Enhancing Competitiveness of Insurance Companies after Vietnam Enter New FTA

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Abstract

During globalization there are many opportunities for Vietnam employee in many sectors including banking, insurance and others, hence Vietnam employee can be guaranteed with working conditions from new FTA or EVFTA agreement in which there is trade development promotion between EU and Vietnam to create sustainable employment for officers following ILO - Intl. Labor Organization basic conventions.  
Hence, insurance companies in Vietnam will have more opportunities to increase sales and revenues for insurance services and products that connect with the increasing trend of commercial transactions and trading across border and between nations.  
Beside, our past researches also indicate that risk level of insurance firms will depend on many factors such as financial leverage, competitor size, tax rate, etc.  
We also recognized that risk of these companies might increase together with increase in tax rates, so we might suggest proper tax rates to reduce risk.  
Till the end, authors give out proposed recommendations. For instance, we need supporting policies to expand insurance market and products for agriculture, seafood and exporting credit, etc.

Keywords

Risk, Competitiveness, Insurance Firms, Online Insurance, Asset Beta, Corporate Tax, Leverage.

JEL Classification Numbers: G00, G3, G30.

Introduction

According to statistics, Total the whole insurance market revenue is about 2% of GDP.
In the period 2011 - 2015, 16% is the market growth, averagely, of which 24.6% and 11.7% is for life insurance and non-life increased, accordingly and averagely. Total market revenue reached more than VND 84,500 billion, accounting for about 2% of GDP. The industry is targeting revenue to account for 3-4% of GDP within the next 5 years.

The main market share is only in the hands of 10 enterprises.

There are 61 enterprises operating in this field in the market, of which the number of life and non-life insurance companies is 47. The market share of the two segments is concentrated among very few enterprises.

Specifically, at the beginning of June 2016, in the life insurance segment, only 5 businesses accounted for more than 86% of the market share:

<table>
<thead>
<tr>
<th>Company</th>
<th>Market Share</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bao Viet Life</td>
<td>28.1%</td>
</tr>
<tr>
<td>AIA</td>
<td>9.8%</td>
</tr>
<tr>
<td>Prudential</td>
<td>26.2%</td>
</tr>
<tr>
<td>Manulife</td>
<td>12%</td>
</tr>
<tr>
<td>Dai-ichi</td>
<td>9.7%</td>
</tr>
</tbody>
</table>

And in the non-life insurance segment, the top 5 companies also accounted for about 60% of the market share in terms of principal revenue:

<table>
<thead>
<tr>
<th>Company</th>
<th>Market Share</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bao Viet</td>
<td>17.06%</td>
</tr>
<tr>
<td>PVI</td>
<td>20.3%</td>
</tr>
<tr>
<td>Bao Minh</td>
<td>7.86%</td>
</tr>
<tr>
<td>PJICO</td>
<td>6.65%</td>
</tr>
</tbody>
</table>

Total assets of insurance enterprises are more than 193,000 billion VND, equity is nearly 45 trillion VND.
And we recognize insurance review increasing over years in below chart:

![TOTAL INSURANCE ANNUAL REVENUE 2014-2016](chart)

**Chart 1 Increased insurance revenue (unit: b VND)**
(Source: Associate of Vietnam insurers)

According to the Insurance Supervision Department, the total assets of the entire insurance market at the beginning of 2016 were about VND 193,158 billion, of which the assets of non-life insurance enterprises were VND 61,499 billion and VND 61,499 billion of life insurance enterprises is 131,659 billion VND.
(Source: webbaohiem.net, access date 15/8/2021)

**Opportunities from EVFTA**

**Opportunities**:
- EVFTA will guarantee working conditions for employee
- Commitments on labor issues in the EVFTA Agreement as well as the new generation free trade agreements have become a common requirement and trend nowadays, as development partners have higher requirements. In addition to economic development objectives such as labor, environment, climate change, natural resources, etc.

**Figure 1 Exploring EVFTA opportunities for Labor force**
The market share in insurance industry as follows:

**VIETNAMESE LIFE INSURANCE MARKET SHARE IN 2015**

![Pie chart showing market share]

*Figure 2 Insurance market share*
(Source: Association of Vietnam insurer)

We organize study with introduction and next section is literature review and methodology, then nest section will be main findings, discussion and conclusion.

**Preliminary Notes**

1. **Research Issues**

   Within our study scope we are going to address issues below:

   Issue 1: What is situation in insurance market after Vietnam enter new FTA and EVFTA? And factors affecting insurance business?
   Issue 2: What are proposed solutions to develop insurance market?

2. **Literature Review**

   Till year 2016 we see that number of insurance agents in Vietnam has increased more than 29% in Prudential and Dai-ichi insurance corp.
John (1999) mentions a higher tax rate was applied for land (taxed) in a two rate tax system in a study for land development research (tow rate property tax).

Smith (2004) mentions higher tax rate exhibited in the case properties or assets established in a designated tax increment financing - TIF in Chicago.

McCarty (2012) stated investors tend to discount cash flow at higher rate of discount in case of the most tax risky firms.

Then, Vello and Martinez (2012) indicated between tax index in good governance companies and market risk there is a negative correlation but significant.

Next, Madhou (2012) found out, tends to hold more cash is lying in firms with leverage low, compared to high leverage companies in case of Australia firms over the period 2003-2008.

Then, McCauley (2013) pointed that during calm periods, portfolio investment by real money and leveraged investors in advanced countries flow into emerging markets, leading to an asymmetric asset swap (risky emerging market assets against safe reserve currency assets) and leveraging up by emerging market central banks. Last but not least, Gunarathna (2013) specified that between leverage degree and financial risk there is correlation - positive and significantly in case of Sri Lanka.
Last but not least, in 2003 a study conducted by Venkatesh that is the Unified Theory of Acceptance and Use of Technology (UTAUT) which is about 8 elements affecting consumers’ motivation to use technology.

![8 components](Source: Venkatesh, 2003)

And Huyen, N.T., Phuong, N.T.T et al (2021) stated that online insurance will become more popular in world including Vietnam esp in industry 4.0 although there is slow development in the online insurance field.

4. Methodology

In this research, For Qualitative Analysis: Authors Use Synthesis and Inductive Methods, Combined with Dialectical Materialism Methods, combined with analytical research method used, philosophical method.

Authors also use qualitative research and analysis for analyzing benefits for insurance market during new FTA and EVFTA.
Main Findings

1. Factors that affect Insurance Business

We experience that number of insurance contracts has increased till 1st half of the year 2016.

![Figure 5 Increased insurance contracts](source)

(Source: Associate of Vietnam insurers)

Next we look at below tables

<table>
<thead>
<tr>
<th>Component</th>
<th>Risk perception</th>
<th>Performance expectancy</th>
<th>Effort expectancy</th>
<th>Use intention</th>
<th>Use behavior</th>
</tr>
</thead>
<tbody>
<tr>
<td>Calculated result</td>
<td>0.064</td>
<td>0.179</td>
<td>0.107</td>
<td>0.616</td>
<td>0.523</td>
</tr>
</tbody>
</table>

(Source: Huyen, N.T, Phuong, N.T.T, Trang, T.T.T, Huyen, L.T, 2021, from SPSS 20.0)

We can analyze that from above table results showing:

- The value of variable “NIEM_TIN” will explain 6.4% variation of the RUI_RO variable.
- The value of variable “NIEM_TIN” will explain 17.9% variation of the HQUA variable.
- The value of variable “NIEM_TIN” will explain 10.7% variation of the NO_LUC variable.
Hence, this study has presented the relation between 2 elements: use intention and the use behavior (in case of online insurance).
(Source: Phuong, N.T.T, Trang, L.T.T., Huyen, L.T, 2021)

2. Benefits from Entering Trade Facilitation and New FTA

First, in industry 4.0, Digital transformation is the right direction in the context, helping the banking system improve competitiveness, expand access to digital banking services to replace traditional banking services. Financial technology (Fintech) is considered as an innovative solution for banking and financial activities. Applying technology to business activities and handling transactions has a great impact on improving the operational efficiency of credit institutions and insurance companies.


![Figure 6 Benefits from Trade facilitation in case of developing countries](Source: Nga, L.T.V et al, 2021)

3. Risk in Business of Insurance - Empirical Research Findings and Discussion

We use 7 listed insurance firms data on stock market (Vietnam) and measure effects from leverage and tax rate on market risk measured by 2 elements equity and asset beta.

Tax rate changed from 20% to 25% and 28%.

And leverage is changed from 20% decrease, current level and 30% increase.
Table 2 Elements of Market Risks under different Cases

<table>
<thead>
<tr>
<th></th>
<th>Tax rate change to 25%</th>
<th>Tax rate increase to 30%</th>
<th>Tax rate decrease 20%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Leverage as current</td>
<td>Scen 1</td>
<td>Scen 2</td>
<td>Scen 3</td>
</tr>
<tr>
<td>Leverage increase 30%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Leverage decrease 20%</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

(Source: Made by Author)

We can make analysis from below charts:

- First, there is increase in value of asset beta (average) to 0.134 in case tax rate increase 28%, compared to the case 20% decrease tax rate (0.133)
- Second, there is smaller rate in value of asset beta var (0.005) in case tax rate increase 28%, compared to the case 20% decrease tax rate (0.006)
- Third, there is little increase in value of asset beta (average) to 0.134 compared to the case 20% decrease tax rate (0.133). This happens in case leverage degree increases 30%.

Chart 2 Elements of market risks - equity and asset beta under different cases
(Source: author calculation from stock exchange)
Discussion and Conclusion

In summary, the study results show us that

- In the case financial leverage increased 30%, there is decrease in the market risk, shown by value of asset beta mean decreased 0.133. This happens when tax rate decreased 20%.

Hence, we would suggest governmental agencies need to evaluate and observe the variation of market risk in insurance market under changing in macro context and macro policies and estimate effects from them.

In addition to, we need to suggest bank system to expand more channels of distributing capital for firms in insurance market.

Several policies for insurance market development including but not limit to:

- Not only completing legal framework for stable insurance activities development, but we also need to support to expand insurance products and services to support various fields such as industries, agriculture and credit for export, etc.
- Expand more channels of distribution of insurance products such as mobile, laptop, tablets, e-insurance, etc.

Research Limitation

Authors can expand further researches for policies to develop insurance market.

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http://www.mofa.gov.vn/vi/

Exhibit

**Exhibit 1-** VNI Index and other stock market index during crisis 2006-2010
*(source: global stock exchange 2012)*

<table>
<thead>
<tr>
<th>Year</th>
<th>VN Index</th>
<th>S&amp;P 500</th>
<th>SSE Index</th>
<th>NIKKEI 225 (%)</th>
<th>TSEC (%)</th>
<th>KOSPI</th>
<th>CNT (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2006</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2007</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2008</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2009</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2010</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Exhibit 2-** Comparable firms and changing leverage for Viet Nam insurance firms
*(source: Viet Nam stock exchange 2012)*

<table>
<thead>
<tr>
<th>Order No.</th>
<th>Company Stock code</th>
<th>Comparable firm</th>
<th>FL as current</th>
<th>FL up 30%</th>
<th>FL down 20%</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>BVH</td>
<td></td>
<td>73,9%</td>
<td>96,1%</td>
<td>59,1%</td>
</tr>
<tr>
<td>2</td>
<td>PVI</td>
<td></td>
<td>38,1%</td>
<td>49,5%</td>
<td>30,5%</td>
</tr>
<tr>
<td>3</td>
<td>ABI</td>
<td></td>
<td>63,8%</td>
<td>82,9%</td>
<td>51,0%</td>
</tr>
<tr>
<td>4</td>
<td>BIC</td>
<td>ABI as comparable</td>
<td>67,3%</td>
<td>87,4%</td>
<td>53,8%</td>
</tr>
<tr>
<td>5</td>
<td>BMI</td>
<td></td>
<td>41,0%</td>
<td>53,3%</td>
<td>32,8%</td>
</tr>
<tr>
<td>6</td>
<td>PGI</td>
<td>ABI as comparable</td>
<td>55,2%</td>
<td>71,7%</td>
<td>44,1%</td>
</tr>
<tr>
<td>7</td>
<td>PTI</td>
<td>ABI as comparable</td>
<td>56,7%</td>
<td>73,8%</td>
<td>45,4%</td>
</tr>
</tbody>
</table>

**Average**
56,6% 73,5% 45,3%