Int. j. adv. multidisc. res. stud. 2023; 3(5):1475-1478

Received: 08-09-2023
Accepted: 18-10-2023

International Journal of Advanced Multidisciplinary Research and Studies

ISSN: 2583-049X

Investment Activities of Insurance Companies: The Current Landscape in Vietnam

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Abstract
The investment activities of insurance companies hold significant importance for the growth of both individual businesses and the overall economy. Profits derived from these investments tend to be a primary contributor to a company's total earnings. However, in Vietnam, the development of investment activities within insurance companies remains constrained. This article aims to evaluate the current status of investment activities among life and non-life insurance companies, with a particular focus on analyzing their capital allocation strategies. The author has conducted an extensive review of pertinent documents, performed analysis, presented statistical insights, and offered recommendations for enhancing the investment activities of insurance companies operating in Vietnam.

Keywords: Insurance, Insurance Investments, Insurance Investment Portfolios, Vietnam…

1. Introduction

Today, insurance is not only known for its traditional business of selling insurance products to protect assets, health, or human life, but it has also become a major player in the financial market as a large investor. The investment activities of insurance companies involve allocating capital to conduct various endeavors with the goal of generating future profits for the company. Consequently, alongside their conventional business operations, the investment activities of insurance companies play a pivotal role in determining the financial health of these organizations and, by extension, the broader economy. Investment activities represent one of the fundamental factors ensuring the efficiency and financial stability of insurance entities. First, investment activity determines the very possibility of providing insurance services by means of the formation of a sufficient insurance fund. Secondly, a well-organized investment activity determines the market status of the insurer, influencing the main characteristics of the insurance product (G. Kaigorodova *et al*., 2018) [8]. Consequently, fostering investment activities within each insurance company is imperative. Insurance companies must find their place in the investment process (Kucherenko *et al*., 2018 [12]; Mentel *et al*., 2017). Which is the key to the recovery of the country's economic sectors.

2. Overview

Investment

The term "investment" is a recurrent concept in the works of modern economists, as well as in books, newspapers, and other forms of mass media. Investment is commonly defined as the allocation of capital and effort with the primary objective of generating profit. According to Nguyễn Lân, as documented in "Từ điển Từ và Ngữ Việt Nam" (Dictionary of Vietnamese Words and Phrases) published by Nxb. Thành phố Hồ Chí Minh in 2000, page 594, or as per the Longman Dictionary of Contemporary English, published by Cayfosa in Barcelona in 1999 on page 175, investment entails the act of committing funds from individuals or organizations into a company, business activities, or a financial institution with the intention of earning a profit or achieving success in a business endeavor. In essence, investment can be understood as the present sacrifice of resources to secure favorable outcomes for the investor in the future.

Insurance Enterprises

The term "insurance" is abstract and multifaceted, making it a challenge to provide a succinct and all-encompassing definition. An insurance enterprise is a business entity primarily engaged in the provision and sale of insurance services (Cambridge Dictionary). Various textbooks and documents on insurance, such as those authored by Möller (1962), Farny (1965), and

Pfeffer and Klock (1974), have made concerted efforts to formulate intricate and comprehensive definitions of insurance. For instance, Pfeffer and Klock (1974) offer the following definition: “Insurance is a device for the reduction of uncertainty of one party, called the insured, through the transfer of particular risks to another party, called the insurer, who offers a restoration, at least in part, of economic losses suffered by the insured”. Insurance is a unique product in that the ultimate cost is often unknown until long after the coverage period, while the revenue-premium payments by policyholders-are received before or during the coverage period (Nissim, D, 2010) [16].

Investment Activities and Insurance Companies

A substantial body of prior research has delved into the investment activities of insurance companies. Beyond highlighting the significance of investment for these firms, these studies have concentrated on analyzing investment strategies and optimizing investment portfolios. For example, a study investigating the investment portfolio structures of insurance companies in Ukraine aimed to assess the effectiveness of their investment activities and their investment strategies (R. Pikus and Nesterova, 2015) [18]. In this context, a thorough analysis and comparison of insurance companies' investment portfolios were conducted. R. Pikus and D. Nesterova underscored the need for developing the concept of optimal investment strategies and portfolio optimization to enhance confidence and profit potential. Clearly, each company adopts different investment strategies, with the choice between conservative and aggressive strategies dictating the allocation of capital to various investment assets. A proclivity for risk-taking and the pursuit of high returns lead to a greater allocation of capital to riskier assets, while the opposite holds true.

The allocation of capital into specific investment assets remains a subject of debate among researchers. Froot (2007) [7] concluded that insurance companies should steer clear of liquidity investment risks. Froot (2007) [7] also argued that "financial intermediaries should shed all liquid risks in which they have no ability to outperform and devote their entire risk budgets toward an optimally diversified portfolio in exposures where they have an edge." In alignment with this perspective, Højgaard and Taksar (2004) [4] concluded that investing in risky assets is invariably optimal. However, P. Koch-Medina *et al*. (2021) [10] provided a a full description of optimal investment strategies when either recapitalization is costless or there is no insurance risk. When recapitalization is costly and insurance risk nontrivial, they find that optimal investment strategies can cover the full range from risk-free to maximally risky investments depending on the particular constellation of the financial and regulatory environment within which the firm operates. In summary, numerous factors exert influence on the investment decisions of insurance companies. These factors may encompass the financial standing of the company, the magnitude of insurance risk, the evolution of the financial market, or legal constraints. A similar consensus emerges concerning the decision to invest in risky assets. Heyman and Rowland (2006) [3] contended that the investment policy of most insurance companies should serve two primary objectives: (1) providing insurance reserves for a fixed-income investment portfolio generating income and (2) garnering "extraordinary profits" from surpluses in a "responsible and disciplined" manner. The second objective implies adherence to asset allocation methods that weigh the risk-benefit trade-offs associated with various investments, alongside considerations of investment income.

3. Investment Activities of Insurance Companies in Vietnam

3.1 Regulatory Framework for Investment Activities

The regulations governing investment activities are outlined in Vietnam's Insurance Business Law No. 24/2000/QH10, dated December 9, 2000, along with subsequent amendments and supplements. According to these regulations, investments must adhere to the principles of safety, efficiency, and liquidity. Insurance companies primarily source their investment capital from two main categories: idle funds from the contingency reserve for business operations and owner's equity. Idle funds from the contingency reserve are calculated as the total reserve minus the amounts earmarked for regular insurance payments within a specific period.

The legal provisions regarding investment activities of insurance companies also prescribe investment limits for various sectors. Decree 73/2016/NĐ-CP provides detailed guidelines for implementing the Insurance Business Law and its subsequent amendments and supplements. It allows insurance companies to invest without restrictions in government bonds, treasury bills, bonds of the State Treasury, bonds for national construction, local government bonds, and bonds guaranteed by the government. Additionally, insurance companies can deposit funds in credit institutions. Concerning investments in stocks, corporate bonds, fund certificates, and contributions to other enterprises, life insurance companies are permitted to engage in these activities up to a maximum of 50% of idle funds from the contingency reserve (with a maximum of 20% for contributions to other enterprises). Conversely, non-life insurance companies have a lower limit, set at 35%. Similarly, for real estate business or lending activities, these limits are 20% (for life insurance companies) and 10% (for non-life insurance companies) of idle funds from the contingency reserve.

3.2 Current Landscape of Investment Activities by Insurance Companies in Vietnam

As of 2022, the insurance market in Vietnam consists of 51 life and non-life insurance companies actively participating in insurance business activities. In recent years, the insurance market has consistently maintained a high growth rate compared to the GDP growth rate. Insurance premium revenue reached 247.786 trillion VND in 2022, reflecting a 32% increase compared to 2020. The financial strength of insurance companies has steadily grown, with total assets increasing by 43% over the past three years, reaching 822286.791 trillion VND. Furthermore, there has been an augmentation in owner's equity.

Table 1: Selected Financial Indicators of Insurance Companies

S. No	Indicators	Unit	2020	2021	2022
1	Revenue	*Billion dong*	187,446,834	218,356,581	247,785,901
2	Shareholder Equity	*Billion dong*	127,901,218	156,812,050	177,732,176
3	Total Assets	*Billion dong*	573,367,524	708,534,306	822,286,791

Source: Vietnam Insurance Market Statistical Yearbook

This favorable environment has provided advantageous conditions for the expansion of investment activities. Investment capital for insurance companies primarily originates from two main sources: owner's equity and idle funds from the contingency reserve for business operations. Therefore, the increase in owner's equity and premium revenue ensures the growth of investment activities. Through their investment endeavors, insurance companies have effectively established a reservoir of medium and long-term capital for fostering economic and societal development. In 2021, the cumulative sum of investments by insurance companies injected back into the economy amounted to 583.190 trillion VND, indicating a 23.55% increase compared to 2020. In 2022, this figure surged further to 680.512 trillion VND, marking a 16.68% increase over 2021. The investment activities of insurance companies are closely supervised by the government, guided by principles of safety, liquidity, and efficiency. The government delineates permissible investment directions and sets maximum investment thresholds for each asset class.

Table 2: Investment Allocation of Insurance Companies

Content	2020		2021		2022	
	Billion dong	*Allocation (%)*	*Billion dong*	*Allocation (%)*	*Billion dong*	*Allocation (%)*
Deposits at credit institutions	208,909	44.59	252,081	43.22	301,350	44.28
Government bonds, local government bonds	173,458	37.02	214,474	36.78	244,362	35.91
Corporate bonds with guarantees	23,381	4.99	29,81	5.1	27,947	4.11
Stocks, mutual fund certificates, corporate bonds without guarantees	46,211	9.86	63,228	10.84	79,761	11.72
Capital contribution to other enterprises	3,535	0.75	4,134	0.71	5,218	0.77
Real estate business	661	0.14	672	0.12	515	0.08
Lending/Advances from customer account values	9,186	1.96	10,516	1.80	12,977	1.91
Investment delegation	500	0.11	1,233	0.21	0	0
Others	2,722	0.58	7,041	1.21	8,382	1.23
Total	**468,563**	**100**	**583,190**	**100**	**680,512**	**100**

Source: Vietnam Insurance Market Statistical Yearbook

During this period, it is evident that regulations defining investment limits in various sectors have a significant impact on capital allocation within insurance companies. The absence of limitations on deposits in financial institutions has led insurance companies to exhibit considerable interest in bank deposits, maintaining a stable allocation of approximately 45% of their total investment value. This ensures a certain level of safety for the companies' cash flows.

Regarding government bonds, treasury bills, bonds issued for homeland construction, local government bonds, and government-guaranteed bonds, the state imposes no restrictions on investment, resulting in relatively high investments in these assets. Notably, the investment allocation in government bonds and local government bonds stands at approximately 36%-37%. However, insurance companies exercise caution when it comes to investing in assets issued by private entities. Specifically, the allocation for such assets with guarantees is only around 5%, while the allocation for non-guaranteed assets is about 10%. These proportions have remained stable in recent times, indicating that insurance companies prefer assets issued by reputable and reliable entities. In the riskier realm of corporate stocks and bonds, capital allocation is more conservative.

Investment proportions are even lower for riskier investments such as real estate. Investment activities in real estate have been relatively uncertain, with the investment allocation gradually decreasing in line with trends in the domestic real estate market in recent years. In 2022, only 0.08% of the total investment capital was allocated to real estate.

Taking a comprehensive view, it is evident that the investment trends of Vietnamese insurance companies lean towards a cautious approach, with substantial, stable investments in low-risk assets that exhibit good liquidity.

4. Discussion

Despite significant achievements in the development of investment activities within insurance companies in Vietnam, as evidenced by increasing investment activity revenue and the scale of investment capital, the profits derived from investment activities still constitute a relatively small proportion of the overall business profit. In contrast, investment income holds a substantial share of income for insurance companies (Nissim. D, 2010) [16]. Therefore, insurance companies need to find their niche in the investment landscape (Kucherenko *et al*., 2018 [12]; Mentel *et al*., 2017). This underscores the importance of dedicating resources to this crucial activity.

Further research involving various countries reveals significant differences in asset allocation among insurance companies worldwide. According to the OECD's 2023 report on global insurance market trends, Singapore allocates 62.7% of its investments to bonds, 9.2% to stocks, and 3.8% to cash and deposits. Malaysia, on the other hand, allocates 59.6% to bonds, 10.2% to stocks, and 7.9% to deposits. In economically advanced countries with well-established insurance markets, such as the United States, these figures stand at 62.5% for bonds, 13.5% for stocks, and 4.6% for cash and deposits. In the United Kingdom, the investment allocation is 54.8% for bonds, 9.2% for stocks, and 16.2% for cash and deposits. This comparative analysis reveals that Vietnamese insurance companies adopt a more cautious approach in their investment activities. A significant portion of their capital is allocated to highly liquid assets with relatively lower returns, with approximately 45% being invested in deposits. The relatively lower investment returns in Vietnam could be attributed to this strategy, which is understandable due to the constraints on portfolio diversification imposed by legal regulations in recent years. However, with the introduction of the 2022 Insurance Business Law, investment portfolios have been expanded, providing insurance companies with opportunities to determine the allocation of investment proportions into both low-risk and high-risk assets. These investments are guided by two primary objectives: providing insurance reserves for a fixed-income investment portfolio and generating "extraordinary profits" from surpluses in a "responsible and disciplined" manner (Heyman and Rowland, 2006) [3].

As investors in the financial market, insurance companies' success in investment activities cannot be isolated from macroeconomic factors. These companies must navigate both financial market risks and insurance risks (P. Koch-Medina *et al*., 2021) [10]. A developed stock market with transparent information and a wide range of investment instruments presents a potential opportunity for insurance companies. Nevertheless, the Vietnamese stock market still faces several limitations and lacks maturity; thus, state support for the stock market remains crucial for the investment activities of insurance companies.

Furthermore, to fully harness the investment potential of insurance companies, addressing certain quality issues in the management of their investment activities is imperative. Implementing stringent investment management, monitoring financial resources, and establishing a robust risk management system for investments will make these companies more resilient in their investment decisions. This approach will also uphold the principle of caution to safeguard the interests of insurance participants.

Investment activities within insurance companies hold pivotal significance, impacting the companies themselves, the broader economy, and insurance participants alike. Therefore, it is imperative to develop investment strategies that prioritize long-term sustainable efficiency.

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