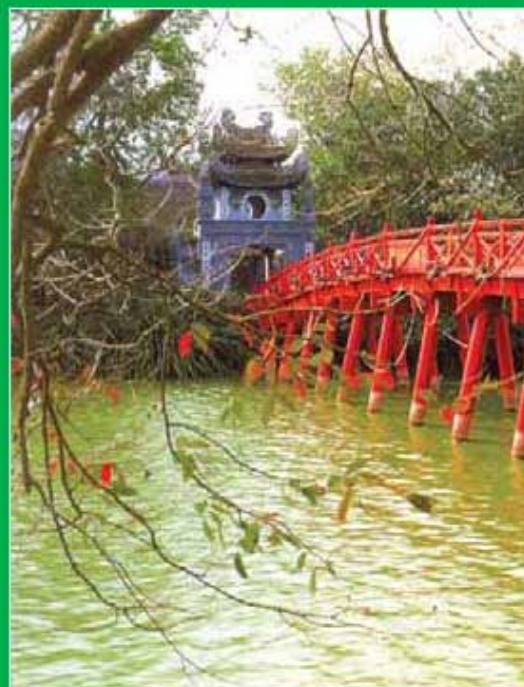
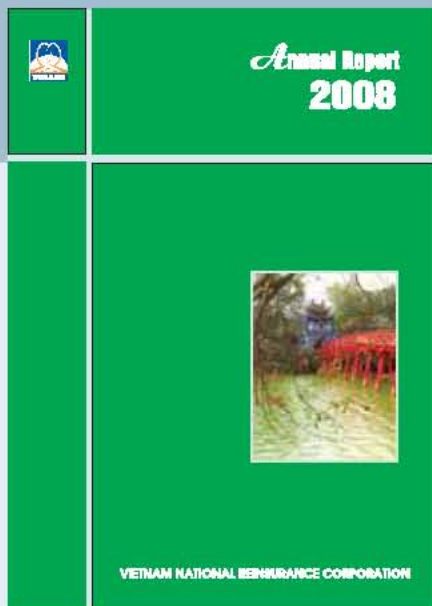




# *Annual Report* **2008**



**VIETNAM NATIONAL REINSURANCE CORPORATION**



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## 1

# MESSAGE FROM CHAIRMAN & CEO





## Economic and industry background

The year 2008 proved to be a tough and sophisticated year for Vietnamese economy. In the early months of the year the economy faced with price escalation, high inflation and prime interest rate hitting the peak of 14 per cent a year, whilst in the latter months of the year the financial crisis and global economic recession exerted direct impacts on Vietnamese economy, causing a downturn in business activities and production and an increase in unemployment.

However, despite the economic crisis, catastrophes and epidemics, GDP growth of Vietnam posted 6.23%, export turnover reached the highest increase in the past ten years at 29.5%, and registered foreign direct investment (FDI) hit the record of US\$64 billion.

The Vietnamese insurance market has been given a favourable environment for development under the close regulation of the Ministry of Finance. Therefore, the insurance market still developed in 2008 with gross premium volume increasing 19.5% compared with the previous year to VND21,300 billion. Since 1 January 2008, following the commitments of WTO entry in insurance business, there is no different treatment between foreign-invested and local enterprises.



## Business performance

Although the year 2008 was full of difficulties for Vietnam economy and the insurance industry, Vietnam National Reinsurance Corporation (VINARE) has been able to leverage on its financial strength and limit the outside impact to overfulfill the targets set out by the Board of Management.

After completing the capital raising and the selection of the foreign strategic partner (Swiss Re) in March 2008, the charter capital of the Corporation increased from VND343 billion before the share issuance to VND672 billion after the issuance, with a capital surplus of





VND1,137 billion. The private equity transaction between VINARE and its foreign shareholder was chosen “The most successful transaction of Vietnam in 2008”. The successful capital raising and the introduction of the strategic partner present an opportunity to VINARE to establish a new position in the local and international market.

VINARE continued to maintain its leading position in its traditional core market, with reinsurance premium written amounted to VND1,088 billion, representing an increase of 19% compared with 2007. The increase could be attributed to the relatively strong growth of local non-life premium, in which the revenue from big business which needed to be reinsured overseas increased around 20%.

Although having to compete with some competitive foreign reinsurers, in 2008, VINARE strengthened risk management policy and rejected a lot of business with inadequate premium and terms and conditions to ensure security and business efficiency.

VINARE has enhanced its role providing advice and assistance to primary insurers in all aspects like: inward/outward reinsurance placement with international competitiveness to ensure the benefit of the clients and the insurers, providing information on underwriting, risk assessment/management, claims settlement and loss prevention. VINARE has become the leading reinsurer in a number of major business.



The 4th Annual General Meeting of Shareholders

The net written premium of the Corporation grew 50% over the previous year to VND313.2 billion. With the enhanced financial standing thanks to the capital raising and the participation of the foreign strategic partner (Swiss Re), the Corporation significantly increased the retention level of all lines in an optimal manner.

However, VINARE's net claims incurred of the financial year 2008 increased 63% compared with 2007 and turned out to be higher than expected, which was the reason behind the underwriting loss of the year. The surge in claims could be attributed to the harsh competition in the primary market leading to declining premiums, widened terms and conditions and inadequate survey before issuing policy.

On the other hand, VINARE benefited significantly from strong investment returns which grew 2.7 times in comparison with 2007 to VND216.5 billion, mainly thanks to the significantly increased investment capital after the capital raising through share issuance. Furthermore, the deposit interest rate offered by credit institutions increased dramatically in the late second quarter and the third quarter of 2008 despite a significant drop in the last two months of the year.

Thanks to strong investment income largely offsetting for underwriting loss during the year, before-tax profit increased nearly 2.5 times over the year 2007 to VND205.1 billion.





Members of VINARE's Board of Management

## 2009's prospects

In the context of many challenges and difficulties arising from the world's economic recession as well as the local economy, VINARE will persistently adhere to strict underwriting discipline and prudent investment strategy to ensure that VINARE will continue to produce stable and satisfactory results.

As the local primary market may face difficulties in generating attractive growth, reinsurance premiums written in 2009 is projected to slightly reduce to one trillion Vietnamese dong. Less favourable investment environment will cause investment returns to drag behind the previous year, estimated at VND185 billion. As a result, we will strive to maintain before-tax profit at the same level as last year.

VINARE will continue to receive strong technical supports from our foreign strategic shareholder in various areas, including product capability, management capability, underwriting capacity, investment capability and information technology.

On behalf of the Board of Management, I once again take the opportunity to thank our clients and partners for their continued support, our shareholders for their commitment and inspiration, and our management and staff for their dedication and excellence performance.

In return, we reaffirm our commitment to exert all efforts and dedication to continue the fulfillment of corporate mandate to promote national interest, generate profit and create added value for our shareholders. ■

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# FINANCIAL HIGHLIGHTS

*As of 31 December 1998 to 2008*

Unit: VND million

**Gross Written Premiums****Net Written Premiums**



### Technical Reserves



### Investment Income



**Total Assets****Pre - tax Profit**



## 3

**FINANCIAL REVIEW**

## BALANCE SHEET

As at 31 December 2008

Unit: VND

ASSETS	Codes	Notes	31/12/2008	31/12/2007
<b>A. CURRENT ASSETS AND SHORT-TERM INVESTMENTS</b>	<b>100</b>		<b>1,895,644,003,711</b>	<b>588,564,079,157</b>
<b>I. Cash and cash equivalents</b>	<b>110</b>	4	<b>426,025,983,308</b>	<b>99,275,778,970</b>
1. Cash	111		56,585,983,308	39,047,778,970
2. Cash equivalents	112		369,440,000,000	60,228,000,000
<b>II. Short-term financial investments</b>	<b>120</b>	5	<b>933,812,439,650</b>	<b>221,142,599,800</b>
1. Short-term investments	121		952,197,123,800	221,262,275,350
2. Provision of diminution of short-term investments	128		(18,384,684,150)	(119,675,550)
<b>III. Accounts receivable</b>	<b>130</b>		<b>535,588,704,710</b>	<b>263,556,815,286</b>
1. Trade receivables	131		538,357,243,735	263,962,896,982
- Receivables from inward reinsurance			272,973,320,798	134,595,617,189
- Receivables from outward reinsurance			133,439,701,671	102,850,859,475
- Others receivables		6	131,944,221,266	26,516,420,318
2. Provision of doubtful debts	139		(2,768,539,025)	(406,081,696)
<b>IV. Inventories</b>			<b>30,652,371</b>	<b>33,666,772</b>
1. Inventories	141		30,652,371	33,666,772
<b>V. Other current assets</b>	<b>150</b>		<b>186,223,672</b>	<b>4,555,218,329</b>
1. Short-term prepayments	151		-	4,417,232,202
2. VAT deductibles	152		66,232,843	50,972,971
3. Advances	158		119,990,829	87,013,156
<b>B. FIXED ASSETS AND LONG-TERM INVESTMENTS</b>	<b>200</b>		<b>828,251,410,597</b>	<b>626,710,594,484</b>
<b>I. Fixed assets</b>	<b>210</b>		<b>50,883,763,864</b>	<b>53,593,422,527</b>
1. Tangibles fixed assets	211	7	35,267,527,093	37,001,170,958
- Cost	212		52,763,769,130	52,063,678,053
- Accumulated depreciation	213		(17,496,242,037)	(15,062,507,095)
2. Intangibles fixed assets	217		15,616,236,771	16,592,251,569
- Cost	218		19,520,295,963	19,520,295,963
- Accumulated amortisation	219		(3,904,059,192)	(2,928,044,394)
<b>II. Construction in progress</b>	<b>230</b>		<b>55,045,878</b>	<b>284,244,448</b>
<b>III. Long-term investments</b>	<b>220</b>	5	<b>775,047,490,812</b>	<b>570,567,817,466</b>
1. Interest in joint ventures	222		38,420,000,000	38,420,000,000
2. Other long-term investments	228		736,627,490,812	532,147,817,466
<b>IV. Long-term deposits</b>	<b>240</b>		<b>2,265,110,043</b>	<b>2,265,110,043</b>
1. Insurance deposits	241		2,265,110,043	2,265,110,043
<b>TOTAL ASSETS</b>			<b>2,723,895,414,308</b>	<b>1,215,274,673,641</b>

Audited by Deloitte Vietnam Company Ltd



As at 31 December 2008

Unit: VND

RESOURCES	Codes	Notes	31/12/2008	31/12/2007
<b>A. LIABILITIES</b>	<b>300</b>		<b>813,124,671,759</b>	<b>601,392,562,350</b>
<b>I. Current liabilities</b>	<b>310</b>		<b>408,211,035,014</b>	<b>310,355,676,655</b>
1. Trade accounts payable	313		392,160,201,415	297,364,791,594
- Payables to inward reinsurance activities			131,775,609,220	97,908,761,135
- Payables to outward reinsurance activities			248,844,241,006	192,940,762,023
- Payables to goods, services			11,381,200	-
- Other payables			11,528,969,989	6,515,268,436
2. Prepayments from customers	314		1,291,963,659	-
3. Taxes and amounts payable to the State budget	315	8	8,556,933,289	4,100,172,932
4. Payables to employees	316		5,043,572,053	2,513,608,660
5. Accrued expenses	317		-	-
6. Other current payables	318	9	1,158,364,598	6,377,103,469
<b>II. Long-term liabilities</b>	<b>330</b>		<b>404,913,636,745</b>	<b>291,036,885,695</b>
1. Long-term trade accounts payables		10	402,219,667,339	289,501,809,036
- Premium reserve	331		137,223,918,213	91,838,877,296
- Claim reserve	333		178,837,698,951	120,903,488,860
- Catastrophe reserve	334		86,158,050,175	76,759,442,880
2. Provision for severance allowance	341		784,977,463	475,253,959
3. Long-term deposit received	342		1,720,074,536	946,119,825
4. Deferred tax liabilities	343		188,917,407	113,702,875
<b>B. RESOURCES</b>	<b>400</b>	<b>12</b>	<b>1,910,770,742,549</b>	<b>613,882,111,291</b>
<b>I. Resources, funds</b>	<b>410</b>		<b>1,907,306,770,230</b>	<b>611,739,257,971</b>
1. Charter capital	411		672,184,400,000	504,138,300,000
2. Share premium	412		1,104,116,030,642	45,515,630,000
3. Investment and development funds	414		6,562,880,582	3,466,045,810
4. Financial reserve funds	415		32,814,402,909	17,330,229,048
5. Compulsory reserve funds	416		16,407,201,455	8,665,114,524
6. Retained earnings	417		75,221,854,642	32,623,938,589
In which: Gain from exchange differences revaluated at the year end			8,433,141,804	3,723,930,132
<b>II. Other resources, funds</b>	<b>420</b>		<b>3,463,972,319</b>	<b>2,142,853,320</b>
1. Bonus and welfare funds	422		3,463,972,319	2,142,853,320
<b>TOTAL RESOURCES</b>			<b>2,723,895,414,308</b>	<b>1,215,274,673,641</b>

As at 31 December 2008

Unit: VND

OFF-BALANCE SHEET ITEMS	Currency	31/12/2008	31/12/2007
<b>1. Foreign currencies</b>			
United State Dollar	USD	5,667,538.45	7,551,395.58
Australian Dollar	AUD	86,147.05	86,149.97
Japanese Yen	JPY	3,101,729.00	3,101,971.00
Singapore Dollar	SGD	390.90	394.58
Great British Pound	GBP	28,253.54	28,729.54
Euro	EUR	35,372.76	20,224.44
<b>2. Existing depreciation fund</b>	VND	23,302,907,267	19,893,157,527

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## INCOME STATEMENT

*For the year ended 31 December 2008*

Unit: VND

ITEMS	Codes	Notes	2008	2007
1. Gross written premium	2		1,095,228,624,390	926,272,618,776
2. Deductions	3		781,941,714,545	717,542,259,857
Retroceded premium	4		774,858,638,244	703,674,668,251
Refunded premium	5		7,083,076,301	13,867,591,606
3. (Increase) Premium provision	8		(45,385,040,917)	(24,118,255,179)
4. Retrocession commission	9		121,482,623,381	100,251,021,875
5. Other receipts from insurance business	10		22,709,075,574	21,683,450,704
<b>6. Net income from insurance business</b>	<b>14</b>		<b>412,093,567,883</b>	<b>306,546,576,319</b>
7. Payment for inward reinsurance claims	16		480,540,187,139	244,558,017,689
8. Deductions	17		365,949,649,854	162,228,746,649
<i>Recoverables from outward reinsurance</i>	18		365,949,649,854	162,228,746,649
<b>9. Net claim payment</b>	<b>21</b>		<b>114,590,537,285</b>	<b>82,329,271,040</b>
10. Increase in claim reserve	23		57,934,210,091	23,418,169,441
11. Allocation to catastrophe reserve	24		9,398,607,295	6,261,910,768
<b>12. Other expenses for insurance business</b>	<b>25</b>		<b>207,625,239,924</b>	<b>145,109,748,838</b>
- Other expenses for inward reinsurance	34		207,112,655,636	144,685,447,371
+ <i>Commission</i>	35		181,251,688,319	132,174,991,396
+ <i>Others</i>	38		25,860,967,317	12,510,455,975
- Other expenses for outward reinsurance	39		512,584,288	424,301,467
<b>13. Total direct costs for insurance business</b>	<b>41</b>		<b>389,548,594,595</b>	<b>257,119,100,087</b>
<b>14. Gross profit from insurance business</b>	<b>42</b>		<b>22,544,973,288</b>	<b>49,427,476,232</b>
15. Administration expenses	44		34,042,791,390	23,292,543,278
<b>16. Net profit from insurance business</b>	<b>45</b>		<b>(11,497,818,102)</b>	<b>26,134,932,954</b>
17. Revenue from financial activities	46		223,669,363,281	48,405,579,850
18. Expenses for financial activities	47		18,369,277,386	119,675,550
<b>19. Profit from financial activities</b>	<b>51</b>		<b>205,300,085,895</b>	<b>48,285,904,300</b>
20. Other incomes	52		11,291,870,398	9,366,815,894
<b>21. Profit from other activities</b>	<b>54</b>		<b>11,291,870,398</b>	<b>9,366,815,894</b>
<b>22. Accounting profit</b>	<b>55</b>		<b>205,094,138,191</b>	<b>83,787,653,148</b>
23. Adjustments to taxable profit	56		(31,263,704,873)	(8,091,371,095)
In which: + <i>Untaxable profit</i>			(32,261,972,731)	(9,002,793,677)
+ <i>Undeductible expenses</i>			998,267,858	911,422,582
<b>24. Taxable profit</b>	<b>59</b>		<b>173,830,433,318</b>	<b>75,696,282,053</b>
25. Corporate income tax payable	60	11	45,467,973,376	10,597,479,487
26. Deferred corporate income tax income/ (expense)	61		(75,214,532)	(113,702,875)
<b>27. Profit after tax (62=59-60-56+61)</b>	<b>62</b>	12	<b>159,550,950,283</b>	<b>73,076,470,786</b>
In which: Gain from exchange differences revaluated at year end			4,709,211,672	405,069,841
<b>28. Earnings per share</b>	<b>63</b>	13	<b>2,352</b>	<b>1,873</b>

*Audited by Deloitte Vietnam Company Ltd*



## MAJOR SHAREHOLDERS

The total shares of the Corporation is 67,218,440. The par value of each share is VND10,000.

Shareholders	Portion (%)	Capital contribution as at 31 December 2008 (VND)
State-owned Capital Operation and Investment Corporation	40.36	271,313,000,000
Swiss Re	25.00	168,046,100,000
Other shareholders	34.64	232,825,300,000
<b>Total</b>	<b>100</b>	<b>672,184,400,000</b>

## INVESTMENT IN JOINT-VENTURE:

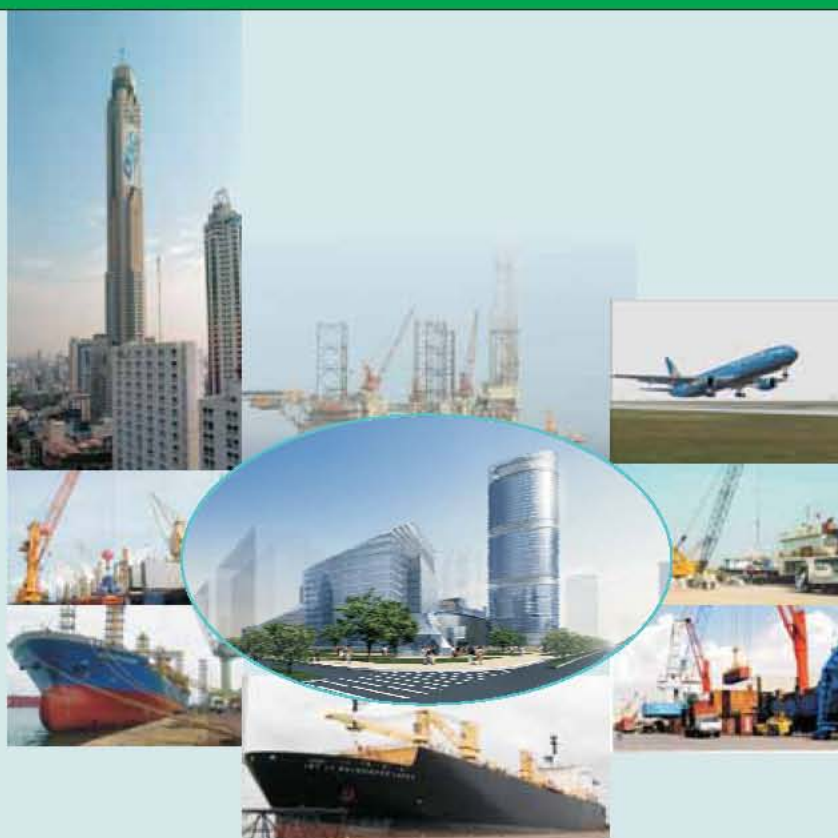
**50 per cent interest in Samsung Vina Insurance Joint-venture Company with historical amount of USD2,500,000; equivalent to VND38,420,000,000.**

## EQUITY CONTRIBUTION IN OTHER INSTITUTIONS:

	Portion (%)	31/12/2008 VND	31/12/2007 VND
Contribution to PJICO	8.76	29,867,910,000	12,705,450,000
Contribution to PTI	7.06	27,832,000,000	7,840,000,000
Contribution to Sai Gon Ha Long Hotel	6.00	6,000,000,000	6,000,000,000
Contribution to Global Insurance Company	5.87	17,600,000,000	17,600,000,000
Contribution to Bao Tin Insurance Company	10.00	8,000,000,000	8,000,000,000
Contribution to Agribank Insurance Company	8.42	32,000,000,000	32,000,000,000
Contribution to Dai Nam Securities Company	5.00	1,900,000,000	1,900,000,000
Contribution to HKI Insurance Company	10.00	30,000,000,000	-
Contribution to Tien Phong bank	12.50	125,000,000,000	125,000,000,000
		<b>278,199,910,000</b>	<b>211,045,450,000</b>

*Audited by Deloitte Vietnam Company Ltd*

## 4

**BUSINESS REVIEW 2008**



## Fire & Miscellaneous Accidents

Fire & miscellaneous business posted an increase of 14.5 per cent in terms of gross premiums written to VND185 billion. VINARE was able to benefit from strong inward business flow from new players in the market like AAA, GIC or ABIC as well as some long-term partners like PJICO, PVI, BIC or Bao Long. The total premium volume of the fire market was estimated at around US\$63 million in 2008, representing an increase of 20% compared with 2007.

However, loss ratio surged to 58.3 per cent of net premiums written as a result of a sudden increase in reported losses from primary insurers. This could be ascribed to an impairment in the underwriting conditions. Competition by way of undercutting premium and broadening terms and conditions has been an ongoing problem for the past many years. Competition was not only popular for standard risks like office buildings and hotels but also in highly-exposed production like textile, shoes and leather. In fact, the drop in premium rates was driven by commercial factors and not by the quality of risk.

The loss picture in 2008 continued to follow the negative trend. In the last few months of 2008, fire and explosion incidents rose tremendously. By December 2008, there were 1,683 incidents causing 52 deaths, 186 injureds, and economic loss of over VND600 billion. The main reason is low awareness of fire prevention and inadequate fire fighting equipment. With complicated fire and explosion situation, insured losses become more damaging in number and severity. To cite some major losses: Chungshing Textile Company (estimated loss US\$3 million), VMEP Company



(US\$3million), Song Ngan Textile Company (US\$1.35 million), Sacombank warehouse (US\$1.8 million), ShinBVT Textile Company (US\$2.2 million), Poh Huant Company (US\$2.5 million), Lode Star Company (US\$2.3 million), etc.

Especially, the heavy rain and flood in Hanoi and many other Northern provinces at the beginning of November caused a lot of casualties and property loss for the economy. The heaviest rainfall during 35 years caused 22 deaths and missing and an economic loss of over VND3,000 billion (in Hanoi only). Motor insurance claims paid by insurers reached VND30 billion. According to preliminary estimate, losses of property insurance amounted to about VND70-80 billion (in Hanoi only). ■



## Engineering

Engineering business continued to be the leading premium earner of VINARE with gross premium written amounting to VND266.9 billion in 2008, increasing 23.6 per cent over the previous year.

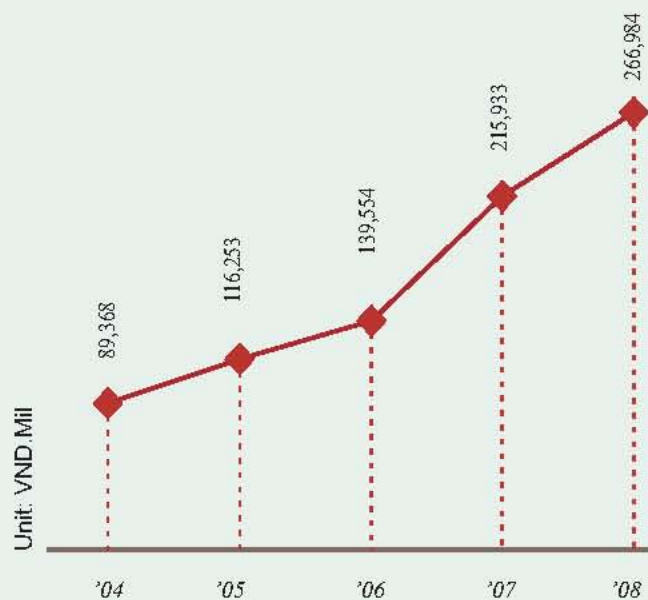
The market premium volume (according to VinaRe's source) increased 16.5% compared with 2007 to VND990.4 billion (US\$60 million). However, the premium volume of 2008 was largely contributed by the premium of the underwriting year 2007 which accounted for 30%. Premium income of UY2008 only accounted for about 50% (VND527 billion) of the gross premium income by the end of the year.

Underwriting year 2008 was badly hit by the local and international financial turmoil, particularly in the second half of 2008. A number of projects have been delayed due to capital shortage or divided into smaller sections for deployment. Only a few number of large policies were issued and the number of extended policies with additional pro-rata premium or without additional premium increased.

Rates are falling for renewable policies like Machinery Breakdown (MB) or Contractors' Plant & Machinery (CPM). For construction of office buildings rates have dropped below 0.1 percent while loss record is relatively high.

Engineering insurance witnessed some large losses in 2008:

- Three incidents at Cam Pha Cement Factory with total estimated claims of US\$1.71 million.
- Damage to Ha Long Cement Factory, estimated claim of VND20 billion.
- Loss at Nhieu Loc Thi Nghe, Ho Chi Minh City, estimated loss of US\$800,000.
- Damage to the crane system of Cua Ong Cold Company, estimated claim of VND63.5 billion.
- Loss at Hydro Power Khe Soong, estimated loss of VND14.5 billion.
- Damage to Keangnam Building, Hanoi, estimated loss of US\$800,000.



- Damage to Hydro Power Hoho, estimated claim of US\$588,000.

It can be seen from the above mentioned losses that losses in cement factories have increased in both number and severity, especially during the commissioning period. There have been some severe damages to hydro power projects, particularly to small and medium-sized ones. Contractors' Plant & Machinery Insurance remains to be highly risky in Vietnam. According to the statistics of Vina Re, the loss ratio of this product in the past ten years has risen to 160 percent. Besides the increase in risk accumulation, the underwriting quality of primary market (including underwriter's expertise and risk management) appears to be of great concern, particularly in the case of business written via treaties.

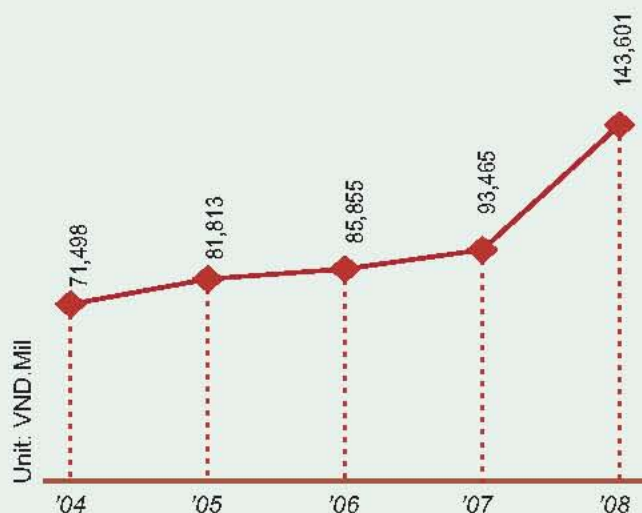


## Marine Cargo

Marine Cargo enjoyed a sharp increase of 53.6 per cent to VND143.6 billion worth of gross written premiums. The strong growth could be explained by the strong growth of import and export turnover which rose 27.5 and 29.5 percent respectively. In particular, marine cargo business was largely driven by the hike in oil and other commodity prices in the first three quarters of 2008, causing the rise in sum insured and premium volume. In the 4<sup>th</sup> quarter, the growth rate was stagnant due to the decrease in market price and demand. It is predicted that bad impacts will remain in 2009.

The local marine cargo market is suffering from several bad practices which dramatically affects profitability. For example, some types of cargo which are vulnerable to shortage like cattle feed, soya-bean meal, fish powder or fertilizer are still covered until packaging or delivering at port quay or at importer's warehouse. Packaging at port quay or the difference between various means of weighing have caused high loss ratio recently. In 2008, a number of big losses ranging from US\$150,000 to 500,000 have occurred on m/v Zayed, m/v Joudi, m/v Taiyoung Rosa, and m/v Cresta Blue.

Some big insurers suffering from such losses have refused to provide cover at clients' request or agreed to issue policy with high premium rates and deductibles. Some insurers have carried out prevention methods during loading at quay like installation of electric scale on the loading equipment between the vessels and the



quay or hiring control companies to control the loading but the results so far prove to be very limited. Some insurers having issued policies for these types of cargo then cede the whole risk facultatively to companies with little experience in dealing with risks which are certain to happen.

Imported steel cargo is also a target of great interest to several insurance companies. However, this type of business is highly exposed to big losses and total losses.

In general, marine cargo experienced a mild year in 2008 with fewer big losses, however the size of these few losses were quite tremendous for the market. Following are some typical cases:

- The sinking of m/v New Hangzhou in the eastern coastal area of China on 13/03/2008 together with its steel cargo with the sum insured of US\$6.91 million insured by PVI and another lot of US\$748,620 insured by Bao Minh.

- The two companies PVI and Bao Minh issued policies for two other lots of steel cargo on m/v Captain Uskov which was missing in February 2008 with the total value of US\$1.33 million.

- The liquefied gas cargo on m/v Viet Trung insured by PVI with the sum insured of US\$612,278 evaporated because of the sinking of the vessel in Nghe An coastal area.

- The petroleum cargo on m/v Duc Tri insured by PVI with the sum insured of US\$1,116,250. M/v Duc Tri, which sank in Phan Thiet on 03/03/2008, was successfully salvaged, but with high related cost.■



## Marine Hull

Premium income from Marine Hull experienced the highest increase ever of 63.6 per cent to VND64.6 billion. The strong increase was mainly attributed to VINARE's participation in several surplus treaties of the new players like GIC, AAA and ABIC.

In the marine hull market, premium volume increased 20% over 2007 to around US\$18 million thanks to the introduction of many big vessels which have been bought or built recently. There were some but not many builders' risks policies in 2008 as shipyards continued with their existing contracts and projects from 2007 and the previous years.

Competition between the long-run and experienced insurers and the new players has become extremely severe when new players simply decrease the premium to snatch the business. Most of these business were placed in the international reinsurance market with terms and conditions different from the primary policies and the insurers have to bear all the consequences arising from these differences, especially in deductibles. In some cases, many policies were co-insured but this was not specified in the policy wordings. Therefore, the insurers issuing the policy had to be responsible for all the issues related to the policy like collecting premium, settling claims with clients and can only receive a small leading fee.

In late 2008, insurers received a lot of requests to reduce the sum insured of vessels under cover. The situation goes on in 2009 renewals with the average sum insured dropping 40%, or even 75% in comparison with 2008.

On one side, the local market calculate premium by multiplying the sum insured with premium rate. There is no separation between premium for partial loss (on the basis of vessel size) and total loss (on the sum insured basis). While sum insured decreases sharply due to the annual depreciation, devaluation, etc. the older vessels are susceptible to higher risks but the premium still decreases because of competition.

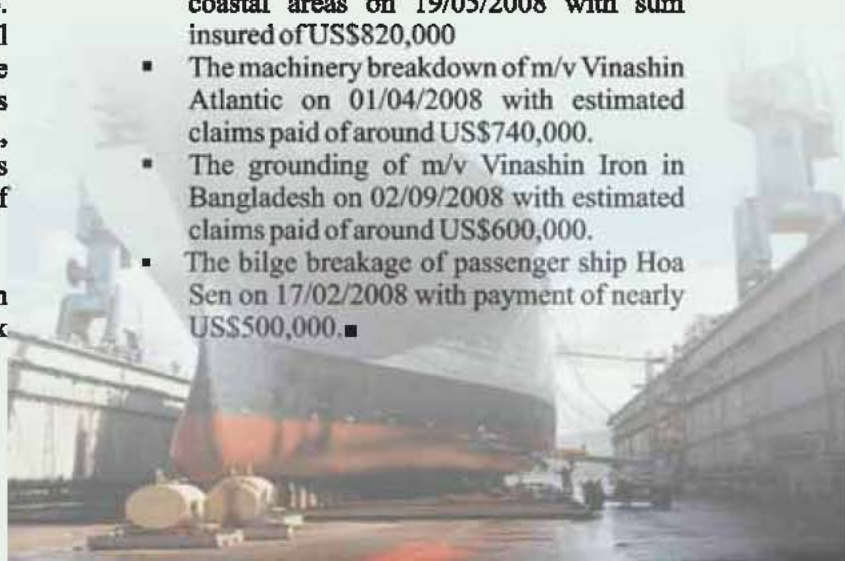
On the other side, man-made risks may arise when insurance for vessels is provided on a book



value basis amid the global financial difficulties, declining profitability of shipping business and increasingly lower vessel value.

The year 2008 was typified with many big losses and following are some examples:

- M/v Quoc Tu Giam collided with m/v Genco Hunter in Singapore on 07/08/2008. Estimated claims paid US\$2.5 million.
- The grounding of m/v Inlaco Spring in Vung Ang on 08/11/2008 with estimated claims paid US\$1 million.
- M/v Green Viship collided with m/v Vinashin Pacific in Sai Gon river on 18/06/2008. Estimated recovery cost VND16 billion.
- The machinery breakdown of m/v Vinalines Sai Gon on 25/05/2008 with gross estimated recovery cost more than US\$ 500,000. The grounding of this vessel also on 30/10/2008 in Gabon with the guarantee amount paid for rescue EUR840,000.
- The sinking of m/v Viet Trung in Nghe An coastal areas on 19/05/2008 with sum insured of US\$820,000
- The machinery breakdown of m/v Vinashin Atlantic on 01/04/2008 with estimated claims paid of around US\$740,000.
- The grounding of m/v Vinashin Iron in Bangladesh on 02/09/2008 with estimated claims paid of around US\$600,000.
- The bilge breakage of passenger ship Hoa Sen on 17/02/2008 with payment of nearly US\$500,000.■





## Aviation

Aviation reinsurance business benefited from a favourable year with the successful launch of satellite VINASAT 1 which brought about a premium amount of US\$4.2 million for VINARE. The gross premiums written therefore grew 26.9 per cent to VND216.4 billion.

However, net claims incurred also rose to more than 100 per cent of net premiums written due to a severe incident at Narita Airport, Japan.

The total premium volume of the aviation market in 2008 was around US\$38.8 million, in which the premium of Vietnam Airlines was US\$13.8 million. 2008 was the year with the highest loss record in the local aviation history due to the incident of Vietnam Airlines' Boeing 777 in Japan on 29 July 2008. Estimated claim amounted to US\$29.7 million, including US\$2.7 million for loss of use insurance. Total losses of Vietnam Airlines in 2008 were estimated at US\$35 million, comparing with the figure of US\$3.6 million and US\$ 4.2 million in 2007 and 2006 respectively. Vietnam Airlines has incurred no human losses in recent years.

Other aviation operators in Vietnam have not suffered from any losses for many consecutive years. In 2008, there were some small claims of crew's accident insurance by Jetstar Pacific. Some hull incidents were beyond the scope of cover, or belonged to the contracts of ground service company. The loss record of Vietnamese aviation insurance market in general has been at the positive level.

Most of the airlines and aviation operators in Vietnam have just completed the 2008/2009 renewals. The market premium volume amounts to US\$19.6 million, in which the premium volume of Vietnam Airlines increases nearly 30 percent compared with 2008 to US\$ 17.4 million.

Vietnam Airlines has just signed a contract to expand its ATR72 fleet in late 2008. Under the contract, Vietnam Airlines will purchase six new ATR72 - 500 aircraft, valued at over \$112 million. It is the second contract Vietnam Airlines and ATR have inked for the purchase of ATR72 - 500s since



last December. Last year, Vietnam Airlines also purchased five of the aircraft.

With the additional aircraft, the carrier will expand its fleet of ATR 72 - 500s up to 14 aircraft by 2010. The aircraft will serve the domestic and Indochina markets, including air routes from big cities like Hanoi, Danang and Hochiminh City to tourist destinations like Nha Trang, Da Lat, Phu Quoc, Siem Reap, Phnom Penh and Luang Prabang.

The demand of aviation transport services in Vietnam has been rapidly accelerating in recent years, attracting attention from private sectors. Since the early of this year, the Civil Aviation Administration of Vietnam has granted licences for three private domestic airlines. Australian Qantas Airways also jumped into the market by acquiring 18 per cent of stakes at Pacific Airlines (now is Jetstar Pacific Airlines), the country's second largest airline.

While low-cost carrier Jetstar Pacific Airlines is struggling with losses due to the economic downturn, Vietnam Airlines still reported a profitable 2008 with pre-tax profit of VND241 billion (\$14.2 million).

Vietnam Airlines' main rival, Jetstar Pacific Airlines, suffered huge losses in 2008. According to a report by the State Capital Investment Corporation - the largest stakeholder in Jetstar Pacific Airlines, the low-cost carrier had lost \$55 million as of October 2008. Meanwhile, other private airlines which gained government licences in 2008 has yet to take off. ■





## Protection & Indemnity

The gross premiums written from P&I increased 21.3 per cent to VND130.1 billion largely thanks to the strong growth in new tonnage with the delivery of a series of large new vessels.

As at the end of December 2008 there were 432 vessels entered with P&I clubs, increasing 8.1% compared with 2007 and the total tonnage increased 19.25 percent to 3.84 million ton. A lot of large vessels were delivered and bought in underwriting year 2008 such as PVT Dolphin, Vinashin Bay, VTC Planet, Sunny Viship, Vinalines Global, VSP Ruby, VSP diamond, Nosco Victory, Nosco Peace, Vosco Star, Petrolimex 11, etc.

In addition, most P&I clubs were affected by the financial crisis and suffered from a big loss in investment returns, and as a result, three out of four P&I clubs operating in Vietnamese market requested the additional charge for the unclosed underwriting years.

The shipping industry, like all other economic sectors, has been heavily affected by the financial crisis. The industry has experienced a sharp drop in freight charges of 30%-90% in the past three months.



Some notable losses during the year:

\* M/v Quoc Tu Giam collided with m/v Genco Hunter in Singapore on 7 August 2008, the claimant has required payment of US\$4.5 million after subtracting the loss of m/v Quoc Tu Giam. The WOE club is coordinating with related parties to limit the liability under Singapore law, estimated at US\$1.6 million.

\* M/v Phuc Hai Star had rice cargo damages at Port Harcourt and Lagos on 9 October 2008, the claimant has required payment of US\$783,122. The WOE has signed an LOU worth US\$633,122 for the claimant.

\* M/v Neptune Star suffered shortage and damages in rice cargo on 5 November 2008 at Port Conakry and the vessel was arrested by the buyer. GARD club has signed an LOU worth US\$900,000 to free the vessel. GARD club and related parties are negotiating with the claimant to pay the compensation of US\$500,000.

\* M/v Vinalines Saigon had water infiltrated into the cargo hold in Mundra, India. According to London club, the estimated claims for the cargo at nearly US\$2.3 million and for the general average loss at US\$200,000. ■





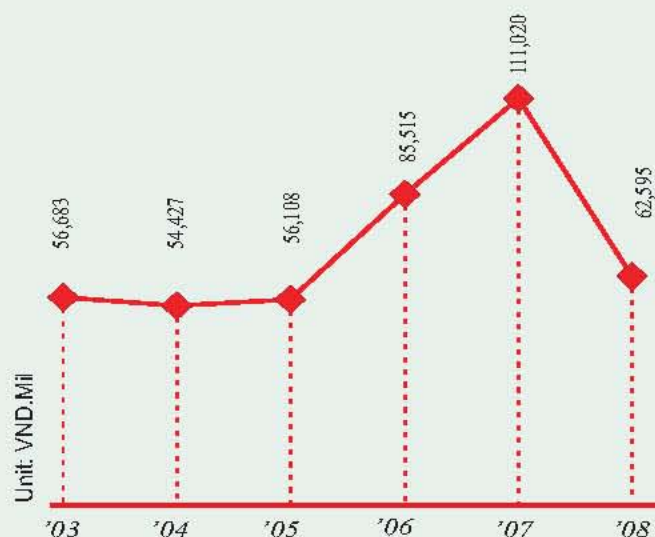
## Energy

Energy business saw a sharp fall of 43.7 per cent in gross premiums written to VND62.6 billion as inward business was significantly reduced.

The energy market of Vietnam in 2008 saw almost all the policies being renewed or extended with the existing leading insurers to enjoy the benefits of the soft market period during the first half of 2008 like unchanged terms and conditions, decrease in rate via discount thanks to continued policies, premium return in case of no loss, etc.

The number of policies covering offshore exploration activities stayed the same as the previous year, except for the policy provided to Arrow Global CBM Pty Ltd. in Hanoi basin and Quad Energy SA in Tien Hai, Thai Binh. The main exploitation activities mainly concentrated on Bach Ho, Rong, Rang Dong, Hong Ngoc, Golden Lion, North of Con Son, Rong Doi and Bunga Kekwa in the overlapping sea between Vietnam and Malaysia.

2008 witnessed two relatively big offshore construction projects to expand well operation. That is the project on construction and erection of the well-head platform, cable and undersea pipeline in Black Lion in the North West, site 15-1 of Cuu Long Company with the estimated value of more than US\$195 million. The project of constructing two well-head platforms, and interfield pipeline system in Chim Sao Mine, site 12W of Premier Company with the estimated value of US\$223 million.



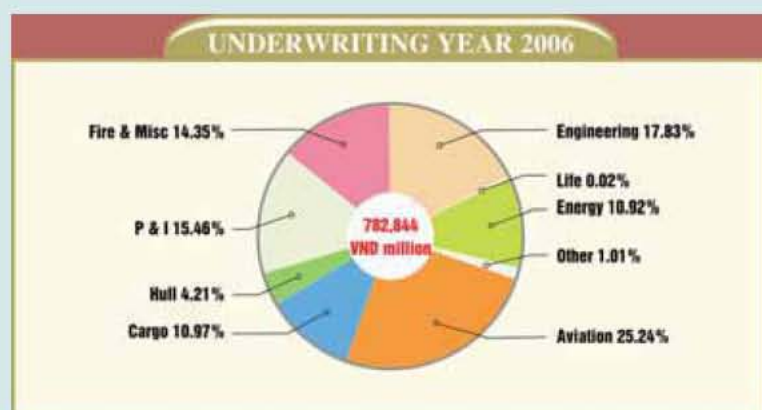
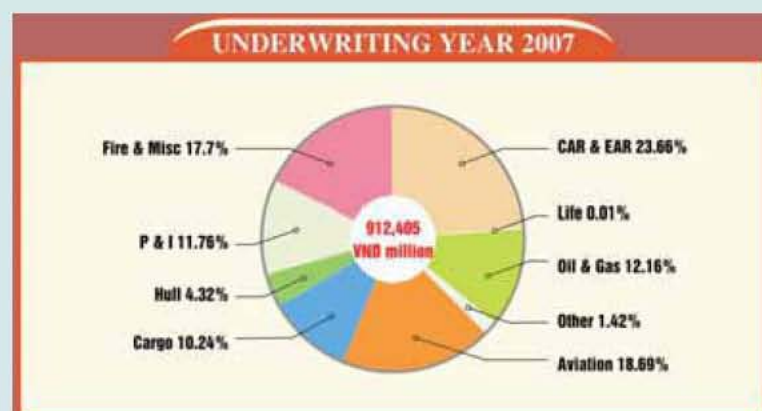
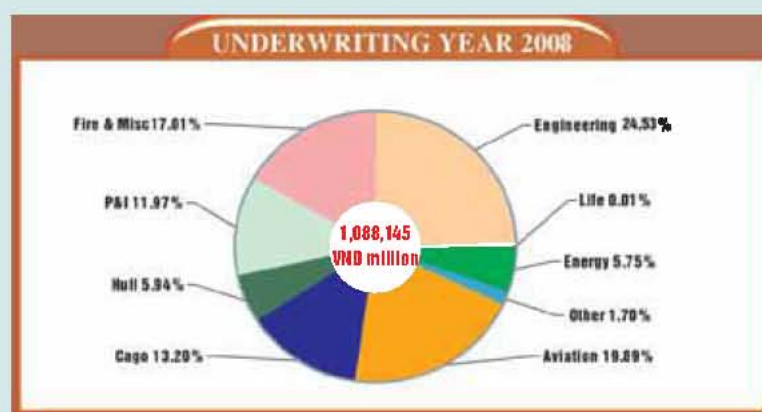
It is estimated that total premium revenue of the energy market in Vietnam in 2008 as at 31 December 2008 increased 20% in comparison with the previous year to about US\$33 million. ■





## 5

## BUSINESS MIX



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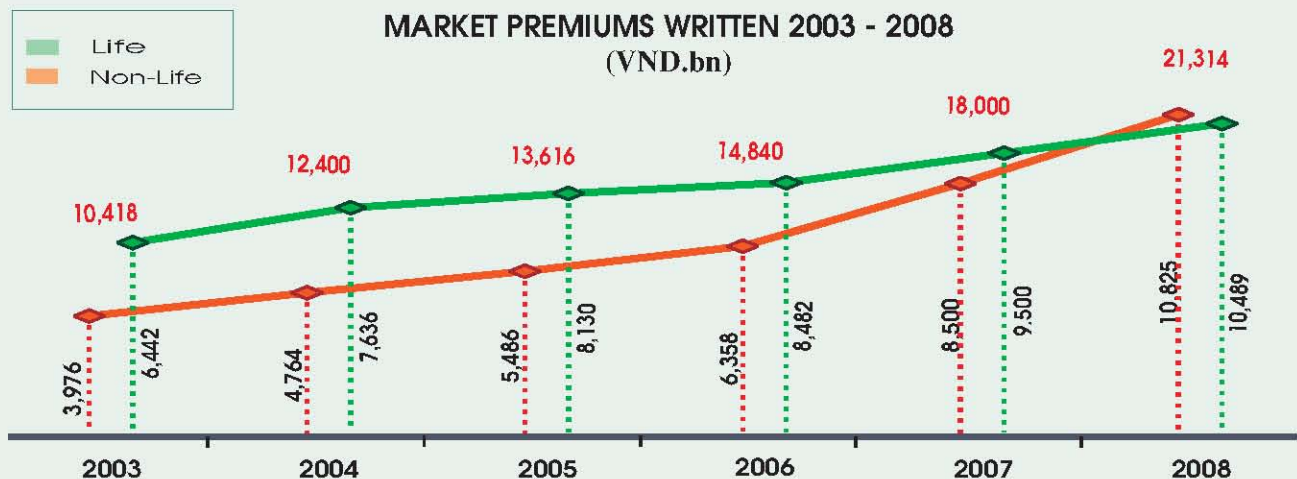
# INSURANCE MARKET 2008: PROFITABILITY UNDERMINED



The year 2008 proved to be a tough and sophisticated year for Vietnamese economy. Whilst in the early months of the year the economy faced with the price escalation, high inflation, prime interest rate determined by the State Bank hit the peak (14 %/year), in the late months of the year the financial crisis and global economic recession had direct impacts on Vietnamese economy causing a downturn in business and production and an increase in unemployment.

However, despite the economic crisis, catastrophes and epidemics, GDP growth of Vietnam posted 6.23%, export turnover reached the highest increase in the past ten years at 29.5%, and registered FDI hit the record of USD64 billion.

The Vietnamese insurance market has been given a favourable environment for development under the close regulation of the Ministry of Finance. Therefore, the insurance market still developed in 2008 with gross premium volume increasing 19.5% compared with the previous year to VND21,300 billion. Since 1 January 2008, following the commitments of WTO entry in insurance business, there is no difference between foreign-invested and local enterprises.



## Non-life Insurance

In 2008, five more players were licensed and started operation: Vietnam Airlines Insurance Joint-stock Company (VNI), Hung King Insurance Company (HKI), Fubon Insurance Company, SHB-Vinacomin Insurance Company (SVIC), and Mitsui Sumitomo Insurance Company. So there have been 27 non-life insurers in Vietnam.

Premium income from non-life business increased 29% to VND10,825 billion and only a little bit lower than the growth rate of 2007 (30%). Large companies all posted positive growth on revenue like Vietnam Insurance Company growing 22% to VND3,738 billion; Bao Minh rising 16% to VND1,988 billion; and PVI soaring 35% to VND2,688 billion.

However, besides the positive point of increased revenue, non-technical competition in the market proved to be rather tough while

underwriting expenses rose significantly, and losses became more damaging. Many insurers undercut premium in order to generate competitive advantages in some lines like motor, property, marine hull, or marine cargo, etc. which has not only created an unfair market but also affected the financial security of insurers.

Corporate governance was becoming a matter of concern. It was the rapid increase in the number of insurers recently that has created a shortage of insurance human resource, particularly senior management staff. Risk/cost management has become an important factor in every enterprise. Although many enterprises pay much attention to this matter but it needs more time to improve.

Loss toll apparently increased in number in almost of the business lines like Fire, Engineering, Marine Hull and Marine cargo. Especially, the heavy rain downpour in Hanoi in



early November caused severe loss to the insurance industry and the economy in general. Claims paid for property losses were estimated at VND 70 - 80 billion.

Many bad risks were retroceded domestically because they were rejected in the international market or local insurers accepted retrocession with terms and conditions and premium not more favourable than overseas retrocession.

Adverse factors in insurance market have led to a decline in underwriting profit. Most non-life insurers have already suffered underwriting loss and had to use catastrophe reserve to balance the financial results.

## Life insurance

Revenue from Life insurance stood at VND10,489 billion, representing an increase of 11% over the previous year. With the recent high inflation, Life Insurance saw a tough competition when most clients considered Life insurance as a type of investment although the main target is protection.

However, Vietnamese Life Insurance market is supposed to be of great potential. In June, a new foreign-invested life insurer Korean Life Insurance Company, a member of Korean leading economic group, Han Wha Group, was licensed. This is the first Korean Life insurer operating in Vietnam with the capital of US\$60 million.

At the same time, another life insurer of Korea Samsung Life Insurance opened its representative office in Hanoi. Samsung Life is a member of Samsung Group with revenue of US\$27,6 billion in 2007, equivalent to 28% of the life market in Korea.

## Legislation documents accomplished

In 2008 legislation documents provided guideline on the application of the Law on Insurance business and other related documents

have been improved, which will present opportunities for a fair and sustainable development of insurance industry, and implementing bilateral and multilateral commitments on international integration.

The Ministry of Finance has submitted to the Government to enact Decree No. 103/2008/NĐ-CP dated 16/9/2008 in replacement of Decree No. 115/1997/NĐ-CP on compulsory motor's liability insurance.

Currently, the Ministry of Finance is drafting a new decree to replace Decree No. 118/2003/NĐ-CP on administrative penalty in insurance business.

## 2009 prospect

According to the comprehensive development plan of the insurance market, the Ministry of Finance has set out the targets for the year 2009 and 2010 to maintain stable growth rate of 12-13% per year. The year 2009 is considered to be much more difficult than 2008. However, the financial stimulus package of US\$6 billion supposed to be disbursed in basic construction, building houses for the poor, etc. will create more jobs and consume a large amount of commodities. Besides, ODA capital will continue to be committed by international sponsors, FDI may decrease a little but not much, which will present opportunities to ensure the growth rate of 15 -18 percent for non-life market. The decrease in residents' income may affect the growth rate of Life insurance, which is estimated at 8-10 percent.

Despite the high growth rate, quality is a matter of importance. Besides, financial strength, corporate governance, product quality, delivery channel are also matters of concern for enterprises. It is a big challenge to utilize the capital from insurance premium in a safe and efficient manner amid the slump stock market situation.■



## 7

# ECONOMIC SITUATION 2008





## Growth hindered by ramping inflation and global crisis in 2008

Vietnam's economy has ended 2008 in robust form amid the global economic crisis, despite failing to meet its yearly growth targets.

According to the Ministry of Planning and Investment's report, the country's economic growth was 6.23 per cent in 2008, lower than the 7 per cent target set by the National Assembly. It is also the lowest growth rate since 2000.

Last year, the economy grew at 8.48 per cent and the country expected growth to hit 9 per cent in 2008. However, due to the ramping inflation and global financial crisis, the National Assembly reduced growth target to 7 per cent, while the government expected it to reach 6.5 per cent.

The government blamed the global economic recession and ramping inflation rate as main

factors for the failure. By the end of 2008, the consumer price index increased 19.89 per cent against the same period in 2007. Export values, the main contributors to economic growth, still saw a high growth at 29.5 per cent, but export values reduced in recent months.

Industry and construction sectors saw the lowest growth at 8.14 per cent and 0.02 per cent respectively. In 2007, in line with the booming investment and the real estate market, these sectors grew 10.21 per cent and 12 per cent.

The low growth in those sectors was caused by difficulties like lack of capital, high interest rates at commercial banks and low demand.

The ramping inflation rate and slowdown of the economy also hindered service sector growth. This sector grew 7.2 per cent in 2008 compared with 8.68 per cent in 2007.





## 2009 prospects

The National Assembly has set 2009 GDP growth target at 6.5 per cent, export earnings of \$72.3 billion - an increase of 13 per cent compared to 2008 - and reining in inflation to less than 15 per cent.

Vietnam will need to go the extra distance to meet its 2009 socio-economic development objectives. Loosened monetary and fiscal policies, increased exports, demand stimulus via enhanced investments and a secure social welfare system will be the principal tasks for the nation to keep the targets within reach. In addition, Vietnam will face greater challenges of declines tourists, less foreign direct and indirect investment capital and narrower access to international loans. Foreign direct investment in Vietnam would be badly hit because the global economic turbulence would force many parent companies to suspend overseas investment projects including those in Vietnam.

The International Monetary Fund (IMF) said, with regards to the medium term, the Vietnam's economic outlook remained favourable, as government maintained sound policies and continued reforms to enhance its competitiveness.

In the short-term, IMF predicted the economy to continue slowing down further to 5 per cent

in 2009. While the government made commendable progress in stabilising the economy, Vietnam has, more recently, begun to experience adverse effects from the global economic slowdown. The balance of risks had shifted from inflation to growth and that this had prompted the government to respond by easing monetary and fiscal policies.

Export of goods and services are slowing, reflecting a downturn in key trading partners' economies. Furthermore, private remittances and foreign direct investment, two major factors supporting economic activity in 2007, are also slowing from high levels, as a result of the deterioration in global economic conditions.

To prevent further slowdown, the Vietnamese government is implementing measures like tax cuts, interest rate cuts and boost the administrative procedure reforms for encouraging enterprises. Maintaining the momentum of reforms through this difficult period was important to bolster investor confidence and to ensure that Vietnam was well positioned when the world emerged from the current global economic slowdown.■







# *Annual Report* **2008**

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