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Paving the way for insurance growth

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Photo: Le Toan

Despite strong growth in Vietnam's insurance sector, several challenges must be overcome before Vietnam can operate at an international level

The liberalisation of Vietnam's insurance market began on December 18, 1993 with Decree No100/CP issued by the prime minister. Since then, the country's insurance sector has recorded extraordinary growth.

2014 proved to be another successful year, with high growth in the insurance industry. As of December 31, 2014, there were 17 life insurers, 29 non-life insurers, a branch of a foreign non-life insurer, two reinsurers, and 12 insurance brokers operating in Vietnam. The total value of insurance premiums in 2014 increased by 17.4 per cent for life insurance and by 12.5 per cent for non-life insurance, totaling VND27.327 trillion ($1.282 billion) and VND27.391 trillion ($1.285 billion), respectively. On aggregate, the 2014 growth rate of the industry was 14.9 per cent. This outperformance of the country's GDP is a remarkable result for 2014, leading to a high growth of 12 per cent in total assets, 11.2 per cent in total capital, and 15.8 per cent in total investments.

The non-life insurance segment is still dominated by local players, with the Top 5 local non-life insurers holding a 65 per cent market share. Unlike non-life insurance, life insurance is seeing a significant contribution from foreign companies. Four of the Top 5 life insurers are foreign players, contributing 59 per cent to the market share and leaving the only domestic company in the Top 5 with a 27 per cent market share.

As in other emerging markets, the insurance distribution channels in Vietnam are still traditional, using agents and brokers. Strong brokers in the market are mainly foreign companies. Meanwhile, bancasurance is just in its early stages in Vietnam.

Market opportunities

With the above achievements, Vietnam's insurance market is still seen as relatively attractive amongst the other emerging markets in the region. Growth is likely to continue for the years to come, given the existence of various opportunities in the market. Amongst these, the following are considered important in making the Vietnamese insurance market a promising one in both the medium and long term:

- Vietnam's population is over 90 million, of which over 60 per cent are under 30 years old, and there is an emerging middle class;
- Vietnam has been seeing expanding urbanisation and consumer markets, encouraging dynamic risk management;
- Penetration of both life and non-life insurance services remains relatively low compared to other countries in the region;
- Vietnam's economic growth is still forecast to be relatively high as compared to other countries in the region, especially since strong foreign capital inflows are expected to continue in the coming years;
- Vietnam's capital and equity market is considered to be relatively dynamic, with a high interest rate and Return on Equity (ROE) in comparison to other countries in the region; and
- The regulatory framework has been improved, with the regulators' management and supervision being enhanced from time to time.

Business challenges

As always, opportunities go hand-in-hand with challenges. Despite the market opportunities mentioned above, Vietnam's insurance market still has a number of key challenges that need to be collectively addressed in order to enable it to grow sustainably.

Firstly, it is about market perception and customer behavior. This factor should be considered one of the most important drivers of industry growth. The penetration rate of Vietnam's insurance market is below 2 per cent which is much lower than that of other countries in the region. The percentage of the population regularly using insurance services in their personal lives is still low. One positive signal for the corporate sector is that large organisations have become more dynamic in their risk management. Risk management needs to be a more popular way of doing business for private or small and medium enterprises and in personal life. There is a vital need to convert those market potentials into market needs.

The second challenge relates to the distribution channels. Agents and brokers play a very important role in distributing insurance services in Vietnam, and although they have developed well over the past years – their skills, experience, and efficiency should continue to be improved upon. For instance, the commission expense-to-premium ratio is still relatively high compared to other countries in the region. Alternative distribution to enhance market penetration and product development should be considered over the medium and long run. Digital solutions should also be considered, since these now hold the key to customer connection.

In terms of cost-effective operations, the average cost-to-premium ratio in Vietnam is still relatively high. Despite high growth in the top line, the bottom line of most insurers operating in Vietnam does not look so positive. Profitability is a key factor in driving sustainable growth for the industry. There are many ways to achieve profitability, but efficient distribution and substantial economies of scale for cost-effective operations are crucially important. This is a key challenge for smaller and domestic players in the market as it is difficult for them to achieve economies of scale due to the cost of investment and expansion, and due to limited chances to spread risks globally.

Another challenge worth looking into concerns capital requirements, which is hugely important in the eyes of regulators around the world. In Vietnam, legal capital requirements are set for insurance businesses. For instance, the legal capital of VND600 billion ($28.17 million) is required for life insurers and of VND300 billion ($14.08 million) for non-life insurers. Insurers are required to maintain their equity above a certain legal capital requirement. Solvency margins are also required to be maintained in accordance with the Ministry of Finance's guidance. Insurance companies in Vietnam have limited capacity to write big commercial risks, particularly on large-scale property and natural catastrophe risks. To enhance the industry's competitiveness, higher capital requirements may be considered by regulators as a way to align the local business with regional norms. In the long run, adoption of a risk-based capital (RBC) framework may be considered by the regulators. Currently, there are quite a number of ASEAN markets adopting RBC, such as Singapore, Malaysia, Indonesia, the Philippines and Thailand. As a result, to scale up capital requirements would be more demanding for running insurance businesses in Vietnam. Finally, qualified human resources is still an issue for emerging markets like Vietnam.

The skill set of the workforce in Vietnam's insurance industry is not commensurate with its requirements. Lack of practical knowledge and experience in the majority of personnel, especially at lower levels, is one of the industry's main issues. The high growth and increase in the number of insurance companies in recent years has also caused a shortage of skilled personnel. "Brain-drain" and unfair competition to attract experienced employees are also existing problems within the industry.

In summary, the insurance market in Vietnam is still seen as a promising market in both the medium and long term. There are also a number of challenges that insurance players in the market are facing. As a result of the focus on restructuring from the supervisory bodies, significant changes are predicted within Vietnam's insurance market over the next couple of years. In addition to stricter regulatory adaption and compliance, each insurer will have to back its own survival and play to its strengths by building trust and delivering quality services to the customer. Insurance firms will also need to promote greater innovation and technology in their product development, distribution channels, and various operational aspects in order to grasp the existing market opportunities and see that the sector grows sustainably. ■

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