

ON THE OPENING OF VIETNAM'S INSURANCE MARKET

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A developed financial system in the Vietnam's context of integration and open door will provide a series of various services through activities of financial intermediaries. In addition to the securities market and financial intermediaries attached to the market already established, there is a potential financial market that has recently taken shape to provide prospective financial services for local and foreign investors: that is the insurance market. We want to refer to the opening of financial services on the insurance market, its effects and Vietnam's solutions.

THE PROCESS OF OPENING VIETNAM'S INSURANCE MARKET TO FOREIGN INVESTORS

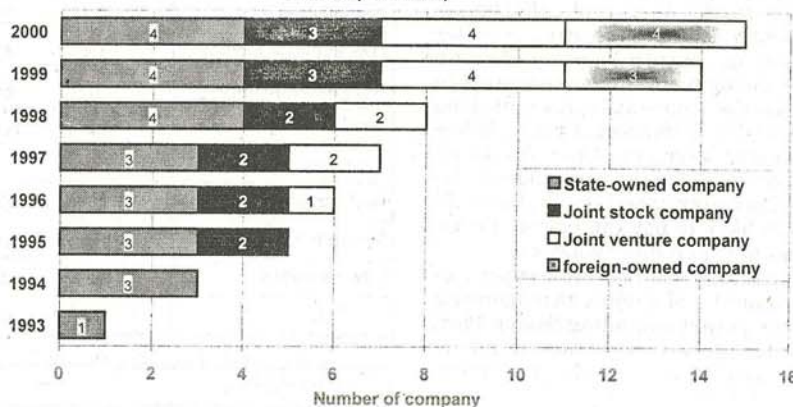
The initiation of Vietnam's insurance market is an impressive indication of its liberalized financial market. In theory, the opening began since Vietnam's Government issued Decree 100/CP on Dec 18, 1993. Accordingly, the Vietnam's insurance market can involve foreign investors in forms of joint venture company, branch of foreign insurance firm in Vietnam, and 100% foreign-owned enterprises (Article 2, Sections 1 and 3, Decree 100/CP). In fact, the market started in 1996 when the first insurance joint venture - VIA (between Bảo Việt Company and Japanese Tokyo) was permitted to operate, following is the United Insurance Company (joint venture of Bảo Minh and Japanese Mitsui and Yasuda). There are so far 4 joint ventures and 4 wholly foreign-owned company engaged in insurance business in Vietnam (see Table 1 and Figure 1)

The opening of the Vietnam's insurance market is initially indicated by the increasing participation of foreign insurers and changed structure of market shares. There are so far 15 insurers (not to mention insurance brokers), including 8 foreign-owned companies (4 joint ventures and 4 wholly foreign-owned companies) with the combined chartered capital and reserve funds of VND638 billion (see Table 2), accounting for 12.66%

Table 1: INSURANCE FIRMS IN VIETNAM

| Firms | Year of establishment | Business scope | Form of ownership |
|---|-----------------------|-------------------|--------------------|
| 1. Vietnam Insurance Corporation (Bảo Việt) | 1964 | Non-life and life | State-owned |
| 2. HCMC Insurance Company (Bảo Minh) | 1994 | Non-life | State-owned |
| 3. Vietnam National Reinsurance Company (VINARE) | 1994 | Reinsurance | State-owned |
| 4. Nhà Rồng Insurance Joint Stock Company (Bảo Long) | 1995 | Non-life | Joint stock |
| 5. Petrolimex Joint Stock Insurance Company (PJICO) | 1995 | Non-life | Joint stock |
| 6. PetroVietnam Insurance Company (PVIC) | 1996 | Non-life | State-owned |
| 7. Vietnam International Assurance | 1996 | Non-life | Joint venture |
| 8. United Insurance Company (UIC) | 1997 | Non-life | Joint venture |
| 9. Post Insurance Joint Stock Company (PTI) | 1998 | Non-life | Joint stock |
| 10. Vietnam Allianz-AGF Insurance Company, Ltd. | 1999 | Non-life | 100% foreign-owned |
| 11. Vietnam-Australia Insurance Joint Venture Company | 1999 | Non-life | Joint venture |
| 12. Bảo Minh - CMG Life Insurance Company, Ltd. | 1999 | Life | Joint venture |
| 13. Vietnam Prudential Life Insurance Company, Ltd. | 1999 | Life | 100% foreign-owned |
| 14. Chinfon-Manulife Insurance Company, Ltd. | 1999 | Life | 100% foreign-owned |
| 15. American International Insurance Company (AIG) | 2000 | Life | 100% foreign-owned |

Figure 1: The Development Of Insurance Business Forms In Vietnam (1993-2000)



of the total in the Vietnam's insurance market.

Foreign investors provide life and non-life insurance services, especially in the past two years, four foreign companies are engaged in life insurance, including Chinfon-Manulife, Prudential, Vietnam-Australia, Bảo Minh-CMG (see Table 1 and Figure 2).

However, the foreign-owned non-life insurance firms, although operated in Vietnam since 1996 (in the form of joint venture), remains a modest share of the Vietnam's non-life insurance market (see Table 3). This poses two problems: first, is the joint venture form appropriate? Second, are local insurers and foreign in-

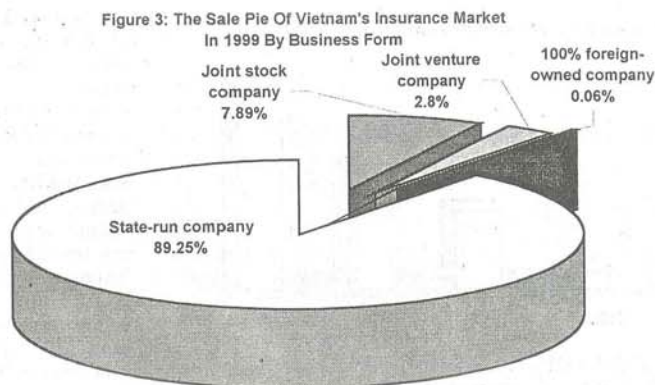


Table 2: The Insurance Firms' Structure Of Capital And Fund (VND bil.)

| State-owned firms | | Joint stock company | | Joint venture company | | 100% foreign-owned company | |
|---------------------|-----------|---------------------|---------|-----------------------|---------|----------------------------|---------|
| Bảo Việt | 1,760 | PTI | 91 | VIA | 79 | Prudential | 154 |
| Bảo Minh | 307 | PJICO | 172 | UIC | 61 | Chinfon-Manulife | 84 |
| VINARE | 154 | Bảo Long | 34 | Bảo Minh-CMG | 31 | Allianz-AGF | 85 |
| PVIC | 67 | | | Vietnam-Australia | 60 | AIG | 84 |
| Total | (1) 2,279 | | (2) 297 | | (3) 231 | | (4) 407 |
| (1) + (2) 2,576 (*) | | | | (3) + (4) 638 (**) | | | |
| (*) + (**) 3,214 | | | | | | | |

Figure 2: The Development Of Businesses By Scope

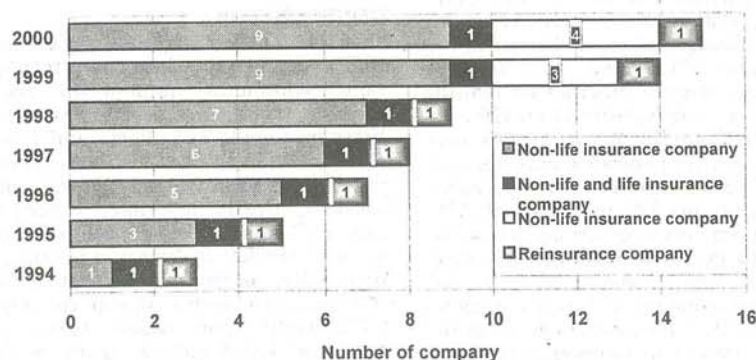
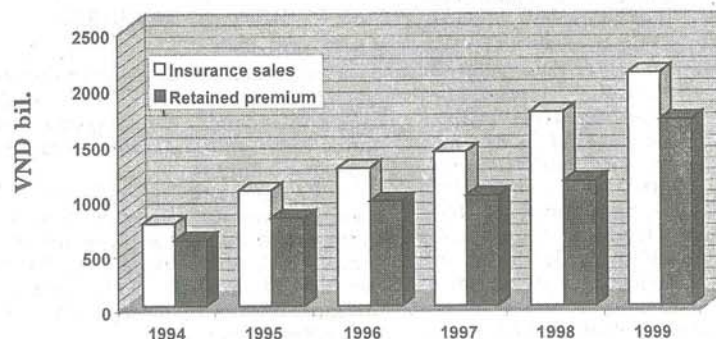


Table 3: VIETNAM'S INSURANCE MARKET SHARE BY SALES (%)

| Company | 1996 | 1997 | 1998 |
|----------|-------|-------|-------|
| Bảo Việt | 69.06 | 63.15 | 59.71 |
| Bảo Minh | 20.28 | 21.23 | 23.10 |
| PJICO | 4.08 | 5.94 | 5.76 |
| PVIC | 4.96 | 6.69 | 6.89 |
| Bảo Long | 1.49 | 1.78 | 1.38 |
| VIA | 0.13 | 1.11 | 1.18 |
| UIC | | | 1.69 |
| PTI | | | 0.29 |

Figure 4: The Growth Of Vietnam's Insurance Market (1994-1999)



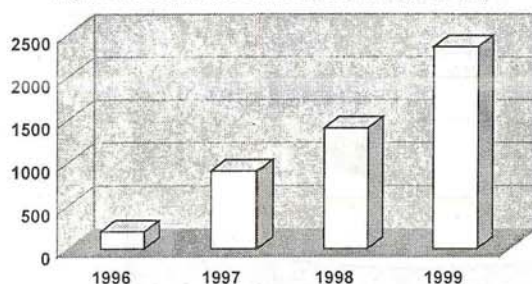
vestors able to improve the investment climate to attract foreign direct investment to other industries in Vietnam?

Foreign and local insurers provide not only insurance products to protect their clients from unexpected risks and improve the investment environment, but also important sources of capital for the economy when they hold a huge amount of idle money as premium, especially life insurers. As such, in the near future, the insurers play an extremely important role as financial intermediaries in economic development. The investment capital of insurance enterprises had amounted to VND2,438 billion by Dec 31, 1999. The figure certainly rises in the future (see Figures 4 and 5).

The opening of Vietnam's insurance market is not only indicated by the penetration of foreign insurers in Vietnam but also by local insurers' investment in international markets.

Vietnamese insurers (Bảo Việt, Bảo Minh, VINARE...) have business relations with the world's leading insurers such as Lloyd's, Commercial Union (U.K.), AIG, CIGNA (the U.S.), UAP-AXA, GAN, SCOREE

Figure 5: Investment Of Insurance Firms (VND bil.)



(France), Tokyo Marine, Yasuda (Japan), MunichRe (German), SwissRe (Switzerland), etc. In particular, Bảo Việt Company established an agent in the U.K. (BAVINA U.K. Ltd.). The relations are aimed to provide such services as reinsurance, agent for inspection and compensation.

Vietnam's insurers receive the transfer of insurance technology through cooperation and assistance programs such as ASSUR, EURO-TAPVIET...and seminars.

Along with growth of insurance sales, the percentage of reinsurance to foreign countries also climbs. International re-insurers have helped local partners develop difficult insurance forms and enhance their competence in finance as well as skill.

EVALUATION OF THE OPENING OF VIETNAM'S INSURANCE MARKET

The opening of Vietnam market is really necessary with the aim to ensure the economy and create favorable conditions to attract foreign investment. It also helps transfer foreign technologies to enhance local competitiveness in the country's process of regional and global integration.

At present, there are 4 methods to open the insurance market: (1) fully-opened markets of developed countries, (2) partly-opened markets of developed countries, (3) fully-opened markets of developing countries, (4) partly-opened markets of developing countries. Based on regulations by the Vietnam's Government on granting licenses to foreign insurers (Decree 100 CP, Circular 46, Circular 26...) as well as in reality, we can see the Government determines the fourth option, that is to open partly the insurance market of a developing country. This method is widely used in developing countries with potential insurance markets, for example, South Korea, Malaysia, and Thailand. Although the proportion of insurance purchase remains low in these countries, but its growth rate is

far higher than that of developed countries. The Vietnam's selection shows that the Government highly appreciates the potentiality of Vietnam's insurance sector and considers insurance as an important instrument for socio-economic development. In addition,

its determination is proper because the Vietnam's insurance industry is still in the embryonic stage, and insurance services are outdated and incompetent. Furthermore, the legal framework for insurance business remains imperfect. Therefore, if the door is fully open to foreign insurers, then it is hard to supervise their operations and the local firms may face downturns.

However, the prudence in opening this market also causes no uniformity in opening the economy. As we know, foreign direct investment (FDI) capital in Vietnam was highest in two years 1995-1996. In this period, the Vietnam's amended Foreign Investment Law specified that foreign-owned companies had their assets and responsibilities assured by legal insurers in Vietnam. However, at that time, there were only two foreign-invested insurers in Vietnam - VIA and UIC. A 100% foreign-owned companies for non-life insurance had occurred by 1999. It is ALLIANZ-AGF. According to estimates of the Insurance and Reinsurance Market Journal, the Vietnam's insurance market attracted only 30% of foreign investors from other sectors to purchase insurance (in spite of legislation issued). As such, has the involvement of foreign insurers in non-life insurance met adequate requirements of improving the environment to attract more foreign capital?

EFFECTS AND SOLUTIONS TO THE OPENING OF THE INSURANCE MARKET

- The local insurance firms should strengthen their organization, staff competence and product quality to gain a niche on the market when foreign rivals appear.

- The opening is implemented mainly in one-way direction. Most of Vietnamese insurers are busy finding shares in the domestic market. They have not planned the penetration in foreign markets, especially in ASEAN countries.

- The Government should soon perfect the legal framework for insurance business. This will contribute to the market development. An appropriate financial management system is needed for insurance business doing. At the same time, it will secure the close inspection to prevent all negative acts in this sector, especially when they are harmful to the country's economy. The Government should map out detailed plans for foreign investment in the insurance sector. It should pay attention to the ratio of non-life insurance (improving investment environment and attract more FDI) and life insurance (mobilizing local capital sources). Moreover, it is noteworthy that the size of foreign insurers in Vietnam might generate advantages for the integration into regional markets. Insurers should be given incentives in financial investment to accomplish their roles as financial intermediaries.

- Local insurers are required to set up their own association with a view to ensuring the unification in activities.

- The labor market in the insurance sector will see a boom in the time to come. The workers must be trained to satisfy the increasingly high requirements of local and foreign insurance firms.

CONCLUSION

Globalization, regionalization as well as integration into the international community is now an irreversible trend. The problem is that Vietnam should see effects and find measures for integration and opening door, especially opening financial services, firstly insurance services that are booming. In addition, the insurance market in Vietnam is still a potential one: the total revenue of the insurance sector represents only 0.5% GDP, per capita turnover stands at US\$6 only, a figure much lower than that just in regional countries, not to mention developed countries. ■

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