

Accounting for Financial Investment Activities in Vietnam Life Insurance Enterprises



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ABSTRACT: This article provides an overview of the financial investment activities of life insurance companies in Vietnam, based on the legal basis for investment activities and the specific accounting regulations for life insurance companies. The article also discusses the changes in accounting regulations according to Circular 200/2014/TT-BTC on accounting regimes for enterprises issued by the Ministry of Finance and provides some notes on accounting practices for financial investment activities in Vietnam's life insurance enterprises.

KEYWORDS: Accounting, Financial Investment, Life Insurance, Vietnam.

1. INTRODUCTION

Financial investment activities in Vietnam insurance companies are important not only for the companies themselves but also for the financial market in Vietnam. Raising capital in the current market is mainly done through the investment activities of insurance companies. Accounting for financial investment activities of life insurance companies provides the necessary information for investment decisions to ensure economic efficiency. Insurance companies must comply with legal regulations on financial regimes for insurance companies and have specific accounting regimes according to Circular 199/2014/TT-BTC. With the issuance of Circular 200/2014/TT-BTC guiding the accounting regime for enterprises by the Ministry of Finance, accounting practices in life insurance companies need to pay attention to changes to comply with current regulations.

2. FINANCIAL INVESTMENT ACTIVITIES OF LIFE INSURANCE ENTERPRISES IN VIETNAM:

Before 1993, there was only one insurance company in Vietnam operating as a state-owned enterprise, Vietnam Insurance Corporation. It was not until the Government issued Decree No. 100-CP on December 18, 1993, that a legal basis for the insurance business was established, creating favorable conditions for the development of the Vietnamese insurance market in terms of scale and quality.

As of the end of 2022, Vietnam has 79 operating insurance companies, including 31 non-life insurance companies, 1 foreign non-life insurance branch, 19 life insurance companies, 2 reinsurance companies, and 26 insurance brokerage companies [1].

2.1. Financial Investment Activities in Life Insurance Enterprises

2.1.1. Financial Investment

From the perspective of corporate finance, investment is broadly understood as the act of using current capital and resources to achieve certain business objectives in the future. According to the investment asset structure, corporate investment is divided into three types: investment in fixed assets, investment in current assets, and investment in financial assets.

Investment in financial assets: refers to investing in financial assets such as savings deposits, buying deposit certificates, stocks, bonds, or contributing capital to joint ventures and associations with other companies [2].

For each life insurance enterprise, in addition to insurance business activities, financial investment activities are extremely important, closely related to, and valuable support for insurance business activities. Especially for life insurance enterprises that offer long-term insurance products, having idle capital for a long period makes financial investment activities extremely necessary. Investment activities of life insurance enterprises involve using idle capital from shareholders' equity and insurance premiums collected to generate future profits for the company. Therefore, life insurance enterprises use idle capital from shareholders' equity, insurance premiums collected, and other sources of capital to provide funding for the economy as a financial intermediary through financial markets in the form of depositing money in banks, buying securities, or contributing to stocks.

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Table 1. Investment activities of life insurance enterprises in the period of 2013 -2022

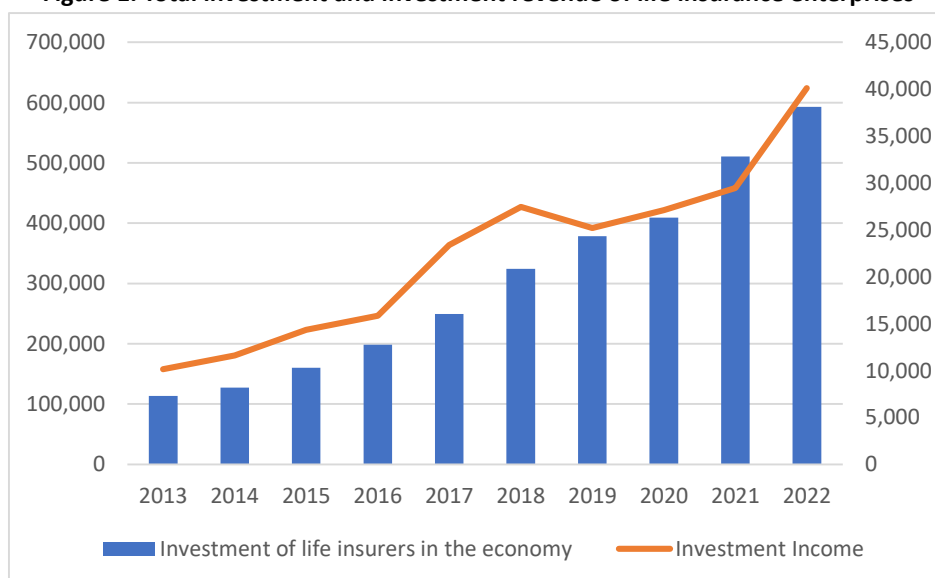
Unit: billion VND

Year	Investment of life insurers in the economy	Investment capital growth rate (%)	Investment Income	The ratio of investment revenue to total invested capital (%)
2013	113,682	-	10,151	8.9
2014	127,061	12	11,603	9.1
2015	160,258	26	14,336	8.9
2016	198,150	24	15,845	8.0
2017	249,134	26	23,396	9.4
2018	324,262	30	27,440	8.5
2019	378,408	17	25,205	6.7
2020	409,149	8	27,108	6.6
2021	510,410	25	29,456	5.8
2022	592,811	16	40,112	6.8
Total	3,063,325		224,652	

Source: Compiled from the Insurance Market Overview Report 2013-2022 of the Department of Supervision and Administration – Ministry of Finance [3]

The total investment capital from life insurance enterprises into the economy has continuously increased from VND 113,682 billion in 2013 to VND 592,811 billion in 2022. The average annual growth rate of investment capital is 18.4%. Revenue from investment activities increased and remained stable from 2013 to 2017, with the highest revenue in 2017 reaching VND 23,396 billion, accounting for 9.4% of the total investment capital. However, in the following years, revenue from investment activities showed signs of decreasing, reaching 6.8% in 2022. Especially in the three years from 2019 to 2021, the economy was heavily affected by the Covid-19 pandemic, resulting in the proportion of investment revenue to total investment capital dropping to as low as 5.8%.

Figure 1. Total investment and investment revenue of life insurance enterprises



Source: Data processing by the author's team

2.1.2. Financial regime and regulations on investment activities in insurance companies.

The Ministry of Finance has issued Decree 73/2016/NĐ-CP detailing the implementation of the Law on Insurance Business and amending some provisions of the Law on Insurance Business. The decree provides specific regulations on investment principles, which include investment sources of insurance companies, insurance brokerage companies, and foreign branches, such as owner's

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equity, idle capital from insurance business reserves, and other legal sources as prescribed by law. Investment activities of insurance companies and foreign branches must ensure the following principles: compliance with legal regulations, self-responsibility for investment activities, ensuring safety, efficiency, and liquidity; not borrowing to invest directly or entrusting investment in securities, real estate, and contributing capital to other enterprises; not investing again in any form for shareholders (members) or related parties of shareholders (members) according to the provisions of the Law on Enterprises, except for deposits at credit institutions as shareholders (members); not investing more than 30% of investment capital sources in companies within the same group or a group of companies with mutual ownership relations [4].

3. ACCOUNTING IN FINANCIAL INVESTMENT ACTIVITIES AT VIETNAM LIFE INSURANCE COMPANY

3.1. Accounting regime in insurance companies

On December 22, 2014, the Minister of Finance issued Circular No. 200/2014/TT-BTC to replace Decision No. 15/2006/QĐ-BTC, providing guidelines on the accounting regime for enterprises. As a result, there were some changes in accounting practices for companies. For this article, which focuses on financial investment activities in insurance companies, the author only provides information related to this content in the new accounting regime as follows:

Account 121 - Trading securities: This account is used to reflect the situation of buying, selling, and settling securities by the law for trading (including securities with a maturity of over 12 months bought and sold for profit). Trading securities include:

Shares, bonds listed on the stock market;

Other types of securities and financial instruments.

This account does not reflect investments held until maturity, such as loans under agreements between two parties, bank deposits, bonds, commercial papers, promissory notes, etc.

Account 128 - Investments held until maturity: This account is used to reflect the current balance and the fluctuation of investments held until maturity (excluding trading securities), such as deposits with a fixed term (including all types of promissory notes), bonds, preferred shares issued by the issuer that must be repurchased at a certain point in the future, and investments held until maturity that generates periodic interest income and other investments held until maturity.

This account does not reflect bonds and debt instruments held for buying and selling for profit (reflected in account 121 - Trading securities).

3.2. Accounting in life insurance companies in Vietnam

According to Circular 199/2014/TT-BTC, the accounting regime for life insurance and reinsurance enterprises in Vietnam provides guidelines on accounting for insurance financial investments as follows:

Accounting for financial investments in life insurance companies is reflected in Account Group 12 [5]- "Short-term financial investments," Account Group 22 - "Long-term financial investments," and accounts related to real estate investment activities (Account 1567 - "Real estate inventory" and Account 217 - "Real estate investment"). Accounting for financial investments must comply with the following regulations:

Financial investment activities of life insurance companies must comply with the law and ensure safety, efficiency, and liquidity.

Life insurance companies must itemize and differentiate the accounting for financial investments in Account Group 12 - "Short-term financial investments," Account Group 22 - "Long-term financial investments" by sources of equity, business reserve funds, and other lawful sources as a basis for preparing investment activity reports according to financial regulations.

In each financial investment account, life insurance companies must open detailed accounts or fund codes to track investment accounting details from equity funds and contract holder investment portions (detailed by insurance products: participating, non-participating, joint venture, unit link, and retirement insurance) to obtain detailed data for fund separation reports and other business reports as required by regulations.

For investments in unit link funds, life insurance companies must determine the net asset value (NAV) of the fund according to current insurance laws.

Life insurance companies must comply with other regulations on accounting for financial investments in Account Group 12 - "Short-term financial investments," Account Group 22 - "Long-term financial investments," including other accounts related to financial investment activities such as Account 515 - "Financial activity revenue" and Account 635 - "Financial expenses" according to the current accounting regime for enterprises. [5]

4. NOTES IN ACCOUNTING FOR FINANCIAL INVESTMENT ACTIVITIES IN VIETNAM LIFE INSURANCE COMPANIES

With the specific requirement of insurance business operations to always ensure financial capacity to meet long-term commitments of insurance contracts (especially in life insurance), insurance companies always prioritize the selection of high-

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safety financial assets such as securities investment, government bonds, and bank deposits. Therefore, with investment being the main form of operation for insurance companies, accounting changes under Circular 200/2014/TT-BTC guiding the accounting regime for enterprises replacing Decision 15/2006/QD-BTC, insurance companies need to pay attention to the following new points in accounting for financial investment activities:

Firstly: Account 121-Securities trading (previously Short-term securities investment). According to Decision 15/2006, account 121 includes Securities trading and Securities held for under 12 months. Now, Circular 200 only includes Securities trading.

Structure and content of Account 121-Securities trading:

Debit side: Value of securities purchased for trading.

Credit side: Value of securities recorded when sold for trading.

Debit balance: Value of securities at the reporting date.

Account 121-Securities trading, with 3 level-2 accounts:

Account 1211-Stocks: Reflecting the situation of buying and selling stocks to hold for resale.

Account 1212-Bonds: Reflecting the situation of buying, selling, and settling various types of bonds held for resale.

Account 1218-Securities and other financial instruments: Reflecting the situation of buying, and selling various types of securities and financial instruments according to legal regulations to make a profit, such as fund certificates, share purchase rights, warrants, call options, put options, futures contracts, commercial papers, etc. This account also reflects the situation of buying and selling papers with different values, such as commercial papers, and promissory notes, for resale.

Secondly: Securities held for under 12 months are transferred to account 128.

Structure and content of Account 128-Investments held until the maturity date:

Debit side: The value of investments held until the maturity date increases.

Credit side: The value of investments held until the maturity date decreases.

Debit balance: Value of investments held until the maturity date at the reporting date.

Account 128-Investments held until the maturity date, with 3 level-2 accounts:

- Account 1281 - Time deposits: Reflects the situation of increase, decrease, and the current amount of time deposits.

- Account 1282 - Bonds: Reflects the situation of increase, decrease, and the current amount of bonds that the enterprise is capable of and intends to hold until maturity.

- Account 1283 - Loans: Reflects the situation of increase, decrease, and current amount of loans under contracts between parties that are not traded on the market like securities. Depending on each contract, loans under contracts may be repaid once at maturity or gradually repaid over time.

- Account 1288 - Other investments held until maturity: Reflects the situation of increase, decrease, and the current amount of other investments held until maturity (excluding bank deposits, bonds, and loans), such as preferred shares that the issuing party is required to repurchase at a certain time in the future or promissory notes.

Third: Stock dividends, investors only track the quantity in the financial statement.

Fourth: In case of liquidation of a subsidiary and the merger of all assets and liabilities of the subsidiary into the parent company, the value of the investment account must be reduced; Record all assets, and liabilities of the dissolved subsidiary at reasonable values on the date of the merger. The difference between the cost of the investment and the fair value is recorded as Revenue from Business Operations or Business Costs.

Fifth: Profit distribution to shareholders in the parent company is based on undistributed net profit belonging to the parent company in the consolidated financial statements.

5. CONCLUSION

For accounting work in insurance companies, compliance with legal regulations in financial regimes must always be followed, while also having separate accounting regulations according to Circular 199/2014/TT-BTC on accounting applied to life insurance and reinsurance companies by the Ministry of Finance. With the changes made by the Ministry of Finance in issuing Circular 200/2014/TT-BTC guiding the accounting regime for enterprises, accounting must pay attention to the changes so that accounting work for investment activities of the enterprise is carried out by current regulations.

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