

## 베트남 자동차보험의 현황과 과제

(Automobile insurance in Vietnam : Present situation and future prospects)

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Nguyen Thi Gam\* Tran Thi Thuy Linh\*\*

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### I . Introduction

In the past few years, the number of cars has been increasing at a very fast pace while the condition of infrastructure system has not been developed commensurately with the requirements for transportation. There still remain many narrow, damaged roads that are in bad state of repair, many of which are steep and dangerous ones in mountainous areas. In such a transport system, the probability of traffic accidents within the country is predicted to rise. Automobiles are widely considered to be of high values to their owners, individuals and corporators alike. As car accidents will burden car owners with significant financial losses, it is essential that they be compensated in a timely manner. In fact, Vietnam is a developing country, there has not been a totally reliable technical safety standard for automobiles, nor do car drivers has high awareness, and the dissemination of relevant regulations is not efficient, either. Consequently, the more cars are sold, the higher the number of

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\* Director of the Department of Training, Thai Nguyen University of Economics and Business Administration, Vietnam.

\*\* Lecturer of the Faculty of Banking and Finance, Thai Nguyen University of Economics and Business Administration, Vietnam.

accidents. Traffic tragedies have become a continual threat to people's lives and their assets as well.

In order to reverse and mitigate those risks, most car owners are planning to choose their own financial measures and the most effective and feasible way is to have insurance companies assume part of the risks by purchasing their insurance products. When a customer subscribes to an insurance policy, the insurer will insure him against any unexpected incidents that may happen and cause damages to his vehicles, unless he makes it on purpose. In this way, both car owners and car drivers can be more assured during transport because they will not be left on their own in the case they face unlucky traffic events. All in all, car insurances are of significant importance to any car drivers as long as they are to use their cars as they allow risk mitigation and insure their valuable assets.

To summarize, car insurances are really meaningful in:

- Maintaining car owners' financial stability and their business performance
- Helping to improve the current situation of traffic accidents
- Increasing national budget
- Boosting economic development

In this research paper, we will give a broad overview of current situation of the Vietnam's insurance industry and do thorough analysis of the automobile insurance segment by demonstrating performance and strategies of major players in the market. Based on these analyses we will evaluate the future prospects Vietnam's car insurance market.

## **II. General situation of the insurance industry in Vietnam and its business environment**

### **1. Overview of the insurance industry in Vietnam**

Vietnam's current total insurance spending per capita was \$6 in 2008, one of the lowest in Asia. The Vietnamese insurance sector is still characterized by its small size and the limited variety of insurance products available, as well as lower competitiveness of domestic insurers. The the insurance penetration rate (calculated as total premiums divided by gross domestic product) stood at 2% in 2005, compared to 9.5% in the US, 8.7% in EU and 10.5% in Japan, as reported in Russin and Vecchi's publication on Vietnam Insurance Law and Regulation. A higher insurance penetration rate represents greater risk coverage for the economy as a whole.

Despite of its modest size, Vietnam insurance market has experienced steady growth rates for the past few years. 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. 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.

While the demand for insurance is showing strong growth, insurance premium as a percentage of GDP remains static at around 1.5%. 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 totaling VND 27.5 trillion. Life insurance is expected to grow by 18%, with direct premiums climbing to VND 18.9 trillion in 2012.

AVI also confirmed that for the past 5 years, the average growth rate of the industry has been about 22% just as the forecast, resulting in there being over 120,000 insurance agents in Vietnam today. Vietnam insurance market in general and non-life insurance market in particular have been welcoming a wider range of participants from various sectors. To date, there have been 29 non-life insurance companies, 14 life insurance ones, 10 insurance brokerage firms. Besides, more than 30 representative offices of foreign insurance and insurance brokerage firms are now present over the country.

Insurance companies have been expanding their business not only on the scale but also in the depth. Their financial capacity has been enhanced with extensively contributed equity and high rates of provisions for operational risks, which clearly strengthens their liquidity retention rates, and ability to obtain reinsurances.

## **2. Factors that contribute to the development of Vietnam insurance market**

The recent emergence of Vietnam insurance industry has been attributable to various elements. Firstly, it is said to be the result of our country's political stability as well as of a more open regulation system that has encouraged and attracted millions of dollars of foreign investments. Secondly, with helpful and effective measures by the

government, Vietnamese people have been recovering from ups and downs of the economic crisis, thus their incomes have improved, which partly shifts the demand for insurance products. Thirdly, a young, dynamic financial market with the participation of many financial, credit institutions, both domestic and overseas, has been asserting strong influences on the insurance market. Fourthly, local consumers are better informed of the important roles that insurances play in the well-being of their lives and their community. That, in turn, has enlarged the “market cake” of insurance industry to an extent greater than ever before.

On the other hand, as the market is getting more and more competitive, insurance companies are facing many challenges. The Bilateral Trade Agreement (BTA) bound the Vietnamese Government to permit greater access by American insurance companies to the domestic market. Beginning five years from the effective date, American insurance companies were permitted to establish 100% foreign invested enterprises to provide both compulsory and non-compulsory insurance products. Implementation of the U.S. - Vietnam Bilateral Trade Agreement has eliminated the limits on U.S. capital participation in the insurance industry, and Vietnam's accession to the World Trade Organization in January of 2007 has further opened the market to other foreign investors. Under its WTO commitments, beginning January 1, 2008, Vietnam began giving equal treatment to both foreign and domestic insurance enterprises. Foreign insurance enterprises may now provide insurance services to foreign invested and wholly foreign owned companies in Vietnam. They may also provide reinsurance, international transport insurance, and insurance brokerage services. Foreign invested insurance enterprises may also deal in compulsory insurance products, such as liability insurance for vehicle owners.

To sum up, in the period from the present to 2015, Vietnam insurance market is predicted to remain the current growth rate, laying a solid foundation for the development potential of car insurance. However, as automobile insurance is mandatory, this niche of the market is highly dependent on the performance of the car industry, which is to be discussed further in the next section.

### **III. Current situations of the automobile insurance industry**

Currently, there are four main types of insurance that a car purchaser can participate in most insurance companies in Vietnam, including: compulsory insurance for civil liability of motor vehicle owners; civil liability insurance of owner of goods transporting in vehicle; insurance for motor vehicle physical damage ; insurance for passengers , a driver and an assistant driver accident.

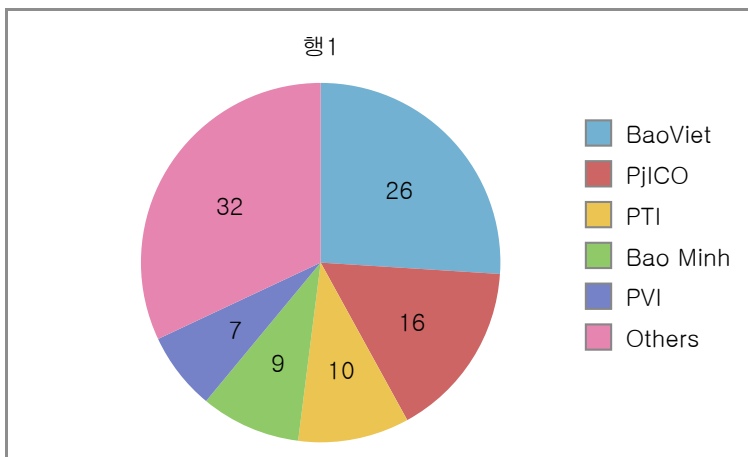
Of these four types of insurance policies: compulsory insurance for civil liability of motor vehicle owners, as its name suggests, is required by law for all individuals and organizations (including foreign individuals) owning cars in Vietnam.

The other three types were purchased at the discretion of customers and on terms and conditions that can be negotiated with the insurance company. Specifically, customers who participate in insurance for motor vehicle physical damage are entitled to compensation for damage to their vehicles caused by unexpected incidents beyond the control of the driver.

These include: collision, fire, explosions, thief or other force major events such as storms, floods, landslides, lightning or earthquakes, etc.

According to latest statistic provided by Vietnam Insurance Portal, a domestic web-based research agency, the total revenues generated from automobile insurance activities in Vietnam in the first half of 2012 amount to 3.168 billion dong, 70 percent of which came from five largest firms in the industry: Bao Viet, PJICO, Bao Minh, PTI and PVI. The breakdown of market share in this segment is demonstrated as follows.

Figure : Automobile insurance revenues in Vietnam market by companies(%)



As it is apparent from Figure, Bao Viet maintained its strong position as the market leader, collecting about 308 billion in automobile insurance premium but it is worth noting that it also has the highest claims payout ratio up to 55 percent. Although it is the fastest growing business in the insurance industry, compared to that of the US, where over 250 million cars travel on the road day after day, Vietnamese automobile insurance market can be viewed as a modest one with only 500 thousand personal

cars. However, insurance firms suggest that the market has a lot of potential for development. This potential can be evidenced by the fact that during the first 6 months of 2012, although the number of new cars sold had decreased by 41% compared to the same period last year, the revenue from motor insurance premiums still saw an increase of 2.22% against that same period. A particularly outstanding example that must be mentioned is that of Liberty Insurance, who achieved a growth rate as high as 24%.

Other participants are also setting up their own plans to allow for flexible adjustments to the applied premiums with the view to promoting development of the market in a positive manner.

The majority of Vietnamese car owners have purchased motor insurance against breakdowns due to accidents or theft. Meanwhile, only a few customers buy insurance policies to cover travelers on the vehicle against injury or death. This situation can be taken as an opportunity for the insurers to boost their revenue by further exploiting this market segment.

The benefit that motor insurance service brings to insurers is not measured only by the number of dollars earned, but also by the promotion of companies' brand names. However, market segment, like all other sectors, has been negatively affected by the recent economic downturn.

According to statistics by the Association of Vietnam Insurance, during the first two quarters this year, revenue from non-life insurance premiums rose by 12.68% compared to the same period last year while that from motor insurance went up by 2.22% as aforementioned. Such



low growth rate of motor insurance market was partially attributable to ill performance of the car market when the number of new cars sold plummeted by 41% compared to the same period of 2011. In addition, other factors also have contributed to the worsening situation, for example: indemnity rate is high because of poor infrastructure, severe weather, drivers' lack of awareness, fraudulent insurance transactions and intense competition, etc. All those elements have collectively imposed a pressure on insurance firms to lower their premiums. As a result, many insurers are not making a profit despite their high sales records.

Although revenue from insurance premiums has gone down recently and those aforementioned business development strategies still show a number of downside, it cannot be denied that motor vehicle insurance, especially car insurance remains an attractive, highly potential market with lots of room for further exploitation.

While insurance firms are devising new strategies to develop businesses, the regulatory authority also have their own plan to create a better environment for market participants. Whereby, Vietnam Insurance Association(VIA) will work closely with the insurers in developing and implementing a database of vehicle owners and their mandatory insurance liability. Simultaneously, they are going to establish a system of quality standards that govern all the garages offering repair and maintenance services for insured damaged cars. In addition, to help recover motor insurance market, in their agenda of 2012, VIA worked with insurance firms to set up the backbone of premium schedules for various types of automobiles, which is a good signal for the market.

## **VI. Future prospects and conclusion**

A new report published by worldwide insurance rating and information agency A.M Best Co predicts substantial change will occur within the Vietnamese insurance industry as the country's regulatory framework evolves, allowing the market to open up further for foreign companies to share their capital and technical expertise. Vietnam's continued demographic and economic development will fuel further demand for insurance. The country's promising trade and industry sector has bolstered economic growth, with gross domestic product (GDP) rising 6.8 percent (2010). The burgeoning economy, with an emerging middle class that is aware of insurance services, has already had a profound effect on the non-life insurance sector. As per capita wealth increases, AM Best notes that more people move from owning motorbikes up to cars. Similar to other Southeast Asian insurance markets, compulsory motor third-party liability coverage has been a critical growth component to the overall insurance market. Motor insurance represents the largest segment of Vietnam's non-life sector, with motor insurance comprising 31 percent of Vietnam's direct written premiums for 2010.

The intense competition has however made profitable underwriting difficult to achieve in the current environment, especially in personal and small commercial lines. As the market has opened up, the 4 big, partially state-owned non-life insurers have been losing market share to smaller largely-foreign competitors who have implemented aggressive growth strategies at the expense of cost-effective underwriting. While local insurers have controlled the market in personal lines, most lack the sufficient capacity and expertise to establish a presence in commercial lines. AM Best notes that foreign firms will be better placed to provide both personal and commercial non-life insurance in Vietnam.

In the report, AM Best explains that in addition to competition, underwriting losses in the non-life sector have been attributed to high operating costs, an increased frequency and severity of insured losses, difficulties policing fraudulent claims and in collecting sufficient data to price certain risks accordingly. Vietnam's insurance companies have also suffered staffing challenges common to a rapidly emerging market (small existing talent pool, high turnover) and will need to bolster their recruitment efforts to ensure the industry can grow both larger and smarter.

Speaking at the release for the study, Arina Tek, financial analyst for A.M. Best, further commented: "The operating environment is expected to remain competitive in the near term and stronger players are expected to emerge as a tougher regulatory framework is rolled out. Some insurers are expected to unveil plans to list on domestic stock exchanges and to become financial holding companies."

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## Abstract

This paper is designed to provide a broad overview of the motor insurance industry in Vietnam by looking at different aspects of the business. To start off, we attempt to capture the current situation of Vietnamese non-life insurance market via key industry benchmarks. Following this, the second paragraph includes an analysis of insurance laws and the categories of Vietnamese motor insurance. The third section of the paper deals exclusively with the status of Vietnamese motor insurance based on cross-sectional and seasonal data. Finally, based on our findings, we draw brief conclusions and propose recommendations for the industry. For the purpose of this research, we relied on both primary and secondary data sources. Our findings should produce a relatively realistic picture of the industry and serve as a useful reference for making investment decisions in the market.

**※Key Word :** Vietnamese non- life insurance market, Vietnamese motor insurance