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Vietnam: the next big hope

Vietnam has caught the attention of foreign insurers looking for an alternative to the twin super-economies of India and China. However, while Vietnam holds undoubted promise, new entrants can expect to face many difficulties. Titien Ahmad reports from Singapore

Vietnam is producing heady growth numbers once thought possible only in India and China. GDP in the country rose 8.4 percent in 2005 and has increased by 50 percent since 2001. Vietnam's population of 82 million - more than 60 percent of whom are aged under 30 - and a savings culture also add attractions for insurers. Notably, Vietnam's Ministry of Finance expects insurance premium revenues to make up 4.2 percent of Vietnam's GDP in 2010, up from 1 percent in 2005 and 0.4 percent in 1993.

Vietnam has been opening its insurance market since 1996 and foreign insurers can operate in the country, though in most instances this is only through a joint venture with a local partner.

Asian, US and European investors have been actively lobbying the Vietnamese government for access to the local insurance market. Upon the country's accession to the World Trade Organization - which may come as soon as late this year - foreign insurers expect to be allowed to establish more wholly owned units and to benefit from progressively declining limitations on their scope of business.

For instance, foreign insurers have not been able to enter fully into non-life business as there are restrictions in this area. State-owned Bao Viet Finance-Insurance has leader-ship in the non-life market, garnering 39 percent of total premium income in 2005.

However, laws governing the insurance industry are sketchy at best and there has been limited legislation to permit insurers to diversify investments. For example, under existing regulations, insurers can invest only in government bonds and bank deposits.

According to the Vietnam Insurance Association, there are 120,000 insurance agents and 10,000 employees in the country. There are currently 16 non-life insurers, eight life insurers and seven insurance brokers.

Vietnam's life insurers offer about 100 products and generated premium income of VND8.1 trillion ($511 million) in 2005 - an increase of 5.3 percent from 2004. Fifteen foreign insurers have established operations and 30 others have representative offices. Foreign-owned insurers dominate the life insurance market. After six years in Vietnam, the UK's Prudential owns more than 40 percent of the life insurance market.

Domestic insurers are more dominant in the non-life insurance market and foreign insurers hold only a 7 percent market share.

Tied agents, of which there are about 92,000, are the mainstay of distribution in Vietnam and only 12 percent of policies are negotiated by insurance brokers. However, the number of insurance brokers is expected to rise. Broker Aon Vietnam holds the largest market share, accounting for 46 percent of broker-generated premiums.

Foreign insurers that entered Vietnam early are now reaping the benefits. In 2002, Manulife Vietnam, the first fully foreign-owned life insurer in Vietnam, said that after three years of operation it had become the first profitable insurer. In 2004, Prudential Vietnam said it earned profits of $3.8 million after five years of operation.

Japanese insurers are also in the market - Dai-ichi Mutual Life Insurance launched its representative office earlier in 2006 and Nipponkoa Insurance forged a product sales alliance with Bao Viet Finance-Insurance.

Vietnam is seen as an attractive option by Japanese companies seeking to reduce their dependence on China. Vietnam jumped from being the eighth most popular destination for Japanese investment in 2000 to fourth in 2005, behind China, India and Thailand.

A report by US consulting firm Towers Perrin on Vietnam's life insurance market concluded: "With less than 10 percent of the population having some form of life insurance coverage, the potential for growth is clearly one of the best in the Asia-Pacific region. The lack of experienced and qualified personnel and the need for capital offer foreign investors potentially attractive opportunities."

However, despite the country's attractions, life insurers are facing stiff competition from banks that have raised rates in a bid to stem the flow of deposits into insurance products. At present, deposit rates are 10 percent compared with yearly dividends of about 2 percent on insurance products.

The banks' strategy and low returns on life products have prompted many people to shift from life policies to bank deposits.

According to the Vietnam Insurance Association, the number of new policies written in the first quarter of 2006 fell 27 percent compared with the first quarter of 2005. Manulife reported a 56 percent fall, American International Assurance a 44 percent fall, Prudential a 30 percent fall and Bao Minh CMG, in which Australia's CMG has a 50 percent stake, a 31 percent fall.

Words of advice

Potential entrants should heed the words of Vietnam banking veteran Adil Ahmad, general manager of alliances for Australia's ANZ, who advised: "We need to engage at all levels. In Vietnam, there is a lot of historical baggage - foreigners have been looting Vietnam for years and the locals have an instinct against foreigners. We have to work through this and communicate that we do not want to take over, but want to work with local partners."

Foreign insurers are already contributing expertise to the local insurance sector. Examples include Singapore's largest insurer Great Eastern which is funding a study of insurance industries in Singapore and Malaysia by Vietnam's Ministry of Finance. Hong Kong's Cathay Life runs seminars on setting up insurance organisations locally.

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