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A Study on Cash Holdings and Firm Value in Listed Insurance Companies on the Vietnamese Stock Market

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Abstract

In the course of business operations, liquid capital plays a crucial role in ensuring the continuous functioning of enterprises, with holding cash being vital for companies to promptly meet various financial needs and facilitate other business activities. Given the uncertainties and economic instability caused by the impact of the Covid-19 pandemic and the global economic crisis, many businesses in Vietnam have shown a tendency to accumulate cash reserves. Cash holding enhances liquidity, providing flexibility for timely responses to investment projects and facilitating other operational activities. Facing the economic challenges posed by the Covid-19 pandemic and global economic uncertainties, businesses have found it advantageous to hold substantial cash reserves. Cash reserves contribute to increased liquidity, high financial flexibility, and the ability to fulfill financial obligations to creditors. Moreover, it

enables companies to make timely payments to suppliers, cover operational expenses, carry out profitable investment projects, meet short-term needs, and prepare for unforeseen emergencies. Nevertheless, excessively holding cash can lead to serious challenges. Holding too much cash may tempt company managers to pursue personal interests by inefficiently investing below-market projects or overinvesting, which could impact shareholder interests and the company's overall value. One of the direct consequences is the opportunity cost of cash, which can be estimated based on the interest that the company could earn by depositing funds in a bank. In the era of the Fourth Industrial Revolution and the complex landscape shaped by the Covid-19 pandemic, Vietnamese businesses, particularly those in the insurance sector, are undergoing profound changes and transitioning to a new normal.

Keywords: Cash Holdings, Firm Value, Listed Insurance Companies

JEL Codes: M40, M41, F65, G30

1. Introduction

Cash management involves ensuring the optimal maintenance of a specific amount of cash at all times. Cash holding entails two types of costs: holding costs and opportunity costs, both coexisting with three main motives being transaction, precautionary, and speculative. Recent studies have primarily focused on elucidating how companies respond to changes in cash flows (CF), whether they increase or decrease their cash holdings.

Almeida (2004) ^[1] found a positive correlation between the variation in cash holdings and cash flows, indicating that companies increase (decrease) cash holdings when they experience an increase (decrease) in cash flows. The authors also found evidence that companies with restricted access to external financing tend to hold more cash when cash flows are tight, while companies without financial constraints do not. Almeida (2004) ^[1] and Bates (2018) ^[5] agree that companies with increasing cash flows often shift cash holdings into investments because positive cash flow shocks typically reflect higher productivity in tangible assets. Therefore, companies may reduce cash holdings to support high-efficiency projects.

The enterprise value, when considered as an investment asset, represents the benefits that the business brings to investors both at the present time and in the future. Various methods and perspectives are applied to determine the enterprise value. Absolute valuation perspectives use methods such as discounted cash flow or asset-based methods. Meanwhile, relative valuation perspectives use indicators such as ROA, ROE, EPS, EVA, P/E, or Tobin's Q to represent the enterprise value. In this article, the author chooses to use Tobin's Q as a representative measure of the enterprise value. This index combines market value and financial accounting book value, and has been utilized in various studies, such as Cheng (2010) ^[7], Dao (2020) ^[11], Le Thi

Phuong Vy (2013)^[9], Nguyen Huu Huan (2014)^[20]. Tobin's Q has several distinct advantages. Unlike variables like EPS, ROE, ROA, this index not only reflects past performance but also incorporates investors' future expectations. This is crucial as it helps assess the enterprise value not only in the short term but also in the future based on expectations.

2. Literature Review

2.1 Research Overview on the Impact of Cash Holding on Business Value

Many theories and empirical studies, such as Myers' (1977)^[18] cash holdings trade-off theory, Myers' (1984)^[19] pecking order theory, and the debate on cash holdings in empirical studies like Chowdhury (2010)^[8], Ali (2011)^[3], Ahmad (2012)^[2], Asiri (2014)^[4], have emerged. These studies provide evidence that cash holdings impact the firm's value; however, specific indicators can be positive or negative depending on individual independent and dependent variables. Many studies also indicate that the accumulated cash holdings of a company significantly influence financial decision-making. With the emergence of transaction costs, issuance costs, corporate income tax, and personal income tax, companies holding substantial cash may limit the issuance of new shares to finance investment decisions. Instead, they may use internal sources of funding or adjust the capital structure of the company towards debt because, with a large cash holding, companies can effectively fulfill financial obligations to creditors. Moreover, companies holding more cash tend to use cash inefficiently, especially leading to anomalies in investment decisions—either investing below or above the optimal level. Consequently, companies may have a tendency to restrict investment and implement dividend policies with a high dividend payout ratio or use debt as a mechanism to control excess funding. Thus, excessive cash holdings, given market imperfections, can directly impact financial decisions of the company, influencing the firm's value.

Tim Opler and colleagues (1999)^[21] provide evidence that excessive cash holdings have a significant short-term impact on capital expenditure and dividend payments to shareholders. Business investment decisions are more secure when there is a substantial reserve of cash at hand. On the other hand, Sean Cleary (1999)^[24] demonstrates that investment decisions of companies with a high debt-paying capability are sensitive to internal financing sources. Meanwhile, Sheu and Lee (2012)^[14] argue that companies operating in an environment with limited investor protection depend heavily on the excessively held cash, especially when companies face financial constraints, leading to the phenomenon of underinvestment.

A significant addition to this research trend is the study by Mai E. Iskandar-Datta and Yonghong Jia (2013)^[17]. These authors demonstrated that companies with weak governance mechanisms tend to hold less cash than companies operating with strong governance mechanisms. Additionally, companies with excessive cash tend to invest in unprofitable projects, and this phenomenon occurs more frequently in countries with weaker governance mechanisms. The authors explain that the accumulation of excessive cash has a negative impact on the efficiency of corporate operations and the firm's value. This is because, without proper protection for investors, issues of agency and overinvestment are more likely to arise.

2.2 Research gap

Amidst the intricate developments of the Covid-19 pandemic, insurance companies in Vietnam continue to strive to overcome challenges. The insurance market has shown stable development in recent times. The level of penetration and insurance density reflects the development of the insurance sector in a country. Alongside this, the market capitalization of a company is one of the factors used to evaluate the enterprise. Regarding the current market capitalization in the insurance sector, Bao Viet Group (BVH) remains the company with the largest market capitalization, followed by PVI and VNR.

Gene C. Lai, Lin-Yhi Chou, and Lih Ru Chen (2015)^[15] examined the impact of organizational structure and business strategy on the efficiency, profitability, and risk-taking behavior in the life insurance industry in Taiwan. The results showed that organizational structure and business strategy significantly affect efficiency, profitability, and risk-taking behavior. These studies provide evidence that holding cash impacts the firm's value; however, specific indicators can be either positive or negative depending on individual independent and dependent variables. Many studies also indicate that the accumulated cash of a company is one of the significant factors affecting financial decisions. With the emergence of transaction costs, issuance costs, corporate income tax, and personal income tax, companies holding substantial cash may limit the issuance of new shares to finance investment decisions. Instead, they might use internal sources of funds or adjust the capital structure of the company towards debt because with a higher cash reserve, companies can fulfill financial obligations to creditors effectively.

Anum Rashid and Muhammad Usman Kemal (2018)^[23], with an analysis was conducted to examine the impact of internal and external factors on the profitability of insurance companies by considering three measures of profitability: Return on Assets (ROA), Underwriting Profit (UP), and Investment Income (INI). The research utilized regression analysis on panel data to analyze life insurance companies in Pakistan from 2006 to 2016. The findings of the study revealed that Total Premiums, Management Expenses, Size, and Interest Rates significantly affect the profitability of insurance companies. The results emphasize the importance of expert departments for calculations and independent confirmation of rational policies to address the losses borne by life insurance companies.

Furthermore, companies holding more cash tend to use cash inefficiently, especially leading to phenomena such as underinvestment and overinvestment. Consequently, companies may tend to limit investments and implement dividend policies with high dividend payout ratios or use debt as a mechanism to control excess cash flow. Thus, with market imperfections, an excessive accumulation of cash can directly impact the financial decisions of the company, subsequently influencing its enterprise value. Moreover, there is substantial empirical evidence worldwide about the direct influence of cash holding on financial decisions of companies, subsequently affecting the company's value. The referenced research works, at different levels, have provided the author with essential materials and knowledge to form a general understanding, enabling the approach and in-depth study of issues related to the impact of cash holding on insurance companies in Vietnam. With practical

requirements and contributions to theoretical aspects, particularly in the fields of finance and business management, the author has chosen the topic "A study on cash holdings and firm value in listed insurance companies on the Vietnamese stock market" as the research direction.

3. Discussion on Cash Holdings and Firm Value in Listed Insurance Companies on the Vietnam Stock Market.

Vietnam currently has 25 companies operating in the insurance sector, including 18 life and non-life insurance companies, 5 insurance brokerage companies, and 1 reinsurance company, with a total of 13 insurance companies listed on the Vietnam Stock Exchange. The total charter capital of these companies is 3,942 billion dong. In recent years, the Vietnamese economy has experienced significant growth, especially with the government's strategic development plan for the insurance industry until 2010, which has provided guidance for insurance companies in building business strategies and has contributed to the strong development of the insurance sector in Vietnam. According to the Ministry of Finance, the COVID-19 pandemic has had a significant impact on the economy, causing difficulties and affecting the income of the people, thereby reducing the financial capacity of the insurance industry.

The study utilizes a dataset on cash holdings collected from the annual financial reports of 13 listed insurance companies on the Ho Chi Minh City Stock Exchange (HSX) and Hanoi Stock Exchange (HNX) from 2018 to 2022. The data is extracted from the financial reports available on the financial securities data platform on www.vietstock.vn and www.cafef.vn.

Measuring the variables used in the model:

Variable Names	Symbols and Measurement		
Business operational efficiency	ROA	=	Net Profit
			Total Assets
Cash holding	CASH	=	Cash and Cash Equivalents
			Total Assets

The selected companies in the sample are those operating in the insurance industry, with complete financial reports, during the period from 2018 to 2022. With this sampling method, the obtained data includes 13 publicly listed insurance companies in operation, covering the period from 2018 to 2022. The unit period for determining the values of variables is the year. Therefore, the number of observations that can be collected is 65 observations (13 companies * 5 periods = 65 observations).

Table 1: Observational Results

Variable	Observations	Mean Value	Mean Value Minimum	Mean Value Maximum
CASH	65	0,0762	0,0001	0,7565
ROA	65	3,46	-4,148	25,125

The results from Table 1 indicate that the average ROA of insurance companies is 3.46, suggesting that, on average, for every unit of capital used in a year, the companies generate a profit of 346.5 Vietnamese dong. The average cash holding ratio (CASH) of the companies is 0.00762, indicating that cash and cash equivalents make up 7.62% of the total assets of the companies.

Table 2: Cash holding Holding Cash from 2020- 2021 by Listed Insurance Companies

STT	Mã CP	2020	Tỷ lệ	2021	Tỷ lệ	2022	Tỷ lệ
1	ABI	58,478,480,507	0.0196	57,199,234,743	0.0173	89,636,776,281	0.0251
2	AIC	331,894,290,934	0.1136	220,739,121,164	0.0634	450,501,665	0.0001
3	BHI	67,350,804,575	0.0189	80,624,561,841	0.0222	61,706,980,656	0.0169
4	BIC	98,047,858,360	0.0169	30,488,645,615	0.0050	28,861,588,967	0.0043
5	BLI	422,206,150,656	0.1850	676,700,501,854	0.2954	643,386,774,379	0.2550
6	BMI	149,828,620,196	0.0229	220,659,039,990	0.0299	168,725,034,414	0.0240
7	BVH	6,780,742,363,756	0.0463	5,354,092,025,872	0.0316	2,206,497,560,116	0.1255
8	MIG	12,086,000,766	0.0022	91,662,400,598	0.0140	8,612,679,254	0.0010
9	PGI	109,760,765,028	0.0179	100,709,440,846	0.0158	109,294,156,158	0.0162
10	PRE	54,685,820,990	0.0121	37,995,524,279	0.0076	601,499,861,209	0.1012
11	PTI	298,018,898,197	0.0384	152,508,587,674	0.0178	239,722,746,305	0.0286
12	PFH	16,637,868,446	0.0500	43,495,479,270	0.1251	37,003,090,089	0.1037
13	VNR	55,424,073,810	0.0079	5,413,636,204,872	0.7565	5,110,927,838,927	0.7172

Table 3: Cash holding Holding Cash from 2020- 2021 by some Listed Seafood Enterprises

STT	Mã CP	2020	Tỷ lệ	2021	Tỷ lệ	2022	Tỷ lệ
1	VHC	40,754,357,119	0.006	195,219,000,716	0.022	553,169,450,129	0.048
2	IDI	539,329,706,401	0.070	240,263,505,992	0.039	209,174,581,007	0.032
3	ACL	38,781,028,129	0.023	85,168,872,281	0.069	35,093,397,882	0.028
4	AAM	26,258,747,855	0.125	61,812,295,456	0.293	10,250,896,174	0.051
5	KHS	31,125,878,336	0.046	18,570,203,396	0.033	7,868,293,176	0.013
6	ANV	43,798,851,195	0.009	42,701,981,617	0.009	31,053,714,794	0.006

Based on the table of Cash Holdings at listed Insurance Enterprises (Table 3) and a listed seafood enterprise on the Vietnam stock exchange, the author observed that the cash holding ratio at listed seafood enterprises is higher than that of listed insurance enterprises. The highest ratio in 2021 for AAM is 0.293, indicating that cash and cash equivalents account for 29.3% of the company's total assets. For listed

insurance enterprises, the highest cash holding ratio in 2022 is for the company PTI, which is 0.0286, indicating that cash and cash equivalents account for 28.6% of the company's total assets. This suggests that seafood enterprises tend to hold more cash than insurance enterprises due to the frequent cash turnover in ensuring the supply and demand of their products and services.

4. Conclusion

Decision regarding cash holdings can significantly impact a company's operational efficiency. Based on the results, this study provides important insights into cash holdings for listed insurance companies on the Vietnam Stock Market, as follows:

- Firstly, companies should avoid holding cash beyond the optimal level. When the cash reserve is low, adjusting to increase the cash amount closer to the optimal point will enhance the company's operational efficiency. At this point, holding a large amount of cash will be synonymous with optimizing the company's operational efficiency.

- Secondly, for companies currently holding a large cash amount beyond the optimal level, there is a need to gradually reduce the cash holdings to reach the optimal range. To accomplish this, it is essential to identify the factors influencing cash holding decisions. Accordingly, specific policies can be established to influence and adjust the cash holding ratio, meeting the characteristics of each specific company group.

Consequence research will further investigate the factors influencing cash holding decisions for each company group at specific ratios. It is hoped that the results of the study will provide specific suggestions to determine the optimal cash holding ratio for companies, contributing to improving operational efficiency and company value.

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