Vietnam – The next wealth frontier?

Will 2020 be the year for wealth management in Vietnam?

The past five years have seen a great deal of investment dollars flowing towards the wealth management segments in both Thailand and The Philippines.

International Asset Management Groups have established both 'direct to customer' and third party distribution sales operations, domestic banks have built private banking brands focused on the region's most high net worth individuals and families and some have even launched mass affluent focused wealth management services.

In Thailand, a number of offshore private banks have opened local representative offices and others have entered into joint ventures with established, local banks as both attempt to steal a share of this new and rapidly growing client segment.

Despite this flurry of activity, interest in Vietnam has remained somewhat muted. For the past ten years, commentators have spoken at length of Vietnam's future potential as an emerging market for wealth management but despite a backdrop of strong supporting indicators, the wealth market remains one of South East Asia's most underdeveloped.

Is this likely to change soon? What are the primary drivers? Does the environment remain supportive? And what challenges must organizations overcome to establish successful wealth operations in Vietnam?

What are the opportunities?

The impetus for the rapid growth of wealth management services in both Thailand and The Philippines appeared to be both relatively similar, and not entirely surprising. Stable or declining interest rates, a growing GDP, falling unemployment levels and a large, emerging middle class with higher levels of disposable income.

Additional factors in both regions include a supportive regulatory environment, deemed critical before investments will be made in the sector, and a lack of social safety nets that may help to spur initial client interest in such services.

In Vietnam, many of the macro and micro economic factors deemed necessary to support the growth of wealth management service appear to be present however many non-economic challenges may first need to be addressed.

Although the GDP of Vietnam is only half that of Thailand and approximately two thirds of The Philippines, annual growth has been relatively stable for the past 3 years, hovering around 6.5% per year, on par with those of neighboring emerging markets, including both Thailand and the Philippines.

Much like other emerging markets, Vietnam's export driven economy has led to a number of significant historical challenges in the control of inflation. Rising wages and strong domestic demand, coupled with an export orientated manufacturing sector have seen both Demand / Pull and Cost / Push inflation spike to truly frightening levels in the past.

Whilst current rates still seem high and somewhat volatile in comparison to Western economies, the inflation rate has hovered around 3.5% since 2016 and more adaptive and flexible government policy seems to have enabled a degree of stability.

> Between 2002 and 2018, more than 45 million people were lifted out of poverty and The World Bank estimates that poverty rates have declined from 70% to only 6% of the population.

70% of the population is currently under the age of 35 and an emerging middle class that currently accounts for approximately 13% of the country is expected to double in size to 26% within the next 5 years.

> Vietnam is believed to be home to an estimated 20,000 people with investible assets in excess of $1 Million and more than 210 billion USD currently on deposit in plain vanilla cash accounts.

Whilst this may appear to signal a great opportunity, historical inflation spikes come hand in hand with high interest rates and wealth managers face a challenge in convincing clients to forego the security of high interest bearing cash accounts for the historically low yields available via fixed income securities or the increased risks associated with equity markets.

It is at this junction that three critical hurdles in the industry's development collide.

Traditional 'sales focused' operations may enjoy some success with unit linked insurance based contracts but to convince investors to diversify away from the Vietnamese Dong and adopt more holistic multi-currency investment planning requires a greater degree of knowledge and experience, both for the advisers and the clients.

Succession planning, overseas education funding, overseas property investment and tax planning are just some of the areas where forward thinking organization could carve out a niche without being overly concerned about high interest rates on the Vietnamese Dong. Unfortunately, these more complex areas of wealth or financial planning require an overall increase in client financial literacy and an experienced wealth advisor base that is perhaps not yet present.

> It is clear however that knowledge rates are increasing and a younger, more affluent middle class are seeking solutions to more complex financial challenges.

Early entrants to this new market face very limited competition and are unencumbered by aging legacy technology platforms that create cost barriers in many other regions.

Regulation remains a key challenge cited by many banks seeking to launch more robust wealth services. A requirement for additional licenses and the lack of a suitable framework for the provision of services and the conduct of advisors are all gaps that will need to be closed before the industry can develop, grow and evolve.

It appears that Vietnam currently displays all of the leading indicators for a successful wealth management evolution. Rising wealth levels, a young, digital savvy and technologically astute potential client base with increasingly complex needs, low levels of competition, low barriers to entry and little or no legacy challenges to overcome.

Many areas need to be addressed and some minor hurdles need to be overcome however domestic banks are able to look to their neighbors for a 'best practice' framework and leverage a host of regional technology solution providers to deliver platforms on which they can build the foundations of this growing market segment.

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