Can International Competition Drive Insurance Market Growth?

EVIDENCE FROM VIETNAM
PREAMBLE: The insurance industry in developed and developing countries alike is regulated and supervised as a core part of the financial system. Insurance supports broader economic and general well-being in developed economies in a way that is so entrenched and accepted that often not explicitly recognized. In less-developed markets, insurance can remain nascent for many years and then pick up through a dynamic development phase and reach a more mature phase. Many actors contribute to this development. This report is part of a larger effort to understand the key drivers of development in insurance sectors and the potential contribution to economic growth and well-being.

The Finance, Competitiveness, and Innovation Global Practice of the World Bank Group, specifically Inna Remizova (Financial Sector Consultant) under the guidance of Fiona Stewart (Project Leader, Lead Financial Sector Specialist), prepared this report.

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Insurance for Resilience and Inclusive Growth

The goal of the overall project is to partner with countries to support development of their insurance markets by investigating the experiences of several selected countries. The project incorporates assessments of regulatory and supervisory settings in comparison with a range of international standards as well as market circumstances to identify how these settings and contextual elements have contributed to growth and development. The analysis includes an examination of the insurance supply chain and considers demand and outcome-based metrics.

As part of the overall project, a parallel effort includes quantitative analyses of a range of cross-country data sets and a review of observance of the International Association of Insurance Supervisors’ (IAIS) Insurance Core Principles (ICPs) in comparison with developmental metrics, complementing the country studies.

The project has also been informed by deep-dive studies of selected countries, which have been distilled into a synthesis report with key lessons for insurance market development.
## Abbreviations

<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Description</th>
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<tr>
<td>ASEAN</td>
<td>Association of Southeast Asian Nations</td>
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<td>EAP</td>
<td>East Asia Pacific region</td>
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<td>EIC</td>
<td>Ethiopian Insurance Corporation</td>
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<td>EIT</td>
<td>Enterprise income tax</td>
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<td>EU</td>
<td>European Union</td>
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<td>FDI</td>
<td>Foreign direct investment</td>
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<td>FIRST</td>
<td>Financial Sector Reform and Strengthening Initiative</td>
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<td>FSAP</td>
<td>Financial Sector Assessment Program</td>
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<tr>
<td>GDP</td>
<td>Gross domestic product</td>
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<td>GWP</td>
<td>Gross written premiums</td>
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<td>HHI</td>
<td>Herfindahl-Hirschman Index</td>
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<td>IAIS</td>
<td>International Association of Insurance Supervisors</td>
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<td>ICPs</td>
<td>Insurance Core Principles</td>
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<tr>
<td>MAT</td>
<td>Marine, aviation, and transport</td>
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<tr>
<td>MOFID</td>
<td>Ministry of Finance, Insurance department</td>
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<tr>
<td>MTPL</td>
<td>Motor third-party liability</td>
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<tr>
<td>NBE</td>
<td>National Bank of Ethiopia</td>
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<td>PVI</td>
<td>PetroVietnam Insurance</td>
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<tr>
<td>VAT</td>
<td>Value-added tax</td>
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<td>WTO</td>
<td>World Trade Organization</td>
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At the time the report was prepared, the exchange rate was USD 1 to Vietnamese dong (VND) 23,446.
Executive Summary

**Foreign insurers can play an essential role in the early stage development of insurance markets.** In Vietnam, the expansion of the insurance sector has been driven by the growing presence of foreign companies, favorable macroeconomic conditions and financial stability. After joining the World Trade Organization (WTO) in 2006, foreign direct investment (FDI) inflows expanded to 10 percent of GDP. At the same time, Vietnam’s insurance sector was transformed from a state-owned monopoly to a more open industry. Foreign insurers used joint ventures to partner with local entities to enter the Vietnamese market. Insurance activity became less concentrated: the number of insurance companies increased from 7 to 18 in life segment, and from 18 to 30 in non-life segment in 2018. Insurance products increased in terms of quantity and quality.

**Insurance penetration has been continuously growing from 1.4 percent in 2006 (before liberalization) to 2.4 percent in 2018.** Vietnam’s gross written premium (GWP) has grown from VND 17.8 trillion (USD 1.1 billion) in 2007 to VND 107.8 trillion (USD 4.8 billion) in 2017, indicating a 20.8 percent CAGR and making Vietnam one of the fastest-growing markets in the region (*e.g.* Philippines – 11.5 percent, Thailand – 11.8 percent, Malaysia – 7.9 percent).

**Life insurance appeared to be more attractive business for foreign companies than non-life.** In general, it is considered less risky for foreign companies to use existing life insurance business models than to start a new, local, non-life business. In Vietnam, the popularity among investors of products that combine life insurance and savings accounts can be mainly attributable to the high credibility of foreign life insurers – as well as the higher returns available from insurance products as an alternative to other savings products on offer (such as gold and foreign currency accounts).

**This paper provides an analysis of ex post facto effects after the entry of foreign companies into the Vietnamese insurance market.** Based on 16 years of data, the paper presents the main observations on the impact of international competition on the insurance market after Vietnam opened up to foreign investors. The results show that in Vietnam: (1) after foreign penetration, local companies do not lose market share rapidly as liberalization takes time; (2) foreign insurers may dominate the domestic market, but if the insurance penetration is low, this impact does not endanger the financial security of the country; (3) the dominance of foreign insurers in the life sector could change the traditional insurance trajectory in emerging economies, which are traditionally oriented mostly on developing compulsory third-party liability insurance; (4) foreign insurers do not increase foreign exchange outflow providing that policies are denominated in the national currency, and foreign companies are well diversified by home country; (5) foreign insurers make long-term contributions to the local economy if they invest in local capital markets. Thus, the paper argues that foreign competition has positively impacted the insurance industry based on evidence from Vietnam.

**Building on previous World Bank projects in Vietnam, the following lessons provide guidance on insurance market development for other countries with a nascent insurance industry and struggling to open their markets to foreign companies:**
Lesson 1. Foreign penetration can drive the local insurance market and increase competition – without negative macroeconomic impacts which can be concerns in advance.

The liberal market model created more opportunities for the industry in Vietnam. The participation of foreign investors in the Vietnamese insurance sector stimulated market development, enriching domestic insurers with experience and governance good practice. Established local players – including state owned former monopolies – may well see their market share decline but can also benefit from overall market growth.

Academic and empirical evidence do not support concerns that foreign investment in the sector can have a negative impact on exchange rates and capital flows – particularly if the overseas investment stems from a wide range of countries.

Lesson 2. External triggers can force policymakers to adjust domestic insurance regulation, open insurance markets, and demand new skills from the industry and supervisors.

Developing countries may face external triggers that force them to open their insurance markets. This requires a new set of skills from insurance sector supervisors. The FIRST/World Bank insurance project in Vietnam identified gaps in legislation where needed to be addressed before the opening of the insurance market. The project proved to be both critical and timely, which ensured a smooth and positive adaptation to the new environment.

Besides the WTO, other international alliances or blocs require insurance sector calibration (e.g. European Union harmonization). Domestic firms need to be prepared to respond to this shifting focus and the new demands that it will present. Governments need to tailor regulations to new requirements. For donors, this is a timely opportunity to ascertain whether the candidate country needs help with its insurance market and can steer the sector towards better adaptation practices.

The new market developments – products, distribution channels – which foreign companies drive – does, however, create new regulatory challenges. Competition encourages the development of new insurance products. The entry of new companies led to additional investments in the life insurance industry of Vietnam and to the increased popularity of agency activity. Modern distribution channels – including bancassurance and e-commerce - are also gradually developing, thanks to the participation of foreign investors. With increased competition comes a greater responsibility for insurance enterprises and regulators need to develop rules of professional ethics, governance and market conduct. Regulations requiring disclosure and transparency and prohibiting anti-competitive practices have been introduced. Insurance enterprises, both domestic and foreign, must monitor their internal operations, as well as regulatory oversight of the industry as a whole, to maintain these standards.

Lesson 3. Larger countries are more attractive to foreign insurance companies than smaller. Economies of scale play in favor of distribution channels to spread insurance products.

Large countries in terms of population imply significant potential demand for insurance products. Vietnam, with a population of 96.5 million, can maintain a larger agents’ network than smaller countries and cover more potential customers. Insurance awareness campaigns in more populous countries spread faster, and financial inclusion will expand correspondingly, reaching more people. Companies
have the potential to collect more premium income, allowing for more investment for product
development, conduct staff training, and develop agent networks.

On the contrary, small countries need a higher level of effort to attract foreign companies, in
terms of relaxing requirements and procedures to conduct insurance activities for foreign companies.

**Lesson 4. Foreign companies contribute to the development of local capital markets – as well as
broader social development goals.**

Financial market development is a necessity for insurance sector expansion. The capital market
in Vietnam is developed and offers long-duration bonds which life insurance companies need to invest
in to match their long-term liabilities. In addition, insurance companies which are part of broad financial
groups can play a major role in developing domestic capital markets in emerging economies. Broader
financial services groups involving not only insurance, but also securities and fund/asset management
service providers, can help the development of life insurance. These products have in turn can contribute
to filling the pension and retirement income gap which many emerging countries face.
1. Introduction

The links between insurance development and foreign interventions are poorly understood. Both theory and practice demonstrate that investments by foreign firms can bring not only capital but also new technologies, skills, advanced management practices, and they create spillover effects for local markets. The insurance sector is no exception and yet in-depth studies on ex post facto effects after foreign penetration on a local insurance market are rare. This study, therefore, examines the role of foreign insurers in developing insurance markets, their contribution to market development and importance for developing countries.

The arguments favoring greater foreign insurer participation are numerous. Countries may realize one or more of the following benefits from allowing foreign insurance companies to access their domestic market: improvements in product development and customer service; increase in domestic savings; additional external financial capital; improvements in the quality of insurance regulation; creation of beneficial local spillovers, including the addition of more and higher quality jobs.

On the other hand, there are concerns about foreign insurer involvement. These include beliefs that the national industry should remain locally owned for strategic reasons and national security. Foreign companies could dominate the local market, forcing local firms that are unable to compete to exit the market. There are also macroeconomic concerns, including that foreign insurers may provoke greater foreign exchange outflow or cause financial instability. The prevalence of foreign investors above local firms in some developing markets has raised serious questions that need to be explored. How have foreign investment flows to the insurance sector influenced its development? What were the transmission mechanisms for foreign insurers’ impact? How do local companies deal with increased competition?

In this paper, the role of foreign entities in the provision of financial services generally and insurance particularly, will be studied using evidence from Vietnam. The presence of foreign companies in the country’s life insurance market is high. In the context of its accession to WTO, Vietnam agreed to lift the restrictions on FDI entry in the financial sector (banking, insurance, and other financial services). Theoretically, joining the WTO accession had the potential to bring many positive effects, such as amended laws and regulations, free trade, and fair competition. Indeed, the impact of foreign investments became perceptible in the insurance sector. However, in the run-up to WTO accession, there was a concern that many Vietnamese firms would lose market share and be overtaken by foreign-invested enterprises. The objective of this research is to shed light on the role that FDI played in competition within domestic market and to determine whether increasing the share of foreign insurance companies had a positive impact on the insurance market. The empirical evidence on the association between international competition and insurance market development needs to be explored. Thus, the paper investigates if international competition after foreign penetration stimulated insurance market growth. In addition, this paper considers whether countries should limit the participation of foreigners in their insurance markets or slowly liberalize them. The rest of the report is organized as follows. Section 2 describes the literature review. Section 3 analyzes the effects of FDI and Section 4 presents results using the evidence from Vietnam. Section 5 concludes and provides lessons.

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1 Vietnam’s WTO accession was in effect in January 2007.
2. Literature Review

Research to date has mostly focused on the determinants of the attraction of FDI\(^2\) rather than on its implications and post FDI analysis in countries. Foreign direct investment is generally considered to contribute significantly to the economic development of emerging economies. Both developed economies and emerging economies have a common interest in encouraging FDI flows, although their goals vary. The positive externalities of FDI are essential for local economies, while corporate profits and growth is a typical target for FDI companies (Resmini, 2000). In developed economies, the growing financial intermediation and insurance sector have positively influenced the productivity and production factors in the economy (Skipper, 2001). FDI is considered a necessary tool for development of the service sector, especially in developing economies (Chitrakalpa, 2011).

There is little literature on measuring effectiveness and value after FDI came into the insurance industry, and no empirical studies linking the actual flow of foreign capital from overseas insurance companies and local insurance market development has been conducted in the past. Global insurers are looking to expand their geographic coverage. As trade barriers are reduced, foreign insurers can enter new developing markets. Foreign insurers mostly oriented on large markets in terms of population, as they imply significant potential demand for insurance life and non-life products. Large financial groups, encouraged by regulatory reforms, are increasing their penetration in international markets, and strengthening their presence abroad. As an insurance sector develops, the role of foreign firms, for example, in providing reinsurance or injecting capital into the domestic industry, can become an important factor at every stage of insurance market development (GC, 2015). In countries with underdeveloped insurance markets, the impact of FDI depends mainly on its size relative to a country’s economy. However the impact on a country’s insurance market development has not been directly studied.

Indeed, the impact of FDI on insurance markets can be disputed. FDI is said to influence economic or GDP growth (Omode, 2012) – having substantial impact on a country’s trade balance, increasing labor standards and skills, transfer of innovative ideas and international practices, and improving the general business climate. Moreover, in terms of insurance, larger foreign investments have the potential to bring in better insurance education on underwriting, actuarial, claims management, data standardization, and product innovation. Conversely, Graham and Krugman (1991) have argued that domestic firms have better knowledge and access to local markets. If a foreign firm decides to enter the market, it must compensate for these advantages of domestic firms. It is most likely that an international firm that chooses to invest in another country enjoys lower costs than its local competitors deriving from higher productive efficiency. It is also argued that foreign expansion is associated with increased skill demand in the host country, and greater FDI can help in the training and skills development of insurance agents, transforming their role from intermediaries to advisors. Well-trained agents are then better equipped to educate the customers about the benefits of insurance. However, many emerging economies have policies restricting the operations of foreigners, as well as the hiring of international staff due to fears

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\(^2\) The World Bank defines foreign direct investment (net inflows in the reporting economy, in current USD) as investment that is made to acquire a lasting management interest (usually 10 percent of voting stock) in an enterprise operating in a country other than that of the investor (defined according to residency), the investor’s purpose being a compelling voice in the management of the enterprise. It is the sum of equity capital, reinvestment of earnings, other long-term capital, and short-term capital, as shown in the balance of payments. (World Bank, 2009). In 2018, global foreign direct investment was USD 1.3 trillion, FDI flows to developing economies totaled to the USD 706 billion in 2018, according to the World Investment Report.
that domestic firms will be put at a disadvantage when the market opens up to foreign competition (McKinsey&Company, 2017).

The presence of foreign insurers would be expected to contribute to insurance market development through product innovation and marketing techniques, but the impact analysis is mixed. The following two studies attempt to interpret the impact of foreign players presence:

- According to Dongshoi, L. et al. (2007), study of foreign market share as the determinant of life insurance consumption in OECD countries, high levels of international participation in a domestic market might reflect the attractiveness of high insurance consumption. The rationale for lower foreign influence appeared in saturated markets where life insurance penetration is already high. On the other hand, high foreign market shares suggest highly competitive markets, which stimulates the sales of life insurance. Correspondingly, a low level of overseas participation may also reflect the high degree of competitiveness of the domestic market. Overall, the openness of markets has a positive effect on demand, suggesting that foreign competition is good for local consumers.

- Skipper (2001) divided the contribution of foreigner insurance companies to local insurance markets into the following categories: (i) innovation; (ii) risk pricing; (iii) transformational activity (e.g. life insurers helping individuals and businesses transform the characteristics of their savings to the liquidity, security and other risk profiles desired); and (iv) risk pooling. Foreign insurers sometimes can bring advanced loss mitigation services to markets. It was also assumed that increased competition from international firms in local markets might force domestic firms to become more efficient. Skipper also noticed that the presence of foreign firms might be picking up on two different effects. First, it may drive down the price of insurance and increase its consumption. Alternatively, international firms may enter markets if there are excess returns available. In that case, the presence of foreign firms suggests that prices are too high. However, increased competition should reduce the cost after some time. Some argue that competition from foreign-invested enterprises drives down monopoly rents and therefore lowers incentives to bribe (Malesky E., Gueorguiev D., Jensen N., 2014).

What seems less controversial is that foreign insurers can play an essential role in the development of the very earliest stage of the insurance market. For example, in the non-life segment, foreign insurers can help compensate for the limited capacity of domestic firms to meet the demand for coverage against risks associated with large-scale commercial enterprises or infrastructure projects (such as construction) and in the provision of commercial marine, aviation, and transport (MAT) insurance. Given the capital-intensive nature and long-term liabilities of the life insurance sector, even if the development of a country’s life market is initially purely driven by domestic investment, there may come a time when international investment and expertise is needed to support its expansion into more complex life insurance product lines, such as unit-linked savings or pension products. Given an adequate regulatory framework, the effectiveness of foreign competition in supporting the development of local insurance markets largely depends on the conditions of market access faced by foreign insurers (GC, 2015).

Foreign insurers, as a rule, face several legal restrictions, ranging from complete or partial market access prohibitions to conditions under which market access is granted. The presence of a state-owned insurer or reinsurer in local markets can also influence market development and regulation, as this most often discriminatory regulatory measures imply against foreign providers (GC, 2015).
In contrast to the academic studies, surveys generally find a positive view of the impact of foreign insurance companies on local market development. For example, after the central government in India allowed foreign direct investment in insurance companies to increase from 26 to 49 percent of capital in 2014, a survey (Hussain 2015) made cluster sampling and identified that almost 75 percent of respondents believed that FDI brings in the best management expertise; 50 percent of respondents thought that foreign management expertise helps in retaining customers; more than 60 percent believed FDI creates employment. More than 70 percent of survey respondents said FDI provides a better product with the least cost. More than 90 percent agreed that FDI takes a long time, but the improvements are permanent.

Despite these positive views of the impact of foreign investment after it has occurred, resistance still remains to opening up insurance markets to foreign firms. Skipper in his paper discusses the common concerns in emerging markets about foreign insurer participation. The author concluded that some of these concerns could be resolved efficiently, and some are not based on facts. He emphasized that the decision about the extent of foreign insurer participation in a domestic market is political, and policymakers should understand the possible consequences of their choices. The author also admits that policymakers can expect local private interests to oppose liberalization efforts. Overall, Skipper concluded that opening markets to appropriate foreign insurers is likely to aid economic development, enhance overall social welfare, and carry few unresolvable negative possibilities. Conversely, countries that maintain unjustifiable market access barriers and that fail to extend national treatment to foreign-owned insurers likely are doing their citizens, businesses, and the national economy a disservice.

It is worth noting that, according to the experts, the benefits of all kinds of FDI investments are likely to be seen only in the future. FDI and its results follow a long-term process and the benefits are only reaped several years after the process is initiated. To sum up, it is difficult to find negative cases in the literature or documentation of negative consequences resulting from foreign insurance involvement in local markets. In almost all studies, criticism relates to potential risks that foreigners could bring to the market. The next section discusses these reservations in the context of real evidence data from Vietnam.

3. Evidence from Vietnam

Vietnam has made a remarkable transition from a centrally planned economy to a market economy and from an impoverished country to a lower-middle-income state in less than 20 years. Vietnam is one of the most dynamic emerging markets in East Asia with the GDP growth at around 6-7 percent in recent years, supported by strong domestic demand and export-oriented manufacturing. Vietnam has a population of more than 96.5 million, of which 60 percent are under 30 years old with an emerging middle class. Favorable macroeconomic conditions and financial stability were important contributions to insurance sector development.

A series of reforms in the 1990s also helped create the foundation for the fast-growing insurance industry that exists today. In 1995, the government permitted the sale of life insurance products and the establishment of joint-stock insurance companies. In 1999, 100 percent foreign-owned
insurers were permitted to operate on the market. In 1999, four joint ventures between local insurers and foreign insurers were established, however, they were limited to life insurance.

Vietnam’s international commitment under its WTO accession concessions and bilateral and multilateral market access arrangements\(^3\) have helped to further liberalize the sector. Foreign investors may participate in Vietnam's insurance market through one or several options, including: (i) cross-border supply\(^4\) (since 2011 for non-life); (ii) establishing a branch in Vietnam (since 2012 for non-life); (iii) establishing a local insurance company; and (iv) acquiring equity interest in an existing insurance company in Vietnam. After joining the WTO in 2006, FDI inflows exploded to 10 percent of GDP. The Vietnamese economy has benefited enormously from FDI contributions to economic growth, trade, employment growth, and poverty alleviation. When Vietnam’s insurance sector was opened to foreign investors\(^5\), foreign insurers used joint ventures to partner with local entities to enter the Vietnamese market. In line with WTO regulations, there are no restrictions on 100 percent foreign ownership companies, and foreign insurers can set up branches. All foreign insurers must demonstrate they have over USD 2 billion in assets and over 10 years of experience in the business. Likewise, they must be profitable in the three prior years before setting up in Vietnam. Insurance companies in Vietnam separate non-life and life lines of business according to the Insurance law. Since the introduction of the current Insurance Business Law in 2000, Vietnam has implemented a large number of amendments to increase financial stability, consumer protection, and corporate governance and to reduce the participation of the state in Vietnamese insurance markets.

### Box 1: World Bank Role in Vietnam’s Insurance Sector Adaptation to WTO

The World Bank started implementing a FIRST funded insurance project in Vietnam in 2007. The project achieved its objectives by identifying the most relevant Insurance Core Principles (ICPs) to implement as priorities in the country. The project helped the Ministry of Finance, Insurance department (MOFID) to conduct a self-assessment of the selected priority ICPs based on the standard International Association of Insurance Supervisors (IAIS) methodology and gap analysis in the current legal and regulatory framework and WTO standards. The project provided recommendations on the laws and regulations to enable compliance with the selected IAIS and WTO standards. Finally, a strategic roadmap was developed for upgrading the regulatory framework to the IAIS standards, as well as specific legal amendments and regulations, and supervisory development plans to meet those standards. The MOFID rated the project with the highest overall performance rating.

The main changes required were then outlined in a strategic roadmap for reform. They focused on amendments to the Law on Insurance, the creation of a law on an independent insurance commission and various additions, amendments to the underlying regulations and guidelines for insurance supervision. The MOFID had minimal staffing (24 staff in total, including administrative support), given

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\(^3\) Such as the ASEAN Framework Agreement on Services, Bilateral Trade Agreement with the United States, and other bilateral and multilateral agreements.

\(^4\) Under Decree 123, foreign-invested enterprises with 49 percent or more of equity owned by foreigners, and foreigners working in Vietnam may obtain non-life insurance from qualified offshore insurers. In turn, the offshore insurer must satisfy certain operational and financial requirements before it can sell insurance products to customers in Vietnam.

\(^5\) According to the Insurance Law, foreign insurance enterprises and foreign insurance broking enterprises are permitted to operate in Vietnam in the following forms:
- (a) Joint venture insurance enterprises and joint venture insurance broking enterprises;
- (b) 100 percent foreign-invested insurance enterprises and 100 percent foreign-invested insurance broking enterprises.
its responsibilities over the entire insurance industry, which was rapidly growing and already consisted of more than 30 insurance firms. This project has led to changes in the legal framework for the insurance sector.

Such a project could be easily replicated in other countries that are in the nascent stages of developing their insurance markets and related capabilities for supervising the sector. When the market is at an early growth stage, such development-focused consulting assistance can be of great value to help the supervisors understand where they stand against the international principles and how to meet them eventually. The critical next phase is hands-on assistance to the supervisors in making legal, regulatory, and capacity changes to comply with international standards and improve the quality of insurance supervision.

The growth of insurance in Vietnam has been extremely rapid. Vietnam’s gross written premium (GWP) has grown remarkably from VND 17.8 trillion (USD 1.1 billion) in 2007 to VND 107.8 trillion (USD 4.8 billion) in 2017, indicating a 20.8 percent CAGR and making Vietnam one of the fastest-growing markets in the region (Philippines – 11.5 percent, Thailand – 11.8 percent, Malaysia – 7.9 percent). The premium quadrupled between 2007 and 2017, driven by robust economic growth, the rising middle class, rapid urbanization with better access to insurance products, an expanding automobile industry, and improving awareness of the benefits of insurance products. Looking at the traditional measure of insurance premiums to GDP, insurance penetration has been continuously growing from 1.22 percent in 2008 to 2.4 percent in 2018 (Figure 1). In 2015, the hike in penetration was observed as rapid GDP growth rates encouraged consumers to purchase savings policies (mainly endowment and universal life). The Life market grew at an exceptional pace from 2015 to 2018 (31.2 percent on average) and outperformed non-life since 2013. Of particular note, foreign GWP (1.3 percent of GDP for life and non-life segments) also shows local market dynamics. Foreign insurance penetration increased from 0.09 percent of GDP in 2000 to 1.25 percent in 2018. However, despite the continued premium growth, the insurance sector in Vietnam remains small, both in absolute terms and compared to peer countries in the region such as Malaysia (4.1 percent), China (4.4 percent) and Thailand (6.1 percent).

![Figure 1: Insurance Penetration, percent of GDP](Image)

**Source:** AXCO; authors’ calculations.

* The data by companies in 2002 is not available to calculate foreign GWP.

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6 Calculations based on the existing market structure and including only GWP of 100 percent foreign-owned companies for non-life (eight companies in 2018) and life (17 companies). Other companies also have minority foreign shareholders but we excluded from the foreign GWP calculations.
Differences in market access for foreign insurers in Asia stem from national policy requirements for foreign ownership, assets, and a complexity of licensing procedures. Markets with less strict regulation toward foreign entities will naturally be more attractive to international insurers. Cambodia, Laos, the Philippines, Singapore and Vietnam have 100 percent foreign ownership caps in all insurance segments. In Indonesia, foreign insurers are permitted to own 80 percent of controlling shares in joint ventures (Table 1). In Malaysia, foreign investors can own 70 percent of locally incorporated publicly listed subsidiaries. Notably, countries that joined the GATT prior to the 2000s (e.g., Thailand) have greater legacy restrictions than those that joined the WTO in the 2000s (e.g. Vietnam, Laos) when the global program for liberalization was more developed (Global Counsel, 2015).

Table 1: Foreign Ownership, 2018

<table>
<thead>
<tr>
<th>Country</th>
<th>Insurance Penetration, %</th>
<th>Written Premiums, US, mn</th>
<th>Foreign Ownership Cap, %</th>
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<tbody>
<tr>
<td>Singapore</td>
<td>7.76</td>
<td>28,269</td>
<td>100</td>
</tr>
<tr>
<td>Thailand</td>
<td>5.87</td>
<td>26,678</td>
<td>25(^7)</td>
</tr>
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<td>Malaysia</td>
<td>3.66</td>
<td>12,964</td>
<td>70</td>
</tr>
<tr>
<td>Vietnam</td>
<td>2.40</td>
<td>5,868</td>
<td>100</td>
</tr>
<tr>
<td>The Philippines</td>
<td>1.84</td>
<td>6,102</td>
<td>100</td>
</tr>
<tr>
<td>Indonesia</td>
<td>1.66</td>
<td>17,260</td>
<td>80</td>
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<tr>
<td>EAP (average)</td>
<td>5.2</td>
<td>68,025</td>
<td>n/a</td>
</tr>
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</table>

Source: AXCO; authors’ calculations.

In the East Asia Pacific region, life insurance products traditionally are more popular than non-life (Table 2, Figure 2), with life insurance penetration standing at 3.4 percent of GDP, and non-life at only 1.4 percent in 2018. There is typically a correlation between rising disposable income and life insurance (due to a rapidly expanding middle class), and this is proven across the ASEAN\(^8\) region. Falling birth rates and lengthening life expectancies are increasingly forcing individuals who would have traditionally relied on their children to provide for them in their retirement to find alternate solutions. This is already a strong savings culture in the region, which is only rising as people of working age in ASEAN countries consider their prospects for retirement and how they will cope with ill-health in old age. While in more developed ASEAN markets such as Singapore, formal pension systems cover over four-fifths of the labor force, whilst in less developed economies such as Vietnam, where coverage remains at a low 13 percent, the insurance sector has a role to play in helping individuals save for post-retirement income (Global Counsel, 2015).

The strong regional demand for life insurance products is also reflected in Vietnam. The country’s life insurance market\(^9\) grew to VND 86.5 trillion (USD 3.8 billion) in 2018 by 29.3 percent from the previous year, while the average annual growth rate was 18.6 percent in the period 2007-2017.

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\(^7\) Foreign ownership between 25-49 percent requires authorization from OIC and above 49 percent from both the OIC and the Ministry of Finance.

\(^8\) Members: Indonesia, Thailand, Singapore, Malaysia, Philippines, Vietnam, Cambodia, Brunei, Myanmar (Burma), Laos.

\(^9\) Life insurance products include whole life insurance, pure endowment insurance, term life insurance, endowment insurance, annuity insurance, investment-linked insurance, and pension insurance.
Drivers for life insurance growth in Vietnam include favorable demographic factors – a growing population fueling the demand for savings and investment products, rapid urbanization, rising middle class, and increasing income per capita. Unlike small countries, Vietnam benefits from economies of scale that play in favor of spreading insurance products. As the country annually increases the volume of life insurance, more and more foreign investors have been attracted to the life insurance market. Other incentives also supported market growth, as life and health policies are exempt from all policy taxes and charges and interest earned on life insurance policies is nontaxable. There is no compulsory life or private health insurance in the country and all demand has been voluntary.

Despite strong growth, life insurance density and penetration in Vietnam are lower compared to some peer countries (Table 2). The low life density (life premia per capita) of USD 39.7 in 2018 reflects the underlying affordability issues. Non-life and health insurance penetration in Vietnam lags significantly behind its neighbors. However, 2.40 percent insurance penetration may not be so low compared to other countries with similar GDP capita (such as the Philippines - 1.84 percent, Indonesia - 1.66 percent, Ukraine - 1.41 percent).

<table>
<thead>
<tr>
<th>Country</th>
<th>Life %</th>
<th>Life per capita</th>
<th>Non-life (P&amp;C) %</th>
<th>Non-life (P&amp;C) per capita</th>
<th>Personal Accident &amp; Healthcare %</th>
<th>Personal Accident &amp; Healthcare per capita</th>
<th>Total %</th>
<th>Total per capita</th>
</tr>
</thead>
<tbody>
<tr>
<td>Thailand</td>
<td>4.26</td>
<td>278.6</td>
<td>1.30</td>
<td>85.2</td>
<td>0.31</td>
<td>20.5</td>
<td>5.87</td>
<td>384.3</td>
</tr>
<tr>
<td>China</td>
<td>2.34</td>
<td>219.4</td>
<td>1.22</td>
<td>114.0</td>
<td>0.74</td>
<td>69.0</td>
<td>4.30</td>
<td>402.5</td>
</tr>
<tr>
<td>Malaysia</td>
<td>2.41</td>
<td>266.0</td>
<td>1.09</td>
<td>120.3</td>
<td>0.17</td>
<td>18.3</td>
<td>3.66</td>
<td>404.6</td>
</tr>
<tr>
<td>Vietnam</td>
<td>1.56</td>
<td>39.7</td>
<td>0.58</td>
<td>14.8</td>
<td>0.25</td>
<td>6.4</td>
<td>2.40</td>
<td>60.8</td>
</tr>
<tr>
<td>The Philippines</td>
<td>1.31</td>
<td>40.7</td>
<td>0.53</td>
<td>16.5</td>
<td>0.09*</td>
<td>2.7*</td>
<td>1.84</td>
<td>57.2</td>
</tr>
<tr>
<td>Indonesia</td>
<td>1.14</td>
<td>44.2</td>
<td>0.41</td>
<td>15.9</td>
<td>0.11</td>
<td>4.3</td>
<td>1.66</td>
<td>64.5</td>
</tr>
<tr>
<td>Ukraine</td>
<td>0.11</td>
<td>3.25</td>
<td>1.10</td>
<td>32.7</td>
<td>0.2</td>
<td>5.9</td>
<td>1.41</td>
<td>41.9</td>
</tr>
</tbody>
</table>

*2017

Vietnam’s non-life GWP expanded by 9.7 percent in 2018 and reached a value of VND 32.2 trillion (USD 1.4 billion), reflected by low non-life penetration (0.58 percent). This is markedly different from 10 years ago, where both the life and non-life markets were the same size. The key drivers of non-life premium growth in recent years have been the growth of GDP and related industrial and commercial activities, the introduction of new forms of compulsory insurance, as well as the growth of the middle class, in which individuals are able and willing to protect their assets through personal insurance (AXCO, 2019). The three largest product lines are motor; property; marine, aviation and transport, which account for 96 percent of GWP in non-life. Car ownership is proliferating from a low base, creating a demand for motor insurance products. Motorbikes are the most popular means of transportation in Vietnam; almost 45 million were registered by the end of 2017. Half of all residents of the country owns

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10 Due to rounding, some totals may not equal the breakdown alone.
11 Car registrations in Vietnam averaged 12,720 from 2006 until 2019, reaching an all-time high of 32,511 in December of 2018. According to BMI, Vietnam’s vehicle fleet is expected to increase from 1.24 million in 2017 to about 1.75 million in 2021, while passenger vehicle density will increase from 13 vehicles per 1,000 of the population in 2017 to 17.6 in 2021. This is expected to be the critical driver of insurance growth in the medium term.
a motorbike. Among motorbike drivers, 49 percent have had at least one motorbike accident with another motorbike or car. In many states, it is mandatory for drivers to carry insurance on their motorcycles. This insurance is designed to cover medical bills for personal injuries as well as collision costs. Claims ratio for the market is at 48.2 percent in 2018.

In 2018, there were 30 non-life insurers and 18 life insurers (one fully domestic, all others with some foreign investment) and two reinsurance companies operating in Vietnam. The non-life market is dominated by the original domestic insurers, with the top five accounting for 58.4 percent in 2018. There are currently 30 non-life insurers[^12] in the market: eight of the companies are 100 percent foreign-owned, while others have minority foreign shareholders (Figure 3). The foreign GWP in the non-life sector is only 9.4 percent. The state retains a 100 percent shareholding in one non-life company, Vietinbank Insurance Company. The state has shareholdings of less than 100 percent in VINARE, Bao Viet, Bao Minh[^13], BIC Insurance Corporation, and PVI Insurance Corporation. In 2018, Bao Viet Insurance[^14] and PetroVietnam Insurance (PVI)[^15] were the market leaders, with a combined market share of 35.9 percent. Local insurers tend to dominate personal lines, but most lack the capacity and expertise to create a significant presence in commercial lines. Foreign insurers are better placed to offer both personal and commercial lines insurance (Essen, 2011).

![Figure 3: Structure of Vietnamese Insurance Industry by Companies](source: AXCO, 2019.)

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[^12]: Local companies include AAA, Agricultural Bank Insurance, BIC (a subsidiary of Bank for Investment and Development of Vietnam), Bao Tin, GIC, Great Mountain JSC, Hung Vuong JSC, Military Insurance, Petrolimex Joint-Stock Insurance Company (PJICO), Nha Rong Insurance (Bao Long), PetroVietnam Insurance (PVI), Post Office Insurance, SVIC, Union Insurance, VietinBank Insurance, VNA Insurance, Vietnam National Reinsurance (VinaRe) and VASS. Joint ventures include Samsung Vina Insurance and Bao Viet Tokio Marine Insurance. Foreign groups with a presence on the ground include AIG, QBE, Liberty Mutual, Fubon Insurance, MSIG, and Chubb (non-life).

[^13]: Previously wholly state-owned Bao Minh was partially privatized in 2004. It writes only non-life insurance, having sold its interest in Bao Minh CMG to Daiichi Life in 2006. Its non-life market share in 2016 was 8.4 percent. AXA is a strategic shareholding partner.

[^14]: Bao Viet Insurance Corporation, owned by Bao Viet Holdings, was the largest non-life company in the market. It operates in more than 60 provinces throughout the country. It writes all classes of non-life business and holds a dominant position in many classes of business. Bao Viet Holdings also owns a life insurance operation (Bao Viet Life Corporation).

[^15]: PVI has a strategic partnership with Talanx HDI-Gerling Industrie Versicherung AG. PVI is a wholly-owned subsidiary of Petrovietnam. It was established in 1996 and was part-privatized at the end of 2006. Although it writes most classes of non-life business, it specializes in insurance for marine, engineering, and especially energy.
4. Results

Based on the literature review and identification of key issues, the following concerns were examined based on the retrospective data for the period since foreign investors entered the Vietnamese insurance market: (i) foreign insurers will dominate the domestic market; (ii) the insurance industry should remain locally owned for strategic reasons; (iii) foreign insurers will provoke greater foreign exchange outflow; (iv) foreign insurers cannot make long-term contributions to the local economy; (v) local companies will lose market share and the domestic market is already well-served by local insurers; (vi) full market liberalization should await certain insurance and macroeconomic reforms. We observed the following:

Observation 1. After opening up the market to foreign insurers, local companies do not lose market share rapidly. Liberalization takes time.

Even after liberalization, the state-owned insurer saw premium growth. For the last 20 years, Vietnam’s insurance sector has been transformed from a state-owned monopoly to a more open industry. Insurance became recognized as a business in 1993\(^{16}\). Bao Viet Life,\(^{17}\) established in 1965, was a monopoly insurer with the sole license in the life insurance market until the beginning of 1999 when Manulife acquired a license. Insurance penetration was shallow (0.4 percent of GDP in 1995). In 2018, Bao Viet Life was ranked number one in the local life insurance market with a market share of 24.9 percent. Even though the market share went down from 40.5 percent, the premium of Bao Viet Life grew steadily (Figure 4). Bao Viet Life is the leading source of insurance in lower-income regions and rural areas, unlike many of its competitors. It remains the only player to cover all 63 cities and provinces in the country.

Figure 4: Bao Viet Life, premiums and market share, USD million and percent

![Figure 4](image)

Figure 5: HHI and HHI (f) for Life Market

![Figure 5](image)

Source: AXCO, 2019; author’s calculations.

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\(^{16}\) Decree N 100/CP dated December 18, 1993, authorized the formation of insurance enterprises other than state-owned enterprises.

\(^{17}\) Formerly wholly state-owned, it was part-privatized in 2007, when HSBC Insurance (Asia-Pacific) Holdings acquired a 10 percent stake in the company (increasing to 18 percent in 2009). HSBC’s shareholding was subsequently acquired in its entirety by Sumitomo Life in 2012.
Competition improved after deregulation – and remained at healthy levels amongst foreign companies which entered the market. Except for Bao Viet Life Insurance, the remaining providers in the life sector are joint ventures and wholly foreign-owned insurers, including some of the world’s leading finance and insurance groups, such as Prudential Vietnam Assurance Private, Manulife Vietnam. Several indicators measure competition in the insurance market. The Herfindahl-Hirschman index (HHI) measures the size of insurance companies in comparison to the industry, and it is used as an indicator of the degree of competition as well. A decline of the HHI index is viewed as a market power reducing, while an increase of the HHI index is perceived as strengthening. The HHI ranges from zero (in case of perfect competition) to 10,000 (for monopoly). The index is calculated using life and non-life insurance activity. Since only one local insurance company operates in the insurance market, we have excluded this company to understand the situation with foreign competition in the market. HHI for only foreign companies is indicated as HHI(f). Overall, the average for the data set suggests that a “natural level” is closer to the data set averages around 2,000 to 2,200 for life insurers and 1,200 to 1,500 for non-life insurers (Thorburn, 2008). In the life sector, HHI and HHI (f) improved with a value of 1,589 and 1,719, respectively, in 2018 (compared to 3,398 and 4,962, respectively, in 2007) and closer to “natural level” after liberalization (Figure 5). Insurance activity became less concentrated due to many insurance companies operating in the life insurance market. However, HHI for the total life market is weaker than HHI (f), reflecting the dominance of the largest local player, Bao Viet Life Corporation, which has 24.9 percent market share and has a huge impact on the market (Figure 5). It occupies the first position in the ranking of companies in terms of insurance premiums. Seventeen companies are foreign and constitute a 75.1 percent of the market share of GWP (Table 3).

Table 3: Life Insurers, 2018

<table>
<thead>
<tr>
<th>Rank</th>
<th>Company Name</th>
<th>Written Premiums</th>
<th>Growth</th>
<th>Market Share</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>USD, mn</td>
<td>%</td>
<td>%</td>
</tr>
<tr>
<td>1</td>
<td>Bao Viet Life (Vietnam)</td>
<td>951.6</td>
<td>21.8</td>
<td>24.9</td>
</tr>
<tr>
<td>2</td>
<td>Prudential Vietnam (UK)</td>
<td>850.9</td>
<td>17.4</td>
<td>22.2</td>
</tr>
<tr>
<td>3</td>
<td>Dai-ichi Life (Japan)</td>
<td>508.9</td>
<td>41.4</td>
<td>13.3</td>
</tr>
<tr>
<td>4</td>
<td>Manulife (Canada)</td>
<td>496.0</td>
<td>36.5</td>
<td>13.0</td>
</tr>
<tr>
<td>5</td>
<td>AIA (USA)</td>
<td>375.7</td>
<td>33.5</td>
<td>9.8</td>
</tr>
<tr>
<td>6</td>
<td>Chubb Life Insurance (USA)</td>
<td>133.6</td>
<td>15.2</td>
<td>3.5</td>
</tr>
<tr>
<td>7</td>
<td>Generali (Italy)</td>
<td>101.4</td>
<td>16.1</td>
<td>2.7</td>
</tr>
<tr>
<td>8</td>
<td>Hanwha Life (South Korea)</td>
<td>94.8</td>
<td>38.2</td>
<td>2.5</td>
</tr>
<tr>
<td>9</td>
<td>Aviva Vietnam Life (UK)</td>
<td>64.5</td>
<td>48.7</td>
<td>1.7</td>
</tr>
<tr>
<td>10</td>
<td>MB Ageas (Belgium)</td>
<td>60.9</td>
<td>447.9</td>
<td>1.6</td>
</tr>
<tr>
<td>11</td>
<td>BIDV MetLife Life (Vietnam, USA)</td>
<td>38.0</td>
<td>63.8</td>
<td>1.0</td>
</tr>
<tr>
<td>12</td>
<td>Sun Life (Canada)</td>
<td>34.1</td>
<td>34.5</td>
<td>0.9</td>
</tr>
<tr>
<td>13</td>
<td>FWD Vietnam Life (Hong Kong)</td>
<td>33.5</td>
<td>160.8</td>
<td>0.9</td>
</tr>
<tr>
<td>14</td>
<td>Cathay Life Insurance (Taiwan)</td>
<td>30.6</td>
<td>49.1</td>
<td>0.8</td>
</tr>
<tr>
<td>15</td>
<td>Vietcombank - Cardiff Life (Vietnam, France)</td>
<td>19.0</td>
<td>53.9</td>
<td>0.5</td>
</tr>
</tbody>
</table>

18 The first 100 percent foreign-owned insurance company in Vietnam.
19 HHI is the sum of the squared market shares of all the insurance companies operating in the industry, times 10,000, to avoid the decimal numbers.
<table>
<thead>
<tr>
<th>Rank</th>
<th>Company Name</th>
<th>Written Premiums</th>
<th>Growth</th>
<th>Market Share</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>USD, mn</td>
<td>%</td>
<td>%</td>
</tr>
<tr>
<td>16</td>
<td>Prévoir Vietnam (France)</td>
<td>17.9</td>
<td>-14.5</td>
<td>0.5</td>
</tr>
<tr>
<td>17</td>
<td>Phu Hung Life Insurance Joint Stock Company</td>
<td>11.5</td>
<td>95.1</td>
<td>0.3</td>
</tr>
<tr>
<td>18</td>
<td>Fubon life Insurance (Taiwan)</td>
<td>3.8</td>
<td>41.5</td>
<td>0.1</td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>3,826.6</td>
<td>29.3</td>
<td>100.0</td>
</tr>
</tbody>
</table>

Source: AXCO, 2019.

Overall, foreign competition improved the local participation and uptake of insurance in Vietnam. Insurance products have increased in terms of quantity and quality. Currently, there are more than 1,187 products in the Vietnam insurance market, including about 350 life insurance products and 837 non-life insurance products (MoF, 2016\(^{20}\)). Some new categories of insurance products (for example, agricultural insurance, pension insurance, micro-insurance, fisheries insurance) have achieved certain success. Local insurers have established more than 3,044 business locations nationwide.

Arguments that local companies lose market share immediately after opening up to foreign companies are not substantiated by the case of Vietnam's insurance industry. This case shows that when local companies improve their service standards, they can gain growth in premiums and profits despite foreign competition. Of course, an existing local company that holds a monopolistic position will be threatened by market competition. Policymakers can expect local private interests to oppose liberalization efforts that challenge the market position or dominance of key players. However, any national insurance industry, no matter how developed it might be, is unlikely to be adequately and fully serving the market. Room always exists for development, improvements, and innovation – as the case of Vietnam has shown.

Box 2: Costa Rica’s Evidence of Market Liberalization

Costa Rica’s experience with insurance market liberalization is very much in line with other countries. New entrants sought to compete and innovate, whilst the incumbent sought to defend its market share. The market share of the former monopoly company, INS, has fallen steadily in Costa Rica. Foreign players sought to leverage their technical experience in innovative products and distribution. New players were attracted to the nascent life sector, where the INS had demonstrated a weaker capacity. The INS market share has fallen to around 90 percent. Premium growth in the market has meant that the INS premium has increased despite facing competition. The fall in market share of the INS is largely in line with the experiences of other countries and can be expected to continue for a good number of years. Experience in other countries such as Czech Republic, Poland, and Uruguay has also seen steady growth in premiums every year since liberalization (Koehler-Geib F., Sanchez S. M., Calvo-Gonzalez O., 2014).

\(^{20}\) Plan of the Insurance Market for the 2017-2020 period (the Plan).
Observation 2. Foreign insurers can dominate the domestic market, but if insurance penetration is low, this impact does not endanger the financial security of the country.

To identify foreign companies’ contributions to insurance market development, we have used a number of indicators to understand this impact in the life sector (Table 4). They include (1) number of foreign companies; (2) number of foreign companies, percent of total; (3) foreign owner’s equity, percent of total; (4) total assets by foreign companies, percent of total; (5) foreign gross written premiums, USD million; (6) foreign gross written premiums, percent of total; (7) foreign insurance penetration, percent of GDP; (8) life market premiums, percent of GDP; (9) HHI and (10) HHI(f) among foreign companies.

Table 4: Foreign Life Insurance Indicators

<table>
<thead>
<tr>
<th>Year</th>
<th>Number of Foreign Companies</th>
<th>Foreign Companies, % of total</th>
<th>Foreign Owner’s Equity, % of total</th>
<th>Total Assets by Foreign Companies, % of total</th>
<th>Foreign GWP, mn USD</th>
<th>Foreign GWP, % of total life GWP</th>
<th>Foreign insurance penetration, % of GDP</th>
<th>Life market premiums, % of GDP</th>
<th>HHI</th>
<th>HHI (f)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2003</td>
<td>4</td>
<td>80.0</td>
<td>n/a</td>
<td>n/a</td>
<td>247</td>
<td>59.5</td>
<td>0.63</td>
<td>1.05</td>
<td>3396</td>
<td>4962</td>
</tr>
<tr>
<td>2004</td>
<td>4</td>
<td>80.0</td>
<td>n/a</td>
<td>n/a</td>
<td>296</td>
<td>60.5</td>
<td>0.65</td>
<td>1.08</td>
<td>3355</td>
<td>4904</td>
</tr>
<tr>
<td>2005</td>
<td>5</td>
<td>83.3</td>
<td>n/a</td>
<td>n/a</td>
<td>319</td>
<td>62.3</td>
<td>0.55</td>
<td>0.89</td>
<td>3299</td>
<td>4838</td>
</tr>
<tr>
<td>2006</td>
<td>6</td>
<td>85.7</td>
<td>n/a</td>
<td>n/a</td>
<td>337</td>
<td>63.5</td>
<td>0.51</td>
<td>0.80</td>
<td>3235</td>
<td>4718</td>
</tr>
<tr>
<td>2007</td>
<td>6</td>
<td>85.7</td>
<td>n/a</td>
<td>n/a</td>
<td>385</td>
<td>65.4</td>
<td>0.51</td>
<td>0.76</td>
<td>2623</td>
<td>4472</td>
</tr>
<tr>
<td>2008</td>
<td>7</td>
<td>87.5</td>
<td>n/a</td>
<td>n/a</td>
<td>407</td>
<td>74.9</td>
<td>0.42</td>
<td>0.55</td>
<td>3146</td>
<td>4486</td>
</tr>
<tr>
<td>2009</td>
<td>9</td>
<td>90.0</td>
<td>n/a</td>
<td>n/a</td>
<td>478</td>
<td>71.9</td>
<td>0.48</td>
<td>0.63</td>
<td>2782</td>
<td>3822</td>
</tr>
<tr>
<td>2010</td>
<td>10</td>
<td>90.9</td>
<td>n/a</td>
<td>n/a</td>
<td>524</td>
<td>70.8</td>
<td>0.49</td>
<td>0.64</td>
<td>2614</td>
<td>3515</td>
</tr>
<tr>
<td>2011</td>
<td>13</td>
<td>92.9</td>
<td>n/a</td>
<td>n/a</td>
<td>561</td>
<td>71.9</td>
<td>0.46</td>
<td>0.58</td>
<td>2466</td>
<td>3244</td>
</tr>
<tr>
<td>2012</td>
<td>13</td>
<td>92.9</td>
<td>n/a</td>
<td>n/a</td>
<td>634</td>
<td>71.7</td>
<td>0.47</td>
<td>0.57</td>
<td>2349</td>
<td>3012</td>
</tr>
<tr>
<td>2013</td>
<td>14</td>
<td>93.3</td>
<td>n/a</td>
<td>n/a</td>
<td>813</td>
<td>72.9</td>
<td>0.54</td>
<td>0.65</td>
<td>2098</td>
<td>2567</td>
</tr>
<tr>
<td>2014</td>
<td>16</td>
<td>94.1</td>
<td>n/a</td>
<td>n/a</td>
<td>964</td>
<td>74.6</td>
<td>0.60</td>
<td>0.69</td>
<td>2130</td>
<td>2593</td>
</tr>
<tr>
<td>2015</td>
<td>16</td>
<td>94.1</td>
<td>89.5</td>
<td>72.1</td>
<td>1297</td>
<td>74.5</td>
<td>0.75</td>
<td>0.91</td>
<td>1900</td>
<td>2218</td>
</tr>
<tr>
<td>2016</td>
<td>16</td>
<td>94.1</td>
<td>89.2</td>
<td>70.4</td>
<td>1689</td>
<td>73.4</td>
<td>0.90</td>
<td>1.12</td>
<td>1807</td>
<td>2039</td>
</tr>
<tr>
<td>2017</td>
<td>17</td>
<td>94.4</td>
<td>91.2</td>
<td>71.2</td>
<td>2179</td>
<td>73.6</td>
<td>1.05</td>
<td>1.32</td>
<td>1718</td>
<td>1887</td>
</tr>
<tr>
<td>2018</td>
<td>17</td>
<td>94.4</td>
<td>n/a</td>
<td>n/a</td>
<td>2875</td>
<td>75.1</td>
<td>1.25</td>
<td>1.56</td>
<td>1589</td>
<td>1719</td>
</tr>
</tbody>
</table>

Source: AXCO 2019; authors’ calculations.

To summarize the results, the life insurance market in Vietnam is open by most indicators—though fear of foreign influence on the economy as a whole is overblown. This means that the domestic insurance market is highly dependent on and determined by foreign companies. After 2007, the total number of foreign insurance companies increased from 6 to 17 in 2018. In terms of the high level of total assets held by foreign companies (71.2 percent) and share of foreign capital (91.2 percent), the life insurance market is open and dependent on the presence of foreign capital. The continuous increase in investment by foreign companies, in addition to the improvement of financial capacity, partly testifies to the attractiveness of Vietnam's insurance market, and long-term intentions of foreign companies. Foreign insurance penetration increased from 0.5 percent of GDP in 2007 to almost 1.25 percent in 2018. As discussed earlier, HHI (f) among foreign companies improved over the years, as the market became...
less concentrated. The potential of insurance has not been realized yet. Opening to foreign insurers has
driven the market, but it still has the potential to grow. Though playing a major role in the insurance
market, the fact that their combined premiums amount to only 1.25 percent of GDP (life insurance
penetration is 1.56 percent) implies that they do not have a major impact on the country’s economy as
a whole and fear of foreign influence is overblown.

### Box 3: Zero Foreign Insurance Penetration in Ethiopia and Insurance Market Development

The financial services sector in Ethiopia is not open to foreign investors as it is in Vietnam.
According to the country’s investment regulations and financial laws, financial services (banking,
insurance, micro-credit, and saving services) are exclusively reserved for Ethiopian nationals. None of
the insurance companies are owned fully or even partially by foreign investors. There are no foreign
interests in the Ethiopian insurance market, no substantial financial services groups, and no foreign bank
or other foreign financial institution operating in the country. Foreign passport holders have been
prevented from investment in the sector despite positive long-term growth expectations and a shortage
of available capital.

The financial sector in Ethiopia currently consists of 18 banks, 17 insurance companies (9 are
composites and 8 deal only with the non-life classes of business), and 35 microfinance institutions.
Banking is the dominant subsector, accounting for 78 percent of total financial sector assets, followed
by insurance companies, representing 15 percent. The most important company in the insurance market
continues to be the Ethiopian Insurance Corporation (EIC), which until 1994 had a monopoly on
insurance in Ethiopia. The company remains 100 percent state-owned and still deals with most state
insurance requirements. It accounts for 23 percent of the total capital of the industry.

Insurance penetration in Ethiopia is very low, and products are concentrated in general insurance
lines of business. In 2017, insurance penetration was only 0.4 percent (of GDP), which is substantially
lower than the Sub-Saharan Africa average of 3.5 percent. In 2017, the Ethiopian insurance industry
ranked 113 in the world in terms of premium income (in comparison to South Africa’s ranking of 17, the
highest among Sub-Saharan African countries). Expenditure on insurance per capita is nearly 3 USD
(compared to Kenya 40.7 USD).

To date, insurers have had little experience in intermediating products to individuals. Most of the
insurance business in Ethiopia is targeted at the corporate market and focused on general insurance.
Premiums from the retail sector are almost entirely derived from motor insurance (53.2 percent of total).
Since 2012, it is compulsory for all vehicle owners to hold suitable motor insurance. The government is
pushing ahead with economic reforms that aim to increase domestic and foreign private business activity
in currently state-dominated sectors. Initial reform plans focus on opening the telecommunications,
transport and logistics, and power sectors. Many international banking groups have moved to establish
representative offices in Ethiopia in anticipation of securing commercial banking licenses soon. The
authorities have indicated that there are no immediate plans to open the financial services sector but
did not rule out the possibility of liberalization in the future. According to press reports, the National
Bank of Ethiopia (NBE) has drafted regulation allowing Ethiopians living abroad to invest in the country's
banking and insurance industry. The move is seen as a step toward liberalizing the financial services
sector. The NBE expects the new regulation to increase formal money transfers into Ethiopia, which
could ease the country's shortage of foreign currency, and boost the capital available for financial sector growth.

Observation 3. The dominance of foreign insurers in the life sector could change the traditional insurance trajectory in emerging economies, which are traditionally oriented mostly on developing compulsory third-party liability insurance.

The non-life insurance market usually follows wider economic development and the growing demand from governments, businesses, individuals, and investors to cover a growing range of insurable risks. Motor insurance also tends to develop early as third-party liability insurance is usually compulsory. Life insurance markets typically develop later, since the life sector is relatively more dependent on the rise of a professional class and capital markets. As the demand for saving solutions for post-retirement income grows with the emergence and expansion of the middle class, the life segment typically branches into the provision of endowment and mortgage-linked insurance products and pension products. Foreign companies were motivated to invest in the life business in Vietnam. The structure of the market has changed: the market share of the life market became dominant, rising to 61.4 percent of the total market in 2017 (after the banking crisis) as compared to 44.9 percent in 2007 (Figure 6). As a result, the growth and contribution of the life-insurance sector are significantly higher than in the non-life sector. Ongoing growth within the life sector has been driven by the presence of foreign companies which happened earlier than in the non-life sector (which opened to FDI in 2012), tax exemption, and the introduction of new product innovations.

Figure 6: Market Structure, percent of total

<table>
<thead>
<tr>
<th>Year</th>
<th>Life</th>
<th>Non-life</th>
<th>PA &amp; Healthcare</th>
</tr>
</thead>
<tbody>
<tr>
<td>2001</td>
<td>35.0</td>
<td>36.6</td>
<td>8.4</td>
</tr>
<tr>
<td>2007</td>
<td>44.9</td>
<td>47.0</td>
<td>8.0</td>
</tr>
<tr>
<td>2017</td>
<td>61.4</td>
<td>27.2</td>
<td>11.3</td>
</tr>
</tbody>
</table>

Source: AXCO; author’s calculations.

Investment-linked insurance that combines basic life insurance protection with an investment vehicle is a new sphere in the Vietnamese insurance industry allowed by the MoF since 2007\(^{21}\). The

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product mix of the life insurance market mainly reflects saving-focused business, that is endowment, unit-linked, and universal life (Figure 7). These products became popular with foreign companies’ entrance in Vietnam. Endowment policies, which pay out on the death of the insured or after a specific term, occupy the largest share of total GWP – 45 percent in 2017 (65 percent in 2007); universal and unit-linked products form 43.5 percent of life insurance products. Consumers’ lack of trust in the local banking system and the huge international insurance companies’ presence in the market played a significant role in the growth of this segment. Foreign insurance companies have gained high credibility among consumers due to their professional teams and focus on good client service. Also, the Vietnamese have seen that endowment products (especially for children) could earn a higher return than foreign currency deposits and gold. Vietnamese consumers consider insurance an investment rather than a risk management tool. The main buyers of life insurance are mostly parents seeking to save up for the education of their children, or people saving money for retirement or a big event in the future. In addition to earning interest, insurance products also provide protection (death benefit, accident benefit).

Observation 4. Foreign insurers do not increase foreign exchange outflow providing that policies are denominated in the national currency, and foreign companies are well diversified by home country.

Currency exchange can also be an important issue for policymakers – but insurance market liberalization was found to have limited impact. To limit currency risk, insurance companies’ assets need to be in the local currency. This helps minimize the dependence on foreign currency-denominated borrowing that is so often an unfortunate feature of capital raising in developing countries and a contributing factor in financial crisis (Skipper, 2001). After joining the WTO in 2006, FDI inflows exploded to 10 percent of GDP in Vietnam. Foreign insurers were not only expected to bring long-term stable funding, but also foreign currency reserves into the financial system. Since 2005, FDI outflow was less than 1 percent (0.24 percent of GDP in 2018). Moreover, to avoid currency mismatches in the balance sheets, given that traditionally liabilities are fully denominated in local currency, preference in countries with higher foreign ownership is given for holding local currency assets.

No correlation was found between currency fluctuations and increased investment in the insurance industry from overseas firms. The Vietnamese Dong is not a freely convertible currency. All goods and services in Vietnam must be transacted in VND. Foreign investors may transfer profits abroad, but all VND must be converted into foreign currency in Vietnam for the transfer. Foreign-invested

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22 Life insurance products include whole life insurance, pure endowment insurance, term life insurance, endowment insurance, annuity insurance, investment linked insurance, and pension insurance.

23 However, universal life predominates over unit-linked insurance principally because agents still consider unit-linked to be a complex product, and they prefer to sell endowment and universal life products that are easier to explain to the customer. Individual life business is sourced predominantly through agents with the balance emanating from bancassurance and direct acquisition. The demand for group life cover is very little, but no statistical splits are available for group and individual business. The highest demand for group life cover is from foreign companies that purchase it as an employee benefit.

24 Vietnamese historically kept dollars and gold at home rather than in bank accounts. Although liberalization in Vietnam’s banking sector started in 1988 — earlier than the insurance sector appeared— banking liberalization has not been promoted much because the Vietnamese government has wanted to protect domestic banks, which played an important role in monetary policy and the payment network.

25 For example, for Dai-ichi Life Vietnam, the current interest rates offered are 7 percent (to date), while the deposit rates of several major Vietnamese banks and interest rates of their term-deposit are currently at a rate below 7 percent (depending on the duration). In addition to earning interest, insurance products also provide protection (death benefit, accident benefit).

26 For example, in Malaysia, foreign assets account for just three percent of the total insurance company assets, while cash and deposits just nine percent, and almost 60 percent of assets are invested in debt securities (Global Counsel, 2015).
companies have the right to purchase foreign currency to satisfy their requirements for current transactions, for capital transactions, and for other approved transactions. There is a risk of fluctuation of the national currency that could cause outflow or increasing insurance premium proportionally to devaluation or appreciation. However, looking at the trend of the official Vietnamese exchange rate (average), there were insubstantial fluctuations in the 2000-2018 period with devaluation of 10.9 percent (in 2007) and appreciation of 6.1 percent (in 2012). No correlation was found between the exchange rate and GWP for life insurance products denominated in U.S. dollars. The correlation coefficient between these two variables was minor at level (0.1) in Vietnam. Similar observations can be made for other countries – such as Malaysia.

Policymakers concerned about possible harm from disinvestment or a withdrawal of foreign insurance capacity should endeavor to attract carriers from various nationalities and avoid becoming highly dependent on those from a single country. Vietnam diversified foreign insurers from Canada, France, Japan, Singapore, Taiwan, the United Kingdom, and the United States.

Observation 5. Foreign insurers make long-term contributions to the local economy if they invest in local capital markets.

Insurance companies must match growing liabilities with assets. In the case of life insurance, as these liabilities are long-term, assets would ideally be so as well (e.g. long-term bonds issued by the government or private corporations). Insurance companies are significant buyers of long-term debt that is used to finance, for example, the construction of infrastructure or other government investment projects. The capital market in Vietnam offers long-duration bonds. Following the entry of foreign insurers into Vietnam, the insurance business has grown rapidly, providing products and boosting the country’s capital markets. In Vietnam, foreign insurers’ assets are invested within the country—life insurance companies hold 70 percent of their assets in government bonds (Figure 8). There is an unusually small amount of equity investment. To facilitate the growth of the insurance sector, Decree No.73 came into force on July 1, 2016, prescribing new regulations on the licensing, organization, and operations of financial institutions, with specific regulations on investment portfolios and ratio and reserves. This requires that life insurers operate investment strategies to ensure their customers benefits, together with risk management and liquidity considerations.

Figure 8: Invested Assets by Life Companies, percent of total

Source: AXCO, 2019.

27 In Malaysia no correlation can be found between currency exchange of the Malaysian ringgit to USD and GWP over a longer period of analysis (1991-2018). This helps confirm that there is no direct impact of insurance policies issued in local currencies.
The insurance market in Vietnam can also contribute to other development goals, such as the provision of retirement income. The government provides strong support to life insurance by exempting carriers from VAT and attracting foreign investors. Vietnam is one of a few countries developing at a rapid pace and where the population’s well-being is improving. However, social protection programs provided by the government are not well developed in Vietnam. Pensions are only paid to those who have worked in the public sector. Social (non-contributory) pensions are available for those of ages 80 and above, while the usual retirement age is 60 for men and 55 for women. In Vietnam, low pension coverage is a significant issue because of the rapidly aging population. Hence, this has prompted the government to realize that it is necessary to have extra funds saved for retirement. Pension insurance was introduced in 2013 as a voluntary form of savings to fund retirement and it is hoped that such products can help close the pension coverage gap and provide protection for the growing numbers of elderly.

5. Conclusion

Vietnam’s experience offers a wide range of interesting and important perspectives for regulators and policymakers in other developing markets. The expansion of the insurance sector in Vietnam has been driven by the growing presence of foreign companies, and local firms have been forced to become more competitive. The local life company did not lose its leading position on the market, and its profits have been growing steadily during a long process of liberalization. Foreign competition has positively affected the insurance industry through the offering of new products and services. Although, the domestic insurance market is highly dependent on and determined by foreign companies, overall, insurance activities have a minimal impact on the country’s GDP and have not damaged Vietnam’s national and financial security. The potential of insurance has not been fully realized and there is still room to grow.

Life insurance is a prospective and attractive business for foreign companies. It is easier for foreign companies to use existing business models than to start anew. The popularity among foreign insurers for offering products that combine life insurance and savings accounts is mainly attributable to Vietnamese consumers’ low level of confidence in the banking sector, and on the high credibility of foreign life insurers and higher returns from insurance products as an alternative to gold and foreign currency accounts.

The non-life market is not viable for foreign business yet for two main reasons. First, non-life insurance is a riskier business than life. Second, life and health policies are exempt from all policy taxes and charges, while VAT (at the rate of 10 percent) and EIT (corporation tax, chargeable on insurance and reinsurance companies’ profits at the rate of 20 percent) applies to both foreign and domestic non-life insurers. That said, despite the fact that non-life insurance was opened fully for foreign companies later than life (in 2011), the market has become more competitive – possibly too much so with the HHI for non-life indicating a great number of small companies operating in the market which needs to be effectively rationalized.

The following lessons provide guidance on insurance market development for other countries with a nascent insurance industry and struggling to open their markets to foreign companies:
Lessons Learned

**Lesson 1. Foreign penetration can drive the local insurance market and increase competition – without negative macroeconomic impacts which can be concerns in advance.**

The liberal market model created more opportunities for the insurance industry in Vietnam. WTO membership has given Vietnam access to both foreign markets and capital while making Vietnamese insurance companies stronger through increased competition. With the entrance of foreign investors, insurance has grown noticeably in recent years. The participation of foreign investors in the Vietnamese insurance sector stimulated market development, enriching domestic insurers with experience and governance good practice. The local market has greatly benefited from international companies through know-how and product selection. The participation of foreign investors has helped domestic insurers enhance their insurance capacity through training, an improved legal framework, and product offering – including microinsurance, pension insurance, and health insurance, which meet the needs of customers, contributing to economic development and social security. Insurers are competing for customers via new channels such as partnerships with banks (bancassurance) and e-commerce.

Academic and empirical evidence do not support concerns that foreign investment in the sector can have a negative impact on exchange rates and capital flows – particularly if the overseas investment stems from a wide range of countries.

**Lesson 2. External triggers force policymakers to adjust domestic insurance regulation, open insurance markets, and demand new skills from the industry and supervisors.**

Developing countries may face external triggers that force them to open their insurance markets. This requires a new set of skills from insurance sector supervisors. The FIRST/World Bank insurance project in Vietnam identified gaps in legislation where needed to be addressed before the opening of the insurance market. The project proved to be both critical and timely, which ensured a smooth and positive adaptation to the new environment. The WTO currently has 164 members, accounting for 98 percent of world trade. A total of 22 countries are looking forward to joining the WTO. Identifying gaps in legislation is vital in the adaptation process. In this context, the World Bank and other donors could help potential members navigate WTO accessions and adaptation in terms of regulation and introducing new skills for supervisors. Ideally, reasonable insurance laws and essential regulations should be in place before full market liberalization. However, in practice, countries often adjust their legislation in parallel with opening their insurance markets.

Besides the WTO, other international alliances or blocs require insurance sector calibration. For example, candidate countries seeking membership in the European Union (EU) should align their domestic legislation in line with EU law before joining. Countries seeking cooperation through international or regional blocs will need to open their insurance market, which creates an external trigger.

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28 Bancassurance was launched in Vietnam for the first time in 2001 with the cooperation between AIA and HSBC, while an online distribution channel was implemented by a majority of large-sized insurers in 2016. Swiss Re data shows that Vietnam’s general insurance market is working to expand its direct distribution channels, such as online and telesales, while the local life insurance sector’s distribution remains focused on intermediaries (agents).

29 Algeria, Andorra, Azerbaijan, Bahamas, Belarus, Bhutan, Bosnia and Herzegovina, Comoros, Equatorial Guinea, Ethiopia, Iran, Iraq, Lebanese Republic, Libya, São Tomé and Príncipe, Serbia, Somalia, South Sudan, Syrian Arab Republic, Timor-Leste, Uzbekistan.

30 https://www.wto.org/english/res_e/publications_e/anrep18_e.htm
to harmonize domestic insurance regulation. Domestic firms need to be prepared to respond to this shifting focus and the new demands that it will present. Governments need to tailor regulations to new requirements. For donors, this is a timely opportunity to ascertain whether the candidate country needs help with its insurance market and steer the sector towards better practices in line with international standards. If the market is at an early stage, such assistance can be valuable in helping the supervisors understand the industry’s readiness against the new requirements and how to meet them. The critical next phase requires hands-on assistance to supervisors in legislative, regulatory, and capacity changes. Facilitating countries to adjust in the right direction can make a huge difference in future development of the local insurance market.

The new market developments – products, distribution channels – which foreign companies drive – does, however, create new regulatory challenges. Competition encourages the development of new insurance products. The entry of new companies led to additional investments in the life insurance industry of Vietnam and to the increased popularity of agency activity. Modern distribution channels – including bancassurance and e-commerce - are also gradually developing, thanks to the participation of foreign investors. With increased competition comes a greater responsibility for insurance enterprises and regulators need to develop rules of professional ethics, governance and market conduct. Regulations requiring disclosure and transparency and prohibiting anti-competitive practices have been introduced. Insurance enterprises, both domestic and foreign, must monitor their internal operations, as well as regulatory oversight of the industry as a whole, to maintain these standards.

Lesson 3. Larger countries are more attractive to foreign insurance companies than smaller. Economies of scale play in favor of distribution channels which help to spread insurance products.

Large countries in terms of population imply significant potential demand for insurance products. Vietnam, with a population of 96.5 million, can maintain a larger agents’ network than smaller countries and cover more potential customers. Vietnam has almost 600 thousand agents (non-life and life) and on average, one agent per 150 customers. In comparison, in countries with a population of up to 5 million people, an agents’ network is minuscule and covers only a few thousand people (for example, in Albania). Insurance awareness campaigns in more populous countries spread faster, and financial inclusion will expand correspondingly, reaching more people. Companies have potential to collect more premium income, allowing for more investments in product development, more staff training, and the development of agent networks. Being larger is helpful for the development of not only the insurance market but capital markets as well. The insurance sector helps to facilitate economies of scale through investment and generally enhances the efficiency of the financial system by reducing transaction costs and creating liquidity.

On the contrary, small countries need a higher level of effort to attract foreign companies, in terms of relaxing requirements and procedures to conduct insurance activities for foreign companies. Insurer supervisor in small countries may consider lowering barriers to market access (including permitted levels of foreign ownership, branch requirements, licensing procedures, and capital requirements), developing favorable tax initiatives, expanding the range of product offerings, and so on. Despite the market size, the jurisdictions with the most favorable regulatory systems and investment protection issues for foreign companies will be inherently attractive.
Lesson 4. Foreign companies contribute to the development of local capital markets – as well as broader social development goals.

Financial market development is a necessity for insurance sector expansion. The development of life insurance companies and pension funds is specifically associated with more efficient banking systems (Impavido et al. 2001) and the development of securities markets (Vittas 1998). The capital market in Vietnam is well developed and offers long-duration bonds which life insurance companies need to invest in to match their long-term liabilities. In addition, insurance companies which are part of broad financial groups can play a major role in developing domestic capital markets in emerging economies. Broader financial services groups involving not only insurance, but also securities and fund/asset management service providers, can help the development of life insurance. These products have in turn can contribute to filling the pension and retirement income gap which many emerging countries face.
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