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Singapore | 16 September 2021

The Ambivalence of Heavy-Handed Debt Collection in Vietnam

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Consumer finance has been growing at an annual pace of 20 percent in Vietnam. In this photo, ATM counters amidst concern of COVID-19 coronavirus inside a shopping mall in Hanoi on 14 August 2020. Photo: Manan VATSYAYANA, AFP.

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EXECUTIVE SUMMARY

- Consumer finance is a thriving sector that has been growing at an annual pace of 20 percent in Vietnam.
- Policy-makers and financial players promote consumer finance as an antidote to black credit gangs or usurious practices. However, banks and financial companies use controversial collection practices, including threatening borrowers' relatives, friends and employers who are not legally liable for repaying the debt.
- Some financial companies such as FE Credit appear to go beyond conventional collection practices by hiring external collectors with ties to black credit gangs that harass borrowers and their personal connections.
- While these controversial collection practices support consumer finance by limiting non-performing loans in the banking system, they create discontent and public trust erosion in consumer finance.
- There is ambivalence among formal lenders when they employ extortionary collection practices that they officially denounce, which is characteristic of transitional countries.

INTRODUCTION

Vietnam is experiencing a consumer finance boom. This recent development raises an interesting paradox. On the one hand, state and financial actors promote consumer finance as a tool to consolidate financial institutions, depersonalize credit relations, and eradicate an ‘archaic’ yet persistent informal sector typified by ‘black credit’ gangs and personalized credit relations.¹ On the other hand, banks and financial companies (fincos) harass borrowers’ social connections who are not legally responsible for repaying their debt. Moreover, fincos may hire debt collectors connected to black credit gangs to collect bad debt using heavy-hand tactics. This paradox reveals an ambivalence in the consumer finance sector, a double standard of formal lenders when they employ collection practices that they themselves denounce as informal and coercive when such methods are similarly applied by moneylenders.²

The implementation of these practices in the face of policy discourse and legal efforts to eliminate them both supports and subverts consumer finance development. While they allow banks and fincos to comply with non-performing-loan (NPL) regulations and limit credit risk, they also cause discontent and erode public trust in consumer finance.

Data for this article comes from in-depth interviews conducted in-person and online with 36 informants from Hanoi and Ho Chi Minh City. The convenience sample comprised 14 bankers working for public banks, joint-stock banks and fincos, and 22 borrowers who took consumer loans. Among these borrowers, 13 took cash loans and instalment plans from FE Credit, the leading and most controversial financial company in Vietnam.

THE BLURRING OF FORMAL LENDING AND INFORMAL PRACTICES

The harassment of borrowers’ personal networks and the use of strong-arm collection practices by formal fincos such as FE Credit have been causing public concern in Vietnam for years.³ This anxiety echoes a deeper worry about informal ‘black credit’ gangs being involved in ‘loan sharking’ activities. In the past decade, these gangs have proliferated to fill an unmet demand for flexible consumer loans, which formal lenders seek to address as well. Policy-makers, developers and financial players make a clear distinction between informal and formal lending. They describe moneylending as an outdated subsistence economy based on personalized, unregulated and coercive credit relations. This ‘backward’ credit system should be replaced with an optimized market system based on depersonalized, regulated and sustainable credit relations.⁴ The controversy around black credit gangs originates in their high-interest rates and the use of strong-arm recovery methods involving borrowers and their close relatives and associates. Our empirical evidence and hundreds of news clips, YouTube videos and Facebook groups show that formal lenders are known to recover bad debt in a seemingly similar manner.

When a client misses a payment, in-house collection departments from banks and fincos start by sending reminders and notices. If the client ignores the messages, collectors contact borrowers’ referees to gather information about their motive for being late and incite repayment. Petrolimex Group, a public bank that provides secured loans to low-risk clients, sends reminders five days before and after the payment date, investigates the client through

phone and home visits up to ten days after the payment date, and from day 11 onwards, requires the late client to sign a commitment form. According to a senior officer from Petrolimex, at this stage, “If the client still couldn’t come through, we will take more serious actions, such as going to the client’s workplace or calling their family and relatives to remind them of the debt if the client refuses to cooperate”.

Fincos proceed in the same way. However, they may also hire aggressive external collectors. VPBank’s consumer finance branch, FE Credit, leads the consumer finance market. It has a database of 14 million customers and a consumer debt market share of 55 per cent. It applies similar collection practices as banks; it escalates harassment and threats against late payers during the first 60 days, calling up to 30 times and sending dozens of text messages a day. After 60 days, the file is passed to the litigation service which, depending on the profit to be made, will sue the borrower or commission or sell the bad debt to a third party. Often organized by black credit gangs, external collectors use non-physical violence to retrieve bad debt. Along recovery stages, both in-house and external collectors pressure borrowers’ personal networks. A typical early call or text message says, “this person hasn’t paid, we urge his relatives to remind him”. Subsequent messages become rude, insulting and threatening. Relatives and friends from sampled late payers received *extortionary* messages saying, “if you don’t pay, I will come to your house to kill you”, “we will cut the heads, arms, legs of your children out in the streets”. They could not always determine if these threats come from in-house or external collectors.

Collection practices also involve defamation campaigns on social media carried out by external collectors. Late payers may find manipulated photos of themselves wearing a prison uniform with messages such as “this is a debtor who refuses to pay up” circulating on their Facebook and Zalo pages. For instance, Duc took a VND35 million cash loan from FE Credit to open a restaurant that went bankrupt because of Covid-19 lockdowns. After missing a payment for five days, FE Credit sent him messages accusing him of ‘fraudulent crimes and appropriation of property’ and threats of “a market-hammer nature, that if I read them out loud, it would be very trembling to hear”, as mentioned by Duc. The most devastating action was the circulation of manipulated pictures of his sister on an altar of the dead and his wife dressed as a prostitute on his Facebook and Zalo pages.

Harassment has devastating effects on borrowers’ associates. They often carry messages asking them to repay the debt. Ngân, a woman working in a hospital, contracted TB and missed payment for a cash loan from FE Credit. After harassing her son, “they told me that if I was unable to pay, I needed to tell my family to do so on my behalf”. Her son agreed to repay two instalments before running out of cash.

Collectors can also propose new lines of credit to late payers to settle their arrears. Informants have reported being offered loans from FE Credit’s in-house collectors and external collectors in collaboration with small loan companies and pawnshops.

CONTROVERSIAL COLLECTION SUPPORTS CONSUMER FINANCE

Banks and fincos appear to operate at any cost and by any means to address NPLs. In 2008, in the aftermath of the global financial crisis, economic growth and consumption crashed, the economy experienced double-digit inflation, and a property bubble burst, leaving

Vietnamese banks with high NPL ratios. Between 2011 and 2015, the State Bank enforced Decision 254/QD/TTG to restructure the financial system, stabilize credit institutions, and decrease NPL ratios. It also created the Vietnam Asset Management Company (VAMC) in 2013, a public company designed to purchase NPLs and keep their ratio below three percent in the banking system. In exchange, it provides credit institutions with special recapitalization bonds from the State Bank. After five years, banks must repurchase NPLs. All these efforts led to a significant drop in the general NPL ratio: 4.08 percent in 2012, 3.25 in 2014, 2.55 in 2016, 2.4 in 2018, and 1.6 in 2020.⁵

The economic fallout of the Covid-19 pandemic has revived concerns over NPLs.⁶ Fitch-rated local banks reported a 45 percent surge in past-due loans in the first quarter of 2020 relative to the end of 2019.⁷ The State Bank issued Circular 01/2020/TT-NHNN in March 2020, requiring credit institutions to restructure repayment periods, waive and reduce interest and fees, and maintain bad debt classification to support Covid-19-affected borrowers.⁸ However, the NPL ratio continued to rise in the first nine months of 2020. Data from 17 listed commercial banks points to an increase of 30.7 percent in NPLs compared to the end of 2019, totaling VND97,280 billion and a ratio of 1.8 percent⁹. The NPL ratio is higher for FE Credit. This finco announced a pre-tax profit of VND3.713 trillion (US\$161.43 million), down 16.3 per cent on-year, and an increase in NPL from 6 to 6.6 percent from December 2019 to December 2020.¹⁰ In the first half of 2021, it jumped to 9.1 percent from 7.7 percent at the end of the first quarter.¹¹ As a result, the NPL ratio of VPBank rose to 3.46 percent in March 2021, including bad debt from FE Credit.¹² To further support distressed borrowers, the State Bank issued Circular 03/2021/TT-NHNN in March 2021, which reinforces the provisions of Circular 1 and encourages lenders to make provisions for potentially unrecoverable loans within three years.¹³ Circulars 01 and 03 keep NPL ratios below three percent. However, bad debt classifications can temporarily *conceal* a much higher NPL ratio in the banking system.¹⁴

In this constraining environment, banks and fincos use various methods to limit credit risk and NPLs. These include harassing borrowers' associates, and for fincos, hiring controversial external collectors. Policy-makers and financial players associate these practices with informality, backwardness and danger if they are carried out by moneylenders. However, informality does not equate to illegality. Banks and fincos exploit legal loopholes and weak enforcement to recover bad debt. Debt collection was loosely regulated in Vietnam until recently. In the face of scandals and dozens of YouTube videos about FE Credit's aggressive tactics that sparked public anger,¹⁵ the State Bank issued Circular 18/2019/TT-NHNN in 2019. It provides that fincos can only call debtors and send reminders no more than five times a day from 7 am to 9 pm. In addition, collection activities must exclude any 'organization or person who does not have debt repayment obligation' to the finco, i.e., familial and social networks. However, our data show that banks and fincos continue to harass borrowers and their associates.

Another recent legislation, the Investment Law 61/2020/QH14, banned debt collection services since 1 January 2021. Finco can no longer commission or sell bad debt to external collectors. To circumvent the law, collectors create other business models and conceal their activities. They enter into debt trading agreements with lenders, which do not involve 'buying and selling bad debt'.¹⁶ External collectors are useful to fincos because they are not bound by regulations such as Circular 18/2019/TT-NHNN and, therefore, enjoy more

leeway to recover bad debt. Their debt recovery ratio is 90 percent compared to 50 percent for judgment enforcement agencies.¹⁷ In short, external collectors do the dirty work that financial companies such as FE Credit cannot do due to regulations. Since debt collection is crucial to limit NPLs, the involvement of borrowers' personal connections in credit transactions and heavy-handed collection support consumer finance development.

CONTROVERSIAL COLLECTION UNDERMINES CONSUMER FINANCE

These collection practices also foment discontent and erode public trust in consumer finance. Banks and fincos apply contract law to define legal obligations, responsibilities and binding rights with borrowers. They cannot hold borrowers' associates legally accountable, but can nevertheless exert pressure by circumventing regulations and exploiting familistic practices.

Familism is a welfare regime whereby the family unit ensures its social reproduction, including dealing with its members' problems.¹⁸ Banks and fincos assume that the family as a whole strongly feels obliged to repay outstanding loans. This belief is well entrenched in the banking sector. A loan officer from Shinhan Finance, a small finco, explained that, "The way I see it, this is cultural. The Vietnamese family is usually pretty tight-knit, right? Vietnamese are affectionate, so if you cannot pay for the debt and your parents are harassed, you would feel really guilty, right? You would feel unfilial and at fault. Therefore, you would try to pay the debt as soon as possible so that your loved ones wouldn't be harassed anymore. It all comes down to culture and tradition".

Borrowers tend to have mixed feelings about the informal sharing of financial responsibilities. Families may play the lenders' game and let individual loans become family issues; under heavy harassment, they devise strategies to repay arrears which might reinforce family ties. However, in-house and external collectors' practices can also generate stress, conflict, anger and guilt among relatives, friends, acquaintances, colleagues and employers. When Quyen, a senior executive from PetroVietnam, was harassed by FE Credit, one of his employees took a VND50 million cash loan without informing him and missed payments. He first received gentle calls asking him to interfere. Seeing that he ignored requests, collectors made calls and sent text messages every few minutes all day long. Harassment ceased when he interfered. He complained that his colleagues in leadership positions face harassment for loans they are not aware of. He called for more regulations on debt collection as "the act of incessant texting to terrorize an individual is illegal. It does not comply with the law, which leads to terrorism". Other informants have expressed unease at being caught in collection procedures unrelated to them.

Familistic and heavy-handed collection methods also erode borrowers' moral obligation to repay debt and lenders' legitimacy to claim repayment. Tuan, a delivery man from Hanoi, took two cash loans from FE Credit: a VND36 million and a VND50 million to repay the first loan and cover urgent expenses. After 15 months of steady repayment, he missed payments for the second loan due to income loss amid Covid-19 restrictions. FE Credit in-house and external collectors harassed him: "For me, there's no problem with reminders but it's different once collectors insult me and threaten to kill my child". They also harassed three relatives: "They insulted them, forced them to tell me to repay. It had a lot of negative impact on my workplace and my family". Eventually, he evaded his debt: "Presently, I don't

want to deal with it nor do I need to. Since they feel no responsibility to their customers, I don't need to deal with it". His anger at FE Credit took a more political turn. He joined Facebook groups where members share advice on how to deal with aggressive collection methods and went as far as to create a group focusing on "FE's terrors and threats".

There are hundreds of similar Facebook groups where disgruntled borrowers and their families pour out their grievances, provide mutual support, share tips on dealing with lenders and collectors, and even conspire to deceive and strike back against lenders. These groups focus on FE Credit and obscure lending apps operated by black credit gangs and unlicensed loan companies, known for being more aggressive than fincos such as FE Credit.¹⁹ The harassment of borrowers' associates and strong-arm collection methods undeniably undermine public trust in consumer finance and obfuscates the official narrative presenting consumer finance as the perfect antidote against black credit.

CONCLUSION

Consumer finance raises high expectations and heated controversy in Vietnam. It has the potential to include millions of unbanked consumers in credit markets, foster formalization and eliminate black credit. At the same time, controversial collection methods challenge official legitimizing narratives and breach public trust in consumer finance. This ambivalence is characteristic of transitional societies where formal rules and laws are underenforced and desynchronized with informal norms and practices.²⁰ Controversial collection practices may resist articulation in dominant discourses and persist as a way to 'get things done' to develop consumer finance and limit NPLs. They also highlight mechanisms of informal influence on the emergence, the shaping of credit institutions, and the production of adaptation and resilience strategies to manage rules aimed at fostering formalization.

From a policy perspective, the government should extend its capacities to regulate debt collection and support the nascent collection industry emerging from the black credit world. Law enforcement is key to succeed. It is also a challenge knowing that external collectors operate in a legally grey area. Regulations on debt collection should strike a balance between consumer finance expansion and consumer protection, as well as the moral and contractual obligation to repay a loan and respectful and sustainable financial practices. Amending regulations on debt collection might compel banks and fincos to review their practices and abide by the law. Yet these amendments may be slow in bringing tangible results, especially in the pandemic setting where loan delinquency and NPLs are on the rise. They could also slow consumer finance development and trigger adjustments of informal and/or unregulated collection practices around legal and political constraints.

For legal amendments to succeed, policy-makers, financial players and consumers should launch a debate about the role of the family and familistic practices in supporting consumer finance and financialization in Vietnam. To what extent should the family be involved in private credit transactions? Should formal rules prevail over informal practices? Is Vietnam ready for prioritizing formality and the rule of law at the expense of informality and informal practices? If Vietnamese families are unhappy about becoming responsible for individual loans, why are they taking loans and playing the lenders' game? From this perspective, legal amendments and public debate are equally important.

- ¹ Nicolas Lainez, “Debunking the Informal Credit Myths: Is Credit Liberalization the Magic Solution to Loan Sharking?,” *Perspective* (Singapore: Institute of Southeast Asian Studies, 2019).
- ² On the concepts of ‘ambivalence’ and ‘informality’, see Alena V. Ledeneva, *How Russia Really Works: The Informal Practices That Shaped Post-Soviet Politics and Business*, Culture and Society after Socialism (Ithaca: Cornell University Press, 2006); Alena Ledeneva, *Global Encyclopaedia of Informality, Volume 1: Towards Understanding of Social and Cultural Complexity*. (London: UCL Press, 2018), <https://www.jstor.org/stable/10.2307/j.ctt20krxh9>.
- ³ Nicolas Lainez, Phuong To Thu, and Doai Bui Thi Thu, “Lending Apps in Vietnam: Facebook Groups Offer Guidance, Comfort and Contentment to Borrowers in Jeopardy,” *Perspective* (Singapore: ISEAS, May 28, 2021).
- ⁴ T. Nhung and T. Khang, “‘Black-Credit’ Lenders Pose Serious Threat to Borrowers,” *VietnamNet*, May 28, 2021, <https://vietnamnet.vn/en/feature/black-credit-lenders-pose-serious-threat-to-borrowers-740855.html>; Thanh Nien News, “‘Black Credit’ a Serious Danger amid Economic Slowdown,” *Thanh Nien News*, October 28, 2011; for a summary, see Lainez, “Debunking the Informal Credit Myths: Is Credit Liberalization the Magic Solution to Loan Sharking?”.
- ⁵ Anh Thi Van Tran, Nhung Thi Nguyen, and Tu Thi Thanh Tran, “Dealing with Non-Performing Loans During the Bank Restructuring Process in Vietnam: Assessment Using the AHP and TOPSIS Methods,” *Gadjah Mada International Journal of Business* 22, no. 3 (December 24, 2020): 324, <https://doi.org/10.22146/gamaijb.44453>. The spectacular drop of NPLs should be interpreted with caution, though. Since VAMC is a warehousing structure to temporarily house NPLs before returning them to the bank’s balance sheets, the NPL ratio could be higher than official figures.
- ⁶ Bao Saigon, “Pandemic Can Worsen Bad Debt Situation,” *Vietstock.Vn*, February 10, 2020, <https://en.vietstock.vn/2020/10/pandemic-can-worsen-bad-debt-situation-37-421692.htm>.
- ⁷ FitchRatings, “Surging Bad Loans Aggravate Vietnam Banks’ Capital Challenges,” *Fitch Ratings*, May 6, 2020, <https://www.fitchratings.com/research/banks/surging-bad-loans-aggravate-vietnam-banks-capital-challenges-06-05-2020>.
- ⁸ Moodys, “SBV Amends Measures to Support Recovery from COVID-19 Pandemic,” *Moodys Analytics*, May 8, 2020, <https://www.moodysanalytics.com/regulatory-news/may-08-20-sbv-releases-measures-to-address-impact-of-covid-19-pandemic>.
- ⁹ “Bank Non-Performing Loans Ratio to Reach over 3% in 2021,” *VietnamCredit.Com*, November 11, 2020, https://vietnamcredit.com.vn/news/bank-non-performing-loans-ratio-to-reach-over-3-in-2021_14201.
- ¹⁰ VIR, “FE Credit Experiences 16.3 per Cent Drop in Pre-Tax Profit as NPLs Increase in 2020,” *Vietnam Investment Review*, February 6, 2021, <https://vir.com.vn/fe-credit-experiences-163-per-cent-drop-in-pre-tax-profit-as-npls-increase-in-2020-82526.html>. By the end of first quarter of 2021, the NPL ratio for VPBank reached 3.46 percent because it included the NPLs from FE Credit, see Intellasia, “Many Banks Early Make Provisions to Avoid Bad Debt Shocks,” May 29, 2021, <https://www.intellasia.net/many-banks-early-make-provisions-to-avoid-bad-debt-shocks-913947>.
- ¹¹ VIR, “Consumer Finance in Major Tie-up Tendency,” *Vietnam Investment Review*, August 19, 2021, <https://vir.com.vn/consumer-finance-in-major-tie-up-tendency-86774.html>.
- ¹² Intellasia, “Many Banks Early Make Provisions to Avoid Bad Debt Shocks.”
- ¹³ Vietnam+, “Debt Classification Policy Extended to Aid Customers Impacted by Pandemic,” April 6, 2021, <https://en.vietnamplus.vn/debt-classification-policy-extended-to-aid-customers-impacted-by-pandemic/199637.vnp>.
- ¹⁴ Viet Nam News, “SBV Considering Proposal for Developing Framework for Tackling NPLs,” *Viet Nam News*, July 28, 2021, <https://vietnamnews.vn/economy/998435/sbv-considering-proposal-for-developing-framework-for-tackling-npls.html>.

¹⁵ Countless videos about FE Credit’s controversial collection methods are available on YouTube: https://www.youtube.com/results?search_query=fe+credit.

¹⁶ Thi Hoa Pham, “Concerns over Prohibition against Debt Collection Service,” *Lexology*, August 31, 2020, <https://www.lexology.com/library/detail.aspx?g=461beab-451d-4db6-89ff-486e7bd3d9d1>.

¹⁷ *Ibid.*

¹⁸ Nicolas Lainez, “Par-delà la traite des femmes vietnamiennes en Asie du Sud-Est. Anthropologie économique des carrières intimes” (PhD dissertation in Anthropology, Paris, École des hautes études en sciences sociales, 2015), <https://halshs.archives-ouvertes.fr/tel-01183507/document>; Magali Barbieri and Danièle Bélanger, eds., *Reconfiguring Families in Contemporary Vietnam* (Stanford: Stanford University Press, 2009).

¹⁹ Lainez, To Thu, and Bui Thi Thu, “Lending Apps in Vietnam: Facebook Groups Offer Guidance, Comfort and Contentment to Borrowers in Jeopardy.”

²⁰ see Ledeneva, *How Russia Really Works*; Ledeneva, *Global Encyclopaedia of Informality, Volume 1*.

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