

# The Market for Life Insurance SITUATION AND MEASURES

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In the past decade, the per capita GDP and personal income in Vietnam have gained high growth rates, around 8% a year and it is expected it could maintain this growth rate in the coming years. That is why Vietnam has become a potential market for insurance service when the people start to think of their safety.

The development of this service also creates jobs for some 170,000 people, accumulates a large capital for the financial market (VND6,700 billion in 2002 for example), ensures better employment of capital and replaces some social benefit programs.

The life insurance provides financial safety for laborers or their family when their income is at stake or they come to retirement age. The share of life insurance service in Vietnam represents the best part of the total insurance premium: 23.33% in 1999; 41.75% in 2000; 56.33% in 2001 and 60.00% in 2002. However, this market is showing signs of stagnancy when its growth rate in the first half of 2003 stayed at 44% compared with the same period last year. Moreover, only 2% of the population bought the life insurance and most of them live in big cities.

Thus, measures to develop this market are problems of great importance because this service can benefit the public in the long run.

## 1. The market for life insurance in Vietnam

After the Decree 100/CP dated Dec. 28,

1993, many foreign insurance suppliers have entered into the Vietnamese market by forming joint ventures with local partners or opening their own branches. Up to now, there are five companies that offer the life insurance policies: Bảo Việt (the state-owned Vietnam Insurance Corporation), Bảo Minh - CMG (a limited joint venture) Manulife (a limited company), Prudential Vietnam, and AIA from America. The New York Life International, among the Fortune's list of the world's 100 leading companies with its rep office in Vietnam established in 2000 is waiting for a license to form its own company in Vietnam. If it gets approval, there will be four foreign-owned insurance companies, one joint venture and one state-owned company in this market.

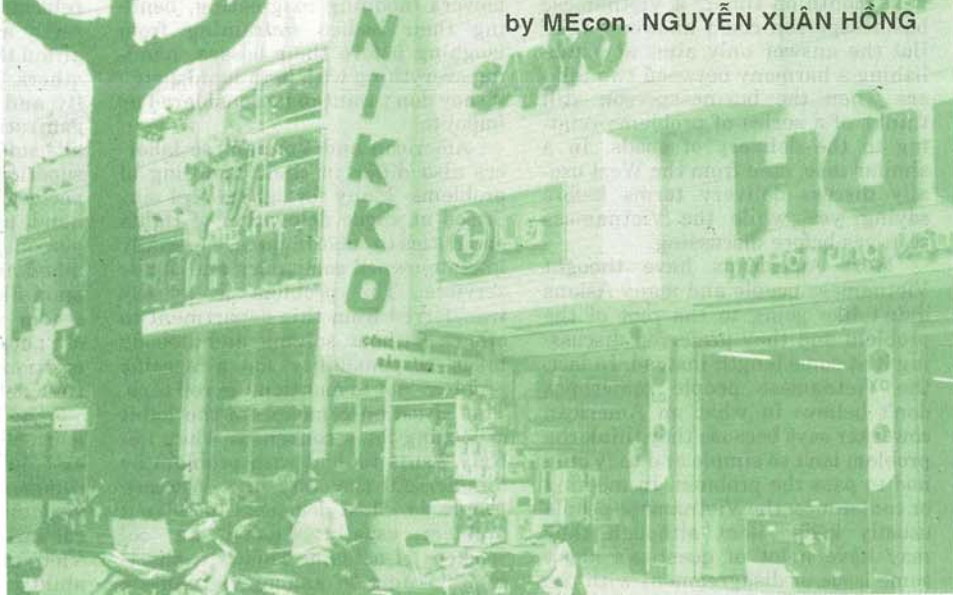
Vietnamese laws require insurance companies to have paid legal capital of VND140 billion or US\$10 million at least and this capital must be un-

changed during their time of doing business in Vietnam. To meet this requirement, many companies have increased their capital: from US\$15 to 75 million in Prudential and from US\$10 to 25 million in AIA. Manulife and Bảo Minh - CMG maintained their capital of US\$10 million. If approved, the capital of the New York Life International will be US\$10 million. To help Bảo Việt play the leading role in the market, Nguyễn Sinh Hùng - Minister of Finance - signed to Decisions, 169/2003/QĐ-BTC and 170/2003/QĐ-BTC to increase its legal capital to VND3,000 billion in November 2003. In late 2003, a Bảo Việt Nhân Thọ (Bảo Việt Life Insurance Company) as a subsidiary of Bảo Việt was established. It is planned that a Bảo Việt Phi Nhân Thọ (Bảo Việt Non-Life Insurance Company) will be established. For the time being, a sum of VND404 billion is added to the capital of the Bảo Việt. By the end of 2003, Bảo Việt was re-

quired to reevaluate its assets and submit a plan to increase its legal capital to the Ministry of Finance. Thus, all insurance companies have secured a big capital to meet the increasing demand from the market.

In the past three years, there have been changes in market shares. While foreign companies succeeded in increasing their market shares (from 15.3% in 2000 to 34.94% in 2002 for Prudential for example), Bảo Việt suffered decreases (from 75.3% in 2000 to 46.47% in 2002). Bảo Việt should revise its business strategy if it wants to keep the leading role in this market.

Insurance policies offered by foreign companies are more diverse in comparison with what offered by local rivals. Both Bảo Việt and Bảo Minh-CMG are content with the main products and some additional ones while foreign rivals could meet a wide range of requirements from customers. AIA for example, could offer group





**Table 1: Market shares of insurance companies as % of total sales**

Company	2000	2001	2002
Bảo Việt	75.3	54.3	46.47
Prudential	15.3	29.2	34.94
Manulife	7.4	10.8	11.92
AIA	1.2	3.6	4.40
Bảo Minh- CMG	0.8	1.4	2.27
Total	100.0	100.0	100.00

life policy, insurance against death and injury by group accidents, and group assisting policy.

Investments from insurance companies are also noteworthy. Although the investment fund of life insurance companies is not

market is still at its first stage of development and long-term investments are still lacking. This means that the efficiency of investments from insurance companies is limited.

The growth rate of the life insurance is very high:

their best to expand their operations, reached more cities and provinces, diversify their products and co-operate with banks in making their product available. Their websites have been launched in order to introduce their products, give advisory services to potential customers and launch sales promotion campaigns. After the first half of 2003 when the growth rate decreased, the fund for these campaigns was also reduced. Their network of agencies has expanded quickly: from some 17,000 in 2000 to 40,000 in 2001, 70,000 in 2002 and 75,000 in 2003 but it is expected to fall to some 68,000 in 2004. Many companies have

developed fully. The absence of an anti-trust law leads to unfair competition with the result that governments of Kiên Giang and some neighboring provinces have prohibited civil servants from working as part-time agencies for foreign insurance companies. In addition, many gossips about these companies have become widespread. Many persons work as agencies for different companies, and as a result, their opinions and information become less exact, which could be harmful to potential customers.

## 2. Suggested measures

a. Petitions to the Government:

- The legal infrastructure for this market must be perfected in order to ensure fair competition between companies and benefits for customers. In addition, the Ministry of Finance and Association of Insurance Companies must develop a mechanism for supervising operations of companies.

- Tax incentives could be given to buyers of life insurance and more support to the development of a information service for this market.

- Suitable measures could be taken to help the Bảo Việt Nhân Thọ improve its competitiveness instead of using administrative barriers to restrain private companies.

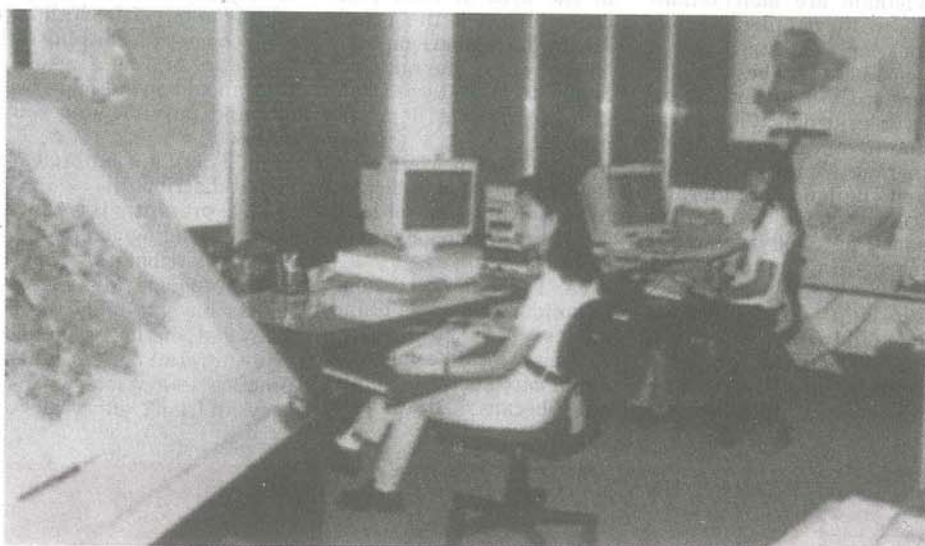
b. Measures suggested to companies:

- Companies, especially ones that lack mixed products, must diversify products and improve their quality.

- Enhancing expertise and work ethics of agencies is also helpful.

- Compensations and payments must be made exactly and quickly in order to enhance the public images.

- Premium could be turned into productive investments after careful researches of opportunities. ■



very large but it rose at high rates, over 100% a year. That is why this fund will play an important role on the financial market. Some 32% of this fund was used for buying government bonds; 51% was deposited with banks and 17% was invested in other companies. This situation originates from the fact that the local financial

1,742% in 1997; 1,060% in 1998; 142% in 1999; 160% in 2000; 116.7% in 2001 and 44% in the first half of 2003. These figures show that the growth rate starts to decrease in spite of some increases in 2000 (because in 1999 foreign companies started to take part in this market.)

From 2003 on, insurance companies have tried

started to pay attention to remote areas and small towns. This situation perhaps comes from the fact that the market hasn't gained high stability and most people didn't understand benefits of long-term insurance policies.

Another problem to take into consideration is the legal infrastructure for this market. It hasn't been

**Table 2: Investment from insurance companies**

Year	1996	1997	1998	1999	2000	2001	2002
Investment fund	0.7	15.0	178.0	582	1,654.0	4,000.0	6,700.0
Growth rate (%)		2,042	1,086	226.97	184.19	141.83	67.5