

DEVELOPMENTS IN THE PAST 10 YEARS OF THE VIETNAMESE INSURANCE MARKET

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The first decade of the twenty-first century full of upheavals in the world and Vietnamese economies is passing. The insurance market that was established by the Decree 100/CP dated Dec. 18, 1993 will be 18 years old by the year's end. It is appropriate now to look back on past developments of this market, from "a boy" to "a young man" ready for foreign competition. The paper on the past developments is part of a research project that aims at estimating the situation and proposing measures to develop it in the coming years.

1. Legal infrastructure for the insurance market

In the years 1993 – 1999, all activities in the insurance market were adjusted by only one document (Decree 100/CP) and some guideline circulars. Its adjustment was only limited to establishment and operation of insurance companies, such as issuing license to supply insurance products, and establishing a mechanism for financial management in the whole industry. Many operations in the market are beyond control or adjustment; and in many cases, administrative intervention is employed instead. The Insurance Law 2000 is considered as a landmark of a decade of development of the insurance market. The legal infrastructure for the insurance market has been perfected since then.

Firstly, developments of the insurance market is based on the "Development Strategy for the Insurance Market from 2003 to 2010" set by Decision 175/2003; and the "Plan to Develop the Insurance Market for 2006-2010" introduced by Decision 4056.

Secondly, activities in the insurance market are adjusted more and more strictly and properly

by a bulk of subordinate legislation about establishment and operations of insurance companies, making and execution of insurance contracts, and compulsory insurance classes in the field of commercial insurance.

Thirdly, agency responsible for controlling the insurance industry has been upgraded, from an office to department and now a general office. Its functional organization has been beefed up with a view to controlling more strictly operations of insurance companies and the whole market as well.

2. Changes in the market structure in direction of liberation

In the 2000s, number of insurers in Vietnam rose from 17 to 50 comprising 28 non-life insurers, 11 life insurers, one reinsurance company and 11 insurance brokers, not to mention some foreign insurers who have left Vietnam for some reason, such as CMG (Australia), Allianz (Germany), Asia (Singapore), and New York Life (USA). There are also over 30 rep offices of foreign insurers and insurance brokers who want to study and make preparation for their entrance into this market

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Table 1: Insurers and insurance brokers in Vietnam

Field	2000	2002	2006	2007	2008	2009	June 2010
Non-life insurer	11	13	21	22	27	28	28
Life insurer	5*	4	7	9	11	11	11
Reinsurance	1	1	1	1	1	1	1
Insurance broker	1	2	8	8	10	10	10
Total	17	20	37	40	49	50	50

(*) Bảo Việt offers both non-life and life policies

Source: Insurance Supervision General Office – Ministry of Finance

Regarding their legal entity according to the Companies Law 2005, 22 insurers are one-man limited companies, six two-man limited companies and 22 joint stock companies. When classifying them according to old regulations (Insurance law 2000), the market comprised two state-owned companies, 22 joint stock ones and 26 foreign-invested ones.

Minh and PVI, were privatized.

(2) More and more privately-run companies are engaging in the supply of insurance services (Vass, AAA, and Bảo Tín, etc.).

(3) More and more foreign players are making their appearance, including such leading insurers as AIG, ACE, Marsh and Aon by establishing their own companies, engaging in joint ventures with local partners, or acting as strategic shareholders of major local insurers (AXA in Bảo Minh, and HSBC in Bảo Việt). Their penetration will continue up to the end of a grace period for full implementation of WTO requirements by Vietnam.

3. Quick increases in sales

Sales of the insurance market have increased steadily at a high speed in the past 10 years, from VND2,291 billion in 1999 to 32,018 billion in 2009 increasing by 14 times. It is worth noting that, unlike the international market, the Vietnamese one kept developing at a high speed even in periods of recession (2008: 15.4% and 2009: 14.1%). This achievement is produced by increases in insurance premium (by 12 times) and in income from financial investment.

Table 2: Insurers and brokers by their legal entity

Field	State-owned		Joint stock		Foreign-invested (**)		Total	
	2000	2009	2000	2009	2000	2009	2000	2009
Non-life insurance	3	2	3	14	5	12	11	28
Life insurance	1*	0		1	4	10	5*	11
Reinsurance	1			1			1	1
Insurance broker			1	6	1	4	2	10
Total	4	2	4	22	10	26	18	50

(*) Bảo Việt offers both non-life and life policies

(**) Including Joint ventures and foreign-owned companies (as defined by the Insurance Law 2000)

Source: Association of Vietnamese Insurers & Ministry of Finance

This period witnessed not only a considerable increase in the number of insurers but also effective implementation of liberation of the insurance business, which showed itself in the following facts:

(1) State-owned insurance companies that controlled the lion's share, such as Bảo Việt, Bảo

This growth helps expand the size of the market. Commercial insurance service plays an increasingly important role and contributes considerably to the economic growth. After 10 years, the share of insurance sales in the GDP reached 1.95% (this figure in 1999 was 0.57%). Per capita insurance premium rose from VND27,000 to 295,000.

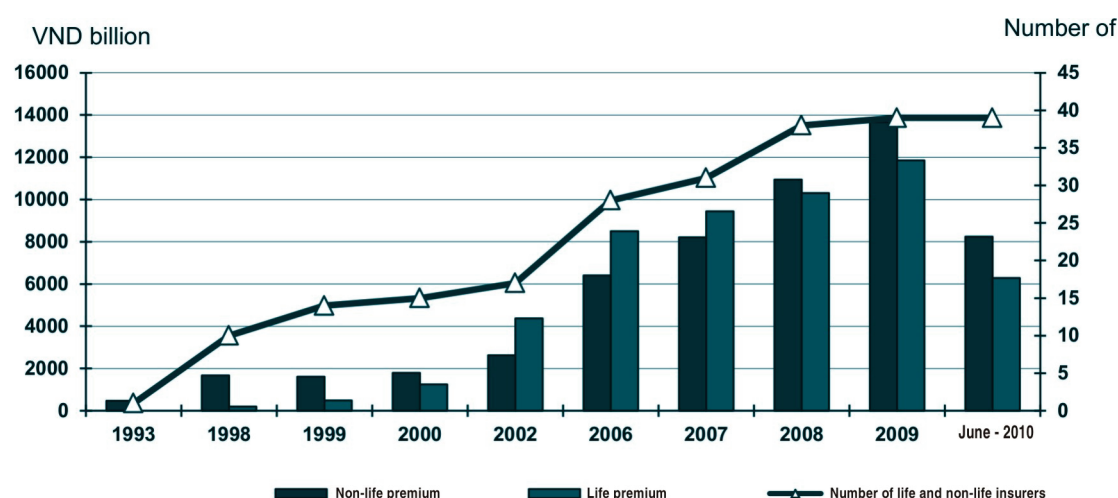


Figure 1: Growth of the insurance market

Table 3: Per capita premium and share of insurance sales in the GDP

Indicator	1999	2002	2006	2007	2008	2009
Share in the GDP (%)	0.57	1.46	1.74	2.12	1.9	1.95
+ Non-life premium	0.4	0.49	0.61	0.72	0.74	0.83
+ Life premium	0.12	0.81	0.81	0.82	0.7	0.72
+ Financial investment	0.05	0.16	0.33	0.58	0.46	0.4
Per capita insurance premium (VND1,000)	27	88	177	207	247	295

Source: Insurance Supervision General Office – Ministry of Finance

4. More balanced structure of insurance revenue

The past 10 years represent a period of establishment and development of the life insurance market. This policy was first introduced to Vietnam in 1998 by Bảo Việt. It was followed by foreign life insurers: Chinfon- Manulife, Prudential (1999), Baominh – CMG (2000), and AIA (2001). At present, there are 11 life insurers, and nine of which are foreign-owned companies that contributed a lot to the total premium of VND13,661 billion in 2009, some 28 times higher than the 1999 figure. Share of the life premium in total revenue rose remarkably, from 21.2% in 1999 to 37% in 2009.

Similarly, income from financial investment also rose quickly, reaching VND6,506 billion in 2009 representing 20.3% of the total revenue (this

figure in 1999 was some 10%) while the share of non-life premium fell from 70% in 2000 to 42.7% in 2009. This shows that the structure of revenue is more balanced and diverse.

5. Increased power of the market

Increases in the revenue from insurance premium and diversification of insurance policies allow insurers to establish provisions and reserves needed for responsibilities they should take and their solvency. In 2009, total reserve of the whole market reached VND49,181 billion from 2,107 billion in 1999.

In addition, total capital of insurers has increased by two times meeting the requirement of legal capital set by law. This increase came from foreign investment, retained profit, and new capital from the privatization. The increased capital of insurers has helped improve the financial

Table 4: Total revenue of the insurance market (VND billion)

Indicator	1999	2002	2006	2007	2008	2009	June 2010
- Premium	2,091	6,992	14,898	17,650	21,256	25,510	14,521
+ Non-life insurance	1,606	2,624	6,403	8,213	10,948	13,661	8,241
+ Life insurance	485	4,368	8,495	9,437	10,307	11,849	6,280
- Income from investment	200	833	3,478	6,623	6,799	6,506	n/a
Total revenue	2,291	7,825	18,376	24,273	28,055	32,018	

Source: Insurance Supervision General Office – Ministry of Finance

Table 5: Total asset, technical provision, compensation – indemnity (VND billion)

Indicator	1999	2002	2006	2007	2008	2009
Total asset (VND billion)	3,692	12,503	39,698	57,543	71,831	82,802
Total technical provision (VND billion)	2,107	8,685	27,707	35,685	41,214	49,181
- Technical provision of non-life insurers			3,778	4,461	5,503	7,097
- Technical provision of life insurers			23,929	31,224	36,711	42,084
Compensation & indemnity	789	1,400	5,690	6,627	9,533	9,721

Source: Insurance Supervision General Office – Ministry of Finance

strength of the market.

With compensation and indemnity amounting to VND9,721 billion in 2009, the commercial insurance business played well its role as a safety instrument and financial provision for individuals and organizations.

6. Insurance business as a financial intermediary

The insurance business has generated a huge and long-term source of capital. In 2009, investment from this business amounted to VND10,214 billion making the total capital from this sector up to the end of 2009 rise to VND66,905 billion (25 times higher than the 1999 level). Management of investment by insurers has been improved with a view to preserving the source of capital and ensuring good profit. Data gathered in 2009 showed that their preferred forms of investment are purchase of government bonds (37.37%), bank deposit (32.97%), purchase of securities and corporate bonds not underwritten (6.02%), along with taking part in joint ventures and limited companies, supplying loans, and participating in investment projects, etc. By diversifying their investment, insurers, especially life insurance com-

panies, gained good profits from financial investment, and increased their total profit.

Table 6: Investment by insurers (VND billion)

Year	1999	2002	2006	2007	2008	2009
Investment	2,664	9,955	30,661	46,549	56,435	66,905

Source: Insurance Supervision General Office – Ministry of Finance

7. Job creation

The insurance business in 2009 employed 182,319 laborers, 90% of them were agents and the rest employees for insurers. In the past 10 years, the insurance business has been one of the hottest sectors because of its increasingly high demand for labor, high income, and good and stable working conditions.

Table 7 – Labor force of the insurance business (employees and agents)

Year	1999	2002	2006	2007	2008	2009
Labor force	30,000	76,600	118,200	131,910	135,256	182,319

Source: Insurance Supervision General Office – Ministry of Finance

Number of insurance agents in 2009 was 164,636 increasing by 33% over 2008 and 600% over 1999. Most of them (127,030) worked as agents for life insurers. Taking the whole past 10 years into account, the number of insurance agents could amount to millions.

8. Conclusion

By analyzing and processing numerical data from the Vietnamese insurance market in the years 1999-2009, we can make some remarks about its development:

- The insurance market has gained high growth rates for the past 10 years and its size expanded steadily.

- The market structure changed favorably. Its operations are diversified and its liberation is clear. It attracts both domestic and foreign investment, which allows its financial strength to be improved and risks are kept under control. It also creates new and well-paid jobs.

- Its role as a financial intermediary is affirmed in reality. Insurers become major investors when they control an abundant and stable source of capital.

- Its legal infrastructure is perfected, which serves as a basis for its growth and future development■

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Appendix 1: System of legislation governing the commercial insurance business promulgated in 2000-2010

Year	Legislation
2000	Insurance Law 24/2000/QH10 came into effect as from April 1, 2001
2001	- Decree 42/2001/NĐ-CP by the Government dated Aug. 1, 2001 providing guidelines on implementation of some articles of the Insurance Law
	- Decree 43/2001/NĐ-CP by the Government dated Aug. 1, 2001 on financial mechanism for insurance companies and brokers
2003	- Decision 175/2003/QĐ-TTg by the PM on Aug. 29, 2003 giving approval to the "Plan to Develop the insurance market from 2003 to 2010"
	- Decree 118/2003/NĐ-CP by the Government dated Oct. 13, 2003 introducing fines against procedural violation in the insurance business
	- Decision 153/2003/QĐ-BTC dated Sep. 22, 2003 on the system of indicators for supervision of insurance companies
	- Decision 134/2003/QĐ-BTC dated Aug. 20, 2003 on duties, rights and organizational structure of Department of Insurance under the Ministry of Finance
2004	Decision 14/2004/QĐ-BTC by Minister of Finance on Jan. 16, 2004 on rules and levels of compensation paid to laborers in construction sector.
2005	- Decree 18/2005/NĐ-CP dated Feb. 24, 2005 on establishment, organization and operation of mutual insurance institutions
	- Decree 125/2005/NĐ-CP dated Oct. 7, 2005 on compulsory insurance of civil responsibility for transporters of passengers, and flammable and explosive substances on inland waterways
	- Civil Law 2005, Chapter XVIII Section 11 (Articles 567 - 580) on Insurance contract
	- Maritime Law 2005, Chapter XVI (Articles 224 - 257) on maritime insurance contract
2006	- Decision 4056/QĐ-BTC dated Dec. 13, 2006 by Minister of Finance on "Plan to Develop the Insurance Market in 2006-2010"
	- Decree số 130/2006/NĐ-CP dated Nov. 8, 2006 on compulsory insurance against fire and explosion
2007	Decision 28/2007/QĐ-BTC dated April 24, 2007 on rules and levels of premium of insurance against fire and explosion
	- Decree 45/2007/NĐ-CP by the Government on March 27, 2007 on implementation of some articles of the Insurance Law as replacement for Decree 41/2001
	Decree 46/2007/NĐ-CP by the Government on March 27, 2007 on financial control mechanism for insurance companies and brokers as replacement for Decree 42/2001
	- Circular 155/2007/TT-BTC dated Dec. 20, 2007 providing details of implementation of some articles of the Insurance Law
	- Circular 156/2007/TT-BTC dated Dec. 20, 2007 on financial control mechanism for insurance companies and brokers
	- Decision 23/2007/QĐ-BTC dated April 9, 2007 by the Ministry of Finance on compulsory insurance of civil responsibility for owners of automobiles
2008	Decree 103/2008/NĐ-CP dated Sep. 16, 2008 by the Government on compulsory insurance of civil responsibility for owners of automobiles
2009	- Decision 288/QĐ-BTC dated Feb. 12, 2009 on duties, rights and organizational structure of Insurance Supervision General Office under the Ministry of Finance
	- Decree 41/2009/NĐ-CP issued by the Government on May 5, 2009 on sanction against procedural violations in the insurance business as replacement for Decree 118/2003/NĐ-CP
	- Circular 86/2009/TT-BTC made by the Ministry of Finance on April 28, 2009 on amendments to Circulars 155/2007/TT-BTC and 156/2007/TT-BTC.