

Vietnam: Banking

3 July 2023

Yuanta Vietnam Banks Universe				
Stock code	Yuanta Rating	Current price (VND)	Target price (VND)	12-m TSR*
ACB VN	BUY	22,050	23,442	10%
BID VN	HOLD-UPF	43,350	38,860	-9%
HDB VN	BUY	18,600	23,510	32%
MBB VN	BUY	20,200	24,980	26%
STB VN	BUY	29,800	28,860	-3%
VCB VN	BUY	100,000	93,230	-6%
VPB VN	BUY	19,850	22,060	16%

Source: Bloomberg (pricing date: Jun 30), Yuanta Vietnam  
 TP for ACB & MBB are adjusted for dividends. STB and VCB's TPs reached and we temporarily removed from BUY recommendation.

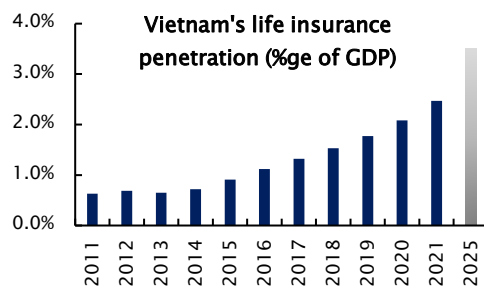
What's new?

- Bancassurance accounted for 46% of total FYP in 2022 (vs 39% in 2021).
- Life accounted for 69% of total insurance premiums in 4M23 (vs 73% in 2022).
- Vietnam's insurance penetration rate is still low compared to the region.
- Allegations of mis-selling have muddied the short-term waters for bancassurance.

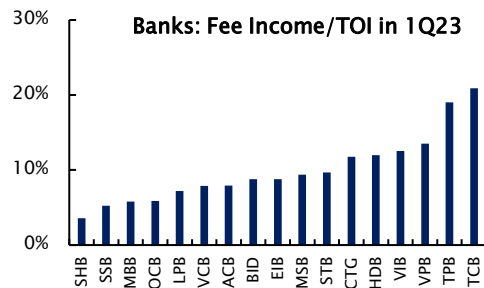
Our view

- Bancassurance sales are temporarily soft. Low credit growth & negative newsflow are the main reasons.
- The new insurance law should enhance transparency and rebuild trust.
- Near term will be challenging, however.
- But the long-term bancassurance growth story remains intact given continued growth of middle-class wealth and low insurance penetration.

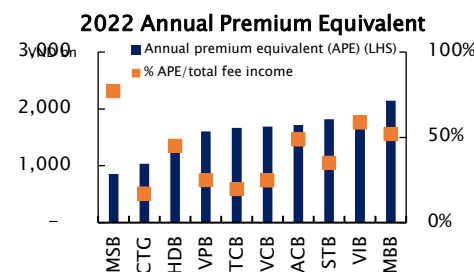
**Summary:** Though recent scandals have impeded the insurance industry's growth; life insurance still has high potential for expansion in Vietnam given its low penetration and the increasing middle-class population. Only 11% of the population has purchased life insurance as of 2022, when life premiums were just 2.5% of GDP. Bancassurance is a critical channel for increasing insurance penetration while driving fee income growth for the banks and reducing their dependence on interest income.



Source: Statista, Government target for 2025



Source: FiinPro, Yuanta Vietnam



Source: Company Data, media sources

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Bloomberg code: YUTA

Bancassurance – Life goes on

Gross life industry premiums reached VND178tn (+12% YoY) in 2022, accounting for 73% of total insurance premiums, according to the Insurance Association of Vietnam. First-year premiums (FYP) amounted to VND51tn in 2022 (+2.4% YoY), with the bancassurance channel contributing 46% of FYP in 2022, compared to 39% in 2021.

But life insurance premiums increased by only 0.5% YoY in 4M23 to reach VND52tn (US\$2.2 bn), accounting for 69% of the total insurance premiums in Jan–Apr (down from 73% in 2022). We attribute this decline to tepid credit growth and recent scandals in the insurance industry.

Annual premium equivalent (APE) constituted 40% of average 2022 fee income among the 10 banks that disclose sufficient bancassurance details. We expect banca to remain a substantial revenue source over the long term. As discussed in our [previous report](#), we anticipate APE to account for 50% of the commercial banks' total fee income by 2025.

But recent scandals in the insurance industry have damaged public trust. The scandals have also raised concerns among Vietnamese customers about the reliability of insurance companies and their partnerships with commercial banks.

We expect the overall insurance industry, including bancassurance, to remain in the operational doldrums in the medium term. We expect the industry to overcome this setback, but it will take time for banca players and regulators to rebuild customer trust.

STB, VIB, MSB, and HDB are most exposed to bancassurance, in our view. Banca income accounted for 29% of STB's 2022 PBT, 18% for VIB, 15% for MSB, and 13% for HDB. We reckon that 30% pro-forma decrease in banca income would mean a c.4–9% decrease in pre-tax earnings for these banks. Please see the sensitivity analysis on page 6–9 for details.

ANALYST CERTIFICATION AND IMPORTANT DISCLOSURES ARE LOCATED IN APPENDIX A.

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## Vietnam Bancassurance Update

### Vietnam insurance market overview and growth prospects

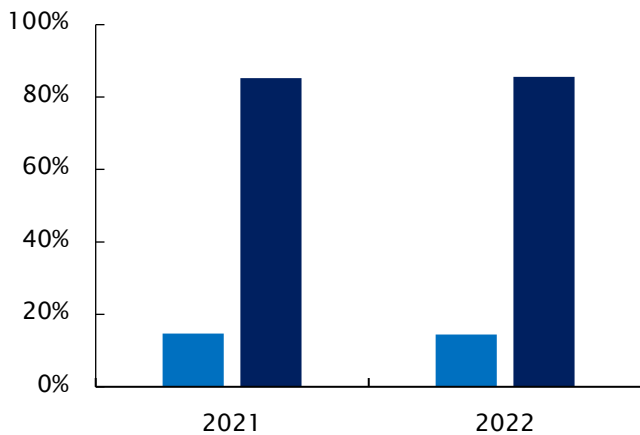
According to the Ministry of Finance, 79 insurance industry firms are operating in Vietnam.

As of 2022, total assets of all insurance companies were VND811tn (US\$35 bn), up +14.5% YoY. Life insurance companies represented 85.5% of total assets, with non-life insurance accounting for the other 14.5%.

As of Apr 2023, total assets of all insurance companies were VND849tn (US\$36 bn), up +4.7% YTD and +14.2% YoY.

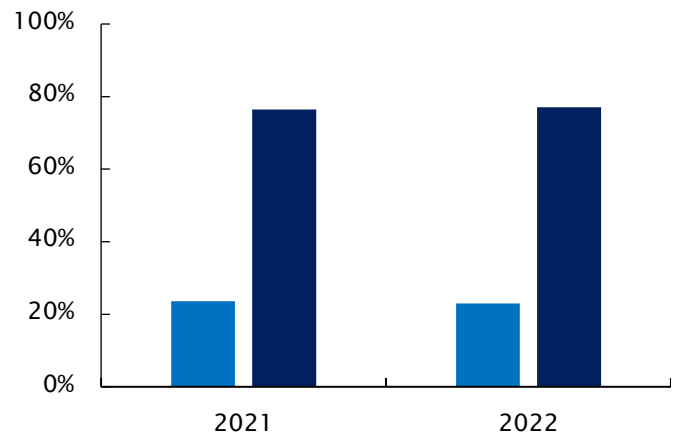
Total equity of all insurance companies was VND163tn (+3.8% YoY) in 2022, with life insurance firms accounting for 77% of the total.

Figure 1: Assets breakdown by life and non-life firms



Source: Ministry of Finance

Figure 2: Equity breakdown by life and non-life firms

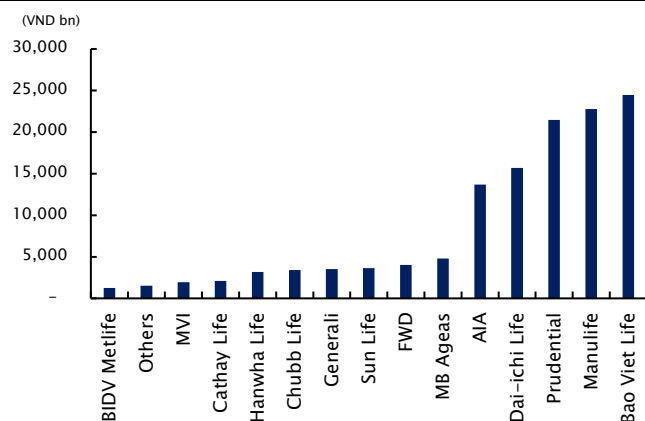


Source: Ministry of Finance

### Market share by life premium revenue

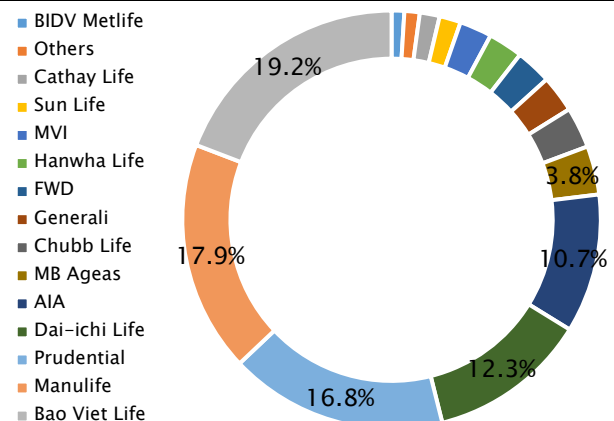
Baoviet Insurance maintained the top position with 19.2% market share of in-force life premiums, followed by Manulife (17.9%), Prudential (16.8%), Dai-ichi Life (12.3%), and AIA (10.7%).

Figure 3: Gross Written Premiums of life sector in 9M22



Source: Insurance Association of Vietnam (IAV)

Figure 4: Market share of life insurers in 9M22



Source: Insurance Association of Vietnam (IAV)

Total gross life written premiums were VND178tn (US\$7.6 bn) (+12% YoY) in 2022, representing 73% of total insurance industry premiums, according to the Insurance Association of Vietnam. First Year Premiums (FYP) were VND51tn (+2.4% YoY) in 2022, when the bancassurance channel accounted for 46% of FYP (versus 39% in 2021).

In the 4M23, total insurance premiums were VND75tn (US\$3.2 bn), up a mere +1.1% YoY. Notably, life insurance premiums increased by only 0.5% YoY to

reach VND52tn (US\$2.2 bn) in this period, accounting for 69% of the total insurance premiums (down from 73% in 2022).

### **Bancassurance outlook in Vietnam**

Only 11% of Vietnam's population had purchased life insurance as of Sep 2022, unchanged from 2021. This figure is far below that of Malaysia (~50%), Singapore (~80%), and the U.S. (~90%). The government targets 15% of the population to participate in life insurance by 2025 and 18% by 2030.

Life insurance penetration is relatively low at about 2.5% of total GDP in 2021 (source: statista.com) vs. Thailand (~3.1%), Singapore (~9.8%), Taiwan (~13.7%), and Hong Kong (~19.7%). The government targets to increase this measure of insurance penetration (both life and non-life) to 3.5% of GDP by 2025.

**Plenty of room for growth.** Assuming that Vietnam's insurance penetration rate reaches 3.5% of GDP by 2025 and Vietnam GDP grows at 6% annually, then total insurance premiums should reach about US\$17 bn by 2025.

Furthermore, assuming that life insurance premiums account for 70% of the total insurance premiums, then life insurance premiums should reach US\$12 bn by 2025, representing 2022–25 CAGR of 16%.

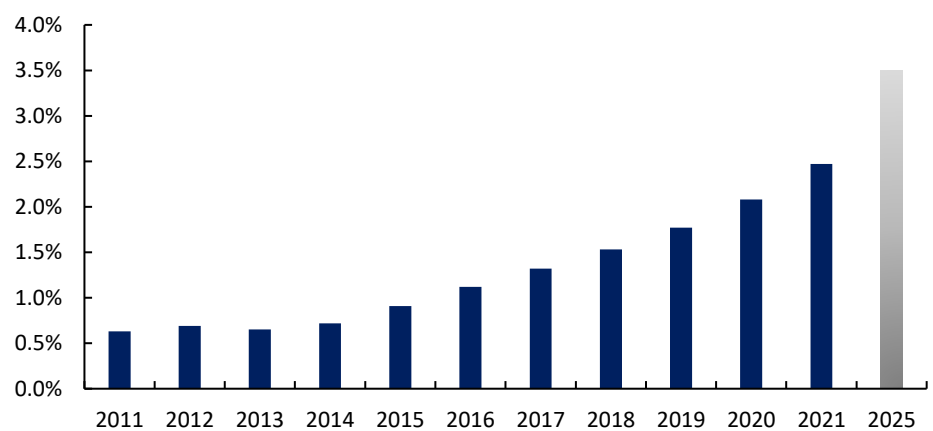
These figures illustrate the strong growth potential for the life insurance industry as a whole and for the bancassurance business in particular.

**However, the presence of potential alone is insufficient: the industry needs to innovate and reach underserved customers.** Most importantly, insurance providers need to regain the trust and confidence of clients who are hesitant to purchase bancassurance products due to recent scandals in the bancassurance industry.

Real-world examples of negative sales behavior have included 1) forcing bank borrowers to buy insurance products when applying for loans at banks, and 2) transferring deposits into insurance contracts without clearly informing clients.

We believe that recovering from the subsequent scandals that have resulted from this type of behavior will take time. Thus, the bancassurance industry is likely to continue to remain in a soft patch over the near term.

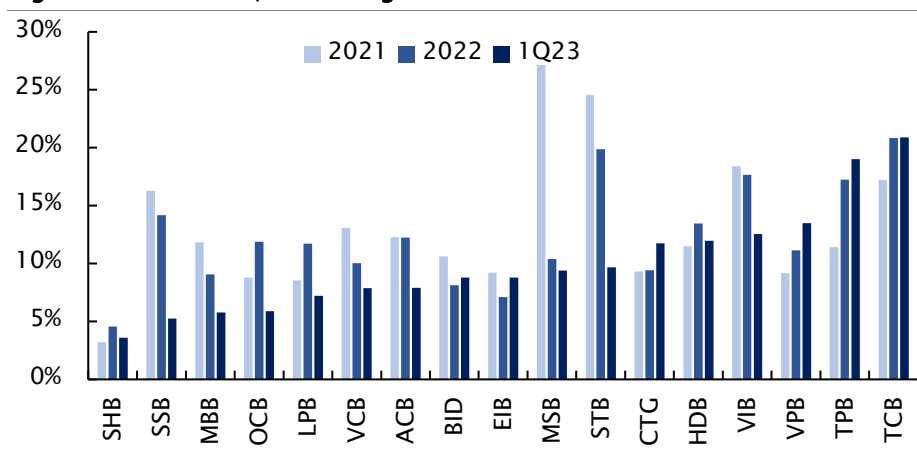
**Figure 5: Vietnam life insurance penetration rate as a % of GDP**



Source: Statista, Vietnam Government target for 2025

**Vietnam banks' earnings are heavily reliant on extending credit**, with net interest income comprising about 77% of the total operating income among the 27 listed banks. But banks are increasingly prioritizing retail banking and placing greater emphasis on fee income to support earnings and reduce this dependence on net interest income. Bancassurance, along with card services, represents a key driver of fee income growth for the commercial banks.

**Figure 6: Fee income/TOI among banks**



Source: FiinPro, Yuanta Vietnam

### Banks – Insurance Companies Partnerships

Below are some notable bancassurance deals from 2015–2022.

Banks	No. of clients (mn)	No. of branches/ offices	Network (cities)	Year (Signed the deal)	Term (years)	Partner
HDB	15	347	63	2015 (will sign new exclusivity deal)	10	Looking for a new partner
VIB	4.5	166	27	2015 (will renegotiate)	15	Prudential
SHB	5	539	50	2017	15	Dai-ichi Life
TCB	10.8	303	46	2017	15	Manulife
OCB	2	149	39	2019	15	Generali
TPB	8.5	124	45	2019	15	Sun Life
VCB	10	631	58	2019	15	FWD
ACB	5.2	384	49	2020	15	Sun Life
SSB	2	181	31	2020	20	Prudential
STB	15	553	51	2017 & 2021 (renegotiated)	20	Dai-ichi Life
VPB	24	251	63	2017 & 2021 (renegotiated)	15	AIA
MSB	4	264	51	2021	15	Prudential
CTG	14	1,123	63	2022	16	Manulife
Agribank	20	2,224	63	2022		FWD

Source: Company Data, various media sources (\*) HDB and VPB clients include clients at their consumer finance companies.

### The impact of bancassurance on banks in Vietnam

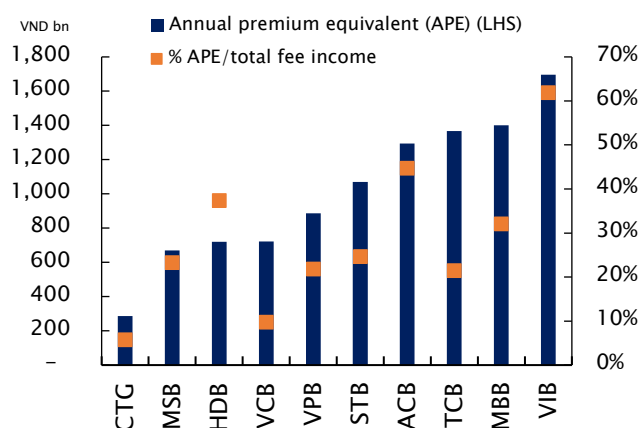
Bancassurance sales are the major fee income growth driver for many Vietnam banks.

On average, annual premium equivalent (APE) contributed about 40% of total 2022 fee income among the 10 banks that provide sufficient disclosures on their bancassurance businesses (as exhibited in Figs 7–8). We expect this pattern to persist for the foreseeable future. As discussed in last year’s bancassurance [report](#), we expect APE to account for 50% of the sector’s total fee income by 2025.

However, the recent scandals within the bancassurance industry and stricter regulation have had an adverse impact on banks, and particularly those that are heavily reliant on bancassurance income. We believe this to be a temporary setback, not a permanent structural hurdle. However, it is likely to mean a decrease in relevant fee income, especially for the banks that have partnerships with the insurance companies involved in the recent scandals.

The impact is clear from the YTD sales results: Life premiums as a percentage of total insurance premiums decreased to 69% in 4M23, down from 73% in 2022.

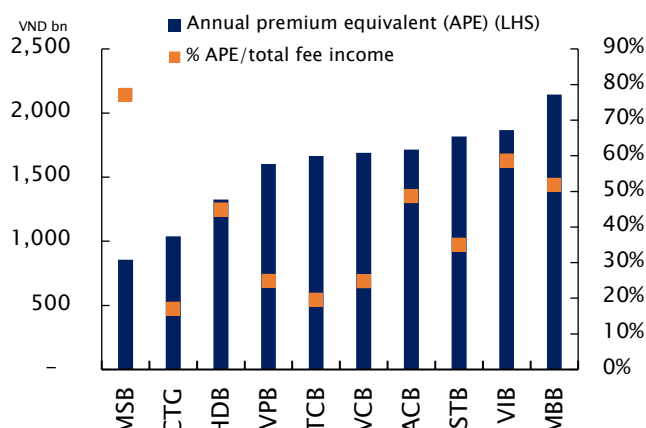
Figure 7: APE & % APE/total fee in 2021



Source: Company Data, media sources

\* APE: Annual Premium Equivalent

Figure 8: APE & % APE/total fee in 2022



Source: Company Data, media sources

### Sensitivity analysis

We have performed a simple sensitivity analysis to gauge the impact of the change in bancassurance income on the sector's PBT. Specifically, we performed this analysis based on the 2022 financial data of the 27 listed banks.

In this sensitivity analysis, we have incorporated both an optimistic and pessimistic outlook for bancassurance given the challenges faced by the industry.

*Ceteris paribus*, if we assume that the change in bancassurance income ranges from -30% to +30%, bank sector PBT changes by -3% to +3%, as illustrated below.

Bancassurance income change and its impact to PBT							
Unit: VND bn	2022A	-30%	-20%	-10%	10%	20%	30%
Net interest income	428,396	428,396	428,396	428,396	428,396	428,396	428,396
Net fee income ex. banca	39,737	39,737	39,737	39,737	39,737	39,737	39,737
<b>Bancassurance income</b>	<b>23,600</b>	<b>16,520</b>	<b>18,880</b>	<b>21,240</b>	<b>25,960</b>	<b>28,320</b>	<b>30,680</b>
Other non-Il incomes	61,143	61,143	61,143	61,143	61,143	61,143	61,143
<b>TOI</b>	<b>552,877</b>	<b>545,797</b>	<b>548,157</b>	<b>550,517</b>	<b>555,237</b>	<b>557,597</b>	<b>559,957</b>
<b>PBT</b>	<b>246,163</b>	<b>239,083</b>	<b>241,443</b>	<b>243,803</b>	<b>248,523</b>	<b>250,883</b>	<b>253,243</b>
<b>% change in PBT</b>		<b>-3%</b>	<b>-2%</b>	<b>-1%</b>	<b>1%</b>	<b>2%</b>	<b>3%</b>

Source: IAV, FiinPro, Yuanta estimate

Note: Bancassurance income data are for the all banks that participated in the bancassurance business (around 30 banks), according to IAV; whereas the other data are for the 27-listed banks only (excluding some sizeable unlisted banks such as AGB, SCB).

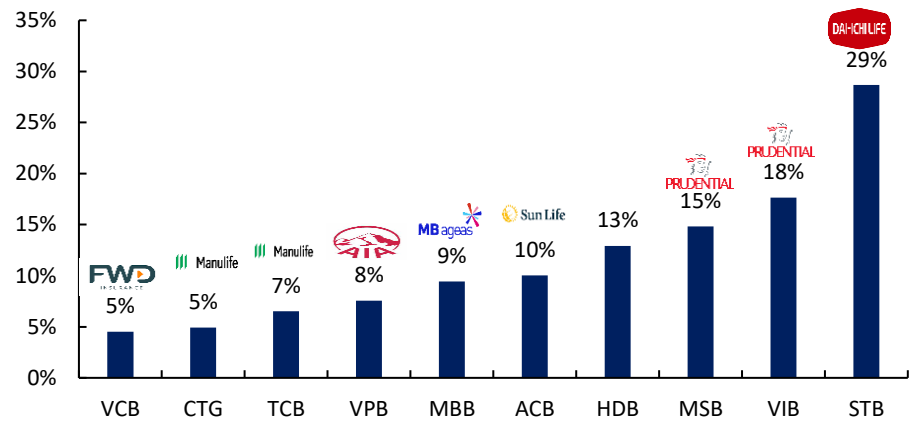
STB, VIB, MSB, and HDB have emerged as among Vietnam's leading banks in terms bancassurance as measured by the percentage contribution to their 2022 income.

Due to the challenges in credit growth and recent scandals related to the insurance industry, we believe that bancassurance sales will experience setbacks. This downturn will negatively impact fee income (and the bottom line) for the entire bank sector.

However, we believe the impact is just temporary, and bancassurance in Vietnam still has very high potential for long-term growth. As such, we anticipate banca to be a key component of bank's long-term fee income given low penetration: Life insurance represents a mere 2.5% of GDP and only 11% of the population have purchased a policy as of 2022.

The below chart illustrates the percentage of total APE (annual premium equivalent) to PBT of each bank.

Figure 9: % APE/ PBT of each bank as of 2022



Source: FiinPro, Yuanta Vietnam

### Sensitivities of bancassurance income on the individual banks' PBT

If bancassurance income changes by	-30%	-20%	-10%	10%	20%	30%
VCB	-1%	-1%	0%	0%	1%	1%
CTG	-1%	-1%	0%	0%	1%	1%
TCB	-2%	-1%	-1%	1%	1%	2%
VPB	-2%	-2%	-1%	1%	2%	2%
MBB	-3%	-2%	-1%	1%	2%	3%
ACB	-3%	-2%	-1%	1%	2%	3%
HDB	-4%	-3%	-1%	1%	3%	4%
MSB	-4%	-3%	-1%	1%	3%	4%
VIB	-5%	-4%	-2%	2%	4%	5%
STB	-9%	-6%	-3%	3%	6%	9%

Source: Yuanta Vietnam estimates

### Sensitivities for the individual banks

VCB

Unit: VND bn	Bancassurance income change and impact on PBT						
	2022A	-30%	-20%	-10%	10%	20%	30%
Net interest income	53,246	53,246	53,246	53,246	53,246	53,246	53,246
Net fee income ex. banca	5,148	5,148	5,148	5,148	5,148	5,148	5,148
<b>Bancassurance income</b>	<b>1,691</b>	<b>1,184</b>	<b>1,353</b>	<b>1,522</b>	<b>1,860</b>	<b>2,029</b>	<b>2,198</b>
Other non-Il incomes	7,997	7,997	7,997	7,997	7,997	7,997	7,997
TOI	68,083	67,575	67,745	67,914	68,252	68,421	68,590
Opex	(21,260)	(21,260)	(21,260)	(21,260)	(21,260)	(21,260)	(21,260)
Provisioning	(9,464)	(9,464)	(9,464)	(9,464)	(9,464)	(9,464)	(9,464)
PBT	37,359	36,851	37,020	37,190	37,528	37,697	37,866
<b>% change in PBT</b>		<b>-1%</b>	<b>-1%</b>	<b>0%</b>	<b>0%</b>	<b>1%</b>	<b>1%</b>

## CTG

Bancassurance income change and impact on PBT							
<i>Unit: VND bn</i>	2022A	-30%	-20%	-10%	10%	20%	30%
Net interest income	47,930	47,930	47,930	47,930	47,930	47,930	47,930
Net fee income ex. banca	5,051	5,051	5,051	5,051	5,051	5,051	5,051
<b>Bancassurance income</b>	<b>1,038</b>	<b>727</b>	<b>830</b>	<b>934</b>	<b>1,142</b>	<b>1,246</b>	<b>1,349</b>
Other non-Il incomes	10,561	10,561	10,561	10,561	10,561	10,561	10,561
TOI	64,580	64,269	64,373	64,477	64,684	64,788	64,892
Opex	(19,304)	(19,304)	(19,304)	(19,304)	(19,304)	(19,304)	(19,304)
Provisioning	(24,163)	(24,163)	(24,163)	(24,163)	(24,163)	(24,163)	(24,163)
PBT	21,113	20,802	20,906	21,010	21,217	21,321	21,425
<b>% change in PBT</b>		<b>-1%</b>	<b>-1%</b>	<b>0%</b>	<b>0%</b>	<b>1%</b>	<b>1%</b>

## TCB

Bancassurance income change and impact on PBT							
<i>Unit: VND bn</i>	2022A	-30%	-20%	-10%	10%	20%	30%
Net interest income	30,290	30,290	30,290	30,290	30,290	30,290	30,290
Net fee income ex. banca	6,863	6,863	6,863	6,863	6,863	6,863	6,863
<b>Bancassurance income</b>	<b>1,664</b>	<b>1,165</b>	<b>1,331</b>	<b>1,498</b>	<b>1,830</b>	<b>1,997</b>	<b>2,163</b>
Other non-Il incomes	2,085	2,085	2,085	2,085	2,085	2,085	2,085
TOI	40,902	40,403	40,569	40,736	41,068	41,235	41,401
Opex	(13,398)	(13,398)	(13,398)	(13,398)	(13,398)	(13,398)	(13,398)
Provisioning	(1,936)	(1,936)	(1,936)	(1,936)	(1,936)	(1,936)	(1,936)
PBT	25,568	25,069	25,235	25,401	25,734	25,901	26,067
<b>% change in PBT</b>		<b>-2%</b>	<b>-1%</b>	<b>-1%</b>	<b>1%</b>	<b>1%</b>	<b>2%</b>

## VPB

Bancassurance income change and impact on PBT							
<i>Unit: VND bn</i>	2022A	-30%	-20%	-10%	10%	20%	30%
Net interest income	41,021	41,021	41,021	41,021	41,021	41,021	41,021
Net fee income ex. banca	4,836	4,836	4,836	4,836	4,836	4,836	4,836
<b>Bancassurance income</b>	<b>1,602</b>	<b>1,121</b>	<b>1,282</b>	<b>1,442</b>	<b>1,762</b>	<b>1,922</b>	<b>2,083</b>
Other non-Il incomes	10,338	10,338	10,338	10,338	10,338	10,338	10,338
TOI	57,797	57,316	57,477	57,637	57,957	58,117	58,278
Opex	(14,116)	(14,116)	(14,116)	(14,116)	(14,116)	(14,116)	(14,116)
Provisioning	(22,461)	(22,461)	(22,461)	(22,461)	(22,461)	(22,461)	(22,461)
PBT	21,220	20,739	20,899	21,060	21,380	21,540	21,700
<b>% change in PBT</b>		<b>-2%</b>	<b>-2%</b>	<b>-1%</b>	<b>1%</b>	<b>2%</b>	<b>2%</b>

## MBB

Bancassurance income change and impact on PBT							
<i>Unit: VND bn</i>	2022A	-30%	-20%	-10%	10%	20%	30%
Net interest income	36,023	36,023	36,023	36,023	36,023	36,023	36,023
Net fee income ex. banca	1,993	1,993	1,993	1,993	1,993	1,993	1,993
<b>Bancassurance income</b>	<b>2,143</b>	<b>1,500</b>	<b>1,714</b>	<b>1,929</b>	<b>2,357</b>	<b>2,572</b>	<b>2,786</b>
Other non-Il incomes	5,434	5,434	5,434	5,434	5,434	5,434	5,434
TOI	45,593	44,950	45,164	45,378	45,807	46,021	46,236
Opex	(14,816)	(14,816)	(14,816)	(14,816)	(14,816)	(14,816)	(14,816)
Provisioning	(8,048)	(8,048)	(8,048)	(8,048)	(8,048)	(8,048)	(8,048)
PBT	22,729	22,086	22,301	22,515	22,944	23,158	23,372
<b>% change in PBT</b>		<b>-3%</b>	<b>-2%</b>	<b>-1%</b>	<b>1%</b>	<b>2%</b>	<b>3%</b>

## ACB

Bancassurance income change and impact on PBT							
<i>Unit: VND bn</i>	2022A	-30%	-20%	-10%	10%	20%	30%
Net interest income	23,534	23,534	23,534	23,534	23,534	23,534	23,534
Net fee income ex. banca	1,810	1,810	1,810	1,810	1,810	1,810	1,810
<b>Bancassurance income</b>	<b>1,716</b>	<b>1,201</b>	<b>1,373</b>	<b>1,544</b>	<b>1,888</b>	<b>2,059</b>	<b>2,231</b>
Other non-Il incomes	1,730	1,730	1,730	1,730	1,730	1,730	1,730
TOI	28,790	28,275	28,447	28,618	28,962	29,133	29,305
Opex	(11,605)	(11,605)	(11,605)	(11,605)	(11,605)	(11,605)	(11,605)
Provisioning	(71)	(71)	(71)	(71)	(71)	(71)	(71)
PBT	17,114	16,599	16,771	16,943	17,286	17,457	17,629
<b>% change in PBT</b>		<b>-3%</b>	<b>-2%</b>	<b>-1%</b>	<b>1%</b>	<b>2%</b>	<b>3%</b>

## HDB

Bancassurance income change and impact on PBT							
<i>Unit: VND bn</i>	2022A	-30%	-20%	-10%	10%	20%	30%
Net interest income	18,012	18,012	18,012	18,012	18,012	18,012	18,012
Net fee income ex. banca	1,631	1,631	1,631	1,631	1,631	1,631	1,631
<b>Bancassurance income</b>	<b>1,326</b>	<b>928</b>	<b>1,061</b>	<b>1,193</b>	<b>1,459</b>	<b>1,591</b>	<b>1,724</b>
Other non-Il incomes	999	999	999	999	999	999	999
TOI	21,967	21,569	21,702	21,835	22,100	22,232	22,365
Opex	(8,631)	(8,631)	(8,631)	(8,631)	(8,631)	(8,631)	(8,631)
Provisioning	(3,068)	(3,068)	(3,068)	(3,068)	(3,068)	(3,068)	(3,068)
PBT	10,268	9,870	10,003	10,135	10,401	10,533	10,666
<b>% change in PBT</b>		<b>-4%</b>	<b>-3%</b>	<b>-1%</b>	<b>1%</b>	<b>3%</b>	<b>4%</b>

## MSB

Bancassurance income change and impact on PBT							
<i>Unit: VND bn</i>	2022A	-30%	-20%	-10%	10%	20%	30%
Net interest income	8,322	8,322	8,322	8,322	8,322	8,322	8,322
Net fee income ex. banca	255	255	255	255	255	255	255
<b>Bancassurance income</b>	<b>857</b>	<b>600</b>	<b>686</b>	<b>771</b>	<b>943</b>	<b>1,028</b>	<b>1,114</b>
Other non-Il incomes	1,259	1,259	1,259	1,259	1,259	1,259	1,259
TOI	10,694	10,437	10,522	10,608	10,779	10,865	10,951
Opex	(4,428)	(4,428)	(4,428)	(4,428)	(4,428)	(4,428)	(4,428)
Provisioning	(479)	(479)	(479)	(479)	(479)	(479)	(479)
PBT	5,787	5,530	5,616	5,702	5,873	5,959	6,044
<b>% change in PBT</b>		<b>-4%</b>	<b>-3%</b>	<b>-1%</b>	<b>1%</b>	<b>3%</b>	<b>4%</b>

## VIB

Bancassurance income change and impact on PBT							
<i>Unit: VND bn</i>	2022A	-30%	-20%	-10%	10%	20%	30%
Net interest income	14,963	14,963	14,963	14,963	14,963	14,963	14,963
Net fee income ex. banca	1,320	1,320	1,320	1,320	1,320	1,320	1,320
<b>Bancassurance income</b>	<b>1,868</b>	<b>1,308</b>	<b>1,494</b>	<b>1,681</b>	<b>2,055</b>	<b>2,242</b>	<b>2,428</b>
Other non-Il incomes	-93	-93	-93	-93	-93	-93	-93
TOI	18,058	17,497	17,684	17,871	18,245	18,431	18,618
Opex	(6,197)	(6,197)	(6,197)	(6,197)	(6,197)	(6,197)	(6,197)
Provisioning	(1,280)	(1,280)	(1,280)	(1,280)	(1,280)	(1,280)	(1,280)
PBT	10,581	10,021	10,208	10,394	10,768	10,955	11,142
<b>% change in PBT</b>		<b>-5%</b>	<b>-4%</b>	<b>-2%</b>	<b>2%</b>	<b>4%</b>	<b>5%</b>



Bancassurance income change and impact on PBT							
Unit: VND bn	2022A	-30%	-20%	-10%	10%	20%	30%
Net interest income	17,147	17,147	17,147	17,147	17,147	17,147	17,147
Net fee income ex. banca	3,377	3,377	3,377	3,377	3,377	3,377	3,377
<b>Bancassurance income</b>	<b>1,817</b>	<b>1,272</b>	<b>1,454</b>	<b>1,635</b>	<b>1,999</b>	<b>2,180</b>	<b>2,362</b>
Other non-Il incomes	3,800	3,800	3,800	3,800	3,800	3,800	3,800
TOI	26,141	25,596	25,778	25,960	26,323	26,505	26,686
Opex	(10,964)	(10,964)	(10,964)	(10,964)	(10,964)	(10,964)	(10,964)
Provisioning	(8,838)	(8,838)	(8,838)	(8,838)	(8,838)	(8,838)	(8,838)
PBT	6,339	5,794	5,976	6,157	6,521	6,702	6,884
<b>% change in PBT</b>		<b>-9%</b>	<b>-6%</b>	<b>-3%</b>	<b>3%</b>	<b>6%</b>	<b>9%</b>

Source: Yuanta Vietnam, FiinPro, media sources

### Five forces analysis – Vietnam Bancassurance Industry

**Threat of new entry:** Most of the major banks have signed exclusivity bancassurance agreements with insurance companies. These partnerships involve long-term contracts and exclusivity, with the banks providing established distribution networks to life insurance providers that may lack a substantial agency force. Such alliances also create barriers to entry for new players in the life insurance sector.

The top five life insurers by market share are Bao Viet (at 19.2%), Manulife (17.9%), Prudential (16.8%), Dai-ichi Life (12.3%), and AIA (10.7%).

**Threat of substitutes:** The traditional agency insurance sales channel is still critical, but the industry has experienced a substantial shift towards the bancassurance channel in the past few years. Banca's contribution to industry FYP has risen from 5% in 2019 to 46% in 2022, indicating the rapid growth of the bancassurance channel.

Online insurance platforms can be a threat to bancassurance because digital platforms can provide transparency, convenience, and possibly lower costs. This challenge requires the banks to accelerate their own digitization to keep up with online nonbank platforms.

Government-sponsored insurance programs may act as a potential substitution for insurance products via bancassurance. However, we see this risk is currently low in Vietnam.

Last, individuals have the option to allocate their funds to savings or alternative investments (i.e., stocks, bonds, and real estate) instead of purchasing insurance. This represents a more substantial threat in our view, especially given the lack of product transparency and the recent scandals discussed above.

**Bargaining power of suppliers is low:** The insurance industry exhibits low concentration, with 19 life insurance companies currently operating in Vietnam and more (we believe) on the way here in the future. Product differentiation is minimal, which reduces their bargaining power with clients.

Bancassurance providers need to understand customers' needs and offer tailor-made insurance products to clients. For example, bancassurance providers can provide customized insurance products that policyholders can use as collateral for their loans, or they can consider providing additional benefits exclusively for bancassurance customers that are unavailable from the agency channel.

**Bargaining power of customers: Minimal.** Theoretically, clients have the power to negotiate lower premiums or additional benefits due to the similarity of insurance products and intense competition among insurance providers.

However, in most cases, clients purchase bancassurance products via banks when applying for loans. In this case, the banca customers are also bank borrowers who are incentivized to buy products in exchange for obtaining bank loans easily and quickly. Thus, customers are likely to accept the requirement to buy insurance products via banks without delving into the details about the associated benefits or conditions.

**Intensity of competition: Moderate:** Vietnam has nearly 50 commercial banks if we include foreign institutions. However, most bancassurance products have been distributed via the 31 domestic banks. Competition is still intense as there are numerous bancassurance providers in Vietnam.

However, a competitive edge still exists for the banks with sizeable customer bases and wide networks across the country, including state-owned banks BID, CTG, and VCB, as well as nonstate banks such as ACB, HDB, SHB, STB, TCB, VIB, and VPB.

As discussed, Vietnam's bancassurance industry has plenty of room to grow. But bancassurance providers may focus on expanding their market share, resulting in intensified competition.

## Challenges and risks

### Investors' confidence is now being called into question

Recent scandals in the insurance industry have undermined public trust and confidence in the industry. This also raises concerns about the integrity and transparency of insurance companies and their partnerships with financial institutions (i.e., commercial banks).

Vietnam is not the only country to have experienced ructions in its bancassurance industry. Other emerging countries such as Indonesia have also had problems. In January 2020, Asuransi Jiwasraya – a state-owned Indonesian life insurer – failed to pay out more than US\$1.1 bn in matured insurance policies, affecting 17,000 policyholders. This event highlighted a systemic problem that had existed for years.

We believe that the Vietnam insurance industry – including bancassurance – will remain in the doldrums in upcoming quarters. The repercussions of these scandals will impact the overall performance and growth of the insurance business, requiring industry players to rebuild trust and implement stricter regulations to regain credibility and ensure sustainable development.

### Vietnam's Regulatory framework for insurance

The Law on the Insurance Business was amended and updated in Jan 2023. We summarize the key points of the new law below:

- For insurance contracts with a duration of more than one year, policyholders have the right to refuse to continue participating in the insurance contract within a 21-day period starting from the date of the contract. If the policyholders choose to exercise that right, the insurance contract will be terminated, and the policyholders will receive a refund of their insurance premium. **We believe that this new regulation should protect policyholders, which is positive but it may lead to a decrease in revenue for bancassurance providers (i.e., banks) and insurance companies.**
- The new law regulates the application of technology in the insurance business to improve efficiency, management, forecasting, and to combat insurance fraud. This will increase operating costs for insurance companies, but it will also help to better serve clients, reach new potential customers, and reduce fraudulent claim payouts.
- Organizations and individuals are allowed to provide insurance services and products via online platforms. **In our view, this will 1) provide convenience and accessibility for clients to purchase and manage insurance products online, and 2) require banks to accelerate their digital transformation to stay competitive.**
- From Jan 2023, insurance companies are no longer required to contribute to the fund for protection of insured persons. Instead, insurance companies are only required to contribute to reserve funds (5% of after-tax profit) to supplement their owner's equity and ensure the ability to honor policies.
- Insurance companies are not allowed to participate in the real estate business from Jan 1<sup>st</sup>, 2028, except for buying shares of listed real estate companies or funds with a real estate component. This change will overrule Decree 73/2016/ND-CP, under which both nonlife and life insurance companies are allowed to use 10% and 20% of their idle capital from insurance reserves, respectively, to invest in the real estate business.
- If the insurance companies delay in paying claims as stipulated, they will be required to pay interest on the corresponding amount for the duration of such late payments.

Overall, the new law should help to improve the transparency and safety of the insurance industry and its products, which should help to rebuild some level of trust among policyholders and new potential clients following the recent insurance industry scandals.

# Appendix A: Important Disclosures

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