Market Review
April 16, 2012

Vietnam's Insurance Market Anticipates Continued Strong Growth

Total Premium Could Reach VND 46 Trillion in 2012.

Vietnam's insurance market has experienced strong, double-digit premium growth in recent years, and despite the ongoing economic uncertainties around the globe, its expansion is forecasted to continue.

An emerging middle class; increased awareness of the benefits of insurance; and compulsory lines of business, including motor third-party liability coverage, are contributing to a greater takeup of insurance. Furthermore, the Vietnamese economy is continuing to expand, enabling government spending on construction and infrastructure projects. Inflation, currency depreciation and tight fiscal policy led to lower consumption and caused growth in gross domestic product (GDP) to decelerate to an estimated 5.8% in 2011, but economic growth is expected to accelerate to 6.3% in 2012.

The insurance sector opened up after Vietnam joined the World Trade Organization (WTO) in 2007 and has experienced a strong increase in direct premiums written (DPW), albeit from a low base. The market is served by 29 non-life insurers and 14 life companies, which are regulated by the Ministry of Finance (MOF) through its Insurance Supervisory Authority (ISA).

The Association of Vietnamese Insurers (AVI) estimates that total insurance revenue reached 37.5 trillion Vietnam dong (VND) (USD 1.78 billion) in 2011, a 21.6% increase compared with 2010 (**Exhibit 1**). According to the trade body's statistics, non-life insurance revenues for 2011 were an estimated VND 21.5 trillion, up 26% over the same period in 2010, while sales of life insurance reached an estimated VND 16 trillion, a 16% increase over the same period in 2010.

Exhibit 1

Vietnam Life & Non-Life – Key Market Statistics (2007-2011)

	2007	2008	2009	2010	2011
Population (Millions)	85.2	86.2	87.2	88.3	89.3
Gross Domestic Product (VND Trillions)	1,143.7	1,485.0	1,658.4	1,980.9	2,469.6
Change in Real GDP (%)	8.5	6.3	5.3	6.8	5.8
Insurance Penetration (%)	1.6	1.4	1.5	1.6	1.5
Life	0.8	0.7	0.7	0.7	0.6
Non-Life	0.7	0.7	0.8	0.9	0.9
Direct Premiums Written (VND Trillions)*	17.8	21.2	25.5	30.8	37.5
Life**	9.4	10.3	11.8	13.8	16.0
Non-Life	8.4	10.9	13.6	17.1	21.5
Change in Total Premium Volume (%)	18.8	19.0	20.3	21.1	21.6

*2011 direct premium written figures estimates.
**Life direct premium written includes new policies and in-force policies.
Sources: International Monetary Fund, World Economic Outlook Database, September 2011; Association of Vietnamese Insurers

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While the demand for insurance is showing strong growth, insurance premium as a percentage of GDP remains static at around 1.5% (**see Exhibit 1**). At the beginning of 2012, Phung Dac Loc, General Secretary of the AVI, predicted the insurance sector has the potential to expand further as the economy experiences faster growth. He forecasted that non-life insurance would increase at about 28% in 2012, with direct premiums totalling VND 27.5 trillion. Life insurance is expected to grow by 18%, with direct premiums climbing to VND 18.9 trillion in 2012.

Should the market grow at the pace predicted by the AVI, total premiums for the industry would reach VND 46.4 trillion, up 24% from 2011. The AVI is not alone in its projections of continuing strong demand for insurance. Trinh Thanh Hoan, director of the ISA, has been quoted in the media as predicting that total premiums could reach VND 43 trillion in 2012.

However, he warned that companies need to adapt to the competitive insurance market. To tap market potential, he advised insurers to focus on attracting high-quality human resources, develop new products, expand distribution networks and concentrate on microinsurance products (see special report *The Potential of Microinsurance,* March 5, 2012).

Although agents remain the key sales channel for personal lines and life products, insurers are developing alternative distribution routes, such as bancassurance, and enhancing online sales platforms. Liberty Insurance (Vietnam) Ltd. claims to be the first insurer in the country to operate an online automobile insurance distribution channel. Furthermore, in August 2011, BIDV Insurance Corp. (BIC) launched a website and online payment settlement system for high-income customers, offering automobile, motorcycle, accident, property and travel insurance.

Diverse Challenges Face Insurers

While the insurance market is showing strong growth, Vietnam's economic challenges continue to create uncertainty for insurers. Vietnam remains the sole Southeast Asian country to fall into A.M. Best's CRT-5 (Country Risk Tier 5) category – the highest tier – for countries considered to present the most risk. In comparison, Singapore is assigned to CRT-1 (Country Risk Tier 1), which denotes a stable environment with the lowest proportion of risk. The Philippines and Indonesia are classed as CRT-4 countries, while Malaysia and Thailand fall into the CRT-3 category. (See A.M. Best's criteria report *Assessing Country Risk*, May 23, 2011.)

Agricultural Risks and Insurance Affordability

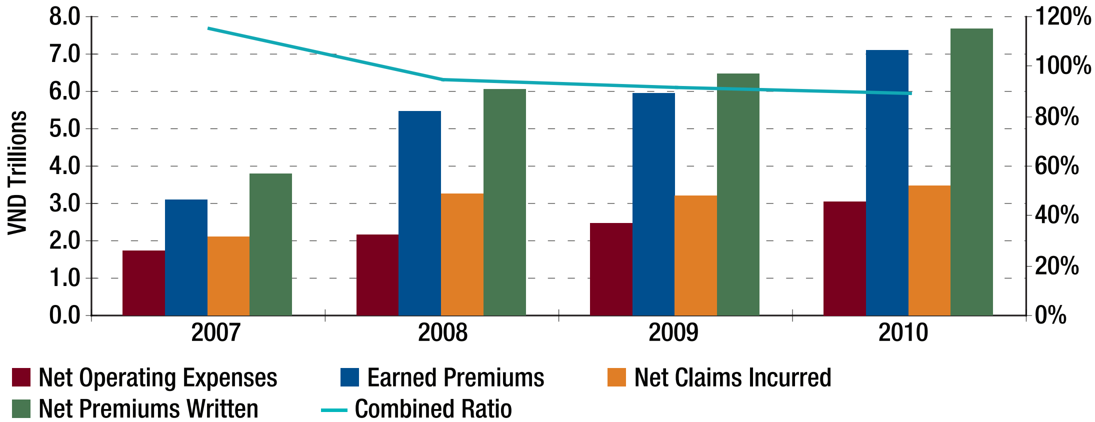
Despite the strong growth of the Vietnamese insurance sector, affordability remains a major challenge. Microinsurance therefore represents a way of accessing the lower economic segments of the market.

The Vietnamese government has begun rolling out a pilot insurance plan to protect farmers from losses caused by natural disasters and epidemics affecting crops and animals. In October 2011, the Ministry of Finance called for the establishment of local steering committees to guide local operations in the provinces piloting agricultural insurance.

Several companies have been approved to offer agricultural insurance on a nonprofit principle from 2011 to 2013. The state will pay 100% of premiums for poor farming households and individuals participating in the agricultural insurance pilot plan. Governmental support will drop to 80% of premiums for subpoor farming households and individuals, and to 60% of premium for "normal" participating farming households and individuals. For farming organisations, there will be a 20% government subsidy.

Exhibit 2

Vietnam Non-Life – Aggregated Combined Ratio & Premiums, 4 Largest Insurers* (2007-2010)



*Baoviet, PVI, Bao Minh and PJICO

Source: A.M. Best Co. BestLink

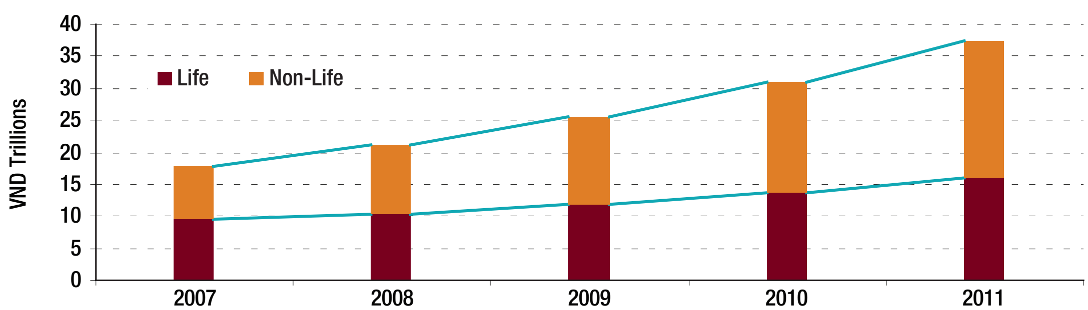
Vietnam has high levels of economic and political risk and even higher financial system risk. Inflation in particular remains a serious concern, eroding consumer spending and increasing compensation costs. Inflation reached 18.8% in 2011, largely from higher food and fuel prices, and is projected to moderate only somewhat in 2012 to a still high 12.1%.

In the past few years, there has been considerable uncertainty over Vietnam's economic policy. A.M. Best expects difficult economic conditions over the next few years to create a challenging environment for economic reform.

While Vietnam's pegged exchange rate restricts monetary policy, the country can adjust the peg to absorb pressure on its currency. Vietnam's current account deficit has narrowed considerably in recent years but has not reduced pressure on the foreign exchange. In 2011, the dong was devalued by 9.3% against the U.S. dollar, and the trading band was narrowed from ±3% to ±1%. The dong is expected to continue slightly depreciating against the U.S. dollar in 2012.

Exhibit 3

Vietnam – Direct Premiums Written* (2007-2011)



*2011 DPW is estimated.

Source: Association of Vietnamese Insurers

Considerable economic uncertainty has made the stock market volatile. In 2011, the Vietnam Ho Chi Minh Stock Index (VN-Index) fell 28%, although it has bounced back in 2012, recovering 30.5% for the year through March 26.

In addition to economic challenges, insurance rates are under pressure from the competitive market environment. Nevertheless, some insurers are attempting to improve pricing and terms and conditions. Samsung Vina Insurance Ltd. (SVI), with a Best's Financial Strength Rating (FSR) of B++, posted a decrease in its overall loss ratio between 2006 and 2010 due to tightened underwriting guidelines and a larger retained premium base. The insurer, owned by Samsung Fire & Marine Insurance Co. and Vietnam National Reinsurance Corp.(Vina Re), has been more selective in accepting risks, thereby improving claims experience in its marine, property and personal lines over the past five years.

Exhibit 2 shows the four largest non-life insurers have posted improved combined ratios in recent years. Baoviet Holdings (Baoviet), Petrovietnam Insurance Joint Stock Corp. (PVI), Bao Minh and Petrolimex Joint-Stock Insurance Co. (PJICO) together controlled 66% of the country's non-life insurance market in 2010. In 2007, their aggregate combined ratio stood at 115%, but fell to 88.9% in 2010. Both expenses and claims ratios declined during these four years, while net premiums written (NPW) increased strongly.

Still, companies have faced legal challenges when they have attempted to increase rates. In 2010, 19 insurance companies were fined for colluding to

Foreign Participation in the Vietnamese Insurance Market

Foreign insurers are being drawn to Vietnam's insurance market as the country's population expands, reaching an estimated 89 million in 2011, and more of its people emerge from poverty as the economy grows.

Several international insurers have wholly-owned foreign subsidiaries in the country. These include Taiwan's Cathay Financial Group, represented by Cathay Insurance (Vietnam) Co., and Japan's Mitsui Sumitomo Insurance Co., which owns MSIG Insurance (Vietnam) Co. Liberty Mutual Group opened its first representative office in Hanoi in 2003 and three years later was awarded a licence to operate a wholly U.S.-owned general insurer in the country. In April 2011, Italy's Generali received a licence to start a wholly-owned subsidiary, Generali Vietnam Life Insurance Co.

Exhibit 4

Foreign Participation in Vietnamese Insurers

Vietnamese Insurer	Foreign Strategic Partner(s)
Baoviet Holdings	HSBC Insurance (Asia Pacific) Holdings Ltd.
Petrovietnam Insurance Joint Stock Corp. (PVI)	Oman Investment Fund, Talanx Group
Bao Minh Insurance Joint Stock Corp.	Axa Group
Vietnam National Reinsurance Corp. (Vina Re)	Swiss Re

Source: A.M. Best Co. research

As cited earlier (see section "Fundraisings on the Agenda"), in the past few years, some of the larger domestic insurers such as Petrovietnam Insurance Joint Stock Corp. (PVI) have attracted foreign strategic shareholders. **Exhibit 4** shows some key investments in Vietnamese (re)insurers by overseas financial companies.

In 2011, PVI attracted a second overseas partner – Talanx Group, Germany's third-largest insurer which is investing in the company through its subsidiary HDI-Gerling. Talanx joined the Oman Investment Fund as an investor. At the ceremony marking the Talanx partnership in November 2011, PVI said in a press release this was "a significant move to promote PVI as an international brand."

(continued)

raise motor premiums in 2008. Furthermore, some insurers now face accusations that they have colluded to increase premiums collected from school students.

Fundraisings on the Agenda

The anticipated wave of fundraisings in the Vietnamese insurance market, as predicted in A.M. Best's June 2011 special report *Vietnam's Insurance Market Awakening to Further Change,* was a dominant trend in the second half of the year. A.M. Best predicted insurers would access the stock markets as regulatory requirements were changing, while companies were needing to increase capital to support the underwriting of more new business. **Exhibit 3** shows DPW has increased significantly in recent years. In July 2011, PJICO began trading on the Ho Chi Minh Stock Exchange, while BIC gained approval to deposit 66 million shares the same month.

In October, HDI-Gerling Industrie Versicherung AG (HDI-Gerling) received approval from the Vietnamese regulator to acquire new shares issued by PVI Holdings for a total of VND 1,916.5 billion. HDI-Gerling took a 25% shareholding in the company and agreed to provide technical support and reinsurance capacity to its affiliates (see sidebar, "Foreign Participation in the Vietnamese Insurance Market"). Part of the capital raised (VND 700 billion) strengthened PVI's risk-based capitalization and supported its ongoing business expansion. PVI Insurance, the second-largest non-life market participant in Vietnam, has a Best's Financial Strength Rating (FSR) of B+.

*(**Foreign Participation** continued)*

International insurers can provide expertise in areas such as corporate governance, technology, training, product and distribution, as well as staff management positions. Baoviet Holdings stated in its 2010 annual report that "with the support and strategic and technical expertise of HSBC," it has invested in projects including the establishment of a modern and transparent corporate governance system. HSBC Insurance (Asia Pacific) Holdings Ltd., which first took a stake in Baoviet in 2007, works with the insurer in areas such as risk management, information technology and bancassurance.

Meanwhile Swiss Re, which in 2008 bought a 25% stake in Vietnam National Reinsurance Corp. (Vina Re), works with the domestic reinsurer to offer agricultural products.

All foreign investment in insurance companies must be approved by the Ministry of Finance (MOF). To date, the larger Vietnamese companies have been the favourites of foreign investors, and other, smaller insurers are also said to be seeking overseas partners. However, foreign insurers may not immediately reap significant returns from their investments in domestic companies. For example, market participants note that the operating environment remains competitive, and while the VN-Index has recovered some of 2011's losses, it is far from buoyant and remains below half its level of five years ago.

Foreign insurers also have been entering Vietnam's insurance market through operating joint ventures. Samsung-Vina Insurance Co.'s origins date back to 1995 as a representative office of Samsung Fire & Marine Insurance Co. (SFM). In 2002, SFM received approval from the MOF to establish a joint venture with Vina Re. The Korea-Vietnam joint venture is owned equally by both shareholders.

In October 2011, Aviva Corporation, in a new joint venture with Vietnam Bank for Industry and Trade (VietinBank), launched VietinBankAviva Life Insurance Co. Ltd., which has VND 800 billion in charter capital and will sell life and health products and services. In the same month, Japan's Sumitomo Life Insurance Co. was licenced to open a representative office in Vietnam.

Further Regulatory Change Anticipated

Vietnam's insurance sector is experiencing significant regulatory change. The amended Law on Insurance Business, effective July 1, 2011, aims to align the current insurance legislation more closely with international practices and to codify some of Vietnam's commitments made before the country's accession to the WTO.

Following the Law on Insurance Business, in December 2011, Decree 123/2011/ND-CP was issued. The decree, effective Feb. 15, 2012, covers the provision of cross-border insurance services, establishment and operation of foreign insurance branches in Vietnam and legal capital requirements. The law also sets out a bidding process for state-backed projects.

In addition, the government and the MOF have issued a range of regulations, circulars and guidelines to promote insurance into new sectors. Lines of business featured include compulsory fire and explosion insurance.

It has recently been reported that the MOF is planning to further restructure the insurance sector, classifying Vietnam insurers into four groups. This is said to be part of a much larger restructuring process of the financial sector to take place over the next three years. Under the plans, companies may be divided into categories, as follows:

• *Group 1*: Insurers with good liquidity and profitable business. These companies will be permitted to expand their operations when supported by efficient business plans. They will be closely inspected and supervised going forward.

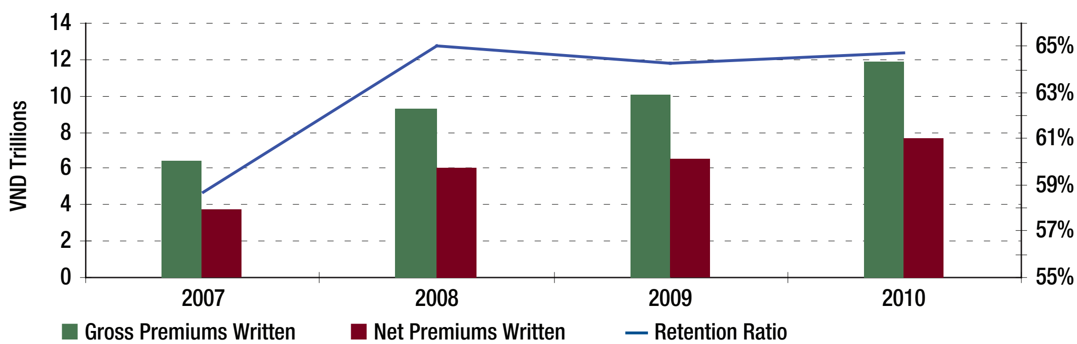
• *Group 2*: Insurance companies that meet prescribed solvency ratios but face challenges such as high operational costs or failure to post an operating profit in the past two consecutive years. The regulator will evaluate these insurers' operational efficiencies.

• *Group 3*: Companies that appear unlikely to meet minimum solvency levels. The regulator will assess these insurers and may, for instance, require them to restructure their investments or transfer some policies to another insurer.

• *Group 4*: Insurance companies that are insolvent will be placed under special control. These could be forced to merge with other companies or else go into receivership.

Exhibit 5

Vietnam Non-Life — Retention Ratios, 4 Largest Insurers* (2007-2010)



*Baoviet, PVI, Bao Minh and PJICO

Source: A.M. Best Co. BestLink

While the Vietnamese government has formulated an insurance market development strategy for high growth in the coming years, the restructuring plan aims to create an environment for insurance companies to focus on healthy growth, such as setting profitability and capital adequacy as key business objectives, and strengthening risk management practices and transparency of information.

The speed of insurance companies' consolidation in the coming years as a consequence of the restructuring plan has not been projected. Nonetheless, A.M. Best believes the regulatory changes will lead to stronger insurers, as well as structured governance of the insurance sector, which will ultimately benefit insurance consumers.

Natural Catastrophes Drive Reinsurance Demand

Rules stipulating that insurers were obliged to transfer at least 20% of certain risks to Vina Re were removed in 2008. A number of companies in Vietnam have been lifting retention ratios in recent years. **Exhibit 5** shows the four largest non-life insurers retained an aggregate of 59% of total risks in 2007. In the subsequent three years (2008 to 2010), this level stabilised at approximately 65%.

While retention ratios have risen, natural catastrophes in the region have resulted in a continued heavy reliance on reinsurance support to protect capital bases against sizable losses. Vietnam is exposed to earthquake risk in the northern region, while floods and typhoons are the primary risks in the central and southern regions. Natural catastrophes continue to be among the most significant risks facing Vietnam. Persistent flooding in the Mekong River Delta in September and October 2011 through seven provinces resulted in total estimated economic losses of USD 135 million. According to the General Statistics Office of Vietnam, in 2011, natural catastrophes resulted in 257 persons killed or reported missing, 267 persons injured, nearly 1,200 houses collapsed and swept away, and 391,800 houses damaged.

Exposure to typhoon-related risks is among the largest concerns for insurers. Consequently, companies such as PVI and SVI control exposures to sizeable losses by monitoring zonal aggregate sums insured.

Insurers have tended to offer business initially to Vina Re – which until recently has been the sole reinsurer based in the country – while also relying heavily on overseas reinsurers. PVI has previously been engaged in the Vietnamese reinsurance market and in August 2011, after a corporate restructuring, launched a reinsurance subsidiary, PVI Reinsurance. PVI Re's primary revenue is expected to be derived from providing administrative support to PVI Insurance. In March 2012, A.M. Best assigned an FSR of B+ to PVI Re.

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