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Universal Life Business Activities at Vietnamese Life Insurance Enterprises

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Abstract

Universal life is a product of Life Insurance. This insurance product accounts for a large proportion of the total sales revenue of insurance businesses today. The article has clarified the theoretical basis of Universal life, regulations on product design, interest rates or responsibilities for establishing a universal fund for insurance enterprises. From the published data of the Insurance Association of Vietnam, we have evaluated the business of Universal life products at life insurance companies. Based on the advantages of the product such as the separate premium structure, customers can pay additional fees for the Investment part and receive accompanying benefits (such as compensation when an insurance event occurs and Investment interest from the universal fund not lower than the commitment recorded in

the insurance policy) so soon as The market was negatively impacted by the frauds and errors discovered at the end of 2022, but the Universal life product business remained at the top of the insurer's revenue group. However, it is still affected and reduced sales due to many challenges in this product business such as the influence of declining corporate brand image, undeveloped market economy and unstable world politics. Therefore, in order to regain customer trust, the Government and insurance business management agencies have been involved in revamping business activities to control all activities in accordance with the Law on Insurance Business and ensure the interests of customers.

Keywords: Business, Life Insurance, Universal Life, Vietnam

1. Introduction

Law No. 08/2022/QH15 on insurance business details insurance business activities. Accordingly, this activity includes insurance business, reinsurance business, reinsurance assignment and activities related to the insurance business including insurance agents, insurance brokers, and insurance ancillary services ^[1]. The Law on Insurance Business also defines "Insurance enterprise as an enterprise established, organized and operating in accordance with Law No. 08/2022/QH15" and complying with the provisions of other relevant laws to "insurance business, reinsurance business, reinsurance assignment. Insurers include life insurers, non-life insurers, and health insurers" ^[1]. To be specific about the operations of life insurance enterprises, we base on Article 3 of Decree 46/2023/ND-CP regulating life insurance operations. Types of life insurance operations include: Whole life insurance; Term insurance; Term insurance; Mixed insurance; Periodic payment insurance; and Investment-linked insurance (including Universal life and unit-linked insurance) ^[2]. Thus, Universal life is one of the products of life insurance. It belongs to the investment-linked insurance business and life insurance enterprises have the right to build and deploy business. After a long time of implementation and support by the government legal corridor, the Universal Life product business has developed rapidly in the period from 2013 to now. However, the insurance panic in Vietnam at the end of 2022 has revealed many shortcomings that need to be overcome and challenges for life insurance businesses to regain customer trust and bring this business back to the growth trajectory. The problem of this study is to clarify the theoretical basis of insurance business, Universal life and the current situation of trading this product in the insurance market today. What are the advantages and difficulties for businesses in developing this product business?

2. Universal life

According to the detailed regulations on the implementation of some articles of the Law on Insurance Business in Decree 46 of the Government of Vietnam, Universal life is one of the life insurance products. The goal of this product is to financially protect customers against risks. At the same time, it also has a profitability goal based on a part of the premium that is segregated and put into participation in the universal fund. A universal fund is a fund formed from the premium source of

Universal life policies. The insurance company is responsible for implementing and allocating this part of the fund to investment activities based on general and long-term strategies. The results of investments received by the client depend on the results of investment activities of universal funds. However, insurance companies are required to commit to a minimum interest rate for customers. This regulation helps customers minimize the risks caused by investment and can maintain a stable financial source.

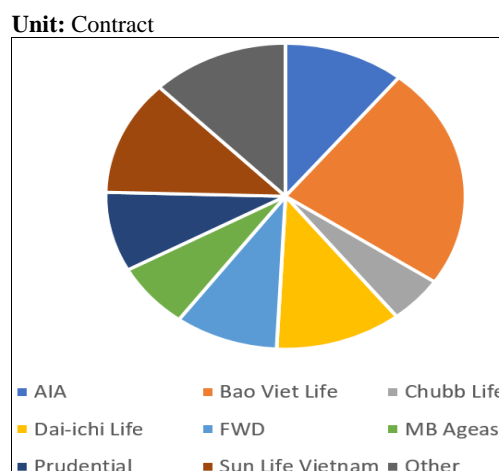
Regulations on the name and design of Universal Life products are regulated according to Article 103 of Decree 46/2023/ND-CP [2]. Accordingly, the name of the Universal life product must match the nature of the insurance product and have the element "Universal life product". The account value of a Universal life policy is formed from the fee to invest in the universal fund and other benefits as agreed upon in the insurance policy. Insurers must commit to the minimum investment interest rate in the Universal life policy. In case the investment interest rate of the common bond fund is lower than the minimum committed interest rate, the insurer is responsible for using the assets of the owner fund to cover the deficit of each account of the common bond fund compared to the minimum committed interest rate. The refundable value of a Universal life contract is the account value of that contract on the date of contract termination minus the early termination fee. The characteristics of Universal life products are regulated by Article 2 of Circular 52/2016/TT-BTC regulating the characteristics of Universal life products [3]. This product has the following three characteristics: The premium structure and insurance benefits are separated between the risk insurance and the investment part. The policyholder is flexible in determining the premium and sum insured as agreed upon in the insurance contract. The policyholder is entitled to all investment results from the general fund of the insurer but not lower than the minimum investment rate committed by the insurer in the insurance contract. The insurer is entitled to the Premiums paid by the policyholder as agreed upon in the insurance contract.

3. Universal life product business activities at life insurance enterprises

According to Article 106 of Decree 46/2023/ND-CP stipulates the content of establishing unit-linked funds [2]. Accordingly, "Insurers must ensure at least 02 unit-linked funds for each unit-linked insurance product". The Decree also specifies the investment policies of these linked funds, "separate investment objectives and investment limits, ensuring that the policyholder can distinguish unit-linked funds deployed by insurers". The names of unit-linked funds must be clear, and consistent with the investment policies and objectives of each unit-linked fund. Before the first unit-linked insurance contract is concluded, "the insurer must use a part of the owner's fund to form the assets of the unit-linked fund in accordance with the investment policy, investment objectives and investment limit of each unit-linked fund and must ensure the value of each unit-linked fund not less than 50 billion VND". In case an insurer adds a new unit-linked fund, and this unit-linked fund is directly managed by the fund management company, the enterprise must ensure that the value of each new unit-linked fund is not lower than 50 billion VND. "Insurers are entitled to investment results corresponding to the amount contributed to the unit-linked fund. Insurers can be refunded part, or all

of the amount contributed if the value of the unit-linked fund is 50 billion VND. In case the net asset value of the fund falls below 30 billion VND on the valuation date, the insurer must use the equity fund to ensure that the net asset value is not lower than 30 billion VND within 30 days. Insurers must ensure that assets formed from unit-linked funds are separated and managed separately from owner's funds and other policyholder funds. In case an insurer establishes unit-linked funds, and these unit-linked funds are directly managed by the fund management company, the insurer must ensure that the assets formed from these unit-linked funds must be separated and managed separately from other unit-linked funds. In all cases, unit-linked funds must be managed and used for investment in accordance with investment policies, investment objectives, and investment limits."

Business results of life insurance companies show that Universal life is one of the key products in the market. Based on the statistics of new mining contracts in the period (New Bussiness) of the Insurance Association of Vietnam in 2022, Universal life products exploited 1,242,167 contracts, accounting for 36% and the highest in the group of life insurance products. The second is Term Insurance products with the number of new exploitation contracts of 1,010,482 contracts, accounting for 30%. Unit-link insurance had the number of new operating contracts with 747,277, ranking third in terms of 22%. Health insurance has a proportion of 11% and the remaining group is other products accounting for 1% [4]. Corresponding to the number of new mining contracts in the market, the total direct premium for new exploitation in 2022 is 21,755 billion VND, compared to the same period last year decreased to 86%. Also, according to the 2022 statistics of the Insurance Association of Vietnam, the new exploitation root premium of universal products mainly belongs to the following 5 enterprises: Bao Viet Life is the highest with 5,137 billion VND, Sun Life Vietnam ranks second with 2,658 billion VND, Dai-ichi Life is the third enterprise with 2,478 billion VND. Ranked fourth and fifth are FWD with VND 2,022 billion and Prudential with VND 1,829 billion. MB Ageas enterprises with 1,500 billion VND, Chubb Life with 1,075 billion VND, and the remaining enterprises with new mining root premiums of 2,691 billion VND [5].



Source: The team's calculations are based on the table "Total direct new business premium, total direct premium, retained premium - universal life" [4]

Fig 1: Total direct new business premium - Universal life

To better understand the Universal Life product business, we will detail the new mining root premium. Of the total 19 companies present in the market by the end of 2022, two life insurers, FWD Assurance, and Shinhan Life, have not exploited customers in the Universal life business. The main reason is that these two businesses have just been established, and people have a limited understanding of these two businesses, leading to the market has not been expanded. In addition to the two aforementioned businesses, the remaining life insurance businesses always compete with each other to capture a larger market share. Looking at Table 1, we see that Sun Life Vietnam Insurance Company is not the enterprise with the highest market share, but it has an impressive growth in the number of new operating contracts compared to the same period last year. Specifically, in 2022, Sun Life Vietnam exploited 123,857 new contracts, an increase of 1.63 times compared to 2021. Some insurers did the same: BIDV Metlife increased by 1.28 times and Cathay Life increased by 1.2 times. However, in terms of the number of new contracts exploited in the Universal life product business, insurance companies such as AIA, Bao Viet Life, Dai-ichi Life, and Sun Life Vietnam still account for a much larger proportion than the rest. Based on this information, we can conclude that the market for Universal Life products still meets a large customer base and has conditions for growth shortly.

Table 1: Universal life contract

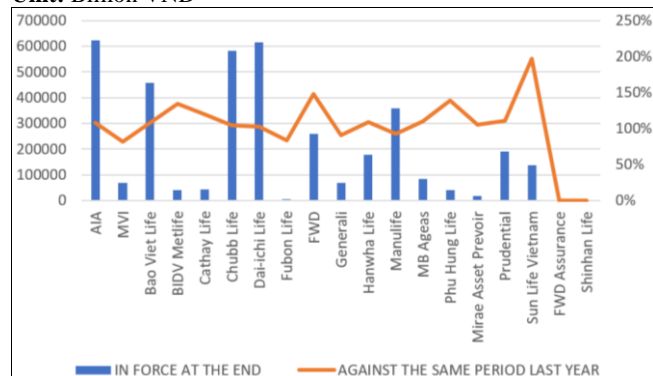
Unit: Contract

Companies	New Business	Against the Same Period Last Year	In Force at the end
AIA	163,688	89%	1,062,831
MVI	247	1%	134,055
Bao Viet Life	245,070	82%	1,919,772
BIDV Metlife	28,249	128%	94,243
Cathay Life	54,408	120%	124,640
Chubb Life	61,245	78%	517,031
Dai-ichi Life	170,429	71%	925,661
Fubon Life	18	47%	5,216
FWD	113,318	133%	249,483
Generali	6,382	28%	118,268
Hanwha Life	49,435	76%	322,755
Manulife	16,514	13%	682,504
MB Ageas	73,376	70%	238,437
Phu Hung Life	28,908	102%	66,804
Mirae Asset Prevoir	7,916	102%	50,582
Prudential	97,325	89%	354,187
Sun Life Vietnam	123,857	163%	211,183
Total	1,242,167	80%	7,077,652

Source: Excerpted from "Number policies of universal life" table [4]

About the sum insured of the market. However, investment-linked insurance products receive many complaints from customers about incorrect and insufficient advice. The main reason is that the sales system belongs to the distribution bank, but this is still the type of product accounting for the highest proportion in the structure of the number of insurance policies. In 2023, Universal Life will achieve revenue of VND 833,918 billion, down 90% over the same period last year. In which, investment-linked insurance products accounted for 61.2% and decreased 34.4% over the same period (Universal life products accounted for 45% and decreased 23.9%, unit-linked insurance products accounted for 16.2% and decreased 52.5%) [5].

Unit: Billion VND



Source: Excerpted from "Total sum insured of universal life" [4]

Fig 2: Universal life product turnover of life insurance businesses

Termination of policies after claims/benefits settlement. In the first year, the number of terminated contracts was 1,567 contracts corresponding to the insured amount of 646,684 million VND, down 92% over the same period last year. In the second year, the number of terminated contracts was 1,999 contracts corresponding to the insured amount of 615,935 million VND, increasing to 123% over the same period last year. From the third year onwards, the number of terminated contracts in the whole market was 8,909 contracts, an increase over the same period of 129% corresponding to the insured amount of 2,459,585 million VND. Insurance contracts terminated and canceled in the period, maturity contracts, and contracts terminated and canceled due to other reasons are all shown in Table 2. The symbol RPT1 is Termination of policies after claims/benefits settlement; RPT2 is Termination, cancellation of policies in reported period; RPT3 is Matured policies in reported period; RPT4 is Termination, cancellation of policies due to other reasons.

Table 2: Report on contract termination, maturity and cancellation

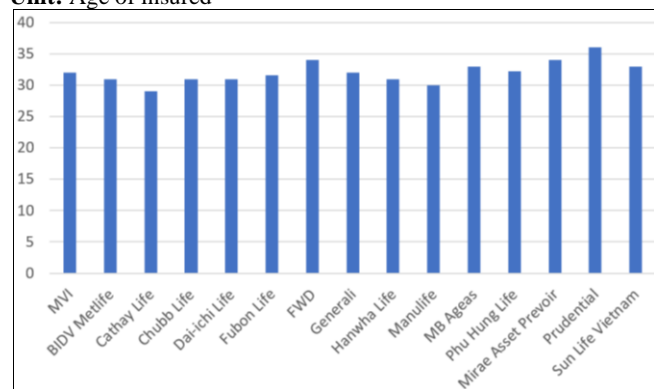
Unit: Millions VND

Criteria	RPT1	RPT2	RPT3	RPT4
I. 1st year				
Number policies	1,567	130,137	5	4,860
Against the same period last year	92%	115%	500%	69%
Sum Insured	646,684	77,903,527	580	2,395,020
Against the same period last year	103%	122%	387%	84%
Premium Refund/ B. Insurance payouts/ C. Cash surrender value/ D. Matured/ E. Other	790,653	188,878	7,023	241,552
Against the same period last year	75%	76%	70230%	178%
II. 2nd year				
Number policies	1,999	315,366	1	6,575
Against the same period last year	123%	138%	100%	94%
Sum Insured (Billions Line)	615,935	227,349,118	60	2,154,411
Against the same period last year	106%	149%	100%	73%
Premium Refund/ B. Insurance payouts/ C. Cash surrender value/ D. Matured/ E. Other	1,116,942	461,186	0	297,876
Against the same period last year	139%	245%	0	136%
III. 3rd + year				
Number policies	8,909	407,363	10,461	77,961
Against the same period last year	129%	163%	188%	144%
Sum Insured (Billions Line)	2,459,585	166,867,639	1,269,950	38,214,044
Against the same period last year	131%	145%	215%	147%
Premium Refund/ B. Insurance payouts/ C. Cash surrender value/ D. Matured/ E. Other	3,279,924	8,508,252	561,347	1,825,236
Against the same period last year	148%	162%	176%	157%

Source: Compilation of figures from the 2022 Insurance Market Data ^[4]

About the age of customers participating in insurance in the form of Universal life. Based on insurance market data from the Insurance Association of Vietnam, the average age of customers participating in Universal Life. Accordingly, insurance companies all give age data of customers ranging from 29 years old to 36 years old. Excerpted from the table "Average age of insured of universal life ^[5]. This result is in line with the financial ability and age at which the majority of Vietnamese people start accumulating wealth.

Unit: Age of insured



Source: Data synthesis of the research team ^[4]

Fig 3: The average age of customers participating in Universal Life

4. Advantages, disadvantages, challenges in Universal Life Product business

4.1 Advantages of Universal life product business

Premium structure: Customers participating in Universal life products have a premium structure that is separated between the risk insurance part and the investment part. This special feature of the product helps customers feel secure because they are protected against risks in life but still have a part put into the investment fund made by the insurance company. Thus, the product achieves two factors: protection and creating a source of financial income for customers. The second advantage of the premium structure is that customers

can pay additional fees for the investment in addition to the premium agreed upon in the insurance policy.

Benefits: When participating in Universal Life products, customers receive many accompanying benefits. Specifically, when an insurance event occurs, customers are compensated and paid expenses in case the risk leads to injury, permanent disability, or death. The client receives interest from the amount invested in the universal fund. In addition, participating in this type of product is a form of passive savings for employees, especially young workers, through deducting a part of income to participate in annual insurance. Universal Investment Fund is a safe investment method, ensuring a minimum monthly investment interest. In case the enterprise does not guarantee the interest rate as planned, the insurer must be responsible for paying the committed interest rate, so customers do not worry about risks. Therefore, the client is entitled to the full result of the investment of the Universal Fund and not lower than the committed interest rate recorded on the insurance policy.

Fees the policyholder must pay: When participating in Universal Life products, customers will receive clear information and regulations about the fees to be paid—the plan for calculating the rate of sharing the premium into the universal fund. Fees typically include: "Basic premium" is a fee for the main life insurance product and is for the insurance portion; "Ancillary premium" means a fee for an ancillary insurance product and is also for the insurance portion; "Additional premium" means a fee for investment in a universal fund.

4.2 Disadvantages in Universal Life Product Business

The regulations allow customers to pay additional fees for the investment in addition to the insurance premium agreed in advance in the insurance contract. However, this additional fee is not allowed to exceed the prescribed amount. For example, in the first year you pay 10 million, and in the following years, you cannot pay more than 50 million / year.

Not being able to choose investment funds is also a disadvantage of this product, due to enjoying the committed interest rate if the investment activities of the enterprise are risky and do not achieve good results. But because of this, customers are not allowed to invest on their own or predict profitability even if they decide to take risks for their investment.

4.3 Challenges

The image and brand of many life insurance businesses are on the decline. At the end of 2022, the insurance market has revealed a series of mistakes that have severely affected the interests of customers. Many customers lose trust and terminate and cancel contracts ahead of time. The Ombudsman Board of The Ministry of Finance has inspected insurance businesses and found that many businesses have weakened the management of the product distribution department, making the information provided to customers incomplete, and misleading customers. In early 2023, the phenomenon of customers leaving businesses forms a wave that will cause the life insurance market to grow negatively for the first time in 10 years.

The economic market is underdeveloped after the COVID-19 pandemic, causing many customers to lose their income. This directly affects the intention to participate in life insurance in general and Universal life products in particular. Many customers are also forced to terminate their contracts due to their inability to afford annual insurance costs.

World politics are unstable, many customers choose other investment assets such as gold or real estate. This trend makes financial products less attractive.

5. Conclusions

Towards the goal of regaining the trust of customers, in 2023 the Vietnamese government has directed regulatory agencies such as The Ministry of Finance, Department of the Insurance Supervisory Authority, Insurance Association of Vietnam and all insurance businesses to review the legal system on insurance, reform the operating apparatus of enterprises, thereby creating transparency for the financial market. Accordingly, the Department of the Insurance Supervisory Authority – The Ministry of Finance since the beginning of the year has issued more than 5 letters requesting insurers to review all activities of enterprises, including exploitation, compensation, investment, outsourcing and other activities to ensure that insurers comply with the new Law on Insurance Business, ensure the interests of customers. Insurers also urgently review and evaluate the suitability of insurance products, ensure clarity and transparency of insurance benefits, and strengthen control of the sales process, consulting, and claim settlement process, especially consulting and signing insurance contracts with customers. With a series of strong moves in recent years by management agencies and insurance businesses, positive results have been achieved. The insurance market showed signs of recovery after the crisis and gradually regained customer confidence.

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