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### Challenges in Unit Link Market Growth in Insurance Businesses

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#### Abstract

The unit link market has been growing rapidly in the last 2 to 3 years under the impact of the economy and stock market. With the advantage of being an insurance product but can participate in investment, this product has attracted a large number of customers. Many insurers have quickly joined and dominated the market share of this product line. Some enterprises have a large exploitation market share and a high number of policies such as Manulife, Dai-ichi Life, and Prudential. Although there are many advantages in

accumulation, financial stability, and profitable investment for customers, this market is facing many difficulties in 2023 due to the impact of a series of mistakes in consulting and supporting customers to sign contracts. So, what is a unit-linked insurance product? What is the law for this market? What is the current state of business activities of life insurance businesses with this product? What are the challenges faced by insurers? These issues will in turn be clarified in this article.

**Keywords:** Unit link, Challenge, Growth, Insurers

#### 1. Introduction

Insurance is one of the factors driving the development of the economy through its ability to provide capital to the market. Insurance plays many important roles in the economy and social security. Insurance helps people transfer their own risk to a financial institution. Risk transfer means that the policyholder, also known as the customer, will through premium payment sell his risks to insurance companies. Second, assistive insurance is loss sharing when insured customers, unfortunately, encounter human risks to assets. Through periodic payment of a small fee, we will avoid being too financially affected in the unfortunate event of a risk. Conversely, if we are lucky, this donation will help other unfortunate people at life's risk. Insurance also plays the role of minimizing losses and losses because insurance enterprises in the process of performing insurance operations have used all measures to limit risks, prevent measures, and increase assurance measures for customers when participating in insurance. Therefore, insurance has contributed to improving the safety of human health and the material wealth of society. In addition to the above roles, insurance also plays roles such as: Stabilizing costs for participants, helping participants help customers feel secure mentally; and stimulating savings. For society, insurance also helps invest in developing the economy and creating jobs on a macro level.

Despite playing many important roles in the economy, the life insurance market in Vietnam develops more slowly than many other countries in the world. According to the Insurance Association of Vietnam, currently, only about 15% of people participate in life insurance products <sup>[1]</sup>. This figure is much lower than the potential of the Vietnamese market. In the last 5 years (2018-2022), the development rate of life insurance businesses has made a breakthrough and grown rapidly with an average increase of 20% <sup>[1]</sup> but accompanied by many problems in business management, consulting, and solving customer benefits. Many insurance companies lose their reputation and brand image when the above violations exist. In 2023, many inadequacies in the insurance industry have been revealed, causing the insurance industry's revenue to grow negatively in recent years. Also, according to statistics from the Insurance Association of Vietnam, 20% of insurance policies are canceled by customers in the first 3 years, this is a high and worrying rate <sup>[2]</sup>. Unit link is also one of the products with a good number of exploits. The number of contracts and the number of customers is large, the revenue is high for many years. However, this insurance product is also facing problems with policy cancellation or hesitancy of new customers to sign a policy. Thus, although the insurance market has developed rapidly and strongly, it has not met the requirements of customers and society. The article assesses the Unit link business market at life insurance companies in Vietnam. In the current period, what challenges are insurers facing? Propose solutions to develop the insurance market in general and linked insurance in particular.

## 2. Unit link

According to Article 2 of Circular 135/2012/TT-BTC <sup>[6]</sup> definition: "Unit link is a life insurance product belonging to investment-linked insurance business". Unit links consist of three characteristics. First, "the premium structure and benefits are separated between the hedging and investment parts." Customers who purchase insurance products are selected to determine the amount set aside for premiums and the sum insured as agreed upon in the insurance contract. Secondly, customers who purchase insurance receive the right to "choose to invest their premiums to purchase units of unit-linked funds established by the insurer, enjoy the full results of the investment, and bear all investment risks from selected unit-linked funds in proportion to the portion of the premium invested". The purchase and sale of fund units shall only be carried out between the insurer and the policyholder. Third, the insurer is entitled to the fees paid by the policyholder as agreed upon in the insurance contract.

Thus, the Unit link is a life insurance product with the characteristics of separating between risk insurance and investment. Policyholders are free to choose to invest in insurance costs, enjoy investment results, and bear risks when choosing investments. For this product, insurers are only entitled to receive the cost paid by the insurance customer under the insurance contract.

Conditions for creating Unit link products are specified in Article 5 of Circular 135/2012 / TT-BTC. Specifically: Insurers must comply with the provisions of this Section and the provisions of law when designing Unit link products; The name of the unit-linked product and the unit-linked fund must be clear, suitable to the nature of the product, the investment objective of the assets of each unit-linked fund and ensure that the policyholder can distinguish it from other products; The minimum unit link contract term is 10 years; The language used in documents and information related to Unit link products is Vietnamese. For product brochures, and sales illustration documents, the font used is Time New Roman, the font size is at least 12 or another font with an equivalent font size and must comply with the provisions of this Circular <sup>[6]</sup>. In the Government's Decree No. 46/2023/ND-CP detailing the implementation of a number of articles of the Law on Insurance Business, there are also a number of regulations on the design of universal insurance products. Accordingly, the account value of a unit link contract is determined based on the purchase price of unit-linked fund units and the corresponding number of unit-linked fund units at the valuation date. The refund value of the Unit-link policy is equal to the account value of the unit-linked fund at the next valuation date after the date on which the policyholder proposes to terminate the policy minus the early termination fee. For unit-linked contracts with one-time premiums, the policyholder's premiums may only purchase units of unit-linked funds with an investment proportion of not less than 60% of the total asset value of that unit-linked fund in the portfolio of bank deposits and other fixed-income securities <sup>[5]</sup>.

**Unit link benefits:** Unit link benefits are based on Article 6 of Circular 135/2012/TT-BTC. Unit link insurance benefits must include risk insurance benefits and investment benefits. Depending on the agreement between the insurer and the policyholder, the insurer may design additional insurance benefits. The policyholder may not choose to participate only in investment interests and not risk insurance interests. **Risk insurance benefits:** The insurer and

the policyholder agree on risk insurance benefits but must ensure minimum benefits in case of the death of the insured according to the following provisions:

a) For one-time premium insurance policies: 50,000,000 VND or 125% of the one-time premium, whichever is greater;

b) For insurance policies with periodic premium payment: 50,000,000 VND or five (05) times of the annual premium payment, whichever is greater;

c) The insurer may provide death benefits with an insured amount lower than the minimum prescribed above for insured persons aged 60 years or older, but not lower than 50,000,000 VND;

d) The minimum benefit provision in case of death does not apply to the additional premium specified in Article 8 of this Circular;

dd) Insurers may provide supplementary insurance products for Unit link products. The method of premium payment for auxiliary insurance products will be agreed upon by the parties when entering into the contract.

**Investment benefits:** The policyholder is entitled to choose to invest premiums in unit-linked funds established by the insurer, enjoy all investment results, and bear all investment risks from selected unit-linked funds in proportion to the invested premium. Insurers and policyholders may agree on the contents and methods of payment of insurance benefits when insurance events occur as prescribed in Clauses 2 and 3 of this Article <sup>[6]</sup>.

Thus, insurance benefits must include risk insurance benefits and investment interests. Depending on the agreement between the insurer and the policyholder, the insurer may design additional insurance benefits. The policyholder may not choose to participate only in investment interests and not risk insurance interests.

## 3. Current situation of Unit link products in the Vietnam insurance market

### 3.1 Number of product contracts Unit link

Unit link products have been deployed by businesses for a long time but only really developed recently due to the boom of the stock market. In 2022, the Unit link business of the whole life insurance market reached 747,277 policies, up 157% year-on-year <sup>[1]</sup>. Two types of products of Unit link, Group insurance and Individual insurance, are deployed in the market. According to the statistics of the Vietnam Insurance Association, the current group insurance product has not been developed, but only the contract of the Unit link product for individuals. Due to the short time to focus on development, some insurance companies have not successfully implemented this business such as MVI, BIDV Metlife, or Chubb Life. Let's take a look at the new exploitation data for this product at businesses. Leading the group with the highest number of new mining contracts is Manulife with 329,249 contracts. Next is Prudential with 147,289 policies. In third place is Dai-ichi Life with 109,367 new operating contracts. In order to have such a large number of new mining products, these enterprises have focused on product trading activities as soon as the market demands. In contrast, some insurers are just starting to put this business in the focus group. For example, FWD with only 29,393 but the growth rate was 932% compared to the previous year. Hanwha Life Enterprise with 11,278 new mining contracts, an increase of 511% over the same period last year and the number of contracts in effect at the end of

the period was 13,540 contracts.

**Table 1:** Number of new and active Unit link product contracts

Unit: Polices

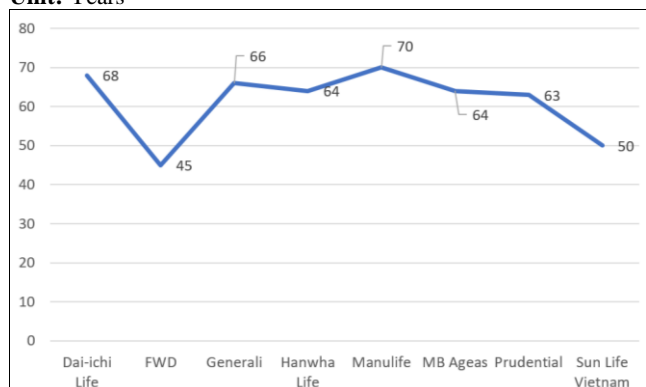
Companies	New businesss	In force at the end	Against the same period last year
AIA	30,628	39,281	237%
Dai-ichi Life	109,367	147,301	322%
FWD	26,970	29,393	932%
Generali	56,076	84,871	201%
Hanwha Life	11,278	13,540	511%
Manulife	329,249	632,731	180%
MB Ageas	30,284	33,667	408%
Prudential	147,289	464,033	123%
Sun Life Vietnam	6,136	21,184	78%
Total	747,277	1,466,001	167%

Source: Data from Insurance Association of Vietnam<sup>[1]</sup>

### 3.2 Average contract term of unit-linked products

Average duration of policies of unit link. Statistics from the Vietnam Insurance Association show that unit-linked products have a very long contract term, on average from 45 years (FWD) to 70 years (Manulife).

Unit: Years



Source: Data from Insurance Association of Vietnam<sup>[1]</sup>

**Fig 1:** The average duration of policies of unit link

### 3.3 Total sum insured of market

In 2022, the amount of unit-linked product insurance of the whole market reached 707,023 billion VND, an increase rate of 151% over the same period in 2021<sup>[1]</sup>. The evaluation of product development has been presented in the section above, which is that the group insurance products section does not have policy and revenue data, so we only analyze on data of individual insurance products. Data on the sum insured by each enterprise shown in Table 2 shows that: The highest amount of new mining insurance in the period (New businessses) belongs to enterprises with a large proportion of new mining contracts such as Manulife, Dai-ichi Life, and Prudential. The special case of FWD insurers shows the ability and potential of the Vietnamese market to exploit. FWD's growth rate is equal to 1282% compared to 2021. Also in the group with high growth rate are insurance companies AIA, Hanwha Life, Dai-ichi Life. The highest sum insured at the end (In force at the end) still belongs to the three leading enterprises in this market, namely Manulife, Dai-ichi Life and Prudential with the sum insured at the end of the period of 606,752 billion VND, 153,532 billion VND and 241,009 billion VND respectively and against the same period last year respectively had FWD

topping with 1344%, Hanwha Life with 501% and MB Ageas with 416%.

**Table 2:** Total sum insured of unit link

Unit: Billion VND

Companies	New business	Against the same period last year	In force at the end	Against the same period last year
AIA	41,882	198%	51,960	247%
Dai-ichi Life	117,963	309%	153,532	315%
FWD	53,726	1282%	56,843	1344%
Generali	45,590	155%	68,904	205%
Hanwha Life	11,000	419%	13,166	501%
Manulife	303,869	111%	606,752	156%
MB Ageas	11,852	348%	13,256	416%
Prudential	113,857	147%	241,009	125%
Sun Life Vietnam	7,280	38%	19,787	89%
Total	707,023	151%	1,225,213	170%

Source: Data from Insurance Association of Vietnam<sup>[1]</sup>

### 3.4 Market-wide premium

In 2022, the total market premium of Unit link products will reach 21,742,638 million VND, an increase rate of 132% compared to 2021. A retained premium was 21,457,179 million VND, up from the same period last year of 131%. Data compiled by the Insurance Association of Vietnam shows that Manulife and Prudential's premiums are the highest in the market in 2022. According to statistics of the Vietnam Insurance Association (2023) on the overview of Vietnam's insurance market in the first 6 months of 2023, "total premium revenue of the whole market is estimated at 77,831 billion VND, down 7.9% over the same period last year". In which, products "universal insurance accounted for 55.2%; mixed insurance products accounted for 16%; Unit link products accounted for 16.2%; by-products accounted for 10.9%." After a period of continuous strong growth, both universal insurance and unit link have recently seen revenue decline<sup>[2]</sup>. Data from the Vietnam Insurance Association shows that the number of new mining contracts in the first 6 months of 2023 is 1,028,402 contracts (main products), down 31.3% over the same period. Which, investment-linked insurance products accounted for 61.2% and decreased 34.4% over the same period (universal insurance products accounted for 45% and decreased 23.9%, Unit link products accounted for 16.2% and decreased 52.5%); death insurance products accounted for 30.7% and decreased by 17.6%; mixed insurance products accounted for 0.7% and decreased by 48.9%; The remaining insurance products accounted for 7.4% and decreased by 44.9% (health insurance products accounted for 6.5%, pension insurance products accounted for 0.05%, whole life insurance products accounted for 0.77%)<sup>[2]</sup>. Through strict regulations of management agencies such as Circular 67/2023/TT-BTC guiding a number of articles of the Law on Insurance Business, Decree 46/2023/ND-CP detailing the implementation of a number of articles of the Law on Insurance Business. The consulting and sale of insurance products, especially complex products, are evaluated and considered more carefully. This has slowed down the market growth and the revenue structure of products in the market has changed: the revenue and share of unit link products is plummeting. According to the Insurance Association of Vietnam, in terms of the structure of the number of policies by product, the most popular and accounting for the highest proportion in the first 6 months of 2023 are universal

insurance (52.3%) and mixed insurance (23.2%). With Unit Link, insurance businesses still deploy, but after the last crisis, businesses are more cautious when selling investment products [2].

**Table 3:** Total direct new business premium, total direct premium, retained premium - Unit link

**Unit:** Millions VND

Companies	Total direct new business premium	Total direct premium	Retained premium	Against the same period last year
AIA	734,308	1,812,476	1,812,444	185%
Dai-ichi Life	2,798,365	3,811,675	3,784,821	265%
FWD	903,343	990,894	987,271	570%
Generali	1,418,974	2,062,015	1,933,188	194%
Hanwha Life	164,163	199,401	198,333	447%
Manulife	7,302,729	12,138,849	11,912,765	126%
MB Ageas	1,742,180	1,756,109	1,755,621	407%
Prudential	6,444,212	12,935,684	12,892,263	130%
Sun Life Vietnam	234,364	536,723	529,683	84%
Total	21,742,638	36,243,826	35,806,388	149%

**Source:** Data from Insurance Association of Vietnam [1]

### 3.5 Regarding termination of insurance contract

Termination of policies after claims/benefits settlement. In 2022, the number of policies terminated due to insurance events is quite low and hovers below 1,000 policies. This number of terminated contracts represents all the years of the contract. Unlike contracts terminated due to insurance events, contracts terminated and canceled during the period due to reasons stemming from customers and businesses are very large. Specifically, in the first year of the contract, up to 71,742 contracts were terminated and canceled. In the second year of unit link contracts, this number has decreased but is still very large at 55,629 contracts. From the third year onwards, the number of canceled contracts decreases significantly. Thus, the first year is very important for businesses to maintain contracts and retain customers. In addition to the above reasons, there is a large number of contracts that are terminated and canceled due to many other reasons.

**Table 4:** Summary of the situation of termination of Unit link

**Unit:** Contract

Criteria	Termination of policies after claims/benefits settlement	Termination, cancellation of policies in reported period	Termination, cancellation of policies due to other reasons
<b>I. 1st year</b>			
Number policies	504	71,742	24,003
Against the same period last year	187%	387%	150%
Sum Insured	220,697	71,177,850	23,083,357
Against the same period last year	195%	374%	181%
A/ B/ C/ D/ E*	701,700	1,178,540	376,496
Against the same period last year	256%	137%	277%
<b>II. 2nd year</b>			
Number policies	364	55,629	3,781
Against the same period last year	144%	85%	62%
Sum Insured	104,159	31,615,591	899,347
Against the same	92%	147%	89%

period last year			
A/ B/ C/ D/ E	266,061	556,734	21,955
Against the same period last year	176%	351%	54%
<b>III. 3rd + year</b>			
Number policies	972	65,063	20,910
Against the same period last year	187%	62%	150%
Sum Insured	172,561	19,560,929	2,776,975
Against the same period last year	195%	60%	123%
A/ B/ C/ D/ E	214,528	1,457,206	51,121
Against the same period last year	161%	141%	34%

**Source:** Data from Insurance Association of Vietnam [1]

### 4. Challenge

Customers participating in insurance decide to invest in units of funds for unit-linked products and customers can also pay additional fees for their investment. When participating, customers are given the option of investment funds. Enjoy all investment results but the client shall bear all investment risks from selected unit-linked funds. Investment activities of Unit link products are quite risky, but corresponding to that, the profitability is also higher than other investment activities. Business activities of Unit link products face many difficulties and challenges. One of the reasons is the crisis due to the rapid growth of this insurance product in recent times. When Unit link was promoted, there were many opinions that Unit link was not a product line that could be sold massively, because both sellers and buyers were in their segment. In the world, the sale of unit links is prone to misselling, so regulators in many markets have very strict regulations on who is allowed to sell, such as selling through bank channels intermediary financial services companies, or securities companies. Some markets also restrict the sale of Unit links, because there is a situation where insurance consultants sold through banks abuse misselling to receive commissions, so it is easy to cause risks. According to statistics from the Insurance Association of Vietnam, the average age of an insured unit link is between 29 and 37 years old [1] while the average policy term is very long from 45 years or more to 70 years. These unit link contracts are too long in terms of time, causing inadequacies for the beneficiaries of customers participating in insurance.

### 5. Conclusions

Regulations on insurance products according to Circular 67/2023/TT-BTC guiding a number of articles of the Law on Insurance Business, Decree 46/2023/ND-CP detailing the implementation of a number of articles of the Law on Insurance Business, in the process of consulting insurance products, insurance agents or employees in agency organizations directly performing agency activities Insurance must fully and accurately provide the policyholder with information about insurance products, using documents provided by insurers and branches of foreign non-life insurance enterprises [5, 7]. For complex insurance products such as investment-linked insurance, Circular 67/2023/TT-BTC additionally requires insurance agents to record the insurance consulting process. To ensure customers' right to choose to participate in insurance actively, Circular 67/2023/TT-BTC additionally stipulates that credit institutions are not allowed to consult, introduce, offer for

sale and arrange the conclusion of investment-linked insurance contracts for customers within 60 days and after 60 days from the date of disbursement of the entire loan <sup>[7]</sup>. "The training for financial consulting agents to implement Unit link products must be done very carefully, to avoid negative consequences for participants, as well as affecting the general market, said a representative of an insurance company, adding that unit-linked insurance participants need to learn and choose reputable units, have the right vision and good investment ability." Because the policyholder is entitled to the full result of the investment but will also bear all investment risks from selected unit-linked funds corresponding to the investment premium.

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