



# Accelerated growth in Vietnam

Opportunities & challenges ahead for the life insurance industry

Ho Chi Minh City  
29 October 2019

# Background

## The participants

Representative of the life insurance industry in Vietnam, our participants included over 40 senior leaders from different functions of life insurers across multinationals and home-grown organisations.

## The questions

Throughout the panel discussion and the presentations, a series of questions related to the topic were asked to the audience using a mobile-based polling tool. The results displayed are unedited images from the polling tool that were displayed live to participants during the event.

## Our thoughts

Our consultants have added comments to add context to aggregate responses after each question.

# Low interest rates



Is it “**low for longer**”?  
If so, what are the challenges  
and opportunities?

# Participants' view



## What level will the 10-year Vietnamese government bond yield be at in one year's time?

030

A. Less than 2%

0 %

B. 2-3%

23 %

C. 3-4%

60 %

D. 4-5%

17 %

E. more than 5%

0 %

### Perspective:

- Vietnam has seen dramatic reductions in government bond yields over recent years, with further falls in 2019. As at the date of the event, the 10-year government bond yield was at 3.7%.
- The low interest rate / fixed interest yield environment has important consequences for life insurers in Vietnam across a number of areas, including impacts on valuation interest rates and hence levels of statutory reserves, capital adequacy ratios, product profitability, asset allocation, asset-liability management and product strategies.
- The majority of respondents felt that the 10-year Vietnamese government bond yield would not see any significant uplift over the coming year and would remain in the 3-4% range.
- Marginally more respondents felt it would drop below 3% compared to those who felt it would rise to over 4%.

# Regulatory change

How will **regulatory change** shape the Vietnam life insurance market?

# Participants' view



0 2 9

## Which aspect of regulatory change will have the most impact (positive or negative) on the Vietnam life insurance market ?

New risk-based capital regime introduced



Introduction of gross premium reserving basis for statutory reserves



IFRS 17



New Vietnamese mortality table introduced



Stricter point of sale regulations and greater scrutiny on market conduct of banks and insurance agents



## Perspective:

- As with any developing market, it will be important in Vietnam to strike an appropriate balance between regulatory changes that provide necessary oversight and checks and balances and those that help promote growth.
- Various regulatory changes that may impact life insurers in Vietnam are possible over the coming years, as we see increasing regulatory convergence across Asia and globally.
- When asked which of the shortlist of potential regulatory changes would be most impactful, the most popular answer was the tighter point of sale and market conduct rules for sales of insurance products through banks and by agents. We have seen impacts to the insurance industry from such changes in other markets in Asia, including in Thailand, a market that some observers compare Vietnam's future growth trajectory against.
- Around a quarter of respondents, equally, felt that a new RBC regime and IFRS 17 would have the most impact.



How will **agency** and **bancassurance** distribution evolve in Vietnam, and is **InsurTech** a threat or opportunity?

# Participants' view



## What will have the greatest impact on bancassurance in Vietnam?

0 2 8

A: Greater alignment between banks and insurers on performance metrics



B: New products / customer propositions



C: Improved sales training and better customer service



D: Digital transformation in banks and insurers



E: Bank consolidation



### Perspective:

- Bancassurance had been historically slow to take off in Vietnam but has grown rapidly in life insurance over the past 3 years. In 1H2019, more than 25% of new business premium was generated from bancassurance.
- A number of new exclusive bancassurance partnerships have been agreed or are under discussion, and some other banks are considering their partnering options.
- The channel is growing fast, creating opportunities but also challenges. Respondents were asked what would have the most impact from a shortlist of options.
- Just under half of respondents felt the most impactful was greater alignment between banks and insurers on performance metrics. This has been a key factor for sustainable success of bancassurance partnerships in other markets, and lack of alignment being an important contributor to lack of success.
- Other notable impactful factors were felt to be enhanced sales training/customer service and digital transformation.

# Products

A close-up photograph of a dandelion seed head, showing the intricate structure of the white, feathery seeds. The background is a soft, out-of-focus green. A semi-transparent green rectangular box is centered over the middle of the image, containing white text.

Where do we see the  
**product** growth  
opportunities in Vietnam?

# Participants' view



## Which product category will show the highest growth in Vietnam in the next 5 years?

0 2 8

A: Unit-linked



B: Universal life



C: Participating endowments



D: Critical illness plans



E: Protection riders



### Perspective:

- The Vietnamese life insurance landscape has a relatively wide range of products but has historically been dominated by participating endowments (often positioned as education savings), universal life and various protection riders.
- When asked where they expected the highest product growth in the next 5 years, the most popular response was unit-linked products, followed by critical illness and protection riders.
- We have seen growing attention on unit-linked business (albeit from a low base) and critical illness sales / product development.
- Under a persistent low interest rate environment, we would expect companies to increase focus on protection products, including trying to boost protection rider attachment rates.

# War for talent

**Increasing demand and limited supply of talent.**  
How should the industry react?



# Participants' view



**Which of these do you think is the single biggest challenge for your business in the next 5 years?**

0 2 8

A: Low interest rates / fixed interest yields



B: Regulatory environment / regulatory change



C: Distribution challenges with traditional agency and bancassurance channels



D: Disruption from new technology



E: Supply issues for talent



## Perspective:

- Out of the five themes discussed within the panel, we asked the audience to vote on which aspect they think is the biggest single challenge.
- The most popular answer was distribution challenges with agency and bancassurance, followed closely by low interest rates and the regulatory environment / regulatory change.
- Somewhat surprisingly, few respondents felt that supply issues for talent would be the greatest challenge. The difficulty in attracting, training and retaining talent, especially in specialist positions, is already a constraint in Vietnam and likely to be exacerbated by increasing competition. The “war on talent” has been a significant challenge in other markets such as Indonesia and Thailand.

# Managing participating business in Vietnam

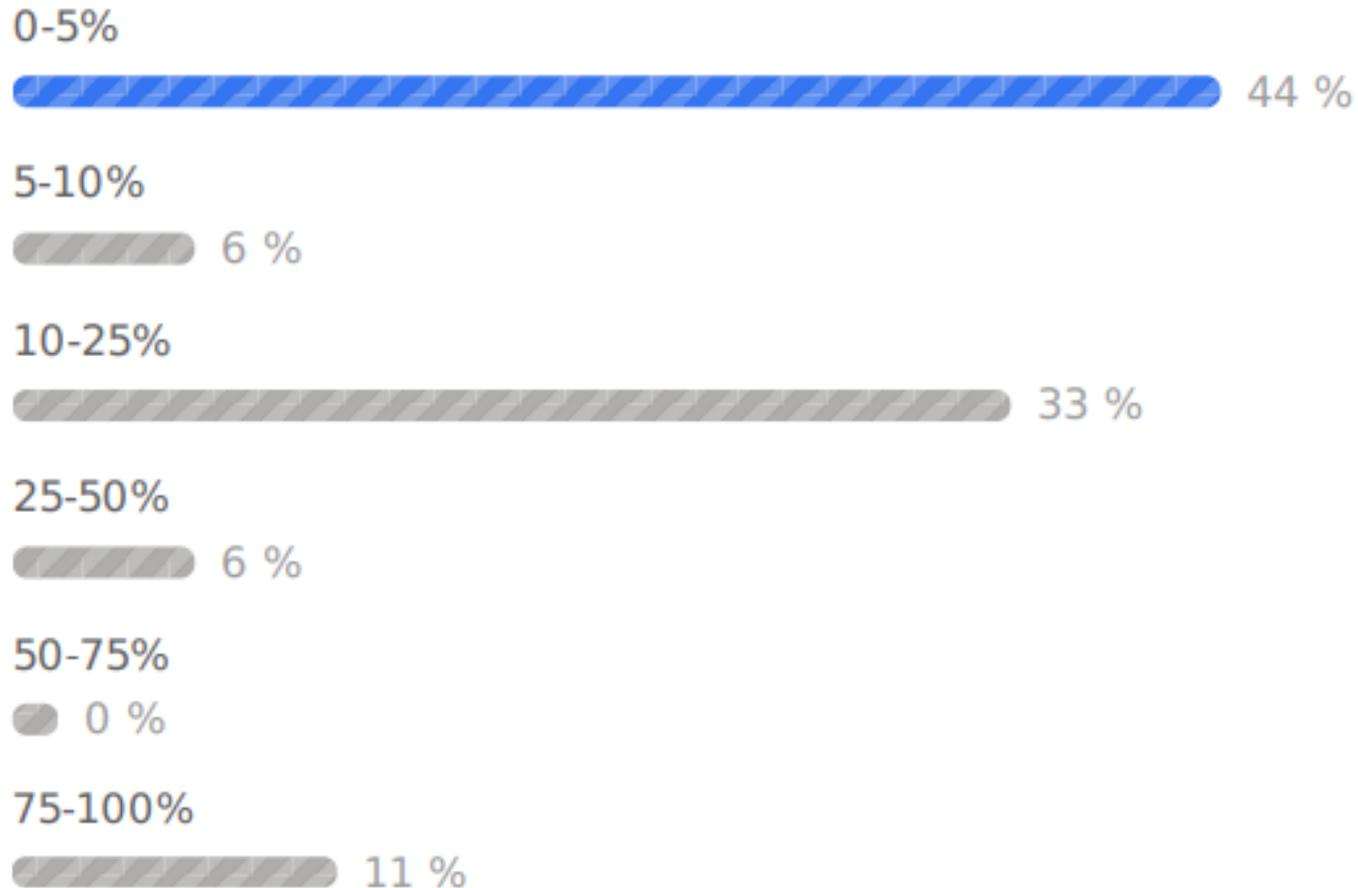


# Participants' view



What proportion of your new business is participating?

0 1 8



## Perspective:

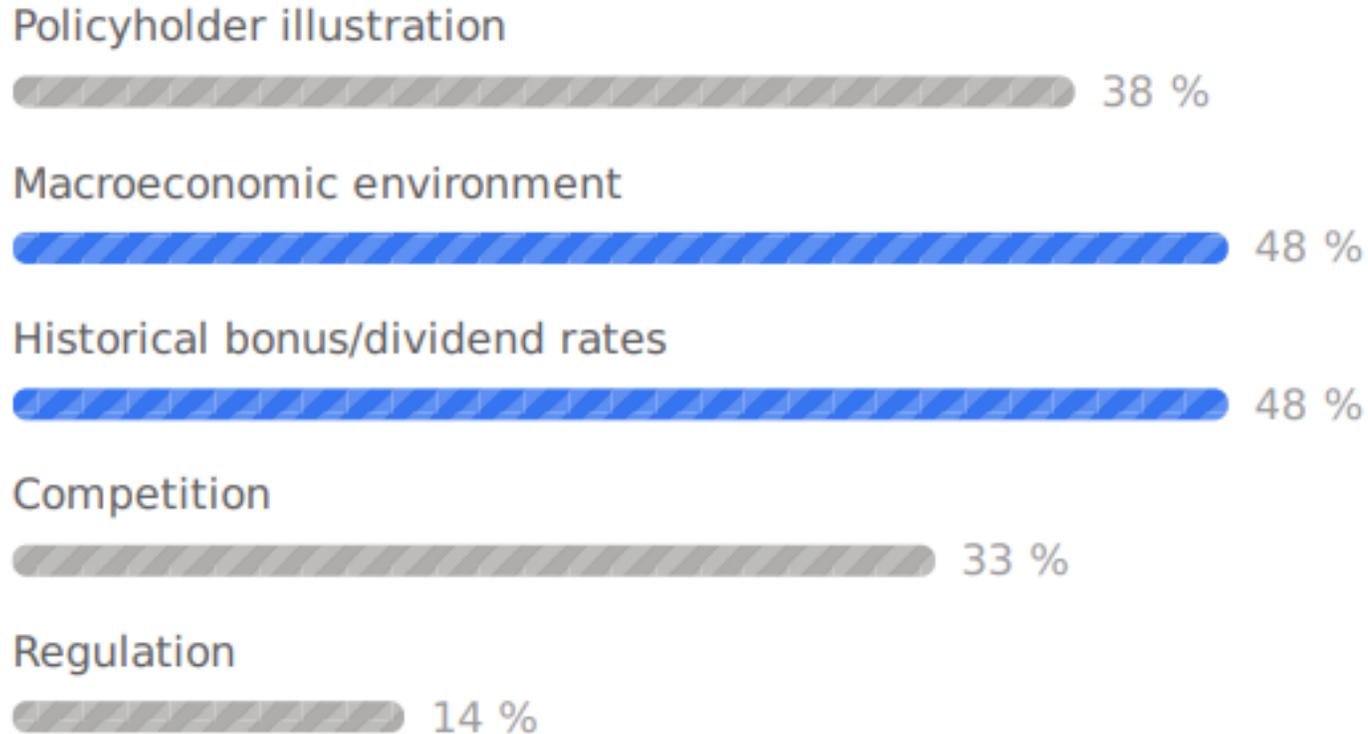
- Participating business makes up a large proportion of the life insurance market in Asia. For neighbouring countries like Singapore, participating business makes up around 50% of the overall new business market share.
- The responses provided by participants are somewhat surprising. The responses suggest that the proportion of new business contributed by participating products in Vietnam to be small, relative to the other countries in Asia. Of the responses, 44% of participants work in companies that write little or no participating business. Only 17% of the participants work in companies that write more than 25% of participating business.
- The low new business volumes could be a function of the low interest rate environment combined with prudent regulatory framework, leading to participating business being capital intensive and relatively difficult to manage.

# Participants' view



## What are the most important influencers when setting bonuses? (select up to two)

0 2 1



### Perspective:

- When asked about the most important drivers when setting bonus rates, the responses provided by the participants were not different from responses we have seen from our 2016 Asia Participating Business Survey.
- Whilst historical bonus and macroeconomic environment were seen as the top two factors, policyholder illustration and competition were also cited to be important.
- The factor that has least influence was regulation, which is aligned with the responses we have seen from our 2016 survey. Given the complexity of Vietnam regulations (i.e. restriction of undistributed profit reserve (UPR), difference in treatment between asset and liability value), we envisaged that it would have a bigger impact on how bonus are set, but responses suggest otherwise.

# Participants' view



**Does your company have an internal governance policy?**

0 1 5

Yes



No



## Perspective:

- An internal governance policy provides structure to the application of discretion and is intended to protect insurers from having that discretion challenged by regulators and policyholders alike. In general, decision making will be more transparent and consistent once the philosophy of a particular fund has been defined and rooted in the functions of an insurer.
- Of the participants who responded, 80% indicated that their company has an internal governance policy.
- Given that the Vietnam regulations do not specifically require companies to set up an internal governance policy, the fact that 80% of participants indicate the existence of such a policy is encouraging and suggests that there are examples of good participating fund management practice adopted within the industry.

# Participants' view



**Does your company use asset share to manage policyholder payout?**

0 1 1

Yes



73 %

No



27 %

## Perspective:

- Similar to internal governance policy, there is again no regulations that would require companies in Vietnam to use calculate asset share.
- Similar to internal governance policy, there are, again, no regulations that would require companies in Vietnam to use calculate asset shares.
- Of the participants who responded, 73% indicated that they have used asset shares to manage policyholder payouts.
- Whilst not a regulatory requirement, we would recommend that asset shares should be calculated and used to manage bonuses to ensure fair amounts are paid to policyholders. Tracking of asset shares is even more important in Vietnam as bonuses across periods may vary quite substantially given that UPR is restricted each year to 10%, with all excess surplus distributed as bonuses.

# Participants' view



## What are the biggest challenges in managing par business? (Select up to two)

016

Regulations (e.g. Limits on UPR, ALM mismatch)



High capital requirement



Managing bonuses/ dividends/ PRE



Acquiring new business



Macroeconomic environment



Educating board on par related aspects



### Perspective:

- Regulations are seen to be the largest challenge by far amongst respondents when it comes to participating fund management. This is followed by high capital requirements.
- Given that the regulations in Vietnam have not been conducive to traditional savings business, it is not surprising that regulations top the list of challenges. A change in regulations may potentially turn things around but until changes are made, regulatory challenge will remain one of the key concerns around participating fund management in Vietnam.
- Somewhat surprisingly, participants did not view the macroeconomic environment (e.g. low interest rate environment) to be a big challenge. This is different to the rest of Asia, where low interest rates are often cited to be one of the major challenges, with bonus sustainability often highlighted to be a key concern.

# New products, new segments, new strategies

Pingni Eng  
Consulting Actuary

29 OCTOBER 2018

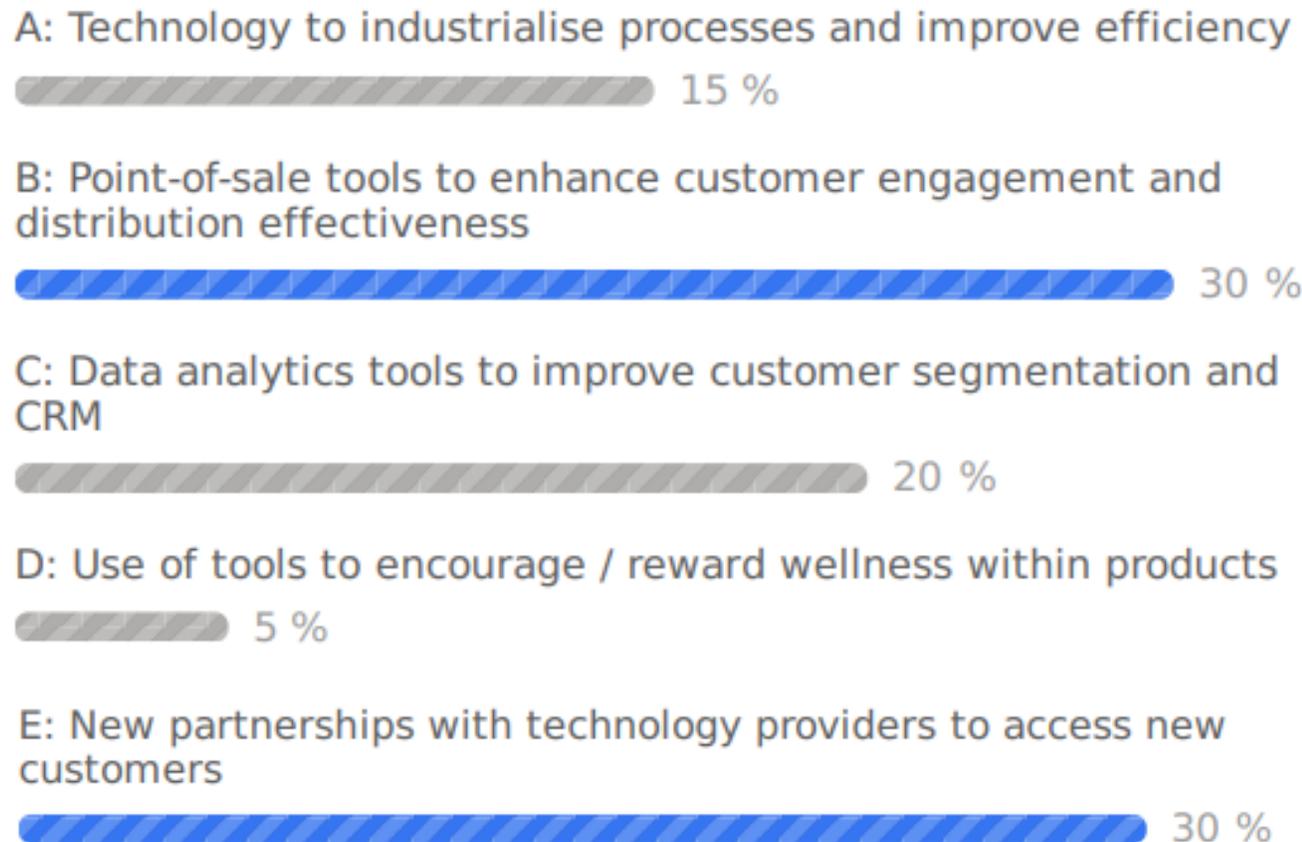


# Participants' view



0 2 0

## Which aspect of InsurTech will have the biggest impact on the Vietnamese life insurance industry?



### Perspective:

- The general sentiment was that InsurTech is an enabler rather than a disrupter. The idea of a standalone InsurTech firm is less remote than the concept of having a separate digital strategy for the company.
- Most respondents viewed that InsurTech will have the largest impact on insurance product distribution. Respondents are equally split when deciding whether the biggest impact from InsurTech comes from point-of-sale tools or via new partnerships with technology providers. Some respondents felt that the greatest InsurTech impact would be the use of data analytics tools to improve the segmentation and relationship management of customers.
- Somewhat less surprising is a handful of respondents thought that the biggest impact from technology would come from process and efficiency improvement. This may be because most companies have already seen significant changes being incorporated over the past decade.
- Notably, only one participant saw the use of digital tools to encourage and reward wellness as being the most impactful InsurTech development.

# Participants' view



026

## Which scenario do you think is the most likely to happen (first) for the Vietnam life industry?

“Unbundled” pick-and-choose type of insurance products will become commonplace

 12 %

A tech firm (or partnership with one) will be top in terms of new business sales

 0 %

Some insurers will use AI to price and distribute products

 8 %

Sales from “Banca” will exceed “Agency”

 42 %

Most insurers will use their own phone app for end-to-end distribution of products

 38 %

## Perspective:

- Participants were asked to poll from a list of plausible scenarios that are derived from an extrapolation of the trends seen in the market and around the region.
- Out of the different options presented, most participants believe that the prominence of the bancassurance channel will continue to grow and overtake the historically dominant agency channel in terms of new business sales.
- Closely following, participants felt the next most likely scenario would be that most insurers will sell products directly via their own phone applications.
- Some participants believe that insurance products will become “unbundled” and less opaque to suit the preferences of new-age consumers.
- A few respondents believe that artificial intelligence (AI) will be used in Vietnam for the pricing and distribution of products.



# Thank you

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