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### Some Recommendations to Improve the Quality of Banking Insurance Activities in Vietnam

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#### Abstract

The cooperation between insurance businesses and commercial banks has been around for many years. Cross-selling of insurance products (Bancassurance) is considered one of the factors that increase the revenue of insurance companies and banks. According to data from the Vietnam Insurance Association, as of the first 6 months of 2023, the total premium revenue of the whole market is VND 112741 billion, down 5% compared to 2022. In which, revenue from non-life insurance premiums is VND 34910 billion; Revenue from life insurance premiums is VND 77831

billion. The reasons affecting the decline in premium revenue in the first 6 months of 2023 include: the impact of the Covid -19 epidemic, the quality of supply, the staff of insurance companies, customer confidence in insurance companies... Therefore, in this study, the research team will mention the current situation of banking insurance activities in Vietnam in recent years. From there, the research team will propose some solutions to improve the quality of insurance activities through banks in Vietnam.

**Keywords:** Bancassurance, Insurance Businesses, Insurance, Commercial Banks, Life Insurance

#### 1. Introduction

Bancassurance is a model of insurance business association between insurance enterprises and commercial banks in Vietnam. This is a potential distribution channel besides other traditional distribution channel. In Vietnam, Bancassurance was established in the 1990s but officially operated in 2001 and has been growing in recent years. In particular, in the context of the ongoing Covid -19 epidemic, banks' credit growth has not met expectations, affecting banks' revenues. Therefore, banks need a revenue channel that is enough to cover that shortfall and Bancassurance has partly met the expectations of banks. On the other hand, due to the socio-economic development and the impact of the Covid -19 epidemic, people have paid more attention and participated in insurance products. This is an opportunity for banks to exploit and increase revenue. This has created great competition among businesses when implementing the Bancassurance model. Banks, in addition to assigning targets to employees based on job position, also require employees to complete insurance sales targets. Therefore, there is a phenomenon of bank employees forcing customers to buy insurance when they need a loan or advising customers to buy insurance products when they deposit money in savings. In particular, bank staff arbitrarily transferred customers' savings to buy insurance products in the form of investment partnerships, without directly advising customers or fully guiding procedures during the process. Carry out the required documentation processes and procedures according to the insurance company's regulations. This has directly affected the interests of insurance participants. Faced with this situation, the Ministry of Finance issued Official Dispatch No. 516A/QLBH-NT dated April 17, 2023, and Official Dispatch No. 623/QLBH-NT dated May 9, 2023, on requiring insurance businesses to review and rectify insurance activities. The timely intervention of the Ministry of Finance has helped insurance businesses comply with legal regulations and improve the quality of the consulting activities of their staff. However, these are only temporary solutions. The Ministry of Finance and insurance business management agencies need to have long-term solutions to improve the quality of banking activities, creating confidence for those who have been participating in insurance.

#### 2. Theoretical Basis

##### The concept of Bancassurance

Currently, Bancassurance is understood in many different ways depending on the perspectives of organizations, insurance

businesses, and individuals when researching it. According to Swiss Re (2007)<sup>[18]</sup>, Bancassurance is a strategy of banks and insurance businesses to exploit in a more or less integrated way the financial services market. Gonulal S and colleagues (2012)<sup>[14]</sup> mention in more detail the combination between banks and insurance businesses, which is the process of using banks' customer resources to cross-sell products of insurance businesses. This observation is also consistent with the World Bank's viewpoint: Bancassurance is the process of using a bank's customer relationships to sell insurance products of insurance

businesses. Thus, it can be generalized that: Bancassurance is a cooperation between banks and insurance businesses to develop and distribute insurance products to customers. Accordingly, the bank will participate in providing insurance products from insurance businesses to its customers. Bank participation can be divided into many different levels depending on the form of Bancassurance between the bank and the insurance company. More simply, Bancassurance is the activity of cross-selling insurance products to insurance businesses through banks.

**Table 1:** Some activities of cross-selling bank products

| Classified by banking product group               |  |   |                 | Classify by customer type   |   |
|---|--|---|-----------------|---|---|
| Credit products                                   | Mobilized products                     | Loan, financing, import and export products | Card products   | Individual customer   | Company customer  |
| - Property Insurance<br>- Insurance for borrowers | - Life Insurance<br>- Health Insurance | - Cargo Insurance<br>- Property Insurance   | Theft insurance | - Property Insurance<br>- Health Insurance<br>- Life Insurance<br>- Term life insurance<br>- Travel insurance | - Property Insurance<br>- Cargo Insurance<br>- Technical insurance<br>- Marine insurance<br>- Technical insurance |

**Source:** Compile from the author group

**Benefits of Bancassurance**

Bancassurance activities bring many benefits to all parties involved: Banks, insurance companies, and customers. Specifically:

**For banks**

Through Bancassurance, banks can expand their product portfolio to provide to customers but do not require additional capital based on risk as with simple bank products; maintain old customers and gain new customers from insurance company customers; increase business efficiency because the bank has additional income from insurance sales commissions and has the opportunity to cross-sell products, minimizing the risk of not being able to recover debts from the bank's borrowers. Banks have additional capital mobilized through collecting insurance fees from customers. The bank promotes its brand and increases its reputation and position through investment cooperation with insurance businesses.

**For insurance businesses**

Bancassurance helps businesses reduce product distribution costs while still diversifying distribution channels; access a large number of customers from banks without having to develop a branch system or insurance staff; increase business efficiency due to increased revenue and reduced distribution costs; promote the brand due to association with banks; Maintain old customers while still developing new customer sources.

**For customers**

When participating in the Bancassurance model, customers can: buy insurance products at low prices; buy many financial service products at the same place; increase the utility of products (pay fees, receive simple compensation, use in combination with bank services, etc.); be safer when buying insurance because insurance products have been reviewed, evaluated, and selected by banks; Minimize the risks caused by asymmetric information.

**Bancassurance Models**

Depending on the level of linkage between banks, insurance products of insurance businesses are distributed at many different levels. However, the Bancassurance model can be divided into 4 types:

**Distribution Agreement**

This is the simplest model but the most effective. With this model, the bank acts as a distribution agent of the insurance company. According to this model, banks sign insurance product distribution agreements (in an exclusive or non-exclusive form) with insurance businesses and receive commissions from the sale of insurance products.

**Strategic Alliance**

Banks hold shares of insurance enterprises through investments in these enterprises. With this model, banks and insurance businesses have a higher connection, customer data can be shared in approaching customers.

**Joint Venture**

Banks and insurance businesses enter into a joint venture to establish a new insurance company. At that time, the bank and the insurance company jointly own the product and share the customer database and are responsible for the same management.

**The bank established the insurance company**

Under this model, operations and product distribution systems are completely integrated. Customers have the opportunity to enjoy all financial services in one place.

**3. Research Methods**

The research team used document analysis methods combined with descriptive statistical analysis to analyze the current situation of insurance activities through banks in Vietnam. The data used in this study are secondary data sources. This data was collected by the research team from annual reports of joint stock commercial banks operating in

Vietnam and the Vietnam insurance association.

#### 4. Current Status of Bancassurance Activities in Vietnam

##### *For insurance businesses*

Currently, the insurance market in Vietnam has 79 operating insurance enterprises (31 non-life insurance enterprises, 19 life insurance enterprises, 2 reinsurance enterprises, 26 insurance brokerage enterprises and 1 branch of foreign non-life insurance enterprises). According to Vietnam insurance association data, in 2022, the total premium

revenue of insurance enterprises is VND 245877 billion, up 15% compared to 2021. In particular, revenue from life insurance increased by 14.3% and revenue from non-life insurance increased by 16.8%. Total assets of insurance enterprises are VND 811312 billion, up 14.51% compared to 2021. Total insurance provision operations of insurance enterprises reached VND 526559 billion, up 14.6% compared to 2021. The equity of insurance businesses in 2022 increased by 3.83% compared to 2021. Insurance company made benefit payments up 23.29% compared to 2021.

**Table 2:** Some indicators reflect the insurance performance results of Vietnamese insurance enterprises in 2021 and 2022

| Indicators  | Unit              | 2021   | 2022   | 2022 compared to 2021 (%) |
|---|-------------------|--------|--------|---------------------------|
| 1. Insurance premium revenue                                  | Billion dong      | 213806 | 245877 | 115                       |
| In there:   |                   |        |        |                           |
| - Life insurance premium                                      | Billion dong      | 155922 | 178269 | 114.3                     |
| - Non-life insurance premium                                  | Billion dong      | 57883  | 67608  | 116.8                     |
| 2. Total assets   | Billion dong      | 708507 | 811312 | 114.5                     |
| 3. Total insurance reserves                                   | Billion dong      | 459475 | 526559 | 114.6                     |
| 4. Equity sources   | Billion dong      | 117725 | 162814 | 138.3                     |
| 5. Payment of insurance benefits                              | Billion dong      | 51910  | 64000  | 123.3                     |
| 6. Total number of life insurance contracts                   | Million contracts | 9.01   | 13.92  | 154.5                     |
| In there: Total number of new mining life insurance contracts | Million contracts | 3.55   | 3.4    | 95.8                      |

Source: Insurance Association of Vietnam

For non-life insurance, health insurance is still the product line accounting for the largest proportion of premium revenue with a ratio of 33.2%. Meanwhile, investment-linked product lines are the products that account for the largest proportion of total life insurance premium revenue with a ratio of about 85%. However, the number of new mining life insurance contracts in 2022 decreased by 4.4% compared to 2021.

##### *For banks*

For commercial banks, bancassurance activities have brought in large revenues in addition to revenues from traditional services. These are the motivations for commercial banks to boost revenue from cross-selling

products in the condition of limited credit limits. According to data from the Vietnam insurance association, total premium revenue through banks in 2022 accounts for 39% of total new exploitation premium revenue and accounts for an average of 37% of total fee income of banks listed on the stock exchange.

In 2022 compared to 2021, new exploitation premium revenue through Bancassurance channel increased by 45%; Total insurance premium collection at listed banks increased by 16.4%. Commercial banks with the highest total insurance premiums include: Military Commercial Joint Stock Bank (MB), Vietnam International Commercial Joint Stock Bank (VIB), Vietnam Technological and Commercial Joint – Stock Bank (TCB)...

**Table 3:** Insurance premium revenue from Bancassurance activities of some banks over the years

| Banks   | Unit: billion dong |        |        |      |        |         |
|---|--------------------|--------|--------|------|--------|---------|
|   | 2017               | 2018   | 2019   | 2020 | 2021   | 2022    |
| Vietnam Technological and Commercial Joint – Stock Bank (TCB) | 574                | 722    | 932    | 872  | 1562.5 | 1750    |
| Vietnam International Commercial Joint Stock Bank (VIB)       | 79.17              | 239.8  | 1111.6 | 1217 | 1194.5 | 1302    |
| Military Commercial Joint Stock Bank (MB Bank)                | 6257               | 3150   | 4636   | 6318 | 8994.9 | 10985.7 |
| Orient Commercial Joint Stock Bank (OCB)                      | 22.3               | 127    | 200    | 616  | 352    | 433     |
| Vietnam Prosperity Joint Stock Commercial Bank (VPBank)       | 2205.6             | 2187.3 | 2909.1 | 2575 | 2580   | 3354    |

Source: Summarize from the annual reports of the banks

According to survey results, revenue from Bancassurance activities of banks tends to increase over the years. In particular, the impact of the Covid-19 pandemic in 2019 and 2020 is also part of the reason why banks' revenue from insurance activities increased.

The combination between banks and insurance companies through exclusive product distribution contracts is also a common trend of the insurance market in Vietnam today. This is also the reason why the revenue from Bancassurance activities of banks increases. Because, through exclusive bancassurance distribution contracts with insurance businesses, banks' market share of insurance increases. For example, international joint-stock commercial banks accounted for a 14.3% market share after signing the

Prudential exclusive contract; Military Joint Stock Commercial Bank has a 10.9% market share with exclusive contracts through MB Ageas Life; Vietnam Technological and Commercial Joint Stock Bank accounted for 9.1% after signing an exclusive contract with Manulife; Saigon Thuong Tin Commercial Joint Stock Bank gained 7.8% market share after signing an exclusive contract with Dai-ichi Life... According to the survey results, revenue from bancassurance activities increasingly accounts for a large proportion of total income of banks. Therefore, banks are gradually considering Bancassurance as a strategic channel in increasing service income sources in addition to traditional lending activities.

## 5. Conclusion and Recommendations

### For state management agencies

#### *Complete the legal framework for Bancassurance*

State management agencies including the Ministry of Finance need to complete decrees, detailed regulations implementing a number of articles of the Insurance Business Law and guiding circulars to enhance the quality of insurance agents: Specific regulations on the implementation of insurance sales through banks; strengthen the responsibilities of insurance businesses in the supervision of agents' activities; responsibilities of insurance enterprises and agents in providing insurance services; transparency of information in insurance contracts; require insurance businesses to develop a summary of insurance contracts clearly stating benefits, duration, premium payment obligations, provide information of insurance participants. In addition, insurance management agencies need to review, amend and supplement administrative violations on Bancassurance in Decree No. 98/2013/ND-CP, Decree No. 48/2018/ND-CP, Decree No. 80/2019/ND-CP, Decree No. 102/2021/ND-CP on sanctioning administrative violations in the field of insurance business.

#### *Add regulations related to agent management*

The quality and business ethics of agents when selling insurance products is still a difficult problem to manage for insurance businesses in general and the personnel of the state commercial bank in particular. Therefore, the state management agency on insurance activities needs to clearly stipulate that the sales force of the Bancassurance distribution channel of state commercial bank in Vietnam only includes banking staff and only sales through the branch systems of the bank holding company or Associate bank.

In addition, there should be criteria to determine the professional requirements that agents must achieve when allowed to distribute insurance products according to the specific nature of the product (financial experts, agents of insurance companies, bank collaborators...) to enhance the quality of the sales force, protect the rights of customers. Insurance associations need to disseminate the Agency Management Regulations and professional ethics for insurance agents. In case an agent violates regulations such as providing false information or advertising about the content of insurance products, all insurance businesses will not be allowed to recruit this agent within 3 years from the date on which it was listed as a breach agent.

*Supplement regulations clearly defining the responsibilities of commercial banks and insurance enterprises to customers in the event that the commercial bank acts as an insurance agent but there is a violation of the law in the business of the agent*

Accordingly, the commercial bank (insurance agent) is obliged to reimburse the insurance buyer the amount of money they received from the insurance enterprise but lost due to the violation of the commercial bank employee (agent insurance) caused. On the other hand, additional violations, penalties and additional penalties is the deprivation of the right to use the insurance agent certificate or suspension of insurance agency activities for a limited period of time.

*Strengthen the management, supervision, inspection and examination of Bancassurance activities for insurance enterprises and commercial banks*

The phenomenon of bank employees giving unclear advice

or arbitrarily converting customers' passbooks into life insurance policies has affected the interests of depositors. Therefore, the Ministry of Finance needs to strengthen the implementation of inspection and inspection activities for insurance enterprises and commercial banks with bancassurance activities. The Insurance Supervision Administration should establish a hotline to receive appropriate recommendations, reflections and answers for insurance participants; direct insurance enterprises to review insurance professional processes (process of exploitation, contract appraisal, settlement of insurance benefits, agent training...) to ensure the implementation of the correct process and the provisions of law.

*Strengthen communication and dissemination of laws on insurance contracts*

State management agencies should coordinate with media agencies to promote propaganda and dissemination to people about rights and obligations when entering into an insurance contract: basic contents of the insurance contract, regulations, mechanism to handle disputes...

### For insurance businesses and commercial banks

*Insurance enterprises need to develop policies, mechanisms, processes for appraisal, issuance of insurance contracts... in the implementation and development of insurance products.*

In particular, insurance businesses need to develop regulations on the responsibilities of consultants and insurance agents. Insurance businesses need to standardize the team of consultants and insurance agents. For the consulting team, it is necessary to classify the consulting team for conventional insurance products and the professional consulting team for investment-linked products because this is a type of product with many risks and complexities.

*Insurance businesses need to improve the quality of insurance services through strengthening inspection and strict supervision of the quality of insurance consulting agents in order to limit the dishonest situation of insurance consulting agents with insurance participants.*

Insurance enterprises and commercial banks need to organize retraining and training for personnel serving Bancassurance activities. For commercial banks, Bancassurance coordinators/departments must be insurance knowledgeable, responsible and must have a clear delineation of work between commercial banks and insurance enterprises. Periodically, insurance enterprises and commercial banks organize quality surveys of insurance agents and consultants through the deployment of anonymous purchasing services to have grounds for correction, additional training, improving the quality of consulting and customer service.

*Insurance contracts need to be improved by insurance businesses so that insurers can understand the basic contents of the contract.*

Insurance businesses when drafting contracts for each insurance product need to be concise and clear so that insurance participants can understand the terms to ensure their benefits.

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