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Vietnam's Insurance Market Awakening to Further Change

The Vietnamese insurance market has grown rapidly in recent years, and the country's demographic and economic development are expected to fuel further demand for insurance. However, the industry faces widespread challenges, ranging from intense competition to inflationary pressures. Smaller insurers struggle against the handful of companies that dominate the market, and the industry needs to nurture talent to keep pace with rapid growth. Significant changes lie ahead. A.M. Best notes:

- The insurance industry has opened up since Vietnam gained World Trade Organization (WTO) status in 2007. The impending Law on Insurance Business will help the market to evolve further.

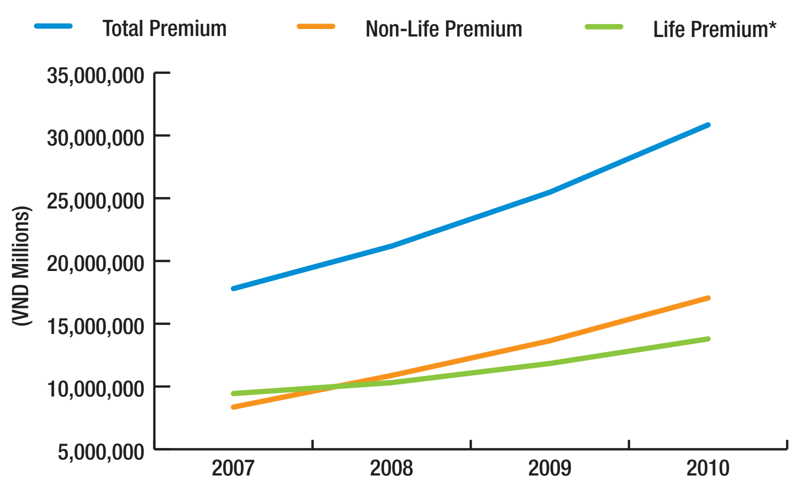
- Currently, 29 non-life insurers and 12 life insurers are operating in Vietnam. Despite the intense competition, the insurance market is expected to draw more companies, given its potential for growth.

- As the market has been liberalised, the larger domestic non-life insurers are losing market share. From 2008 to 2010 they experienced a significant rise in aggregated gross premiums written, although the pace of growth has slowed.

- As non-life insurers seek greater capital strength to handle stricter regulatory requirements and higher premium volumes, they will increasingly list on domestic stock exchanges and also look to reinsurance to meet these demands and support large-risk portfolios.

- The evolving life market features increasingly diverse products and distribution channels, and is dominated by foreign insurers.

Vietnam Life & Non-Life – Premiums (2007-2010)



*Life direct premium written includes new and in-force policies
Source: Association of Vietnamese Insurers

Burgeoning Economy Favors Non-Life Market

Since the Vietnamese insurance market was liberalised in 2008, it has enjoyed rapid growth, with total direct premium written increasing by approximately 20% year-on-year. The market, however, is still undeveloped and small, with total premiums in 2010 reaching VND 30.8 trillion (USD 1.57 billion), according to the Association of Vietnamese Insurers (AVI) trade body.

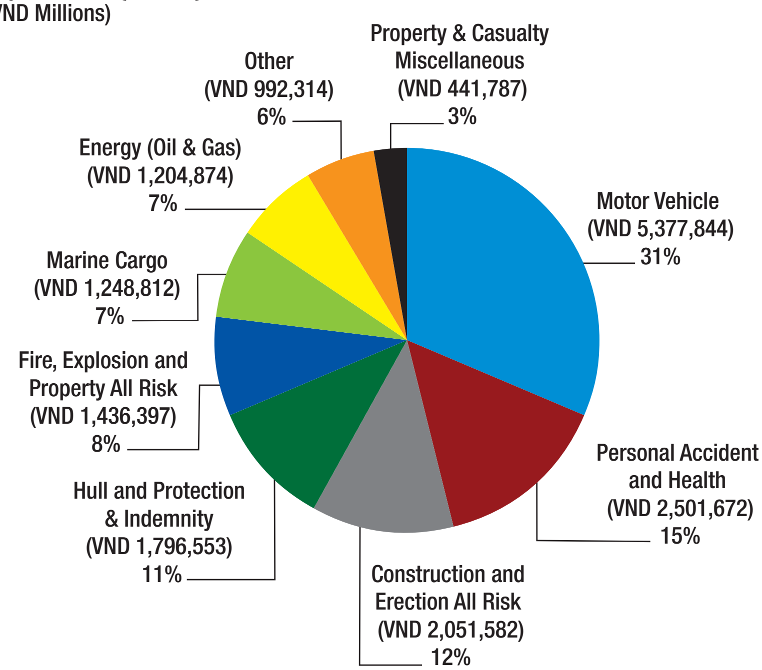
As **Exhibit 1** outlines, the non-life sector has grown to VND 17.05 trillion, at a faster rate than the life sector over the past few years. Non-life premiums increased at a compound annual growth rate (CAGR) of 19.5% from 2007 to 2010, compared with 10.0% for the life sector. The CAGR for total non-life and life premiums over this four-year period was 14.7%.

Exhibit 1
Vietnam Life & Non-Life – Key Market Statistics (2007-2010)

Indicator	2007	2008	2009	2010
Population (Millions)	85.2	86.2	87.2	88.3
Gross Domestic Product (VND Billions)	1,143,715	1,485,038	1,658,389	1,980,914
Change in Real GDP (%)	8.456	6.311	5.323	6.784
Insurance Penetration (Life) %	0.83	0.69	0.71	0.7
Insurance Penetration (Non-Life) %	0.73	0.73	0.82	0.86
Insurance Penetration (Total) %	1.56	1.43	1.54	1.56
Direct Premium Written (Life)* (VND Millions)	9,438,000	10,307,617	11,834,674	13,791,863
Direct Premium Written (Non-Life) (VND Millions)	8,359,994	10,879,248	13,643,961	17,051,835
Direct Premium Written (Total) (VND Millions)	17,797,994	21,186,865	25,478,635	30,843,698
Change in Premium Volume (Total) %	18.82	19.04	20.26	21.06

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

Exhibit 2
Vietnam Non-Life – Direct Premiums Written By Line (2010)
(VND Millions)



Source: Association of Vietnamese Insurers

The Vietnamese non-life insurance market is expected to continue to grow. Drivers include the country's demographics, with an emerging middle class that is taking an increasing interest in insurance. As wealth increases, more people are moving from bicycles to mopeds and cars, and compulsory lines including motor third-party liability coverage are helping fuel growth of the insurance market. As is the case with most Southeast Asian insurance markets, motor is the largest segment of the non-life sector, representing 31% of direct written premium in 2010 (see **Exhibit 2**).

Vietnam's strong trade and industry sector is supporting economic growth, with real gross domestic product (GDP) increasing 6.8% in 2010. Exports of products, including crude oil, marine goods, rice, coffee, tea, rubber and clothing, represent an estimated 75% of GDP.

Vietnam is also increasingly regarded as a production hub, providing skilled labour with lower costs than other manufacturing centres. The government aims to boost shipping volume further, and ports are being developed for container ships to draw export industries from China. Construction and erection risks, hull and protection and indemnity, and marine cargo collectively represented 30% of non-life direct premiums written in 2010.

Other new construction projects, particularly in the power industry, are also likely to need insurance. For example, in June 2010, Petrovietnam Insurance Joint Stock Corp. (PVI) provided USD 3 billion of property and liability insurance for the Dung Quat Oil Refinery, Vietnam's first oil refinery.

Natural catastrophes are among the most significant risks facing Vietnam. The country's northern regions face the prospect of earthquakes, while flooding and tsunamis can damage property and threaten livelihoods. Typhoons, especially around the Mekong River and the centre and southern parts of the country, have damaged livestock and rice crops. For example, in 2009 typhoons Ketsana and Mirinae killed 287 people and caused estimated economic losses of USD 1.08 billion. In 2010, floods and typhoons killed almost 300 people.

Given the risks to the agricultural industry, the Vietnamese government will promote a pilot insurance programme from 2011 to 2013 in up to 15 provinces and cities. This would protect farmers for losses caused by natural disasters and epidemics affecting rice, buffalos, cows, pigs, poultry, fish, prawns and shrimp.

Insurers, including Bao Minh Insurance Joint Stock Corp. (Bao Minh), are also examining insurance opportunities within the agricultural sector. Bao Minh is conducting a trial to offer insurance to coffee farmers for losses and business costs as a consequence of low rainfall. However, in general it has previously been challenging to make profits from agriculture insurance.

Competition, Economic Environment Among the Challenges

Profitable underwriting is difficult to achieve, given the intense competition. There are currently 29 non-life insurers, and more are expected to be drawn to Vietnam's insurance market, considering its potential for growth.

Competition is felt most acutely in personal lines, as well as in small commercial lines.

Local insurers tend to dominate personal lines, but most lack the capacity and expertise to create a significant presence in commercial lines. Foreign insurers are better placed to offer both personal and commercial lines insurance.

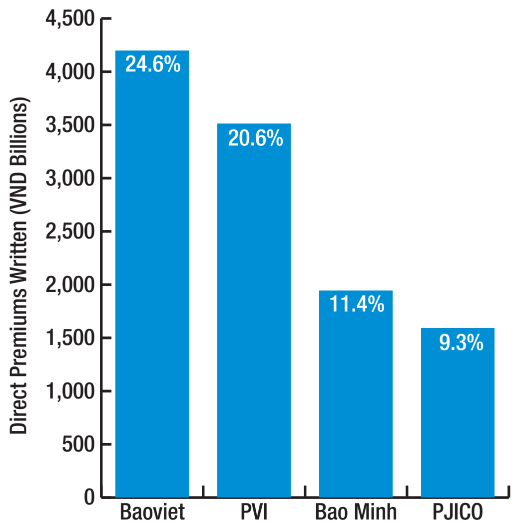
Underwriting losses are attributed to fierce competition, high operating costs and increasing frequency and severity of losses. Insurers also face difficulties controlling fraudulent claims and collecting data to enable them to price risks appropriately.

The top four non-life insurers – Baoviet Holdings (Baoviet), which also underwrites life business, PVI, Bao Minh and Petrolimex Joint-Stock Insurance Co. (PJICO) – together controlled 66% of the country's non-life insurance market in 2010 (see **Exhibit 3**). They are all partly state-owned.

Exhibit 3

Vietnam Non-Life – Top 4 Insurers By Market Share (2010)

Ranked by direct premiums written.



Source: Association of Vietnamese Insurers

However, the larger domestic insurers, with the exception of PVI, are steadily losing market share as the market has opened up considerably, resulting in an influx of foreign companies and the current, highly competitive operating environment. PVI held a 21% share of the market in terms of gross premiums written (GPW) in 2009, and in 2010 strengthened its market share to 24%.

From 2008 to 2010, the top four non-life insurers posted a significant increase in aggregated GPW, although the pace of growth has slowed in recent years (see **Exhibit 4**). While the CAGR of non-life premiums from 2007 to 2010 was 19.5%, for the top four insurers it was 15.5%.

Smaller competitors have adopted aggressive growth strategies and tend to be targeting a greater presence in the market, as opposed to pursuing profitable underwriting. In comparison, there appears to be an improvement in the loss ratios of the four largest non-life insurers, which would suggest they had a greater focus on underwriting profitably. However, aggregated combined ratios (taking into account other technical income and expenses) for the four biggest non-life insurers exceeded 100% from 2008 to 2010.

Exhibit 4
Vietnam Non-Life – Financial Trends, Top Four Insurers (2008-2010)
Baoviet, PVI, Bao Minh and PJICO.

	2008	2009	2010
Gross Premiums Written (VND Billions)	9,334	10,088	11,848
Change in GPW (%)	45.6%	8.1%	17.4%
Capital & Surplus (VND Billions)	13,527	14,232	18,062
Change in Capital & Surplus (%)	8.5%	5.2%	26.9%
Loss Ratio (%)	59.4%	53.7%	48.9%
Operating Expense Ratio (%)	47.0%	49.7%	50.0%
Combined Ratio (%)	106.3%	103.4%	98.9%
Net Investment Income Ratio (%)	29.5%	39.7%	31.9%
Return on Assets (%)	1.7%	3.9%	3.1%
Return on Capital & Surplus (%)	4.7%	11.1%	9.8%
Liquid Assets to Surplus (%)	185.0%	211.9%	211.5%
Liquid Assets (%)	72.2%	67.6%	67.3%
Current Liquidity Ratio (%)	140.1%	125.3%	126.8%

Source: A.M. Best Co., BestLink

In addition to competition, insurers face a range of other challenges. A rapidly growing market often results in staffing challenges, and the recruitment and nurturing of industry expertise are important for insurers and brokers to keep the market growing and achieve profitable underwriting.

There is a small pool of experienced staff and high turnover of employees because of the relative youth of the insurance market. The Ministry of Finance, which oversees the industry through its Insurance Supervisory Authority (ISA), is attempting to address the shortage of talent. In conjunction with the AVI, it has looked at standardizing and creating a framework for training.

Vietnam's economic challenges can also create uncertainty for insurers. Vietnam is the only Southeast Asian country to fall into A.M. Best's "CRT-5" (Country Risk Tier 5) category, for countries considered to face the most risk. A.M. Best has four other tiers, with "CRT-1" (Country Risk Tier 1) denoting a stable environment with the least proportion of risk. In comparison, the Philippines and Indonesia are categorised as CRT-4 countries, while Malaysia and Thailand are CRT-3 countries.

Uncertainty remains over economic policy in Vietnam, which has been exposed to heavy governmental involvement. Vietnam's official currency is pegged to the U.S. dollar, and the government is attempting to restrict the use of U.S. dollars. In February, the central bank devalued the dong four times in 15 months to curb the country's trade deficit and to keep Vietnamese exports competitive.

Industry on Cusp of Further Regulatory Change

The insurance industry has seen a raft of changes in the past few years, with capital requirements increased for non-life insurers from VND 70 billion to VND 300 billion in 2007.

The insurance industry is preparing for the amended Law on Insurance Business, which takes effect July 1, 2011. This aims to align the current insurance legislation more closely with international practices and to codify some of the commitments Vietnam made before its ascension to the World Trade Organization.

There are concerns regarding the impact of a new rule requiring a tender process to be held for insurance coverage of state-backed projects. It is feared that as companies are required to bid for these contracts under criteria including conditions, coverage and limits of liability, this could lead to increased competition and tighter profit margins. On the other hand, a more transparent bidding process could give companies greater access to insurance coverage at a lower cost.

Details are yet to emerge as to the forthcoming law's treatment of foreign-invested companies and brokers that offer cross-border insurance services. More rigorous regulation of such entities is expected, with additional conditions including the need for a 10-year operating history, a credit rating and a deposit with a Vietnamese bank. Foreign non-life insurers will also be allowed to establish branches, although this is not expected to take effect until the beginning of 2012.

In addition to the updated law, the ISA is introducing a range of other significant changes. These include tougher penalties, the possibility of license revocation and the revision of compulsory fire and explosion insurance. It is also examining distribution methods and will standardize training for brokers and agents. Brokers place risks largely with local insurers.

However, some market participants desire more radical action. The AVI has called for a more transparent legal framework and the roll-out of a minimum premium list, particularly for motor, construction, cargo and hull risks, to improve underwriting discipline. The trade body also wants broader investment channels for insurers to include securities, real estate and fund management.

In recent years, the Ministry of Finance has amended the Vietnamese Accounting Standards (VAS). The new VAS is expected to take effect in 2013 and has been based on International Financial Reporting Standards (IFRS). In preparation for the forthcoming standards, companies are required to report assets at fair value from 2011 onward, with the exception of investment in affiliates.

Meanwhile, the Asian Development Bank has sponsored a Financial Sector Program Loan (FSPL) to develop the insurance industry. It is currently rolling out its third phase, which focuses on enhancing consumer protection through measures aimed at strengthening regulations concerning market governance of the country's risk-based capital adequacy regulations.

Further Fundraisings on the Agenda

Many insurers in Vietnam have small capital bases, and therefore a growing number are listing on stock exchanges. This is in response to more onerous regulatory requirements, combined with the desire to underwrite more business. However, some companies have delayed plans to issue shares on domestic bourses in the past couple of years, owing to market conditions.

Companies already quoted on the Hochiminh Stock Exchange include Bao Minh and Baoviet, while PVI is listed on the Hanoi Stock Exchange. PVI, which has an A.M. Best Financial Strength Rating of B+ (Good), issued new shares of VND 1.168 trillion in 2010. In April 2010, the sovereign wealth fund The Oman Investment Fund acquired a 12.6% equity stake in the company for VND 808.3 billion.

Meanwhile, BIDV Insurance Corp. (BIC) has received approval to issue 66 million shares in an initial public offering in late May, while PJICO has unveiled plans to grow revenue by 18%-20% and list on the Hochiminh Stock Exchange in 2011.

It appears that some insurance companies in Vietnam are establishing themselves as financial companies. For example, Post and Telecommunication Insurance Joint Stock Corp. (PTI), which listed on the stock market in Hanoi in March 2011, is planning to grow in financial investment and real estate investment, as well as in insurance.

PVI is considering branching outside of insurance and reinsurance, and restructuring itself into a parent company with subsidiaries and affiliates. It would expand into other financial sectors – for example, fund and asset management.

Extensive Use of Reinsurance Set to Continue

Owing to the potential catastrophe risks, provision of insurance coverage in the industrial zones (north and south regions) can result in significant use of reinsurance and a need to monitor the aggregate sum insured in zones. Local insurers are not allowed to retain risks exceeding 10% of their paid-up capital.

Retention ratios of the top four non-life insurers show that retention levels have been around 65% during the past few years (see **Exhibit 5**), rising slightly from 58.7% in 2007. PVI, the second-largest non-life insurer, increased its retention ratio to 46.3% in 2010 from 25.0% in 2005. It continues to rely on reinsurance to support its large-risk portfolios, mainly energy, hull, engineering and property risks. It uses a panel of reinsurers, with more than 80% of risks transferred to A.M. Best-rated reinsurers, most of which have ratings of at least A- (Excellent).

Exhibit 5
Vietnam Non-Life – Retention Ratios (2007-2010)

	2007	2008	2009	2010
Retention Ratio (Non-Life)	58.7%	65.1%	64.3%	64.7%

Source: A.M. Best Co., BestLink®

Rules regarding compulsory reinsurance cessions have been relaxed in recent years. Previously, insurers were obliged to pass on at least 20% of certain risks to the country's sole reinsurer, Vietnam National Reinsurance Corp. (Vinare), but this obligation changed in January 2008, and reinsurance arrangements are now made on a voluntary basis.

There is still a tendency to offer business first to Vinare before foreign reinsurers, although the market also depends on overseas reinsurance support. Swiss Re bought a 25% stake in Vinare in 2008. Rules from the Ministry of Finance state that companies assuming reinsurance equal to 10% or more of total liabilities of each reinsurance contract must be rated at least B++ by A.M. Best.

Brokers are engaged for placing insurance business, particularly for corporate clients. These include large infrastructure projects and corporate business for small to large enterprises, as well as health care. There is also an increasing demand for protection from natural catastrophes.

Proportional type coverage is more common than nonproportional protection for both treaty and facultative business. Reinsurance rates are said to have been largely unaffected by Japan's Tohoku earthquake and tsunami, Australian flooding and New Zealand quakes.

The Life Market

Vietnam's life market is considerably less crowded than the non-life sector, with 12 registered insurers. In 2010, direct life premiums written increased 16.5% to VND 13.79 trillion.

Drivers for an increase in premiums written are similar to those found in the non-life market. Life insurers expect the sector to expand further as Vietnam's population – currently 88.3 million – grows, and living standards rise. Additionally, the forthcoming Law on Insurance Business authorizes new life products, including investment-linked insurance and retirement insurance.

However, while non-life penetration has increased from 0.73% in 2007 to 0.86% in 2010, life insurance penetration has dropped from 0.83% to 0.70% over this period. At the same time, the population increased by 3.1 million to 88.3 million. During these three years, consumer spending was hit by high inflation, which soared to 23.1% in 2008, owing to government policies and soaring commodity prices. Inflation is anticipated to be at a much lower 13.5% for 2011, although it is still a challenge. Car price increases, for instance, could have a negative impact on non-life insurers.

As bank interest rates can be higher, people have preferred bank deposits to insurance products. Life policies tend to be short-term and savings oriented, often with three- to five-year durations. Endowment products still dominate, although high inflation is encouraging customers to seek security for the future, rather than purchasing insurance primarily for saving purposes.

Awareness of insurance protection is improving, although Vietnam's young population means many of its inhabitants are unlikely to be actively seeking insurance. Furthermore, while more people are being lifted out of poverty, affordability of insurance remains a challenge. Microinsurance is a way of accessing this segment, with Manulife Vietnam, for instance, providing products in an alliance with the Vietnam Women's Union.

However, the relatively high cost of collecting small premiums has resulted in few insurers offering microinsurance. There has also been less of a push by the regulator to drive the growth of microinsurance than has been the case in other countries such as India and the Philippines.

The Role of Foreign Insurers

Foreign players dominate the life market, providing not just money but also technical expertise. Foreign insurers include AIA and Cathay, and new licences were granted in 2010 to Taiwan's Fubon Financial Holdings and Italy's Generali Group.

Baoviet is the sole Vietnamese-owned life insurer. This is in part because from 2007, insurers were required to have at least VND 600 billion in capital (compared with VND 140 billion in 2001), and many lack expertise.

Foreign insurers, including Prudential and Manulife, have been able to build a presence in a relatively short time and have established themselves as the leading and third-largest insurers (see **Exhibit 6**). Together with Baoviet, which was established in 1964, they account for 78.7% of premiums.

Exhibit 6

Vietnam Life – Top 3 Insurers & Market Share (2010)

Ranked by direct premiums.

(VND Billions)

Rank	Company	Premiums	Market Share (%)	Total Number of Agents
1	Prudential	VND 5,374	39.0	82,539
2	Baoviet	4,023	29.2	19,999
3	Manulife	1,460	10.6	8,907

Source: Association of Vietnamese Insurers

Vietnam's life market is expected to continue attracting international companies. However, onerous requirements for overseas companies that require USD 2 billion in asset backing mean that international conglomerates are more likely to enter the market than smaller insurers from the Southeast Asian region.

Alternative Distribution Practices Emerge

Agents continue to place the majority of business. According to the AVI, 162,423 insurance agents were employed at the end of 2010, a 32% increase on the year.

Insurers are using multichannel distribution strategies, with the bancassurance model being increasingly rolled out. For example, Baoviet formed a partnership with a state-owned commercial bank, Housing Development Bank of the Mekong Delta, for life and non-life coverage in March 2010. It also recently signed a partnership with HSBC Vietnam to sell travel insurance online.

Prevoir Life Insurance Corporation of Vietnam and Vietnam Post Express Joint Stock Co. (VN Post Express) also recently entered a contract to distribute life products through the postal express delivery channel. Prevoir also provides products through banks.

Insurers are also selling their products at shopping malls and through telemarketing. Online sales are increasingly regarded as a means of distribution, although Vietnam has the lowest Internet penetration in Asia.

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