INSURANCE BUSINESS AND STOCK MARKET

by MEcon. NGUYỄN ANH TUẤN

Decree 100/CP dated Dec. 18, 1997 on the insurance business put an end to the state monopoly in this field and gave it a new lease of life. In the past, there was only the Vietnam Insurance Company (Bảo Việt). At present, this business is livelier with 16 insurance companies (four state- owned ones, five joint ventures, three joint stock companies, and four foreign giants) along with one insurance agent and over 40 rep offices of international insurance groups.

These companies provide three classes of insurance (property and liability insurance and life insurance) including some 90 different kinds, which make the business develop incessantly.

Table 1: Insurance sales in Vietnam

Year	1994	1995	1996	1997	1998	1999	2000	2001
Insurance sales (VND billion)	741	1,026	1,253	1,450	1,715	2,348	2,881	4,853
% of the previous year	100	138	122	123	118	137	123	169

Source: *Thời Báo Kinh Tế Việt Nam* (Vietnam Economic Time) 2000-2001

This achievement came from the following reasons:

- Right policies suitable to the mixed economy encouraged investment from all sectors in economic development because they allow all classes, including foreign companies, to engage in this service.
- Legal infrastructure is perfected continuously with many laws made: Civil, Investment, Commercial, Companies, Navigation, and Insurance Laws. And as a result, private companies feel sure of their long-term investment in the business.
- Keen competition between insurance companies helped improve service quality, business mode and performance, and bridge the gap between foreign and local companies in terms of business methods, capital, premium, quality of service, training techniques, investigation, etc.
- In 1999, the life insurance was introduced. This service attracts many salary earners because it provides them with both insurance and savings. Many leading companies, such as AIA, Prudential, Manulife and Bảo Việt, are offering this insurance policy and its sales have been on the increase for the past five years.

Table 2: Life insurance sales

Year	1997	1998	1999	2000	2001
Sales (VND billion)	17.5	203	492	1,208	2,775

Source: *Thời Báo Kinh Tế Việt Nam* 2000-2001

It's estimated that the sales of this policy will reach VND4,200 billion in 2002 and equal 2% of the GDP by 2005. However, this market is still at its first stage of development and its potentials are great in comparison with its counterparts in regional countries. In the future this business could contribute a lot to the change in the structure of industry.

The development of the insurance business poses a new problem: What is the premium used for when no casualty happens? As we know, most of the insurance sales are usually turned into short-term investments, because the insurance market hasn't developed well enough so riskier insurance policies aren't saleable. And as a result, insurance companies find it easy to invest their sales in the financial market.

In 1997 when the life insurance was introduced, customers usually want to be paid in a period varying from five to 20 years along with annuity every year. It's annuity that force insurance companies to look for productive investments. That is why insurance companies engage in the financial investment.

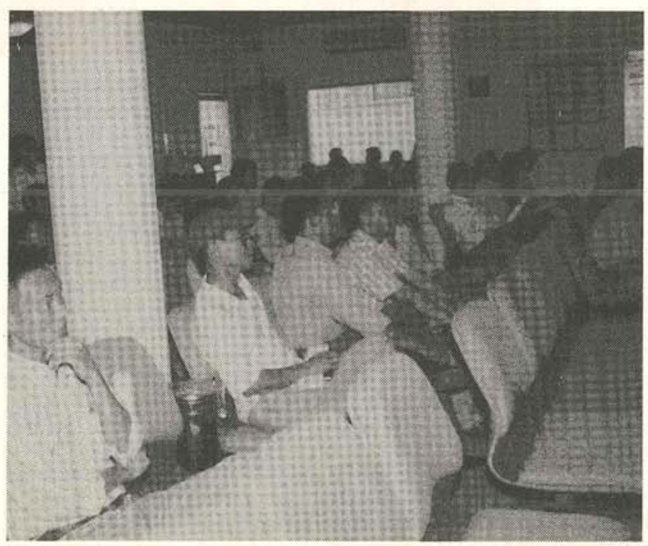

Table 3: Insurance market in some Southeast Asian countries

Country	Vietnam	Brunei	Indonesia	Malaysia	Philippines	Singapore	Thailand
Total sales (US$ million)	148	95	766	3,268	816	4,810	3,712
Per capita sales	2	311	4	151	11	1,550	61
Total sales as % of GDP	0.58	1.74	1.67	3.34	0.99	4.99	2.41

Source: *Tài Chính* (Finance Magazine) December 2000.

Table 4: Investment portfolio by European insurance companies in 1999 (%)

Country	Stock		Real estate	Speculative investment	Bank deposit
	Bond	Share			
England	35	50	6.7	6	2.2
Belgium	72.7	19.9	4.3	1.2	1.9
Denmark	64.2	25.7	1.8	0.7	1.2
Germany	72.5	20.9	5.0	7.1	1.6
France	73.6	15.5	8.0	1.3	1.3

They usually make the following investments, in order of priority: stocks and stock certificates, government and company bonds, shares, real estate, loans, and bank deposits

In 2000, insurance companies invested 30.9% of their sales in bonds and stocks, 51.9% in call deposits, 7.6% in real estate, 5.9% in other companies and 3.7% in loans. For comparison purposes, we can have a look at the investment portfolio by European insurance companies in 1996

The investment portfolio by European insurance companies is different from that adopted by their counterparts in Vietnam because all these countries have well-established financial markets. That is why insurance companies in Vietnam couldn't play any important role in the economy in general and in the financial market to be precise. When deciding on financial investment, insurance companies want high degree of safety, reasonable productivity and high liquidity, which they find that the Vietnamese stock market couldn't ensure. Facing such a situation, we suggest here some measures to attract and enhance effects of investment by insurance companies.

- Necessary measures must be taken to ensure stable growth, exchange, inflation and interest rates; and reduce unemployment rate, thereby creating a favorable business climate, reducing business risks and making insurance companies feel sure of their long-term investment in the financial market.

- The system of laws must be perfected and more consistent in order to help markets develop healthily and safely. The law system should have ability to regulate economic activities and supervise entities engaging in the stock market. To achieve this aim, new laws must be made, obsolete ones replaced or amended.

- Commodities traded on the stock market must be more diverse. Up to now, only 19 stocks along with T-bills are traded on the market. The number of listed stock is too small to compare with the number of privatized companies and the market demand. It's apparent that the stock market hasn't become an attractive channel for capital.

The interest expected by bearers of T-bill must be higher to make them more attractive in the eyes of investors.

- Development of the financial market requires well-organized information and advisory services. Anybody who wants to engage in this market needs updated, timely and clear information because they want to estimate degrees of risk and safety of their investments beforehand. The auditing service also helps supply information about financial situation of companies that have their stock listed. It's the lack of information and existence of unreliable information that make most insurance companies reluctant to invest in the financial market.

In short, insurance business and stock market are interdependent: a stable and safe stock market will enhance efficiency of investment from the insurance business.■