

Assessing the Current Situation of Business Activities of Vietnamese Life Insurance Enterprises



Thi Huu Ai Nguyen¹, Duc Hieu Bui², Thu Trang Le³

¹Insurance Department, University of Labour and Social Affairs, Vietnam

² Student DMB01-002-2022, International Business, Diplomatic Academy of Vietnam

³ Student D18BH01, 1118030061, Insurance Department, University of Labour and Social Affairs, Vietnam

ABSTRACT: By methodology research method, the article has synthesized information about the history of the formation and development of life insurance in the world and in Vietnam. As a country in the group of developing countries, the insurance industry, including life insurance, is considered to have a lot of potential for future development with the advantage of a young population and a growing economy. From the insurance market data over the years, the article has analyzed the business performance of Vietnamese life insurance enterprises. Accordingly, the premium revenue of the entire insurance market has increased continuously over the years with the average number of new policies reaching 3,024,004 contracts/year or the diversified distribution channel size is also a reason increase in market revenue. However, it also has limitations such as the strong but unbalanced market size, the number of Universal life and Term Insurance products accounted for 87% and the number of contracts canceled before expiration has increased continuously over the years. The article also identifies development opportunities and challenges such as increasing competition, a high number of insurance product distribution agents leaving every year, and an inconsistent information technology infrastructure.

KEYWORDS: Business activities, Life insurance, Scale, Revenue, Vietnam

1. INTRODUCTION

Vietnam's life insurance was born quite late compared to the general development of the world's life insurance industry. After nearly 30 years of establishment and development, Vietnam's life insurance industry is gradually catching up with the development trend of the regional and international life insurance market. Currently, there are 19 life insurance companies in Vietnam, the growth rate of the life insurance market in Vietnam is always high with an average of more than 20% per year in the period 2018-2022. With the strong development of Vietnam's economy, life insurance is becoming a useful tool to help people achieve financial security and protect their health. In 2022, the total premium revenue of the life insurance sector is estimated at VND 183,105 billion, up 15% compared to 2021 and it accounts for about 70% of the total premiums of the entire insurance market [3]. Vietnam's insurance market is not only a useful tool to protect people's financial health but also a channel to provide capital to support most fields from professional fees used for reinvestment into the economy. However, insurance business activities in Vietnam face many challenges such as premature cancellation of contracts, and constant disturbance of human resources, leading to business results not commensurate with profits market position. To find out the formation of life insurance, the current situation of business operations and the causes of difficulties and challenges that Vietnamese insurers are facing, we will shed light on these issues in turn.

2. HISTORY OF LIFE INSURANCE DEVELOPMENT

A life insurance policy is a contract between the policyholder and an insurance company or guarantor in which the insurance company agrees to pay a specific beneficiary a certain amount in the event that the insured dead. Depending on the contract, payments may also be the result of other events, such as terminal illness or critical illness. Policyholders typically make regular or one-time payments. Benefits may also cover other expenses such as funeral expenses [4]. In addition to the sole function of protecting against life risks, life insurance is also an accumulative financial plan, a long-term savings channel and a profitable investment channel. After the policy expires, life insurance will pay the customer's claim in cash, if no risk occurs. This is the provision from the participation premium and interest.

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2.1. History of life insurance development in the world

An early form of life insurance dating back to ancient Rome, "burial clubs" cover funeral costs for members and provide financial support to survivors. This information was found in 1816 through an archaeological dig in Minya, Egypt. Excavations have uncovered a Nerva–Antonine dynastic slab from the ruins of the Temple of Antinous at Antinoöpolis, Aegyptus stipulating the rules and membership fees for burials [1]. The earliest known life insurance policy was taken in London in 1583. Richard Martin insured William Gybbons - a captain. Accordingly, the cost to pay for the insurance policy is £30 per trader. Policyholders will be compensated £400 if they die within a year [2]. Then, in 1759, the first life insurance company in the Americas was founded, but this company only sold insurance policies to a few segments of society. Equitable Life Insurance Company was founded in England in 1762 and they were the first to sell policies to individuals on a large scale. This company uses the principle of a fixed premium for the life of the policy. The 19th century saw the rise in popularity of life insurance, a special product offered to the breadwinner of the family upon early death. Until then, people really realize the great purpose of life insurance. When the main breadwinner dies young, life insurance payments provide a financial means to cover the shortfall and instability of their family life. This is the time when life insurance flourished and became an integral part of families' lives. In 1860, a network of life insurance agents was born and spread all over the world.

2.2. History of life insurance development in Vietnam

Most of us think that life insurance only entered the Vietnamese market since 1996, but in fact, life insurance has existed in Vietnam in many forms for a long time. In the North, before 1945, many families received life insurance subsidies from French life insurance companies. Several companies in the South developed a little-known line of life insurance products in the early 1970s. In 1987, Bao Viet launched a project to introduce life insurance, but it wasn't until 1996. When Decision No. 281/TC/TCNH allowed Baoviet to pilot life insurance, the first life insurance policy was issued. At the same time, the representative offices of world-famous life insurance companies such as Prudential (UK), Manulife (Canada), AIA (then still a part of AIG group of America, now a part of AIG group of America, now a part of AIG group). AIA Group in Hong Kong) in turn appeared in Vietnam to research the market, establish a Life Insurance Company and conduct business in Vietnam. Vietnam's life insurance market began to form and develop. To create a complete and favorable legal framework for the insurance market, in 2000 the National Assembly promulgated the Law on Insurance Business. Through this law, insurance businesses must comply with equal competition, and it is also the driving force for the development of Vietnam's insurance market, including the development of the life insurance market. Thus, we can see that the insurance industry in general, and life insurance, has a long history. Life insurance was born to serve people's financial safety needs and it is increasingly being consolidated and strongly developed around the world. In developed countries, the rate of people participating in insurance as well as life insurance reaches over 90%, making an important contribution to ensuring social security.

3. METHODS

The article uses two research methods, namely the methodology and the meta-analytical method. With the methodology, the authors have synthesized relevant documents on the history and development of life insurance in the world. The emergence and development of life insurance in Vietnam. With the method of meta-analysis, the authors have collected secondary data from the report of the Vietnam Insurance Association. Those reports are data on the insurance market for the years from 2018 to 2022. Based on the collected documents, the authors have synthesized and calculated the necessary data for real analysis. status of premium revenue, market size and market share, and distribution channels of Vietnamese life insurance enterprises. The results of data aggregation are presented in the form of charts and tables so that viewers can understand and visualize the general life insurance market in Vietnam. From the results of the data analysis, the authors also identify challenges and difficulties when developing the life insurance market in Vietnam in the future.

4. RESULTS

Currently, the insurance industry, including the life sector, is both a tool for the economy and a channel for long-term capital. Experts and insurers said that continuing to develop and promptly complete supporting mechanisms and guidelines, as well as gradually improve public relations and transparency, will contribute to promoting the market healthy and safe, complete and effective development school. The group of solutions recently deployed by the Ministry of Finance has greatly improved the business environment, enhanced competitiveness, and brought positive results to Vietnam's insurance market. Let's evaluate the business activities of Vietnamese life insurance companies to clearly see the results and difficulties they are facing.

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4.1. Market-wide life insurance premiums in Vietnam

According to the Vietnam Insurance Association, life insurance premiums in the whole market continuously increased from VND 105,974 billion in 2018 to VND 178,326 billion by the end of 2022. However, in terms of the growth rate of total revenue in comparison with the previous year, the two years 2019 and 2020 achieved the largest growth of up to 23% compared to the same period last year. This growth rate gradually decreases and will be quite low with 11% in 2022.

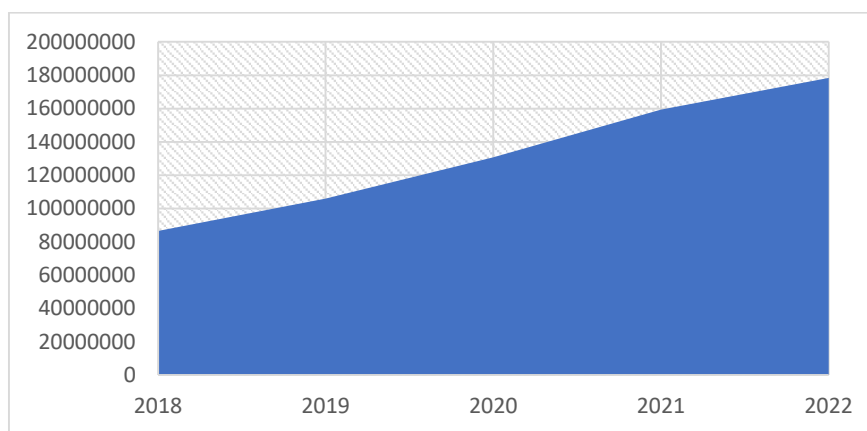


Figure 1. Total insurance premiums for the whole life market in the period 2018-2022

Unit: million VND

Source: Insurance Association of Vietnam

Let's go and analyze the insurance premiums of the whole market for each year by product. The data in Table 1 are compiled from the insurance fact book publication of the Vietnam Insurance Association. Accordingly, Universal life insurance products accounted for the highest proportion with 60% and the average premium collected from New Business was VND 22,191 billion/year. The second highest proportion is Unit link products with 28%, the average premium collected from New Business is VND 10,188 billion/year. In third place is the Endowment insurance product with the average proportion and fee collected from new exploitation of 8% and VND 311 billion/year. The average annual fee revenue of the remaining products is 4%. The two products with the lowest premium revenue are Whole Life and Annuity insurance products.

Table 1. The total collected premium of the market by product

Unit: million VND

Criteria	2018	2019	2020	2021	2022
I. New Bussiness	29,605,773	34,452,724	41,947,796	49,550,340	50,888,400
1. Term Insurance	848,937	888,245	893,855	927,878	687,837
3. Endowment	6,740,666	4,019,849	2,812,337	1,263,413	730,433
4. Whole Life	51,049	67,565	80,317	126,313	24,760
5. Annuity	352,484	146,159	164,813	0	0
6. Universal life	15,446,534	21,546,919	26,988,655	25,221,945	21,755,055
7. Unit link	3,071,435	3,782,119	5,827,776	16,519,429	21,742,638
8. Pension Insurance	141,878	204,403	39,473	42,227	39,573
9. Health Insurance	31,137	33,307	257,199	559,601	642,154
10. Group Insurance	185,225	269,167	161,378	160,470	109,404
Total of main policies	26,684,120	30,688,567	37,064,345	44,660,809	45,622,452
11. Riders	2,921,652	3,764,157	4,883,452	4,889,530	5,265,948
Total of main policies and riders	29,605,773	34,452,724	41,947,796	49,550,340	50,888,400

Source: Insurance Association of Vietnam

4.2. Size of the life insurance market in Vietnam

To look at the five-year growth of Vietnam's life insurance market, let's evaluate the average number of new policies for each product. The numbers of life insurance policies are shown in Table 2. Accordingly, in 2022, there are 3,414,405 new mining

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contracts, a slight decrease compared to 2021 with 3,559,973 contracts. In terms of the average number of new policies of each product, Universal life products account for the highest proportion with an average of 47%/year, corresponding to 1,417,452 insurance policies/year. The product with the second largest number of new mining contracts is Term Insurance with an average weight of 27%/year, corresponding to 821,771 contracts. In third place is Unit link product with the proportion of 11%/year and 341,316 contracts. two insurance products with lower new policies than the above products are Endowment with 8% and Health Insurance with 6%. The remaining products have very low new contracts and account for only 1% of the total new policies of the whole life insurance market. Riders of the life insurance market do not bring high premium revenue, but the number of new annual policies is quite large with about 5 million new policies/year.

Table 2. Number of life insurance policies

Unit: Contract

Criteria	2018	2019	2020	2021	2022
Term Insurance	465,992	731,908	843,059	1,057,416	1,010,482
Pure Endowment	0	0		0	0
Endowment	539,285	308,295	229,600	95,951	30,141
Whole Life	7,951	8,156	10,340	14,722	24
Annuity	1,531	104	63	0	0
Universal life	1,069,887	1,460,469	1,769,757	1,544,978	1,242,167
Unit link	118,007	162,618	203,322	475,359	747,277
Pension Insurance	6,180	5,948	1,708	1,481	890
Health Insurance	39,324	39,172	122,967	370,066	383,424
Group Insurance	947	985	1,162	384	827
Riders	4,285,752	4,896,329	5,784,240	5,437,877	4,875,490

Source: Insurance Association of Vietnam

The data on new contracts every year is very good, but it is an alarming fact that the number of insurance policies terminated and canceled has increased continuously from 2018 to 2022. In terms of the proportion of contract salary. Contract termination and cancellation has decreased by 46% compared to 2018 but businesses need to reorganize their business activities and find a way to reduce the annual cancellation contract.

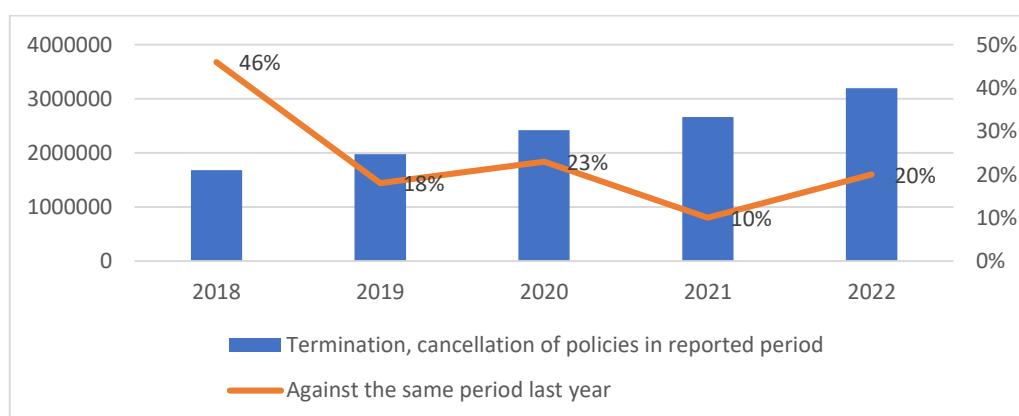


Figure 2. Termination or cancellation of the insurance contract during the period

Unit: Contract

Source: Insurance Association of Vietnam

4.3. Revenue market share of Vietnamese life insurance companies

As mentioned earlier, the life insurance market in Vietnam has the participation of 19 businesses by the end of 2022. From the data of the Vietnam Insurance Association Hiwvpj, the market share of total premium revenue In 2022, specific insurance companies in the market are as follows: Bao Viet Life (18.8%), Prudential (17.7%), Manulife (17%), Dai-ichi (12.7%), AIA (10.3%), MB Ageas (3.7%), FWD (3.4%), Sun Life (3.1%), Generali (2.9%), Chubb (2.7%), Hanwha (2.5%), Cathay (1.5%), MVI (1.5%), BIDV

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MetLife (1%). The remaining enterprises accounted for a small market share of less than 1%. The enterprises holding a large insurance market share have not changed much in recent years. Although the position may change, the top 5 businesses in the life insurance sector are always Bao Viet Life, Prudential, Manulife, Dai-ichi Life and AIA. The reason these enterprises have successfully dominated the market share is that their years of operation in Vietnam are much earlier than that of other enterprises and moreover, the number of agents operating in these enterprises is also the same larger than other firms.

Table 3. Market share of life insurance companies in Vietnam in 2022

Unit: %

Enterprise	Source	Date of establishment in Vietnam	Market share
Bao Viet Life	Vietnam	1996	18.8
Prudential	Older brother	1999	17.7
Manulife	Canada	1999	17
Dai-ichi Life	Japan	2007	12.7
AIA	America	2000	10.3
Sun Life	Canada	2013	3.1
Generali	Italy	2011	2.9
Chubb Life	America	2005	2.7
Hanwha Life	Korea	2008	2.5
MVI Life	Older brother	2011	1.5
Prevoir Vietnam	France	2005	<1
FWD Vietnam	Hong Kong	2007	3.4
VCLI	France	2008	<1
Cathay life	Taiwan	2007	1.5
Fubon Vietnam	Taiwan	2010	<1
Phu Hung life	Taiwan	2011	<1
BIDV Metlife	America	2013	1
MB Ageas Life	Thailand-Belgium	2016	3.7
Shinhan Life	Korea	2021	<1

Source: Insurance Association of Vietnam

In addition to the difficulty of maintaining contracts, recruiting and retaining insurance agents is also a challenge for all life insurance businesses. Looking at the aggregated data in Table 4, New Recruited and Total agents/advisers, we see that the agency distribution channel fluctuates greatly in the number of employees every year. Each year, the number of new recruits at this distribution channel accounts for nearly 50% of the number of active agents. This means that about half of employees leave the insurance business each year. Strong personnel fluctuations destabilize the sustainable development of an enterprise and moreover, the cost of recruiting and training new is very large, affecting the revenue of the business. Other distribution channels have basically only increased in number over the years.

Table 4. New Recruited and Total agents/advisers

Year	Agents	Other Channel					
		Banks		Other Organization		Other Distribution Channel	
		Quantity	Number of advisers	Quantity	Number of advisers	Quantity	Number of advisers
I. New Recruited							
2018	311192	17	22,262	53	3,476	4	582
2019	211466	17	23,669	70	32,426	16	3,866
2020	367281	12	33,688	91	38,741	23	4,407
2021	382765	22	30,012	69	28,163	27	8,204
2022	286476	20	46,156	66	24,568	8	6,333
II. Total agents/advisers							

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2018	693448	58	57,093	125	11,590	9	745
2019	568970	59	73,013	485	225,419	21	4,034
2020	849254	57	85,553	502	237,719	27	7,548
2021	668744	52	103,891	521	140,640	30	14,527
2022	645764	54	130,500	530	140,718	35	18,855

Source: Insurance Association of Vietnam

4.4. Opportunities for business activities of life insurance enterprises in Vietnam

Vietnam is a promising market with strong growth potential for insurance business and insurance services. The large population, people's income and living standards, and the need to improve the quality of life are also the basis and conditions for the development of life insurance. Demand for all forms of insurance is growing rapidly across all demographic groups, sectors and ages. Due to the propaganda of the insurance industry and the buying habits of foreign investors, the increasing awareness of insurance needs and impacts will have a significant impact on customer perception. Potential demand is driving more and more people to decide to buy insurance.

With the development of information technology, insurance companies have more sales channels than the traditional agency/consultant channel. Online sales channels such as mobile applications, chatbots, and social networks are increasingly popular to make interacting with customers easier. In the context that the global epidemic situation is gradually decreasing, the trend of shifting insurance sales services from offline to online sales continues to grow more than ever. It brings more convenience to life insurers and customers while ensuring the safety of the insured, reducing time and travel costs. In addition, the COVID-19 pandemic has altered consumer behavior and raised public awareness of health issues and risks more than before.

4.5. Challenges to the business activities of life insurance enterprises in Vietnam

The number of licensed insurance companies is increasing day by day. Organizations and individuals at home and abroad, if they meet the statutory requirements, have the right to apply for a license to establish an insurance business, including foreign insurance businesses in accordance with WTO commitments. This is almost natural because the potential and development opportunities of the life insurance market are still promising. The annual growth rate of the insurance industry is over 20%, which is relatively attractive to foreign investors. In addition, the insurance industry can also use insurance reserves to invest in financial investments, which have the potential to make businesses more profitable. In the past time, insurance companies in both non-life and life insurance sectors have continuously poured more charter capital to promote investment in personnel recruitment, technology and project implementation expanding the market, developing distribution channels, increasing risk provisions under new regulations as well as increasing compensation capacity.

The distribution channel of insurance products has revealed many weaknesses: Life insurance after a period of rapid growth accompanied by the growth of expanding distribution channels through agents, which means that every time an agent increases, there is an increase in sales. Therefore, many businesses have not paid much attention to the quality of recruitment, training and agent use. Brokerage companies compete with each other, work unprofessionally, arbitrarily add conditions and insurance terms, and lower insurance premiums, which are detrimental to insurers and the insurance market.

The life insurance industry is proving to be a real playground for groups of foreign-invested enterprises (FDI) that have been operating in Vietnam for many years, alongside domestic companies such as Bao Viet. These companies all have investment experience in emerging markets, strong financial potential, an understanding of local consumer culture and sustainable development strategies. On the positive side, competition is the foundation of growth, contributing to the development of Vietnam's economy, creating more jobs and protecting more people. Competition among businesses is promoting the diversification of insurance products to meet the needs of the market. However, 'non-technical' competition also causes the following disadvantages to the market: Accepting reduced commissions to gain market share, including losses, and enticing employees from one company to another when there are matters arising. Sales pressure leads employees to use many methods to damage the image of the business, which can affect management agencies and customers.

The pandemic has upset the entire global economy, infecting more than 11 million people and killing nearly a million, not to mention the number of unemployed and laid-off workers due to the economic downturn. This increases the company's awareness of the importance of risk management and insurance. Companies must gain a competitive advantage by preparing for risk rather than dealing with it "passively".

Lack of highly qualified personnel, knowledgeable about the insurance market. In addition, the talent shortage related to digital transformation is also a dilemma for insurance companies today. Faced with a shortage of skilled workers in the insurance industry,

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many insurers are employing employees trained in other specialties or having employees complete short-term training in insurance skills basic. This poses many risks for the company as well as the market.

Information technology infrastructure is not synchronized. The opportunity of Industry 4.0 is great, but Vietnam has not focused on applying 4.0 technology to the insurance industry, Insurtech is still in the early stages of development and has not achieved much success. The main reason is that the information technology infrastructure has not kept up with market demands such as development speed and network security risks. InsurTech's greatest strength is its database, but current market information is still asymmetric, so if the insurance industry wants to capitalize on Industry 4.0 opportunities, it will need to invest information technology infrastructure.

5. CONCLUSION

Improving operational efficiency and accelerating growth is important, but it must go hand in hand with quality. Expanding scale, expanding market share, and expanding product portfolio must be accompanied by improving the quality of insurance products and services and ensuring the ethics of insurance employees. The negative information about insurance businesses in the media still mainly focuses on pressing issues and denunciations from customers related to insurance contracts, compensation, and insurance payments. Therefore, to ensure the quality of growth, businesses need to simultaneously enhance service quality and recruit and train personnel with solid insurance expertise. In addition, businesses also need to develop a reasonable dispute resolution process to help maintain insurance contracts and ensure the best interests of customers.

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