



# *Annual Report* **2007**

VIETNAM NATIONAL REINSURANCE CORPORATION



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## 1

## MESSAGE FROM CHAIRMAN &amp; CEO



**ĐẠI HỘI ĐỒNG CỔ ĐÔNG THƯỜNG NIÊN LẦN THỨ III  
TỔNG CÔNG TY CỔ PHẦN TÁI BẢO HIỂM QUỐC GIA VIỆT NAM  
THE 3<sup>RD</sup> ANNUAL GENERAL SHARE-HOLDERS' MEETING**

Hà Nội, ngày 28/04/2008





## Economic and industry background

One year since joining the World Trade Organisation, Vietnam economy recorded the highest growth in a decade (at 8.44 per cent) while bringing in a record amount of foreign direct investment. The economy was benefiting from an improved business environment, high export turnover and steady growth of service and industrial sectors.

With such great momentum from the economy, the insurance industry experienced a leaping growth in 2007 with total premium revenue of VND18 trillion, an increase of 20.5 per cent in comparison with 2006. The local insurers have actively introduced new products adaptable to economic development, increased value added to clients and enhanced their financial capability through several capital raising solutions.

## Business performance

VINARE's gross written premiums increased 16.8 per cent in comparison with 2006 to VND912.4 billion. Market conditions, especially the non-life market which grew by 30 per cent, was an important factor contributed to the growth in gross written premiums. However, the volume of business ceded to VINARE was affected by the fact that most local insurers had raised their retention level as a result of their capital increase.

As a preparation for these changes in business landscape, VINARE has always been striving to maintain competitiveness in our reinsurance treaties offered to ceding clients. We have made the best of our internal efforts, via our financial capability, our established position in the local market and our reinsurance expertise, in order to cement and expand further the business exchange relationship with our core clients.

VINARE has actively approached the start-up



insurers with the view to assist them in constructing a comprehensive reinsurance programme and receive 100 per cent of ceding liabilities.

Net written premium rose 32.6 per cent to VND208.7 billion as a result of determining an optimum retention level for each business line based on their result and loss record. This helped push the underwriting profit up by 60 per cent in comparison with the previous year.

Together with financial investment returns increasing 4 per cent, total profit before tax grew 16.8 per cent to VND83.5 billion.





## Results of capital raising campaign in 2007



The 2007 capital raising campaign was completed by the end of January 2008 with the new chartered capital pinpointed at VND672,184,400,000. This campaign comprised of two stages. In the first stage, a portion of new shares were offered to existing shareholders, VINARE's employees, members of the Board of Management and Board of Control at fixed prices and to the public via a price auction. In the second stage, VINARE sought to offer the remaining portion to a foreign strategic partner with the advisory from N M Rothschild & Sons (Singapore) Limited and Horizon Capital Advisers Co Ltd., (Vietnam).

Upon the approval of the Ministry of Finance, VINARE has selected Swiss Re to be the sole foreign strategic partner. Swiss Re acquired a total of 16,804,610 new shares, equivalent to a 25% stake of the enlarged share capital of VINARE, at VND75,000 per share for a total amount of VND1,260 billion (approximately USD79 million). Credit Suisse acted as the exclusive financial advisor to Swiss Re in this transaction.

As part of the strategic partnership, VINARE and Swiss Re has entered into a wide range of strategic collaborations with the purpose of enhancing VINARE's business capacity, increasing business exchange between two sides and expanding

VINARE's operation in the international market.

This strategic partnership plays a significant role in materializing the strategic development plan of VINARE which has been laid out in the development guideline approved by the Government in Decision 175/2003/QĐ-TTg dated August 29<sup>th</sup>, 2003: "... to develop VINARE into an enterprise with strong financial capacity, capable of playing a leading role in the domestic and regional market, a centre of business and information exchange and with a diversified investment portfolio in various sectors of the economy."

Founded in Zurich, Switzerland, in 1863, Swiss Re is the world's leading and most diversified global reinsurer. The company operates through offices in more than 25 countries. Swiss Re offers financial services products that enable risk-taking essential to enterprise and progress. The company's traditional reinsurance products and related services for property and casualty, as well as the life and health business are complemented by insurance-based corporate finance solutions and supplementary services for comprehensive risk management. Swiss Re is rated "AA-" by Standard & Poor's, "Aa2" by Moody's and "A+" by A.M. Best.





## Changes in Board seats

With the introduction of Swiss Re as strategic shareholder, there has been some changes to the Board of Management and Board of Control at the Extraordinary General Meeting of Shareholders convened on January 28, 2008. We are delighted to welcome Mr. Peter Gujer and Mr. Eduard Held, who represents Swiss Re in the Board of Management and the Board of Control respectively. We are also delighted to welcome two new members of the Board of Control, Mr. Le Quang Trung and Mr. Pham Quang Tung. On this occasion, I would like to express my sincere thanks to the ex-members of the Board of Management and Board of Control: Ms. Tran Thai Phuong, Mr. Dang The Vinh, Ms. Le Thuy Binh, Mr. Doan Thanh Tuan for their counsel and contribution to VINARE's operation during their membership term.

## 2008 business plan

With a strong input of new capital and surplus, VINARE expects the gross written premiums in 2008 to increase 15 per cent and profit before tax to double over 2007.

In the medium term, by 2010 VINARE aims to raise its gross written premiums to VND1,500 billion and its net written premiums to VND370 billion. The average growth of profit is expected at around 60 per cent annually.

I strongly believe that with the continued dedication of all staff members and the strengthened cooperation with our partners and clients, VINARE will achieve these targets and grow into a solid professional reinsurer not only in the local market but in the regional arena as well.





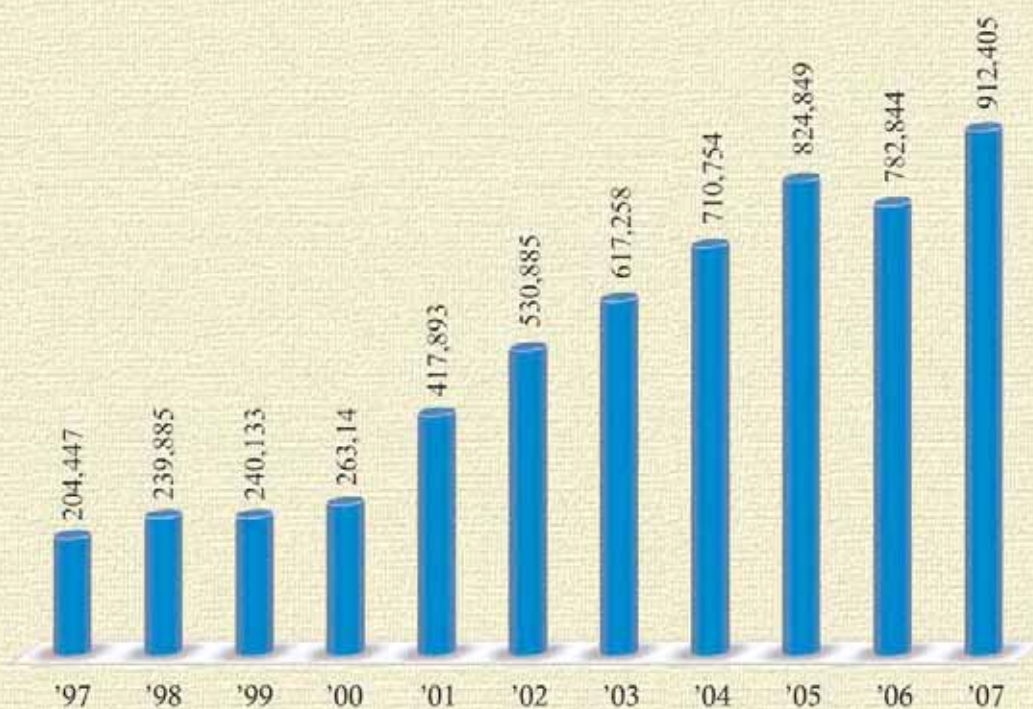
## 2

# FINANCIAL HIGHLIGHTS

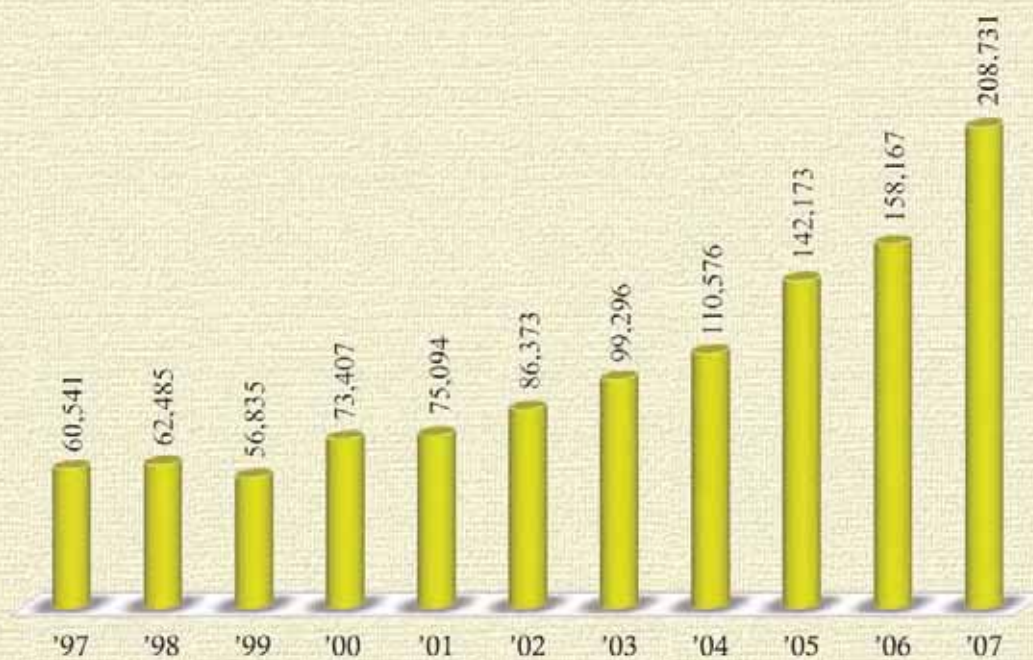
*As of December 31, 1997 to 2007*

**Unit: VND million**

### Gross Written Premiums



### Net Written Premiums





## Technical Reserves

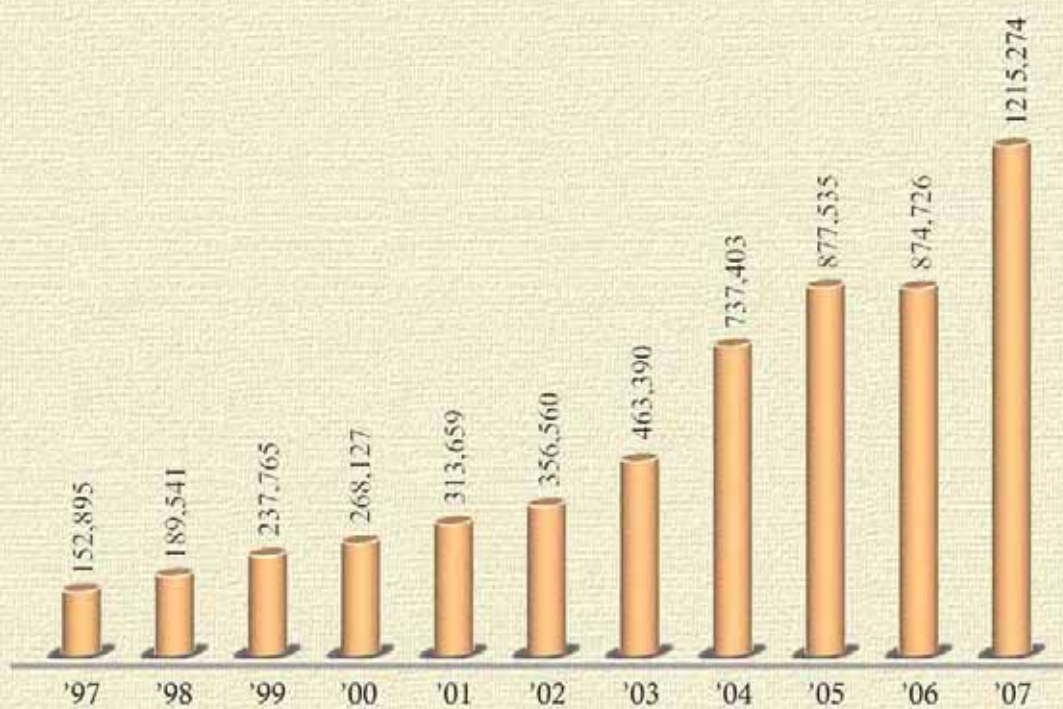


## Investment Income





## Total Assets



## Pre - tax Profit





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# FINANCIAL REVIEW



**BALANCE SHEET**

As at 31 December 2007

Unit: VND

ASSETS	Codes	Notes	31/12/2007	31/12/2006
<b>A. CURRENT ASSETS AND SHORT-TERM INVESTMENTS</b>	<b>100</b>		<b>588,564,079,157</b>	<b>519,166,733,865</b>
<b>I. Cash and cash equivalents</b>	<b>110</b>	4	<b>99,275,778,970</b>	<b>93,245,227,445</b>
1. Cash on hand	111		39,047,778,970	32,144,227,445
2. Cash in bank and cash equivalents	112		60,228,000,000	61,101,000,000
<b>II. Short-term financial investments</b>	<b>120</b>	5	<b>221,142,599,800</b>	<b>271,454,500,000</b>
1. Short-term investment	121		221,262,275,350	271,454,500,000
2. Provision for diminution of short-term investments	128		(119,675,550)	-
<b>III. Account receivables</b>	<b>130</b>		<b>263,556,815,286</b>	<b>143,738,780,613</b>
1. Trade receivables	131		263,962,896,982	143,738,780,613
- Receivables from inward reinsurance			134,595,617,189	69,457,597,017
- Receivables from outward reinsurance			102,850,859,475	52,383,004,882
- Others		6	26,516,420,318	21,898,178,714
2. Provision for doubtful debts	139		(406,081,696)	-
<b>IV. Inventories</b>			<b>33,666,772</b>	<b>23,842,694</b>
1. Inventories	141		33,666,772	23,842,694
<b>V. Other current assets</b>	<b>150</b>		<b>4,555,218,329</b>	<b>10,704,383,113</b>
1. Short-term prepayments	151		4,417,232,202	10,449,686,382
2. VAT deductibles	152		50,972,971	96,675,605
3. Advances	158		87,013,156	158,021,126
<b>B. FIXED ASSETS AND LONG-TERM INVESTMENTS</b>	<b>200</b>		<b>626,710,594,484</b>	<b>355,559,276,843</b>
<b>I. Fixed assets</b>	<b>210</b>		<b>53,593,422,527</b>	<b>56,633,767,161</b>
1. Tangible fixed assets	211	7	37,001,170,958	39,065,500,794
- Cost	212		52,063,678,053	51,780,488,194
- Accumulated depreciation	213		(15,062,507,095)	(12,714,987,400)
2. Intangible fixed assets	217		16,592,251,569	17,568,266,367
- Cost	218		19,520,295,963	19,520,295,963
- Accumulated depreciation	219		(2,928,044,394)	(1,952,029,596)
<b>II. Construction in progress</b>	<b>230</b>		<b>284,244,448</b>	<b>55,045,878</b>
<b>III. Long-term investments</b>	<b>220</b>	5	<b>570,567,817,466</b>	<b>296,605,353,761</b>
1. Interests in joint ventures	222		38,420,000,000	38,420,000,000
2. Other long-term investments	228		532,147,817,466	258,185,353,761
<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>1,215,274,673,641</b>	<b>874,726,010,708</b>

Audited by Deloitte Vietnam Company Ltd.



As at 31 December 2007

Unit: VND

RESOURCES	Codes	Notes	31/12/2007	31/12/2006
<b>A. LIABILITIES</b>	<b>300</b>		<b>601,392,562,350</b>	<b>461,269,436,734</b>
<b>I. Current liabilities</b>	<b>310</b>		<b>310,355,676,655</b>	<b>224,798,566,027</b>
1. Trade accounts payable	313		297,364,791,594	204,710,081,250
- Payables to reinsurance inward activities			97,908,761,135	60,970,067,627
- Payables to reinsurance outward activities			192,940,762,023	137,035,165,313
- Payables to goods, services			-	205,590,000
- Other payables			6,515,268,436	6,499,258,310
2. Taxes and amounts payables to the State Budget	315	8	4,100,172,932	4,787,589,445
3. Payables to employees	316		2,513,608,660	2,344,723,314
4. Other current payables	318	9	6,377,103,469	12,956,172,018
<b>II. Long-term liabilities</b>	<b>330</b>		<b>291,036,885,695</b>	<b>236,470,870,707</b>
1. Long-term trade payables		10	289,501,809,036	235,703,473,648
- Premium reserve	331		91,838,877,296	67,720,622,117
- Claim reserve	333		120,903,488,860	97,485,319,419
- Catastrophe reserve	334		76,759,442,880	70,497,532,112
2. Provision for severance allowances	341		475,253,959	40,328,707
3. Long-term deposit received	342		946,119,825	727,068,352
4. Deferred tax liabilities	343		113,702,875	-
<b>B. RESOURCES</b>	<b>400</b>	11	<b>613,882,111,291</b>	<b>413,456,573,974</b>
<b>I. Resources, funds</b>	<b>410</b>		<b>611,739,257,971</b>	<b>410,597,408,242</b>
1. Share holders' equity	411		504,138,300,000	343,000,000,000
2. Capital Surplus	412		45,515,630,000	-
3. Development and investment fund	414		3,466,045,810	2,012,617,791
4. Financial reserve funds	415		17,330,229,048	10,063,088,953
5. Compulsory reserve funds	416		8,665,114,524	5,031,544,477
6. Retained earnings	417		32,623,938,589	50,490,157,021
<i>In which: Gain from exchange differences revaluated at year end</i>			3,723,930,132	3,318,860,291
<b>II. Other resources, funds</b>	<b>420</b>		<b>2,142,853,320</b>	<b>2,859,165,732</b>
1. Bonus and welfare funds	422		2,142,853,320	2,859,165,732
<b>TOTAL RESOURCES</b>			<b>1,215,274,673,641</b>	<b>874,726,010,708</b>

As at 31 December 2007

Unit: VND

OFF-BALANCE SHEET ITEMS	Currency	31/12/2007	31/12/2006
<b>1. Foreign currencies</b>			
United State Dollar	USD	7,551,395.58	6,367,958.57
Australian Dollar	AUD	86,149.97	86,149.97
Japanese Yen	JPY	3,101,971.00	461,418.00
Singapore Dollar	SGD	394.58	394.58
Great British Pound	GBP	28,729.54	28,296.18
Euro	EUR	20,224.44	7,920.29
<b>2. Existing depreciation fund</b>	VND	19,893,157,527	16,569,623,034

Audited by Deloitte Vietnam Company Ltd.





**INCOME STATEMENT***For the year ended 31 December 2007**Unit: VND*

ITEMS	Codes	Notes	2007	2006
1. Premium from reinsurance inward	2		926,272,618,776	790,763,677,766
2. Deductions	3		717,542,259,857	632,595,806,751
<i>Premium reinsurance outward transfer</i>	4		703,674,668,251	624,676,593,049
<i>Returned premium</i>	5		13,867,591,606	7,919,213,702
3. (Increase) Premium provision	8		(24,118,255,179)	(7,135,747,211)
4. Reinsurance outward commission	9		100,251,021,875	72,592,900,599
5. Receipts from other activities	10		21,683,450,704	19,690,395,741
<b>6. Net premium</b>	<b>14</b>		<b>306,546,576,319</b>	<b>243,315,420,144</b>
7. Reinsurance inward claim	16		244,558,017,689	189,533,940,437
8. Deductions	17		162,228,746,649	120,228,793,247
<i>Receipt from reinsurance outward claim</i>	18		162,228,746,649	120,228,793,247
<b>9. Claim loss under retention</b>	<b>21</b>		<b>82,329,271,040</b>	<b>69,305,147,190</b>
10. Increase in claim reserve	23		23,418,169,441	20,445,623,665
11. Allocation to catastrophe reserve fund	24		6,261,910,768	4,745,036,130
<b>12. Other expenses for insurance activities</b>	<b>25</b>		<b>145,109,748,838</b>	<b>113,599,561,296</b>
- Other expenses for reinsurance inward	34		144,685,447,371	112,287,792,832
+ Commission	35		132,174,991,396	95,809,960,157
+ Others	38		12,510,455,975	16,477,932,675
- Other expenses for reinsurance outward	39		424,301,467	1,311,768,464
<b>13. Total direct spending on insurance activities</b>	<b>41</b>		<b>257,119,100,087</b>	<b>208,095,368,281</b>
<b>14. Gross profit from insurance activities</b>	<b>42</b>		<b>49,427,476,232</b>	<b>35,220,051,863</b>
15. Increase/Decrease profit due to exchange differences	43		(203,409,755)	427,412,568
16. Administration expenses	44		23,292,543,278	19,650,530,839
<b>17. Net profit from insurance activities</b>	<b>45</b>		<b>25,931,523,199</b>	<b>15,996,933,592</b>
18. Revenue from financial activities	46		48,608,989,605	46,761,678,991
19. Financial expenses	47		119,675,550	77,481,221
<b>20. Profit from financial activities</b>	<b>51</b>		<b>48,489,314,055</b>	<b>46,684,197,770</b>
21. Other income	52		9,366,815,894	8,835,666,397
22. Other expenses	53		-	-
<b>23. Profit from other activities</b>	<b>54</b>		<b>9,366,815,894</b>	<b>8,835,666,397</b>
<b>24. Accounting profit</b>	<b>55</b>		<b>83,787,653,148</b>	<b>71,516,797,759</b>
25. Adjustment increasing/(decreasing) taxable profit	56		(8,091,371,095)	(8,381,657,666)
<i>In which: + Untaxable profit</i>			<i>(9,002,793,677)</i>	<i>(8,807,564,563)</i>
+ Undeductible expenses			<i>911,422,582</i>	<i>425,906,897</i>
<b>26. Taxable profit</b>	<b>59</b>		<b>75,696,282,053</b>	<b>63,135,140,093</b>
27. Corporate income tax payable	60		10,597,479,487	11,048,649,516
28. Deferred corporate income tax (expense)	61		(113,702,875)	-
<b>29. Profit after tax (62=59-60-56+61)</b>	<b>62</b>	<b>11</b>	<b>73,076,470,786</b>	<b>60,468,148,243</b>
<i>In which: Gain from exchange differences revaluated at year end</i>			<i>405,069,841</i>	<i>1,661,226,144</i>
<b>30. Earnings per share</b>	<b>63</b>	<b>12</b>	<b>1,873</b>	<b>1,714</b>

*Audited by Deloitte Vietnam Company Ltd.*



## MAJOR SHAREHOLDERS

The total shares of the Corporation is 50,413,830. The par value of each share is VND10,000.

Shareholders	Portion (%)	Capital contribution as at 31 December 2007
State Capital Investment Corporation	53.82	271,313,000,000
Vietnam Insurance Corporation	11.43	57,624,000,000
Bao Minh Joint-stock Corporation	8.57	43,218,000,000
Petro Vietnam Insurance Company	4.76	24,010,000,000
Petrolimex Insurance Joint-stock Company	3.33	16,807,000,000
Post & Telecommunications Insurance Joint-stock Company	2.38	12,005,000,000
United Insurance Joint-venture Company	1.43	7,203,000,000
BIDV Insurance Company	1.15	5,802,000,000
Incombank-Asia Insurance Joint-venture Company	0.95	4,802,000,000
Nhà Rong Insurance Joint-stock Company	0.95	4,802,000,000
Vietnam International Assurance Company	0.95	4,802,000,000
Samsung-Vina Insurance Joint-venture Company	0.95	4,802,000,000
Far East Insurance Joint-stock Company	0.95	4,802,000,000
Groupama General Insurance Company	0.95	4,802,000,000
Saigon Commercial Bank	0.40	2,000,000,000
Global Insurance Joint-stock Company	0.30	1,522,400,000
Global Era Joint-stock Company	0.09	473,200,000
Pacific Securities Joint-stock Company	0.05	233,800,000
Other institutional shareholders	1.30	6,545,300,000
Other individual shareholders	5.27	26,569,600,000
<b>Total</b>	<b>100</b>	<b>504,138,300,000</b>

## INVESTMENT IN JOINT-VENTURE:

50 per cent interest in Samsung Vina Insurance Joint-venture Company with historical amount of USD2,500,000.

## SHARE CONTRIBUTION IN OTHER INSTITUTIONS:

	Portion (%)	31/12/2007 VND	31/12/2006 VND
Contribution to PJICO	8.80	12,705,450,000	12,705,450,000
Contribution to PTI	7.50	7,840,000,000	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	5.90	17,600,000,000	8,000,000,000
Contribution to Bao Tin Insurance Company	10.00	8,000,000,000	8,000,000,000
Contribution to Agribank Insurance Company	10.00	32,000,000,000	-
Contribution to Dai Nam Securities Company	5.00	1,900,000,000	-
Contribution to FPT Bank	12.50	125,000,000,000	-
		<b>211,045,0450,000</b>	<b>42,545,450,000</b>

Audited by Deloitte Vietnam Company Ltd.



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# BUSINESS REVIEW 2007





## Fire & miscellaneous accidents

There was a big jump in fire and miscellaneous accidents performance in 2007 with an increase of 43.8 per cent in gross written premiums. Besides the steady growth of business ceded from key clients like PJICO, PVI, BIC, Bao Long, etc., the new start-ups also contributed a significant part in premium volume. In addition, the premium from overseas markets more than doubled that of the previous year thanks to new treaties with foreign clients.

The local property market continued its steady growth with premium volume estimated at around US\$50 million, representing an increase of 19 per cent over the last year. However, behind this volume growth the market situation in recent years contained a number of problems which may threaten its sustainable development in the long future. Unhealthy competition by undercutting premium has become prevalent, leading to a drop in average rate.

In addition, terms and conditions have been widened, overlooking underwriting techniques and guidelines just to cope with the pressure of cashflow. Risk surveying and assessment is rarely carried out, except for big risks.

With such low rates, it was very hard to secure full reinsurance placement in the international market although the softening trend was still in place. Therefore, a lot of bad risks with competitive rates were ceded into treaties or reinsured amongst local insurers.

Although the new regulation on compulsory fire insurance has been put into practice, the number of policies of that type issued during the second half of the year was still very limited.



The loss picture in 2007 seemed more optimistic than in 2006 with the loss figure of around VND120 billion (equivalent to over US\$7.5 million). Some major losses include Long An Tabaco Factory (VND16 billion), Tan Hiep Phat Company (VND16 billion), mattress factory Dunopillo (VND24 billion).

Nevertheless, exposure to natural catastrophe is a matter of concern as Vietnam is listed among the countries with highest natural catastrophe risks and will have to bear the most negative impacts of the global climatic change. The country has suffered from hundreds of billions of dong of economic losses due to storms and floods. In fact the international reinsurers have put some restrictions such as aggregate limits for storms, floods and earthquakes into local property and engineering treaties..





## Engineering

Engineering has become the most important business line for VINARE with gross written premiums (at approximately VND216 billion) surpassing that of aviation in 2007. The business line recorded a very high growth rate of 54.7 per cent in comparison with the previous year with significant contribution from the new start-ups who ceded a large part of their portfolio to VINARE.

In addition, the local engineering insurance market was enjoying a golden period of development following Vietnam's accession to WTO in early 2007 which led to an overwhelming stream of foreign direct investment. The market premium volume (according to VINARE's source) increased over 30 per cent compared with the previous year to US\$51.45 million.

A number of projects which had been delayed in the previous years got rolling again in 2007 like Hydro-power Dong Nai 3, Hydro-power Dong Nai 4, Phu My Bridge, etc. In addition, there were many big projects like Tay Ninh Cement Factory (US\$90 million), Song Thao Cement Factory (US\$60 million), Bitexco Building (US\$112 million), Doosan Factory (US\$227 million), Phong Phu Textile (US\$52 million), Power Plant Nhon Trach 1 (US\$301 million), Nghi Son Cement Factory - Phase 2 (US\$160 million), Hydro-power Srepok 3 (US\$170 million).

Especially, during the last few months of 2007 local insurers issued cover to several important projects

including: Hydro-power Huoi Quang (US\$300 million), Hydro-power Ban Chat (US\$205 million), Port Thi Vai (US\$122 million), Hotel Marriott (US\$100 million), Hanoi Plaza (US\$80 million), Hotel Keangnam (US\$721 million), Paper Factory VinaKraft and Cement Factory Binh Phuoc (US\$245 million), to name just a few.

The softening trend in the international market has driven competition in the local market further. Piercing competition could be seen clearly in the renewal of EEI policies or in the construction of hotels, high-rise buildings, cement factories, etc. Especially in the electronic equipment sector, ongoing competition by undercutting rates was threatening the premium volume of the engineering market as a whole because of the large number of policies renewed each year. At the same time, coverage was by no means narrowed and outstanding losses were still abound.

Risk accumulation in CAR and EAR cover is increasing due to the relatively hot development of this line during the past ten years. Therefore CAR and EAR insurers are facing increased exposures whilst providing cover at inadequate premium rates. What is more worrying is that most policies with undercut premium have been placed in the local market only, thus further enhancing the exposures to local insurers.





## Marine Cargo

Marine Cargo posted an increase of 9.2 per cent in premium income to VND93.5 billion. Although there was a little progress in comparison with the previous year (4.8 per cent), the prospect of this business line was still a matter of concern for the industry.

While import and export turnover of the country rose 35.5 and 21.5 per cent respectively in 2007, the marine cargo market posted a growth rate of just around 17 per cent. The main reason was that local insurers only held a very modest share of this market, between 5 - 7 per cent of the export turnover and 33 per cent of the import turnover.

There have been a lot of debates around this situation, however, no considerable progress has been made so far although the financial capacity of the local insurers has been much improved throughout the last few years.

Though marine cargo has not produced as good results as other property lines, the business is still

making profit with average claims ratios between 55 - 60 per cent. Nevertheless, some types or groups of cargo still have higher-than-average loss ratios.

Competition by means of lowering premiums and deductibles is prevalent across the market, even for cargo with bad loss record such as soya cakes, fish powder, flour, iron, steel, fertiliser, etc. These are the commodities which bring high revenues, so local insurers find it hard to "forgo" this segment.

Marine cargo experienced a mild year in 2007 with few big losses. The biggest loss was the collision between m/v Harvest and m/v Jin Hai Kun which resulted in the sinking of Harvest and its steel cargo with the value of over US\$3 million. However, the number of losses within the range of hundreds of thousands of dollars tended to increase. Especially there were a number of big losses of imported lumber due to bad weather or inappropriate means of transportation.





## Marine Hull

Marine Hull business continued to record steady growth in premium income mainly thanks to the rapid development of the local ocean-going fleets. The volume of premiums written increased 19.8 per cent in 2007 to VND39.5 billion.

The marine hull market witnessed the entry of a series of newly purchased vessels with large tonnage, high value and young age (under ten years). In addition, there are many other new vessels with value between US\$10 - 30 million. However, in most cases, these new accounts were insured at very competitive rates and low deductibles. The ship owners took advantage of the fierce competition in hull market to get quotations with the premium rate at low levels which are usually applied together with much higher deductible.

The newly-purchased vessels are often reconditioned and well maintained before delivery, therefore the

chance of a loss occurrence is relatively rare. However, the potential loss scenario is something the insurers should take into consideration as they would result in big losses in the following years, especially when the costs of replacement and reparation are fast rising.

The common deductible level in Vietnam currently is around US\$3,000 per event, which is very low comparing with the common practice in the international market. Therefore the insurers have to compensate for a large number of small losses without being able to recover from their reinsurers who usually set their deductibles at US\$75,000; US\$100,000 or even US\$500,000. It is not surprising the local insurers are all incurring underwriting loss.

There was still no light at the end of the tunnel regarding the picture of hull losses in 2007. Although there was a slight reduction in the costs of losses, the number of occurrences tended to increase.

The relating line of builders' risks insurance was also under piercing competition pressure by undercutting premiums, lowering deductibles or just providing cover for the final part of the building process. Since the inception of this business in Vietnam, there have been four big losses with total estimated claim of over US\$6 million. The situation is worrying because this business line still lacks the large number, the premium volume is still limited while inspection and monitoring is not strictly carried out.





## Aviation



Premium income from Aviation business continued to drop by 13.7 per cent due to significant changes in the reinsurance programmes of ceding companies. Although the aviation industry has a lot of growth potential in the future, VINARE has to be cautious in writing this business line as liability limits are very high.

In spite of many difficulties in 2007 like increased competition in the international market, rising fuel prices, threatening bird flu outbreak, extreme weather events and unstable security over the world and in the region, Vietnam aviation industry still posted a growth rate of 16.5 per cent.

Vietnam Airlines, the flag carrier, recorded a 15.5 per cent increase in revenue with nearly 63,000 safe flights during the year. The number of passengers carried increased 18 per cent and the amount of cargo transported increased 8.5 per cent. 2007 was also the eleventh year that Vietnam Airlines operated with absolute safety.

Vietnam Airlines will actively develop its fleet of aircraft in the next years to come. In 2007 a number

of new purchase contracts were signed with various suppliers and the fleet will be expecting twelve new generation Boeing 787, five ATR 72, ten Airbus 350 and twenty Airbus 321. The number of passengers is forecasted to increase by 20 per cent.

The total premium volume of the aviation market in 2007 was around US\$17.7 million whilst incidents to a number of aircraft cost approximately US\$6 million. This loss figure is higher than that of 2005 (US\$4.9 million) but much lower than that of 2006 (US\$11 million).

Vietnam aviation market will see some new players in the near future. The first private airlines of Vietnam, Vietjet Air, has received licence in December 2007 and is expected to operate the first commercial flight by the end of 2008 or early 2009 between Hanoi, Ho Chi Minh City and Danang by Boeing 737 or Airbus A320.

Following Vietjet Air, Phu Quoc Air is also expecting its licence to be granted soon. In addition, several other private airlines are applying for operation licence in the near future.





## Protection & Indemnity

Protection & Indemnity for the first time experienced a reduction in premium volume of 11.3 per cent. The main reason was that VINARE's share in some P&I treaties was reduced as a result of changes in the reinsurance programmes of some ceding companies.

The local P&I insurance market, however, benefited a great deal from the recent expansion of the local ocean fleets with the number of GT entered increasing nearly 31 per cent to 2.874 million and the number of entries increasing by 26 to 370 vessels.

Old entries of small vessels were replaced by new entries with large tonnage like Vinalines Pacific, Dai Nam, Vinashin Phoenix, Peace Sky, Vinashin Victory, Golden Falcon, Vinashin Sea, Tu Son, Dong Tho, Hasico Fortune, Vinashin Moonstone, etc. Some fleets experienced considerable expansion with a lot of new purchases like Vinashinlines, Vinalines, Falcon Shipping.

In line with the loss picture of the international market, P&I losses were rising both in number and severity. Rising losses together with considerable General



Increase requested by international P&I clubs has caused a lot of difficulties for the insurers in negotiating renewals with the clubs as well as the ship owners.

Although competition in the P&I market is still very hard, the insurers can expect a steady growth in the years ahead thanks to the strong development of the ocean-going fleets.





## Energy

Premium income from energy related business posted a considerable increase of 29.8 per cent to VND111 billion mainly thanks to the surge of the market in underwriting year 2006.

Underwriting year 2007 was a mark down for the energy market with premium volume falling over 45 per cent compared with 2006 (not including the adjusted premium for the policies issued during the period).

Most of the offshore-related types of business experienced declining revenues: hull/platform, well control, liability. Especially offshore construction insurance revenue fell sharply by almost 70 per cent. Underwriting year 2007 closed at a premium volume of US\$27.5 million.

After a very active year of big field developments, in 2007 there were only some medium and small projects with sum insured of under US\$150 million such as Field SRKP - stage 1 by Truong Son JOC (US\$38 million), Field CNV by Hoang Long - Hoan Vu JOC (US\$125 million), Field Phuong Dong by JVPC (US\$41 million), the construction of six fixed platform by Vietsovpetro (US\$121 million), and the pipeline from Golden Lion to Dawn by PV Gas (US\$73 million).

On the financial year basis, however, 2007 was a year of bumper harvest with premium volume amounting to US\$49.5 million, increasing 46.4 per cent in comparison with financial year 2006. More than half of this volume belonged to underwriting year 2006 and just 42 per cent belonged to underwriting year 2007.

There were five loss occurrences with total reserve of US\$33 million, which was the highest since 1994. Especially there was one loss incident with estimated claim of over US\$10 million, which was the biggest loss during the past 14 years.

As at December 31<sup>st</sup> 2007 there were still 23 outstanding losses dated back to 2001 with total claim reserve of approximately US\$41.7 million. The average loss ratio since 1995, however, is still very good, at nearly 30 per cent.





## 5

## BUSINESS MIX

## UNDERWRITING YEAR 2007



## UNDERWRITING YEAR 2006



## UNDERWRITING YEAR 2005





## 6

## VIETNAM INSURANCE MARKET 2007: TAKING OFF ONE YEAR SINCE JOINING WTO

The first year since joining the World Trade Organisation (WTO), Vietnam's economy posted optimistic results in all areas. Gross Domestic Products (GDP) grew 8.44 per cent over the previous year and was the highest growth rate during the past ten years. Industrial production maintained its steady growth at 17.1 per cent. Export turnover rose 21 per cent to over US\$48 billion. Many big infrastructure projects were commenced all over the country.

With such great momentum from the economy, Vietnam insurance industry experienced a leaping growth in 2007 with total premium revenue estimated at VND18 trillion, an increase of 20.5 per cent in comparison with 2006. The local insurers have actively introduced new products adaptable to economic development, increased value added to clients and enhance their financial capability through capital raising solutions.





## Non-life market

Non-life insurance recorded a growth rate of 30 per cent in premium revenue, at VND8,500 billion., which was the highest growth rate during the last five years. Some of the business lines which posted high growth rate were Engineering (30 per cent), Fire (19 per cent), Marine Cargo (17 per cent), mainly thanks to strong growth of foreign direct investment and international trade activities.

In fact the insurance market still needs growth factors which derive from its internal efforts. Marine Cargo and Fire sectors are still underpenetrated. Although the Government Decree on Compulsory Fire and Explosion Insurance has been in force, the number of policies issued was still very limited. The majority of the Marine Cargo market was still in the hand of overseas insurance companies, only 5 - 7 per cent of export turnover and 33 per cent of import turnover was insured within the local market.

Competition for market share, mainly by undercutting premium, was prevalent in the market. For Engineering risks, rates quoted for renewed EEI policies, hotel or high-rise buildings construction, cement factories were falling continuously whilst the scope of cover was widened and risk accumulation was on the rise. For property risks, rates were lowered even for high exposures like

leather and shoes or garments.

An alarming phenomenon was that most of the low premium policies were placed among the local insurance companies, which may affect the financial position of the entire market in case of loss occurrence.

Risk management was also an issue of great concern. The underwriting quality of some insurers was not strictly maintained. The insurance companies did not paid adequate attention to advising clients on safety measures, risk quality enhancement and loss prevention.

Losses also began to take their heads up, especially in Engineering and Energy which used to have good records for the past several years. Engineering losses in 2007 increased both in frequency and severity. Marine Hull continued its bad loss track with a series of partial loss together with many sinking and grounding incidents costing millions of dollars each. Property and Marine Cargo were still in good condition but losses are imminent due to low underwriting quality and unhealthy competition.





## Life market

Life insurance market began to wake up after three years in recession with a growth rate of 12 per cent. This positive development was attributed to the great efforts of local life insurers in improving the team of agents and introducing new products to meet the demand of clients.

Life insurance market is facing great opportunities after the Ministry of Finance (MoF) gave green light for the introduction of investment-linked and unit-linked products. These products are more attractive to the clients as they may bring higher returns than other traditional ones, however, they also face possible losses if the insurance company's profitability is not as good as expectation.

Most of the life insurance companies are overhauling their businesses to offer the new product. So far, only Prudential, Manulife and Baoviet have met the first MoF requirement of having a fund management arm to manage clients's capital for investment-linked insurance.

Almost all local life insurers were seeking MoF permission to increase their chartered capital to be able to provide these products. Dai-ichi Vietnam became the first company to win the MoF's nod to nearly triple its chartered capital from US\$25 million to US\$72 million, making the Japanese company the second largest life insurer in Vietnam after Prudential with \$75 million in chartered capital. Takashi Fujii, general director of Dai-ichi Life Vietnam, said the company would strengthen information technology systems, infrastructure and establish a fund management company to provide wider range of products including unit-linked insurance.

## Market development

2007 witnessed a lot of significant events in the development of several insurance companies in the market.

In July 2007 Baoviet completed its initial public offering and in September announced the selection of HSBC Insurance (Asia Pacific) and Vinashin as its foreign and domestic strategic partner. Also in September Baominh announced AXA to be its sole foreign strategic partner.

The participation of AXA and HSBC Insurance in the Vietnamese insurance market is an evidence of its attraction to international insurance groups. This is also a good opportunity for local insurers to take advantage of the experience, technology, products and system of the strategic partners in order to develop their own products, distribution channels and enhance their reputation in the market.

In order to comply with the new regulation on the legal capital requirements for non-life companies (VND300 billion) and life companies (VND600 billion), some businesses like PV Insurance, Baominh, VINARE, AAA, have raised their chartered capital. Thus, the total equity capital of all the local insurance companies in the market has increased up to VND15 trillion; Baoviet is currently the leading one with chartered capital of VND6,800 billion.

Two new players have joined the market in 2007, i.e the Agriculture Bank Insurance Company (ABIC) and the Military Insurance Company (MIC). In the meantime, some other insurance companies are expecting to receive licence next year.



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## ECONOMY - FDI SOARED ONE YEAR AFTER JOINING WTO





**D**espite runaway inflation, rising fuel prices, widened trade deficit, natural disasters and diseases, Vietnam's economy still recorded the highest growth in a decade (8.44 per cent) while bringing in a record amount of foreign direct investment.

The economy is benefiting from an improved business environment, high export turnover and the growth of service and industrial sectors.

Despite natural disasters and epidemics, agricultural production targets were reached. Industrial production increased 17.1 per cent over the last year. The processing industry is expanding. Service sector growth exceeded GDP growth.

The country's export turnover hit \$48.4 billion and official development assistance committed to the country was also a record at \$5.4 billion. Registered foreign direct investment (FDI) hit \$20.3 billion, an increase of 69.1 per cent over 2006.

One year since joining the World Trade Organisation (WTO), two of the most prominent impacts WTO membership has left on Vietnam are increasing foreign direct investment and sharper political institution mechanism. National Committee for International Economic Cooperation office manager said local business environment improvements were the greatest encouragement to foreign investors. The revamping of institutional structures, with the country's leaders committed to pushing up political system reforms, was acknowledged by the global community.

Economists remark the country's consistent reform policy has paid off with Vietnam's image as a stable socio-political environment and its enhanced status in the international arena following WTO accession and the winning of a non-permanent seat in the United Nations Security Council having attracted foreign investors to the second fastest growing economy in Asia.







However, there was a big concern at the large discrepancy between government forecasts and the real picture of 2007. In early 2007, the government forecasted FDI capital at \$13 billion and a consumer price index (CPI) increase lower than economic growth. If we had correctly forecasted the growth of FDI, foreign portfolio investment and inflation this year, we would have had more suitable policies and absorbed the incoming capital sources more effectively and we would also have controlled inflation better.

A continuously improving business environment, which will ensure the stability of the macro economy, are high on the Vietnamese Government's agenda to meet its 2008 socio-economic and state budget collection goals.

The Ministry of Planning and Investment is drafting several key measures to fulfil its target of 8.5 - 9 per cent gross domestic product growth in 2008, with favourable investment and business conditions promised.

The government will encourage the establishment of different businesses, to further assist small- and medium-sized enterprises, create favourable conditions to attract more foreign investment capital and support local firms to invest abroad.

The process of administration reforms such as "one-door" policies would also be considered a top task for next year. The privatisation process of state-owned enterprises will also be more quickly carried out to supply more commodities to the country's stock market. The capital market will be developed on the basis of stability in the context of further global integration.

Meanwhile, financial and commercial markets would be tightly supervised and managed to rein inflation and ensure the stability of the country's macro-economy in 2008. The government will actively use economic measures as well as monetary policies to keep the inflation rate at below the country's GDP growth this year.





# TỔNG CÔNG TY CỔ PHẦN TÁI BẢO HIỂM QUỐC GIA VIỆT NAM

VIETNAM NATIONAL REINSURANCE CORPORATION  
(VINARE)

*Having high-skilled and experienced reinsurance professionals and close association with high-profile domestic and international insurance, reinsurance and broking companies*



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## Vinare is willing

To underwrite reinsurance businesses and place retrocession domestically and internationally;

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To provide information on local and international insurance and reinsurance markets;

To offer training service for insurance and reinsurance staffs;

To engage in capital investment;

To provide office for lease.





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