

## Factsheet microinsurance business model

# Vietnam: Delivering Microinsurance through the Vietnam Community Finance Resource Center: Regulation in Pilot Testing

### The challenge

Vietnam is a developing country which has more than 60 million people<sup>1</sup> living in the countryside, most are low income and exposed to various risks. Access to insurance products is difficult due to the high price and complexity, even among traditional policies. Insurance enterprises have challenges selling microinsurance with low tariff due to the high cost of delivery and operation. Currently, these companies target the medium and high income population.

Vietnam has yet to release a legal framework on microinsurance. Because of demand, some informal organizations provide microinsurance to the poor, based on the order of the Prime Minister and following the guidelines of the Ministry of Finance. The Insurance Law of Vietnam is the basis in providing microinsurance in the country.

### Enabling policies and regulations

To address this problem among insurance companies, the Prime Minister issued a letter detailing the development and implementation of microinsurance through pilot tests in Vietnam. The Prime Minister (PM) permitted CFRC to provide microinsurance to its loan borrowers, subject to the guidelines of the Ministry of Finance.

Following the letter of the PM, the Ministry of Finance issued letter no. 16037/BTC-QLBH dated 20/11/2014 which provided guidelines for CFRC on:

- Products: health insurance, and term life insurance
- Reserve: calculation of reserves for insurance products
- Risk management: requirements for management and finance systems
- Reports

This letter did not include the definition or the characteristic of microinsurance and gives the right to the CFRC, based on their member's need.

<sup>1</sup> According to Vietnamese report on social and economic situation on 6 months of 2016



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## Community Finance Resource Center (CFRC)

CFRC is responsible for financial inclusion and regulation of unregulated MFIs in Vietnam. It is a social organization that belongs to the Education Encouragement Association. It supports the poor and the vulnerable by providing microfinance (MF) and micro insurance (MI) products to its members. CFRC focuses advocacies on the promotion of MI to the MFI and NGO sector in Vietnam. It also encourages the participation of the private insurance sector to promote more competition. CFRC develops business models and regulation, to reduce acquisition cost, such as agent-partner arrangements, group policy or mandatory insurance products (ex. credit-life), and product development in coordination with insurers and reinsurers. Some existing business models include Thanh Hoa MFI, PTI and Neng Fu with Bao Viet.

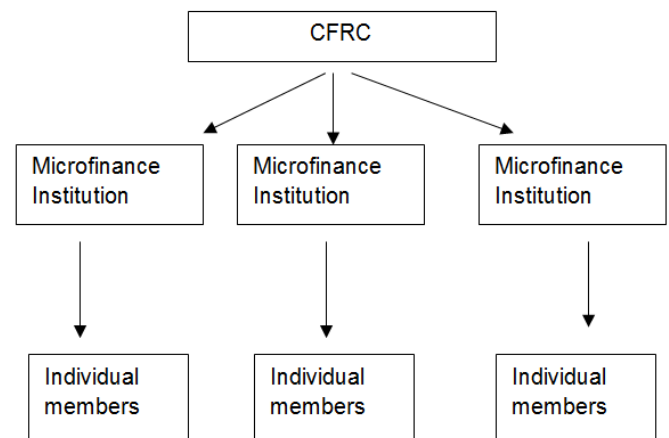
CFRC has offered 2 products with the following details:

Particular	Credit-Life Insurance
Annual premium	0.4% of sum insured per annum
Sum insured/risk	Credit-Life
Enrolment	M7 MFIs
Coverage	Maximum of 2 policies per insured depending on loan availment

Particular	Health Insurance Product
Annual premium	3000VND (1/7 of 1 USD)
Sum insured/risk	10 USD benefit per year/Health Insurance
Enrolment	M7 MFIs
Coverage	Maximum of 2 policies per insured depending on loan availment

## The Model

The CFRC provides microinsurance through its Social Funds used to provide loans to members. In each province, the organization establishes teams and sub teams to support lending activities. When a loan is provided, insurance products are introduced and premiums are collected upon loan payments. Below is its distribution model:



**Operations:** CFRC members within the M7 or group of seven MFIs know their members. They maintain good relationships with community members, and are self-supervised, thus fraud is reduced, or none at all. Insurance claims are settled quickly, mostly within 3 days. The MFI model entails the provision of term life insurance when members borrow money, with the MFI acting as agents of CFRC. As of 31 December 2015, the number of insured has reached 9.000 people. Total premium is 8.2 billion VND (around \$400,000). CFRC has paid claims to more than 1.200 people in 2 provinces.

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