The Development of a Vietnamese Insurance Industry

Organisation, Operation and Prospects

by Daniel Bucheton * and Duc Cominh **

1. The economic, legal and financial environment of Vietnam

Since 1988, Vietnam with its 75 million inhabitants has been evolving towards a market economy. Income per inhabitant is still estimated at less than \$ 300 per year.

Since the adoption in 1988 of a foreign investment code of liberal inspiration, subsequently amended three times, 9.8 billion dollars of foreign investments have been approved by the vietnamese government. Foremost are those from Taiwan and Hong Kong, with a total of over 3 billion dollars invested.

Since the American economic embargo was lifted in February 1994, 1.5 billion dollars' worth of foreign investments have been approved by the State Committee for Cooperation and Investment (CECI).

Since 1992 the Vietnamese economy has seen high growth of 7.5% in 1992, 8.2% in 1993, over 9% in 1994 and a forecast of 12% in 1995.

The estimate for 1994 will already exceed since the gross domestic product has already grown by 10% in the first half of the year.

An importer of rice in 1986, since 1989 Vietnam has become the world's third largest exporter, behind the United States and Thailand, with an average of almost 2 million tons; the proportion of top-quality rice has gone from 30% to 80% in five years.

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The transition towards a market economy has led to another number of favourable results in the economic field:

- control of inflation (775% in 1986, 400% in 1988, 67.5% in 1991, 17.2% in 1992, 5.2% in 1993 and an expected 12% in 1994);
- stability of the dong (Vietnamese currency) in relation to the US dollar since 1992.

In addition, economic growth has been accompanied by a consumer boom, in particular for motorcycles and cars, with over 3 million motorcycles and 200,000 cars in the road in 1993. (Only 20% of these vehicles are insured, despite its being legal compulsory.)

The country is little by little acquiring the legal level necessary for its economic development:

- A new real estate law bestows quasi-ownership status upon farmers, and permits private individuals to contribute their right to the use of land to the capital of a cooperative enterprise.
- The law on bankruptcy was adopted in December 1993.
- Fiscal laws have been amended.
- Economic courts were set up in July 1994.
- The trading code and civil code are in the process of being drawn up.

Despite considerable progress in establishing a legitimate state, foreign investors still meet with discouraging obstacles: large numbers of sometimes contradictory regulations, prohibitive accommodation prices, the absence of financial markets, an increasing budget deficit, a barely-functioning banking system. The legal system does not yet offer the necessary guarantees of efficiency or of independence.

2. The organisation and operation of the Vietnamese insurance industry

The history of insurance in Vietnam is linked to the country's political evolution.

Between 1949 and 1954, the Vietnamese insurance industry was dominated by French companies.

After the Geneva agreements in 1954 until 1975, the role of the Vietnamese and of foreign countries (the United Kingdom and the United States of America in particular) expanded in South Vietnam, in a market economy, with a total of over 40 insurance companies and 10 brokerage companies.

In North Vietnam, from 1965 onwards, an insurance system was established within a centralised economy, with the creation of a State-run company, Baoviet, mainly conducting marine insurance.

From the date of the reunification of Vietnam in 1975 until 1992, the insurance market was a State monopoly, with just one company, Baoviet. Moreover, this company was at the same time the supervisory authority, drawing up the laws on insurance. No foreign company could conduct insurance business in Vietnam.

A first step was made in 1992 with separation of the supervisory authority from the State company: some management staff from Baoviet joined the Ministry of Finance to form the first embryo of the Insurance Division.

Baoviet still does not have the status of a joint-stock company, and is still often seen to be merely a department of the Ministry of Finance. It therefore virtually operates as a public service organisation.

Economic agents operating in Vietnam who are in contact with foreign markets do not hold back from calling on foreign insurers to cover certain risks which thus slip past the Vietnamese insurance market, to the detriment of the country's development

This is why the Vietnamese government decided to organise a pluralist market, asking the Ministry of Finance to draft a law.

A vote on it by the National Assembly has been put back to 1995, after having been considered in 1993, then in 1994.

Faced with such delay, the government decided to go around the obstruction, by drawing up texts, notably the decree of December 18, 1993. These texts have less legal value, but nevertheless sufficient, according to the Ministry of Finance, to organise a burgeoning market in which joint-stock companies, joint-ventures, mutual insurance companies, branches of foreign companies and Bao Viet can all operate.

The following diagram shows the operation of the Vietnamese insurance industry:

The market opened up as from January 1994, initially with the establishment of representative offices of foreign companies, the authorisation of joint-venture companies, the creation of a national reinsurance company and a local company, Bao Minh.

Vietnamese insurance system

To date, fifteen foreign companies and brokers have opened representative offices in accordance with the common rights of foreign companies, being:

- American International Group (United States)
- AGF (France)
- Gras Savoye (France)
- GAN (France)
- Heath Hudig Langeveldt Group Limited (Hong Kong)
- Asia Insurance Company Limited (Singapore)
- Yasuda Fire and Marine Insurance Co. (Japan)

Dowa Fire and Marine Insurance Co. (Japan)
Tokyo Marine and Fire Insurance Co. (Japan)
Sumi To Mo Fire and Marine Insurance Co. (Japan)
Mitsui Marine and Fire Insurance Co. (Japan)
Manufacturers Life Insurance Company (Canada)
Prudential Corporation (England)
Sedgwick Group (England)
Jardine Insurance Service Limited (England)
and a company called Inchinbrok, a brokerage joint-venture, has been set up between Bain Clarkson and Baoviet.

To develop this pluralist market, a draft law is in the process of being drawn up authorising joint-ventures between Vietnamese and foreign branches.

Only after a period of experimentation with the operation of these various companies would the Vietnamese State envisage authorising foreign subsidiaries.

To cope with this opening up of the market, as from 1989 Baoviet began the creation of 54 branches in towns with more than 200,000 inhabitants.

However the parent company, Baoviet, based in Hanoi, retains exclusivity on all reinsurance operations.

The Baoviet branch in Ho Chi Minh City, the largest with over 15% of total sales, became a separate company in October 1994.

The activity of Baoviet is growing solely in damage insurance and it reinsures on the order of 40% of its Premium Income.

The following table shows the percentage distribution of the various types of insurance:

TYPES OF INSURANCE	1990 %	1991 %	1992 %	1993 %
Hull and P and I	41,3	36,6	25,8	22,8
Marine Cargo Insurance	14,6	24	17,7	14,3
Personal Accident Insurance	11,4	12,7	17,1	15,3
Automobile Insurance	9,8	7,8	16,2	15,1
Fire Insurance	3,7	2,2	3,4	4,3
Aviation Insurance	9,7	10	10,1	6
Oil And Gas Insurance	9,5	6,6	7,7	15,6
Other Insurances	0	0	2	6,6

The following table shows the evolution of sales of each type of insurance

TYPE OF INSURANCE	1990 Millions \$ US	1991 Millions \$ US	1992 Millions \$ US	1993 Millions \$ US
Hull and P and I	7,5	7,3	7,9	10,4
Marine Cargo Insurance	2,7	4,8	5,4	6,5
Personal Accident Insurance	1,1	2,5	5,3	7
Automobile Insurance	0,8	1,5	5	6,9
Fire Insurance	The needs of business are considerable, although sales in 1993 only represent 4.3%. The trend is towards dazzling growth with an increase in 1994 of more than 73.7% over 1993 sales.			
Aviation Insurance	0,9	2	3	2,7
Oil And Gas Insurance	In 1993, sales represented 15.6% but 1994 forecasts show that the increase is on the order of 115% of 1993 sales.			
Other Insurances	With the launch of personal insurance products, Baoviet hopes for strong growth in 1995.			

The Premium Income and profit after taxes of Baoviet are represented in the table below:

Year	PREMIUM INCOME (Millions of US\$)	Profit after taxes (Millions of US\$)
1991	19,9	0,85
1992	30,6	1
1993	45,8	2
1994 Forecast	70	3,5

In 1993, only 20% of the 3 million motorcycles were insured by Baoviet.

In maritime insurance, Baoviet established partnership agreements with Lloyd's and with CESAM (Marine Insurance Organisation) in France, and in reinsurance and co-insurance, partnership agreements with reinsurers (SCOR, AGF, Munich Reassurance, etc.).

In 1994, the Vietnamese government decided to set up a Social Protection system, and handed over to Baoviet the task of studying future personal insurance market.

As from January 1995, Baoviet should be offering two new products: Endowment Insurance (life/death) and Educational Annuity.

According to Baoviet, the life insurance market could see rapid development, firstly among public sector workers and then among other private individuals.

3. The insurance training system in Vietnam

In 1977, the Hanoi Finance and Accounting School created a new course with an insurance option, essentially oriented towards marine insurance, Baoviet's main business. The diploma awarded is a high level in Finance and Accounting with an Insurance specialisation.

Most of the managers in Baoviet and in the Ministry of Finance have diplomas from this school.

However, the qualifications of the teaching body and the insurance training programme are not suited to the new context.

This is why in 1993 the Vietnamese Ministry of Finance decided to reform the initial insurance qualification training system with technical assistance from France through a programme known as ASSUR. This project requires the successive training of:

- 4 insurance teachers/French interpreters as a first step (1993);
- 24 insurance teachers from the Hanoi Finance School as a second step (1994);
- 120 students a year in the Hanoi Finance and Accounting School as from the third step (1995), by the teachers trained in the second step.

However, this arrangement is still insufficient to deal with the future development of the insurance market, or with the training/adaptation of Baoviet personnel to the new competitive environment.

In 1993 at the request of the Vietnamese government, the European Union defined a project for technical assistance to the Vietnamese Ministry of Finance for the creation in 1995 of an Insurance Retraining Centre. The attached table shows the evolution of the Insurance Training System in Vietnam.

Evolution of the insurance training system in Vietnam

BEFORE 1993	1993	OBJECTIVES 1995
<p>Creation in 1977 of a system of initial training in insurance at the Hanoi Finance School with the following characteristics:</p> <ul style="list-style-type: none">– controlled, centralised economy;– initial training programme primarily in maritime insurance (duration 200 hours).	<p>Reform of the system of initial training in insurance at the Hanoi Finance School with the technical assistance of France (ASSUR programme) with the following characteristics:</p> <ul style="list-style-type: none">– a market economy;– training of 24 insurance teachers of 500 hours' duration, plus 200 hours of economic and social culture;– implementation of a new programme of initial training in insurance on the international level, leading to a diploma, of a duration of 450 hours, taught by the aforementioned 24 teachers.	<p>Creation of an "on the job re-training" system to accompany the development of the pluralist market in Hanoi and Ho Chi Minh City, with the assistance of the European Union.</p>

4. The legal framework for Vietnamese insurance

A draft law on insurance has been under consideration for several years by the Ministry of Finance. It has been submitted to the other Ministries concerned and to the National Assembly for their opinions.

The text is still meeting with opposition, to the extent that its consideration by the Assembly has again been postponed. This is why the Ministry of Finance has drawn up a "decree" and application circulars (decree of December 18, 1993, two circulars of May 30, 1994). In fact these texts constitute a sizeable fraction of the future insurance code. The part which is the most lacking is the contract law.

As is understandable in a market which is only just opening up, the provisions laid down by the Ministry are not liberal: strict conditions for approvals, contract visa and approval of tariffs, mistrust of companies which have to make a bank deposit, legal transfers to a national reinsurance company, unfavourable conditions for foreign insurers whatever the form of their investments.

Problems of interpretation will arise for application of the solvency rules, calculation of the technical provisions (based on very fixed methods) and because of the lack of precise accounting rules suited to insurance.

It seems that the government is retaining every latitude for the opening up of the market and that it wants to proceed slowly, step by step. For the moment, only branches, joint-ventures or offshoots of Baoviet will be able to operate.