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The Actual Situation of the Insurance Business for Import and Export Goods Transported by the Sea at Insurance Enterprises in Vietnams

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ABSTRACT: To assess the current situation of the insurance business of import and export goods transported by sea at insurance enterprises in Vietnam. The author has used two research methods, namely the methodology and the meta-analysis method, to solve the research problems. Accordingly, the article has presented the theoretical basis for the insurance business of import and export goods transported by sea, the role, risks, losses, and insurance conditions of this service. Based on business data of insurance business for import and export goods transported by sea, the author has evaluated and analyzed this business. Assessing business results, and existing points in this business in Vietnam. The insurance business of import and export goods by sea in Vietnam is not yet internationally competitive and lacks long-term customer relationships. The international level is the difficulties that are hindering the development of Vietnam's insurance enterprises. The research results are also the basis for insurers to recognize weaknesses in the marine insurance business and have a way to overcome them in the future.

KEYWORDS: Insurance business, insurance enterprises, Marine insurance, Vietnam

1. THE PROBLEM

Cargo transportation by sea often encounters many potential unforeseen risks, including objective and subjective risks of people. Ship owners and shippers face great challenges when risks arise that are not promptly reimbursed by insurance companies, especially catastrophic risks causing great losses. Financial difficulty in remediating the damage caused by that risk could result in bankruptcy. Vietnam is on the path of economic modernization with strong development in all economic sectors. Especially after Vietnam joined the WTO and joined the Free Trade Agreements and deepened international economic integration, import and export activities became more and more exciting. This proves the great potential for import and export goods and the potential for the development of insurance for import and export goods transported by sea. However, in Vietnam today, the implementation of this insurance business still faces many difficulties and challenges, especially the issue of improving operational efficiency. The content of this article aims to learn about the theoretical basis of insurance for import and export goods transported by sea. Indicate the difficulties encountered when carrying out business activities of insurance for import and export goods transported by sea.

2. THEORETICAL BASIS

2.1. Insurance of goods imported and exported by sea

Cargo insurance for imports and exports by sea, also known as marine insurance, is one of the types of non-life insurance. This insurance helps to protect imported and exported goods against risks occurring at sea and by land related to the transportation process and causing damage and loss of goods. As the earliest profession, the oldest marine insurance policy is recorded in 1339 in Italy. Marine insurance developed with the development of foreign trade. In the face of possible risks from accidents, natural disasters, and piracy to goods, shippers have sought every way to secure their own assets and marine insurance is a tool of control and risk management. However, it was not until 1779 that a group of members of the Lloyd's organization gathered the mandatory principles and put them together in a contract called the Lloyd's Contract. This policy was recognized by the UK and used by many countries until the change in 1982. A new marine contract form is recognized and widely used by the Association of London Insurers to this day. In Vietnam, the development of insurance for import and export goods by sea is much later than in the world. The first service of insurance for import and export goods by sea was launched by Bao Viet enterprise (then a state-owned enterprise) in Vietnam in 1965. Before that, we were the only agents to carry out the operation. Insurance for import and export goods by sea for Chinese enterprises. Since the 1970s, Vietnam has had many import-export relationships with a group of socialist countries such as Russia, North Korea, and Poland, but we mainly carry out reinsurance activities. In the period after the liberation of South Vietnam from 1975 to 1992, Baoviet expanded many operations and scope of activities. In addition to the countries of the socialist group, Baoviet also cooperates in marine insurance with many countries around the world. In order to create conditions for the development of the insurance industry and economic development through the import and export of goods, Vietnam has created a legal corridor for these activities to develop. The issuance of the new General Rules - the General Rules 1990 along with the Vietnam Maritime Code helped to regulate the issues in marine insurance. In 1993, to meet the market's development and ensure the stability of the production and import-export economy, the government issued Decree 100/CP, which regulates and guides business activities insurance. Many insurance businesses were established after this decree. Currently, with 32 non-life insurance enterprises, of which 31 are engaged in the marine insurance business, it has created a vibrant, competitive, and growing market day by day.

2.2. The role of insurance for import and export goods transported by sea

Not only has a traditional business, insurance of import and export goods transported by sea become a custom in international trade activities. Like other forms of transportation, this service faces many risks due to the long and difficult-to-control transportation process. Therefore, in order to ensure business capital, expand production activities, and avoid the risk of bankruptcy for import-export enterprises, marine insurance assumes four roles to solve the above problems. The first is the role of compensation for damage and risks. The insurance enterprise will compensate the loss of the risk for financial for the owner of the goods whose goods are insured for import and export goods transported by sea. In addition to insurance for human-caused risks, it also guarantees for risks beyond human ability such as incidents caused by natural disasters, and wars. When an import-export business has a loss of goods, they will be compensated a certain amount, helping them to preserve their business finances. According to the Vietnam Insurance Association, the amount of money indemnification by insurance businesses accounts for 24% of premium revenue in 2022. The second is the role of preventing and limiting financial losses. An insurance business is a for-profit business. Therefore, they continuously make statistics, evaluate and monitor the risks and potential risks for goods transported by sea. It is from those analyses and evaluation results that insurers have a solid basis to take preventive measures and minimize possible losses. The third is the role of creating absolute safety. When participating in buying insurance for import and export goods transported by sea, import and export businesses will have a third party to ensure possible risks for their goods. As a result, these businesses feel more secure, have spiritual support, and are protected from a solid cloth shield. Finally, the role of attracting foreign currency and increasing benefits for the economy. When import and export enterprises import goods at FOB and CF prices, and export at CIF and CIP prices, it will create competitiveness for domestic insurers with foreign ones. At the same time, when the business of insurance for imported and exported goods by sea develops, it will help domestic import and export businesses not have to buy insurance abroad. These factors have contributed to promoting the development of domestic enterprises and saving the consumption of foreign currency.

2.3. Risks and losses in the insurance of import and export goods transported by sea

Risk

Risks in the insurance of import and export goods transported by sea are disasters, accidents, unexpected and accidental occurrences, or dangerous threats, which, when occurring, will cause loss to the business. Import and export are covered. Risks in the import and export of goods transported by sea are of many types. Risks caused by natural disasters are phenomena caused by nature such as rough seas, storms, hurricanes, lightning, and bad weather that humans cannot resist. Risks due to unexpected accidents at sea such as stranding, shipwreck, cargo destruction, fire, explosion, disappearance, collision with a ship, or another fixed or moving object other than water. Risks from human action are theft, shoplifting, loss of robbery, war, strike, arrest, confiscation. In addition, there are other risks such as the risk of loading and unloading goods, smelly goods, contamination. If the risk is classified, there is a business risk and a separate insurance risk. Business risks are normally insured risks. It includes risks such as stranding, sinking, fire, collision, throwing goods into the sea, missing and additional risks such as tearing, breaking, rusting, flattening, warping… However, there are also risks. are not insured such as risks caused by smuggling, confiscation, breaking the siege, intentional mistakes of the insured, improper packaging ... caused. Separately insured risks include those excluded from the insurance of import and export goods transported by sea. These are special, non-maritime risks such as war, strike, or riot. These risks are only insured if purchased separately, additionally. However, shippers are insured when the separately insured peril must have been the direct cause of the loss.

Damage

The Actual Situation of the Insurance Business for Import and Export Goods Transported by the Sea at Insurance Enterprises in Vietnam

Loss in import and export cargo insurance is damage or damage to goods caused by risks. Depending on the size and extent of the loss, there are two types of loss: partial loss and total loss. Partial loss is a loss where a part of the goods of an import-export enterprise covered by an insurance policy is lost, damaged or destroyed. Part loss can be loss in quantity, weight, volume or value. Total loss means that all goods of the import-export enterprise insured under the insurance contract are lost, damaged, damaged or become deformed or deformed, no longer as they were at the time of insurance. A total loss may be an actual total loss or an estimated total loss. Total loss is the fact that the entire insurance import-export enterprise is lost, damaged or destroyed, and cannot be recovered as it was when it was newly insured. In this case, the insurer must indemnify the entire insured value or the insured amount. The estimated total loss or damage of the insurance import-export enterprise is less than the total loss but the insurance import-export enterprise is reasonably waived because the actual total loss is deemed unavoidable or the costs of preventing or recovering the loss are greater than the value of the goods insured. When the goods of the import-export enterprise are abandoned, the ownership of the goods will transfer to the insurer and they have the right to dispose of the goods. Depending on the nature of the loss and insurance liability, the loss is divided into two types: general average and special average. General average means special sacrifices or expenses made intentionally and reasonably to save the ship and its cargo from peril. Private loss is a loss that causes damage only to one or more interests of shippers and shipowners on a ship. In private loss, in addition to material damage, there are also related costs to limit the damage when the loss occurs, called separate cost loss. Personal loss is the cost of preserving the goods to reduce damage or prevent further damage, including the costs of loading, unloading, shipping, repacking, and replacing packaging at the port of departure and along the way road.

2.4. Insurance conditions

Insurance conditions in the insurance of import and export goods transported by sea are those that stipulate the scope of liability of the insurer for the risks of loss of goods of the participating import-export enterprise. Therefore, the scope of liability of the insurance enterprise depends on the insurance conditions agreed upon by the parties in the contract. The insurer's liability for goods under Vietnam's original insurance conditions is stipulated in the 1990 General Rules on Insurance of Import and Export Goods Transported by Sea issued by the Ministry of Finance. This Code of Conduct builds on the ICC articles of 1 January 1982 of the Institute of London Underwriters [ILU]. As these conditions are applied in most countries of the world, they have replaced the old conditions of ICC-1963 and become common international practice. Those conditions are Institute cargo clauses C (ICC-C), Institute cargo clauses B (ICC-B), Institute cargo clauses A (ICC-A), Institute war clauses and Institute strikes clauses.

3. METHODS

Through the methodology, the author has collected documents related to the insurance business of import and export goods transported by sea. The theoretical basis is built from documents on the formation of the marine insurance business, the birth of insurance businesses and the development of the marine insurance business in Vietnam. The author also explores the role of this profession and insurance conditions are also included in the article to clarify the theoretical basis and research issues. By the method of analysis and synthesis, the author has synthesized data on the insurance business of goods imported and exported by sea in the Vietnam market from the Vietnam Insurance Association. The aggregated data presented in the article are data on revenue, growth rate, and the group of businesses with the highest market share in marine insurance in the 5 years from 2018 to 2022. The author also relies on these data tables to analyze the current situation and draw out the shortcomings in the insurance business of import and export goods transported by sea in the Vietnamese insurance market.

4. ACTUAL SITUATION OF INSURANCE BUSINESS FOR GOODS IMPORTED AND EXPORTED BY THE SEA AT VIETNAMESE INSURANCE ENTERPRISES

The development of the insurance business of import and export goods transported by sea has created favorable conditions for importers and exporters to expand their operation scale and ensure the financial capacity of enterprises. Vietnam is on the path of economic modernization with the strong development of all economic sectors. Through free trade agreements, Vietnam is increasingly integrated into the international economy and import, and export activities are stronger. However, imported and exported goods participating in domestic insurance are very low. Currently, more than 80% of the market share of import and export cargo insurance is in the hands of foreign companies. According to the Vietnam Import-Export Report, the total import and export turnover in 2022 is 730.2 billion USD and the trade surplus is 12.4 billion USD while the total insurance premium for goods imported and exported by sea is the whole market only about 150 million USD.

The Actual Situation of the Insurance Business for Import and Export Goods Transported by the Sea at Insurance Enterprises in Vietnam

4.1. Business results of insurance for imported and exported goods by sea at Vietnamese insurance companies

As mentioned, there are currently 32 non-life insurance companies operating in the Vietnamese market. OPES insurance enterprise was just established in 2022, so it has not generated any revenue in the insurance business of goods imported and exported by sea. Five businesses dominate this business with a total share of 38%: Bao Viet with 11% of total market revenue, the second is PJICO with 10%, the third is PVI Insurance with a share of 8%, BIC and Samsung Vina accounted for 5% and 4% respectively. The proportion of 62% of revenue from insurance of import and export goods by sea belongs to the remaining 26 enterprises.

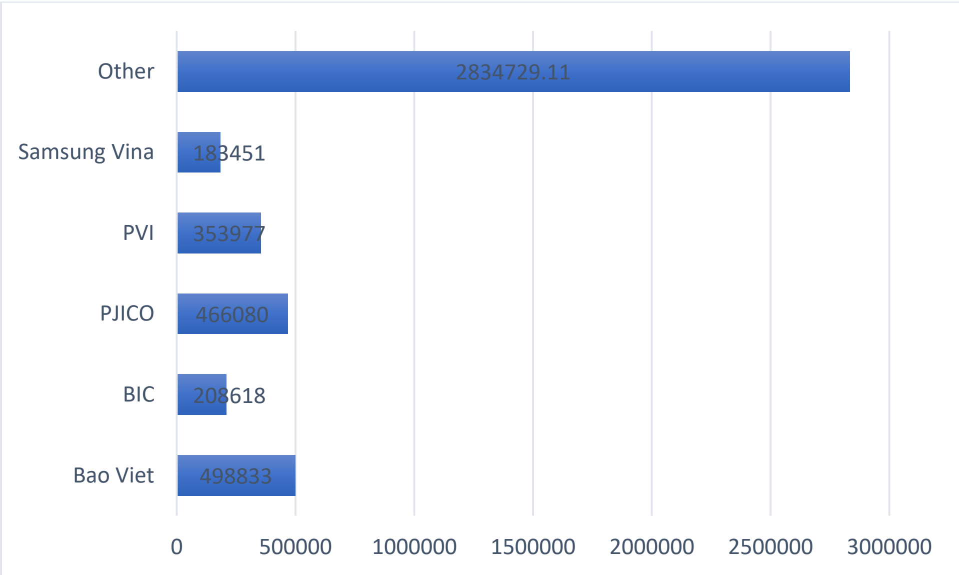

Figure 1: Market share of import and export cargo insurance by sea
Unit: million VND
Source: Vietnam Insurance Association

In the data on insurance premium revenue of the whole market in the five years from 2018 to 2022, we see two notable points: the overseas reinsur section. Very low Assumed and Overseas reinsur. Ceded is too tall. Explanation for Overseas reinsur results. The low insurance is due to the weak financial capacity of Vietnamese insurers, making it difficult to receive large reinsurance contracts. At the same time, we also need to cede reinsurance abroad to share insurance policies with the world's major insurers. This result can be seen that Vietnam's insurance enterprises are still weak, partly because of the shorter development time compared to other insurance companies in the world and partly because the Vietnamese economy is still weak compared to other insurance companies in the world with countries in the developed group.

Table 1: Insurance premium income by line of insurance
Unit: million VND

Criteria	2018	2019	2020	2021	2022
Direct insur. premium	2591631	2530828	2260463	2746887	3176920
Domestic reinsur. assumed	132364	122506	101107	73937	91117
Overseas reinsur. assumed	96283	71391	71674	18640	32329
Domestic reinsur. ceded	299434	356429	249794	307577	372179
Overseas reinsur. ceded	831348	796297	694314	845657	982222
Net premium	1689496	1571999	1489136	1686231	1945965

Source: Vietnam Insurance Association

Vietnam's exports are mainly raw materials and processed goods, making it difficult to compete in the international arena. Foreign partners often outsource shipping lines and insurance companies when signing commercial contracts, even for dominant products such as seafood, rice, coffee, and pepper. Therefore, a very small percentage of Vietnam's exports participate in buying domestic insurance. Many industry experts also said that Vietnamese enterprises, especially those with small and medium capital, are not familiar with international trade practices, of course often sell at FOB prices, so they do not need to buy insurance. transport. As a result, Vietnam's marine import-export cargo insurance industry suffered heavy losses. In any case, domestic insurers have an advantage in handling claims overpaying claims abroad. But right now, most companies have no real interest in it. In international trade, the buyer, as the owner of the goods, has the right to request the appointment of a carrier and an insurance company. Aware of this, many Vietnamese enterprises have actively purchased domestic insurance when importing goods. However, imported goods are still handled by foreign insurers because the number of companies with such awareness is very small.

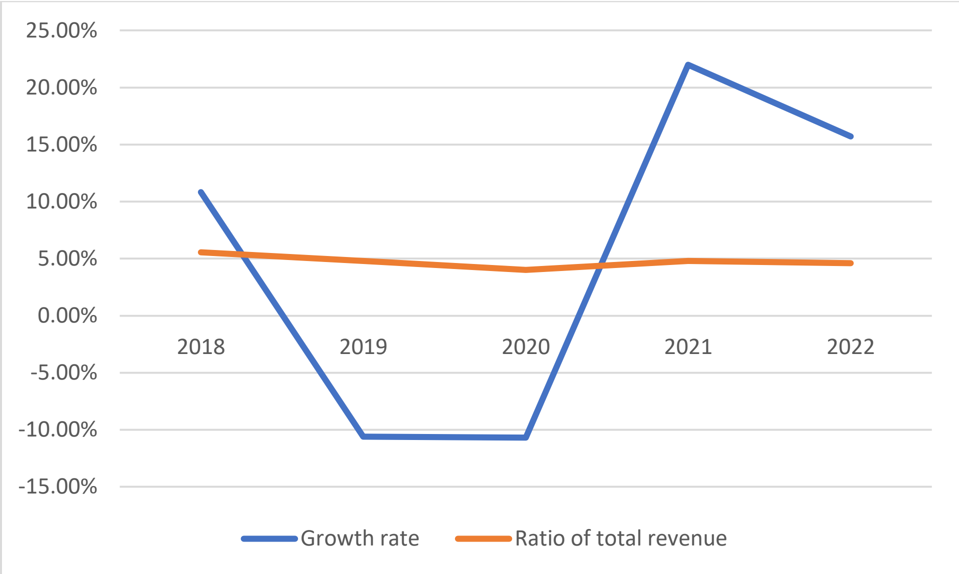

Figure 2: Growth rate of direct premium by line of insurance

Source: Vietnam Insurance Association

In the Claims by Line of insurance table, we see that Direct insurance claims decrease in 2020 due to the impact of the covid-19 epidemic. During the 5 years, the ratio of Direct insurance claims compared to Direct insur. Premium about 30%/year. Thus, the profit of the insurance business of import and export goods by sea is very high. Therefore, promoting development and regaining market share from foreign insurers is essential for sustainable development and increasing revenue for Vietnamese insurers.

Table 2. Claims by line of insurance

Unit: million VND

Criteria	2018	2019	2020	2021	2022
Direct insurance claims	622389	650762	56943	699884	771009
Domestic reinsur. recovery	814109	133442	91509	226744	94136
Overseas reinsur. Recovery	154364	149406	167093	116470	255460
Domestic reinsur. Assumed claims	516229	46637	46970	33307	29308
Overseas reinsur. Assumed claims	59517	50477	32553	21293	13013
Net claims paid	4166669	377955	339248	3473189	411557

Source: Vietnam Insurance Association

4.2. Difficulties

The insurance business of goods imported and exported by sea in Vietnam is not yet internationally competitive. This type of insurance is an internationally competitive type of insurance based on a long-term customer relationship. In the context of lack of financial capacity and experience, it is very difficult to convince customers, especially customers in foreign areas, to sign insurance contracts with domestic insurance companies. On the other hand, a significant portion of goods are imported under ODA loan/grant programs, and aid agencies are often the first to arrange insurance. According to market practice, domestic importers and exporters often import at CIF prices and sell at FOB prices, leading to a lack of business partners for insurance companies. Besides, Vietnam's sea transport ships have been operating for many years and deteriorated, slowing down transit time and increasing risks. Shippers around the world often choose a shipping company with a new fleet of ships and a reputable, long-standing insurance company. Therefore, although sea transportation currently accounts for 80% of Vietnam's total import and export freight demand, domestic shipping contracts are very few and revenue from this operation accounts for a small proportion of the shipping lines assurance Company.

The operating capacity of Vietnamese insurance companies is still limited and has not reached the international level. Except for Bao Viet Group, which was established in 1965 with a large capital, other non-life insurance companies were established after Decree 100/CP dated December 18, 1993, with relatively low business capital. On the other hand, many foreign insurance companies were established hundreds of years ago with working capital of billions of dollars. In addition, in general, the qualifications of insurance personnel are still inadequate compared to market demand and weak compared to global standards.

The insurance business is very diverse and includes different types of insurance. However, as mentioned above, Vietnam's import and export business practices are completely different from international practices, leading to the following consequences. The non-life insurance business in Vietnam has almost completely lost market share. It is not difficult to understand that foreign traders are entitled to charter ships and deliver goods at Vietnamese ports for both export and import. If the charter right belongs to a foreign trader (even if the Vietnamese carrier has taken steps to charter under the official contract), the right to choose a cargo insurance company must necessarily belong to the foreign trader outside. Only a very small percentage of foreign traders come and buy insurance for their goods from Vietnamese insurance companies.

5. CONCLUSION

As an important operation in the business activities of insurance companies, the insurance of import and export goods transported by sea has not achieved the development commensurate with the import and export market in Vietnam. Finding solutions to overcome difficulties such as poor competitiveness and weak business capacity is the way to help Vietnamese insurers gain market share in this insurance business in the future.

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