Developing Balanced Financial Systems to Fund the Growing and the Greying with Sustainability and Stability

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Summary of main findings

Vietnam has had an extraordinary decade of growth buoyed by strong fundamentals such as working population growth, a rising middle class, policy reforms and international engagement that have encouraged foreign direct investments. Whether Vietnam can fulfil its economic potential in the next decade will depend to a large degree on its ability to simultaneously finance massive investments in physical and social infrastructure, and prepare to cope with rapidly aging populations. Financing both the growing and greying while managing financial system risks will require adjustments from a bank-centric financial system of today toward a more balanced systems in which banks, capital markets, and long-term institutions such as life insurance, pension funds, and mutual funds flourish.

Planning and execution of financial system development is a complex, continuous, whole of government and multi-sectoral undertaking. In February 2019, Vietnam released a strong financial system development blueprint that covers both the securities and insurance industry. That impressive program, if implemented well, has excellent prospects for creating a more balanced and sustainable financial system, mobilising large pools of domestic savings for future retirement income needs, and enabling those saving pools to invest in infrastructure and other long-term assets to fund growth. Among the areas of importance in execution will be specific policies and regulation changes to promote faster growth of the long-term investment institutions (life insurance, pension funds, mutual funds), and other supporting measures.

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Keywords

Vietnam, aging, infrastructure, capital markets, banking, insurance, pension, mutual fund

Introduction

Powered by ASEAN's second-largest labour force[2], a growing middle class, high domestic savings rates, and a continued inward flow of foreign direct investment (The World Bank Group, 2019), Vietnam is swiftly becoming the new darling of the emerging markets. Its GDP per capita grew by more than 90% in the past ten years (The World Bank Group, 2019)[3] and it is projected to be one of the world's fastest growing economies between 2016 and 2050 (PricewaterhouseCoopers, 2017).

Whether Vietnam can fulfil its economic potential in the next decade will depend to a large degree on its ability to simultaneously finance massive investments in physical and social infrastructure, and prepare to cope with rapidly aging populations. Currently the financial system is dominated by banks with still limited penetration of the long-term financial sectors (life insurance, pension, mutual funds). Financing both the growing and greying while managing financial system risks will require adjustments from a bank-centric financial system of today toward a more balanced systems where banks, capital markets and long-term institutions such as life insurance, pensions funds, and mutual funds flourish.

Vietnam has taken a bold step in this direction and released the "Decision Approving the Scheme for 'Restructuring Securities and Insurance Markets by 2020 and Vision to 2025'" (Decision No.242/2019/QD-TTg) which outlines detailed plans to create a more balanced financial system. That impressive program, if implemented well, has excellent prospects for creating a more balanced and sustainable financial system, mobilising large pools of domestic savings for future retirement income needs, and enabling those saving pools to invest in infrastructure and other long-term assets to fund growth.

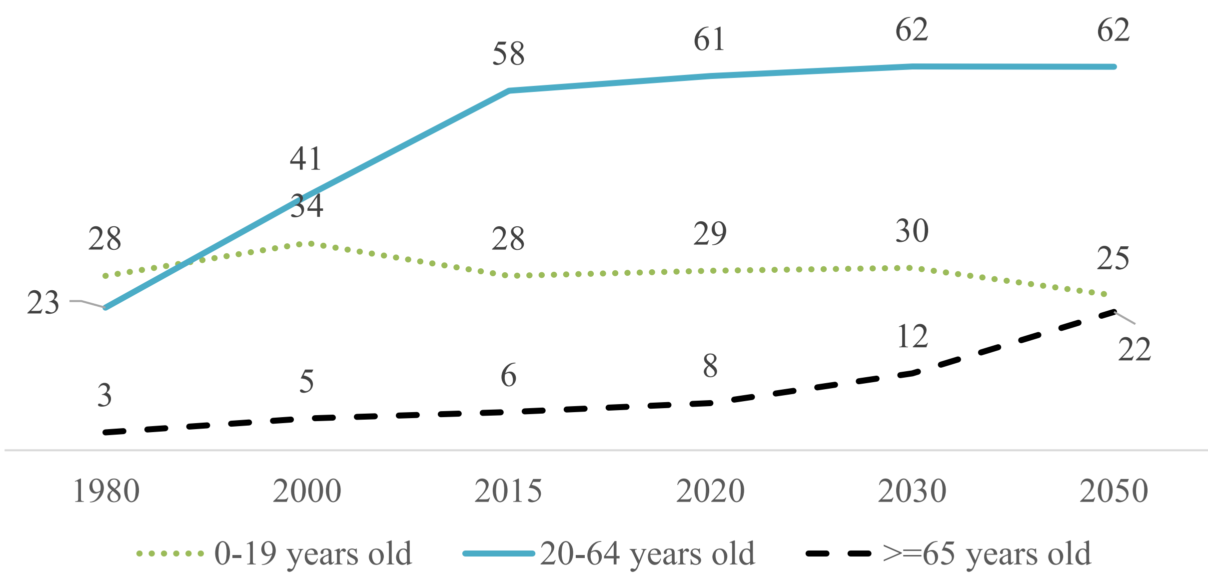
1. Vietnam's era of ageing

[2] Labour force defined as those aged between 20 and 64 years old in a given year

[3] GDP per capita measured on current purchasing power parity basis from 2008 to 2018

When Vietnam began its economic and political reforms in the 1980s, retirement savings was a distant issue. That has changed. Vietnam will see its working population grow by less than 4 million between 2015 and 2050 – the comparable figure between 2000 and 2015 was 17 million. Meanwhile, its over age 65 population is projected to increase by more than 16 million, or 263%. (United Nations, Department of Economic and Social Affairs, Population Division, 2019). (See Figure 1)

Figure 1: Population by age group (millions)

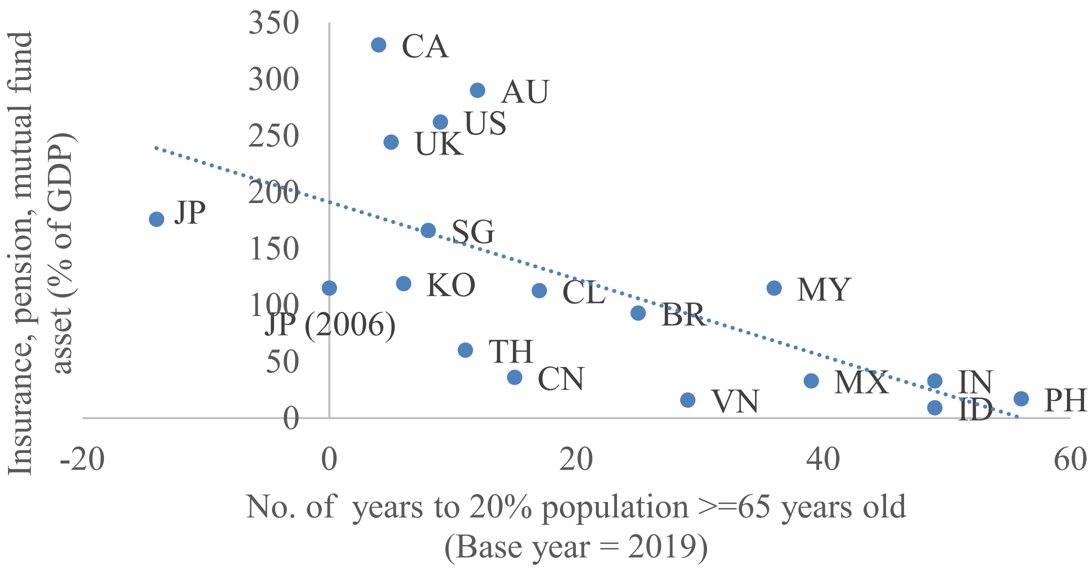


Source: United Nations, Department of Economic and Social Affairs, Population Division, 2019

As populations age, countries need increasing levels of long-term financial assets to fund retirement needs. Those assets would generally be mobilized through long-term institutions such as life insurance companies, public or private pension funds, mutual funds, and other asset management companies. One can assess countries' level of aging preparedness by comparing the speed of aging versus the level of financial assets accumulated. This can be proxied by the number of years a country has before the proportion of those 65 years and older reaches 20 percent of the overall population, a United Nations definition of a "super-aged" society (The World Bank Group, 2019), versus the level of insurance, pension, and mutual fund assets accumulated. (See Figure 2)

Vietnam is accumulating financial assets slower than the trendline. With rising living costs and the loss of support from the extended family, 42% of Vietnam's current workers are significantly worried that they will exhaust their retirement savings (Global Aging Institute, 2015). To be ready for the future, Vietnam needs to dramatically increase the scale of the long-term domestic savings pools of pension, insurance, and mutual funds.

Figure 2: Speed of aging vs. financial assets accumulation



Source: UNDESA Population Division (2019); The World Bank Group Global Financial Development Database (July 2018 version); The World Bank Group World Development Indicators; OECD (2018) Pension Markets in Focus; Towers Watson (2019) Global Pensions Study; Cerulli (2019) Asian Distribution Dynamics 2018

Note: Australia = AU; Brazil = BR; Canada = CA; Chile = CL; China = CN; India = IN; Indonesia = ID; Japan = JP; Japan in 2006 = JP (2006); South Korea = KO; Malaysia = MY; Mexico = MX; Philippines = PH; Singapore = SG; Thailand = TH; United Kingdom = UK; United States = US; Vietnam = VN;

Note: China's level of insurance, pension and mutual assets in this chart is 36% of GDP. 36% excludes, however, assets in wealth management products (WMP) and trust assets, which are technically not insurance, pension nor mutual fund assets. Arguably, at least a portion of the WMP or trust assets can be regarded as available for long-term / retirement income. If all of such assets were included, this would change China's assets to 97% of GDP. Please refer to the addendum for a chart reflecting this view.

2. Closing the infrastructure investment gap

Vietnam has already made impressive improvements to its infrastructure. Today, 100 percent of the population have access to electricity, up from 14 percent in 1990 (The World Bank Group, 2019) (Hung, 2009). 70 percent of the population use the internet, up from 39 percent in 2013 (ITU, 2018).

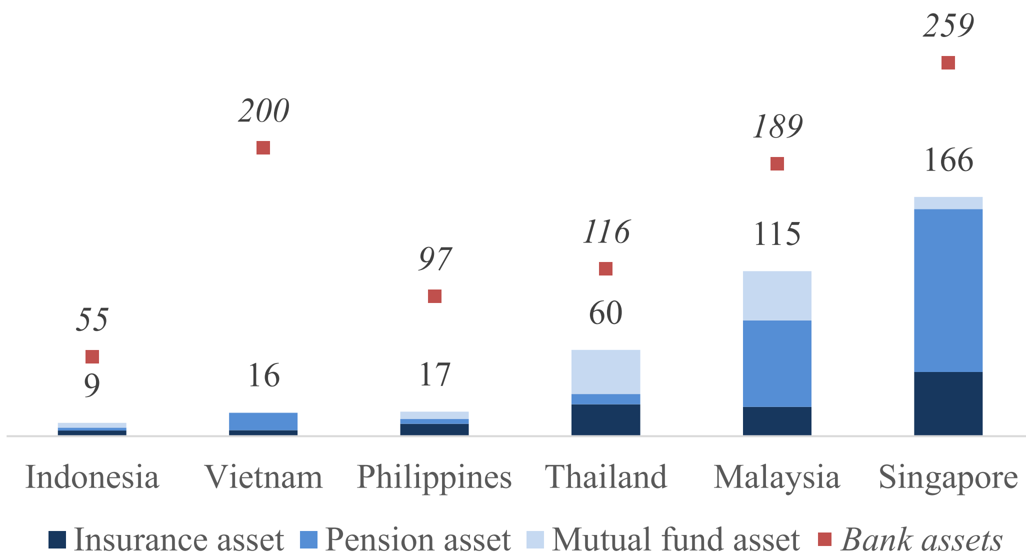
However, there are still areas to catch up. According to the World Economic Forum Global Competitiveness Report 2017-2018, Vietnam ranks 75th out of 140 countries in terms of overall quality of infrastructure, 107th in quality of roads, and 77th in quality of port infrastructure (World Economic Forum, 2017-2018).

Economic growth is also putting increasing pressure on Vietnam's infrastructure. Container port throughput has doubled since 2010 (UNCTADstat, 2017). International visitors to Vietnam increased almost four times since 2008 (Vietnam National Administration of Tourism, n.d.). The number of registered vehicles has increased by 50 percent between 2010 and 2015 (OICA, 2015) and the demand for electricity is expected to grow by three times between 2016 and 2030 (General Directorate of Energy, Ministry of Industry and Trade, 2016). Furthermore, between 2015 and 2030, Vietnam will have 16 million new urban residents (United Nations, Department of Economic and Social Affairs, Population Division, 2018). This means providing transportation, housing, power, water, communications, education, and healthcare to almost 3,000 new urban residents every day. All told, Vietnam will require USD 480 billion of investments in infrastructure between 2016 and 2020, with more needed in the future decades (Thoi Bao Taichinh Vietnam, 2016).

3. Why are insurance pension and mutual funds, and not bigger banks, the key to the future financial system?

Since the late 1990s and the Asian Financial Crisis, the ASEAN countries overall have built strong and profitable banking systems. One result of banking success, however, is that many of ASEAN's financial systems are now "bank-centric", meaning that the non-bank financial sectors and the capital markets are less developed. In Indonesia, Vietnam, and the Philippines, bank assets to GDP are 5 to 12 times the combined assets of insurance, pension, and mutual funds. (See Figure 3) In Thailand, Malaysia and Singapore, where the insurance and pension sectors are more developed, the ratios are 2 times or less, which means those economies are better at mobilising domestic savings for long-term investing. Those big differences in mobilising long-term savings are not attributable to higher savings rates — for example, Indonesia’s savings rate is comparable to Thailand’s and higher than Malaysia’s.

Figure 3: Financial assets as a proportion of GDP



Gross savings (% of GDP)	31%	24%	44%	32%	29%	48%

Source: The World Bank Group Global Financial Development Database (July 2018 version); The World Bank Group World Development Indicators; OECD (2018) Pension Markets in Focus; Towers Watson (2019) Global Pensions Study; Cerulli (2019) Asian Distribution Dynamics 2018; local central banks

Bank centricity makes perfect sense when countries are at an early stage of industrialization, when the economies require basic systems for payments, short and medium-term financing for simple manufacturing, and working capital for inventory and commerce. As economies mature, however, there is an increasing need for long-term investment to build infrastructure and advanced manufacturing facilities, to provide long-term finance to governments and businesses, and to accumulate assets for the future when the number of retirees will be much greater. This means banks need to be complemented by life insurance, pensions, and mutual fund sectors.

In fact, modern banking regulations such as the Basel III Framework discourage banks from making long-term loans or equity investments in infrastructure because mismatching of short-term deposits with long-term loans creates risk for individual banks and the banking system. In contrast to banks, pension funds, life insurers, and mutual funds by their nature must accumulate funds for long-term needs (education, retirement, old-age care) and deliver long-term returns, so they want to invest in long-term bonds and stocks which they will often hold through the economic cycle. Risk-based capital regulatory frameworks for insurance, including international frameworks such as Solvency II, encourage insurance companies to hold long-term assets to match their long-term insurance and pension liabilities[4]. Thus, insurers are natural providers of long-term capital.

Insurers also generally prefer to make their investments in domestic currency to match their policyholder obligations which are denominated in domestic currency. Financing infrastructure or businesses in domestic currency domestically avoids exposing projects to foreign exchange risk and the economy to capital flight in volatile times as some countries have experienced (Reuters, 2018). Thus, increasing the scale of domestic pension and insurance sectors can help foster greater stability for both the currency and the financial system overall.

4. The importance of domestic capital markets to connecting insurance and pension institutions to the funding of long-term needs such as infrastructure

Considering insurance companies' and pension funds' preference for long-term assets, the question is how they can become significant contributors to funding the long-term national needs for infrastructure, or for corporations' and small businesses' needs for long-term debt or equity. One solution is to invest in private debt or equity, either directly or via unlisted funds managed by specialist managers; however, in practice, most insurers and pension funds have limited tolerance for holding illiquid private assets because illiquid assets attract significant capital charges under risk-based solvency frameworks. Similar incentives also exist for insurers to prefer investment grade debt instruments with predictable cash flows. That means it is difficult for insurers to invest a large proportion of their assets in private assets (debt or equity),

[4] Risk-based solvency regimes in many countries still require insurance companies to allocate sizeable amounts of capital to cover unexpected losses from long-term debt investments, and especially for unrated exposures, such as project loans. For further discussion, please see Jobst, A. A. (2018). *Credit Risk Dynamics of Infrastructure Investment: Considerations for Financial Regulators.* Washington D.C.: World Bank.

whether directly or through unlisted funds. This is particularly true for infrastructure investments that are in the greenfield or construction phases. Not surprisingly, therefore, direct financing of infrastructure projects remains a very small component of insurers investment portfolios. Globally, insurers allocate only about 2.5 percent of assets under management to infrastructure investment (Jobst, 2018). Similarly, on average, only about one percent of pension funds are invested directly in infrastructure (OECD, 2016).

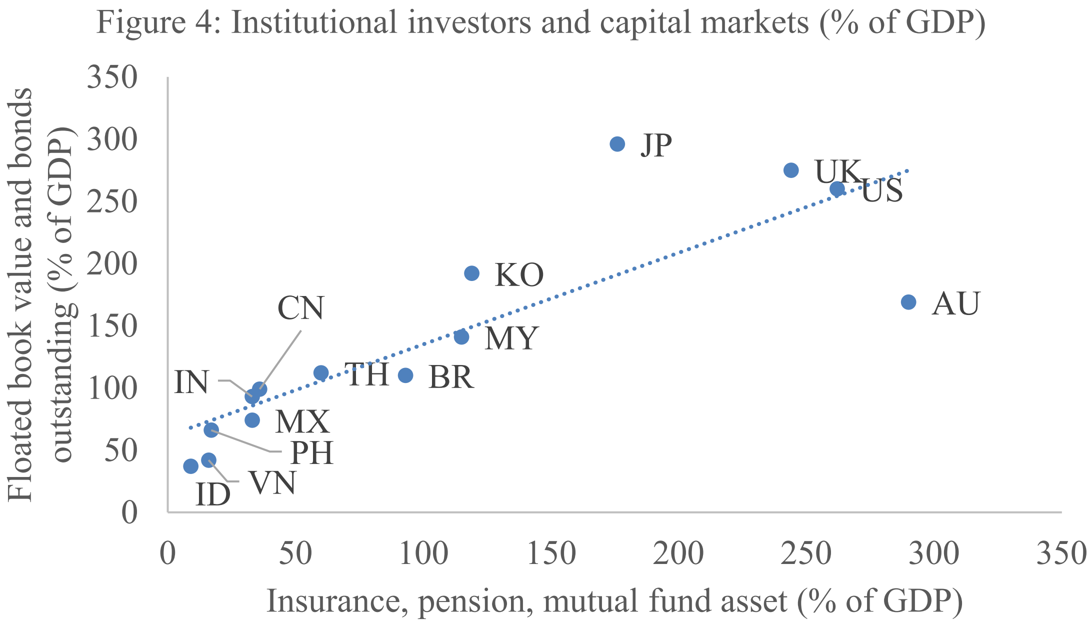
Finding ways to bring illiquid assets to the capital market so they may become tradeable and liquid becomes critical to allow the full participation of insurers and pension funds in meeting national funding needs. This can be achieved via the capital markets in various ways, either through using existing instruments such as public and private bonds, sukuk, asset-backed securities, and stocks, including the equitization of state-owned or private companies. Vietnam has success in equitizing several state-owned companies and 100 initial public offerings are planned before 2020 (Eastspring Investments, 2019)[5]. In recent years, in several markets, previously illiquid asset classes have been made liquid by creating listed investment vehicles such as Real Estate Investment Trusts (REITs), debt or equity securitized by the revenue stream from infrastructure projects, and more recently, Infrastructure Investment Trusts (InvITs)[6].

Empirical evidence also supports that domestic capital markets must be deepened to grow the pension, insurance, and mutual funds industries. The development of these institutional investors appears to be correlated to the development of capital markets, and vice versa. (See Figure 4) In other words, if capital markets are sufficiently developed, pension, insurance, and

[5] Prime Minister Nguyen Xuan Phuc has announced that the private sector should account for 50% of Vietnam's GDP by 2020 and 60-65% by 2035, up from 43% currently. Since taking office in 2016, the government has equitized government stakes in various industries. The government set up a committee in February 2018 to oversee the sale of USD 220 billion worth of state-owned assets.

[6] In India, for example, SEBI released final regulations on InvITs on 26 September 2014. InvITs is a way for project sponsors to unlock tied up capital in infrastructure projects by transferring operating and revenue generating infrastructure assets to a Trust. Sponsors have to keep a minimum percentage and the capital raised must be used for repaying at least 50% of the debt. For further discussion, please see:
https://www.pwc.in/assets/pdfs/publications/2017/indias-new-real-estate-and-infrastructure-trusts-the-way-forward.pdf
https://www.unescap.org/sites/default/files/publications/WP-18-04%20Tapping%20Capital%20Markets-last%20version_MV_TS%20%28002%29_formatted.pdf

mutual funds can channel the increased savings from the rising working-age population in Vietnam and other emerging Asian countries into financing infrastructure and other long-term investment asset classes.



Source: The World Bank Group Global Financial Development Database (July 2018 version); The World Bank Group World Development Indicators; OECD (2018) "Pension Markets in Focus"; Towers Watson (2019) Global Pensions Study; Cerulli (2019) Asian Distribution Dynamics; local central banks; Bloomberg, L.P; Bank for International Settlements; AsiaBondsOnline; SIFMA

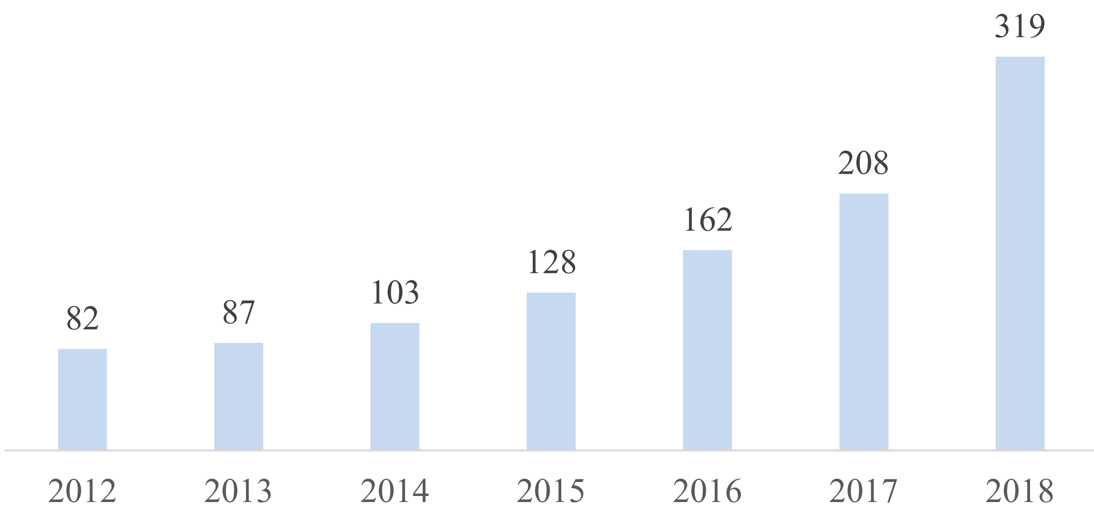
Note: Australia = AU; Brazil = BR; China = CN; India = IN; Indonesia = ID; Japan = JP; South Korea = KO; Malaysia = MY; Mexico = MX; Philippines = PH; Thailand = TH; United Kingdom = UK; United States = US; Vietnam = VN;

Note: Hong Kong and Singapore are not presented as their status as international financial hubs means the size of their capital markets do not correlate with the size of the local insurance, pension and mutual fund industries

5. Growth and penetration of the life insurance industry in Vietnam

Since entering the World Trade Organisation in 2007 and opening its markets to foreign companies, Vietnam's life insurance industry has grown significantly. Life insurance investment assets have grown 30% growth annually between 2013 and 2018 to reach VND 319 trillion (Vietnam Ministry of Finance, 2017) (Insurance Business Asia, 2019). (See Figure 5)

Figure 5: Vietnam life insurance asset growth (VND trillion)



Source: Vietnam Ministry of Finance (2017); Insurance Business Asia (2019)

Investment regulations and the relatively small size of the capital markets have meant that most investments are in government bonds and deposits. (See Table 1) Further development of the capital markets, therefore, should usher in possibilities for more diversified and innovative products for long-term protection and investment.

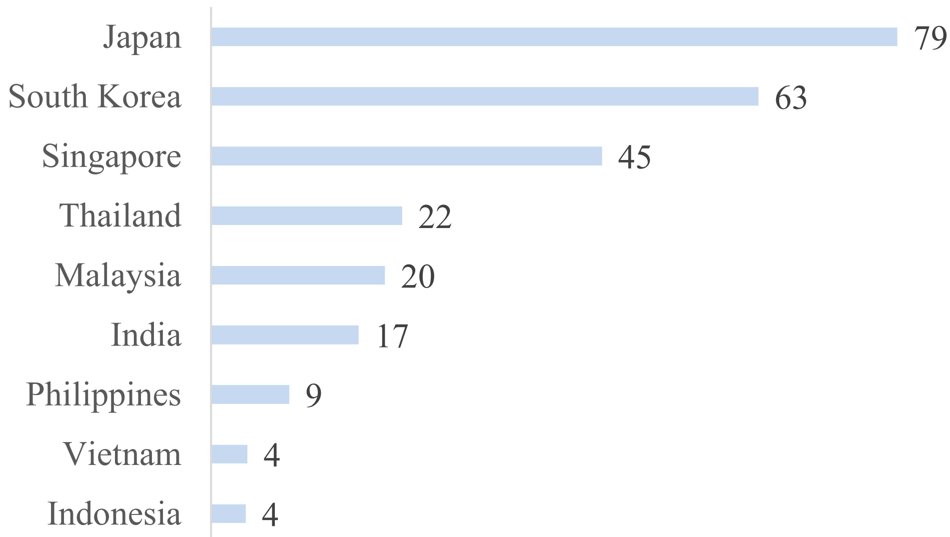
Table 1: Composition of Vietnam life insurance asset investments

Asset	2012	2017
Deposits	12%	24%
Government bonds, government guaranteed bonds and local government bonds	50%	64%
Secured government bonds	3%	2%
Corporate shares, unsecured corporate bonds	1%	6%
Others	34%	4%

Source: Vietnam Ministry of Finance (2017)

Despite the strong growth, Vietnam still lags in insurance assets as a percentage of GDP. (See Figure 6) Given the gap, there is much reason to believe that Vietnam will continue to have outstanding life insurance growth, and that the industry will play an ever bigger role in long-term investment supporting economic growth.

Figure 6: Insurance asset vs. GDP (%)

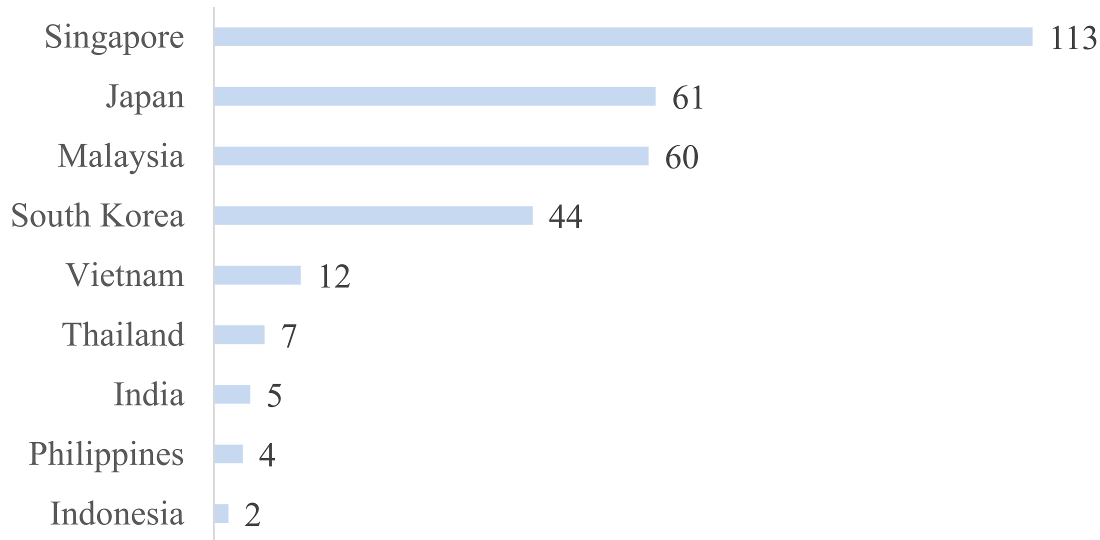


Source: Swiss Re Institute (2019); The World Bank Group Global Financial Development Database (July 2018 version);

6. Growth and penetration of the pension industry in Vietnam

The public pension fund Social Insurance Fund (SIF) has grown from USD 19 billion in assets in 2015 (Willis Towers Watson, 2016) to USD 27 billion in 2017 (Willis Towers Watson, 2018). About 90 percent of SIF's funds are invested in government bonds, with an annual average investment interest rate of 7.25% in 2017 (Viet Nam News, 2018). Despite the strong growth, Vietnam has a relatively low proportion of pension assets relative to GDP. (See Figure 7)

Figure 7: Pension asset vs. GDP (%)



Source: OECD (2018) Pension Markets in Focus; Towers Watson (2019) Global Pensions Study; The World Bank Group Global Financial Development Database (July 2018 version);

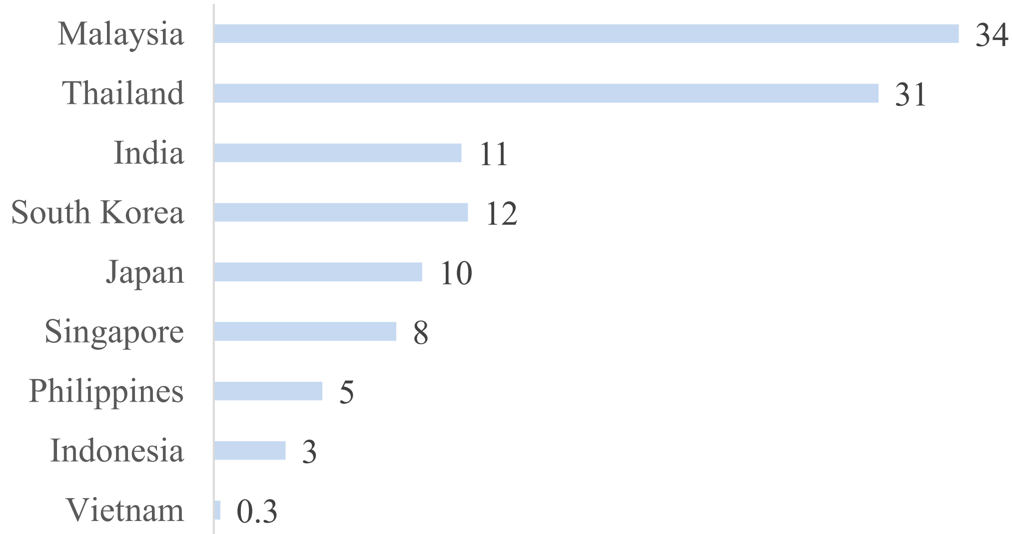
Private pensions are small and represented only 0.6% of total life and benefits premium income. Government bonds must comprise at least 40% of total fund investments while investment in corporate shares and bonds are limited to 20% of total fund investments (AXCO, 2019).

With rising living costs and the loss of support from the extended family, 42% of Vietnam's current workers are significantly worried that they will exhaust their retirement savings. 88% of respondents believe the government should require workers to save more for their own retirement (Global Aging Institute, 2015). That research and the government's commitment to develop the pension sector suggest that asset management and private pensions will be areas of future growth.

7. Growth and penetration of the mutual fund industry in Vietnam

Vietnam's mutual fund industry is nascent and has VND 14 trillion (USD 592 million) in assets under management (AUM) in 2018. This represents only 0.3% of GDP, which is significantly lower than other developed and emerging markets in the region. (See Figure 8).

Figure 8: Mutual fund asset vs. GDP (%)



Source: Cerulli (2019) Asian Distribution Dynamics; The World Bank Group Global Financial Development Database (July 2018 version);

One reason offered for low penetration of mutual funds is consumers' preference for short-term fixed-rate deposits. Bank deposits are a significant source of investment for Vietnamese citizens, with 6-month deposits offering at least 5.5% interest[7]. Mutual funds can provide a source of diversification for these investors and allow them to participate in the country's long-term economic growth. For the portion of consumers' assets that can be allocated to long-term savings, equity market returns have offered a good complement to that from bank deposits. The total return of the VNIndex in Vietnamese Dong over the past 15 years has been 549% (13% annually), while the total returns over the past 10 years was 166% (10% annually) and the past 5 years 84% (13% annually)[8]. (Bloomberg L.P.)

8. Blueprints for the future financial system

In the next 15-20 years, all of ASEAN's emerging economies will need to mobilize hundreds of billions of dollars to finance infrastructure, the growth of micro, small and medium enterprises (MSMEs) and larger corporations, and create good jobs for the future. Will that finance come from doubling or tripling the bank sector? What risks would that create in asset

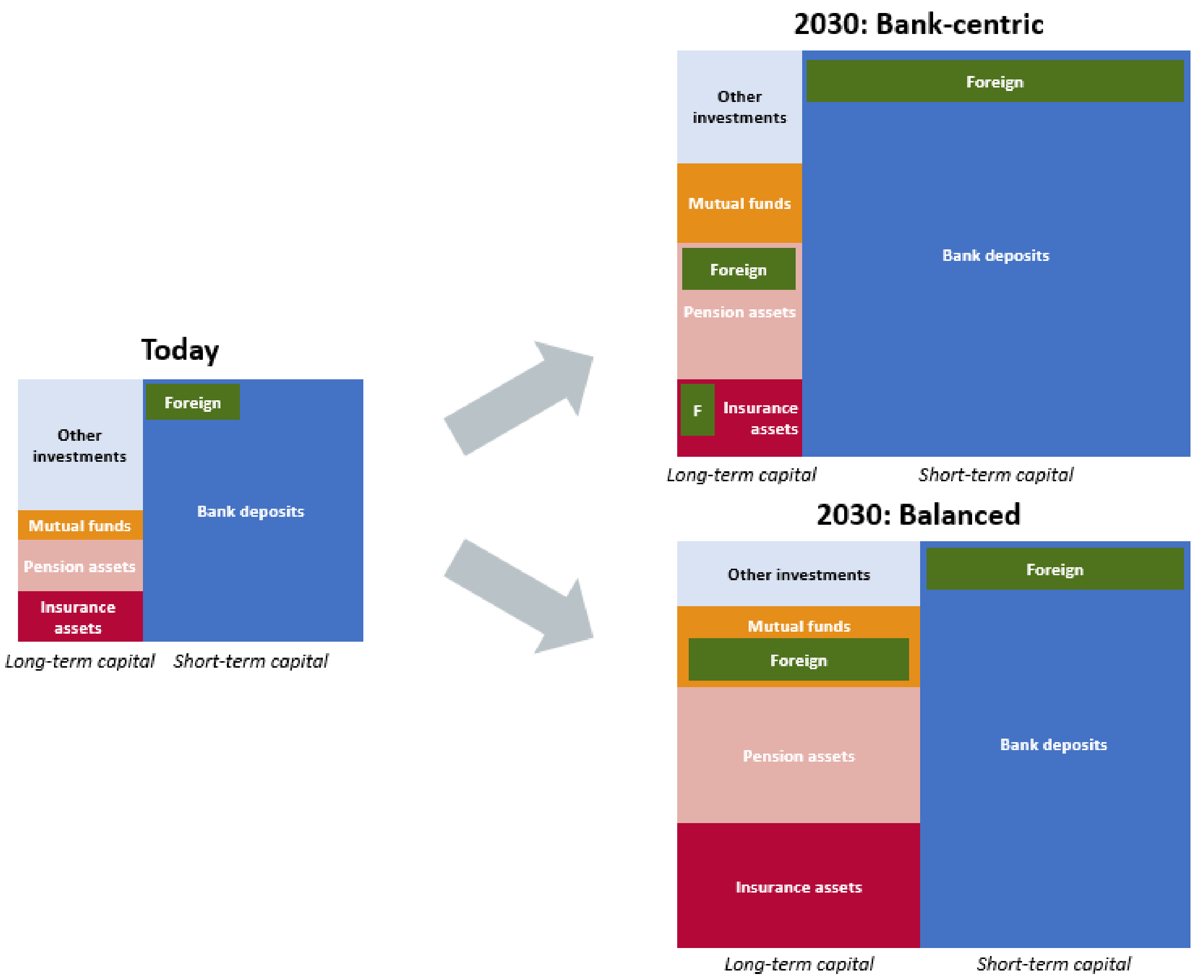
[7] State Bank of Viet Nam 6-month inter-bank interest rate on 15 August 2019 was 5.34%

[8] 15-year reference period = 13 August 2004 to 15 August 2019; 10-year reference period = 13 August 2009 to 15 August 2019; 5-year reference period = 13 August 2014 to 15 August 2019

and liability mismatches for banks? Can much of the investment come from foreign institutional investors from the US, Europe or China, and so, what are the limits of foreign currency debt, and risks of currency volatility or capital flight?

Each country must ask, analyze and answer those questions and others to find the best mix of policies, rules and incentives to develop a robust 21st century financial system that meets national needs including the needs for long-term investment to fund the greying and the growing. Overall, each country must decide whether it wants to have a bank-centric system or a more balanced system where capital markets, insurance, pension, and mutual funds play an increasing role. (See Figure 9 illustrating the conceptual choice)

Figure 9: An illustrative concept of domestic financial system long-term vision for supply of capital



Source: Author's illustrative concept

All ASEAN countries today have financial sector blueprints in some form, and several countries have been following the practice for decades[9].

Robust financial sector blueprints should consider the future needs of the economy, set goals sector by sector, recommend policies and regulatory changes that will promote the desired changes and fill the gaps, assign primary and coordination responsibilities among government bodies and create mechanisms for engaging the private sector as well as for monitoring and reporting on results. ASEAN countries can learn from each other's experience and finetune their own plans. Focused attention on delivering the reforms needed to achieve long-term investment is critical. Top-level leadership is needed to break down silos and resistance and bring together policymakers in charge of tax, banking, insurance, securities, etc., to weave a coherent plan and ultimately, execute it.

9. Vietnam's vision for the future financial system

Vietnam has taken significant steps towards a 21st century financial system. On 28 February 2019, Vietnam released the "Decision Approving the Scheme for 'Restructuring Securities and Insurance Markets by 2020 and Vision to 2025'" (Decision No. 242/2019/QD-TTg). This decision mainly addresses the securities and insurance (and to a lesser extent, pension) industries, and clearly identifies the roles of ministries that are required to implement the plan. These include the Ministry of Finance, the State Bank of Vietnam, the Ministry of Labor, Invalids and Social Affairs, the Ministry of Planning and Investment, the Ministry of Health, and the State Securities Commission. It aims to grow the capital markets so that they can become important channels of medium- and long-term capital, provide support for state enterprises' restructuring, and renew the economic growth model. It also aims to develop the insurance market to meet the diversified insurance requirements of organizations and individuals and ensure social security.

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[9] For example, Indonesia's Otoritas Jasa Keuangan (OJK) has the "Financial Services Sector Masterplan (2015-2019)", available at https://www.ojk.go.id/en/berita-dan-kegiatan/publikasi/Pages/Indonesian-Financial-Services-Sector-Master-Plan-2015-2019.aspx
Malaysia Securities Commission has the "Capital Market Masterplan 2 (2011-2020)", available at https://www.sc.com.my/resources/publications-and-research/cmp2
Thailand's Ministry of Finance has the "Capital Market Development Plan No.3 (2017-2021)", excerpt available at http://www.fpo.go.th/main/getattachment/Important-economic-policy/7241/CNT0018452-2.pdf.aspx

Decision No. 242/2019/QD-TTg has clearly articulated quantitative and qualitative goals to grow the capital markets and increase the performance and professionalism of key institutions, and to develop in line with emerging technologies including Artificial Intelligence. For the securities market, the goals include:

- The scale of the equities market to reach 100% of GDP by 2020 and 120% of GDP by 2025; (2018: 55%) (World Federation of Exchanges)
- The scale of the bond market to reach 47% of GDP by 2020 and 55% of GDP by 2025; (2018: 23%) (AsiaBondsOnline)
- The number of listed companies to increase by 20% relative to 2017;
- The number of investors to reach 3% of the population by 2020 and 5% of the population by 2025;
- Achieve reasonable structure between the private investors and institutional investors, between domestic and foreign investors, between the monetary market and the capital market, between the securities and the bond market, between government bonds and corporate bonds; and
- Increase the professionalism of professional investors, and strengthen the securities markets in other specified aspects.

For insurance, the goals include:

- Total assets, total investments, total provisions, total own funds and total revenues will grow by 20% by 2020 and 15% from 2021 and 2025;
- 11% of the population will have life insurance by 2020, and 15% by 2025;
- Insurance premium revenues will increase to 3% of GDP by 2020 and 3.5% by 2025;
- Encourage the development of new and diversified products, such as micro-insurance, health insurance and pension insurance; and
- Increase the transparency of information and the professionalism of insurance companies and their staff, technology and systems.

For pension funds:

- Establish voluntary and additional pension funds.

10. Vietnam's future financial system and thoughts for the future about financing the greying and the growing

It is still very early to make any significant comments on the recently released Decision No. 242/2019/QD-TTg, but important to recognize positively the breadth and specificity of its content and its clear targets and assignments of responsibility for leadership and coordination.

It may be appropriate to mention a few areas for further focus in the next few years in support of the government's policies and vision, particularly with regard to the focus of this paper – development of domestic long-term investment institutions, namely life insurance, pension, and mutual funds.

Incentives: In contemplating new legislation and regulations, it is critical that there is attention focused on the incentives or disincentives that exist for individuals and organisations today to purchase insurance and pension products. Both voluntary and mandatory pension programs in most countries have certain tax benefits or incentives which encourage penetration and participation. It is recommended that both public and private sector leadership turn attention to identifying best practices and experiences around the world for how to create responsible, effective incentives for the expansion of these sectors. While the solutions must fit Vietnam's unique needs, lessons may be learned from neighbouring ASEAN countries such as Thailand and Malaysia, as well as other larger economies in East Asia such as Japan, Korea and China.

Retail mutual funds: One sector which is not covered explicitly in Decision No. 242/2019/QD-TTg is retail mutual funds or investment trusts. Figure 8 above shows that Vietnam trails significantly in this sector. To develop the mutual funds industry, further market education and continuous government support are both necessary. For example, policymakers can consider simplifying the process to setup mutual funds. The industry will also need time to prove its effectiveness as an investment vehicle to Vietnamese citizens. Further attention to the challenges and opportunities to further develop mutual funds would be warranted, considering the decision includes ambitious goals for increasing the number of publicly listed companies, and expanding the equity and bond markets.

Monitoring progress: In addition to setting both quantitative and qualitative goals to grow the capital markets and institutional investors, it is critical to monitor progress. This will allow periodic timely policy adjustment in relation to the financing needs of the growing economy, such as infrastructure, retirement, medical, education, etc.[10] Vietnam has recognised that national financial system blueprint needs to include measures to increase capital markets breadth and liquidity.[11],[12]

Financial literacy and education: Another matter that will require increasing attention to mobilise more domestic savings to long term institutions is financial literacy and education on financial responsibility. While levels of financial literacy are worryingly low globally, they are of particular concern in ASEAN, including in Vietnam (OECD, 2018). Continued efforts to improve financial literacy and responsibility, including financial literacy in national education curricula, are therefore necessary.

Conclusion

Vietnam has had an incredible decade of growth buoyed by strong fundamentals such as working population growth, a rising middle class and a continued inward flow of foreign direct investments. In the next decades, Vietnam must seek to continue this growth and simultaneously finance massive investments in physical and social infrastructure, and cope with the retirement needs of rapidly aging populations. Financing both the growing and greying will require Vietnam to adjust from bank-centric financial systems of today toward a more balanced systems where banks, capital markets and long-term institutions such as insurance, pensions funds and mutual funds flourish. To do this, Vietnam will need to continue to pursue

[10] Regular goals tracking is also critical. For example, the Securities Commission Malaysia publishes monthly updates on their website on the achievement of key quantitative targets set in Malaysia's national financial system blueprint "Capital Market Masterplan 2 (2011-2020)".

[11] Continued monitoring and reporting on progress on both will be valuable.

[12] Vietnam is committed to increase breadth and depth of equity markets. Prime Minister Nguyen Xuan Phuc has announced that the private sector should account for 50% of Vietnam's GDP by 2020 and 60-65% by 2035, up from 43% currently. Since taking office in 2016, the government has equitized government stakes in various industries. The government set up a committee in February 2018 to oversee the sale of USD220 billion worth of state-owned assets, and more than 100 initial public offerings are planned before 2020. Also, Vietnam is proposing amendments to its securities law to allow 100% foreign ownership for public companies that are not deemed strategically important and to incorporate G20/OECD principles of corporate governance into Vietnam regulations. These may indirectly boost Vietnam's chances of MSCI inclusion in June 2020 and may have encouraged FTSE Russell identifying Vietnam as a potential candidate to reclassify as a secondary Emerging Market. For further discussion, see "Vietnam: One of Asia's best proxies to Emerging Markets growth" by Eastspring Investments, available at https://www.eastspring.com/insights/vietnam-one-of-asia-s-best-proxies-to-emerging-market-growth

a robust blueprint for national financial system development which considers the future financing needs of the economy, the strategy and approach to meet these needs, and policies and regulatory changes that will promote the desired changes. Other supporting factors include growing the breadth and depth of capital markets, improving financial inclusion and financial literacy, greater scale and penetration of insurance, pension and mutual funds. Progressing on all those fronts require coordinated policy, top-level leadership, as well as private sector input.

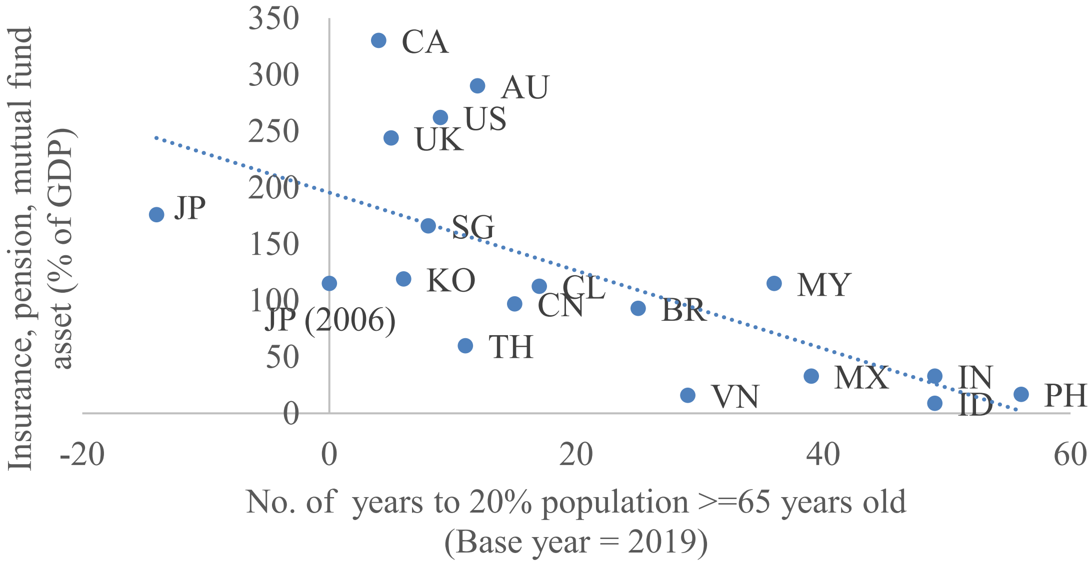
With more balanced financial systems that are better-equipped to fund long-term investment needs, Vietnam can be more prepared to grow and face the challenges and opportunities the future will bring.

Addendum

Figure 2 was published in Vietnam Ministry of Finance's "Viet Nam Finance Forum 2019: Fiscal and Financial Policy Reforms as Drivers for Renewing the Growth Model and Restructuring the Economy in Vietnam" showing China's level of insurance, pension and mutual assets relative to GDP as 36%. 36% excludes, however, assets in wealth management products (WMP) and trust assets, which are technically not insurance, pension nor mutual fund assets. Arguably, at least a portion of the WMP or trust assets can be regarded as available for long-term / retirement income. If all of such assets were included, this would change China's assets to 97% of GDP.

The below figure reflects China's long-term financial assets at 97%.

Figure 2a: Speed of aging vs. financial assets accumulation



Source: UNDESA Population Division (2019); The World Bank Group Global Financial Development Database (July 2018 version); The World Bank Group World Development Indicators; OECD (2018) Pension Markets in Focus; Towers Watson (2019) Global Pensions Study; Cerulli (2019) Asian Distribution Dynamics 2018; China Trustee Association; Xinhua; Note: Australia = AU; Brazil = BR; Canada = CA; Chile = CL; China = CN; India = IN; Indonesia = ID; Japan = JP; Japan in 2006 = JP (2006); South Korea = KO; Malaysia = MY; Mexico = MX; Philippines = PH; Singapore = SG; Thailand = TH; United Kingdom = UK; United States = US; Vietnam = VN;

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