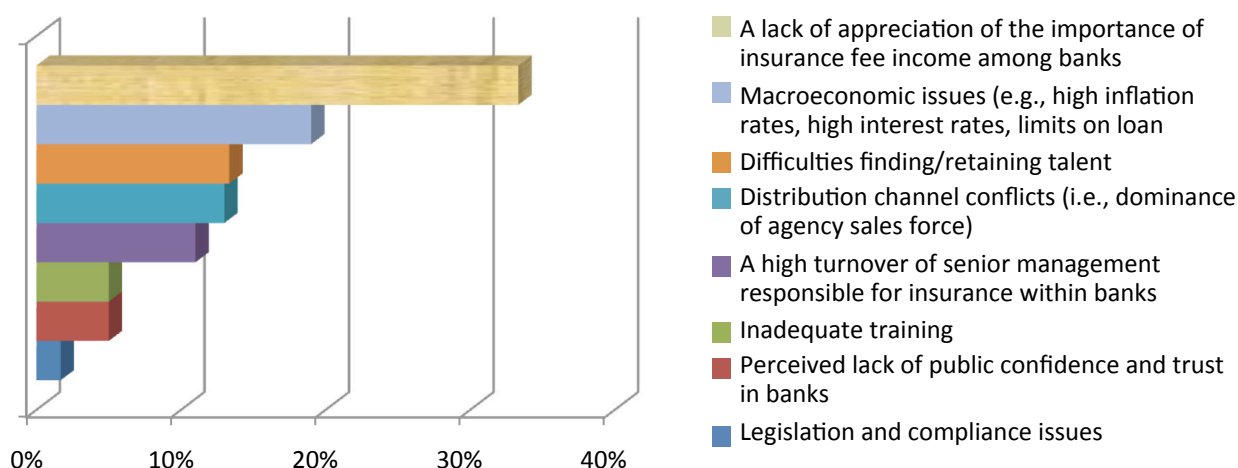


## Vietnam Bancassurance Survey

Last month, Milliman carried out a survey with senior life insurance and banking executives to gauge their views on the emerging bancassurance sector in Vietnam. We are pleased to present the results of this survey below, along with some commentary on the findings.

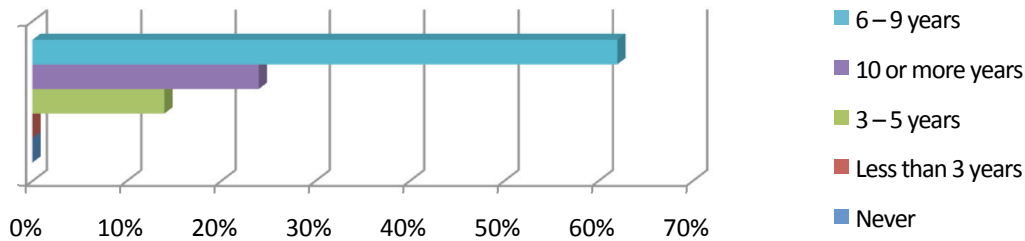
### Results

**Q1. Bancassurance in Vietnam has been slow to take off compared with other Asian markets. What do you see as the top three main impediments to success? (Select three)**



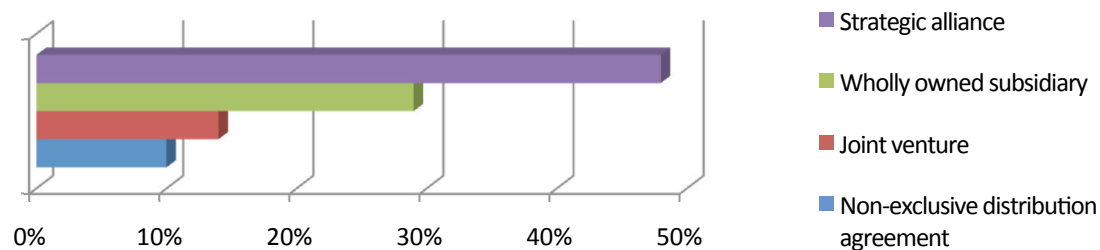
The key issue felt to be holding back bancassurance in the market was the lack of appreciation of revenue potential from insurance within banks. Fee income from insurance products is still extremely low in relation to conventional sources of revenue for all banks, leading to a lack of proper focus on bancassurance. Many respondents cited an unfavourable macro-economic backdrop of high interest rates, high inflation and limits on credit growth, and also the practical challenge of finding adequate talent. Very few respondents felt the lack of success of bancassurance to be due to a lack of public confidence and trust in banks or to the underlying legal and compliance framework.

**Q2. How long do you think it will take for bancassurance to generate more than 25% of total new business premium in the life insurance industry in Vietnam?**



The overall response was quite pessimistic. Over 85% of respondents felt that it would take six years or more for bancassurance to generate more than 25% of new business premium for life insurers, with nearly 25% of respondents expecting it to take more than 10 years. None of those surveyed thought it would reach this figure within three years.

**Q3. Which business model do you see as being the most successful in Vietnam in the medium term?**



Nearly 50% of respondents felt that the business model most likely to be successful was a strategic alliance (i.e., exclusive or semi-exclusive distribution agreement). A wholly owned subsidiary was seen as having more chance of success than a joint venture. Only 10% of respondents felt that open-architecture non-exclusive distribution agreements would be the most successful model.

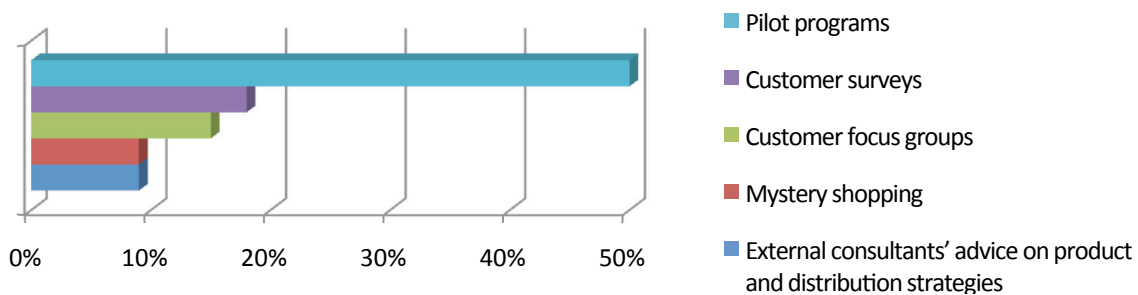
**Q4. Which of the following products do you think has the most potential in bancassurance in Vietnam?**

Ranking (1 = highest potential, 9 = lowest)



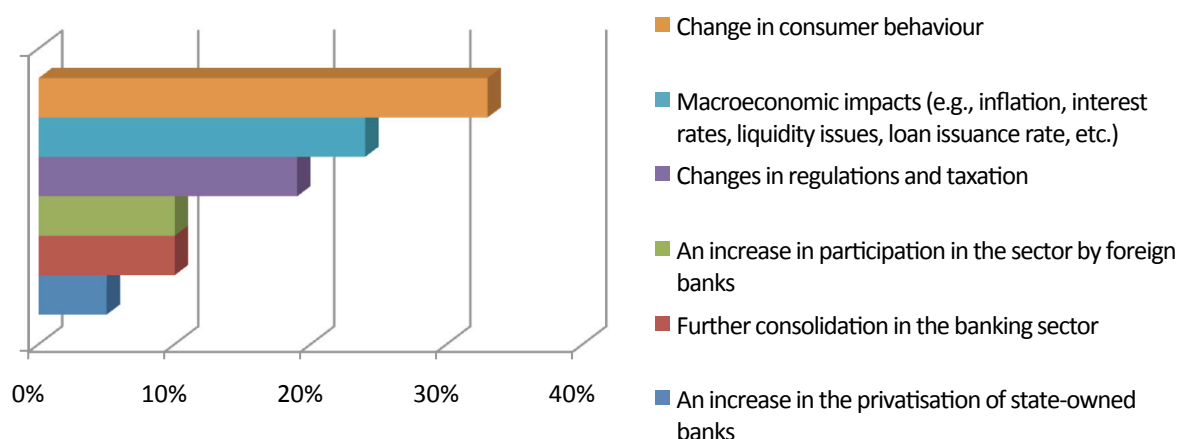
Respondents felt that the products most likely to succeed through bancassurance were credit life, non-life insurance and conventional savings. The potential from health and medical insurance and other protection products was seen as being modest. Universal life products, which have generated significant sales volumes through agents for many life insurers in Vietnam, are felt to have much less potential through bancassurance. Unit-linked products are generally viewed by respondents as having limited potential, in stark contrast to the experience being seen in some other markets in Asia such as Indonesia.

**Q5. When assessing/working with bank or insurance partners or deciding on bancassurance propositions, which of the following do you use?**



The use of pilot programs is common amongst respondents. However, somewhat surprisingly, very few claim to carry out mystery shopping exercises in order to better understand the sales process within the bank they are partnering with. The use of customer focus groups and customer surveys is also not prevalent. Very few respondents are using external consultants for advice.

**Q6. Which of the following do you think will have the most significant impact on bancassurance in the future in Vietnam?**



Respondents felt that external changes would generally have more significant impact on bancassurance in future than developments within the banking sector itself. Changes in consumer behaviours, macro-economic factors, regulations and taxation were seen as being stronger catalyst for change than other factors. Few respondents felt that further privatisation in the banking sector or increased participation by foreign banks would have much impact on bancassurance.

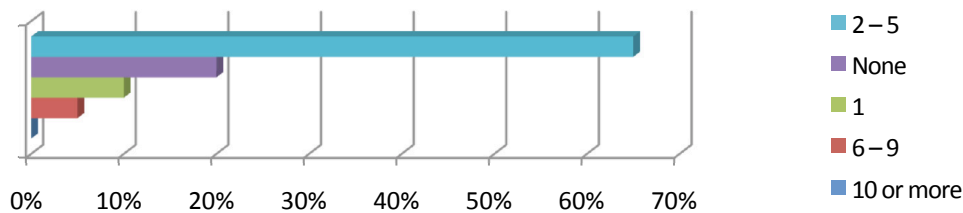
**Q7. Please rank the following customer segments by potential sales revenue for bancassurance in Vietnam.**

Ranking (1 = highest potential, 5 = lowest)



The mass affluent sector was regarded as having the most potential, with the most number of respondents ranking it highest in terms of potential sales. Those surveyed saw more potential within the mass market than the high-net-worth segment. Few respondents saw significant potential at the low-income/micro end of the market.

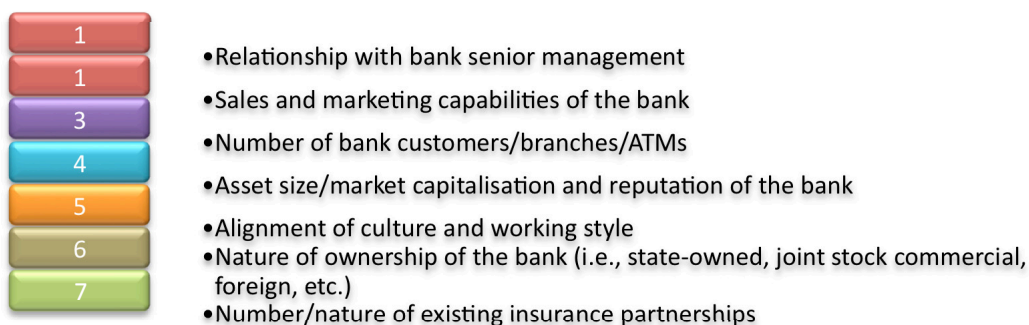
**Q8. How many distribution agreements / memoranda of understanding (MoU) does your company currently have with banks?**



Multi-tie relationships are seen as prevalent. The vast majority of respondents had between two and five distribution agreements/ MoUs in place, with some having more than six relationships. Exclusivity is rare. Only 10% of respondents had a relationship with one single bank.

**Q9. Please rank the following factors by importance when choosing a bank as a partner.**






Ranking (1 = highest, 7 = lowest)



Relationships are seen as important. The main factors influencing the choice of banking partners were felt to be the relationship with bank senior management, along with the sales and marketing capabilities of the bank. The reach, size and reputation of the bank were secondary. Somewhat surprisingly, the alignment of culture and working style was not seen as a particularly important factor. The number/nature of existing insurance partnerships of the bank was seen as the least important factor, presumably linked to the fact that multiple relationships with insurers are common for banks in Vietnam.

**Q10. Please rank the following factors you perceive banks regard as important when choosing insurance partners.**

Ranking (1 = most importance, 6 = lowest)

	•Alignment of interest between bank and insurer
	•Size of commission rates paid to the bank
	•Support services provided by insurer (e.g., bank staff training, underwriting, administration, etc.)
	•Personal relationships at a senior level
	•Reputation and financial strength of insurer
	•Provision of "best-in-class" products by insurer

The main factors perceived to be important to banks in choosing insurance partners are the size of commission rates and degree of alignment of interest between the two parties. Being able to provide “best-in class” products and the current reputation and strength of the insurer were perceived to be far less important to banks.

## Conclusions

- Bancassurance sales penetration in Vietnam remains very low despite significant activity in the insurance industry to stimulate growth. The lack of success is seen to be closely correlated with the embryonic state of the banking sector and the apparent failure to see beyond a short-term focus on core banking revenue sources. Macro-economic headwinds are also proving a significant drag on progress.
- The survey findings suggest that it will be challenging to move bancassurance from a niche, “alternative” channel into a significant revenue generator for insurers and banks in Vietnam in the next five years without a paradigm shift in customer behaviours, regulations and business models, and a more conducive economic climate.
- However, the demographic and consumer trends in Vietnam are undoubtedly positive, and create hope for the future. Rising affluence, growing urbanisation and an inherently young population more open to change on how it wants to transact, coupled with increasing pressure on banks’ conventional income sources, suggest strong fundamentals for growth.
- Arguably there are parallels between the current situation in Vietnam and that seen several years ago in some of the other developing ASEAN markets. The subsequent success of some of the exclusive bancassurance partnerships in Indonesia, Thailand and Malaysia demonstrates just what can be achieved with a dedicated focus and a strong alignment of interests between partners.
- For those bancassurance players in Vietnam able to tackle some of the challenges head on and achieve first-mover advantage, the longer-term prize may be significant.

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