, credit funds, microfinance supporting agencies, government's agriculture extension programs, and skill development programs for youth.

### 3.2.3. Solutions for MFIs

#### 3.2.3.1. General solutions

*a) Strengthening the management and administration:* Developing a clear strategy and action plan, a mechanism for internal control and audit, and effective organization to ensure safe and sound operation. Strengthening the application of prudential standards of CIs (*risk management, debt-equity management, ensuring prudential ratios in credit activities ...*). Enhancing the application of technology to support product and service distribution and effective monitoring and management;

*b) Designing and rolling out of products and services with "a focus on consumers":* Diversifying microfinance products to meet the diversified needs of different types of consumers. The design of deposit and lending products shall be appropriate to the characteristics of microfinance clients such as diversified maturities, flexible deposit terms based on clients' revenue (*eg. daily, weekly, seasonally*). Lending and savings should receive equal treatment to balance between fundraising and fund using. The service delivery process needs to be streamlined and applied appropriate technology to minimize costs and facilitate customer access. It is possible to deploy robust development of internet and telephone to promote the development of digital finance products.

*Customizing existing products, designing and developing new products.* It is possible to immediately review current products - customer-based

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reviews and the needs to tailor the products accordingly. Studying the experiences of some MFIs in the world as well as current credit institutions operating in the same market in order to develop new and diversified savings products to better meet customers' needs.

*Selecting the market segments and types* of customers in line with the organization's advantages and strategies, while keeping the target for low-income customers and raising fund from other sources.

*Developing non-financial products* to improve social and business capacity for clients such as consultancy, training, guidance, information sharing, financial education. It is especially important in the face of climate change and urbanization, which has a great impact on the customer's traditional business practices and skills. These non-financial services help customers use microfinance services more effectively, stay in a closer relationship and be more loyal with MFIs. Studying and evaluating the delivery of non-financial services in line with multidimensional poverty lines; how to improve financial strategies used by the poor and the opportunity to provide non-financial services as well as promoting the education of financial management skills.

*Developing educational instruments and curriculum for training at two levels:* Level one includes the development of training documents and manuals for trainers. The second level focuses on the development of materials for both personal and group training. These materials need to integrate both training skills for adults and group training, combined with exercises, training games, stories and exercises aimed at building household financial management skills. Developing indicators to assess the performance and impact of the delivery of non-financial services and household financial management skills education.

*c) Stabilization, increased operational safety and transparency* of key information on rights and obligations, interest rate policies, detailed contract provisions to better protect clients, increase clients' trust in the organizations so as to attract more fund. Publicity and

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transparency in the collection of premiums; supporting insurance payments/reimbursement to clients as an agent.

*d) Strengthening financial capacity:* Deploying good management system and technology to reduce costs. Expanding operations broadly on a range of lending, diversifying client types, reducing the cost of fundraising by attracting domestic and international investors.

*e) Encouraging private sector participation in microfinance* through various methods. While it is costly to provide non-financial services and financial education in the traditional classroom, which is not attractive to donors. Instead, they encourage MFIs to develop the methods based on low-cost technology, which can be self-evolving and collaborated with other organizations under public-private partnership.

### **3.2.4. Solutions to CIs who are interested in joining microfinance market**

CIs are increasingly interested in the microfinance market, but traditional banking and microfinance require different philosophies, mechanisms, and methods. Therefore, tapping into this market is not as simple as buying an existing machine or assigning duties for someone. Based on the successful experience of Rakyat Bank (*Indonesia*), it is necessary to establish a separate apparatus with its own vision, mission, philosophy and culture. For other institutions without required human resources or knowledge, it is suggested that they invest in other MFIs or in new technologies such as mobile phones.

International and Vietnam experience, as well as the results of the primary survey, have shown that low-income clients have a relatively good source of savings, and this is an untapped market. Therefore, other CIs who are interested in the microfinance market can partner with MFIs as agents in developing their deposit products; or invest in MFIs to optimize costs when expanding markets, increasing access to potential clients. Deploying technology for developing more and more diversified deposit products.

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While formal MFIs are limited in number (*04 institutions*), in order to arouse potentiality and create the attractiveness for the microinsurance industry, it is necessary that other CIs actively exploit and provide microinsurance products to their existing clients in agricultural, rural, remote and isolated areas. VBSP, VBARD, cooperative banks and the PCF should be encouraged to take advantage of the widespread network system, existing large customer base, knowledge of customs and practices in each region to design practical insurance services to each community. Insurance payments/reimbursements are made in a timely manner, thereby helping community members quickly overcome the consequences, increasing community affection and connection. In addition, it is necessary to advocate that JSCBs are approaching to actually join the microfinance market.

Socio-economic characteristics of Vietnam are different from other developing countries where people are highly-educated and their health, education, communication, agriculture and forestry extension infrastructure are fairly developed. It would, therefore, be unreasonable and costly if MFIs provide non-financial services themselves. Microfinance service providers should partner with existing providers under symbiosis or public-private partnerships. Credit institutions seeking to expand their operations to the microfinance sector are more likely to be involved in this partnership. Institutions that do not want to be directly involved in the microfinance sector can participate indirectly through funding non-financial services and financial skills training as a form of social responsibility. Credit institutions may be actively involved in the microfinance sector indirectly through the transfer of part of the funds to charitable trusts through the MFIs to increase the available funds for loans to specially difficult regions. Credit institutions can also actively participate in the microfinance sector directly through the implementation of microfinance projects, digital financial services for MFIs.

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### 3.2.5. Solutions to donors

Donors can (i) provide technical assistance to MFIs in market research, understanding customer needs as a basis for developing appropriate microfinance products and services; (ii) share international experiences - both success and failure - in the development of microfinance products and services; (iii) support to improve the financial and technical capacity of MFIs to enhance their reputation in the community as a basis for MFIs to develop sustainable and effective microfinance products and services; (iv) support piloting of microinsurance projects and promotion of innovative microinsurance models; support the development of technical expertise on micro insurance - both for managers (*government agencies*) and service providers (*NGOs, MFIs, etc*); facilitate document compilation and exchange of experience in the implementation of microinsurance to draw lessons as well as to develop benchmarks and performance standards for emerging microinsurance sector. Facilitating the consultation process to support the development of an appropriate legal framework for microinsurance in Vietnam.

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**The Vietnam Microfinance Working Group** was established in 2004, with 87 members, as a forum for microfinance practitioners to share experiences, debate relevant issues and speak to policy makers with a unified voice. The VMFWG and its members share a vision to create “a large and dynamic microfinance industry of professional, sustainable and efficient institutions that offer unsubsidized, high-quality, and demand-responsive financial services to a growing portion of the poor and low-income population of Vietnam.”

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