

## Insurers ensured success

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### Rapid growth

Vietnam's insurance sector is expected to develop rapidly, even faster than the general economic growth rate, as GDP per capita income nears US\$1,000. This forecast stems from the famous s-curve developed by Swiss Reinsurance Company (Swiss Re). Accordingly, insurance spending rises particularly fast when GDP per capita levels are in the range of US\$1,000 to 10,000. "In such countries, consumers have a lot of ground to make up regarding insurance. For lower and higher income levels, however, the income elasticity of insurance demand is closer to one." Swiss Re has coined this, the "s-curve".

Swiss Re's s-curve makes a strong argument because insurance is considered a luxury, particularly in developing nations: insurance only becomes necessary once a person owns something valuable enough to protect. In general, when living day to day, people don't need insurance. On the other hand, when people prosper, they own more and can afford more protection.

In Vietnam, the insurance sector's growth exceeds that of the economy; particularly, life insurance boomed after the introduction of foreign owned life insurance companies in 1999. Life insurance premiums grew by 50% in 2003, and 17% in 2004. However, in 2005 and 2006, growth fell to 4 to 5% due to specific domestic causes.

### Restructuring

Life insurance's rapid growth from 1999-2004 can be attributed to the introduction of several relevant companies — foreign businesses gave people security and confidence in the product and related services (as of December 2007, 7 of all 8 life insurance companies operating in Vietnam are 100% foreign owned). Their experience in marketing and consumer mentality contributed largely to this success.

However, in 2005 and 2006 life insurance companies saw significant subscription decreases and a lot of contract cancellations. One reason was that people realized life insurance policies were not a necessarily attractive investment when compared to bank deposits and stocks. Many policy holders considered life insurance a kind of investment and the vast majority of policies sold in Vietnam were endowment insurance with saving characteristics. Life insurance companies invest in bank deposits and government bonds. Thus, upon discovering this or examining policy investment results, many were disappointed, if they consider only investment return.

There were also problems with agents, the primary sales channel for most life insurance companies. Some fraudulently stole premium payments. Others were forced to resign because they lacked qualifications or were not performing professionally. Many were simply selling life insurance as a side business and had difficulty finding new clients after selling policies to family members, relatives and friends.

The issues within life insurance sector have been worked out. Firstly, now life insurance companies are developing products providing more flexible investment opportunities and lifetime protection. Also companies have honed the professionalism of agents by emphasizing relevant education. Some are also seeking other sales channels, i.e. bank branches. Aimed at preventing fraud and better serving clients, the Association of Vietnamese Insurers established agents database. Efforts have helped the industry recover somewhat in 2007, but actual data such as premium growth and new and canceled policy numbers will not be available until a little later into 2008.

### Foreign vs. domestic firms

Non-life insurance is relatively more competitive than its sister sector because there are more underwriters. Domestically owned non-life insurance companies survived the entry of foreign firms who could not insure assets owned by State-owned enterprises nor offer automobile insurance to individuals until end of 2007. Starting January 2008, domestic non-life insurance companies will no longer enjoy such preferential treatment as foreign owned companies will be given state underwriting privileges as well.

### On the verge

If the S-curve is at all a consistent forecasting tool, then the Vietnamese insurance market (in terms of premiums) may grow 4 fold by 2018. This should mean all of the currently operating firms should grow commensurate with premium increases, particularly since competition is still limited. Although a new foreign life insurance company has received approval to enter the Vietnamese market, the total number is still under 10. It seems that the government is trying to promote "healthy competition" and specific licensing and administrative procedures ensures the market

isn't flooded. The government seems to have learned from the experiences of other Asian countries, i.e. Malaysia, Thailand and Japan, where insurance providers suffered from fierce competition and some became insolvent, nationalized or merged with others.

Insurance sector growth concurrent with that of GDP per capita may be possible if sales channels expand outside big cities. Moreover, innovation is essential to any business, regardless of its level of global development. One opportunity is allying with other sectors. For example, an insurance company may allow a retailer to provide its policies under the retailer's name at the retailer's offices.

Bao Viet Life has dipped their toes into these waters; the underwriter has allied with Techcombank. Techcombank sells term-deposit policies with periodic accumulation with protection underwritten by Bao Viet Life. Customers do not have to pay premiums, as they are deducted automatically from account interest which Techcombank pays to Bao Viet. The successor of the depositor can get the full amount of planned deposit at maturity even if the depositor passes away. (If depositor survives the accumulating period, of course he/she can get contracted amount in full.) With such protection, the depositors, usually fathers or mothers saving for their children's education, are provided the peace of mind that, in the unlikely case of their untimely death, their children will have enough to pay for their education.

The premiums from such policies are not significant to Bao Viet Life, whose gross written premium reaches VND 3 trillion per year. Advantages are that Bao Viet Life doesn't have to utilize sales agents because Techcombank clerks explain and sell the product, as a deposit, to customers. Secondly, Bao Viet Life doesn't have to care about collecting premiums collection, which recently became a serious dilemma. Thirdly, this product introduces Bao Viet Life to Techcombank customers.

Commercial banks are Vietnam's most visible franchises, but as the legal framework for franchise businesses is established, it is expected that there will be many more in the near future, which will create additional new opportunities for insurance companies.

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