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Analysis of Performance Evaluation Criteria of Life Insurance Enterprises Listed on the Vietnam Stock Market

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Abstract

The article sheds light on the goal of the study. Based on the data collection method, the article has presented the theoretical basis of life insurance enterprises, operational efficiency and performance evaluation criteria. In addition, the data collected from the financial statements of life insurers in the period of 2017 to 2022 are the basis for calculating, analyzing, and evaluating the performance of insurance enterprises. Through the comparative method, the

article has based on analytical data to evaluate the increase and decrease of net revenue, net profit, net profit ratio of insurance business, Asset investment profit margin and Return on equity over the years studied. Evaluate and find out the causes leading to the fluctuation of the above-mentioned indicators. The reasons pointed out are the increased provision for insurance operations and the impact of the COVID-19 epidemic on the financial market.

Keywords: Analysis, Operational Efficiency, Performance Evaluation Indicators, Insurers

1. Introduction

Proactively taking appropriate measures to improve operational efficiency, financial capacity, quality of corporate governance and risk management is the purpose of assessing and classifying insurance enterprises. The Ministry of Finance supervises the implementation of rating assessment contents by insurers and takes appropriate measures to ensure that insurance enterprises and the insurance market operate safely, healthily, and stably. For that purpose, the Government has issued a Circular guiding the assessment and classification of non-life insurance enterprises, enterprises specializing in health insurance business, life insurance enterprises, reinsurance enterprises and branches of foreign non-life insurance enterprises legally licensed to establish and operate in Vietnam (hereinafter referred to as insurers). When analyzing operating indicators, insurers will understand the current status of the business, and predict risks as well as future development potential. From there, managers can make appropriate policies and plans that contribute to reducing risks and improving operational efficiency. These analytical indicators are easy to implement with Business Managers; Investors (shareholders); Banks, bond holders, financial institutions; Recipients of salaries from enterprises; State management agencies and other objects... The objective of this study is to clarify the regulatory basis for assessing performance indicators at insurance enterprises. Evaluation of the performance of the insurer in the period of 2017 to 2022. Based on the results of the analysis of operational indicators to find out the reasons why the operation of the enterprise is difficult.

2. Theoretical basis

2.1 Life insurance enterprises

According to the Law on Insurance Business No. 08/2022/QH15 of Vietnam, an insurance enterprise is an enterprise established, organized and operating in accordance with this Law and other relevant laws for insurance business, reinsurance business, and reinsurance assignment. Insurers include life insurers, non-life insurers, and health insurers. Life insurance is a type of insurance in case the insured lives or dies^[6]. In Vietnam, there are currently 19 life insurance companies after 30 years of market establishment and development. Baoviet Holdings is the earliest Vietnamese enterprise established and the only life insurance company listed on the stock market. Bao Viet's first policy was issued in 1996, marking the beginning of Vietnam's insurance market. The Ho Chi Minh City Stock Exchange has listed shares of Bao Viet since 6/2009. Currently, in addition to the core value of insurance activities, Baoviet Holdings also provides comprehensive financial services, including banking, fund management, securities and investment. According to the published information, as of 31/12/2019, the Group

has a total equity capital of VND 17,820 billion. As the first state-owned enterprise to successfully seek foreign strategic shareholders, Baoviet Holdings currently has a strategic investor in Sumitomo Life Insurance Company (Sumitomo Life) of Japan, currently owning 22.09% of Baoviet Holdings. According to the survey results in 2019 of the international research organization - Brand Finance (UK), Bao Viet is the No. 1 brand in the Vietnamese insurance market, with a brand value of USD 267 million [7].

2.2 Operational efficiency

Efficiency is the desired outcome, which produces the result that people expect and desire. Efficiency is the ability to produce desired results or the ability to produce desired outputs. When something is considered effective, it means that it has an expected or expected outcome or creates a deep, vivid impression [3].

According to Investopedia.com "Efficiency means the degree to which a process is implemented that uses the lowest number of inputs to produce the greatest output. Efficiency involves the use of all inputs in the production of any given output, including personal time and energy. Efficiency is a measurement concept that can be defined by determining the ratio of useful outputs to total inputs. It minimizes the waste of resources such as physical materials, energy and time, in order to successfully achieve the desired output" [4]. Thus, we can understand "Efficiency" as the benefit gained from the difference between input costs and outputs.

Operational efficiency refers to the relationship between the output and input of the enterprise. When operating well, businesses can cut unnecessary costs and increase revenue. Companies aim to produce high-quality products on a large scale with as few resources as possible. To reduce unnecessary costs, the operations manager needs to be able to determine which processes are needed and vice versa. To do this, the management of the enterprise needs to decide on the basis of its activities. Operational efficiency is primarily a measure, measuring the effectiveness of profits generated as a function of operating costs. The higher the operational efficiency, the more profitable the company or investment will be. This is because the company can generate higher revenue or profits than alternatives at the same cost level. In a financial market, "operational efficiency occurs when transaction costs and fees are reduced. The efficient market can also be called the "internal efficiency market". Operational efficiency measures the proportion of costs incurred in an economic or financial activity, where lower costs equal higher efficiency." For investors and traders, the market demonstrates performance when transaction costs are low. Offering bulk rebates or free commissions to traders is one way to increase the performance of the investment market.

When evaluating the effectiveness of an activity, it is necessary to consider the "appropriate correlation" between the objective that the activity achieves, the level of cost for that goal and the current organizational and management solutions of managers. Thus, "efficiency means the relationship between the quantity, quantity and quality of work, products, goods and services produced by an activity and the extent of implementation that estimates the cost of resources." Power towards the end goal. For the same cost, you can get more results while ensuring quality, or just spend less to get the results you want.

2.3 Criteria for evaluating performance at life insurance enterprises

The criteria for evaluating performance at life insurance enterprises are prescribed and guided in Circular No. 07/VBHN-BTC. This Circular guide the assessment and classification of non-life insurance enterprises, enterprises specializing in health insurance business, life insurance enterprises, reinsurance enterprises and branches of foreign non-life insurance enterprises legally licensed to establish and operate in Vietnam [5].

a. Target of net profit ratio of insurance business

Calculation formula

$$\text{Net profit ratio of insurance business} = \frac{\text{Net profit from insurance business (A)}}{\text{Net revenue from the insurance business (B)}}$$

Data source:

(A): Code 30 - Code 21 - Code 24 Income statement by activity.

(B): Code 01.1 + Code 01.2 - Code 02 Report on business results by operation.

In there:

$$\text{Net profit of the business} = \text{Gross profit} + \text{Net revenue incurred in the reporting period} - \text{Total expenses}$$

Gross profit (gross profit) is calculated as net sales minus cost prices.

Total cost is the total amount paid for operating expenses, selling expenses, administrative expenses, financial costs, taxes and other expenses during the same time period.

Meaning: This indicator evaluates the efficiency of the enterprise's insurance business.

Margin: Enterprises operating for more than 10 years: $0\% < x < 20\%$. Enterprises operating for less than 10 years: no margin applies. In case the target is outside the margin, the enterprise is requested to analyze the causes and measures to ensure the margin of the target and report it to the Ministry of Finance.

b. Indicator of the rate of return on asset investment

Calculation formula

$$\text{Rate of return on asset investment} = \frac{\text{Financial operating profit (A)}}{0.5 \times (\text{Total investment assets} + \text{Total assets invested at the end of the period}) (B)}$$

Data source:

(A): Code 24 Income statement by activity.

(B): Code 120 Balance sheet + Code 250 Balance sheet + Bank deposits less than 03 months.

Meaning: Criteria for evaluating the efficiency of asset investment of enterprises.

Amplitude: $x > 4\%$. In case the target is outside the margin, the enterprise is requested to analyze the causes and measures to ensure the margin of the target and report it to the Ministry of Finance.

c. Indicator of return on equity

Calculation formula

$$\text{Return on equity} = \frac{\text{Profit after tax (A)}}{\text{Source of Equity (B)}}$$

Data source:

(A): Code 60 Income statement by activity.

(B): Code 400 Balance Sheet.

Meaning: This indicator reflects the efficiency of using equity of the enterprise.

Margin: Enterprises operating for more than 10 years: $x > 1\%$. Enterprises operating for less than 10 years: no margin applies. In case the target is outside the margin, the enterprise is requested to analyze the causes and measures to ensure the margin of the target and report it to the Ministry of Finance.

3. Methods

The article uses data collection and comparison methods. The method of data collection is the method of "searching and synthesizing information, knowledge, theories" from available sources, from which "building reasoning and proving and synthesizing" form theses. We have collected information and regulations on life insurance business activities from the Law on Insurance Business No. 08/2022/QH15 and Circular guiding the assessment and classification of insurance enterprises No. 07/VBHN-BTC to present the criteria for evaluating operations at life insurance enterprises.

For the calculation of performance evaluation indicators, we collect the financial statements of Baoviet Holdings for five years from 2017 to 2022. After having data in the financial statements compiled, the comparison method is used to analyze and evaluate the performance of the enterprise. Comparative methods are widely used and popular in economic analysis in general and financial analysis in particular. The purpose of comparison is to clarify differences, and individual characteristics and find out trends and laws of transformation of the object of study, helping interested parties to have a basis for making a decision on choice.

From the analysis of the Net Profit Ratio of the insurance business, the rate of return on asset investment and the Return on equity of the life insurance business for the period 2017-2022, we conduct a comparison of margins and assessments between the years.

4. Results

4.1 Target of net profit ratio of insurance business

The net profit of the insurance business is an important indicator of the operating results of life insurance enterprises. As mentioned above, Bao Viet is the first enterprise to establish and operate an insurance business in Vietnam. Because the operating period is more than 10 years, the margin on net profit of the insurance business will be in the range of $0\% < x < 20\%$. Looking at the data in Table 1, we see that 2018 and 2022 are not within the prescribed range of the State. To find out the reasons for low-profit margins, let's analyze the insurance business activities of the company. Net revenue from the insurance business increased steadily over the years from VND 24,043 billion in 2017 to VND 39,908 billion in 2022 (up nearly 40%). However, the net profit of the insurance business has fluctuated greatly. Especially in 2018, data shows that net profit has been negative by more than VND 5,000 billion and in 2022 it will be negative VND 570 billion. The reason for the large fluctuation in net profit is that Total direct expenditure on the insurance business has increased dramatically from VND 23,496 billion in 2017 to VND 31,703 billion in 2018. The sharp change in total costs is affected by the provision of life insurance operations. Accordingly, life insurance enterprises, and reinsurance enterprises doing life reinsurance business must make provisions for insurance operations as prescribed in Article 54 of Decree No. 73/2016/ND-CP corresponding to each type of deployed product and must be certified by the enterprise's actuary. Life insurance enterprises and reinsurance enterprises doing life insurance business may actively select methods and bases for provisioning for insurance operations according to the guidance in Clause 3 of this Article or other methods and establishments for making provisions for operations, more accurately and request the Ministry of Finance to approve according to the provisions of Article 58 of Decree No. 73/2016/ND-CP before applying^[2]. Specifically, Mathematical provision has increased from VND 9,930 billion to VND 14,104 billion in 2018, causing the cost of increasing the provision for original insurance compensation to increase by 40%.

Table 1: Net profit ratio of insurance business in 2017-2022

Unit: (Billion VND)

Quota	2017	2018	2019	2020	2021	2022
Net profit rate of the insurance business (%)	4.6	-18.1	5.6	1.9	0.8	-1.4
Net profit of insurance business	1,094	-5,274	1,867	650	292	-570
Gross profit	547	-2,637	934	325	614	105
Net revenue from insurance business	24,043	29,066	33,309	34,524	35,894	39,908
Total direct expenditure on insurance business	23,496	31,703	32,376	34,199	36,216	40,583

Source: Analysis of data from Baoviet Holdings's financial statements (2017-2022)^[1]

4.2 Indicator of return on asset investment

While the value of investment for finance continuously increased, Baoviet Holdings's financial operating profit decreased by about 20% to VND 5,687 billion compared to VND 7,340 billion in 2018. The reason for the decrease in financial investment returns is due to the impact of the Wuhan pneumonia epidemic, also known as COVID-19. The impact of the epidemic caused the market economy to

be paralyzed, production investment was stagnant, and the production scale collapsed, leading to a decrease in financial investment activities. The consequences of the epidemic made the momentum of investment profit slow and only completely recovered in 2022 with VND 8,082 billion. Although the rate of return on asset investment is also directly affected by the decrease in investment returns, it is still within the range prescribed by the State. The indicator

asset investment profit margin is an indicator of the performance of an enterprise through the rational use of assets and brings high profits. In the provisions of Circular No. 07/VBHN-BTC on the assessment and classification of insurance enterprises, the return on asset investment must be

greater than 4%. The analysis results in Table 2 show that the highest return on asset investment is 8.6% and the lowest is 4.8% >4%. We can conclude that Baoviet Holdings's asset investment achieved good and stable results.

Table 2: Results of the analysis of the return on investment of assets of enterprises in the period of 2017-2022

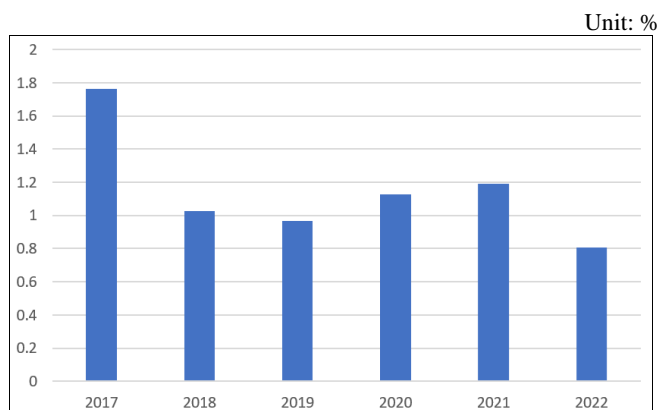
Unit: (Billion VND)

Quota	2017	2018	2019	2020	2021	2022
Rate of return on asset investment (%)	6.4	8.6	5.5	6.5	5.7	4.8
Financial operating profit	4,338	7,340	5,687	7,654	7,852	8,082
Total investment assets at the beginning of the period	61,375	74,976	96,404	108,760	125,592	149,390
Short-term financial investment	20,803	31,155	55,407	63,081	73,718	82,007
Long-term financial investment	40,572	43,821	40,997	45,679	51,874	67,383
Total investment assets at the end of the period	74,976	96,404	108,760	125,592	149,390	184,045
Short-term financial investment	31,155	55,407	63,081	73,718	82,007	102,407
Long-term financial investment	43,821	40,997	45,679	51,874	67,383	81,638

Source: Data analysis from Baoviet Holdings's financial statements (2017-2022)^[1]

4.3 Target of return on equity

The target of return on equity is an indicator reflecting the efficiency of using equity of the enterprise. According to regulations, Baoviet Holdings must ensure a profit margin target of more than 1% per year. The results of the analysis of data from the financial statements show that the return on equity in 2019 and 2022 is not satisfactory. Specifically, in 2019, this indicator is 0.97% and in 2022 it is 0.8%. The reason is that in Q4/2019, the financial market continued to be unstable with Government bond yields continuing to fall and the stock market fluctuating unpredictably, thus affecting the after-tax profit of the Parent Company and the Consolidated Company. Specifically, in the 4th quarter of 2019, the parent company's profit after tax reached VND 272 billion, down 13.4% compared to the fourth quarter of 2018; Consolidated profit after tax reached VND 106 billion, down 55.3% compared to Q4 2018. This impact is mainly due to the COVID-19 epidemic, leading to a decline in financial markets, and securities decline, affecting Baoviet Holdings's business results.



Source: Analysis of data from Baoviet Holdings's financial statements (2017-2022)^[1]

Fig 1: Results of the analysis of the indicator of return on equity

5. Conclusions

With appropriate research methods, we have clarified the basis for evaluating the performance indicators of life insurance companies listed on the stock market. From the three indicators of the net profit ratio of an insurance business, the Target of return on asset investment and the Target of return on equity sources, it can be seen that the

operation of enterprises has much instability. The reason is due to the increase in insurance provisions, and the impact of the COVID-19 epidemic on the financial market.

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