

SUBMISSION TO THE AGM

Key business targets for the period 2020 - 2024

- Pursuant to the Charter of Organisation and Operation of Vietnam National Reinsurance Corporation;
- Pursuant to Resolution 09/2019/NQ-ĐHĐCĐ dated 24/4/2019 by the AGM of Vietnam National Reinsurance Corporation;

The Board of Directors hereby report to the General Meeting of Shareholders the performance of Development Strategy for the period 2015 – 2019 and the key business targets of the period 2020 – 2024:

1. Performance of the Development Strategy 2015 – 2019:

❖ Vietnam insurance market 2015-2019: (*Source: Insurance Supervision Authority, Vietnam Insurance Association*)

- Vietnam non-life insurance posted an average growth rate of 14%/year, in which Health and Motor business with little needs for reinsurance placement represented 58%-62% and grew 20.5%/year on average, whilst commercial business with high demand for reinsurance coverage increased 6.6%/year on the same basis.
- Many insurers had poor underwriting results in the period. In addition to losses from Motor, frequent major losses of Property and Hull caused heavy underwriting losses to some insurers, which also affected their reinsurance programmes. Some international reinsurers have decided to withdraw from Vietnam market.

❖ VINARE performance in the period 2015-2019:

Unit: VND bn

	2015		2016		2017		2018		2019	
	Target	Result	Target	Result	Target	Result	Target	Result	Target	Result
Gross premium	1.610	1.617,14	1.730	1.655,56	1.770	1.651,74	1.770	1.802,72	1.967	2.221,25
Net premium	572	613,44	669	561,52	590	586,89	677	784,74	944	1.190,97
Pre-tax profit	250	254,29	260	270,77	278	285,29	308	315,68	331	332,13
Dividend	15%	15%	12%	12%	12%	12%	12%	12%	12%	20%

Observations:

- Gross written premium grew 8.3% year on year against the target of 5.8%
- Net written premium grew 18.3% year on year against the target of 13%
- Average Combined Ratio was 92.6% against the target of 93%
- Average RoE was 8.9% against the target of 9%.

In spite of the shortcomings and challenges of the local market and amid worrying loss situation, VINARE made considerable efforts to fulfill the target of each year.

2. Economic and insurance industry outlook 2020 – 2024:

Before the outbreak of Covid-19 pandemic, experts forecast:

- GDP will grow 6.5-7%, with stable macroeconomics and improved national competitiveness;
- Non-life insurance will grow around 12%, equivalent to the period 2015 – 2019.

Competition and underwriting performance:

- Competition is expected to be tough in all business lines (premium rates, terms and conditions, sales expenses, etc.), especially when the new comers in recent years are fighting for market shares.
- Claims and unusual surge in claim ratio is a deep concern and a threat the financial situation and business performance of many insurers/reinsurers.
- Underwriting performance will continue to be a concern as combined ratio nears 100% or even higher. However, it is expected that there will be adjustment in market regulation and underwriting and risk management policies of the insurers.

Nevertheless, with Covid-19 pandemic still going on in many countries, including Vietnam, experts' opinions are that the world economy, and Vietnam in particular, will see a slowdown in growth, may be bigger in 2020 and lesser in the following years.

After several efforts to control the pandemic in Vietnam, the Government declared in early May that Vietnam has entered a new stage of prevention and fighting against the pandemic in combination with recovering and developing economy. Heavy impacts can be seen in many industries and sectors of the economy. The Government has to launch several rescue and support packages to stabilise socio-economy.

Insurance and reinsurance market in the world and Vietnam will certainly feel the consequence in the short term and long term. For the time being, it is still too early to identify and/or quantify the impacts on the insurance and reinsurance market.

3. Assessment of VINARE's competitiveness:

As reported to the General Meeting of Shareholders in the review of period 2015-2019, VINARE's competitiveness has been improved. However, some of the areas still need to be focused on and upgraded or amended in 2020 and the following years.

a. Capital, charter capital:

- The legal capital requirement for a reinsurance company like VINARE is currently VND1,100 billion. VINARE's charter capital is VND1,310 billion. Equity capital as at 31/12/2019: VND2.900 billion.
- Current solvency margin is 6.6 times higher than the minimum requirement by the Ministry of Finance.

The demand to increase capital, charter capital in the period 2020-2024 is small if there is no sudden change in legal capital requirement for reinsurance company, no requirement from shareholders and market opportunities. These complicated forecast necessitate an open policy with regards to capital requirements.

b. Organisation – governance structure: The current organisation – governance structure is suitable for a listed company and has proven to be practical and effective. However, if there is new requirement (either from the regulator or from the company itself) to change, VINARE will consider to find a solution to adapt in the period 2020-2024.

c. Human resource: VINARE still lack quality personnel for internal audit, actuary (currently in training), product development, risk management.

d. Infrastructure:

- Head office: adequate.
- IT system: basically completed and stably operated.

e. Clients and client management, marketing and branding

- Local clients: almost all the local insurers have business exchange with VINARE at different levels (except for some foreign insurers which has reinsurance placement with their parent companies).
- Overseas clients: mainly focusing on regional countries and some big insurance/reinsurance groups in the world. However, there is a constraint to expanding overseas business relationship due to VINARE's rating, Vietnam's sovereign rating and concerns about the ability to control risk quality and evaluate information.

f. Product development capability: VINARE still has to coordinate with primary insurers and international reinsurers in designing and developing new products. The ability to identify new demands, design and price products is limited.

- g. Management capability:** generally adequate. However, there need to be a breakthrough and flexible solution in the context of harsh competition and market overcapacity.
- h. Pricing, risk management capability:** VINARE still lacks many tools and qualified personnel for high-expertise positions.
- i. Rating and branding:** the current rating of B++ (AM Best) does not meet the requirement for international business exchange (minimum A-).

4. Outlook and business plan for the period 2020 – 2024:

The strategy and major solutions for the period 2015 – 2019 which were reported to and approved by the General Meeting of Shareholders have been proven to be the right direction and need to be continued in the period 2020-2024:

- *To become a leading reinsurer in Vietnam and the region; a professional investor.*
- *A centre of reinsurance business exchange for the market. To provide customers with value added services with necessary warranty derived from the core values of the company.*
- *To focus on profitability and profit optimisation and meet with shareholders' expectation.*
- *An enterprise responsible for the community.*

Specifically in each area:

- In reinsurance business:
 - + To focus on market expansion, quality and profitability of core business – reinsurance. To strengthen the position of the leading reinsurer in Vietnam and the region.
 - + To continue following a tight underwriting discipline, being selective with regards to risks to ensure profitability, and not pursuing underwriting for cashflow.
 - + To enhance the capability of product development, pricing, risk management and to effectively perform the function of good business exchange in Vietnam market.
 - + To expand international relationship and be cautious and selective in overseas business exchange. To enhance marketing activities and establish a prioritised action plan for marketing.
 - + To try to get A- rating in the short-run

- + To provide a value-added chain for the Vietnam market in all areas: products and distribution channel, training, risk management, pricing, information exchange, reinsurance solutions and sustainable development solutions.
- + To establish a reasonable composition of business lines underwritten to ensure profitability, sustainable development and balance between various development targets.
- + To ensure effective financial resources for reinsurance business via the optimisation of retention and the structure of reinsurance programme.
- + To upgrade corporate governance to meet international standards in reinsurance business management.
- Investment: To enhance professionalism in investment activities. To adhere to the principle of Security – Profitability – Sustainability – Liquidity. This principle has been put in place before 2020 and needs to be maintained together with improving the operation and quality of asset allocation.
- Capital/charter capital, dividend policy:
 - + Dividend policy: To maintain a reasonable dividend policy in balance with the need to ensure sound financial position and capital growth. To approach the international practice in dividend payout as recommended by A.M. Best.
 - + Increasing capital/charter capital: To keep close track of and evaluate the demands – capital market in order to decide a suitable point in time and method.
- To make sure that the goals and solutions for enhancing VINARE’s competitiveness and position in the international market are effectively carried out: products/pricing, finance, IT, risk management and reserving, human resource strategy, corporate branding and rating, corporate management and governance.

Specific goals:

a. Capital:

Increase the charter capital to VND2,000 by 2024. The plan for capital increase will be submitted to the AGM for approval.

b. Operational structure – Human resource and human resource policy:

- Continue to evaluate the compliance to legal requirements in terms of the governance structure as well as the practicality in order to have a suitable solution. Improve the quality of operation.

- Upgrade the functions of Public Sector Development, Risk Management and Internal Audit.
- Fill in the lacking positions and necessary expertise: Internal control, product development, actuary, risk management.
- Establish job description and performance review system.
- Create an overall change in human resource policy.

c. IT system:

- Upgrade and complete the IT system. Keep control of the upgrading and operation of the IT system.

d. Market – product development:

- Market:
 - + Local market: develop cooperation relationship and business exchange and client policy on the basis of profitability, sustainability and mutual benefits.
 - + Overseas markets: expand international relationship as per the prioritised action plan; Be cautious in business exchange.
- Business development:
 - + Maintain and develop traditional business with high demand for reinsurance on the basis of risk management and profitability (Property, Engineering, Cargo, P&I.).
 - + Review, evaluate the writing of new products.
 - + Establish a reasonable composition of business lines underwritten to ensure profitability, sustainable development and balance between various development targets.
 - + Participate in government insurance schemes on the basis of risk management and profitability.
 - + Focus on product development and distribution channels based on insurer – reinsurer – broker cooperation.

e. Dividend and capital building:


Maintain a reasonable and stable dividend and capital building-up policy. Dividend payout rate is proposed at the minimum of 12%/year (with charter capital VND1,310 billion).

f. Investment policy:


- Carry out review and evaluation of investment portfolio on a regular basis to ensure Security – Profitability – Sustainability – Liquidity.
- Establish a framework for risk tolerance and flexible asset allocation in compliance with legal and internal regulation.

g. International rating and branding development: Maintain the current rating and try to upgrade to A- in the short term.

2020-2024 key business targets submitted to AGM for approval:

 Business results (*not including impacts from Covid-19 pandemic*):

- + Average gross written premium growth: 9%/year
- + Maximum average combined ratio: 98%
- + Average pre-tax profit growth: minimum 7%/year
- + Dividend payout rate: minimum 12%/year
- + Average ROE: minimum 10%

 Charter capital: increase charter capital to VND2,000 billion by 2024. The specific time and issuance plan will be prepared and submitted to the AGM for approval.

On behalf of the Board of Directors

Chairman

Lê Song Lai