

Insurance Market in Vietnam after Its Accession to The WTO

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Abstract

Vietnam, after joining the WTO, has to carry out its commitment to open the domestic market, including the insurance one. The worrying problem is whether the open insurance market and liberation of the financial sector cause troubles for the insurance market and affect operations of insurers and legitimate interests of the insured or not because the insurance is one of financial services of high sensitivity. This paper tries to answer the said question.

I. Main WTO commitments for the insurance market

1. General commitment

Foreign insurers are allowed to open rep offices in Vietnam. If they achieve conditions for establishing insurance companies in Vietnam, they are allowed to form such companies as joint ventures; buy shares from local companies without the proportion authorized by law; and hire land needed for their projects.

2. Commitments for the insurance service

- Foreign insurers are allowed to supply: insurance services to foreign-invested companies and foreigners working in Vietnam; reinsurance services; international transport insurance (by ship, by air and in transit for vehicles, cargoes and any related responsibility); insurance and reinsurance broker's services; consultancy, risk assessment and calculation, and compensation payment.

- Foreign-invested insurance companies operating in Vietnam: As of Jan. 1, 2008, foreign insurance companies are eligible to supply compulsory insurance services.

- Branches of foreign insurers: Five years after Vietnam's accession to the WTO, foreign insurers are allowed to form branches to supply non-life insurance services in Vietnam, based on cautious regulations.

Thus, foreign-invested insurers as from Jan. 1,

2008 could enjoy the national treatment and equal opportunities like local ones. Such restraints as: 20% compulsory reinsurance; being banned from selling insurance to the public sector; and limits on number of branches of foreign -invested insurers, etc. are naturally revoked after the Vietnam's accession to the WTO. Commitments made by Vietnam to the WTO are similar to what it agreed in the American-Vietnam BTA five years before. In other words, Vietnam's commitments are extended to not only the U.S., but also all WTO members. This means that local insurers had five years to make necessary preparations for these commitments.

II. Preparations for international integration

1. Characteristics of insurance service

The insurance products are easy to imitate and they are developed according to international standards. Many products have been internationally standardized, from application forms, to terms and conditions for marine insurance; P&I insurance; fire and special risk insurance, etc. When coming into operation, insurance companies usually inherit products available on the world and domestic markets. Moreover, most local insurers, because of their limited financial strength, have to buy service from a foreign or local reinsurer. This means that terms and conditions of insurance and premium set by the insurer should be similar to ones offered by the reinsurer, which lead to cooperation between insurance companies and international integration.

2. Birth of Vietnamese insurance market and its integration into the world market since 1993

On Dec. 18, 1993, the Decree 100/1993/NĐ - CP on establishment and organization of insurance companies in Vietnam was issued, which led to the birth of many insurance companies, besides Bảo Việt

that came into operation in 1964. The following are some of them:

- Non-life insurance company: Bảo Minh (1994), PJICO (1995), Bảo Long (1995), PVI (1996), and PTI (1998), etc.
- Foreign-invested non-life insurance company: VIA (1996), UIC (1997), Allianz (1999), and Việt Úc (1999), etc.
- Local life insurance company: Bảo Việt Nhân Thọ (in a 1996 pilot scheme).
- Foreign-invested life insurance company: Bảo Minh CMG (1999), Prudential (1999), and Manulife (1999), etc.
- Insurance brokerage firm: AON (1999), etc.
- Reinsurance company: VINARE (1994), etc.

In 2000, the Insurance Law was promulgated and it came into effect as of April 1, 2001. The insurance market from then on is regulated by this law and subordinate legislation. In 2003, the Department of Insurance was formed by merging Bureau of Insurance under the Department of Management of Banks and Financial Institutions, which establishes stricter state control over the market thereby facilitating development and integration of the insurance sector into the world market.

Up to the end of 2006, before the WTO commitments came into effect, the insurance market in Vietnam comprised 21 non-life insurance companies (including two state-owned ones; four joint ventures with foreign partners; and five foreign-owned ones), seven life insurance companies (one state-owned one and six foreign-owned ones); eight insurance brokerage firms (five joint stock ones and three foreign-owned ones); and one joint stock reinsurer. They either compete against or cooperate with one another to supply better products and satisfy certain needs of the public. Efforts to integrate more fully into the world market and improve the competitiveness by each company gave birth to the Association of Vietnamese Insurers on Dec. 25, 1999 with 10 insurers as founding members.

3. Development of insurance companies

Up to the end of 2006, total legal capital of non-life insurers amounted to VND3,255 billion plus US\$74.4 million (VND1,190.4 billion); of life insurers VND1,500 billion plus US\$180 million (VND2,880 billion); of insurance brokerage firms VND28 billion plus US\$0.9 million (VND14.4 billion); and of the reinsurer VND500 billion. Total assets of non-life

insurers was VND8,215 billion, of life insurers VND30,388 billion; and of the reinsurer VND875 billion. Premium sales by non-life insurers amounted to VND6,445 billion and by life insurers VND8,483 billion. They also made financial investment: VND5,143 billion from non-life insurers and VND25,533 billion from life insurers.

These factors have helped enhance public images of the insurers, reduce proportion of reinsurance services supplied by foreign companies, increase contingency funds for the insurers, and bring about more income from financial investments by the insurers thereby increasing the insurance dividend sent to the insured.

4. Diversification of insurance products and expansion of distribution channels

Up to the end of 2006, there were over 700 non-life products and 100 life ones. The insurance products increasingly complied with international standards and satisfied the market demand. Moreover, they met requirements posed by developments of certain industries, such as oil, aviation, shipbuilding, and bridge and road building, thereby encouraging indirectly both foreign and domestic investment.

Life insurers led the way to development of distribution channels through networks of agents while non-life insurers started building their networks of professional and semi-professional agents. In addition, insurance brokerage firms helped distribute non-life insurance accounting for 12% of premium sales, including mostly contracts of high values the required complicated process of estimating risks. Up to the end of 2006, there were some 75,000 professional agents of life insurance; 30,000 semi-professional agents of non-life insurance and eight insurance brokerage firms.

5. More investment in human resource and information technology by insurers

Most insurers have adopted criteria for each position and duty and asked their personnel to take training courses of various forms to reach these criteria. Some major insurers, such as Bảo Việt, Bảo Minh, PJICO and other life insurers, have built their training centers. Insurance agents are recruited and trained as required by the Insurance Law. Many insurers have developed their management software and made considerable investments in information technological facilities.

Efforts in these fields allow them to improve their service quality and competitiveness, cut overheads,

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enhance the ability to assess risks; deal with claims for damages; and prevent insurance exploitations.

6. More familiar to fair competition

From 1993 on local insurers got accustomed to the competition. State-owned ones and joint stock companies where the state held the better part of shares are always under pressure of profit and their spending on publicity and advertisement is limited, while many foreign insurers are ready to suffer losses for years to establish their footholds on the market and to expand their market share. In the past 15 years (1993-2008), however, local insurers have protected their market shares and been ready to compete against foreign life insurers. The Bảo Việt Life Insurance Company has succeeded in competing against foreign life insurers by its own. In addition, life insurers have to compete against other financial institutions, such as banks, stock brokerage firms and housing developers in attracting idle money from the public.

7. More perfect legal infrastructure

The 2000 Insurance Law along with the bulk of its subordinate legislation (Decrees 42 and 43 in 2001; Circulars 98 and 99 in 2004; Decree 118 on law violations in the insurance service, Decree 175 on the strategy to develop the insurance sector up to 2010; and Decision 53 on supervision of insurance companies) have established the legal infrastructure for the insurance service and it was beefed up by other laws on shipping, aviation, land transportation, and inland waterway transportation; the civil code and regulations of compulsory insurance for owners of vehicles and construction machines, etc.

III. Opportunities and challenges after Vietnam's accession to the WTO

1. Opportunities

a. Steady and high growth rates: When import and export grow, all kinds of transportation will develop and need for insurance products will increase. Moreover, the insurance service can help accumulate sources of finance. Insurance reserves can be turned into financial investments and earn some profit for the insured.

b. Increased foreign and domestic investments: When new industries develop (such as shipbuilding, subway building, production of spare parts for airplanes, etc.) they will become customer of the insurers for various products.

c. Privatization: Private ownership requires company owners to buy insurance against all kinds of risks for their assets. Moreover, the insurance market can develop healthily when insurance retail sellers have no chance to demand commission or choose rates of commission at their will.

d. Reduced state subsidies: When more and more fields are open to all classes, expenses on health care and education service increase, the need for social security gets higher. When subsidies from the state decrease, the insurance service can help prevent losses caused by natural disasters and accidents.

e. Perfection of the law system: It will protect better legitimate interests of consumers. The liability insurance becomes a need to various producers, professionals, owners of motor vehicles, and even private persons. The amended Insurance Law that beefed up the state control over the insurance service and protected interests of the insurers also a good condition for the development of this service.

f. Higher personal income: Many persons have earned much more income recently, such as company owners, experts, farmers, and owners of family businesses, and they tend to think of insurance products for themselves and their families.

h. Improved public awareness of insurance: Habit of buying insurance products by foreign investors started to spread to their customers, which made more and more people from all walks of life follow their behavior.

2. Challenges

a. Increased number of insurance companies: The infant insurance market proves promising and attractive to both foreign and local investors. The birth of a series of insurance companies makes the competition increasingly fierce. Brain drain facing existing insurers is a worrying matter.

b. Cross-border supply of insurance products: This practice is an unfair competition against insurers operating in Vietnam because (1) they lack information about their rivals who operate in foreign countries while their rivals know a lot about them; and (2) they have to pay many taxes and fees to Vietnamese authorities while their rivals don't.

c. Imperfect distribution channels: Because increases in number of agents mean increases in sales, many insurers have paid no attention to quality of agents. Fortunately, the growth rate of this sector has been lower recently and they started investing more

time and energy in their distribution networks. But most non-life insurers still keep maintaining their competitiveness based on low premium, high commission and financial support to their agents instead of building a network of professional agents. Many brokers invent terms and clauses and lower the premium at will, causing troubles for the insurers and the whole insurance market.

d. Poor technological facilities: Facilities of the insurers failed to update information about new contracts and customers, and estimate risks and losses leaving many loopholes for fraudsters.

e. Competition based on low premium instead of better service quality: The premium is now determined by competition without attention to the object insured or risks involved. One of causes of this situation is the fact that fixed salaries and expenses are allocated to agents based on their sales without paying attention to possible compensations. This situation leads to competition between insurers and even between agents of the same insurer.

f. Troubles with compensation: There are many troubles with compensation: (1) Procedures for getting the insurance are not transparent; (2) Procedures are very complex; (3) The insurer meets with a lot of difficulties to gather documents and information, especially from hospitals or police posts, needed for decisions on compensation; (4) The insurers have no autonomy in assessing losses; (5) Agencies that give advices on estimates of losses and compensation (as a middleman between the insurer and customer) didn't operate well, or their decisions are not approved by authorities; and (6) No punishment is given to the insurers who are slow to pay compensation or fraudsters.

IV. Measures to develop the insurance market

1. Setting forth criteria for establishment of insurance companies: Basic criteria include:

- Founders of the company should have experience of insurance business,

- Potential products should be appropriate to the market demand and serve the development of the market,

- Personnel must include employees of good experience and competence,

- Technological facilities must be modern enough to supply and supervise insurance services,

- Owners' capital must be equal to, or bigger than,

the legal capital to ensure stable operation in Vietnam, big insurance reserve, and enough investment in training and R&D activities.

2. Perfecting the legal infrastructure: Many decrees and circulars as guidelines for the Insurance Law have been amended and they can serve as a basis for future amendments to the Insurance Law in 2009. By 2010, this law must be amended further to reach international standards and provide better protection for customers.

3. More competent control of the state: Department of Insurance Management under the Ministry of Finance could be developed into a General Bureau of Insurance with rights to deal with violations of Insurance Law, and work out long-term strategy to develop the insurance market.

The Government should form an Agency for Financial Services Supervision responsible for dealing with violations and manipulations by financial institutions in order to prevent bubbles in the financial sector.

4. Need for qualitative changes in insurance companies:

- More investment should be put in technological facilities. Certain insurers have done so but their efforts didn't produce intended results. The shortest way is to cooperate with experienced and competent partners to absorb modern technologies and managerial skills.

- Development of human resource must be turned into a long-term strategy. Non-life insurers can make the best use of brokers and agents, thereby downsizing their personnel and training the rest intensively with a view to producing an army of experts.

- Such competitive advantages of local insurance companies, such as knowledge of Vietnamese geography, culture and law, to compete against foreign rivals, these advantages can help local insurers to make direct contact with potential customers, understand their needs easily, deal with their complaints, and help them fulfill legal procedures or gather documents needed for claims for compensation if need be.

- 5. Better cooperation between insurers: Competition is one of preconditions for bilateral or multilateral cooperation with one another, or even merger and acquisition of insurance companies to create a better competitive edge. When the legal capital increases (VND300 billion for non-life insurance

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company and 600 billion for life insurer), owner's capital increase and the number of insurance companies becomes bigger, with big retentions (10% of owner's capital), the insurers won't need reinsurance from one another, and then, from foreign reinsurers. Moreover, local insurers had better cooperate with one another to build databases needed for estimating and analyzing the risks, information about compensation, causes of losses and measures to deal with fraudsters.

6. More active role for the Association of Vietnamese Insurers: In the past few years, the AVI has played well its role in disseminating information about the insurance service, giving advices on the making of subordinate legislation, supplying information about market estimates, holding workshops and short-term training courses, building a mechanism for cooperation and internal control, and establishing cooperative relations with local and foreign institutions. In fact, however, many insurance companies didn't respect the AVI and no sanction is imposed against violations of AVI rules because its existence and operation depend entirely on contributions from the insurers.

To enhance the AVI role, it should generate its own source of income thereby getting less dependent on contributions from its members. One of measures to achieve this aim is to allow it to supply some public services. For the time being, it could be authorized to grant certificate to insurance agents. In future, it can earn some income by giving advice to policy makers or supplying software for data management needed for insurers and training courses.

V. Some achievements in 2007 by the insurance sector

Table 1: Financial strength (VND bn.)

Insurer	Legal capital	Owner's capital	Total assets
Non-life	7,376	8,680	17,369
+ 13 local ones	6,185	7,670	15,796
+ 9 foreign-invested ones	1,191	1,016	1,573
Life	5,940	5,624	39,417
+ 1 local	1,500	1,502	13,990
+ 8 foreign	4,440	4,122	24,426
Reinsurance (1)	672	614	1,215
Brokerage (8)	424	-	-
Total	14,030.4	14,918	58,001
Compared with 2006		212.5%	146%

Table 2: Sales (VND bn.)

Product	2006	2007	%
Non-life insurance	6,381	8,359	31%
Life insurance	8,481	9,458	12%

Table 3: Insurance reserve (VND bn.)

Product	2006	2007	Growth rate
Non-life	3,489	4,333	24.2%
- Local	3,317	4,101	
- Foreign	171	231	
Life	24,219	31,152	28.6%
- Local	10,793	12,215	
- Foreign	13,426	18,936	
Total	27,708	35,485	28%

Table 4: Investment (VND bn.)

Product	2006	2007	Growth rate
Non-life	4,740	11,495	42.5%
- Local	4,134	10,228	
- Foreign	606	1,266	
Life	25,323	32,568	28.6%
- Local	10,888	12,842	
- Foreign	14,435	19,726	
Total	30,063	44,063	46.5%

The above data show that the insurance market has made good progress in the year after Vietnam's accession to the WTO. The socioeconomic development provides this sector with favorable conditions for growth. The international integration, however, also leads to greater effects of the international market on the domestic one. At the end of 2007 for example, credit crisis in the U.S. and hikes in prices of oil, steel and rice affected seriously the Vietnamese economy. Besides poor macroeconomic management that led to a two-digit inflation rate, unusual fluctuations in markets for gold, securities, real estate, rice and building materials in the first half of 2008 produced bad effects on the economy and the insurance market in particular. In the first quarter of 2008, however, the non-life premium sales amounted to VND8,360 billion (increasing by 31%) and the life premium sales reached VND9,486 billion (increasing by 11.84%), which proves that the insurance market still growth regardless of the above-mentioned fluctuations ■