

# VIETNAM'S INSURANCE MARKET POTENTIALS AND CHALLENGES

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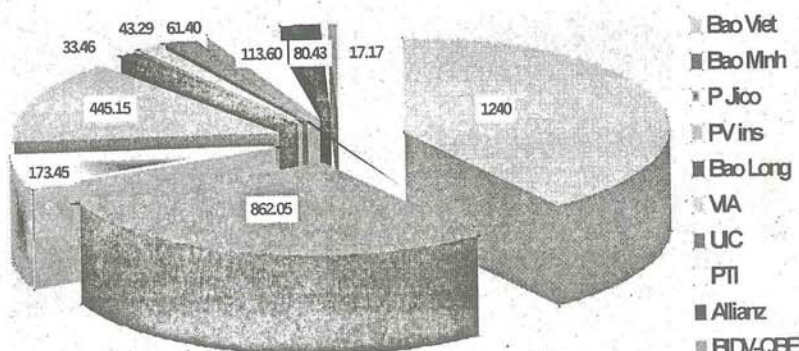
Insurance is a business trading in risks and sharing damages and losses with customers. Its services have abstract and concrete characteristics and practical interests when provisions of the insurance policy are implemented on time and effectively. The success of insur-

booming with diverse forms. There are so far over 40 local and foreign companies and rep offices trading in insurance in Vietnam market (especially since 1995 – a year after the Government issued Decree 100 CP dated December 18, 1993 on insurance business).

Table 1: Market share of non-life insurance in 2002

	Company	Sales (VND bil.)	Market share (%)	Form of business
<b>A GROUP 1</b>				
1	Bảo Việt	1,240.00	40.39	SOE
2	Bảo Minh	862.05	28.08	SOE
<b>B GROUP 2</b>				
1	PJico	173.45	5.65	Joint stock
2	PV ins	445.15	14.50	Joint venture
3	Bảo Long	33.46	1.09	Joint venture
4	VIA	43.29	1.41	Foreign company
5	UIC	61.40	2.00	Joint venture
6	PTI	113.60	3.70	Joint stock
7	Allianz	80.43	2.62	Foreign company
8	BIDV-QBE	17.17	0.56	Joint venture
	<b>Total</b>	<b>3,070.00</b>	<b>100.00</b>	

Figure 1: Market share of non-life insurance in 2002 (%)



ance firms is also the security of customers' and the society.

Moreover, this business has created 170,000 jobs for Vietnamese workers. For customers, to pay premium is to buy assurance and share risks with the community. Insurance also helps balance income distribution, social interests and stability...

Over the past years, the insurance market in Vietnam has been

## I. THE INSURANCE MARKET IN 2002

In 2002, the Vietnam's GDP continued to grow 7.04%, development investment capital up 12.4%, export value up 10%, import value up 19.4%, and foreign investment up over 34% in the number of projects but down in registered capital. The insurance market also saw a robust growth

with total sales reaching VND7,685 billion, up 55% over 2001 and accounting for 1.4% of GDP, including VND3,070 billion in non-life insurance, up 42% and VND4,615 billion in life insurance, up 66% over 2001.

### 1. Non-life insurance

Figure 1 shows that the companies in Group 1 (SOEs - SOEs) take a large share of 68.47% with sales of VND2,102.05 billion, the rest belongs to firms in Group 2 (joint stock, joint venture, foreign investment) with VND967.95 billion accounting for 31.53%.

Nevertheless, if we make a systematical analysis of Vietnam's non-life insurance from 1995 until now, the 31.53% share of Group 2 is really an alarm to insurance firms in Group 1 about its increasing competitiveness (a growth of 30% within only 7 years!). This is just a challenge to state-owned insurance firms, especially in the globalization trend as at present.

The above figure indicates the non-life insurance market share of Group 1 steadily dropped from 98.47% in 1995 to 68.47% in 2002 (down 30%). In the meantime, the market share of Group 2 rose continuously from 1.53% in 1995 to a surprising rate of 31.53% (up 30%). If the market continues to follow this trend, the market share of Group 1 will lose additional 30% and Group 2 gains 30% more, a failure even on the home ground!

### 2. Life insurance

We see there is only one state-owned insurance firm (Bảo Việt) involved in this business, with a significant share of 46.47%. However, in comparative relation, Group 2 still dominates the market with the presence of the world's leading life insurance corporations with a better share of 53.53%.

According to experience from developing countries, sales of life insurance are usually much higher than that of non-life insurance (even three times), especially for populous countries like China, India, Russia, Indonesia...As such, it is really a waste of market potentials that only one



**Table 2: The non-life insurance market share from 1995 to 2002**

Year	Group 1 market share		Group 2 market share
	Bảo Việt	Bảo Minh	Other firms
1995	83.07	15.40	1.53
1996	66.30	22.50	11.20
1997	63.50	21.15	15.40
1998	48.80	24.00	27.30
1999	49.08	24.50	26.42
2000	51.50	24.60	23.90
2001	46.80	25.90	27.30
2002	40.39	28.08	31.53

Source: Bảo Minh Insurance Company

state-owned firm engaged in this business.

Before such a fat market, companies in Group 2 (joint stock, foreign investment, and joint venture) increased their working capital in 2002. Prudential, for example, raised its prescribed capital to US\$61 million, AIA to US\$25 million, Bảo Minh CMG and Manulife to US\$10 million.

**Table 3: Market share of life insurance in 2002**

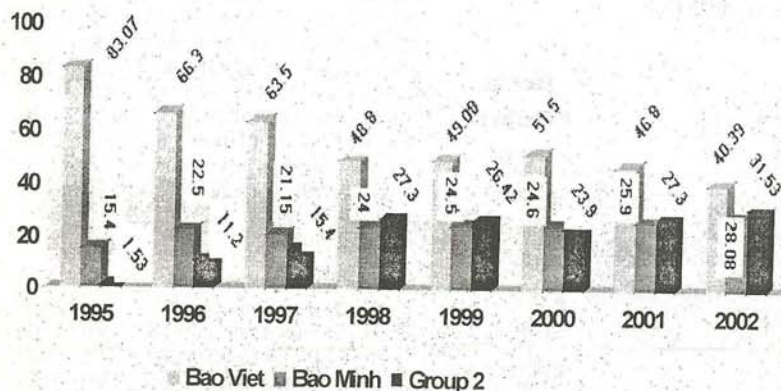
Company	Sales (VND bil.)	Market share (%)
Bảo Việt	2,144.59	46.47
Prudential	1,612.48	34.94
Manulife	550.11	11.92
AIA	203.06	4.40
Bảo Minh-CMG	104.76	2.27
Total	4,615.00	100.00

Source: VINARE

zerland 12.71%, Japan 11.07% and Bahamas Islands 10.17%.

This is really a potential market with fully feasible sales for a developing economy like Vietnam, especially in the current economic globalization that Vietnam completes its commitments to AFTA by 2005 and joins WTO by 2010. In this trend, Vietnam will open its markets to foreign goods and services and play a fair game with its partners. Therefore, insurance business is not an exception. Foreign giants will invest more in Vietnam and SOEs will be not given more incentives and monopoly as at present.

**Figure 2: The non-life insurance market share from 1995 to 2002**



## II. POTENTIALS OF VIETNAM'S INSURANCE MARKET

According to Table 3, GDP rose 7.04% in 2001 over 2001 and expectedly rises 8% in 2005 or attains VND687,018 billion. Suppose the insurance sales represent 2% of GDP in 2005 (1.04% of GDP in 2002), they will amount to VND13,740 billion – 1.8 times as compared to that in 2002. South Africa tops the world list with its insurance sales representing 14.18% of GDP, following are Swit-

Given the trend of growth, it is easily to visualize market shares of Group 1 and Group 2 by 2010 as follows:

- Group 2: its market share in non-life insurance will become 68.47%, up 30% but sees no change in life insurance or stays at 53.53%. Its general share is thus 61% on average.

- Group 1: its market share in non-life insurance will lose 30% and remain 31.53%. Its share in life in-

surance stays at 46.47% and its general share is 39% on average.

As such, total insurance sales will be divided as follows by 2010:

- Group 1: 39% or VND5,358.60 billion.

- Group 2: 61% or VND8,381.40 billion.

- The difference between the sales of two groups is VND3,022.8 billion (equivalent to total investment capital of Đồng Nai Province in 2002). As a result, a part of Vietnamese GDP (0.44%) belongs to joint venture companies and foreign investors while the enterprises in Group 1 enjoyed the market advantages in the first stage. It is just a regrettable loss if this forecast comes true in the next 7 years.

## III. MEASURES TO OVERCOME AND DEVELOP

These above facts and figures prove that our insurance market is truly potential, abundant and bustling. However, the problem is how the market will be shared between SOEs and the rest (joint stock, joint venture and foreign enterprises). To avoid the market contraction or loss even in the home ground, state insurance firms have to operate actively and effectively, implement detailed measures and surpass current stagnation before too late. The following are some proposed measures:

### 1. Products

- The enterprises should concentrate their efforts on designing and launching new products to meet the market demand. Foreign firms do this very well. They devise policies to study and apply foreign insurance products to Vietnam conditions. These workers will be given valuable rewards based on the success of new products.

- New products marketed by these enterprises must depend on real or potential needs in each locality. This will avoid Dead Sea apple and waste of time and budget.

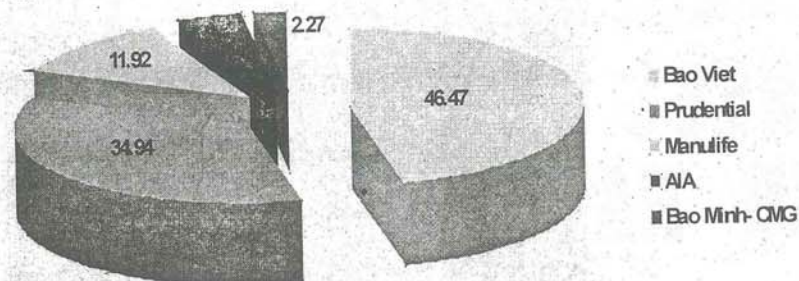
- The enterprise has to establish a network to develop new products, plan the schedule of implementation, supervise and analyze problems arising in the process of implementation, at the same time take measures to overcome troubles on time.

### 2. Marketing

The SOEs have not yet paid full attention to this extremely important task for a long time. This is just a period that foreign insurance firms rushed into Vietnam market with di-



Figure 3: Market share of life insurance in 2002 (%)



verse marketing methods, especially in life insurance. To develop their trade name and expand market share in the time to come, SOEs are required to focus their efforts on marketing. It is really a challenge to state businesses due to their clumsy

shares and step by step recover what was lost.

#### 4. Service quality

The success of a service always depends on accurate measurement of possible risks in the future. Therefore, it is extremely important

Table 4: Forecast on Vietnam's insurance market based on GDP growth

Year	Estimated growth rate	GDP (VND bil.)	Sales/GDP (%)	Total Sales (VND bil.)	Note
2001		512,826	0.967	4,958.00	realized
2002	7.04%	548,929	1.40	7,685.00	realized
2003	7.50%	590,100	1.60	9,441.60	est.
2004	7.80%	636,128	1.80	11,450.30	est.
2005	8.00%	687,018	2.00	13,740.00	est.

organization and bureaucracy. Therefore, they have to make out-right reforms from research, design of marketing strategies to human resource training in accordance with requirements of the market economy.

#### 3. Trade name

This is the largest advantage of state enterprises although their market share is going down. Their trade names are well-known as Bao Viet, Bao Minh because these two enterprises have been granted monopoly for a long time. Nevertheless, their sales in those years were not high, partly because their products were not abundant and the people's awareness of insurance remained restricted (their products were mainly insurance against damages of imports and exports, river ships, fire...). At present, besides some big cities like HCMC, Hà Nội, Cần Thơ, Hải Phòng, most of the remaining provinces are still greatly affected by these two trade names.

As a result, these enterprises must strengthen their trade names and uphold their existing market

problems related to insurance products they are undertaking because these products have direct effects on business performance of insurance policies. If provisions in the policy are not transparent and service quality is poor, the risks will be very high.

At present, many businesses are pursuing profits and find every way to gain shares. This leads to unhealthy competition by lowering premium ratio and expanding conditions of risks in policies (lower cost, more liabilities). In fact, the state insurance firms' compensation ratio has been rather high (some 30%) over the past years.

Life insurance companies should stop using teachers as agents or employ untrained agents carelessly.

#### 5. Customer service

Insurance firms should help customers reduce risks when they have bought insurance, for example, guide them how to preserve and operate equipment and give them assistance tools to prevent fire and natural calamity. This is just sale promotion or

after-sale service. They should recommend customers to respect and implement regulations on safety in production and business, especially for terms agreed in the policy. If these things are well done, the enterprise will reduce more risks to be compensated, moreover, it also gains confidence, assurance and faithfulness from customers.

In addition, insurance firms should advertise its activities and policies widely on papers, radio, television as well as organize programs of updating knowledge about insurance in schools and large state agencies with a view to improving customers' awareness about the importance and benefits of insurance.

#### 6. Compensation

The enterprises must create favorable conditions for customers to receive compensation as soon as possible in accordance with terms agreed in their policy. In fact, many customers have not yet understood fully terminology in the policy when they buy insurance. Regrettably, some bad officials take advantage of this shortcoming in order to ask for bribery.

#### 7. Utilization of capital

State insurance firms' financial investment is quite simple. Their capital earned from premium is mainly used to give loans to banks or invest in long-term government bonds. They do not boldly invest in other sectors including the securities market, shares of joint venture companies, construction of infrastructures and real estate trading. These forms of investment require them to have special knowledge and transparent and trustworthy information about investment project evaluation, time of refundment, redemption ratio, profit ratio, cash flow...

In short, the global economy poses many advantages and challenges to Vietnamese enterprises in general and insurance firms in particular. In a new business environment where there is only fair competition and no discrimination between economic sectors, all forms of protectionism and monopoly find no reason to exist.

Just because of this, state insurance firms are required to make great efforts to overcome their inadequacies, expand market shares, and strengthen trade name to survive in the harsh competition in the time to come. ■