The entrance of FE Credit headquarters in Ho Chi Minh City.(Photo: Nicolas Lainez)

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Vietnam’s Consumer Finance Goes Global

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Sumitomo Mitsui Financial Group's new 49 per cent stake in FE Credit highlights the need for greater regulatory oversight and consumer protection measures.

Early this month, VPBank announced that it had agreed to sell a 49 per cent stake in FE Credit, its consumer finance subsidiary, to Sumitomo Mitsui Financial Group (SMFG) for $1.4 billion. The entry of Japan's second-largest financial institution into Vietnam's booming consumer finance industry is a headline-grabbing boost for Hanoi's goal of attracting more foreign capital and expertise into the local financial industry. However, this transaction is also a cause for concern as it appears to legitimise the predatory consumer finance model spreading across Southeast Asia aided by such mergers and acquisitions (M&As).

FE Credit's rapid rise explains its commercial allure for SMFG. VPBank established FE Credit, a small consumer finance division, in 2010 and 2015, FE Credit became an independent legal entity. From the outset, FE Credit targeted risky yet lucrative segments that other Vietnamese banks had ignored, such as household finance. Explaining its allure for customers, the firm sought to liberalise and expand credit access to the unbanked. FE Credit was the first credit institution to offer an array of financial products to the masses: two-wheeler loans in 2010; unsecured cash loans in 2012; instalment plans for cell phones and appliances in 2013; credit cards in 2015; and digital loans through $NAP, the first automated lending platform, in 2018.

Through these initiatives, FE Credit leads the country's consumer finance sector, a market with untapped profit potential. With an average annual growth rate of 20 per cent, this sector has grown steadily over the past decade to account for 20.5 per cent of the total outstanding loans in the economy, 2.5 times higher than the figures in 2012. FE Credit holds a consumer debt market share of 55 per cent, with a total outstanding loans value of VND66 trillion in 2020.

FE Credit asserts its dominance by investing in sales, loan accessibility and risk management. It has built a vast sales network comprising 20,000 point-of-sale locations and established numerous alliances with retailers nationwide. It has built a database of 11 million customers, approximately 11 per cent of Vietnam's population.

FE Credit has invested in financial innovation and technology. By launching $NAP, the first lending app in Vietnam, FE Mobile Card, a credit card management app, and FE Credit Mobile, a super app that consolidates access to all services, FE Credit has built an ecosystem that covers all consumption points in the daily life of consumers to provide a fast and easy credit experience.

FE Credit owes its success to the digitalisation of customers' personal, credit and behavioural data, which are processed through machine learning analytics to improve risk assessment. A strong focus on risk management has proven essential to reducing operational costs and credit risk and increasing profit.

FE Credit's success story and recent headlines about it joining up with a Japanese megabank hide the scandals that have besmirched FE Credit's reputation and reflect a problematic consumer finance model.

The first involves interest rates, which, depending on financial products and the borrower's risk profile, range from 10 to 60 per cent per annum. This range of rates is not illegal according to Vietnamese law. It is also way below the rates provided by "**black credit**" gangs, an alternative source of flexible consumer loans to unbanked consumers. Nevertheless, many borrowers find FE Credit's interest rates expensive, especially when burdened with costly insurance, administrative and penalty fees.

FE Credit's image is also stained by collection methods. The firm takes a **gradual** yet firm approach to debt recovery. It starts by making calls and sending SMS messages to borrowers and then escalates to asking relatives, friends, and social media connections for repayment. The tone of the messages would grow from accommodating to threatening. If customers refuse to repay, FE Credit files lawsuits and/or relies on debt collectors. **Headlines** accusing FE Credit of behaving like black credit gangs refer to third-party collection services that use harsh methods.

FE Credit faces other criticisms, including harassing individuals who have no business with the firm. Local telco companies cancel and resell phone numbers if they remain unused for two months. Often, late borrowers change their phone numbers to avoid FE Credit collectors. If these abandoned numbers are resold, the new users may be harassed by FE Credit.

FE Credit has attempted to address these concerns by arguing that customers come to them and agree to the terms, that they have limited control over third parties' methods and policies, and that they take customer complaints seriously to improve their services. Nevertheless, FE Credit promotes a business model that leads to abuse, controversy and discontent.

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FE Credit is expected to benefit from Sumitomo Mitsui Financial Group's expertise in risk management, new product development, and management capacity. It should enhance FE Credit's growth and capabilities. However, if the bad practices continue, the M&A may legitimise a predatory and controversial consumer finance model that has spread in Southeast Asia. M&As such as this should delight the banking industry and government policies promoting inward investment. To ensure that consumers also benefit, **regulatory oversight** and consumer protection measures need to improve.

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