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Expanding Access to Insurance and Savings Services in Viet Nam



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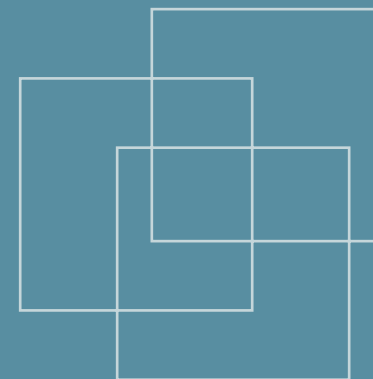
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Expanding Access to Insurance and Savings Services in Viet Nam

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FOREWORD

The rapid economic growth over the past few years has created millions of jobs, improved living standards of millions of Vietnamese people and significantly reduced poverty rates. The strategy of Government of Viet Nam, expressed in the Socio-Economic Development Plan for 2006-2010, aims to promote further economic growth and social inclusion. One of the targets is to lower the percentage of the population living below the poverty line to 10-11 per cent by 2010. Viet Nam's capacity to achieve this target depends on many factors including to what extent low income households are able to accumulate assets and manage risks.

Vietnamese low income households use various strategies to accumulate assets and manage risks. Cash savings and insurance are important tools for that. However, low income households still have limited access to financial savings and insurance products that meet such asset creation and risk management needs

This research builds on a study on the demand for and the supply of risk management financial services in Viet Nam carried out by the ILO/MOLISA microfinance project* in 2003. It takes a new look at the savings and insurance services available to low income households in Viet Nam. The research paper then analyses the constraints and challenges that restrain the use of these services by low income households.

Through this study we hope to stimulate a wider discussion on how to expand access to savings and insurance products that are relevant and demand-driven for low income households. We hope the recommendations may be useful to the further work in this area by the Government of Viet Nam, microfinance organizations, public and private insurance and savings service providers, as well as other partners engaged in the promotion of creation of assets and risk management for poorer target groups.

The ILO Office in Viet Nam expressed its sincere thanks to the research team composed of Ms. Cheryl Frankiewicz, Mr. Ngo Thanh Nam, Mr. Ta Chien, Mr. Bui Tuan, and Mr. Doan Huu Tue for their invaluable work.

Due acknowledgement is also owed to Mr. Nguyen Hai Huu (MOLISA), Mr. Le Song Lai (State Capital Investment Cooperation), Ms Quach Tuong Vy (State Bank of Viet Nam), and Mr. William Smith (Ford Foundation) for their useful comments and inputs on earlier drafts. Furthermore, the ILO is grateful to the Ford Foundation for its generous financial support to this research. Special thanks are extended to Ms Nguyen Thi Bich Van and Ms Valerie Breda from the ILO Viet Nam for their effective coordination of the research work.

RoseMarie Greve

Director

ILO Office in Viet Nam

* Project "Extension of Microfinance and Microinsurance to Informal Women Workers."

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We would like to extend our sincere thanks to the many organizations and individuals that shared their information and ideas with the team. We appreciate their taking the time to facilitate this research and we hope the analysis and recommendations contained in this report will assist them in expanding their outreach to the low income market in the future.

We would also like to thank the individuals who read and commented on earlier drafts of this document, including Mr. Nguyen Hai Huu, Ms. Quach Tuong Vy, Mr. Nhan Phan Cu, Mr. William Smith, Ms. Linda Deelen and Mr. Craig Churchill. Their suggestions and clarifications were of great assistance in improving the quality of this report and the relevance of its recommendations. We would like to extend a special note of appreciation to Mr. Le Song Lai, who advised the insurance team throughout the entire research period.

Finally, we would like to offer our heartfelt thanks to the staff of the ILO Office in Viet Nam, particularly Ms. Valerie Breda, Ms. Nguyen Thi Bich Van, and Ms. Nguyen Ngoc Duyen, for a level of support that was exceptional. The research benefited greatly from their substantive technical input and administrative assistance. They made our very productive feedback meeting possible.

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LIST OF ABBREVIATIONS

ACB	Asian Commercial Bank
AIA	American International Assurance
AIC	Agriculture Bank Joint Stock Insurance Company
AIG	American International Group
ANZIIF	Australian and New Zealand Institute for Insurance and Finance
ASCA	Accelerated Savings and Credit Association
ATM	Automated Teller Machine
BIC	Bank for Investment and Development Insurance Company
BIDV	Bank for Investment and Development of Viet Nam
CCM	Capital Aid Fund for Cooperative Members of Ho Chi Minh City
CEP	Capital Aid Fund for Employment of the Poor
CGAP	Consultative Group to Assist the Poorest
CPRGS	Comprehensive Poverty Reduction and Growth Strategy
DID	Developpement International Desjardins
DTWTF	Dong Trieu Women's Trust Fund
EAB	Eastern Asia Bank
GTZ	Deutsche Gesellschaft für Technische Zusammenarbeit
HCFP	Health Care Fund for the Poor
HCMC	Ho Chi Minh City
HEPR	Hunger Eradication and Poverty Reduction Strategy
IAI	Incombank - Asia Insurance Company Limited
ICMIF	International Cooperative and Mutual Insurance Federation
ILO	International Labour Organization
ILSSA	Institute for Labour Sciences and Social Affairs
MAF	Mutual Assistance Fund
MFO	Microfinance Organization
MFWG	Microfinance Working Group
MIS	Management Information System
MOF	Ministry of Finance
MOH	Ministry of Health
MOLISA	Ministry of Labour, Invalids and Social Affairs
NGO	Non-Governmental Organization
NPWAF	Ninh Phuoc Women's Assistance Fund
PCF	People's Credit Fund

PIJCO	Petrolimex Joint Stock Insurance Company
PVIC	Viet Nam Petro Insurance Company
ROSCA	Rotating Savings and Credit Association
SEDP	Socio-Economic Development Plan for 2006-2010
TYM	Tao Yeu May
UIC	United Insurance Company of Viet Nam
VAPCF	Viet Nam Association of People's Credit Funds
VBARD	Viet Nam Bank for Agriculture and Rural Development
VBSP	Viet Nam Bank for Social Policy
VDB	Viet Nam Development Bank
VFA	Viet Nam Farmers' Association
VIA	Viet Nam International Assurance Company
Vinare	Viet Nam National Reinsurance Company
VND	Viet Nam Dong
VNPT	Viet Nam Posts and Telecommunications Group
VPSC	Viet Nam Postal Savings Service Company
VSS	Viet Nam Social Security
WTO	World Trade Organization

EXECUTIVE SUMMARY

Background

Viet Nam's ability to increase equity as it grows and to lower the percentage of the population living below the poverty line to 10-11 percent by the year 2010, as targeted in the Government's Socio-Economic Development Plan for 2006-10, will depend on many factors. Both national and international experience suggests, however, that the likelihood of success can be improved by the extent to which low income households are able to accumulate assets and manage risks.

Assets, be they financial or non-financial (e.g., land, livestock, knowledge, self-confidence), are needed to take advantage of opportunities as well as to deal with challenges. During times of growth, there tend to be more opportunities, but individuals with few assets have limited means to take advantage of those opportunities. Finding ways to help low income households accumulate assets can be an important strategy for enabling them to participate more actively in the growing economy.

Almost all households have informal mechanisms for accumulating assets, mostly through in-kind savings, but these methods are inflexible and risky. Financial savings products offer a wider array of options for accumulating assets. They are also imperfect, since buying power could erode through inflation and financial institutions could fail, but as long as inflation is kept in check and institutions are properly supervised, these products can offer low income households greater accessibility, security and flexibility in their management of assets. They can also be an important tool for managing risk. If households have cash savings that can quickly be accessed in the event of an emergency, the damage caused by an unfortunate event can be minimized. Unfortunately, low income households in Viet Nam have limited access to financial savings products that are appropriate for their asset accumulation and risk management needs.

A second important strategy for managing risk is insurance. Insurance is a valuable tool because it lowers the cost of coping with a crisis when it occurs and can protect households against large financial losses that they would not have been able to cover through savings. Rather than one person or family having to bear the often substantial cost of sickness, unemployment, drought, etc. insurance pools resources from a large number of people in order to compensate the few that actually suffer a loss during a given period of time. Middle and upper income households in Viet Nam are increasingly taking advantage of insurance products to help manage their risks, but as with savings, low income households have limited access to insurance products that effectively meet their needs.

Cognizant of these developments and the role that savings and insurance services could play in helping low income households in Viet Nam to accumulate assets and manage risks, the ILO Office in Viet Nam in cooperation with the Ford Foundation sponsored this research study which was designed to: 1) update existing information on the savings and insurance

services available to low income households in Viet Nam; and 2) make recommendations about how to expand access to savings and insurance products that are appropriate for low income households in Viet Nam in the future.

Methodology

The research was conducted by four national experts and one international consultant. They formed two teams, one focusing on insurance and the other on savings. Research began with a desk review that focused on a set of sixteen research questions. This secondary research was followed by primary research using an interview guide and questionnaire, which was adapted for different types of stakeholders. Together, the teams conducted semi-structured interviews with 49 institutions and key informants including microfinance organizations, mass organizations, international development organizations, government agencies, private and public banks, and private and public insurance companies. They also collected 21 product questionnaires.

The teams prepared a summary of research results for presentation at a feedback meeting in Hanoi on 1 February 2007. The meeting was designed to stimulate discussion around the initial findings and to complete certain information gaps. It included presentations by three of the institutions recently involved in pilot testing products for the low income market. The meeting was well attended and attracted participation from both commercial and non-commercial service providers. This final report incorporates comments and suggestions that emerged from that meeting.

Key Findings - Insurance

The Vietnamese insurance market is becoming larger, more diverse and more competitive. As a result, domestic insurers are beginning to look for new opportunities and an increasing number of service providers are becoming interested in the potential of the low income market. Greater interest has not yet translated, however, into greater understanding of the market and its needs.

At present, commercial insurers have a tendency to equate “low income” with “poor” and, as a result, draw the conclusion that: a) the low income population cannot be served profitably; and b) it is the Government's job to subsidize any provision of insurance services to the low income market. Few companies believe that the low income market can be profitable and this perceived lack of profitability is the number one reason why the development of this market remains a low priority on commercial insurers' agenda. Nearly all of the insurers interviewed noted the absence of incentives to encourage them to invest in the development and delivery of insurance products for the low income market.

The Government of Viet Nam has been consistently interested in protecting the poor and has committed itself to facilitating universal access to health insurance and to an integrated social security system. It has also agreed to create financial management regimes that

would encourage insurers to diversify and improve their traditional products, and to increase their outreach to low income households in remote or distant areas. The Government's social protection programs are becoming more inclusive, but many low income households still do not have access to social or health insurance. The challenge of improving public knowledge about and trust in insurance products persists.

Straddling the line between social welfare and commercial insurance provision, microfinance and mass organizations are becoming increasingly proactive about facilitating their members' access to insurance services, either through the establishment of a mutual assistance fund or an agency relationship with an insurer. Interestingly, insurers have also become more interested in partnering with these organizations, driven by the need to identify new business models and fuelled by the initial success of recent pilot tests.

The regulatory environment is generally supportive of low income households' access to insurance, although barriers to participation in State-sponsored schemes remain. The Government's strategy for developing the insurance industry is being implemented and is helping to create a more professional, more stable, higher quality supply of insurance services in Viet Nam. This arrangement holds significant potential for enabling insurers to work through agent partners at a local level to develop a profitable business model for serving low income communities.

In general, there has been little change in the insurance product offering for the low income market during the last three years. No commercial insurer has registered a product with the Ministry of Finance (MOF) specifically designed for the low income market. Although there are many commercial life/savings, term life, cash value and annuity products on the market today, only Bao Viet's Term Life Insurance could be considered affordable for low income households. Personal accident and health insurance products are much more widely available, but it is unclear how many low income households are using them because insurers do not track this kind of information. If low income households are not purchasing this kind of insurance, it is unlikely due to the premium level and more likely due to other design features such as the insurers' approach to distribution and sales, inappropriate or unclear benefits, the transaction costs involved in purchase or claims procedures, or a lack of trust in either the institution providing the insurance or the concept of insurance in general. Agricultural insurance experiments over the last decade have not been profitable and there appears to be little interest among insurers in further experimentation without specific guarantees of support from the State.

To date, social welfare and commercial insurance products have been delivered through separate channels with relatively little competition or collaboration among service providers. This may now be changing, as the number of commercial service providers increases and as the Government seeks ways to implement its commitment to provide universal access to social and health insurance. New distribution channels are taking shape and the potential for more effective servicing of the low income market is significant.

Recommendations - Insurance

There are three general priorities for increasing low income households' access to insurance services: 1) making better quality information available about financial service needs and usage within the low income market; 2) building partnerships for the development of cost-effective products and delivery channels that can meet the needs of the low income market for insurance services; and c) educating the public about the importance of insurance as a risk management tool, not only within the low income market but also at policy making levels. This report suggests twenty-three actions that can be taken by different groups of actors in Viet Nam to implement these priorities, and to expand low income households' access to insurance in the future.

For All Service Providers

1. Conduct market research to find out what the low income market wants
2. Invest in consumer education
3. Seek out opportunities to apply the partner-agent model
4. Develop robust management information systems

For Commercial Insurers

5. Make it someone's responsibility to focus on the low income market
6. Think creatively about the recruitment of insurance agents who already live and/or work in low income communities
7. Consider the creation of "agent groups" as an alternative to the partner-agent model
8. Prioritise the development of insurance products that build on infrastructure used to deliver savings services
9. Develop and propose product development pilot tests to enablers

For non-regulated insurance service providers:

10. Consider the creation of a mutual insurance company as an alternative to self-insurance
11. Consider a relationship with a commercial insurer as a mechanism for providing longer-term "savings plus insurance" options to members
12. Avoid operating small, self-insured funds whenever possible

For Government:

13. Define "low income" and use this term to encourage the provision of insurance services to a diverse market segment that includes the near-poor as well as the poor
14. Strengthen the increasing coverage rather than serving the poor
15. Use Government incentives to encourage the delivery of insurance products to the low income market
16. Support the development and testing of agriculture insurance products by the commercial sector
17. Finalize the amendments to Decree 28 and its implementing circular
18. Encourage mass organizations to play a proactive role in protecting consumers from the risks inherent in self-insured funds

For Enablers:

19. Create an "Insurance Innovation Fund" to support the research, development and testing of new products and distribution systems
20. Provide training for insurers in market research and/or social marketing
21. Track the progress of the pilot tests identified in this report and organize a workshop in one year's time to discuss the findings of these and other experiments
22. Support consumer education initiatives
23. Co-finance investments in technology and financial markets research that facilitate new product design and delivery channels

Key Findings - Savings

At present, there are 5 state-owned commercial banks, 1 social policy bank, 1 post office savings company, 37 joint stock commercial banks, 31 foreign-owned bank branches, 5 joint venture banks, 934 People's Credit Funds (PCFs) and more than 58 microfinance providers offering some kind of institutional savings services in Viet Nam today. Together, these institutions provide an extensive distribution network that may reach 65 percent of the poorest quarter of the population.¹ The market penetration of formal financial service providers in Viet Nam was recently referred to as "remarkable," judging by the ratio of money in circulation to gross domestic product (M2/GDP), which had risen to 84 percent by 2006, up from 46.5 percent in 2001.²

Savings services may be more accessible to low income households in Viet Nam than in many other countries, but the quality of that access is still relatively weak. For access to be truly effective, the savings services need to be available nearby when low income households need them with terms and conditions that make them effective at fulfilling households' savings needs at an affordable price. In general, low income households require two types of savings products: 1) products that facilitate immediate access to savings in the event of an emergency or unexpected opportunity; and 2) products that facilitate the accumulation of assets, which could be for specific, expected expenditures or for general purposes.

A popular product among institutions serving low income households today is compulsory savings. Participation in a compulsory savings scheme may give low income households access to credit, but the product is valued little by low income households as a savings service because of its limited ability to meet either of the two main needs noted above. It is difficult if not impossible to withdraw funds when they are needed and the schedule and amount of the compulsory deposit is determined by the institution (or by the size of loan the borrower wants to take) rather than by a household's expected savings needs.

Demand deposit products would be particularly valuable to low income households because they are well-designed to meet urgent and unexpected needs and can also be

¹ World Bank, DFC and Mekong Economics. 2006. *Viet Nam: Developing a Comprehensive Strategy to Expand Access (for the Poor) to Microfinance Services*. Volume I. Viet Nam: DFC S.A., p. 42.

² Ibid, p. 49.

used for expected needs and general asset accumulation purposes. Unfortunately, they are rarely accessible to low income households. Although they are offered by many financial institutions, they are not offered via remote delivery channels and, because of legal and operational limitations, are usually not offered by microfinance service providers. Most of the institutions that do offer the product have prohibitively high minimum deposit requirements (VND 50,000 or more)³; complicated or unclear procedures; and/or impersonal or unfriendly service. Recent innovations by microfinance organizations that combine compulsory and voluntary savings features into one product may provide a useful design alternative that can more adequately meet the needs of both depositors and financial institutions.

Time deposits and contractual savings products can help low income households accumulate assets for longer-term needs. However, available time deposit products typically have high minimum deposit requirements (VND 50,000 or more); and contractual savings products have limited flexibility to respond to individual savers' needs. Microfinance organizations and PCFs are constrained by the limited capacity of their information systems to manage a range of savings patterns. Banks offer greater flexibility, but the range of options is still restricted to standard terms and a monthly deposit. No institution has a contractual savings product that allows individual savers to specify what they want to save for, the amount they want to save, the date by which they want to accumulate that sum and the deposit schedule. Although time deposits and contractual savings products are easier for institutions to deliver than demand deposits, they are not very useful to individuals that do not have a large lump sum ready to deposit or do not have a steady enough income stream to support regular deposits of a standard amount. Recent experiments by Tao Yeu May (TYM) and Viet Nam Bank for Agriculture and Rural Development (VBARD) may provide mechanisms for delivering these products to low income households in a more affordable and sustainable manner.

Most savings products are delivered to low income households through group meetings or through tellers in a branch office. There has been little innovation to date with respect to delivery channels, but doorstep deposit collection, mobile banking and new technology developments merit attention and further exploration.

Unlike in the insurance sector, no major new players have entered the banking sector since 2003. The industry continues to be dominated by State-owned financial institutions, which are perceived to have a competitive advantage in serving the low income market because of their extensive branch networks. These well-positioned institutions are not, however, making maximum use of their existing infrastructure to bring savings services to the low income market. They are primarily focused on the delivery of credit. A few joint-stock commercial banks have begun to show interest in the low income market, but do not consider it a priority and doubt it could ever be profitable.

³ VND 16,000 = 1 USD

There is significant potential for an expansion in outreach by PCFs and microfinance organizations. Unfortunately, delays in the implementation of Decree 28 and the lack of a national strategy that articulates the strategic role of microfinance in building an inclusive financial sector and supporting low income households' socio-economic development restrict that potential. As long as the political and regulatory environment remains indifferent to microfinance, necessary investments in the capacity of microfinance organizations will not be made and many opportunities for expanding low income households' access to savings services through the direct or indirect provision of services by microfinance organizations will be missed.

In other areas, legal and regulatory changes have created opportunities for expanding outreach. Decision no. 112/2006/QD-TTg approving the Banking Sector Development Strategy until 2010 and Orientation until 2020 outlines a plan for banking sector reforms that should make the industry stronger, more competitive and more capable of sustainable delivery of savings services to all segments of the population. The Government's commitment to develop non-cash payment systems could result in the development of infrastructure that would enable financial institutions to introduce lower-cost delivery channels. New regulations will allow PCFs to provide services beyond their immediate commune and permit Viet Nam Postal Saving Service Company (VPSC) and regulated microfinance organizations to deliver a wider range of savings services. An Association of People's Credit Funds was established that should strengthen individual institutions as well as the PCF network as a whole. Guidelines were also issued to clarify the rights and responsibilities of individuals that participate in informal savings and credit groups, which should facilitate greater transparency in the management of the groups and easier resolution of disputes.

Recommendations - Savings

This report suggests twenty-seven actions that can be taken by different groups of actors in Viet Nam to expand low income households' access to savings services in the future.

For Government

1. Develop a national strategy for microfinance sector development
2. Finalize the amendments to Decree 28 and its implementing circular as soon as possible
3. Recognize and provide guidelines for another category of microfinance service provider
4. Communicate the role of microfinance as articulated in the national banking sector development strategy
5. Map current supply and demand to identify outreach priorities
6. Implement Viet Nam Bank for Social Policy's draft reengineering strategy
7. Conduct an industry-wide technology study
8. Provide incentives to encourage the expansion of savings services to more low income markets

9. Consider adjustments to Decision 888

For Service Providers:

10. Embrace a systematic approach to product development that involves customers in defining priorities and designing characteristics
11. Be creative about potential partnerships that can lead to a sustainable business model
12. Further develop contractual savings products to motivate savings among low income households while limiting institutional costs
13. Consider a relationship with a commercial insurer as a mechanism for providing longer term “savings plus insurance” options to members
14. Conduct product costing exercises to determine the profitability of existing mobile banking delivery systems
15. Experiment with appropriate controls for new distribution mechanisms
16. Leverage technology
17. Cooperate to define priority training needs within the industry and to finance curriculum development and delivery
18. Increase the visibility of savings activities

For Enablers:

19. Lobby for the definition of an appropriate microfinance strategy
20. Encourage access to multiple savings products that accommodate the different sources and uses of savings among low income households
21. Organize training for financial institutions in participatory market research for product development
22. Co-finance a product costing and process mapping of the mobile banking delivery channel at VBSP
23. Co-finance investments in technology that create more cost effective delivery structures
24. Organize a “Partnership Forum”
25. Support the activities of industry associations and networks
26. Help low income households make smart savings choices
27. Advocate good microfinance practice by unregulated savings service providers

PART I: BACKGROUND

1. Context

Two extraordinary trends provide the context for this research. First, Viet Nam's economy has grown an average of 7.5 percent per year since the Doi Moi reform process was launched in 1986, twenty years ago.⁴ Second, Viet Nam has already achieved the first Millennium Development Goal of halving extreme poverty by 2015 - well ahead of the global schedule.⁵ According to national household survey data, recorded poverty fell from an estimated 70 percent in the mid-1980s to 24.1 percent in 2004.⁶ The Ministry of Labour, Invalids and Social Affairs (MOLISA) estimates that the percentage has fallen further to approximately 22 percent as of December 2005, despite an upwards revision of the poverty line which brought the national definition closer to international standards.

These two trends are, of course, connected. The main impetus for poverty reduction in Viet Nam has been economic growth and, given the Government's Socio-Economic Development Plan for 2006-10 (SEDP), it is likely to continue being the main driving force behind improved living standards in the future. Rapid growth alone, however, will not necessarily result in better living standards for all Vietnamese and this is a primary concern of the Government as well as its international partners:

*The main challenge for the future is to improve the **quality** of growth, to ensure that the benefits of growth are shared as widely as possible across all social, ethnic and economic groups, and equally by women and men, boys and girls. Globalization may create opportunities for growth, but it also imposes the risk of increasing inequality as the benefits of integration are spread unevenly across society.⁸*

Indeed, there is evidence that inequality across income groups and between urban and rural areas of the country is already on the rise.⁹ There is also growing concern about the sustainability of gains that have been made thus far. Although many Vietnamese have climbed above the poverty line in the last twenty years, a large percentage of them are now living only slightly above that line and any number of social or economic shocks could easily pull them back into poverty.

The country's ability to increase equity as it grows and to lower the percentage of the population living below the poverty line to 10-11 percent by the year 2010, as targeted in the

⁴ Government of Viet Nam and UNDP. 2006. *Country Programme Action Plan 2006-2010*. Hanoi, p.1.

⁵ UNDP. 2005. *The Millennium Development Goals and Viet Nam's Socio-Economic Development Plan 2006-2010*. Hanoi: UNDP, p.3.

⁶ Government of Viet Nam. 2005. *Viet Nam Achieving the MDG's*. Hanoi: Government of Viet Nam, p. 7.

⁷ Interview with MOLISA, 30 October 2006.

⁸ Government of Viet Nam and United Nations Country Team. 2006. *United Nations Development Assistance Framework for the Socialist Republic of Viet Nam 2006-2010*. Hanoi, p. 3.

⁹ Government of Viet Nam and UNDP. 2006. *Country Programme Action Plan 2006-2010*. Hanoi, p.2.

SEDP, will depend on many factors. Both national and international experience suggest, however, that the likelihood of success can be improved by the extent to which low income households are able to accumulate assets and manage risks.¹⁰

1.1 Accumulating Assets

Assets, be they financial or non-financial (e.g., land, livestock, knowledge, self-confidence), are needed to take advantage of opportunities as well as to deal with challenges. During times of growth, there tend to be more opportunities, but individuals with few assets have limited means to take advantage of those opportunities. Finding ways to help low income households accumulate assets can be an important strategy for enabling them to participate more actively in the growing economy.

Almost all households have informal mechanisms for accumulating assets, mostly through in-kind savings. They may stockpile building materials or raise animals that produce offspring. They may also set aside small amounts of money on a regular basis which they store in a jar or other “secret” hiding place. Unfortunately, these methods are lumpy (an entire animal must be slaughtered even if the amount of cash required is small), inflexible (cash cannot be obtained until goods are sold), and risky (building materials can decay or be stolen; animals can become sick). Particularly in the case of women, assets that are accumulated at home are often subject to appropriation by male members of the family.

Financial savings products offer a wider array of options for accumulating assets. Of course, they are not perfect either since buying power could erode through inflation and financial institutions could fail, but as long as inflation is kept in check and institutions are properly supervised, these products could offer low income households greater accessibility, security and flexibility in their management of assets. Unfortunately, low income households have limited access to financial savings products that are appropriate for their needs.

1.2 Managing Risks

The accumulation of assets, particularly through financial savings that can be accessed quickly, is also an important strategy for decreasing low income households' vulnerability to risk. New seeds can be bought if an initial crop fails; children can be taken to a clinic if they fall ill; a funeral can be paid for without a family having to go into debt.

A second important strategy for managing risk is insurance. Insurance is a valuable tool because it lowers the cost of coping with a crisis when it occurs and can protect households against large financial losses that they would not have been able to cover through savings. Rather than one person or family having to bear the often substantial cost of sickness, unemployment, drought, etc. insurance pools resources from a large number of people in order to compensate the few that actually suffer a loss during a given period of time. Middle

¹⁰ The term “low income” is used to describe a single target group that includes both the poor (those living below the poverty line) and the near poor (those living slightly above the poverty line).

and upper income households in Viet Nam are increasingly taking advantage of insurance products to help manage their risks, but as with savings, low income households have limited access to insurance products that effectively meet their needs.

1.3 Building on Recent Developments

Two studies were conducted in 2003 within the framework of the ILO/MOLISA project “Extension of Microfinance and Microinsurance to Informal Women Workers” in cooperation with Mekong Economics Ltd. (MKE) and the Institute for Labour Sciences and Social Affairs (ILSSA) to examine the demand for and supply of risk management financial services for low income households in Viet Nam.¹¹ Gathering information from 87 organizations and individuals as well as a comprehensive desk review, the studies examined the regulatory environment, the products available, the risks to which low income households are vulnerable and their strategies for coping with those risks. The studies found significant demand for savings and insurance products but limited supply, and produced recommendations for adapting currently available products to the needs of low income women. The studies also inspired the development and testing of three new products that were designed to help low income women better protect themselves against the risks they face daily.¹²

As those pilot tests were implemented, the environment within which savings and insurance products are delivered in Viet Nam changed in interesting ways. The Government committed itself to economic policies that support more equitable growth and to the development of social protection mechanisms that cover the whole population. It issued numerous decrees, circulars and decisions to implement its commitments. The insurance market opened significantly as the country prepared for its accession to the World Trade Organization (WTO) in January 2007. The microfinance sector began a process of formalization as a result of Decree 28/2005/ND-CP. And the public became more aware of insurance as a risk pooling mechanism thanks to increased media coverage associated with the avian influenza pandemic.

Cognizant of these developments and the role that savings and insurance services could play in helping low income households in Viet Nam to accumulate assets and manage risks, the ILO in cooperation with the Ford Foundation proposed additional research during the fourth quarter of 2006. The research was intended to analyse recent developments, current attitudes and product availability, and to make recommendations about how to expand access to savings and insurance products that are appropriate for low income households in Viet Nam in the future.

¹¹ Risk management financial services are defined as financial services that allow households to more effectively cope with risks and economic stress. The three types of service that were examined during the research were savings, emergency loans and insurance.

¹² The ILO project “Extension of Microfinance and Micro-insurance to Informal Women Workers” supported three initiatives: 1) Tao Yeu May's development of its “Family Savings” product; 2) the Dong Trieu Women Trust Fund's development of a mutual assistance fund combining a form of credit life insurance with limited health/funeral benefits; and 3) a partnership between Ninh Phuoc Women's Assistance Fund and Bao Viet insurance company to deliver a personal life insurance product.

2. Research Objective

The objective of this research was two-fold:

1. To update the existing data on savings and insurance services available to low income households in Viet Nam; and
2. To explore innovative ways to extend savings and insurance to low income households.

3. Methodology

The research was conducted by four national experts and one international consultant. They formed two teams, one focusing on insurance and the other on savings. The international consultant supported the work of both teams. Research began with a desk review that focused on a set of sixteen research questions (see Annex 1 for the list of questions and Annex 2 for the secondary sources reviewed). This secondary research was followed by primary research using an interview guide and questionnaire, samples of which can be found in Annex 3. The interview guide was adapted for different types of stakeholders, but the flow of questioning consistently followed the outline provided by the original sixteen research questions.

Together, the teams conducted semi-structured interviews with 49 institutions and key informants including microfinance organizations, mass organizations, international development organizations, government agencies, private and public banks, and private and public insurance companies. In some cases, more than one representative of an institution was interviewed to gain additional perspective (a complete list of interviews held is provided in Annex 4). When a service provider was identified as having a product that was accessible to low income households (or had the potential to be appropriate for these households), it was asked to complete the follow up questionnaire and/or to share a copy of relevant product documentation (such as contract wording or premium tables) that could help illustrate the design of the product. A total of 21 questionnaires were collected.

The teams prepared a summary of research results for presentation at a feedback meeting in Hanoi on February 1, 2007. The meeting was designed to stimulate discussion on the initial findings and to complete certain information gaps. It included presentations by three of the institutions recently involved in pilot testing products for the low income market. The meeting was well attended and attracted participation from both commercial and non-commercial service providers. This final report incorporates comments and suggestions that emerged from that meeting.

4. Assumptions and Limitations

Since the research objective suggested the need for impartial observation and openness to innovation, few assumptions were made during the course of this study. However, one important assumption and three limitations did affect the research results and deserve mention as part of the background of this report.

First, as will be noted in Section 2.2.2, there is no clear and consistent definition of “low income household” being applied in Viet Nam today. Thus, an assumption had to be made about the nature of the target market for this research. Drawing from recent analysis by the World Bank, as well as Government of Viet Nam statistics, “low income” was roughly defined to include both “poor” and “near-poor” households, which constitute approximately 40 percent of the population.¹³ As shown in Table 1, the bottom two quintiles of the Vietnamese population have a level of monthly income, on average, that falls below the common minimum wage currently set at VND 350,000. Unfortunately, statistical data was not available to make this definition more precise and it was beyond the scope of this research initiative to establish determining characteristics of the low income class. Establishing a more precise definition of “low income” may be desirable. However, the simple definition used here was sufficient for the purpose of this research. It clarified for the researchers, and for those interviewed, the type and approximate size of the market under discussion.

Table 1: Average Monthly Income per Capita by Quintile (in VND 000s)

	Overall	Group 1	Group 2	Group 3	Group 4	Group 5
Whole country	484.38	141.75	240.66	346.98	514.21	1182.27
City	815.43	236.91	437.31	616.12	876.67	1914.06
Rural Area	378.09	131.19	215.11	297.55	416.20	835.03

Source: General Statistics Office, Government of Viet Nam, 2004

Second, since the research conducted in 2003 concluded that the limited supply of insurance and savings services was the principal constraint to low income households' access, and since resources were limited, this study focused specifically and deliberately on updating information about the supply of insurance and savings services available to low income households in Viet Nam. This is not to say that demand-side research would not be useful, but it was not part of this particular research objective.

Third, the researchers acknowledge the importance of collecting quantitative data to illustrate and support conclusions and recommendations. Significant effort was made to collect this type of information, beginning with the initial design of the research process and the tools for collecting data, and continuing with numerous formal and informal requests for supporting statistics. Unfortunately, key pieces of data were not able to be collected and it is unclear whether this information does not exist, or whether institutions are not willing to make the data public. In either case, the absence of statistics concerning the number of low income depositors and insurance policyholders served, the average savings balance by product, and the profitability of savings and insurance products that are available to low income households hampered the overall research effort and is noted in the report as a challenge to expanding access in the future.

¹³ Waseem Saba and de Paz Nieves Carmen. 2006. *Social Protection in Vietnam: Background Note*, Hanoi: The World Bank, p. 6.

Expanding Access to Insurance and Savings Services in Viet Nam

Finally, several requests were made to organize the presentation of findings in this report in a particular manner. These requests were accommodated when possible, but in general, the format complies with the original terms of reference, which requested a division of findings into two parts - insurance and savings - with each part consisting of the following sections:

- 1) An update of the regulatory environment relating to the provision of savings or insurance products
- 2) An update of providers and products available on the market
- 3) The identification of challenges and recommendations for the extension of savings or insurance to the low income market

Readers who contributed suggestions to the initial research findings should find their ideas and concerns addressed in this report, although perhaps not precisely in the way they were organized or articulated in the February feedback meeting.

PART II: INSURANCE

1. Introduction

The insurance services available in Viet Nam today can be broadly divided into two categories: social welfare and commercial. The social welfare category consists of social insurance, health insurance and social assistance programs that are provided by the Government to help ensure a basic level of social security for its citizens. The commercial category consists of life, personal accident, health, property and other insurance products that are offered on a for-profit basis by public and private entities that are legally licensed to provide these services.

Table 2 illustrates how the commercial insurance sector has recently grown in both size and diversity. There are now more than 32 companies working in the industry including insurers, re-insurers, brokers and loss adjustors.¹⁴ There are also 30 representative offices of international insurance groups in Viet Nam. Total market revenue was approximately 15,678 billion VND in 2005, more than double the volume of 2002, just three years earlier. The sector's collective financial capacity (as measured by total assets and technical reserves) grew 161 percent during the same three year period and its contribution to the country's GDP has been increasing for a decade.

Table 2: Viet Nam Insurance Market Indicators

Key Indicators	1996	1999	2002	2003	2004	2005
1. Market Structure - total number of insurers/ brokers	8	15	20	24	26	32
• Non-life insurers	6	10	13	14	14	16
• Life insurers	1	3	4	4	5	8
• Reinsurers	1	1	1	1	1	1
• Brokers	0	1	2	5	6	7
2. Market volume						
a. Total volume (bn VND)	1,356	2,291	7,825	11,376	14,088	15,678
• Premium	1,264	2,091	6,992	10,390	12,479	13,558
- Non-life	1,263	1,606	2,624	3,815	4,768	5,535
- Life	1	485	4,368	6,575	7,711	8,023
• Investment income	92	200	833	986	1,609	2,120
b. Contribution to GDP (%)	0.49	0.57	1.46	1.86	1.97	2.03
c. Premium per capita (000's VND)	17	27	88	125	152	163
3. Social Benefits	809	1,494	4,949	6,393	8,660	9,991
a. Claim paid (bn. VND)	760	789	1,400	1,841	3,276	4,628
b. Claim reserve (bn. VND)	149	705	3,549	4,163	5,384	5,363
4. Financial capacity						
a. Total assets (bn. VND)	1,703	3,692	12,503	18,299	25,177	31,497
b. Total technical reserves (bn. VND)	791	2,107	8,685	13,152	18,536	23,899
5. Jobs created (staff and agents)	7,000	30,000	76,600	125,100	136,700	143,540

Source: Viet Nam Insurance Market, 2005

¹⁴ See Annex 5 for a list of the companies currently active in the Vietnamese insurance market.

The market is very much divided among the insurers between state-owned enterprises and local joint stock companies on the one hand, and foreign joint venture or 100 percent foreign-owned firms on the other. Bao Viet, Bao Minh, PJICO and Petrovietnam Insurance are among the major domestic players, while QBE, AIG, ACE and Prudential lead the foreign contingent.¹⁵ Bao Viet is still the largest insurance company in the market with its registered capital of VND 3 trillion (nearly USD 200 million). It is active in both the life and non-life sectors, as shown in Figures 1 and 2, as well as in the fund management and security sectors.

Figure 1: Market Share of Non-Life Insurers in 2005¹⁶

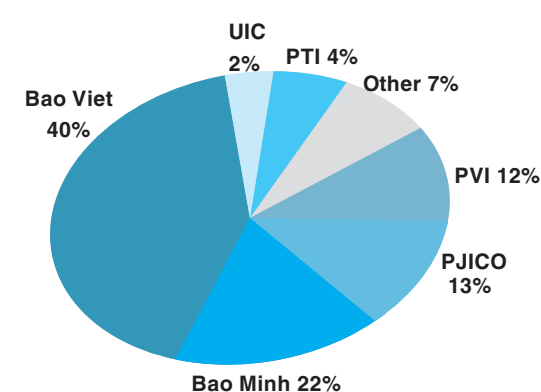
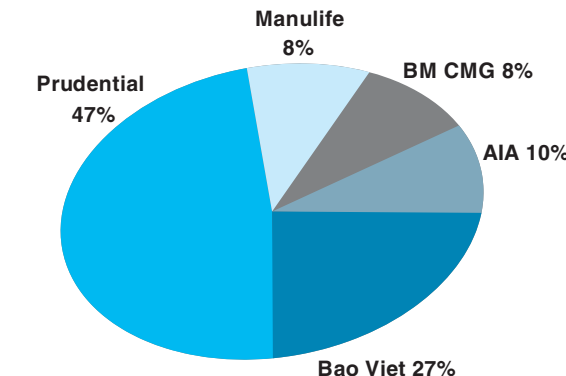


Figure 2: Market Share of Life Insurers in 2005¹⁷



Established players such as Prudential, Bao Minh and Bao Viet still dominate the market but are working hard to keep up with newly licensed companies such as ACE and New York Life. New local insurance companies have also been established, principally by investors in the banking sector: the Bank for Investment and Development Insurance Company (BIC) was set up by the Bank for Investment and Development of Viet Nam (BIDV); Vien Dong Insurance Company is mainly owned by the local commercial bank, Sacombank; and the Agriculture Bank Joint Stock Insurance Company (AIC) is owned by Viet Nam Bank for Agriculture and Rural Development (VBARD).

Although statistics are not available to estimate the percentage of the population currently holding a non-life commercial insurance policy, life insurance statistics suggest that the number of Vietnamese who have access to commercial insurance and are willing and able to buy it is slowly increasing.¹⁸ The absolute number of individuals holding commercial life insurance is still small less than 4.3 percent of the population in 2006. The number of non-life commercial policyholders is unknown.

The scale and scope of State-sponsored social welfare insurance has also increased

¹⁵ QBE and ACE are the legally registered names of two international insurance groups; they are not acronyms.

¹⁶ Viet Nam Insurance Market 2005, the category of "other" includes the following insurers: Bao Long (1.96%), Allianz (1.69%), VIA (1.43%), Vien Dong (0.63%), BIDV-QBE (0.45%), Samsung-Vina (0.34%), IAI (0.18%), and Groupama (0.01%).

¹⁷ Ministry of Finance. 2006. Viet Nam Insurance Market 2005. Hanoi: Ministry of Finance.

¹⁸ The total number of main product policy-holders increased 2.4 percent between 2005 and 2006, from 3.503 million to 3.587 million. Source: AON Viet Nam.

significantly in some areas. Once provided only to public sector employees, social and health insurance schemes are becoming increasingly accessible to employees in the formal private sector and, to a lesser extent, the informal sector. At the end of 2006, there were 34.5 million people covered by the State health insurance scheme (41 percent of the Vietnamese population) compared with only 16.2 million in 2003, which means that coverage has more than doubled in the past three years. Approximately one third of those covered are participating in the voluntary health insurance scheme, 90 percent of whom are pupils and university students. Participation in the social insurance scheme has not been as dynamic. Sixteen percent of employees were policyholders in 2006, compared with 14 percent in 2003; the voluntary social insurance scheme will not take effect until 2008.¹⁹

To date, social welfare and commercial insurance products have been delivered through separate channels with relatively little competition or collaboration among service providers. This may now be changing, as the number of commercial service providers increases and as the Government seeks ways to implement its commitment to provide universal access to social and health insurance. New distribution channels are taking shape and the potential for more effective servicing of the low income market is significant.

The reasons for this optimistic statement are explored in the next two sections of this report, which discuss the changes that have been taking place in the regulatory environment and in the supply of insurance services being made available to the low income market. The fourth section summarizes the principal challenges that restrict low income households' access to insurance services and are likely to continue to restrict access in the future. The final section in the insurance part of this report presents recommendations for confronting those challenges and making the most of the potential that exists in the industry today.

2. Update on the Regulatory Environment

This section of the report describes the regulatory environment governing the provision of insurance services in Viet Nam, focusing on changes that have taken place since 2003. It identifies two sets of regulatory issues to take into consideration when planning for the future-factors that limit access to insurance products for low income households, and factors that facilitate access. It also briefly comments on regulatory changes that are expected in the near future, the impact of which is still unknown.

2.1 Developments Since 2003

In general, the development of the insurance market in Viet Nam is guided by the Law on Insurance Business and the Strategy for Development of the Vietnamese Insurance Market 2003-2010.²⁰ Overall, the industry seems pleased with the environment created by

¹⁹ Since 2003, participation in the compulsory insurance scheme has increased from 5 million to 6.9 million employees. Source: Alarcon Caracuel Manuel Ramon. 2006. Report on the Current Situation and the Development and Improvement Perspectives of an Integrated System of Social Security in the Socialist Republic of Viet Nam. Hanoi: Spanish Agency for International Cooperation.

²⁰ Decision 175/2003/QĐ-TTg: Strategy for the Development of the Vietnamese Insurance Market from Year 2003 to Year 2010 - August 29, 2003.

this legislation and the numerous decrees and circulars that have been issued in the last three years to implement the Government's strategy. The regulatory developments described below are those that are having or are likely to have significant impact on low income households' access to insurance.

2.1.1 Strengthening the Capacity of Vietnamese Insurance Companies

The Government's Strategy for the Development of the Vietnamese Insurance Market from Year 2003 to Year 2010 focuses on three main objectives, two of which are worth noting here:

- Vietnamese insurers will have strong financial capacity, modern business capability and up-to-date management technology, with personnel working in the insurance sector with the professional skills required to be competitive and required for integration.
- The public will have access to insurance products of quality which meet international standards.²¹

In the last three years, several circulars have been issued that have helped the industry make progress towards these two objectives. Circular No. 98-2004-TT-BTC, for example, strengthened licensing, product registration, underwriting, actuary and reinsurance requirements. It discussed the rights, obligations and training of insurance agents and set maximum commission rates. It also established transparency standards for the information provided in sales literature and contracts. Circular 99-2004-TT-BTC provided implementing details on the financial regime applicable to insurers and insurance brokers including charter capital, reserves, and reporting requirements. The Government's strategy for developing the insurance industry is being implemented and is helping to create a more professional, more stable, higher quality supply of insurance services in Viet Nam.

2.1.2 Opening the Market to Greater Competition

Viet Nam became a member of the World Trade Organization (WTO) in January 2007. As part of its application process, Viet Nam agreed to open its insurance market more widely, and adjustments have been made to Decrees 42/2001/ND/CP and 43/2001/ND/CP which make it easier for foreign firms to enter the Vietnamese market. Previously, the number of business licenses was limited and Vietnamese entities could purchase insurance only from companies operating in Viet Nam, which gave domestic firms a competitive advantage.²² Fewer barriers to entry for foreign firms will mean greater competition for domestic firms in their traditional markets and this could motivate research and development in new markets.

2.1.3 Equitization of State Insurance Companies

Both Bao Minh and Vinare became joint stock corporations in 2004 and are now listed on

²¹ Ibid.

²² Vietnamese organizations and individuals could do business with insurance enterprises that had no head office in Viet Nam only when insurance enterprises which were operating in Viet Nam had not yet provided the type of insurance product that the organization or individual wanted to purchase; or when a partnership was provided for by an international agreement that was signed by the Vietnamese Government.

the Vietnamese Stock Exchange. Bao Minh is the second largest non-life insurance company in Viet Nam while Vinare is the country's only reinsurance company. Although the majority of these companies' shares continue to be held by the State (70% for Bao Minh and 56.5% for Vinare)²³, the equitization has signalled a clear transition within the industry towards a more market-oriented approach.

2.1.4 Tax Incentive

All local insurance policies used to be subject to a value added tax of 10 percent of the insurance premium. When Circular 111/2005/TT/BTC was issued in 2005, a number of insurance products became exempt from this tax, including life insurance, pupil insurance, personal accident insurance, agriculture-related insurance, social insurance, health insurance and unemployment insurance. This exemption should indirectly lower the cost of delivering many insurance products that are in demand by low income households.

2.1.5 New Regulations for State-Sponsored Health Insurance

Decree 63/2005/ND-CP, issued on 16 May 2005, provided new regulations on health insurance, replacing those that had been in effect since 1998. Four elements of the new decree are worth noting here:

- It clearly specifies target groups other than salaried employees that are eligible for compulsory health insurance (e.g., the poor, veterans, those older than ninety years old, etc.).
- It opens voluntary health insurance to "all persons wishing to participate in health insurance, including persons already participating in compulsory health insurance who wish to enjoy higher insured services, and including foreigners visiting Viet Nam for the purpose of work, study or tourism."
- It enlists People's Committees to raise funds to help purchase voluntary health insurance for local citizens, particularly the poor.
- It allows insured persons to access services at private medical facilities that have a contract with Viet Nam Social Security (VSS).

Circulars 21 and 22, issued in July and August of 2005, provide detailed guidelines for implementing the compulsory and voluntary components of Decree 63. Resolution 36 established free health insurance for children under six years old, effective as of 2005.

2.1.6 Unprecedented Reform of the Social Insurance System

The new system is defined by the new Social Insurance Law, which was approved in June 2006 and seeks to gradually expand social security coverage within the country while also ensuring financial sustainability of the system.²⁴ It includes three main schemes: 1) compulsory insurance (effective January 1st, 2007); 2) voluntary social insurance (effective

²³ "Vinare shares to open to public trading", Viet Nam News Agency, 2 March 2006, www.vnagency.com.vn and "State-owned insurer to sell shares in July," 11 June 2004, <http://vietnamnews.vnnet.vn/2004-06/10/Columns/Talking%20Shop.htm>.

²⁴ Waseem Saba and de Paz Nieves Carmen. 2006. *Social Protection in Viet Nam: Background Note*. Hanoi: The World Bank.

January 1st, 2008); and 3) unemployment insurance (effective January 1st, 2009). The new law establishes, for the first time, specific guidelines for implementing voluntary insurance that supports workers outside the formal economy including farmers and the self-employed. It also allows portability of benefits between the compulsory and voluntary schemes. More details about the benefits being provided under each scheme can be found in Section 3 of this report.

2.1.7 New Guidelines for Mutual Insurance

Decree No. 18/2005/ND-CP and Circular 52/2005/TT-BTC were issued in 2005 to guide the establishment, organization and operation of mutual insurance companies in agriculture, fishery and forestry. The new legislation creates opportunities for innovation to meet the needs of low income persons that work in these sectors, but no mutual insurance company has thus far been created.

2.1.8 New Regulations for Microfinance Institutions

Decree 28/2005/ND-CP on the organization and operation of microfinance institutions in Viet Nam was issued on March 9, 2005. It was the first step towards the creation of a legal and regulatory framework for microfinance organizations. Draft amendments to that Decree and a draft implementing circular are now being circulated. Once finalized, the legislation will provide microfinance institutions with a mechanism for submitting themselves to regulation and gaining more credible legal status. Decree 28 authorizes regulated microfinance institutions to work as agents in banking and insurance related fields. This explicit authorization should help facilitate future partnerships between microfinance institutions and insurers to serve low income clients.

2.1.9 Expanded Mandate for VPSC

Decision No. 270/2005/QD-TTg of October 31, 2005 on mobilization, management and use of postal savings expands the range of basic financial services that can be offered by the Viet Nam Postal Savings Company (VPSC). According to the Decision, VPSC's main function continues to be the mobilization of capital for key national programs, but it is now also allowed to develop additional support services such as certificates of deposit, remittance processing, payment services including checks, ATM cards, and agency services such as the sale of insurance. This opens the possibility of a significant expansion of insurance services to low income households through VPSC's network of 2,946 postal outlets.

2.2 Factors that Limit Access

From a regulatory perspective, there are nine factors that currently limit low income households' access to insurance products.

2.2.1 A Historic Focus on Providing Free Insurance for the Poor

Although the rhetoric of the Government indicates that it is working towards universal access to health and social insurance, its policies to date have focused on two main socio-economic groups: 1) those employed in the formal sector; and 2) the poor. Numerous social assistance programs have been established for specific target groups including those living below the poverty line, ethnic minorities, veterans, the elderly, the disabled, etc., but these programs have been criticised for being isolated and uncoordinated and the Government is trying to move towards a more integrated social security framework. The tradition of providing free insurance to specific target groups has played an important role in Viet Nam's socio-economic development thus far and has facilitated access to some insurance for many disadvantaged groups. However, that tradition has had two significant implications.

First, a bias has been created against the commercial provision of services to the poor because that is considered to be an area of government's responsibility. Second, many of the households that have succeeded in moving themselves out of poverty have also moved themselves out of any targeted group that would give them supported access to social and health insurance. A substantial percentage of the country's "near-poor" population has little access to appropriate and affordable insurance, even though these households are still extremely vulnerable to social and economic crises that could quickly send them back below the poverty line.

2.2.2 No Clear Definition of Low Income

The Government clearly defines the national poverty line, but it does not describe the category of "near-poor" or "low income" (which includes both the poor and near-poor) in a similarly specific manner. The lack of a clear and coherent definition of low income makes it difficult for commercial insurance suppliers to consider this portion of the population as a legitimate market segment. At present, insurers have a tendency to equate "low income" with "poor" and, as a result, draw the conclusion that: a) the low income population cannot be served profitably; and b) it is the Government's job to subsidize any provision of insurance services to the low income market. A clearer definition of low income might encourage commercial suppliers to consider the development of products for this sizeable market, and it might help policy makers and regulators to take a more holistic approach to protecting the social welfare of the many specific target groups that can be found in the low income socio-economic class.

2.2.3 Insufficient Incentives to Serve the Low Income Market

Nearly all of the insurers interviewed noted the absence of incentives to encourage them to invest in the development and delivery of insurance products for the low income market. The only existing incentive mentioned by insurance companies was the VAT exemption

discussed in Section 2.1.4 which makes it somewhat more attractive to sell certain categories of insurance than others. Insurers downplayed the value of this incentive for two reasons: first, it applies to all income segments and does not specifically encourage the provision of insurance to low income markets; and second, it offers only indirect benefits. Insurers would like to see more direct incentives, such as funding for a study about "how to provide insurance services to low income people" or "how to find the fortune at the bottom of the pyramid".

2.2.4 Minimum Wage Assumption

When the new Voluntary Social Insurance Law takes effect in 2008, the level of voluntary social insurance premiums will be computed based on each worker's reported income level, which must be equal or higher than the common minimum wage. With the common minimum wage currently set at 350,000 VND per month, a substantial percentage of households (the bottom two quintiles of the population have an average monthly income of 141,750 and 240,660 VND respectively) will have to pay more for their insurance in relative terms than those who earn the minimum wage or higher.²⁵

2.2.5 Restricted Benefits under Voluntary Social Insurance

The new Social Insurance Law establishes a voluntary social insurance system that includes only old-age pensions and survivors' benefits. Sickness, maternity leave, employment injury and occupational disease benefits are provided under the compulsory insurance scheme, but they are not available under the voluntary scheme. Low income individuals that do not work for the Government or have a fixed term contract of three months or more can insure themselves against sickness (but not against the loss of income that illness may cause) by purchasing voluntary health insurance. There is no State-sponsored insurance scheme that will cover them in the event of occupational disease or a work-related accident. This is a significant issue for an increasing number of low income individuals who work as casual labourers in the industrial and export processing zones that are being created on converted farmland by foreign investors that want to take advantage of Viet Nam's relatively cheap labour force. With the exception of the construction industry,²⁶ there is no legislation requiring companies to provide compensation in the event of a work-related accident or disease if the worker has been contracted for a period of three months or less.

2.2.6 Commission Restrictions

The Government restricts the level of commission that can be paid to insurance agents. The restrictions were put in place to protect consumers against spiralling premium levels driven by insurers' competitive marketing strategies that increased agent commissions to motivate sales. Although well-intentioned, the restrictions may constitute a barrier to expanding the provision of insurance services in more difficult to reach areas that require additional investments in time and transportation by agents.

²⁵ Average monthly income statistics are for 2004 and are provided by the Government Statistics Office.

²⁶ Refers to Circular 76/2003/TT-BTC, which provides guidelines for the investment and construction insurance - August 4, 2003.

2.2.7 Migrant Registration

Low income households often migrate from one place to another in search of economic opportunities. When they do so, they must register with local authorities in the place where they settle, even on a temporary basis. It is illegal not to do so, yet the process is notoriously difficult. Many migrants do not register and, as a result, cannot access social insurance, health insurance or social assistance from the State.

2.2.8 Lack of Guidance for Mutual Assistance Funds and their Members

As noted above, Decree 18/2005/ND-CP and Circular 52/2005/TT-BTC provide guidelines for creating mutual insurance companies, but none have been established thus far. There are, however, many mutual assistance funds that are already in existence and are operating outside the boundaries of the Law on Insurance Business. Unlicensed and unregulated, they provide insurance services to their members that are easy and affordable to access, but are relatively risky due to the funds' typically small risk pool, inadequate reserves, lack of access to reinsurance and weak expertise in appropriate product pricing. Most mutual assistance funds are small and provide relatively little financial support in the event of a loss (the benefits received are primarily social), so the degree of risk for members who participate in them is also small. However, a few mutual assistance funds are growing and now serve several thousand members; TYM's Mutual Assistance Fund serves nearly 20,000 clients. Until recently, these funds were unaware of the new legislation for mutual insurance companies and few if any will consider formalization because of the VND 20 billion minimum legal capital requirement and their limited management capacity. Authorities know this and allow the mutual assistance funds to operate informally as long as 1) they do not call themselves a mutual insurance company; 2) they do not issue any insurance policies; and 3) they do not operate as a profit making business. This hands-off approach makes it easier for low income households to access some kind of insurance in the short-term, but it does not encourage the development of longer-term, more reliable and more diversified insurance services for low income communities.

2.2.9 New Product Registration Requirements

Currently, the Ministry of Finance (MOF) must approve any new product offering before an insurer can launch that product in the market. This is a disincentive to innovation and may be discouraging insurers from experimenting with new designs and approaches for the low income market. Indeed, most of the products on the market today are considered to be standard products that were registered and approved by the MOF before 1999. The MOF has submitted amendments that would remove product registration requirements for property and casualty products, and this may help to encourage innovation in the areas of crop and livestock insurance, but registration for life and personal accident insurance products will remain.

2.3 Factors that Facilitate Access

From a regulatory perspective, six main factors are facilitating greater access to insurance among low income households in Viet Nam.

2.3.1 Opening of the Insurance Market to More International Players

As mentioned above, Viet Nam's insurance market has become more open to international players as part of the country's accession to the WTO. All five of the insurers that entered the market in 2005 are foreign-owned companies, and these new entrants are putting competitive pressure on existing insurers. Analysing the data presented in Table 2, total market volume grew more slowly in 2005 than in any of the previous five years; and it grew only half as fast as the number of insurers (11 percent compared with 23 percent). Traditional market segments may be becoming saturated and, if so, that should push insurers to invest in the opening of new markets. Indeed, several of the domestic insurers interviewed acknowledged that it is becoming more difficult for them to compete for large projects and urban customers. They have begun to look actively for new market opportunities and the low income segment is one of those under consideration. As one insurance company representative commented, "We need to make use of our existing network and go to the low income market where the giants do not jump in."

2.3.2 New Institutional Options for Serving the Low Income Market

Decrees 18 and 28 legally recognize mutual insurance companies and microfinance organizations as supervised entities that specialize in the provision of financial services to the low income market. Circular 52 and a draft circular that will soon accompany a revised Decree 28 provide guidelines for the licensing and operation of these entities, which could provide more secure and potentially higher quality insurance services for the low income market than existing semi-formal institutions and mutual assistance funds are able to provide. In addition, the Viet Nam Postal Savings Company (VPSC) has been given permission to develop agency services and has already begun to distribute insurance products in 816 of its outlets on behalf of the French insurer, Prevoir. The potential for expanding the delivery of insurance services to low income communities through VPSC as a delivery channel is significant.

2.3.3 Clearer Guidelines for Implementing State-Sponsored Voluntary Insurance Schemes

Circular 22 and the new Social Insurance Law establish specific guidelines for implementing voluntary health and social insurance schemes that support workers outside the formal economy, including farmers and the self-employed. The existence of such guidelines should make it easier for Viet Nam Social Security (VSS) and its partners to organize, market and deliver voluntary insurance.

2.3.4 Decentralization of Authority

From a budgetary perspective, Doi Moi reforms have transformed Viet Nam into a highly decentralized country.²⁷ This gives individual provinces the flexibility to experiment with

²⁷ Nguyen Nguyet Nga and Rama Martin. 2007. *A Comparison of Quantitative and Qualitative Poverty Targeting Methods in Viet Nam*. Q-Squared Working Paper No. 32. Toronto: Centre for International Studies, University of Toronto.

innovations in their service delivery that might later be replicated in other provinces. Bac Ninh province, for example, introduced a subsidy for "near-poor" households to buy voluntary health insurance which VSS is now recommending as a model for other provinces (see Section 3.3.3). This budgetary flexibility should help to make other local experiments possible and speed the pace of innovation.

2.3.5 Simple Agent Licensing Requirements

There are more than 100,000 insurance agents active in Viet Nam. These are organizations or individuals authorized by an insurer to conduct insurance agency activities on the basis of a contract. The rapid expansion of this agent network has been made possible in part by the relatively simple requirements that must be met to operate as an agent. An individual agent must: 1) be a Vietnamese citizen permanently residing in Viet Nam; 2) be at least eighteen years of age with full capacity for civil acts; and 3) have a certificate of training as an insurance agent issued by an insurer or by the Viet Nam Insurance Association. An organization that wants to operate as an agent must meet only two conditions: 1) be legally established and operating; and 2) ensure that those personnel who will directly conduct insurance agency activities satisfy the conditions that must be met by individual agents.

If additional agents are needed to expand insurance services to low income communities, it should be possible to license and train them fairly quickly and easily. Insurance companies in Viet Nam organize frequent trainings to issue agent certificates. These courses last anywhere from one to two weeks and are paid for by the insurers. Once an agent is licensed and contracted with an insurance company, that agent can conduct numerous activities on behalf of the insurer including:

- Introducing and offering insurance for sale;
- Arranging the conclusion of insurance contracts;
- Collecting insurance premiums;
- Dealing with claims for indemnity and paying insurance proceeds upon occurrence of insured events.

This arrangement holds significant potential for enabling insurers to work through agent partners at a local level and to develop a profitable business model for serving low income communities.

2.3.6 Establishment of an Insurance Training Centre

One disadvantage of having such simple agent licensing requirements is the lack of industry standards and quality control for agents. This may change as the result of a new EUR 3.5 million Ministry of Finance project to promote human resources development within the insurance industry. The project aims to establish a professional training organization for the Vietnamese insurance market. The exact scope of the organization's activities is still unclear, but it is likely to begin by offering training for the staff of insurance companies (e.g., accountants and underwriters) and by compiling quality training documentation in coordination with the Australian and New Zealand Institute for Insurance and Finance (ANZIIF). It is unlikely to provide training for agents itself, but may set standards and organize a certification exam for agents. This could make a significant

contribution to the establishment of basic service quality standards within the industry. The project has already begun to sponsor technical training seminars for insurers, but the official opening of the training centre is not expected until the fourth quarter of 2007.

2.4 Potential Impact of Future Changes

Two major regulatory changes are expected in the near future, but with limited information on the nature of the changes that will be made, it is difficult to gauge the impact of these developments on low income households' access to insurance.

First, Bao Viet is in the process of being equitized and has already begun to publicly auction its shares. Because of its leading role in the industry and its willingness to experiment with new products for the low income market, any change in strategic direction that may result from equitization could impact the provision of insurance services to the low income market in the near future.

Second, the Government has been working on a health insurance master plan that will outline the Government's vision and plans on how universal coverage of health insurance will be achieved. A new Law on Health Insurance is being drafted for submission to the National Assembly's Autumn 2007 session. These developments could provide improved access to health insurance for low income households.

3. Update on the Supply of Insurance Products for Low Income Households

This section of the report explores how the supply of insurance products for low income households in Viet Nam has evolved since 2003. It discusses recent trends and describes the insurance products that are currently accessible to low income households.

3.1 Attitude Overview

The Government of Viet Nam has been consistently interested in protecting the poor and has committed itself to facilitating universal access to health insurance and to an integrated social security system. It has also agreed to create financial management regimes that would encourage insurers to diversify and improve their traditional products, "...expanding the scope and geographical area so as to cover low income earners and people in remote or distant areas."²⁸ These commitments are widely applauded, but they are also considered ambitious. Indeed, the Government has already dropped its original deadline of 2010 for achieving universal access to health care insurance, although it continues to describe this as a "near-term goal".²⁹

²⁸ Decision No. 175-2003-QD-TTG: Strategy for the Development of the Vietnamese Insurance Market from Year 2003 to Year 2010. August 29, 2003. Section III.1.2 (c)

²⁹ Waseem Saba and de Paz Nieves Carmen. 2006. *Social Protection in Viet Nam: Background Note*. Hanoi: The World Bank, p. 59.

The commercial sector is becoming somewhat more interested in serving the low income market. There is widespread agreement that low income households could benefit from greater access to insurance, but opinions are mixed with respect to who should provide them with insurance and whether low income households would be able and willing to purchase commercial insurance if it were available.

One popular opinion, articulated most clearly by Mr. Phung Dac Loc, General Secretary of the Viet Nam Insurance Association, is that there is no way to develop commercial insurance products for low income households. Representatives of many international insurance companies, local insurance brokers, and the Institute of Finance Research in Viet Nam agree with this position. According to their argument, people can only think of insurance when they have sufficient food, shelter and clothing to meet their daily needs and since low income households still worry about these basic requirements, they cannot possibly spend money on insurance. In the opinion of these stakeholders, commercial insurers can offer products to the low income market only if a public or private sponsor subsidizes at least part of the insurance premium.

However, an increasing number of insurance providers have begun to consider the commercial potential of the low income market. Domestic companies in particular realize that it is becoming more difficult to compete in traditional markets and have started to look for new opportunities. Bao Viet, Bao Minh, Prevoir and AAA³⁰ have been the most vocal insurers expressing their interest in the low income market. A few new companies such as BIC and AIC, which had never previously thought about working with the low income market, have also expressed an interest in considering its potential.

The increasing openness by insurance companies to serving the low income market has not automatically resulted in improved understanding of the market and its particular needs. Most companies that think they are providing insurance products to the low income market are not doing so deliberately; they simply assume that some of their products are relevant for and are purchased by this market. As discussed later in this report, some of the providers that are making a deliberate effort to serve the low income market could benefit from additional market research and product development to make their services more appropriate.

With respect to agricultural insurance, attitudes range from extremely negative to "depressed-but-still-hopeful". Recent experiments with agricultural insurance have not been profitable and there appears to be little interest among insurers in further experimentation. They believe this product is too risky and want specific guarantees of support from the State if they are to expand the delivery of agricultural insurance products in the future.

Straddling the line between social welfare and commercial insurance provision, microfinance and mass organizations are becoming increasingly proactive about facilitating their members' access to insurance services, either through the establishment of a mutual assistance fund or an agency relationship with an insurer. Their awareness of

³⁰ AAA is the legal name of a local joint stock insurance company. It is not an acronym.

the value of insurance has increased just as the general public's awareness has increased, due in part to recent SARS and avian flu epidemics. Interestingly, insurers have also become more interested in partnering with these organizations, driven by the need to identify new business models and fuelled by the initial success of recent pilot tests.

3.2 The Service Providers

There are five main types of service providers that have shown an interest in working with the low income insurance market: commercial insurers, the Government, direct sales agents, partner-agents and mutual assistance funds.

3.2.1 Commercial Service Providers

New insurers and new ways of doing business have been introduced into the market since 2003. The largest player at the moment is, however, the oldest player **Bao Viet**. Bao Viet was set up in 1965 and operated as the only insurer in Viet Nam until 1986. It has a network of approximately 30,000 agents of which 80 percent sell life insurance and 20 percent sell non-life insurance products. Bao Viet is a leader in the low income market because it offers a wide network, low premiums, and has been serving low income people longer than other insurers. As a State-owned company, it believes it has a social responsibility to serve low income clients, yet it also sees commercial potential in the future as low income households develop and become more profitable clients. To reach low income communities, Bao Viet has developed agent relationships with members of the Women's Union, the Farmer's Union and school staff. It also recently began experimenting with more innovative partnerships, such as the one with Ninh Phuoc Women's Assistance Fund (NPWAF) and with family planning agents in Ha Tay Province (see sections 3.2.3 and 3.2.4). This willingness to experiment, combined with the current management's belief that investing in low income communities is worthwhile, make Bao Viet an important actor in the expansion of insurance services.³¹

Bao Minh and **PJICO** are "old" market players that recently began experimenting in the low income market. PJICO launched a product in the Central Highlands in cooperation with the Viet Nam Women's Union for members working in labour-intensive (mostly garment) factories. The partnership produced few clients and high costs, so PJICO has not expanded it, but the company remains interested in working with the low income market if a profitable business model could be found. Bao Minh decided to enter the market in 2006 by launching a new product that is very similar to Bao Viet's combined Personal Accident, Hospitalization/Surgical Insurance, believing that this product would be attractive to a lower market clientele. The extent to which Bao Minh is actively monitoring the percentage of its policyholders that are low income is unknown.

³¹ Representatives of Bao Viet articulated three reasons for providing insurance services to the low income market: 1) to fulfil Bao Viet's social responsibility to help improve the lives of the poor; 2) to strengthen Bao Viet's reputation as a company that cares about all Vietnamese citizens; and 3) to help poorer people become profitable clients of the future.

Groupama entered the market in 2001 and is the only other commercial insurer that has tested a product specifically designed for a lower income market. It experimented with agriculture insurance, but was not particularly successful. It is still operating in Viet Nam and wants to eventually find a way to serve Vietnamese farmers, but in the short term it has diversified into other products and markets. As a mutual company that was founded by a farmer and benefits from successful agricultural insurance experiences in other countries, Groupama seems particularly well placed to inspire the development of appropriate crop or livestock insurance products.

Prevoir entered the market in 2005 with an innovative business model. It studied the results of the 2003 ILO/MOLISA research (see Section 1.3 in Part I of this report) and decided that by "piggybacking" on the existing post office network in Viet Nam it would be able to overcome many of the barriers to successful delivery of insurance services to the low income market. It claims to have entered the insurance market with a primary strategy of serving the low income market, although its current selection of products seems better suited to the middle income market (see Section 3.3). Still, with potential points of sale at 2,946 post office outlets spread throughout the country's 64 provinces and a computerized information system that allows clients to pay premiums, make deposits, file claims and make withdrawals at different locations, seven days a week, twelve hours a day, Prevoir's model has tremendous potential.³² The Viet Nam Posts and Telecommunications Company (VPSC's parent company) is a well-known and trusted institution, particularly in rural areas, and Prevoir has professionally-trained actuarial staff in-country that can work out the terms, conditions and premium level for any new product. It has expressed a strong interest in recruiting an institutional partner to help it develop new products for low income households.

To complete the commercial insurance picture, it is important to mention three other insurers that have expressed an interest in the low income market, namely **AIC**, **AAA** and **Vien Dong**. At the moment, AIC's expression of interest has the most potential for impact since the company could quickly reach thousands of low income households by setting up an insurance desk in each of VBARD's 2,096 branches. The majority of these branches are located in rural areas and the bank has a large team of credit staff who could potentially work as insurance agents. However, AIC has only recently been licensed and is now training staff with the expectation of going into operation early in 2007. It has found it somewhat difficult to choose which products to deliver and with whom to cooperate. Despite the availability of VBARD's vast network, AIC has been exploring the idea of partnership with a mass organization such as Viet Nam Red Cross, the Farmers' Association, the Women's Union, or a cooperative association.

AAA has already begun operating, but is very much a newcomer and is exploring a variety of market segments looking for opportunities. It considers remote areas and low premium

³² Savings and insurance services are currently available at 816 of VNPT's 2,946 postal outlets at present and there is no immediate plan to expand that number.

products to be critical markets because urban areas and high premium products are already quite competitive and offer little potential for a new entrant. However, its delivery approach to date has been very traditional - using agent networks to sell products to individuals - and it is

Table 3: Formal Sector Service Providers with Interest in the Low Income Market

Company	Year of License	Legal status	Registered Capital (VND)	No. of Branches	Location of Operations
Bao Viet	1964	State owned	900 billion	64	64 provinces throughout Viet Nam
Bao Minh	1994	Joint Stock	1 100 billion		Most provinces
PJICO	1995	Joint Stock	70 billion		In most provinces
Groupama	2001	100% foreign owned	99 billion	2	Hanoi/HCMC
Vien Dong	2003	Joint Stock	200 billion	20	Southern provinces, Hanoi, Thanh Hoa, Hue
Prevoir	2005	100% foreign owned	160 billion	2	Hanoi/ HCMC
AAA	2005	Joint Stock	80 billion	30	Southern provinces, Hanoi

3.2.2 The Government of Viet Nam

The Government of Viet Nam considers the expansion of social protection to the entire population as a priority. It is currently providing three types of support: social insurance, health insurance and social assistance.

Social insurance provides substitute income in the event of job loss or a reduced ability to work caused by sickness, pregnancy, old age, disability, death, work-related accident or occupational disease. The system was established in Viet Nam in 1947 with the initial aim of covering a small number of workers in the public sector, but has since been expanded to protect employees in all economic sectors, including those working in the private sector. Individuals who are not eligible to participate in compulsory social insurance are supposed to have access to voluntary social insurance, but this scheme has only been made available to a limited number of workers thus far on an experimental basis. Access should now expand given that the new Social Insurance Law entered into effect on January 1, 2007.

The Government is pursuing universal **health insurance** coverage using a three-tier approach. Compulsory health insurance came into effect in 1992 and is designed to meet the needs of formal sector employees. Voluntary health insurance was proposed at the same time, but its implementing circular was not issued until 2003.³³ It is designed to meet the needs of workers who are ineligible for compulsory health insurance, principally farmers and the self-employed. In addition, the Government provides health insurance free

³³ Circular No. 77/2003/TTLT-BTC-BYT, which provides guidelines on voluntary health insurance - August 7, 2003.

of charge to very poor households through the Health Care Fund for the Poor (HCFP) and to children under the age of six.

The Government's **social assistance programs** provide additional benefits for specific target groups, namely ethnic minorities, those living in remote areas, veterans, disabled, homeless, orphans and disaster victims. Approximately one-quarter of the Vietnamese population is covered by formal social protection provided under one of these programs and/or the Government's social and health insurance schemes.³⁴

Three ministries - MOLISA, MOF and the Ministry of Health (MOH) - as well as the Viet Nam Social Security Agency (VSS) are involved in the administration and implementation of the Government's social welfare programs. This collection of programs has been criticized for being fragmented, but the Government has taken a major step forward in the development of a more integrated social security system by consolidating the administration of both the social and health insurance schemes under VSS. VSS has been experimenting with traditional agent networks as well as more innovative partner-agent relationships to deliver its services (more details are provided in subsequent sections).

3.2.3 Direct Sales Agents

Insurers have long operated through direct sales channels. They build networks of agents that may work full-time or part-time to sell the insurer's products in exchange for a commission, which is typically calculated as a percentage of the total premium collected. This makes it possible for insurers to have vast outreach while minimizing the need for expensive infrastructure. In addition, agents that have a good reputation in their community can help the insurer build trust in its product and in the concept of insurance more generally. This is particularly important in low income communities. The success of this distribution model is evidenced by the fact that there are more than 100,000 agents selling commercial insurance in Viet Nam today.

To serve low income communities through direct sales agents, it is important to find the right kind of person or organization to fill the role of agent. Agents that are used to serving a more upscale urban market (and receiving the larger commissions that such a market generates) are unlikely to be motivated to sell small policies in rural areas where making a sale takes just as much effort but generates a smaller financial reward. It is also true that agents that are not part of the community where low income people live and work will have a much more difficult time building the trust that is required to make a sale.

Insurers that have succeeded in reaching a low income market through direct sales agents have been creative about the networks they have developed to reach that market. Some of the partnerships that have been successful include the following:

In Ha Tay and Bac Giang provinces, Bao Viet is working with **family planning officers** as agents to sell personal accident and hospitalization insurance. These officers are already

³⁴ Waseem Saba and de Paz Nieves Carmen. 2006. *Social Protection in Viet Nam: Background Note*. Ha Noi: The World Bank.

accustomed to visiting families to discuss sensitive and somewhat difficult to communicate themes, and they are generally known and trusted by the communities with which they work. Their skills can easily be transferred to the sale of insurance, which requires careful communication of what are sometimes difficult to explain or culturally “taboo” subjects. The officers do not earn a large salary and appreciate the extra income that the insurance sales can provide.

In the Mekong Delta area, Bao Minh has engaged **electricity fee collectors** to sell a special personal accident due to electricity policy. There have been a number of accidents caused by electricity usage in the area and the product is popular among low income households. The fee collectors are able to introduce the insurance product when they visit households monthly to collect electricity fees and can earn extra revenue without incurring additional financial expense to make a sale.

PJICO sells motorbike and automobile insurance in **petrol stations** and garages. The shop owners are provided with a book of certificates and receive a commission for each policy they sell. Since motor vehicle insurance is compulsory in Viet Nam, agents can sell as many as 30 certificates in one day. They like being able to offer this additional service to customers because it adds variety to their daily activities in addition to extra income, and the training required to be able to offer the product is minimal. The relationship works because it is simple and is only used to distribute simple products that have a fixed premium and level of coverage.

Both commercial insurers and VSS have engaged **teachers** and **school administrators** as sales agents. Because of their role as educators and the respect with which they are treated within their communities, these agents have been highly effective at convincing households to insure their students. Some 9 million students are insured through VSS and another 8 million are insured by commercial insurers. Unfortunately, there is evidence that at least some agent-educators achieve success by making participation mandatory rather than by communicating the value of insurance and facilitating voluntary decisions by households to purchase insurance. They have been known to support whichever insurer will pay the highest commission, rather than the product that best suits student needs. This has fuelled fierce battles for market share that resulted in rising premiums for policyholders and higher commissions for the agent-educators selling them. It is part of the reason behind the Government's decision to set limits on commissions paid.

VSS has also engaged representatives of **mass organizations** such as the Viet Nam Women's Union and Viet Nam Farmers' Association as its agents. It began experimenting with these relationships in Nghe An province in 1998 as a way to make social insurance available to peasants. By 2003, 256 communes (72,562 people) in Nghe An had enrolled in the scheme, but many low income households were unable to participate because they could not afford the monthly VND 10,000 payment. Pilot tests like the one with the Hue Women's Union to sell health insurance were more successful, in part because of the lower premium charged (VND 77,000 per person per year) and in part because of the way the Women's Union was managed.³⁵

³⁵ ILSSA. 2003. *Risk Management Financial Products Available in Viet Nam. Final Report*. Hanoi: ILO, p. 12.

In general, the level of interest demonstrated by mass organizations in working as insurance agents has increased during the past three years. Isolated experiments by VSS and the Farmers' Association have developed into a major institutional partnership (see Box 1). The Farmers' Association has also expressed interest in working with commercial insurers. Having cooperated successfully with commercial companies in the past to supply inputs such as animal feed, the Association believes that its extensive network and trust-based relationships with farmers would make it an attractive partner, particularly with respect to agricultural insurance products. Viet Nam Red Cross and the Veterans' Association have not yet partnered with insurers, but have expressed an interest in doing so.

**Box 1: Agent Relationship between
Viet Nam Farmers' Association and VSS**

The Viet Nam Farmers' Association (VFA) and the Viet Nam Social Security Agency (VSS) signed a joint resolution (No. 4130/NQLT/BHXHVN-HNDVN) on November 10, 2006 to cooperate in the development and distribution of social and health insurance in the period 2006-2010. In November and December of 2006, two workshops were organized in Hanoi and Ho Chi Minh City to present guidelines for implementing the partnership in all provinces.

Under the joint resolution, VFA will assist VSS in recruiting capable members to act as insurance agents, organizing training for these agents, increasing awareness among its members of the benefits of insurance, and actively encouraging farmers to participate in the social and health insurance schemes. It will work with local authorities to create subsidies for the “near poor” to be able to buy health insurance. It will also make recommendations to VSS for improving the operation of the scheme. VSS will provide VFA with technical and procedural support through its branches at the provincial level. It will also pay individual agents a commission for their services.

The goal is to have all VFA families holding health insurance cards and 30 percent of VFA members participating in social insurance by 2010. VSS and VFA will jointly evaluate member participation in the insurance schemes on an annual basis.

Most of VSS' agent relationships are now individual relationships - approximately 150,000 direct contracts. With rare exception, its earlier attempts to deliver services through mass organizations themselves proved difficult to manage and control, particularly without a computerized information system to facilitate efficient monitoring. Today VSS prefers to enter into relationships with individual agents who are recommended by a mass organization. In these relationships, incentives are better aligned since the individuals that work as agents are the ones to receive commission payments and can be held accountable for performance. Previously, the mass organization received the commission and no one in particular was held responsible for results.

There are disadvantages, however, to selling insurance through a network of individual agents. It is more work for an insurer to build and maintain such a network; systems must be

kept simple, leaving data consolidation and monitoring functions in the hands of the insurer; it is also more difficult for insurers to control the quality of individual agents' service delivery and to protect the company from fraud and reputation risk. Together, these factors increase the cost of insurance delivery and make the traditional individual agent sales model a difficult one to apply profitably in low income markets.

3.2.4 Partner-Agents

Two organizations, Ninh Phuoc Women's Assistance Fund (NPWAF) and Capital Aid Fund for the Employment of the Poor (CEP), have entered into relationships with an insurer that went beyond the traditional agent arrangement. They formed a type of partnership that is internationally referred to as the "partner-agent" model. NPWAF partnered with Bao Viet to deliver a credit life insurance product to its low income members while CEP partnered with the Ho Chi Minh City Social Insurance Agency (part of VSS) to make voluntary health insurance available to 1,500 of its members. Although limited information is available to assess the nature of the partnership between Prevoir and Viet Nam Posts and Telecommunications Group (VNPT), their relationship may also fall into this category.

What makes the NPWAF and CEP agent relationships different from others is the extent to which the organizations are active intermediaries in the delivery and management of insurance services. They have formal and specific responsibilities in the process of providing insurance (such as sales, contract preparation, premium collection, claims documentation and claims payment) and in exchange receive a commission payment equal to a certain percentage of the premiums collected (between 12 and 15 percent).

The partner-agent model is an extremely efficient way to deliver insurance because it takes maximum advantage of an agent's presence in the field, its existing infrastructure and product delivery channels, its knowledge of the market and its trust-based relationships with potential clients. As microfinance organizations, NPWAF and CEP were well positioned to handle cash payments and to adjust the collection of premiums to match members' cash flow. They had regular contact with policyholders due to their ongoing credit activities and could use those regular interactions to ensure that clients remained comfortable with the insurance product, understood its benefits, and knew what they must do to claim those benefits in the event of a loss.

The pilot tests conducted by NPWAF with Bao Viet (see Box 2) and CEP with Ho Chi Minh City Social Insurance Agency (see Box 6) illustrate that the partner-agent model has great promise for reaching poor households in Viet Nam. It can enable microfinance and mass organizations to give their clients access to an important financial service without having to manage that service and its associated risk internally. It gives clients access to insurance products that are generally of greater value at a lower cost than microfinance providers could have designed and delivered on their own. It also gives insurance companies access to new markets that they could not have reached without working through their partners' existing client relationships.

Box 2: Partnership between Bao Viet and Ninh Phuoc Women's Assistance Fund³⁶

Ninh Phuoc Women's Assistance Fund (NPWAF) was created in July 2001 as a component of Ninh Phuoc District's Poverty Reduction Project, funded by ActionAid Viet Nam. By July 2006, the Fund served about 2,200 clients, all being women and 80 percent categorized as poor households.

On December 9, 2004, NPWAF signed an agent contract with Bao Viet. Under this arrangement, NPWAF is in charge of promoting the product to its clients, collecting premiums from clients and transferring them to Bao Viet, and assisting Bao Viet to facilitate claim settlement. Bao Viet is responsible for providing insurance to NPWAF's borrowers, training NPWAF staff on insurance concepts and selling techniques, and paying commission to NPWAF (12 percent of the total premium collected). Bao Viet pays claims to clients or their inheritors through NPWAF. The Fund keeps the outstanding amount to cancel the member's debt, and it pays the remaining amount to the clients' family.

The insurance product was pilot tested for one year, from January to December, 2005. Under the pilot test, it was compulsory for all clients taking a new general loan to pay 0.9 percent of the loan amount as an insurance premium at the time of loan disbursement. Since the insurance operation was integrated into an existing loan product's delivery system, the introduction of the insurance product hardly increased the workload of NPWAF staff. However, additional time was spent on information dissemination, as the Fund realized that clients' good understanding of the product was an important precondition for its success.

By the end of the pilot, VND 32,278,000 had been collected in premiums and VND 4 million had been paid in claims. Thus, the total claims to premium ratio thus far is 12 percent, which compares very favorably with the overall loss ratio experienced by commercial insurers offering personal accident insurance products (50.4 percent).³⁷

The partnership has been deemed a success by both Bao Viet and NPWAF. NPWAF was able to offer a valuable service to its clients at a cost that could be covered by the commission fee received, it professionalized its operations and increased staff capacity through the training and mentorship provided by the insurer. Bao Viet gained efficient access to a new market at an acceptable cost and with a manageable level of risk. Although the scale of the pilot was too small to be profitable for the insurer, Bao Viet is excited about the model and wants to expand it through partnerships with other organizations. It estimates that with a volume of approximately 50,000 policyholders the model can be profitable.

Being the first successful partner-agent collaboration, NPWAF and Bao Viet had to invest significant time and effort in their early negotiations, in the building of a relationship and in designing a product that benefited both parties. For Bao Viet, it was uncomfortable to insure a sum that was not fixed - the outstanding balance of a loan and to trust that NPWAF would not try to keep an unjustified amount of the claim for itself rather than giving it to the end client. NPWAF wanted to be able to offer all of its

³⁶This box is adapted from "Knowledge Sharing Workshop on Pilot test of Risk Managing Financial Services in Microfinance" organized by the ILO Office in Viet Nam, Hanoi, December 2005.

³⁷AON Re Viet Nam, "Premium/Loss by Class", presentation prepared with data from AVI, MOF and Axco 2005.

members the insurance coverage, some of whom were already quite elderly, and it wanted a short waiting period. The two institutions had to negotiate pricing that would facilitate this coverage without limiting access. They also had to agree on a level of commission for NPWAF, the frequency of reporting and what kind of contract to sign given that NPWAF was not the end client, but rather, a bridge for Bao Viet being able to serve the end client. In many respects, NPWAF operates like an employer that facilitates access to insurance for its employees. Ultimately, it took eight months of negotiations before the two institutions agreed on a product and a relationship that they were willing to pilot test.

From the perspective of the two institutions, there were several factors that contributed to the success of their relationship: staff enthusiasm and a high level support for the partnership within both institutions; NPWAF's ethical code and its ability to be objective and neutral in its role as a bridge; Bao Viet's willingness to invest in consumer education and to help NPWAF staff learn how to answer difficult customer questions effectively; and NPWAF's technical capacity to manage the process and control claims settlement. In this last area, the support received from the ILO was considered critical. In many respects, the ILO acted as a bridge between NPWAF and Bao Viet, helping the two parties to understand and meet the key requirements of the other as they endeavoured to create a new, collaborative delivery channel. The ILO's willingness to finance upgrades in NPWAF's computer system was also critical in building NPWAF's capacity to manage claims efficiently and effectively.

3.2.5 Mutual Assistance Funds

Many community-based service providers operate outside of the insurance industry's legal framework, working as "mutual assistance funds" rather than insurance organizations. They are formed primarily by mass organizations, non-governmental organizations and microfinance organizations. Their existence throughout the country was documented in the 2003 ILO/MOLISA research and many, although not all, of the funds continue to provide members with affordable, easy access to basic insurance-like services. The services provided by three of these funds are summarized in Box 3.

Mutual assistance funds are typically formed to provide assistance to members and their families in the event of death or sickness. Most funds insure the lives of their members, but some have been formed to insure members' livestock. Unfortunately, the latter have not been particularly successful and few have been sustained without ongoing external support. There continues to be strong interest among local chapters of the Women's Union, the Farmers' Association, the Association for the Elderly and many microfinance organizations to operate these funds, although that interest may decline if the Government's voluntary insurance schemes are significantly expanded as a result of the new Social Insurance Law and expected changes in the health legislation.

As a delivery model, mutual assistance funds have a number of weaknesses. The organizations managing the funds rarely have experience in the insurance business or in the pricing of a sustainable insurance product. They do not have access to reinsurance and,

in general, set aside inadequate reserves.³⁸ This, combined with the fact that the funds are typically community-based and therefore create a relatively small risk pool in a limited geographic area, leaves members vulnerable to covariant risk (i.e., a single risk event that can affect multiple households at once). As discussed in Box 4, such risks can easily bankrupt small mutual assistance funds.

Box 3: A Snapshot of Three Mutual Assistance Funds

TYM: Tao Yeu May (TYM) began operations in August 1992 as a project of the Central Women's Union of Viet Nam. It works predominantly in rural agriculture-based communities in the northern provinces of Viet Nam, targeting the poorest districts in these provinces. Its members are women living in poor households usually earning less than VND 200,000 per month. TYM has evolved to become a distinct department of the Women's Union with a dedicated full-time staff and budget, offering credit, savings, and insurance services to its members. In 1996, TYM launched the Mutual Assistance Fund (MAF) to protect against the death of a client or family member. The benefits of the scheme are shown in Table 6. A flat rate premium of VND 200 per week makes the scheme affordable and simple for all members to understand. The target market for the MAF is the same as that for TYM's loan products; in fact, group members help to verify claims. The MAF enables a client's family to better cope with expenses incurred from the member's death and also relieves the family from the burden of repaying her outstanding debt. As of March 2004, the MAF insured 68,157 lives (18,951 members, 16,372 spouses and 32,834 children). At the end of 2005, the Fund's balance stood at VND 640 million (USD40,000).

DTWTF: The Dong Trieu Women's Trust Fund (DTWTF) established its Mutual Assistance Fund on the basis of TYM's experience with the same product. Participation in the MAF was voluntary for members of the Trust Fund. For a monthly premium of VND 1,000 (USD0.06) that was collected together with the semi-monthly loan repayments and savings, the client (or her beneficiary) received a limited funeral allowance in case of premature death of the member, spouse or child, as well as the cancellation of debts. Clients could also claim benefits if they suffered from one of 30 diseases covered. By the end of 2004, 3,234 clients or 53 percent of DTWTF's members were participating in the insurance scheme. The Fund had collected VND 36,575,000 in premiums and paid VND 6,364,000 in claims, resulting in a claims-to-premium ratio of 17 percent. After assessing customer satisfaction and the fund's sustainability, DTWTF decided to split its original package of benefits into two different products, each of which was adapted to better suit members' needs. The loan protection product was made mandatory for all borrowers with the insurance fee being calculated as a percentage of the loan amount (0.45% for general loans and 0.9% for mid term loans). The mutual assistance product became mandatory for all borrowers and savers. The premium doubled, but the financial benefits received in the event of death or sickness also doubled. Sickness benefits are now paid in the event of hospitalization and are no longer restricted to a list of 30 diseases, but a 50% co-payment applies. Membership in the MAF continues to grow, suggesting that these changes have been

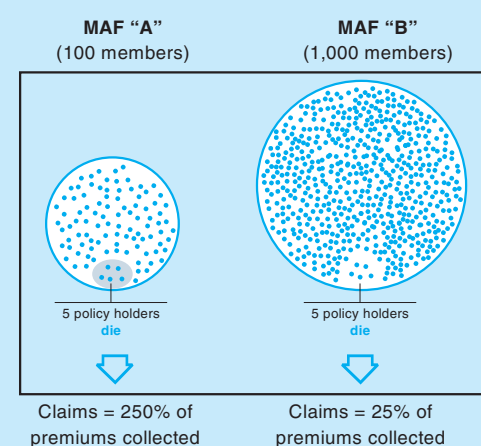
³⁸ Some organizations use their premium payments to finance credit programs, which increases risk even further. Even if the loans are eventually repaid, the fact that cash is tied up in a loan portfolio can create liquidity problems and result in a fund's inability to pay insurance claims when they are made.

attractive. By 30 April 2006, 3,960 members were covered by the mutual assistance product and 1,612 members had bought the loan protection product (100% of borrowers who had taken a new loan since January 1, 2006).

Uong Bi Fund for Women's Promotion: Uong Bi Fund for Women's Promotion is registered as a social fund and owned by the Women's Union. It includes ten commune-level funds, two of which - the funds in Phuong Dong and Vang Danh - currently have a mutual assistance product. The mutual assistance fund in Phuong Dong was established in 2000 and had 415 members by October 2003; by February 2007, it had 512 members. The premium rate is determined by members and has remained steady over time. In 2003 it was VND 500 per person paid every two weeks; today it is VND 1,000 paid each month. In exchange for this payment the member's beneficiary receives a death benefit of VND 200,000 in the event of the member's death; the member herself receives a death benefit of VND 100,000 if her husband or child dies; and if she or someone in her family becomes ill, a maximum of two home visits will be paid (maximum benefit of VND 30,000 per visit). This last benefit was added to the scheme in 2003. By the end of 2006, the Phuong Dong Mutual Assistance Fund had collected VND 37.6 million in premiums and had paid out VND 10.1 million (a claims-to-premium ratio of 27%). The Uong Bi Fund for Women's Promotion is interested in replicating Phuong Dong's approach in its other communes, although it is also exploring the partner-agent model followed by NPWAF as a possible alternative.

Box 4: The Effect of Covariant Risk by Scheme Size³⁹

Consider two mutual assistance funds. Both funds offer their members a funeral benefit of VND 500,000 that is financed by an annual premium payment of VND 10,000. Mutual Assistance Fund "A" has 100 members while Mutual Assistance Fund "B" has 1,000 members. If five members of Mutual Assistance Fund "A" were killed in a bus accident, claims of VND 2.5 million would need to be paid, but the Fund would only have collected VND 1 million in premiums. Unless it was at least three years old and had been able to accumulate significant reserves, MAF "A" would not be able to pay those claims.



At Mutual Assistance Fund "B", however, if the same five members were killed in a bus accident, the claims of VND 2.5 million could easily be paid from the VND 10 billion that had been collected in premiums that year. Even if Mutual Assistance Fund "B" were not particularly well managed, the sheer size of the scheme would make it more sustainable than that of Mutual Assistance Fund "A", which could be bankrupt by this single event.

³⁹ Adapted from Churchill and al. 2003. *Making Insurance Work for Microfinance Institutions: A Technical Guide to Developing and Delivering Microinsurance*. Geneva: ILO, p. 31.

3.3 The Products

This section of the report describes the insurance products that are currently available to the low income market. The products have been divided into four categories: 1) longer-term life insurance products; 2) shorter-term death benefit insurance products; 3) health insurance products; and 4) other insurance products.

The life insurance category includes life/savings products, cash value policies, annuities and term life products with more than one year of coverage.⁴⁰ The death benefit category differs from the life insurance category in that it consists primarily of personal accident insurance products that cannot be offered in Viet Nam by a life insurance company. These products are similar to those in the first category in that they insure individuals' lives, but the policies are shorter-term (not longer than one year with the possibility of renewal), they may not cover all kinds of death (for example, they may cover death by accident but not by illness), and they may include hospitalization benefits in addition to death benefits. What sets the products in the third category apart from those in the second is that they also support preventive health and the treatment of illnesses that do not require hospitalization or surgery. The fourth category discusses the availability of agricultural insurance and the pilot testing of two new products that would be particularly attractive to rural households.

In general, there has been little change in the insurance product offering for the low income market during the last three years. Indeed, the number of new product developments that will be discussed in this section can be counted on one hand. No commercial insurer has registered with the Ministry of Finance a product specifically designed for the low income market, which suggests that insurers' increasing interest in the market has not yet resulted in significant action. There is still much that can be done to adapt existing products and to develop new products to meet the particular needs and preferences of low income households on a massive scale.

3.3.1 Longer-term Life Insurance Products

Although there are many commercial life/savings, term life, cash value and annuity products on the market today, only Bao Viet's Term Life Insurance could be considered affordable for low income households. For a five-year term policy of VND 5 million, premiums start at VND 15,500 per year for young adults 31 years of age or less and rise as high as VND 103,500 per year for adults up to 60 years of age. Most of the life insurance products on the market are considerably more expensive than this, with annual premium payments of VND 1 million being common.

Prevoir, which intended to enter the market with a focus on the low income market segment, introduced a life/savings product in 2006, but the initial deposit requirement of VND 2.5

⁴⁰ A life/savings product links the benefit paid to the amount of savings that a person has in her/his savings account. A term policy provides life insurance coverage for a fixed period of time (the "term"). Cash value policies combine death protection with savings accumulation. They are similar to term insurance except that if policyholders survive the term, the insurer pays them a lump sum. Policyholders may be able to borrow against these policies. Annuities are basically retirement savings plans that pay policyholders a regular payment until they die - if they die before a certain age, then beneficiaries earn either a lump sum or a series of payments.

million makes it unaffordable for low income households. The product concept is interesting, however, and could be adapted to meet the needs and preferences of the low income market. For example, a contractual savings product could be designed that would enable a client to save towards a sufficiently large balance that would qualify him or her for “free” insurance. Once a saver reached this threshold, VPSC could make the client's premium payment directly to Prevoir and could automatically renew the premium each year as long as a minimum savings balance was maintained. Alternatively, VPSC could offer life insurance to all depositors by making a premium payment to Prevoir based on a multiple of the total value of savings accounts. Depositors with these accounts would accept a lower interest rate on their savings in exchange for that benefit. In the event of death, beneficiaries could receive a payout equal to a multiple (perhaps double) the amount of savings in the account up to some maximum limit. Prevoir is expecting to launch a new life insurance product soon with a lower benefit limit of VND 1 million but at a premium level that would be affordable for low income households, but the design of that product is not yet known.

Bao Viet already offers a life/savings product that provides a minimum of VND 5 million life insurance coverage in exchange for monthly savings deposits of at least VND 40,000. If the insured person dies during the period of coverage, his or her beneficiary receives VND 5 million (or more depending on the amount of coverage purchased). If the insured person does not die, he/she receives all of the accumulated savings at the end of the contract period, but cannot withdraw these funds until the period of the contract expires. This type of product, which again combines savings and insurance services, might be of interest to low income households, but not in the way Bao Viet is currently packaging it. A lower monthly deposit with a smaller death benefit and affordable payment transaction costs might be more attractive.

Some of the benefits that are offered through commercial life/savings, cash value and annuity products will also be accessible through the Government's social insurance schemes. As summarized in Table 4, participants in the voluntary social insurance scheme will be able to access old age benefits (including the possibility of a monthly pension), a funeral allowance and survivor's benefits. However, the cost of participating in this scheme is high - 16% of monthly income (with the common minimum wage being the lowest possible income for calculation purposes).⁴¹ This means that a low income individual earning less than or equal to VND 350,000 per month would have to pay a monthly premium of VND 56,000 to participate in the scheme. This cost would be prohibitive for most low income households, especially since the medium-term benefits of such a scheme (i.e., funeral allowance and survivor's benefits in the event of death in the next five years) can be obtained through other service providers at a much lower price. The longer term benefits of participation in the social insurance scheme could be significant for those under 40 years of age, but marketing them will be difficult given the opportunity costs (i.e., the more immediate needs that could be satisfied each year with the VND 672,000 annual premium payment).

⁴¹ Government of Viet Nam, Law No. 71/2006/QH11: *Social Insurance Law* - June 29, 2006.

Table 4: Snapshot of Available Longer-Term Life Insurance Products

	Bao Viet 5 Year Term Insurance	Bao Viet “Savings + Insurance”	Prevoir Phuoc An Gia Life Savings Product	Voluntary Social Insurance
Eligibility requirements	Age: 18 to 60	Age: 18 to 60	Age: 18 to 65; must open a savings account with VPSC	Ages 18 to 65; must have paid voluntary social insurance premiums for at least 5 years to qualify for funeral allowance
Benefits provided	VND 5 million paid to beneficiary in the event of death, or to the insured in the event of total permanent disability.	VND 5 million paid to beneficiary in the event of death at any time during the coverage period. If no death in ten years, insured receives the total value of savings contributed at the end of the contract term.	Cash benefit in the event of death or total permanent disability during the 15 years of the contract; if by disease, benefit = VND 2-10 million; if by accident, benefit = VND 20-100 million. If the insured person does not die during the contract period, he or she will receive the total amount of savings deposited plus net interest.	1) Monthly old age benefit paid at age 55 (women) or 60 (men) if premiums have been paid for more than 20 years; benefit amount ranges from 45-75% of the average wage on which the premium was paid, depending on the number of years premium was paid; 2) If premium has been paid for less than 20 years, lump sum old age benefit paid; sum is equal to 1.5 of the average monthly wage on which the premium was based for each year the premium was paid (e.g., VND 2,625,000 for a beneficiary that paid premiums for five years at the minimum wage of VND 350,000/month); 3) Lump-sum survivor's benefit equal to 1.5 of the average monthly wage on which the premium was based for each year the premium was paid; 4) Funeral allowance paid equal to ten months of the common minimum wage (approximately VND 3.5 million).
Premium	Premiums range from VND 15,500 to VND 103,500 per year for a five-year term policy.	40,000 savings deposit per month for a ten-year term policy.	VND 26,000 per year for minimum benefit level; VND 130,000 for maximum benefit.	Monthly contribution is equivalent to 16% of the wage selected by the client; from 2010 the contribution rate will be increased by 2% every 2 years until it reaches 22%. The wage on which the social insurance premium is based shall be changed based on the solvency of the client in each period, but not lower than the common minimum wage.
Minimum financial cost	VND 15,500	VND 480,000 savings deposited per year	Initial deposit of VND 2.5 million (which includes the first year's premium payment and 5.5% administrative fee)	Currently VND 56,000 per month
Premium collection method	Agent network	Agent network	Premium payments are deducted from the VPSC savings account	Can be paid on a monthly, quarterly or bi-annual basis
Marketing strategy	Agent network	Agent network	Interest is paid on savings at a minimum rate of 3.5% per year (actual interest paid in 2006 was 7.1%). After the first year, savings in excess of 2.5 million can be withdrawn without penalty. No requirement for health exam.	Agent network
Commission		15 - 20%	7.5%	

3.3.2 Shorter-Term Death Benefit Insurance Products

The products discussed in this category are called by a variety of names - personal accident insurance, insurance for students, credit life insurance, death benefit insurance, etc. and offer many different types of coverage. They all, however, have two things in common: 1) they provide a monetary benefit if the insured person dies; and 2) they are relatively short-term in nature, offering coverage of one year or less. Their short-term nature is what distinguishes them, for the purposes of this report, from the life insurance products discussed in Section 3.3.1 above.

Short-term life insurance products are available at an affordable price in many low income communities. Personal accident insurance, for example, is a relatively standard product sold by Bao Viet, Bao Minh, AAA, PJICO, and Vien Dong that costs as little as VND 2,800 for one year of coverage with a VND 1 million benefit. This type of policy would pay a standard monetary amount if an insured person died in an accident (or a percentage of that amount if the person suffered total permanent disability as a result of the accident). A typical premium rate is 0.28 percent of the sum insured between VND 1 and 20 million (the premium rate rises if the sum insured is above 20 million). The premium rate will also vary depending on the age and gender of the insured person.

Some of the other relatively affordable products offered by commercial insurers are summarized in Table 5. A specialized form of personal accident insurance which covers only accidents caused by the use of electricity is popular in southern Viet Nam. It has a higher premium (VND 14,000 for one year) but covers an entire household and provides a minimum benefit of VND 5 million per person in the event of accidental death. Bao Viet has a group life insurance policy that offers a VND 500,000 policy covering death due to any natural cause for an annual premium of just VND 1,200 for a 15-years old female to VND 29,050 for a 70-years old male. Many insurers also offer a comprehensive insurance product that combines death, personal accident, hospitalization and surgical benefits in one package. In addition to a cash benefit in the case of death, this kind of policy covers the cost of hospitalization and surgery due to accident, disease or childbirth (up to the policy limit). A VND 1 million comprehensive policy can be purchased for between VND 8,000 (age 18 or under) and VND 27,300 (ages 61-55).

On paper, these products look like they should be highly accessible and attractive to the low income market. It is unclear how many low income households are actually using these products because neither insurers nor the Government tracks this information. However, most insurers do not believe that low income individuals use them. The demand-side research conducted in 2003 suggested that a majority of low income households in the areas surveyed have used insurance, but mostly in the form of personal accident insurance for students and health insurance. Approximately 10 percent of households surveyed had purchased life insurance policies of some kind.⁴²

⁴² Mekong Economics, Ltd. 2003. *The Demand for Risk-Managing Financial Services from Poor Women in Rural Areas: The Case of Viet Nam. Final Report.* Hanoi: ILO, p. 68.

It is tempting to assume that the low income market is not buying more insurance products because it is not interested in them. However, the results of several recent pilot tests challenge this assumption. The features of short-term life insurance products offered by Bao Viet/NPWAF and the three mutual assistance funds discussed in Section 3.2.5 are summarized in Table 6. All of these products have been well received by low income households. Participation in each of the schemes is now compulsory for members, but when DTWTF began, participation was voluntary and 3,234 households (53 percent of its membership) chose to join the scheme within the first twelve months. A customer satisfaction survey at the end of the first year indicated that borrowers were pleased with the product and considered the fee to be reasonable. In fact, members indicated that they would be willing to pay a higher fee in exchange for somewhat better benefits, and that is exactly what DTWTF delivered the following year. It split its original package of benefits into two different products, which were each adapted to better suit members' needs and to increase the sustainability of the fund. The loan protection product was made mandatory for all borrowers and the mutual assistance product became mandatory for all DTWTF members (including savers). Membership in the fund continues to grow, suggesting that these changes have been attractive.

In all three of the mutual assistance funds, members have played an active role in deciding what the terms of the insurance product would be. At Uong Bi, every member was involved in the discussion, definition and collection of premium payments as well as the administration of benefits, thus ensuring that the product was accessible and attractive.

The experiences of DTWTF, NPWAF, TYM and the Uong Bi Fund for Women's Promotion suggest significant demand for this type of insurance product among low income households at prices that are comparable with those currently being charged by commercial insurers. This, of course, begs the question, "Why aren't more low income households purchasing life insurance from commercial insurers?" Additional demand-side research is certainly warranted to help insurers better understand the nature of insurance needs and preferences among the low income market, but this supply-side study does suggest a few answers:

1. The transaction costs involved in accessing the product must be lower. Most insurers still lack service points that are near to low income households' places of residence, business or regular gathering.
2. The product must have simple rules, restrictions and procedures that are clearly defined. Claims documentation requirements need to be kept to a minimum.
3. The product can offer relatively small benefit amounts but it must cover risks that are relevant to low income households.
4. Premiums must be affordable and payable in small amounts or instalments.
5. Claims must be processed quickly. In its pilot with NPWAF, Bao Viet was able to pay claims within two working days after receipt of the claim application and death certificate.

6. The product and its benefits must be well communicated; and distribution channels must be motivated to sell it. Just because a product is available does not mean that agents will distribute it (see Section 4.3.1).
7. The insurance company, or its agent, must be known and trusted in the community. Mutual assistance funds have a distinct advantage in this respect because they are made up of members of the community who all know each other and develop the “insurance” product to help each other. Bao Viet and VSS have demonstrated that it is possible for a commercial insurer to leverage this trust through a partner-agent relationship.

If low income households are not purchasing shorter-term death benefit insurance from commercial insurers, it is unlikely due to the premium level itself and more likely due to other design features such as the insurers' approach to distribution and sales, inappropriate or unclear benefits, the transaction costs involved in purchase or claims procedures, or a lack of trust in either the institution providing the insurance or the concept of insurance in general.

3.3.3 Health Care Insurance

Health care insurance is one of the most sought after products among low income households in Viet Nam.⁴³ In the 2003 demand-side research sponsored by ILO/MOLISA, low income households ranked illness as their greatest source of economic stress because it occurs frequently, prevents them from working, and can require expensive treatment. According to one United Nations report, “The cost of a single visit to a district hospital takes up on average over one-fifth of non-food consumption expenditure for a year for a person from the poorest consumption quintile, and as much as 44 percent of the household non-food budget if the illness requires an admission to a provincial hospital.”⁴⁴

Commercial insurers offer products that can assist households in the event of hospitalization or surgery. The comprehensive Personal Accident, Hospitalization and Surgical insurance product was already discussed in Section 3.3.2, but the hospitalization and surgical benefits included in that product can also be purchased separately (see Table 7). With an annual premium payment of VND 5,400 to 20,000, this product should be affordable to low income households, but it is unknown whether the benefits offered meet low income households' priorities. Insurers that offer the product do not know what percentage of existing policyholders are from low income households.

⁴³ Information provided by participants in the February 2007 feedback meeting.

⁴⁴ UNDP. 2005. *The Millenium Development Goals and Viet Nam's Socio Economic Development Plan 2006-2010*. Hanoi: UNDP, p. 5.

Table 5: Comparison of Shorter-term Death Benefit Insurance Products Offered by Commercial Insurers

	Personal Accident Generic Product	Personal Accident Caused by Electricity	Previor Phuoc An Binh Personal Accident	Bao Viet Group Life	Combined Death, Personal Accident & Hospitalization and Surgical Insurance	Bao Viet/NPWAF Credit Life
Target market	General	General	General	Low income market	General	Low income market
Eligibility requirements	None	Death or injury must be caused by electricity	Must be client of VPSC with a savings account using the Phuoc An Gia product	Group with minimum of 20 persons	Age: 18 to 65	Must be a loan client of NPWAF
Benefits provided	From 1 to 100 million VND in the event of accidental death (or a percentage of the amount insured if an accident results in total permanent disability)	From 5 to 20 million VND per person per accident	In the case of accidental death, beneficiary receives VND 10 million	From VND 500,000 in the event of death due to natural causes	From 1 to 20 million VND in the event of death (or a percentage of the amount insured in the case of disability) and payment of hospitalization/surgery expenses up to the policy limit	In the event of death or total disability, Bao Viet pays the initial loan amount to NPWAF; with these funds, NPWAF pays the outstanding debt of the insured client and gives the remaining balance to the beneficiary previously designated by the client
Premium	From 0.28% to 0.75% of the sum insured per person per year depending on type of coverage	0.28% of the sum insured per household per year	VND 13,000 per year	0.24% - 5.81% of the sum insured (depending on the age and gender of the insured persons, as well as the number of persons being insured)	From 0.8% to 3.08% of the sum insured per person per year depending on age and gender	0.9% of the amount borrowed
Minimum annual financial cost	VND 2,800	VND 14,000 per household	VND 13,000 per year	For women, from VND 1,200 (age 15) to 17,400 (age 70); for men from VND 1,300 (age 15) to 29,050	From VND 8,000 for < 18 years old to VND 27,300 for the 61-65 years old category	VND9,000 (for VND1,000,000 loan with one year duration)

	Personal Accident Generic Product	Personal Accident Caused by Electricity	Previor Phuoc An Binh Personal Accident	Bao Viet Group Life	Combined Death, Personal Accident & Hospitalization and Surgical Insurance	Bao Viet/NPWAF Credit Life
Marketing strategy	Agents / direct	Agents / direct	Through staff of post office outlets offering savings products	Agents/company staff sell to low income groups, e.g., workers in coal mines; cooperatives	Agents / direct	Purchase of insurance is compulsory with any new loan
Premium collection method	Single payment by individual or group to agent or insurance staff	Premium collected by electricity fee collector	Client must go to any participating post office outlet to pay premium	Collected at clients' premises, place of work or meeting place	Single payment collected by agent or insurance staff on site	Single payment collected at loan disbursement
Commission	15%	10%-15%	No information	15%-30%	15%	12%
Number of policyholders	No information	No information	No information	No information	No information	2,200

Table 6: Comparison of Commercial and Non-Commercial Shorter-term Death Benefit Insurance Products

	Combined Death, Personal Accident & Hospitalization / Surgical Insurance (Generic Commercial Product)	Bao Viet/NPWAF Credit Life	DTWTF Mutual Assistance Fund	Phuong Dong Commune Mutual Assistance Fund (Uong Bi District Fund for Women's Promotion)	TYM Mutual Assistance Fund
Target market	General	Low income market	Low income market	Low income market	Low income market
Eligibility requirements	Age: 18 to 65	Must be a loan client of NPWAF	Must be a client of DTWTF between 18 and 65 years old	Must be a member of the credit and savings group	Must be a TYM member
Benefits provided	From 1 to 20 million VND in the event of death (or a percentage of the amount insured in the case of disability) and payment of hospitalization/surgery expenses up to the policy limit	In the event of death or total disability, Bao Viet pays the initial loan amount to NPWAF; with these funds, NPWAF pays the outstanding debt of the insured client and gives the remaining balance to the beneficiary previously designated by the client	Funeral allowance of VND 1 million for member's death, VND 400,000 for death of member's husband or child under 18; sickness/hospitalization benefit up to 400,000 per year (200,000 for caesareans) not to exceed 50% of the total cost of hospitalization	Funeral grant of VND 200,000 when the member, her husband or her child dies. If a member or someone in her family becomes ill, up to two home visits can be paid for (maximum benefit of VND 30,000 per visit).	Outstanding loan balance written off and beneficiary receives 500,000 VND in the event of member's death; benefit of VND 200,000 paid to member in the event of serious illness or the death of her spouse/child
Premium	From 0.8% to 3.08% of the sum insured per person per year depending on age and gender	0.9% of the amount borrowed	VND 2,000 monthly	VND 1,000 monthly	VND 200 weekly
Minimum annual financial cost	From VND 8,000 for < 18 years old to VND 27,300 for the 61-65 years old category	VND 9,000 (for VND 1,000,000 loan with one year duration)	VND 24,000	VND 12,000	VND 10,400
Marketing strategy	Agents / direct	Purchase of insurance is compulsory with any new loan	Participation is compulsory for all members	Participation is compulsory for all members	Participation is compulsory for all members

Combined Death, Personal Accident & Hospitalization / Surgical Insurance (Generic Commercial Product)	Bao Viet/NPWAF Credit Life	DTWTF Mutual Assistance Fund	Phuong Dong Commune Mutual Assistance Fund (Uong Bi District Fund for Women's Promotion)	TYM Mutual Assistance Fund
Premium collection method	Lump sum at the inception, collected by agent or insurance staff on site	Premium collected at loan disbursement	Premium collected together with the semi-monthly loan repayments and savings deposits	At regular group meetings
Commission	15%	12%	N/A	N/A
Claims to Premium ratio	No information	12%	27%	N/A
Number of policyholders	2,200	3,960	512	18,951
				Together with weekly loan repayment and savings deposit

Table 7: Health Insurance Products Available to Low Income Households

	Bao Viet Hospitalization and Surgical Insurance	VSS Compulsory Health Insurance	VSS Voluntary Health Insurance	Health Insurance CEP - HCMC VSS
Target market	General	General	General	Targeted
Eligibility requirements	Individuals between 1 and 65 years old who are not under treatment for an injury or disease	Employee of the Government, a foreign owned company or international organization operating in Viet Nam, a non-state enterprise with 10 or more employees, having labour contract of three months or more	All persons are eligible to participate on a voluntary basis, including those already participating in the compulsory insurance scheme	CEP Member
Benefits provided	Payment of hospitalization / surgery expenses up to the policy limit; in the event of death during surgery or hospitalization, funeral benefit of VND 1.6 to 3 million	Payment of expenses for medical exams, tests, x-rays, approved medicines, transfusions, surgery, hospitalization, prenatal exams and delivery, transportation expenses for specialist visits by individuals of a targeted group		Access to treatment at the designated providers without the payment of any additional fees.
Premium	From 0.54% (for a child aged 5 to 15) to 2.0% (for an adult aged 61 or more) of the sum insured per person per year; lower premiums available for groups (range of 0.29 to 1.1%)	3% of salary per month (employer pays 2%, employee pays 1%); beneficiaries of social insurance pay 3% of their monthly benefits or social benefits.	From VND 80,000 to 120,000 per year depending on age of insured person	From VND 80,000 to 120,000 per year depending on age of insured person
Additional charges or transaction		Must request treatment from a State or private medical facility that has a contract with VSS		Selected facilities only
Minimum Financial cost	From VND 5,400 for a child 5-15 years old to VND 20,000 for ages 61 and older		VND 80,000	VND 80,000
Marketing strategy	Agents	Compulsory through employer	Agents	CEP as partner-agent
Premium collection method	Lump sum at the inception, collected by agent or insurance staff on site	Through employer	Via commune	GTZ sponsored first year premium, member to pay from 2nd year via savings with CEP
Strategy for protecting institution against adverse selection and fraud	Agents	Hospital only provide services covered by Health insurance; policyholders have a health insurance card that indicates where they can go to receive services and their period of coverage		CEP to work with VSS on quarterly basis to review claim record
Commission	15%	N/A		12% - 15%
Number of policyholders	No information	24 million	10.5 million	1,500

As mentioned in Section 1, the Government is pursuing universal **health insurance** coverage and has made significant strides towards this goal since 2003. By the end of 2006, 90 percent of all those eligible to participate in the compulsory health insurance scheme were making contributions to it and 10.5 million people were participating in the voluntary health insurance scheme, 9 million of whom are students. Although VSS does not generally compete with private insurers, there appears to be significant competition in this market segment as commercial insurers report a total of 8 million student policyholders, some of whom appear to be purchasing insurance from both public and private schemes.

The challenge facing VSS today is how to deliver effective voluntary health insurance coverage to the remaining 59 percent of the population, most of whom are not students. There are three primary issues to resolve, the first one involving financing of the scheme. The compulsory and voluntary health insurance schemes currently offer the same benefits (see Table 7), but the premium paid by voluntary policyholders is just one-third what policyholders (and their employers) contribute to the compulsory scheme. VSS overspent significantly in 2006 and is planning to raise premium levels in order to better balance its revenues and expenses. It remains to be seen whether the benefits offered under the voluntary scheme will be considered valuable enough to warrant the higher premium. As noted in Section 2.1, People's Committees have been encouraged to raise funds to help low income households in their community purchase voluntary health insurance. An experiment in Bac Ninh (see Box 5) provides an example of how this might be done and could be replicated by other provinces.

**Box 5: Provincial Subsidy for the Near-Poor
to Purchase Voluntary Health Insurance**

In 2006, approximately 10,100 people who are considered near-poor received a subsidy from the Bac Ninh provincial budget to buy voluntary health insurance. The initiative stemmed from the fact that these households seemed to be vulnerable to health risks that could easily put them back into the poverty category which would qualify them for free health insurance from the State. Not wanting to see these developing households regress and knowing that if they did regress, the State would have to bear the full burden of financing their health care, the Provincial People's Committee took the decision to finance their participation in the voluntary health insurance scheme.

Individuals were eligible for the subsidy if they had an income between VND 200,000 and 260,000 per month in rural areas or between VND 260,000 and 360,000 in urban areas. Beneficiaries were selected to receive the subsidy through public voting at the ward/commune level. The ward/commune's list was sent to the Communal People's Committee and then to the District Department of MOLISA for approval. The Provincial People's Committee then made a decision about the disbursement of funds and passed the list to the provincial VSS department for implementation. Health insurance cards were then provided to those who were selected to receive the subsidy. Bac Ninh is the first province to respond to the Government's invitation to implement such a subsidy and it plans to continue this model in the future. In 2006, it paid out VND 750 million in subsidies, or approximately VND 65,000 per person.

A second issue that VSS must face concerns the quality of health care services delivered under its insurance scheme. The value of the benefits being offered under the policy is greatly affected by the quality of care that policyholders are able to access when they need it. Numerous reports have indicated that there are serious deficiencies in the quality of care—there is a lack of qualified health staff, inadequate facilities and equipment; service is often delayed even in emergency cases; and informal fees are often necessary to obtain treatment. The burden on the health care system is increasing as participation in the health insurance scheme grows. VSS has done spot checks on the quality of care being delivered by many local health care providers and has found it unsatisfactory.

There is general recognition that something needs to be done to improve the quality of health care service delivery or there will be limited demand for health insurance. This issue may be addressed in the health insurance master plan that the Government is planning to submit to the National Assembly's Autumn 2007 session. In the meantime, VSS has been experimenting with two strategies for improving the quality of service available to its policyholders. First, it has begun to expand its network of health care providers to include private facilities with a reputation for more expensive and higher quality services. VSS has indicated that it will negotiate more of these arrangements in the future. Second, it has tested the potential for a partner-agent relationship to assist it with quality control at the local level (see Box 6). As noted earlier, the idea of working with a partner organization is nothing new for VSS, but the nature of the role played by the Capital Aid Fund for Employment of the Poor (CEP) in Ho Chi Minh City is new. It requires much more time and energy from the partner-agent than a simple sales and claims administration relationship, but it also yields superior social returns.

A third and related issue for VSS concerns the need for additional awareness-raising and after-sales care. In the 2003 demand-side research sponsored by the ILO/MOLISA, 23 percent of the low income households that held insurance policies had experienced a risk during their period of coverage, but only 14 percent received compensation. Nine percent of all policyholders experienced a loss and were not compensated either because of complicated procedures, or because they did not know where and how to make a claim. Other reports claim that “poor” households entitled to free health care services are not accessing them because they do not know they are entitled to this benefit. Partner-agents like CEP can assist VSS with this challenge by leveraging their ongoing relationships with members to provide regular information and support in using an insurance policy. In addition, consumer education partnerships along the lines of what VSS seems to have entered into with VFA (see Box 1) could help VSS not only to communicate what the benefits of insurance are, but also to gather feedback about what is keeping low income households from being able to make effective use of its health insurance scheme.

Box 6: A Productive Partnership between CEP, VSS and GTZ

The Capital Aid Fund for Employment of the Poor (CEP) was established in 1993 to make credit services available to the poor following the model of Grameen Bank in Bangladesh. By December 2006, it had more than 70,000 clients and its membership base was growing steadily, between 8 and 15 percent per year. About 79 percent of CEP's clients are very poor or poor and 75 percent are women.

In October 2004, CEP implemented the pilot project "Social Security for the Poor in the Framework of the Poverty Action Program 2015-Viet Nam" in six communes of Binh Chanh District and four wards of District 8, in Ho Chi Minh City. The primary objective of the Project was to provide health insurance services to the poor, integrated into the CEP program in its existing operational areas for the duration of one year. The project was targeted at poor clients who were unable to access free publicly provided healthcare and would most benefit from reduced exposure to health related risks.

The Project was implemented through an agreement between local healthcare providers in the designated wards and communes, the HCMC Social Insurance Agency (which is part of the VSS network) and CEP. Under the agreement, 1,500 CEP clients were provided with health insurance for one year upon the payment of an annual premium which ranged from VND 80,000 to VND 120,000 depending on the age of the insured. CEP received funding from GTZ⁴⁵ to pay the first year's premium, and clients were encouraged to accumulate savings with CEP over the course of that first coverage year to purchase future premiums.

The HCMC Social Insurance Agency provided health insurance cards to the 1,500 CEP clients and was responsible for implementation of the health insurance program for those clients. Commune and District healthcare clinics and upper level hospitals provided primary healthcare and treatment for CEP clients without the payment of additional fees, with the clinics receiving payment from the HCMC Social Insurance Agency upon treatment of a CEP client who was covered under the scheme.

After 11 months, CEP undertook an evaluation of the project and received considerable positive feedback from all stakeholders:⁴⁶

- Clients were satisfied with the health insurance product and the quality of the healthcare that they had received, with only isolated cases of client dissatisfaction. Eighty percent indicated that they were willing to purchase annual premiums from 80,000 VND to 120,000 VND using their savings held by CEP, thus ensuring the sustainability of the product.
- HCMC Social Insurance Agency expressed a desire to replicate the agreement underpinning the Project to other areas of HCMC.
- Local Healthcare Providers stated that they were happy to serve CEP clients at the level of payment they had received for their services.
- CEP remained pleased that its clients were able to access healthcare and that ill-health had become less of a financial burden on client households.

⁴⁵ Deutsche Gesellschaft für Technische Zusammenarbeit (GTZ) GmbH is a German government-owned corporation for international technical cooperation.

⁴⁶ CEP. "Implementing Risk Management Products - the Experience of CEP in Ho Chi Minh City." ILO Knowledge Sharing Workshop, December 2005.

These results were achieved, in large part, because the major players involved - CEP, HCMC Social Insurance Agency and local health care providers - cooperated and communicated regularly to ensure that the results were achieved. CEP staff played an active role in facilitating members' access to health care services and brought any challenges to the attention of CEP's management, which then took the issues to quarterly steering committee meetings with representatives of the HCMC Social Insurance Agency and local health care providers. The players discussed how to resolve the issues, took actions within their respective control, and then returned in the next quarter to discuss outcomes and agree on follow up.

Going forward, CEP plans to introduce the health insurance product to 2,250 clients in four of its branches in the Districts of Thu Duc, Cu Chi, Nha Be and District 9. It is hoped that this larger scale test in several well-chosen areas will lead to a roll out of the product throughout the entire CEP branch network.

3.3.4 Other Insurance Products

There are two other areas in which low income households voiced a need for insurance and that is in the area of property insurance (for crops and/or livestock) and assistance in the event of natural disasters. This is hardly surprising given that 80 percent of Viet Nam's poor live in rural areas and the country as a whole remains quite vulnerable to natural disasters.⁴⁷ More than one million people, on average, need emergency relief each year due to such natural calamities as typhoons, floods, drought, pests and diseases.⁴⁸

There are no successful agricultural insurance programs in operation at this time in Viet Nam. Bao Viet tried throughout the 1980s and 1990s to develop successful crop, plant and livestock insurance products, but the premiums it collected could not cover the total claims made. Its experiments with rice paddy farmers, forestation projects, buffalo, cow, pig and poultry farmers were all unprofitable due to a combination of factors including natural disasters, moral hazard, small risk pools, a lack of actuaries and surveying services, and the lack of a reinsurance market. Bao Viet has not had any meaningful level of activity in the agricultural insurance market since 2000 and its Agricultural Insurance Department no longer exists.

Groupama has also made a major effort to deliver livestock insurance. In 2003, it was selling insurance for pigs, chickens, ducks, shrimp, fish and cows through individual agents, but already reported to be losing money. In 2005, it announced that it was temporarily suspending the writing of new agricultural policies, although it remained committed to the development of agricultural insurance products in the long-term. It petitioned the Ministry of Finance to expand its operations outside the Mekong Delta Region and to underwrite other types of insurance services while it re-evaluated its strategy

⁴⁷ Asian Development Bank. 2005. *Technical Assistance to the Socialist Republic of Viet Nam for Implementing the Regulatory and Supervisory Framework for Microfinance*. Viet Nam: ADB.

⁴⁸ Viet Nam Development Report, 2007, Draft.

with respect to the agricultural insurance market. This request was approved, so Groupama is now licensed to offer non-life insurance products nationwide to individuals and businesses in all sectors. It was not active in the agricultural insurance market in 2006, but is expected to test a new product in 2007.

One of the international lessons that Groupama may be able to apply to the Vietnamese market comes from its experience with the “Fondos De Aseguramiento” or “**Mutual Self-Insurance Funds**” operating in Mexico. In this model, a group of farmers makes an annual premium payment into a fund that is managed by the state-owned insurer, AGROASEMEX. If a loss occurs, the farmers must bear the first level of cost, but the insurer will pay benefits beyond that level. If there is no loss during the year of coverage, the insurer returns a portion of the paid premium to the farmer group. This rebate can be used to help pay for the next year's premium, or to cover the farmers' portion of any loss that may happen in the next year. The mechanism has been successful in Mexico and something similar may be worth testing in Viet Nam.

Several relatively small livestock insurance programs run by international NGOs have come and gone over the years. Some of the community-based funds that were created under a GRET-sponsored insurance project in Vinh Phuc and Phu Tho provinces are still operating,⁴⁹ but most find it difficult to operate without external support.

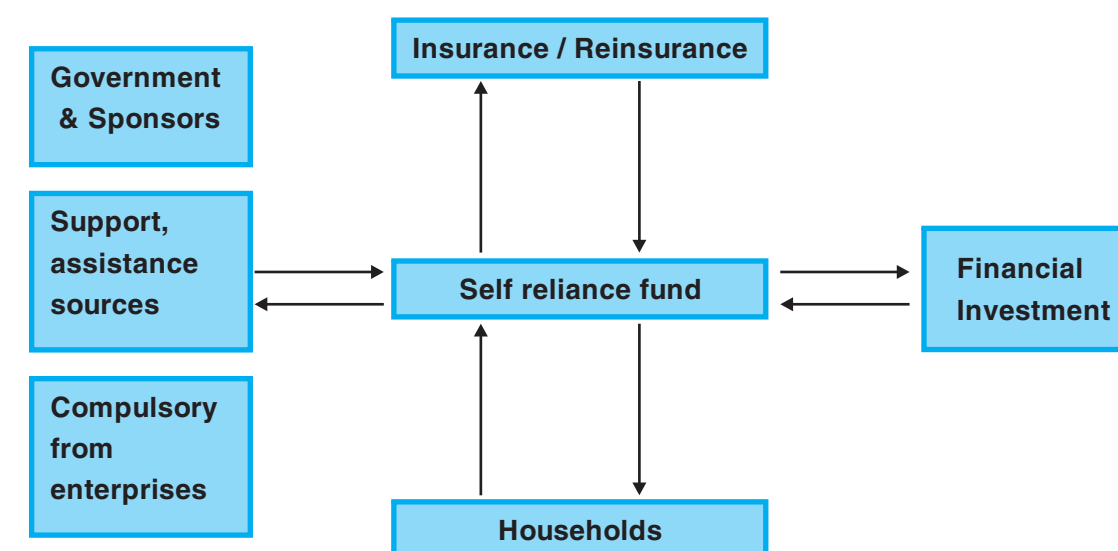
There are, however, two known pilots being conducted by the Government in cooperation with international partners that would benefit rural communities. First, a **Social Risk Assistance Fund** is being developed by MOLISA and GTZ that would operate at the commune level and provide timely assistance in response to petitions from individuals or households that find themselves unable to cope with a particular risk event. As it is currently designed, petitions could be made for any amount ranging from VND 50,000 to 1 million. The commune's Chairman would receive and recommend petitions to a management board that would decide what level of assistance to provide. The inspiration for this pilot came from a GTZ poverty reduction project in Hoa Binh, Thanh Hoa and Dac Lac. Participation would be voluntary, but would require strong commitment from the local authorities. Ten percent of the Fund would be financed through household contributions (from VND 10,000 to 20,000 per household), with the remaining 90 percent being raised from the State budget, mass organizations and NGO projects.

A second pilot, the **Financial Self-Reliance Fund**, is being developed by UNDP and the Ministry of Agriculture and Rural Development. It would facilitate post-disaster assistance as well as investments in long-term disaster prevention measures. The fund would operate on a non-profit basis with one central fund at the national level, 64 provincial level funds, and approximately 11,500 funds at the commune level. It would require initial capital of VND 640 to 3,200 billion (roughly equivalent to USD 80 - 200 million) or between 0.2 and 1.1 percent of the State budget, half of which would be provided by the State and half from

⁴⁹ Groupe de Recherche et d'Échanges Technologiques (GRET) is a French NGO that focuses on sustainable, fair development, the alleviation of poverty and structural inequalities.

sponsors such as NGOs, the World Bank and UNDP. Participatory contributions would then be made by individuals (VND 1,000 per month from farmers and VND 2,000 for others) and local enterprises (0.05% of capital). Some of the funds would be used to purchase agriculture insurance from a commercial insurer on behalf of fund members, and the rest would be invested or loaned out to generate income. The scheme is summarized in Figure 3. Both the Social Risk Assistance Fund and the Financial Self-Reliance Fund are in the early stages of development.

Figure 3: Diagram of the Financial Self-Reliance Fund



4. Constraints and Challenges: Why Aren't Insurance Services Being Expanded to the Low Income Market?

Most of the major constraints and challenges to expanding low income households' access to insurance have been raised in previous sections. They are summarized below, grouped into four main categories: 1) awareness and attitude constraints; 2) product design constraints; 3) institutional constraints; and 4) policy constraints.

4.1 Awareness and Attitude Constraints

4.1.1 Few companies believe that the low income market can be profitable

Although interest among commercial insurers is increasing, only representatives of Bao Viet have publicly stated that they believe they can serve the low income market profitably. Other insurers still doubt BaoViet's claims, since its experimentation with the partner-agent

delivery model is recent and BaoViet has not yet demonstrated that it has taken into account the full range of costs associated with the product when drawing its conclusions about profitability.

In general, the low income market is still perceived to be riskier than traditional markets and more costly to serve, with limited capacity to generate income. This perceived lack of profitability is the number one reason why the development of this market remains a low priority on most commercial insurers' agenda. The attitude is unlikely to change until at least one company is able to demonstrate success over a period of years and at a larger scale than that currently exhibited by Bao Viet.

4.1.2 Most commercial insurers remain focused on short-term profit margins

Part of the reason for insurers' pessimism about the potential of the low income market is their focus on profit margins and short-term results. This market can be profitable, but not because it yields a large margin. The real potential of the market lies in small margins and large volumes over the longer-term. Few insurers seem to have noticed that 69 percent of the population that was considered to be poor less than twenty years ago is no longer poor and, considering Viet Nam's growth trajectory, is likely to be less poor tomorrow. Insurers could support the development of this market and benefit from its success in the longer term, but not as long as they remain focused on a short-term perspective.

4.1.3 Insurers lack information about the low income market

No one seems to know how big the low income market is or what level of income would qualify someone as a member of that market segment. Insurers have no idea how many low income households are already using their products, and there is little data available on the actual levels of loss in sectors where low income households are economically active (for example, in livestock and agriculture).

4.1.4 Public knowledge about insurance products and its trust in the insurance concept is still weak

A large percentage of the population still believes that talking about bad things may cause them to happen and this cultural taboo inhibits open discussion about many insurance products, particularly those that involve death. Insurance agents have found they can get around the taboo by stressing the savings characteristics of certain insurance policies more than the risk management aspects, and this may have interesting implications for future product development. The practice can also be misleading, however, and is not helping to clarify what insurance is, how it works and why it is useful.

The public still distrusts insurers. The benefits of the product are difficult to see if nothing goes wrong during the contract period, and if something does go wrong, there is always a risk that the quality of service provided after the premium payment is made will be poor - the agent may not be around when he is needed or a clinic may not willing to provide health care

unless an additional fee is paid. Even middle and upper class households are suspicious of the "small print" that may contain exclusions that could make their policy useless at a time when it is most needed.

There is also a need to raise awareness in Viet Nam about the concept and benefits of insurance, and to create a culture in which insurance is valued as a risk management strategy. Service providers that have been successful in the delivery of insurance to a low income market have found that initial investments in marketing to help potential clients understand the benefits of a product are critical to success.

4.1.5 Commercial insurers do not want to experiment alone

The insurance industry in Viet Nam is relatively young and has not done a great deal of innovating. This is changing and most stakeholders believe that the market will see significant innovation in the near future, fuelled by the new products, methods and marketing strategies of foreign firms, as well as the competitive pressure that is likely to push at least some domestic insurers down-market. At the moment, however, domestic insurers seem to be getting a slow start. Several of those that expressed interest in testing the potential of the low income market segment also voiced an unwillingness to bear the risk of testing on their own. They are still looking to share the risks (and costs) of research and development with a Government or international partner.

4.2 Product Design Constraints

4.2.1 Serving the low income market profitably requires new business models

Compared with traditional markets, low income households have lower incomes, higher opportunity costs and smaller insurance needs. They file small claims, generate relatively little income per policy sold, and tend to require a more significant investment in consumer education. They cannot be recruited and serviced using the same systems that are used to serve larger, better educated, more urban clients. To serve the low income market effectively, insurers need to develop new business models based on low margins and high volume that provide appropriate benefits for clients while minimizing costs for both the insurer and the policyholder. They must also deliver their services in a way that allows trust to be built and maintained over time. Balancing these multiple objectives will be challenging and significant investments in technology infrastructure and staff training may be required.

4.2.2 Limited attention is being paid to what low income households want in an insurance product

Greater interest in the low income market has not yet translated into greater understanding of the market and its needs. Companies assume that what matters most is a low premium rate, but product development experiments elsewhere suggest that it is a combination of an appropriate benefits package, simple procedures, fast claim processing, and a low-cost

method of premium payment that produces the strongest results.⁵⁰ With the exception of Bao Viet, no formal sector insurer appears to be pursuing a systematic market research or product development process for the low income market at this time. There appears to be little experience among insurers with research methodologies that would be appropriate for understanding the needs and preferences of this market.

4.2.3 Pricing strategy is based on competition not actuarial advice

There are very few professional actuaries in Viet Nam and those that exist were trained within the last two years. Foreign-owned insurers primarily rely on foreign-based actuaries on an as-needed basis, while domestic insurers have a habit of pricing their products with reference to what the competition is already offering. It is possible that the dearth of actuarial expertise in the country has contributed to the lack of innovation in product design, since a new product would be a risky product without a competitor against which to gauge prices.

4.2.4 Aspects of existing products' design exclude low income participation

It is true that there are insurance products in existence that could be used by low income households, but they are likely not being used because they are not perceived to be valuable enough to warrant their cost. Recent experiments by TYM, CEP, NPWAF, DTWTF and Uong Bi Fund for Women's Promotion show that low income households are able, interested and willing to pay for an insurance product that meets their needs. They are unlikely, however, to purchase products that require relatively large lump sum payments, significant transaction costs or dependence on an unfamiliar relationship.

4.3 Institutional Constraints

4.3.1 Traditional insurance agents are not motivated to sell low income products

Even though it is theoretically possible to buy a VND 1 million personal accident insurance policy, it is virtually impossible to buy it in practice because traditional insurance agents do not want to sell such small policies. The commission they earn for recruiting and servicing such a small policyholder is not worth the time, effort and money (e.g., for petrol) that they have to spend in order to obtain it. In practice, insurers will rarely sell an individual policy with a value less than VND 5 million.

4.3.2 Agents that are motivated to sell low income products do not necessarily have the skills to do so

This is true of individuals as well as organizations. Few agents that live or work in low

⁵⁰ Churchill Craig, Reinhard Dirk and Qureshi Zahid. "Microinsurance Conference 2005: Making insurance work for the poor: Current practices and lessons learnt". Munich Re Foundation and CGAP. Munich: Schloss Hohenkammer, 18-20 October 2005.

income communities have had professional training in economics, finance or accounting and those that do rarely have had an opportunity to apply those skills in the context of insurance. Even if they would like to manage the sales and claims processes well, they may not understand clearly how insurance works or possess the communication skills necessary to be able to communicate that information in a way that others can understand. Specialized training and support systems will be needed to assist the right kind of agent to sell and service insurance effectively.

4.3.3 Most of the microfinance and mass organizations that are currently offering an insurance product are doing so through a self-insurance model

Generally known as mutual assistance funds, these schemes are unlicensed, unregulated and offer insurance services to members/clients only. They provide easy and affordable access to some types of insurance, but they are risky because of their small risk pool, their lack of access to reinsurance, and their weak expertise in appropriate product pricing. They typically do not set aside reserves as specified under the Law of Insurance and sometimes even on-lend the money they collect in premiums. They could easily have difficulty meeting claim requests if many members/clients experience a loss at the same time. The Government's hands-off approach towards these organizations makes it easier for low income households to access some kind of insurance in the short-term, but it leaves fund members vulnerable and does not encourage the development of longer-term, more reliable and more diversified insurance services for low income communities.

4.3.4 It can be difficult to find the right partner

Although microfinance organizations have been actively involved in testing new models for delivering insurance to the low income market and have been recommended as appropriate partners, there are few microfinance organizations with more than 5,000 members and no organization has achieved national scale thus far. Insurers that want to work through microfinance institutions will have to piece together a patchwork of partners if they wish to achieve significant scale.

Mass organizations that already have national scale provide an attractive alternative, but precisely because of their scale and their reliance on volunteers, they often lack the systems and management capacity to track sales and premium collection, document claims and administer benefits effectively. Both Bao Viet and PJICO had difficulties trying to sell insurance through mass organizations when either the product being sold or the procedures involved were too complex. Even when the organization appeared to be a good partner, success on the ground depended heavily on the specific individuals managing the process. Partnerships that proved successful benefited from committed and enthusiastic leadership that believed in developing products for low income households.

4.3.5 Piggybacking on existing infrastructure can pose cultural challenges and conflicts of interest

Although the partner-agent relationship between Bao Viet and NPWAF was ultimately successful, it took eight months of negotiation and an international intermediary to help the two very different institutions learn to communicate and to trust each other. The partnership between Prevoir and VPSC also holds significant potential, but the institutional challenges it faces are even more severe. Customers have to travel to the post office to get information about an insurance product and when they arrive, they will find staff positioned behind a glass panel, tasked with the responsibility of providing many different services, which will limit the time and quality of service that they can offer the prospective insurance client. The transaction-based environment is hardly conducive to careful communication of an insurance product's terms and if employees are given no incentive to support the product, there is little reason to expect that low income individuals who come to inquire about it will leave satisfied.

4.3.6 The insurance industry's representative does not believe in the commercial potential of the low income market

Although individual members of the Viet Nam Insurance Association believe in the potential of the low income market, the Association's leadership does not. This will make it difficult for the Association to play a more proactive role in encouraging insurers' involvement in the market or in raising awareness of the value of insurance within that market.

4.4 Policy Constraints

4.4.1 Recent regulations guiding the implementation of voluntary social and health insurance schemes are still being operationalised

Regulations guiding the implementation of the Government's voluntary social insurance scheme came into effect only on 1 January 2007, and the voluntary health insurance scheme has only been in operation since 2003. VSS is working hard to build partnerships that will enable it to reach a greater percentage of the population with these services, but building those partnerships takes time.

4.4.2 Barriers to participation in State-sponsored insurance schemes remain

Migrant registration requirements, complicated procedures, the use of the minimum wage to calculate minimum voluntary social insurance premiums, the high cost of participation in the voluntary social insurance scheme in general (16 percent of income at minimum) and the levying of user fees for health services that are supposed to be covered by the State's health insurance scheme are a few of the factors that will continue to make access difficult even after the new Social Insurance Law comes fully into effect.

4.4.3 There are limited incentives for commercial insurers to invest in the low income market

As the insurance industry becomes more competitive, the chances of one or more insurers eventually deciding to serve the low income market are considerable. However, no one knows how long low income households will have to wait for this to happen. There are few if any policies in place today to motivate commercial insurers to pay attention to the particular needs of the "near poor" market segment and the design of products that would encourage continued asset building and stronger household management of risk. This leaves the Government with the full responsibility of developing, implementing and financing insurance for this market, and robs it of the ideas, efficiency and distribution channels that commercial insurers could bring to the challenge.

4.4.4 Reinsurance options are inadequate

Local insurance companies rely on the reinsurance market to spread their risk. Yet there is only one reinsurer in Viet Nam and that reinsurer is reportedly uninterested in reinsuring portfolios that consist of low income policies because it considers the risk to be too high.

5. Recommendations: What Can Be Done to Expand Access to Insurance Services for Low Income Households?

The following recommendations emerge from the analysis above as priority actions for expanding low income households' access to insurance products in the future.

5.1 All Service Providers

5.1.1 Conduct market research to find out what the low income market wants

In general, low income individuals need insurance products with simple procedures, fast claim processing, a low-cost premium payment method, and relevant benefits. Specific needs and preferences will vary, however, from one market to another and these needs can change over time as the environment evolves and communities develop. Thus, local market research will be vital to successful product developments - for new products, for the adaptation of existing products to a new market, and to maintain customer satisfaction with existing products over time. If an institution lacks the capacity to conduct this research on its own, it can seek out partners that already have the expertise or would be willing to share the cost of developing it. For insurers that work in partnership with organizational agents, those agents would be excellent partners to engage in the research process.

5.1.2 Invest in consumer education

One of the lessons learned through recent pilot tests (see Box 7), and through successful experiences in marketing products to low income households internationally, is that a significant investment in customer education is typically required during a product's initial marketing. The more low income households understand about a product and its benefits, the more likely they are to buy it and to recommend that others buy it. After-sale “refresher sessions” can also be helpful in ensuring that clients remain comfortable with an insurance product, understand its benefits, and know what they must do to claim those benefits in the event of a loss. These investments in consumer education are what enable an industry to build trust in the market.

Box 7: Initial Product Marketing by NPWAF and Bao Viet

In December 2004, with technical support from the ILO and Bao Viet's Head Office in Hanoi, the NPWAF trained all of its 11 staff members on the concept and procedures of the personal life insurance product. It also invited all of its 62 centre heads to orientation courses on the new product. Together, NPWAF staff and centre heads then informed members about the personal life insurance product during centre meetings. Overall, the reactions were positive, but there was some resistance and misunderstanding as well. Some of the clients had some doubts about the product and the partnership with Bao Viet. In order to help dissipate these doubts, NPWAF invited a Bao Viet representative to attend the clients' disbursement meetings in January and February 2005 and give further explanations on the insurance concept and the specific product. This approach was very fruitful and most of the clients were eventually reassured and satisfied. In addition, Bao Viet created a leaflet that explains the characteristics of personal life insurance in simple terms for easy reading of the clients. NPWAF also organized regular contests to help keep insurance product information fresh in members' minds.

For specific product delivery, investments in consumer education are likely to come from specific institutions, but an industry-wide effort at raising public awareness and understanding of insurance products would also be valuable. It would certainly be more cost-effective than each individual insurer attempting to launch its own campaign. In South Africa, insurance companies achieve this end by contributing a small percentage of their premiums to their insurance association, which provides insurance education to the low-income market on behalf of the industry as a whole.

5.1.3 Seek out opportunities to apply the partner-agent model

Pilot tests by Bao Viet/NPWAF and by HCMC Social Insurance Agency/CEP have demonstrated the potential of this business model in Viet Nam. It brings together the three main ingredients critical to the success of an insurance product - financial stability, technical expertise, and a trusted relationship with the local market - which are difficult for any single actor to bring to the low income playing field alone.

The model benefits all parties involved. The **insurer** can expand to a new market with relative ease and at an affordable cost by building on the existing infrastructure and relationships of its partner. The partner can help control adverse selection and moral hazard and is likely to have historical data on clients and the environment which can inform the insurer's understanding and management of risks in that market. It can also help control the quality of service that is delivered by its individual staff members. If an insurer can find the right partner, it can contract out not only the recruitment of clients and the collection of premiums but also the management of claims, payment of benefits and ongoing consumer education. By working through a single organization rather than many individual agents, the model can significantly lower transaction costs. Bao Viet predicts that the model can be profitable - even in the short-term - once 50,000 clients are being served through it.

The **partner-agent organization** benefits by being able to offer higher quality protection to its member clients. With the backing of a major insurer, it can offer a stronger and sometimes larger package of benefits than it could on its own; it might also be able to offer more than one kind of product. It can lower its own financial and reputation risks. It will not have to worry about capital or regulatory requirements, nor will it have to hire expensive specialist managers or staff. Existing staff can improve their sales and marketing skills by learning from the insurer, and the organization can improve its own professionalism through the standardization of procedures and systems. For institutions that are not yet offering an insurance service to their members, the partner-agent model can offer a simple, affordable and relatively rapid avenue for introducing one.⁵¹ Once a product is introduced, it can help the organization to attract additional members, encourage customer loyalty, and diversify its sources of income.

Finally, and most importantly, **low income households** benefit in the partner-agent model because they receive better protection. They gain access to insurance through regulated insurers that are backed up by reserves, legislation and (perhaps) reinsurance, so there is virtually no risk of insurer failure. By accessing the product through an organization, they will benefit from pool pricing and, thus, be able to access the insurance product at a lower price than they would have been able to as individuals. They should also have the potential to access a broad range of insurance products, which would increase their options for using insurance as a risk management tool.

The partner-agent model could be used by both public and private sector service providers. VSS could seek out partner-agents that would market and service its social and health insurance products. It may be worth paying CEP (or similar organizations) a higher rate of commission in exchange for extra effort on quality control. Commercial insurers could seek out microfinance organizations, cooperatives, NGOs and/or mass organizations that would be able to connect them with low income communities, market appropriate products and, if the partner's systems were strong enough, service those products. Rather than wait to be approached by an insurer, People's Credit Funds, NGOs, microfinance and mass

⁵¹ Although it took Bao Viet and NPWAF eight months to negotiate their partnership, they were starting from scratch. Neither institution had entered into this kind of relationship before and there were no Vietnamese examples to draw lessons from. Future negotiations with other partners should not be as time consuming.

organizations might consider which insurers would be best positioned to help them make insurance services available to their members and proactively solicit their involvement in a product development process.

5.1.4 Develop a robust management information system with a relational database

To move from competition pricing to more accurate and less risky actuarial pricing, better information is needed. Actuaries establish premium rates using available experience data. When there is no specific data available on the target market, they must then rely on general statistics, observations and assumptions about the target market. The less specific and reliable the available data is, the higher the risk that must be built into the premium rate. If institutions can increase the quality of their data collection over time, they should be able to lower premium rates (or at least, lower their risk by establishing a more sustainable rate). They should also be able to offer more innovative product. In addition to pricing, a relational database can help institutions to analyse drop-out patterns, delays in claims processing and demographic trends. It can also assist with more administrative functions such as keeping track of beneficiaries and covered dependents, controlling for fraud, and calculating payouts for products with savings accumulation features. Not all institutions will want or be able to install such a system, but large-scale insurers should, and those that are interested in partnering with a large-scale insurer should inquire as to how they might contribute to and take advantage of such a system.

5.2 Commercial Insurers

In addition to the recommendations provided in Section 5.1 above, commercial insurers may want to consider the five actions detailed below.

5.2.1 Make it someone's responsibility to focus on the low income market

Insurers that are serious about exploring the potential of the low income market should designate a person or a team of people who will concentrate on getting to know the market and identifying strategies for serving it effectively. The Zurich Financial Services Group, for example, created a two-person microinsurance team at its head office tasked with promoting microinsurance in its various business units, particularly its subsidiaries in developing countries. Teams such as this have the mandate, and therefore make the time, to build a company's understanding of the low income market, not just by reading external consultants' research reports, but by personally interacting and building relationships with the market. They are in a position to identify connections between what the low income market wants and what their company is well-positioned to provide. They can inspire product development for that market and follow up to maintain momentum. With a budget and sufficient flexibility to innovate, a microinsurance team or department can provide the focus and energy needed to successfully enter an untraditional market.

5.2.2 Think creatively about the recruitment of insurance agents who already live and/or work in low income communities

Many of the current challenges facing insurance companies with respect to the remuneration and motivation of staff serving rural areas and the establishment of a trust-based relationship with potential clients in those areas could be diminished through a more innovative agent selection and training process. Individuals that already operate in a "social marketing" capacity, such as the family planning agents with which Bao Viet is collaborating, would be likely to have the skills necessary to communicate the benefits of insurance as well as the social motivation to do that kind of work even if the level of compensation is not particularly high. If insurers recruited agents based on these criteria, they could then build through training whatever additional financial skills or technical knowledge might be necessary for those social agents to work in the area of insurance. VSS' idea of recruiting individual agents through referrals by mass organizations could be made stronger if the agency were to specify the criteria it wanted its agents to meet and then interviewed candidates (perhaps using role play or group interview techniques) to determine which ones had the most appropriate skill set.

5.2.3 Consider the creation of "agent groups" as an alternative to the partner-agent model

If it is difficult to find an organizational partner with the systems, relationships and motivation required to engage in a partner-agent relationship, insurers may want to experiment with the community rural insurance group concept that is being tested by Tata-AIG in India (see Box 8). Instead of creating a network of individual agents, Tata-AIG is building a network of agent groups. These groups should be more cost-effective to manage than individual agents and may be able to provide higher quality service to clients (and to the insurer) by supporting each other in their activities and, perhaps, by monitoring the quality of service each other is providing.

Box 8: Tata-AIG's Community Rural Insurance Groups

When Tata-AIG sought to develop a profitable microinsurance distribution model, it first attempted to collaborate with MFIs using a partner-agent model, but found that there was a great deal of competition among insurers that wanted to develop relationships with MFIs and there were not enough good MFIs to go around. So, it ended up developing a new model, that of micro-agents. In this model, Tata-AIG would obtain recommendations of NGOs that had a good relationship with a local community in an area where it wished to sell microinsurance. It would develop a partnership with the NGO. In return for a consulting fee, the NGO would provide suggestions on members of the community who could be good agents for microinsurance policies (micro-agents). If the suggested people showed an interest in becoming micro-agents, they were asked to form into groups of peers.

Each group, referred to in the Tata-AIG model as a community rural insurance group (CRIG), operates in a similar fashion to an insurance agent's firm. Tata-AIG helps the group leader obtain an agent's license. The members of the group all refer policies for their own account, but the leader with the agent's license submits the policies and receives an additional commission for the extra work she does. The model relies on direct marketing similar to that used by firms such as Tupperware and Avon. The NGO can do a variety of tasks in this model including aggregating the premiums and sending them on as a single sum to Tata-AIG, allowing the agents to use their offices to conduct business, playing a role in the training of micro-agents, and helping to distribute benefits. The model thus has some additional positive externalities by providing a new income stream for rural NGOs and for micro-agents.⁵²

5.2.4 Prioritise the development of insurance products that build on infrastructure used to deliver savings services

Section 3.3 divided the world of insurance products into four categories: 1) longer-term life insurance products; 2) shorter-term death benefit insurance products; 3) health insurance products; and 4) other insurance products. It argued, using local case studies as examples, that shorter-term death benefit insurance products are in significant demand by low income households in Viet Nam and are being offered by commercial insurers at a premium level that should be affordable to that market. It is possible, therefore, that the low income market is already using these products, but the only way to know for sure is to ask (see Section 5.4.2). Insurers that are interested in serving the low income market need not wait for a massive survey using a representative sample, they can do their own informal research (see Section 5.1.1) to get themselves started. It needs not be expensive - with a one-week training in market research techniques and a handful of days in the field conducting focus group discussions with staff, agents and potential clients, an insurer could have a pretty good idea about what may need to be done.

As noted in Section 3.3.3, health care costs are significant, so if low income households could be sure that their health care needs would be met in exchange for the premium they would pay to access the State's voluntary health insurance scheme, they might be willing to purchase that insurance (as demonstrated by CEP). However, inconsistent service quality and a trend towards (official and unofficial) user fees makes it difficult for low income households to trust that their needs will, in fact, be met if they invest in the Government's scheme. There may be a market for other commercial health insurance products, such as the hospitalization and surgical insurance policy widely available in the market today, but this is clearly a second-best solution that cannot be as effective at breaking the cycle of poverty as a scheme that gives low income households access to preventive and minor care.

⁵² Roth James and Vijay Athreye. 2005. *Tata-AIG (India)*. CGAP Working Group on Microinsurance Good and Bad Practices, Case Study No. 14. Washington DC: CGAP.

Property and disaster insurance need to be developed, but they are particularly challenging products that have no local models of success that can be easily replicated. Insurers will likely need the support of the Government and/or other enablers to make this happen (see Sections 5.4 and 5.5).

The remaining category of insurance product - longer-term life insurance for the low income market - is a category with which Vietnamese service providers have experimented little. Informal service providers have great difficulty offering a long-term savings or life insurance product, both because they are not legally allowed to do so, and because it requires longer-term, more sophisticated financial management skills and systems that most informal and semi-formal insurance providers do not possess. They could, however, partner with a bank or insurer to make such services available to their members. As discussed in the third part of this report, low income households have a need for products that would help them manage risks and assets beyond a one-year time frame, but they currently lack attractive products that would enable them to do so. Commercial insurers are well-positioned to do something about that.

Although many insurance agents currently sell longer-term life insurance by appealing to its saving characteristics (see Box 9) there has been very little cooperation between insurance companies and other financial service providers to bundle savings and insurance services for low income markets in a useful and transparent manner. Delivering insurance services through the vast network of distribution channels already used to deliver savings services could be an extremely efficient mechanism for marketing insurance products, collecting premium payments, facilitating after-sale service, and clarifying the difference between savings and insurance products. Microfinance organizations have effectively bundled shorter-term death benefit products with credit products, but these are useful only to borrowers. In most institutions, savers do not have access to a similar scheme. Regardless of the particular type of insurance product being financed, a contractual savings scheme could help low income households to accumulate the lump sum required to pay the insurance premium.

Box 9: Selling Insurance as Savings

Many agents are selling life insurance not by talking about the risk management aspects of their products but rather, by showing more about the saving characteristics. An agent would tend to say, "This is a saving for your child when he/she reaches 18 years of age." Life insurance is often marketed in Viet Nam as a combination of savings and insurance services. When agents of a life insurance company approach clients they would say, "Buy this particular product because after 5 years you could have enough money as a lump sum payment from insurers to buy a motorbike for your son, yet if there is an accident before that time, the lump sum could be released immediately even if it is just 2 years that you have paid the premium."

5.2.5 Develop and propose product development pilot tests to enablers

Both Government and private sector stakeholders are increasingly aware of the challenges associated with serving the low income market and a few have expressed an interest in supporting insurers' efforts to find solutions to those challenges. The Ford Foundation, in particular, has issued an open invitation for service providers to propose innovations for expanding access to low income households and insurers should take advantage of it. They should invest some time and effort in identifying what they would like to know or what innovation they are interested in exploring, draft a product concept based on actuarial advice rather than guesswork, and be proactive about sharing their ideas with potential partners.

5.3 Non-regulated insurance service providers

In addition to the recommendations provided in Section 5.1, mass organizations, microfinance organizations, NGOs, mutual assistance funds and PCFs may wish to consider the following four suggestions.

5.3.1 Consider the creation of a mutual insurance company as an alternative to self-insurance

Organizations that are offering (or are thinking about offering) insurance services to their members through a mutual assistance fund or other self-insurance method may want to consider the possibility of cooperating in the creation of a mutual insurance company under Decree 18 and Circular 52 instead. The advantages of this institutional option are many. The mutual insurance company would be legally licensed to offer a wide array of insurance products including personal accident, health, property and agricultural insurance.⁵³ It would have access to reinsurance and, if its members came from various regions of the country, it would be in a much better position to manage covariant risk. Although a minimum capital requirement of VND 20 billion (as specified in Circular 52) would be too much for any single organization to contribute, many small organizations could come together to amass this sum, and the larger volume of business generated through their participation should make it possible for the new entity to recruit professional managers and advisors. Most importantly, members of the mutual insurance company would also be its owners, thus ensuring that the new organization would be responsive to members' needs and interests.

The major disadvantage of this option is the lack of any example or precedent in the market for creating such an organization. There are, however, many examples of cooperatives and mutual insurers around the world, 140 of which belong to the International Cooperative and Mutual Insurance Federation (ICMIF). La Equidad Seguros, profiled in Box 10, is one of these, and CARD MBA, already fairly well known in Viet Nam, is another (see Box 12). Groupama, being a mutual company itself, may be in a position to assist in the creation of such a fund with an eye towards collaborating in its future product development.

⁵³ It would not be able to offer long-term life insurance products, although it might be able to make such products available to its members through a partnership with a life insurance company.

Box 10: Mutual Insurance at La Equidad Seguros, Colombia

La Equidad Seguros was created 35 years ago as a cooperative with the mission to provide insurance services to cooperatives and their members, who were largely low-income workers outside the scope of traditional Colombian insurers. Today, La Equidad ranks 13th by level of premiums issued among 21 life insurers and 20th among all 29 insurers. At the end of 2004, its total premiums issued amounted to USD 83 million. Since its inception, La Equidad offered life protection coverage to cooperatives' members, both as debtors and as savers. Its group life insurance protected the cooperatives' loan portfolio: The debt dies with the debtor was a common slogan of cooperatives, particularly credit unions. Members' savings also had life insurance coverage in the case of death or permanent disability.

As of September 2005, La Equidad offered two group-based life insurance products, *Amparar* (To Protect), which was delivered through the microfinance institution Women's World Foundation (WWF), and *Equivida* (Equi-life), delivered through cooperatives. Over 10,000 of WWF's microcredit borrowers have purchased voluntary life insurance, as have over 18,000 cooperative members. Both *Amparar* and *Equivida* offer several plans responding to the needs and paying capacity of the insured. *Amparar*'s smallest plan has a basic coverage of CoP 3 million (VND 2 million) at a premium of USD1 (VND 16,000) per month. *Equivida*'s smallest plan offers a CoP 10 million (VND 6.6 million) basic coverage with a monthly premium of US\$1.50 (VND 24,000). Besides a lump sum benefit in the event of death or permanent disability, *Amparar* also provides benefits to assist bereaved households with grocery, utility and education expenses. While the combined participation of *Amparar* and *Equivida* is 3% of total premiums issued by La Equidad Life, their operational profitability is 22% and 23% respectively, well above the 4.95% (net income over premium) for La Equidad consolidated.⁵⁴

5.3.2 Consider a relationship with a commercial insurer as a mechanism for providing longer-term "savings plus insurance" options to members

Informal savings mechanisms provide numerous options for low income households to save in the short-term, but they provide few options for longer-term savings. Life/savings, annuity and endowment products have long-term savings characteristics that could meet certain risk management needs and help low income households accumulate funds for an expected future event such as a child's education (a savings goal that many households consider more important than the old age benefits provided under social insurance). As noted previously, there is a dearth of appropriate longer-term life insurance products on the market today that are appropriate for low income households, and this is an area where collaboration between formal and informal insurance providers could yield valuable new products. An endowment policy that combines life insurance and contractual savings, or a savings completion product that pays the difference between a member's savings target and her/his savings balance at the time of death, would have the added benefit of

⁵⁴ Almeyda Gloria and de Paula Jaramillo Francisco. 2005. *La Equidad Seguros*. CGAP Working Group on Microinsurance Good and Bad Practices, Case Study No. 12. Washington DC: CGAP.

encouraging regular savings habits among low income households and could be piggybacked onto financial service delivery channels that already exist within many informal and semi-formal credit and savings groups (see Box 11). This method of protecting one's family for the future would certainly be less flexible than other savings options, but it could offer a larger benefit at a time of crisis and could be managed by a regulated service provider with much strong capacity to ensure the long-term sustainability of those benefits.

Box 11: Savings Completion Insurance in Poland

TUW SKOK, the primary provider of insurance to Polish credit unions, offers savings completion insurance to encourage its members to develop a regular savings program. The member determines the savings goal and time period, up to a maximum of 10 years. The credit union has software that will then calculate the amount of the monthly deposit to achieve the savings target. The software also calculates the monthly premium for insurance coverage. In the event of accidental death of the member, TUW SKOK will pay the beneficiary the difference between the savings target and the savings balance at the time of death. This insurance product is of particular interest to the credit unions because it is closely integrated into their core business and helps them achieve their own goals by making the contractual savings product more attractive. It is also easier for credit union staff to sell than stand-alone insurance products because they can ask when setting up the account whether the member wants the additional insurance coverage.⁵⁵

5.3.3 Avoid operating small, self-insured funds whenever possible

If neither the partner-agent nor the mutual insurance company model is feasible in a particular location, service providers should seek technical expertise to assist with product design, pricing, data management and performance monitoring. They should also find a way to control covariant risk, either by excluding such risks from coverage to limit exposure, buying catastrophe cover from a commercial insurance company, or buying reinsurance from the Government (interesting options may become available through the pilot tests discussed in Section 3.3.4). These investments will have a cost, but they can help mutual assistance funds to avoid the kind of situation that CARD MBA faced in 1996, when the success of its product offering nearly destroyed the institution and would have left thousands of clients without the benefits they had been promised and had paid for (see Box 12).

⁵⁵ Roth James, Garand Denis and Rutherford Stuart. 2006. "Long-Term Savings and Insurance" In: Churchill Craig (ed.). 2006. *Protecting the Poor: A Microinsurance Compendium*. Geneva: ILO, p. 101.

Box 12: Learning from CARD MBA in the Philippines

In 1994, the Centre for Agriculture and Rural Development (CARD), at that time a non-governmental organization, began offering basic life insurance packages to its members. These services were popular, so CARD introduced additional and more complex insurance products. In 1996, it decided to offer a pension plan that provided members with PhP 300 (VND 87,200) per month after their sixty-fifth birthday and until death, in return for premiums of PhP 2.50 (VND 800) per week. This product was extremely popular with members. Unfortunately, CARD had not adequately assessed the impact of this product on the institution. When an assessment was done, it showed that a member would have to pay premiums for two years just to cover one month of the benefit. Extrapolating from there, management realised that the whole institution was at risk, and that fulfilling its obligation to members would completely diminish CARD's capital. Management extricated CARD from this liability and transferred the assets of the fund to the members who then started a separate insurance company with a separate board. An actuary assessed the risks and helped re-price the products. Soon after, a professional insurance executive was hired as the managing director. Today the new institution, CARD Mutual Benefit Association, provides life insurance coverage to nearly 600,000 low-income Filipinos.⁵⁷

5.4 Government Actions

5.4.1 Define "low income" and use this term to encourage the provision of insurance services to a diverse market segment that includes the near-poor as well as the poor

The emphasis of this recommendation is not on a particular definition,⁵⁶ but rather the need to make a very clear and public distinction between "the poor" (which is perceived to be a shrinking and unprofitable target market that should be taken care of by the Government) and "low income", which is a significantly larger category than just "the poor" and will need to be served by both public and private insurers if the country is to develop as it plans. This recommendation should be taken into consideration together with recommendation 5.4.2 below, so that efforts to expand low income households' access to insurance are pursued with a broader and more informed perspective.

5.4.2 Focus on increasing coverage rather than serving the poor

The Government has already articulated its commitment to universal access to social and

⁵⁶ McCord Michael J. and Buczkowski Grzegorz. 2004. *Card MBA Philippines*. CGAP Working Group on Microinsurance Good and Bad Practices, Case Study No. 4. Washington DC: CGAP.

⁵⁷ For example, "anyone earning an income that is less than or equal to the national minimum wage" or "anyone earning less than one-half of the median income in their census area, adjusting for family size." The latter definition is used by the Government of Canada; see <http://www.statcan.ca>

health insurance for all Vietnamese. Focusing on the question of how to expand access for low income households in particular (as this study does) makes sense in the context of the Government's commitment only because it is primarily low income households that do not yet have access to insurance services. The overarching goal, however, is coverage and not special treatment for the poor.

Both public and private sector efforts to increase coverage are being hampered today by a lack of information about the degree to which low income households are already using insurance products, as well as a lack of insight into why they use the products they do and why they do not use others. Financial service providers would benefit from more reliable benchmarks and a process for tracking changes in access to financial services over time. A survey tool called FinScope may be useful in this regard. Developed over the last five years by FinMark Trust, the survey is now being applied effectively in several countries in Southern Africa to measure changes in financial service usage (see Box 13). It could be used in Viet Nam to profile different market segments and to highlight opportunities for innovation in products and delivery. A copy of the survey that was used to collect data in South Africa in 2006 can be downloaded from www.finscope.co.za.

Box 13: Measuring Financial Services, Needs and Usage

FinScope™ is a comprehensive national household survey of financial services, needs and usage. It was launched for the South African market by FinMark Trust in 2002 and has been followed by full scale surveys in each subsequent year. As an independent trust that aims to “make financial markets work for the poor”, FinMark Trust implemented the survey's initial pilot with funding from the UK's Department for International Development (DFID). It partnered with financial service providers and other interested organizations, including South African government departments, to conduct subsequent surveys. By 2005, all survey costs were being financed by a syndicate with twelve public and private members.⁵⁸

The FinScope survey tracks the changing landscape of access to financial services across all the main product categories - transaction banking, savings, credit and insurance. It illustrates who is using what financial products, who is not using them and why. One of the ways it does this is through the Financial Services Measure (FSM).

FSM is a segmentation model that is developed from the FinScope survey findings. It measures five broad components:

- Financial penetration (usage of formal and informal financial products and services)
- Physical access to formal financial institutions (distance and time)
- Financial discipline
- Financial knowledge and control
- Connectedness and optimism (quality of life, future outlook, self-esteem)

⁵⁸ In 2005 the syndicate members were: Absa, Edcon, First National Bank, MTN Banking, National Treasury, Nedbank, Rural Housing Loan Fund, the SA Insurance Association, Standard Bank, the Life Offices' Association of South Africa, Visa International (CEMEA Region) and TransUnion ITC - the country's largest credit bureau.

For each of these components, the model classifies individuals into one of eight “tiers” (or segments). The results are then used to: 1) develop profiles for each tier in terms of demographics, psychographics, and banking status (the financial services used and the transactions regularly conducted); 2) develop usage profiles for specific financial products; and 3) analyse changes in each of the component areas (i.e., changes in physical access, in financial knowledge, etc.).

The findings of the study assist policy makers in both the public and private sector to identify and remove (or reduce) barriers to financial service access as well as to innovate their market offerings. The end goal is to substantially reduce the number of people in the lower FSM groups over time as these people become more aware of financial products and start utilizing them. For more information on the model, visit www.finscope.co.za.

5.4.3 Use Government incentives to encourage the delivery of insurance products to the low income market

Given the recent deregulation and liberalization of the insurance sector, the Government is justifiably opposed to putting policies in place that would try to force insurers to expand their coverage of low income households (as, for example, the Government of India has done). However, its decision to relinquish control of the market does not mean that it should forego the opportunity to influence the pace and direction of growth in the market. After all, it will reach its goal of universal social protection more quickly if it can motivate multiple insurers to increase their coverage instead of leaving the task to VSS on its own. It can allow the private sector to make its own choices, but reward service providers that move in a direction which supports public goals.

This study identified several options that the Government may want to explore to encourage insurers to increase their coverage of the low income market:

- Invite competition from insurers to offer a minimum package of benefits for the low income market and subsidize the premium payment for poorer market segments (see Box 14 for an example of such a public-private partnership in Colombia).
- Create a matching grant facility to support the expansion of products such as that tested by CEP in which premium payment subsidies during the first year provide a demonstration effect and allow subsequent years' premiums to be accumulated through savings.
- Offer a tax credit to insurers who contribute to industry-level consumer education campaigns.
- Make the insurance premiums that companies pay for workman's compensation insurance tax deductible; this might encourage firms to buy group coverage for workers that have a contract of less than three months.
- Pay a higher rate of commission to partner-agents that are willing to tackle the health care quality agenda as part of their delivery of the State's health insurance scheme.

- Support the initiatives described in Section 5.5 of this report.
- Provide public recognition or reward for insurers that most increase their presence in low income markets.

Box 14: Fuelling Competition through Consumer Subsidies

In Colombia, a special scheme (Régimen Subsidiado de Salud) was introduced in 1993 to finance healthcare for the poor and vulnerable groups who are unable to pay contributions to the general insurance scheme. Funds raised through the contributory social insurance scheme and various state subsidies are channelled to several institutions, including 8 mutual benefit associations federated in a national apex organization Gestarsalud (which now covers 60 per cent of the market), “cajas de compensación” (which cover 20 per cent of the market), and several private commercial insurance companies that also cover 20 percent of the market. Today this successful subsidized scheme covers 18.5 million people.”⁵⁹

5.4.4 Support the development and testing of agriculture insurance products by the commercial sector

Insurers in Viet Nam are justifiably cautious about offering agricultural insurance products. They have experimented for almost 20 years with little but losses to show for their efforts. Their challenges are not unique - they are being faced by insurers in many other parts of the world as well - but they are intimidating given the country's exposure to natural disasters. Given that 80 percent of all households make a living in agriculture, forestry, or aquaculture and a very high percentage of these households want access to insurance for their property⁶⁰, finding solutions to this product development challenge deserves to be a priority for the Government.

A specific recommendation with respect to successful product development in the area of agricultural insurance is beyond the scope of this study and is currently being addressed by a separate research team involving agricultural insurance experts. In general, however, the team's interim recommendation to develop index insurance contracts that would enable insurers to transfer large-scale correlated risks out of their portfolios seems strategic. If insurers are protected against these risks, they should be more willing and better able to provide risk management protection to farm households at a premium level that farm households can afford.

In addition to this effort, the Government may be able to support the development and testing of new agricultural insurance products by making better statistical data available on

⁵⁹ Jacquier Christian and al. “The Social Protection Perspective on Microinsurance”. In: Churchill Craig (ed.) 2006. *Protecting the Poor: A Microinsurance Compendium*. Geneva: ILO, p.56.

⁶⁰ According to VOV news 24.10.2006, the Farmer's Association reported that 87 percent of farmers want access to insurance for their property.

the percentage of agriculture/livestock loss each year by geographic region. Insurers need these statistics to assess the level of risk in each market before embarking on product development. If the Government already possesses and can share these data with insurers, it will ease one of the major constraints inhibiting insurers from taking the next step.

5.4.5 Finalize the amendments to Decree 28 and its implementing circular

Microfinance organizations can make strong partners in the distribution of both public and private insurance products, but it will be difficult for them to operate as insurance agents until their legal status is clarified. Implementation of a modified Decree 28 should open the door for expansion and additional experimentation.

5.4.6 Encourage mass organizations to play a proactive role in protecting consumers from the risks inherent in self-insured funds

Besides being excellent channels of communication, mass organizations are often active promoters of self-insured mutual assistance funds in their area. It is important that they are aware of the risks inherent in any self-insurance scheme, as well as the opportunities that exist for strengthening the provision of insurance services by local community-based funds. The Government could recommend that mass organizations take the following steps:

- Encourage the self-insured funds in their community to explore the possibilities of partnership with regulated insurers.
- Play the bridging role that the ILO played when bringing together community-based and commercial insurers during its recent pilot tests and help insurers and community-based funds to build their relationship.
- Consider the creation of a mutual insurance company.
- Facilitate channels and financial support for mutual assistance funds that have no other option but self-insurance to obtain actuarial advice on how to design a sustainable service.

5.5 Enablers

There are many entities in Viet Nam today that are not direct providers of insurance services, but would like to see low income households have better access to these services. This includes both domestic and international non-government organizations, research and training institutions, mass organizations, donors, and government agencies. These entities can support increased access to insurance for low income households by taking the following actions.

5.5.1 Create an “Insurance Innovation Fund” to support the research, development and testing of new products and distribution systems

The three pilots sponsored under the ILO project, “Extension of Microfinance and Micro-insurance to Informal Women Workers,” delivered significant results in terms of product

development and improved relationships between commercial insurers, microfinance institutions, mass organizations and other enablers such as actuaries and government agencies. A similar mechanism could build on the lessons learned in that project, provide an incentive for all actors in the sector to innovate, support entities that are interested in serving the low income market during the challenging pilot testing process, and allow the industry as a whole to benefit from the results of any subsidized experiments.

The fund should finance proposals through an open and competitive process with specific evaluation criteria, such as the number of low income households that will benefit, the density of insurance services currently available in the region where the product will be tested, the reputation of the actors involved in the communities where the product will be introduced, etc. An explicit objective of any future pilot should be the collection of information that would allow the analysis of product performance.

There are seven areas in particular that could receive priority support by the fund: 1)property insurance (both agriculture and livestock); 2)low-cost premium payment methods; 3)non-traditional agent networks; 4)high-volume distribution systems; 5)compensation and incentive systems; 6)partnerships with benefit providers; 7)public education and after-sale service.

5.5.2 Provide training for insurers in market research and/or social marketing

There are many stakeholders in the insurance industry that are not yet familiar with social marketing concepts and techniques that could be effective in increasing public knowledge about and use of insurance. Social marketing can be defined as “a process for influencing human behaviour on a large scale, using marketing principles for the purpose of societal benefit rather than for commercial profit.”⁶¹ It uses segmentation and profiling techniques, 4 P's analysis and benefit statements that focus on the customer's point of view. It also involves regular effort to gather customer feedback, highlighting the importance of market research not only in developing a new product, but also in maintaining the strength of existing products.

Training in these two areas would be an efficient investment in building insurers' capacity to:

- Find out what poor people want in an insurance product.
- Develop a product that meets those needs.
- Once it is ready for delivery communicate the product's value to the market in a way that makes it popular (see Box 15).

Low income households may not want to buy a product called “insurance for the poor” and they may not want to buy it from traditional sales agents. The only way to find out what they do want is to ask them, and then to be creative about the techniques used to deliver it.

⁶¹ Smith William. 1999. *Social Marketing Lite*. Washington DC: Academy for Educational Development

Box 15: Social Marketing Techniques Applied by Some of the World's Largest Insurers

In rural India, in addition to using their own agents, both AIG and Aviva PLC, Britain's largest insurer, sell basic life-insurance policies through local women's groups and microlending agencies. To market its brand in rural areas, Aviva representatives tour villages and stage festivals in a promotional van festooned with a big loudspeaker.

In Nandurdi, some 200 villagers gathered recently to spin a giant wheel in hopes of winning key chains and pens. As they handed out the prizes, Aviva agents talked to the crowd about the value of life insurance. They asked villagers who would take care of their family if they died. The representatives told the crowd that Aviva is the world's fifth-largest insurer and assured them that insurance isn't just for the rich. “Who here has insurance?” asked Aviva representative Sushil Gaykawad, and only about six hands went up. “Who plans to get insurance now?” he later followed up. All hands went up.

To reach its core urban audience, Aviva plasters its logo on the clocks that count down to green lights at traffic stops in Delhi. It advertises during cricket TV broadcasts and, in 2005, Aviva paid for more than 2,000 airings of TV advertisements for the Bollywood family drama, “Viruddh.” The movie ads ended with the India megastar, Amitabh Bachchan, saying the Aviva slogan: “Kal Par Control,” or “Control Your Future.”

5.5.3 Track the progress of the pilot tests identified in this report and organize a workshop in one year's time to discuss the findings of these and other experiments

This workshop should create an opportunity for service providers to share their experiences and for the industry as a whole to discuss the implications of their lessons learned. It should consist largely of presentations by service providers and organized discussion around issues raised in their presentations. Some of the new products and delivery mechanisms that might be worth tracking include:

- The Social Risk Assistance Fund being developed by MOLISA and GTZ.
- The Financial Self-Reliance Fund being developed by UNDP and the Ministry of Agriculture and Rural Development.
- The partnership between VPSC/VNPT and Prevoir.
- The collaboration between VSS and the Viet Nam Farmers Association.
- The support program in Bac Ninh province to help near-poor households pay for voluntary health insurance.
- Bao Viet's use of family planning officers as insurance agents.

The workshop could also provide an introduction to any new pilots being launched as well as an update on the expansion and longer-term viability of earlier experiments such as the BaoViet/NPWAF partnership; the CEP/HCMC Social Insurance Agency partnership, and the mutual assistance funds of TYM, DTWTF and the Uong Bi Women's Promotion Fund.

5.5.4 Support consumer education initiatives

This support could take a variety of forms. Enablers with strong, community-based relationships could invest in the open, patient and somewhat long-term process of communicating to low income households how they can cost-effectively use insurance to better manage their risks. Enablers with funds could support these efforts. Appropriate consumer education materials may need to be developed in Vietnamese, which could then be used by any community-based organization to raise awareness about the value of insurance. Enablers with strategic influence could encourage insurers to collaborate in general public education campaigns and consumer protection initiatives; they could also encourage the Viet Nam Insurance Association to be more supportive of its members' efforts to reach the low income market. Last but not least, local leaders could be more proactive in helping build their communities' trust in the concept of insurance and, indeed, promoting insurance as a mechanism for creating self-reliant households and decreasing their dependence on the State or other sponsors.

5.5.5 Co-finance investments in technology and financial market research that facilitate new product design and delivery channels

Enablers could provide financial and/or technical support for a survey of financial service needs and usage along the lines of the FinScope survey discussed in Section 5.4.2. They could also encourage financial institutions to participate in co-financing such a study, since all institutions could benefit greatly from the information generated by the survey, and its initial development cost is likely to be high.

The other major expenses required to serve low income markets effectively are likely to be technology-related. Enablers can encourage institutions to leverage already existing infrastructure through partnerships, but they can also co-finance the building of capacity that does not yet exist, particularly in the area of communications infrastructure. It could be worthwhile to assist Viet Nam Association of People's Credit Fund (VAPCF) in computerizing a larger number of its member funds so that it can distribute insurance services through a nationwide partner-agent relationship. It might also be worth supporting an effort by VPSC to expand the number of postal outlets through which savings and insurance services are offered, perhaps creating the capacity to provide fee-based transaction services for other institutions. Last but not least, technology may have a strategic role to play in enabling VBSP and/or VBARD to cooperate with insurance companies to distribute insurance services to rural areas. Hand-held personal data assistants or point of sale devices could revolutionize the way these institutions deliver mobile financial services and could be used to make insurance products more affordable, more available and more effective as risk management tools.

PART III: SAVINGS

1. Introduction

Low income households in Viet Nam do save. According to the Viet Nam Living Standards Survey 1997-98, even the poorest quintile of the population held an average of VND 699,000 in savings, which was the equivalent of approximately 66 percent of its average annual income (see Table 8). Although low income households save, research to date suggests that they save primarily through in kind and informal mechanisms. Looking again at Table 8, it is noteworthy that the bottom three quintiles hold less than 6 percent of their assets in accounts with financial institutions. The top quintile, by comparison, holds more than 28 percent of its assets in financial savings accounts.⁶²

Table 8: Distribution of Household Savings and Current Liquid Asset Holdings, 1998 (Unit = %)

Type of savings and current asset holdings	Total	Urban/rural		Expenditure quintile				
		Urban	Rural	1	2	3	4	5
Savings book at state-owned banks	14.20	17.80	9.31	3.53	2.00	1.69	6.67	19.30
Savings book at other type of banks & credits co., Govt. Bond	4.29	7.10	0.46	2.11	0.57	0.11	0.60	6.17
US dollar and other foreign currency	2.26	3.83	0.13	0.00	0.07	0.03	0.40	3.30
Stocks, bonds, contribution to informal credit system	3.20	3.09	3.35	6.49	4.26	3.75	3.94	2.72
Cash	26.27	23.71	29.76	39.06	36.56	28.74	30.80	23.36
Gold, silver and other precious metals, gemstones	28.82	26.35	32.17	29.46	31.90	36.33	33.13	26.46
Jewellery	18.65	15.84	22.46	17.68	21.95	24.25	22.63	16.67
Paddy rice, other agricultural products	0.22	0.06	0.44	0.48	0.72	0.32	0.54	0.07
Others	2.09	2.22	1.92	1.19	1.97	4.78	1.29	1.95
Total	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00
Total (in average of VND 1000)	4413	10920	2436	699	1451	1964	3229	13573

Source: GSO, Viet Nam Living Standards Survey 1997-1998

Why do low income households make relatively little use of institutional savings services? Do those services not exist in the communities where low income households live and work? Or are the products that exist inappropriate for the low income market? If they are unattractive, why are they unattractive? Can anything be done to increase the usefulness of

⁶² Updated data may be available from the 2004 Living Standards Survey but could not be accessed for this report.

formal financial savings products for low income households, and if so, what? These are the questions explored in the remainder of this report.

Section 2 begins with a discussion of the legal and policy environment and highlights the regulatory factors that currently restrict or facilitate low income households' access to formal financial services. Section 3 then overviews the current supply of savings services to the low income market and explores the extent to which those services are accessible taking into consideration issues of affordability, safety, proximity and functionality. Section 4 continues that discussion by highlighting the key barriers that are limiting low income households' use of formal savings services. Section 5 then concludes with recommendations for making savings services more accessible to low income households in Viet Nam in the future.

2. Update on the Regulatory Environment

This section of the report describes the regulatory environment governing the provision of savings services in Viet Nam. It focuses on changes that have taken place since 2003 and identifies critical issues that prevent or facilitate access to savings products for low income households.

2.1 Developments Since 2003

2.1.1 Approval of the Banking Sector Development Strategy until 2010 and Orientation until 2020

In May 2006, the Prime Minister issued Decision 112/2006/QD-TTg which approved the Banking Sector Development Strategy until 2010 and Orientation until 2020. The Strategy is considered to be a comprehensive roadmap for banking sector reform, which should rewrite the Law on Credit Institutions and the Law on the State Bank of Viet Nam, introduce a Law on Deposit Insurance and a Law on Supervision of Safety of Banking Activities, improve market access for foreign investors and plan for both the equitization of state owned commercial banks and the development of non-cash payment systems, among other initiatives.

The issue of how to expand access to finance for low income households received relatively little attention in the strategy, but among the thirteen project proposals that the State Bank of Viet Nam was given the responsibility to develop was one that will focus on promoting the role of microfinance. This creates an opportunity for defining what exactly microfinance is, how it can contribute to the country's development, and how it might be better integrated into the banking sector.

2.1.2 New Regulations for Microfinance Institutions

Decree 28/2005/ND-CP on the organization and operation of microfinance institutions in Viet Nam was issued on March 9, 2005. It was the first step towards the creation of a legal

and regulatory framework for microfinance service providers. These providers have been active and innovative players in the delivery of financial services to the low income market, but they have been operating in a variety of legal forms, none of which were legally allowed to mobilize voluntary savings. Decree 28 gave them the opportunity to transform into regulated financial institutions, but set conditions on participation that were considered by many to be unrealistic and risked eliminating significant access to financial services at the commune level.⁶³ Draft amendments to the Decree and an implementing circular are now being discussed and are expected to be issued during 2007. As of 31 January 2007, these draft documents addressed many of the issues raised by stakeholders, but in so doing will leave small service providers outside the supervisory framework.

2.1.3 More Opportunities for Expansion by People's Credit Funds

People's Credit Funds (PCFs) are governed by the Law on Cooperatives with respect to their organization and by the Law on Credit Institutions with respect to their operations. In order to concretize legal regulations related to PCF organization and operation, the government issued Decree No.69/2005/ND-CP in May 2005 which amended Decree No.48/2001/ND-CP on the organization and operation of People's Credit Funds, making some important revisions. First, it gave PCFs permission to mobilize savings from customers outside the area in which they were originally licensed to operate. Second, it allowed PCFs to mobilize savings from non-members. Together, these two revisions create major opportunities for PCFs to expand beyond their current membership base.

2.1.4 Establishment of the Association of People's Credit Funds

Decision No 60/2005/QD-BNV by the Minister of Home Affairs established the Association of People's Credit Funds in June 2005. The new association is tasked with coordinating and standardizing the operational policies of the PCFs, including their credit risk management and accounting. It is expected to play an important role in facilitating information sharing across member funds and may be able to play a strategic role in facilitating research and new product development. This should strengthen individual institutions as well as the network as a whole.

2.1.5 Recognition of VNPT's financial services role

Decision No. 270/2005/QD-TTg of October 31, 2005 on mobilization, management and use of postal savings, together with its implementing Circular No. 06/8/2006/NHNN dated 25 August 2006, acknowledge the role of the Viet Nam Posts and Telecommunications Group (VNPT) in mobilizing idle financial resources among the population and provide a legal

⁶³ The original Decree 28 gave organizations that were conducting microfinance activities only two options: transform into one of the two types of institutions regulated by the Decree or terminate microfinance activities. However, many programs could neither meet the minimum capital requirements stipulated in the Decree, nor merge with a sufficient number of other organizations to amass the required capital given their different target groups, designs and capital sources. In addition, to meet the professional management criteria stipulated in the original decree would have required significant investments in time and money. The State Bank of Viet Nam estimated that if the original Decree was put into effect, 80 percent of the organizations conducting micro-financing activities at the commune level and 69 percent of those operating at the district level would have had to terminate their activities.

framework for promoting savings mobilization through VNPT's post office network. The range of basic financial services that can be offered by the Viet Nam Postal Savings Company (VPSC) is expanded to include certificates of deposit, remittance processing, payment services including checks, ATM cards, and agency services such as the sale of insurance.

2.1.6 Greater Legitimacy for Informal Credit and Savings Groups

Decree 144/2006/ND-CP, which was issued on 27 November 2006, clarifies the rights and responsibilities of individuals that participate in rotating savings and credit groups (known as ROSCAs in English and as *ho, hui, bieu* and *phuong* in Vietnamese - different terms are used in different regions of the country). There are groups that charge interest, groups that do not, and groups that offer their manager a commission or other special privileges. Each ROSCA must now keep a book that contains the name and address of each member, the number of ROSCA shares, its period of operation, mode of contribution and payment, the sum of money or assets contributed and paid out, and any transfer or withdrawal of ROSCA shares. In addition, members' signatures or fingerprints must be registered each time a contribution is made or a payment received. This should facilitate greater transparency in the management of the groups and easier resolution of disputes. The Decree constitutes the first piece of legislation guiding the operation of informal credit and savings groups and could lead to greater legitimacy and popularity for the ROSCAs, but the degree to which ROSCA members are aware of the Decree is unknown.

2.1.7 Decision 888

In June 2005, the State Bank of Viet Nam issued Decision 888/2005/QD-NHNN, which requires banks to invest at least VND 20 billion in each new branch it opens. Although the Decision aimed at improving the stability of the financial system, it provides a disincentive for expansion and will restrict the number and pace of new branch openings, especially in more isolated, rural markets. Since the branch networks of major banks are already extensive, this may not have an immediate impact on outreach, but it could certainly affect the level of competition and the quality of service delivery in lesser served areas in the future.

2.2 Factors that Limit Access

2.2.1 Lack of a comprehensive strategy for the microfinance sector

Microfinance is recognized in the Comprehensive Poverty Reduction and Growth Strategy (CPRGS) as a tool to combat poverty, but there is a lack of consensus about its role in the larger financial system. The lack of a national strategy that articulates the role of microfinance in building an inclusive financial system and in contributing to the country's development has been a factor in the sector's slow growth. The industry is fragmented, a basic regulatory framework has taken years to develop, and insufficient attention has been paid to the financial and human capacity building that needs to take place in order for microfinance organizations to contribute effectively to a secure, prosperous and rapidly

changing financial services landscape. As argued in a recent World Bank report, "These issues need to be addressed as part of the development of a coherent strategy for access to microfinance, which in the medium to long term would fully integrate microfinance providers and institutions into a *continuum* of institutions, which would constitute the financial system of Viet Nam."⁶⁴

2.2.2 Delay in the Issuing of Implementing Guidelines for Decree 28

Decree 28, issued in March 2005, gave microfinance service providers the opportunity to transform into a regulated institution with a clear legal status and the authority to develop a variety of savings services. Unfortunately, no circular has been issued to guide the implementation of that decree, which gave credit organizations only until 9 March 2007 to transform or to cease their microfinance activities. In the nearly two years that have passed since the original Decree was issued, microfinance providers have experienced many difficulties, particularly in the areas of planning and fundraising, which stem from insecurity about their future. Until the revised Decree and its implementing circular are finalized, this category of service providers will be unable to significantly expand its outreach and there will be missed opportunities for partnership with other types of organizations to increase low income households' access to financial services.

2.2.3 Lack of Infrastructure for Unregulated Microfinance Providers

If the amended Decree 28 and its accompanying circular are implemented as stipulated in their January 2007 draft, microfinance providers that choose not to transform will be excluded from the legal and regulatory framework. No specific guidance will be given to microfinance providers that do not wish to offer voluntary savings to the general public or to those that wish to work only as collection agents for regulated financial institutions. This is an appropriate compromise given the number of small microfinance service providers in operation today and the cost of supervising such a large number of organizations given their relatively minor impact on the security of the overall financial system. However, it will leave many low income households at the risk of unregulated, unsupervised service providers with no access to deposit insurance and limited means of knowing whether the organizations to which they are entrusting their funds are actually secure.

There will still be a large number of projects and "member-owned" institutions that will be permitted under the Law on Credit Institutions to mobilize savings from their clients/members. Even if these entities are run professionally and are not manipulated by personal or political interests, mistakes could be made and money could be lost; economic or environmental crises could affect many borrowers at the same time and create liquidity problems. There would be no mechanism to protect the savers who financed the loans that went bad or to provide the short-term liquidity necessary for savers to access their funds when they need it. Even if it is compulsory savings that is at risk and not voluntary savings,

⁶⁴ World Bank, DFC and Mekong Economics. 2006. *Viet Nam: Developing a Comprehensive Strategy to Expand Access (for the poor) to Microfinance Services*. Volume II. Viet Nam: DFC S.A., p.5.

losing it will have an impact on poor households and will negatively affect their attitudes toward financial savings as a tool for asset accumulation and risk management. The regulatory framework leaves gaps that might usefully be filled by local insurance or liquidity mechanisms, industry performance standards, financial education initiatives, or guidelines that clarify how to establish a relationship with a regulated financial institution - infrastructure that can support low income households' access to better quality service from unregulated microfinance providers.

2.2.4 Subsidies for VBSP and Viet Nam Development Bank (VDB)

In an effort to fulfil its mandate of providing poor Vietnamese with affordable access to credit, the Viet Nam Bank for Social Policy (VBSP) subsidizes its lending rates, charging approximately half the market rate for its loan products. This low interest rate not only discourages VBSP from mobilizing deposits (since the cost of mobilizing deposits is higher than the income that can be made by lending at the established interest rate), but also causes distortions in the market. Institutions that want to provide savings services have difficulty charging lending rates that are high enough to cover the costs of offering a savings service. Another distortion seems to be the result of policies that require VPSC to transfer deposits to the Viet Nam Development Bank (VDB). This is creating a disincentive for VPSC to mobilize savings from smaller-balance account holders because the cost of maintaining such accounts cannot be covered by the interest income generated through investments at VDB. If VPSC were able to invest its deposits more freely, it would have a greater incentive to increase deposit mobilization.

2.2.5 Interest Rate Ceiling

According to the Civil Code, an institution's lending rate cannot exceed 150 percent of the basic interest rate set by the State Bank. This restriction, although well-intentioned, could result in limited delivery of savings services in places where the cost of mobilizing deposits cannot be covered by lending the mobilized funds at that rate. Particularly when the basic interest rate is set below inflation (as it was in both 2004 and 2005), savings mobilization in low income markets will be prohibitively expensive. Although savings services could be provided for a fee, this would subsidize borrowers at the expense of savers and would not succeed in motivating the accumulation of assets by low income households.

2.3 Factors that Facilitate Access

2.3.1 Deregulation

Together, the developments discussed in Section 2.1 illustrate that the banking sector is reforming and the Government is willing to gradually relinquish its control over the financial services industry. As the State-owned commercial banks are equitized and more private as well as foreign investors enter the market, competition in the banking sector will increase. Although it is not guaranteed, increased competition has the potential to increase both the quality and affordability of access for the low income market as providers seek to recruit and

retain customers by increasing the value of their services. If the reforms continue as planned, they should make the banking industry stronger, more competitive and more capable of sustainable delivery of savings services to all segments of the population.

2.3.2 Support for the expansion of services

New regulations that allow People's Credit Funds to provide services beyond their immediate commune and permit Viet Nam Postal Savings Services Company (VPSC) and regulated microfinance organizations to deliver a wider range of savings services should increase outreach in the future. In addition, the Government's commitment to develop non-cash payment systems could result in the development of infrastructure that would enable financial institutions to introduce lower-cost delivery channels.

2.3.3 Amendments to Decree 28

Decree 28 officially recognized microfinance organizations as part of the financial and banking sector and provided a legal framework to allow the diversification of products and services among regulated institutions. Amendments to the Decree make it more realistic, both in terms of the demands being placed on the industry's relatively young institutions and in terms of the State Bank's capacity to supervise those institutions effectively. Licensing now focuses on a plan for effective transformation rather than a specific deadline by which transformation must occur and it brings the list of requirements closer in line with what is practical and necessary given organizations' current capacity and the nature of microfinance operations. The amended Decree should enable larger microfinance providers to formalize their activities, strengthen their institutional capacity, increase and diversify their funding base and, as a result, increase their outreach both in terms of the number of low income households served and the quality and variety of services delivered.

3. Update on the Supply of Savings Services for Low Income Households

At present, there are 5 state-owned commercial banks, 1 social policy bank, 1 post office savings company, 37 joint stock commercial banks, 31 foreign-owned bank branches, 5 joint venture banks, 934 People's Credit Funds (PCFs) and more than 58 microfinance providers offering some kind of institutional savings service in Viet Nam. Together, these institutions provide an extensive distribution network that may reach 65 percent of the poorest quarter of the population.⁶⁵ The market penetration of formal financial service providers in Viet Nam was recently referred to as "remarkable," judging by the ratio of money in circulation to gross domestic product (M2/GDP), which had risen to 84 percent by 2006, up from 46.5 percent in 2001.⁶⁶

⁶⁵ World Bank, DFC and Mekong Economics. 2006. *Viet Nam: Developing a Comprehensive Strategy to Expand Access (for the Poor) to Microfinance Services*. Volume I. Viet Nam: DFC S.A., p. 42.

⁶⁶ Ibid, p. 49.

Savings services may be more accessible to low income households' in Viet Nam than in many other countries, but the quality of that access is still relatively weak. Although needs and preferences vary from one market to another, low-income savers worldwide tend to care about the quality of access from four perspectives:⁶⁷

- Security - How safe is the service being offered?
- Proximity - How far must one travel to access the service?
- Functionality - How well does the service meet a household's savings needs?
- Affordability - How much does it cost to access the service?

This section of the report explores the extent to which the service providers operating in Viet Nam are providing low income households with access to appropriate savings products from all four of these perspectives.

3.1 The Service Providers

Unlike in the insurance sector, no major new players have entered the banking sector since 2003, so the growth in outreach referred to above is being achieved by existing institutions. The sector continues to be dominated by State-owned financial institutions, particularly with respect to the provision of savings services to low income households, although a few joint stock commercial banks have begun to show interest in the market and there is significant potential for an expansion in outreach by PCFs and microfinance organizations. All of the providers that were offering savings services to the low income market before 2003 continue to provide services today. An overview of the major providers can be found in Table 9.

State-owned financial institutions, in particular Viet Nam Bank for Agriculture and Rural Development (VBARD), Viet Nam Postal Savings Company (VPSC) and Viet Nam Bank for Social Policy (VBSP), are perceived to have a competitive advantage in serving the low income market. They are well-established, well-known, and have the largest branch networks in the country. VBARD has a network of 2,096 branches and many transaction offices nationwide. VPSC is currently delivering services through 816 postal outlets and could expand to thousands more; VBSP has 597 branches and 8,700 mobile stations that together reach all of the country's 10,776 communes. These well-positioned institutions are not, however, making maximum use of their existing infrastructure to serve the low income market.

⁶⁷ Deshpande Rani. 2006. *Safe and Accessible: Bringing Poor Savers into the Formal Financial System*. Focus Note No.37. Washington DC: CGAP.

Table 9: Overview of Savings Service Providers

Name	Legal Status	Service Points (2006)	Location of operations	Savings mobilized (in VND billion)	# of depositors
VBARD	State-owned Bank	2,096 + some mobile units	All 64 provinces; approximately 600 districts	21,050	7,000,000
VPSC	State-owned Company	816	All 64 provinces	12,474	501,900
VBSP	State-owned Bank	9,297	All 10,776 communes		167,285
PCF	Cooperative Credit institution	934	Independent funds operate in 8.7% of all communes, located in 53 out of 64 provinces	5,949	1,087,865
EAB	Commercial Bank	64	Main cities and some provinces with strategy to expand to all provinces		7,050 in one branch
Techcombank	Commercial Bank	60	Main cities and some provinces with strategy to expand to all provinces	N/A	
Sacombank	Commercial Bank	163	Main cities and some provinces with strategy to expand to all provinces	1,038	350,125
ACB	Commercial Bank	80	Main cities and some provinces with strategy to expand to all provinces	900	200,000
TYM	Mutual Affection Fund	17	7 provinces	26	22,479
CEP	Project of the Labour Confederation of HCMC	16	HCMC	40	68,000

3.1.1 Joint - stock Commercial Banks

Among private commercial banks, there is some interest in serving the low income market, but the level of interest has not been strong. In general, joint stock banks remain focused on high and medium income markets in urban areas, as evidenced by their high average deposit balance of US\$9,494.⁶⁸ The few institutions (e.g., Eastern Asia Bank and SACOMBANK) that have been willing to consider the long-term potential of the low income market have not made its development a priority because the demand for financial services from traditional markets has been strong, fuelled by economic growth. Most banks are still quite young and have not yet developed sufficient capacity in terms of staff, infrastructure

⁶⁸ World Bank, DFC and Mekong Economics. 2006. *Viet Nam: Developing a Comprehensive Strategy to Expand Access (for the Poor) to Microfinance Services*. Volume I. Viet Nam: DFC S.A, p. 49.

and product diversity to meet the needs of traditional markets. Thus, it is easier and more profitable for them to continue to focus here than to invest in the more challenging low income market.

3.1.2 VBARD

Viet Nam Bank for Agriculture and Rural Development (VBARD) has not directly targeted the low income market since it passed responsibility for serving the poor to VBSP in 2003. However, since it is mandated to serve the rural financial market, where 80 percent of low income households are estimated to live, it remains engaged as the largest provider of savings services to low income households at this point in time. As shown in Table 10, VBARD holds approximately 2.1 million low income savings accounts, twenty times the number of the single institution with the next largest market share (VPSC), although its scale of outreach may decrease somewhat if it closes some of its less profitable branches in the near future as planned.

Table 10: Estimates of Low Income Savings Accounts in Viet Nam⁶⁹

Provider	Average savings account balance (USD)	Total number of individual / household accounts	Adjustment for non-low income and duplicate accounts	Total estimated low income savings accounts ⁷⁰
VBARD	805	7,000,000	4,900,000 (70%)	2,100,000 (30%)
VPSC	557 ⁷¹ 112 ⁷²	501,900	401,520 (80%)	100,380 (20%)
VBSP	350	167,285	83,640 (50%)	83,645 (50%)
PCFs	340	1,000,000	600,000 (60%)	400,000 (40%)
MFWG members	58	335,400	0	335,400 (100%)
Total	n/a	9,004,585	5,985,160	3,019,425

VBARD has entered into framework agreements with mass organizations such as the Women's Union and the Farmer's Association, as well as with non-governmental organizations. This has helped it reach low income communities cost-effectively by delivering services through groups, rather than directly to individuals. At the provincial level, VBARD staff members generally express little interest in serving the low income market, but attitudes at the district level can be quite different. Without wealthier urban clients and enterprises to draw from, district-level offices tend to be more motivated to look down market for clients and may be excellent partners for innovation in the future. The development and testing of a contractual savings product for low income households in one

⁶⁹ World Bank, DFC and Mekong Economics. 2006. *Viet Nam: Developing a Comprehensive Strategy to Expand Access for Low Income to Microfinance Services*. Volume I. Viet Nam: DFC S.A., pp. 49-50.

⁷⁰ Ibid., p. 50. Low income is defined in the report as the 24 percent of the population living on around 1US\$ per day.

⁷¹ This is the average balance held in ordinary savings accounts.

⁷² This is the average balance held in collection accounts that have monthly deposit and withdrawal rights. Approximately 20,400 depositors were using the product in July 2006.

district of Quang Binh illustrates the potential of such collaboration (see Box 20). It also suggests that VBARD may possess a model that could be replicated elsewhere to significantly expand low income households' access to savings services in the future.

3.1.3 VBSP

In 2002, the Viet Nam Bank for the Poor was reconstituted as the Viet Nam Bank for Social Policy (VBSP). The breadth and depth of VBSP's network is extraordinary. Households that live three kilometres or less from one of the bank's provincial branches or district transaction offices can access savings services directly at those locations (20 percent of the country's communes are served in this manner). All other communes are served through 8,700 mobile transaction stations. No other financial institution or network comes close to achieving this scope of outreach.

VBSP has a mandate to explicitly target the poor and is active in the provision of credit, but is not significantly motivated to mobilize savings. Government infusions of capital and legislation that requires all State-owned commercial banks to set aside 2 percent of their total deposits for lending to VBSP means that the bank does not need to mobilize deposits as a source of funds. At the moment, mobilizing savings would actually cost the bank money, since it must spend more to raise one VND in deposits than it can earn by lending that VND at its currently subsidized rates. VBSP has indicated a desire to become financially self-sufficient and has started to raise its rates with the intention of slowly bringing them in line with the market, but this will take time. For now, field staff have little reason to mobilize savings, not only because of the financial cost of doing so, but also because the mobilization of deposits requires extra effort and they already feel overworked (see Box 16). For staff to become motivated to mobilize savings, changes would most likely need to be made to their incentive structure and/or to the technologies used to deliver savings and credit products to make them more efficient and free up staff time.

Box 16: Expanding VBSP Activity in Rural Areas Is Not Easy

A district level branch of the Viet Nam Bank for Social Policy (VBSP) in Vinh Phuc has to serve 29 communes in its territory. Each month, it has two mobile agents (one credit staff, one accountant) that go by car to 22 of those communes to provide mobile credit and savings services. A total of 8 staff members manage the branch's total transaction volume of VND 41 billion including monitoring and supervision, a job that branch staff claim requires 15 to 20 employees. Their workload is heavy and has been reported to senior managers, but so far, nothing has been done. Staff has no desire to mobilize additional deposits.

Like VBARD, VBSP has signed agreements with mass organizations to make credit and savings services available to their members through groups. The mass organizations help members form groups; they provide character checks and act as informal guarantors; they also assist with loan transactions, a service for which the organization and each group leader receive a small commission fee.

3.1.4 Viet Nam Postal Services Company (VPSC)

Established in 1999, VPSC operates under the authority of Viet Nam Posts and Telecommunications (VNPT). As of July 2006, it provided savings services through 816 post office outlets of which 186 are networked on-line, and pays a commission to VNPT for each transaction carried out. Its main functions are to mobilize resources, 15 to 25 percent of which are on-lent at sub-market rates to the Viet Nam Development Bank (VDB), and to provide basic financial services for underserved population segments (rural areas, women and the poor). VPSC does not appear to market its savings services widely, although the post office system is well known and generally trusted by low income households. Its number of deposit accounts has not grown significantly since 2001, although the total value of savings mobilized has increased by approximately 23 percent in each of the last three years. VPSC is experimenting with smart cards but requires an SBV license to operate the services, which it has not yet received.⁷³

The VPSC network holds tremendous potential for expanding access to savings services among low income households given that it has more than 2,000 outlets across the country that are not yet offering savings services and given the mandate it received through Decision 270/2005/QD-TTg to develop additional financial products. However, the postal bank model of financial service provision is challenging. It attempts to deliver both financial and non-financial services through staff and infrastructure that were not originally designed for that purpose. As a result, postal banks in many developing countries struggle with poor quality, weak customer service and conflicts of interest between postal and financial service priorities and cultures. VPSC's possible transformation into a joint stock commercial bank could make some of these issues easier to manage and provide greater motivation for growth and efficiency, but this would not automatically resolve the complicated relationships that would have to be negotiated between VPSC and VNPT. Also, a joint stock company may be less interested in developing a financial services network that can reach thousands of postal outlets if not all of those outlets. At present, VPSC's strategy does not prioritize outreach to low income markets.

3.1.5 People's Credit Funds

The only other existing network that has a level of outreach approaching that of the State-owned institutions is the PCF network, which has 934 funds operating at the commune level, many of which are in rural areas. The total number of members in the network has grown between 6 and 7 percent per year since 2002, while the amount of savings mobilized has grown between 21 and 35 percent per year over the same period.⁷⁴

Each PCF is an independent, community-based financial cooperative that is owned and operated by shareholding members. Participation is voluntary and is typically motivated by a desire to provide mutual support through the provision of credit and savings services.

⁷³ World Bank, DFC and Mekong Economics. 2006. *Viet Nam: Developing a Comprehensive Strategy to Expand Access (for the Poor) to Microfinance Services*. Volume I. Viet Nam: DFC S.A., p. 108.

⁷⁴ Department of Credit cooperative, State Bank of Viet Nam.

Although PCFs receive some preferential treatment by the State (in terms of taxation, land, and training assistance), they are largely self-financed. On average, each PCF has 9 VND billion of assets, 68 percent of which are mobilized from client-members.

Established after the collapse of the old cooperative system, PCFs are licensed under the Cooperative Law and supervised by the State Bank of Viet Nam (SBV). In general, they are operating profitably even though the majority are located in rural areas. Their performance has noticeably strengthened in the last five years. Whereas the SBV classified 40 percent of PCFs as "weak" in the year 2000, it considered only 6 of the 926 PCFs in operation as of June 2006 to be underperforming. This trend is likely to continue given the regulatory developments described in Section 1.1, particularly the establishment of the Viet Nam Association of People's Credit Funds (VAPCF). Approximately 60 percent of all PCFs are now connected via internet or an internal network.

The PCFs' community-based approach should be attractive to low income households, although its average balance per account of US\$340 (VND 5.4 million) does not clearly indicate that it is serving this market. VAPCF claims that outreach to the low income market is not a priority, although its member funds are already serving a substantial number of low income households. As a network, it is serving more low income savings clients than VBSP, VPSC or the 58 MFOs registered with the MFWG (see Table 10). If (as was estimated at the national level) approximately 40 percent of the households in PCF communes are low income, and if the World Bank's estimate that 40 percent of the clients served by PCFs are low income is accurate, then the PCF model might prove to be a very effective way to reach low income households in the communities where PCFs exist-even if PCFs are not explicitly targeting the low income market.⁷⁵

3.1.6 Microfinance Organizations

The one type of organization that is both mandated and highly motivated to serve low income communities is the microfinance organization (MFO). MFOs have been active and innovative players in the low income market, but they have been operating as credit institutions and are not yet legally allowed to mobilize savings from the public. Decree 28 opened the door for formalization but the ensuing debates about which MFOs should actually be supervised and the absence of a circular to guide the implementation of the Decree has restricted the growth and development of these institutions.

No one seems to know exactly how many MFOs and microfinance projects are operating in the country or how many households they are serving. Government ministries, mass organizations and international non-governmental organizations have been involved in credit and savings schemes at the province, district and commune levels all over Viet Nam. A credible market study has been called for by Government and non-governmental actors.

The 58 MFOs registered with the Microfinance Working Group (MFWG) are, however, fairly

⁷⁵ World Bank, DFC and Mekong Economics. 2006. *Viet Nam: Developing a Comprehensive Strategy to Expand Access (for the Poor) to Microfinance Services*. Volume I. Viet Nam: DFC S.A., p. 50.

well known and have achieved a significant level of outreach. As shown in Table 10, they are the only category of service provider to focus exclusively on a low income clientele and, together, they serve more low income households than VBSP or VPSC, with a level of outreach quite close to that of the 934 PCFs collectively. Although MFOs have achieved a significant level of outreach as a group, few individual institutions are reaching more than 5,000 clients and none has achieved national outreach. The three largest MFOs account for approximately one-third of the total number of households served.⁷⁶

Despite their lack of legal status, some MFOs have generated sufficient trust amongst their low income clientele for those individuals to voluntarily deposit their savings in an uninsured institution. They have demonstrated that there is a strong demand for savings and an ability to save within the low income market. They have also demonstrated the importance of appropriate product design. TYM, for example, was able to double the amount of voluntary savings mobilized and increase the percentage of members who use its product from 29 to 53 percent in just 10 months by making several non-price adjustments to the product design (see Box 17).

Microfinance organizations have been successful in reaching the low income market in large part because that is the market they set out to serve from the very beginning. Their research and product development efforts have been focused on the needs of that market. They deliver their services through community and group-based mechanisms that are familiar and comfortable to low income households, often building on the existing infrastructure and relationships of a mass organization. MFO leaders commonly volunteer their time and they do so because they believe it is important to make affordable financial services available within their community. The community-based, volunteer nature of most MFOs is also the source of weakness, however. Microfinance organizations typically have weak managerial and technical capacity for tracking, reporting and analysing performance data from their operations. Their simple systems limit the range and complexity of products that can be offered and, without access to deposit insurance, their savings services can be risky. A few are likely to transform under Decree 28 and offer attractive savings options to low income households in the areas where they operate. Those that do not transform will be less attractive as independent entities, but would be excellent partners for any other type of financial institution looking to deepen their outreach.

⁷⁶ Ibid. Volume II, p. 36.

Box 17: Demonstrated Demand for the Right Design

Tao Yeu May (TYM) is a 15-years old microfinance organization with 146 professional staff operating a network of 17 branches and serving 22,386 women members. It mobilized compulsory savings early on, both to build its own asset base and to encourage regular savings habits among members. Weekly deposits of VND 3,000 earned monthly interest of 0.5 percent and could be withdrawn after a certain minimum period. Later it introduced voluntary savings, but the product was relatively inflexible. Members who wanted to make voluntary deposits had to decide beforehand what amount they would save every week, and if they wanted to change that amount, they had to give TYM one week's notice. Only 29 percent of the members in TYM's two pilot test branches were using the product as of July 2004.

Driven by the need to mobilize more funds for on-lending, TYM decided it had to make its voluntary savings product more attractive. Following a training course on risk management services and product development organized by the ILO in November 2003, it designed the "Family Savings" product which it tested in two branches starting in July 2004. The new product allowed clients to decide how much and how often they wanted to save, with a minimum deposit of VND 1,000 and no ceiling. Account balances of less than VND 300,000 earned monthly interest of 0.3 percent; and once the balance reached 300,000, the account could be transferred to a three or six-month term deposit and earn 0.55 or 0.6 percent interest respectively. Deposits and withdrawals could be made at disbursement centres or directly at a branch, thus decreasing the average withdrawal waiting time from two weeks to four days.

Customers' response to the changes in product design was dramatic. In just ten months, TYM was able to double the amount of voluntary savings mobilized in its two pilot branches and increase the percentage of members who use the product from 29 to 53 percent.

3.1.7 Informal Service Providers

Rotating savings and credit associations (ROSCAs) including ho, hui, bieu and phuong are widespread and frequently used by low income households as a mechanism for accumulating assets and managing risk. As mentioned in Point 2.1.6, these mechanisms are expected to gain legitimacy and popularity as a result of Decree 144, which clarified the rights and obligations of group members and leaders for both interest and non-interest bearing groups.

There are already so many different kinds of ROSCAs that some stakeholders have raised the question of whether these informal mechanisms are crowding out more formal sector providers. For certain kinds of savings needs this may be true. Because they are small and operate locally, participation in ROSCAs is convenient and affordable. They can be organized to accept contributions in-kind (rice ROSCAs are quite popular among farmers) or in cash. Some schemes pay interest; others have a mutual assistance philosophy that many Vietnamese find attractive. ROSCAs also appear to be safe, as participants typically know each other and belong to the same community.

ROSCAs are risky, however. There is always a chance that a member who receives funds early in a group's lifespan will disappear before she/he has contributed to every other member's savings. Groups that distribute their savings to others in the form of loans always take a chance that the recipient of the funds will not be willing or able to repay. Pyramid schemes are known to have occurred in the past.

ROSCAs are also inflexible and offer limited savings options to low income households:

- There is a standard amount that must be contributed each period (e.g., weekly, monthly, per harvest).
- There is a standard term of operation, which rarely lasts beyond one year (except in the case of agricultural ROSCAs).
- Members are usually allowed to withdraw only once during the term and they may not know at what point in time they will have the chance to use the group's accumulated funds.
- When it is their turn, members receive a standard amount of money or goods which could be more or less than they actually need.

Low income households may find ROSCAs useful for meeting a specific type of savings need, but they cannot use ROSCAs to meet their needs for longer-term, more flexible and more reliable savings services. Indeed, the success that MFOs have experienced with contractual savings products (particularly those that mimic ROSCAs focused on accumulating funds for the Tet holiday) suggests that low income households may actually prefer **not** to use a ROSCA if a similar product can be offered by a financial institution.

3.2 The Products

It is interesting, and somewhat ironic, that the increased outreach (in terms of market penetration) described in the introduction to Section 3 is being achieved despite the fact that most of the institutions interviewed during this study claimed that the low income market was not their priority. The limited attention being given to the market is reflected in the lack of product development aimed at low income households. Product features that were identified in the ILO/MOLISA 2003 research as barriers to low income households' access still remain: opening balance and minimum deposit requirements of VND 50,000 or more; complicated or unclear procedures; the cost of travelling to make deposits or withdrawals; and impersonal or unfriendly service.

Most financial institutions are not segmenting their customers by income level and are attempting to deliver rather generic products to low income customers, assuming that those products can meet their needs, rather than using a systematic approach to understanding the needs of this market and developing services that meet those specific needs. Two notable exceptions to this general situation are TYM's recent re-launch of its voluntary savings product, which gave clients more flexibility to decide when and how much they wished to save, and the modifications that Uong Bi Women's Union made to its compulsory savings product (see Section 3.2.2).

In general, low income households have a need for two types of savings products: 1) products that facilitate access to savings in the event of an unexpected need (it could be an

emergency or an opportunity); and 2) products that facilitate the accumulation of assets, which could be for expected needs, or for general long-term savings. This section will explore the extent to which products that meet these needs are currently available to low income households in Viet Nam.

3.2.1 Compulsory Savings

A popular product among institutions serving low income households today is compulsory savings. Many microfinance organizations in Viet Nam mobilize mandatory savings to finance loan capital and/or to guarantee a loan (see Box 18 for an example). Some organizations stipulate that a standard amount must be deposited every period (e.g., VND 3,000 a week at TYM), while others require that a percentage of the loan amount be deposited each period (e.g., from 1.0 to 1.2 percent at CEP). Some organizations use compulsory savings schemes to help shape savings habits in households where they do not yet exist, although contractual savings products can serve this purpose better.

Participation in a compulsory savings scheme may give low income households access to credit, but the product is valued little by low income households as a savings service. Why? Because the scheme's ability to meet either of the two main needs noted above is extremely limited. First, the deposits are usually not liquid - they cannot be accessed in the case of an emergency, especially if the saver has an outstanding loan. Borrowers typically cannot access their savings until after they repay their debt, and the timing of loan repayment rarely coincides with the timing of whatever other investment the member may have been saving for. Some institutions do not allow members to withdraw their compulsory savings at all unless they decide to leave the organization. Second, compulsory savings are usually linked to loans, so individuals cannot save unless they also want to borrow. Third, compulsory savings are often used to guarantee the loans of other group members and not just an individual borrower. Under these conditions, the safety of the deposits decreases. Finally, compulsory savings requires regular deposits of a standard amount and many low income households do not have a standard, reliable income stream to finance these deposits.

Box 18: Capital Aid Funds for Cooperative Members of Ho Chi Minh City (CCM)

CCM was established in March 2002 with VND 50 billion in capital from the Cooperative Union of Ho Chi Minh City. It operates via a network of political and social organizations at the local level such as the Women's Union and the Farmer's Association using a group-based mechanism with 10 to 30 members per group. At the end of 2006, it had 21,804 members. CCM's savings product is simple. Compulsory savings of VND 30,000 per month is required for members that want to borrow. Once a loan is taken, the borrower must then save 0.5 percent of the borrowing amount each month, payable on a monthly, weekly or daily basis. The vast majority of members choose a monthly savings plan (71 percent), while 22 percent choose the weekly plan and 7 percent choose the daily plan. There has been no assessment of the Fund's composition by income level, but staff members believe that those who save weekly are generally poor. CCM does not offer a voluntary savings product.

3.2.2 Products that facilitate access to savings in the event of an unexpected need

Demand deposit products are the ones that are designed to meet urgent and unexpected needs. These accounts are generally very liquid. The easier and cheaper it is to access one's funds, the lower the interest rate paid on the deposits.

Demand deposits are offered by many financial institutions, including all banks, PCFs and a few MFOs. As such, they are accessible to many low income households from a proximity perspective (i.e., there is a financial institution nearby that *could* offer this service), but they are inaccessible to most low income households from the affordability and functionality perspectives. As shown in Table 11, only microfinance organizations offer a demand deposit with minimum balance and transaction requirements of less than VND 50,000. Unfortunately, most microfinance organizations offer deposit and withdrawal services only at bi-monthly or weekly meetings, thus limiting functionality - the extent to which individuals have access to savings services when they need them. CEP offers a daily deposit service right in the market centres where clients conduct their business. This offers ultimate accessibility in terms of proximity and affordability (since there is no minimum deposit and transaction costs are virtually nonexistent), but to make withdrawals, clients must visit a CEP branch. The service is only available in urban areas with high population density.

Table 11: Overview of Demand Deposit Products

Organization	Minimum Account Balance (VND)	Minimum Transaction Size	Interest Rate (% per month)	Account Opening Requirements and Other Restrictions
VBARD	50,000	50,000	0.25%	ID card, motor vehicle registration card, or passport must be presented
PCFs	100,000	50,000 - 100,000	0.3%	Identity documents must be presented
VPSC	50,000	50,000	0.2%	ID card, motor vehicle registration card, or passport must be presented
Eastern Asia Bank	200,000	50,000	0.25%	ID card, motor vehicle registration card, or passport must be presented
Sacombank	100,000	None	0.25%	ID card, motor vehicle registration card, or passport must be presented
TYM	3,000	None	0.5%	Membership registration to open account; deposits and withdrawals at weekly meetings only
Dong Trieu Women's Union	1,000	2,000	0.4%	Membership registration to open account; deposits and withdrawals twice per month only
Uong Bi Women's Union	1,000	1,000	0.4%	Membership registration to open account; deposits and withdrawals twice per month only
CEP	1,000	None	0.4%	Membership registration to open account; daily transaction service available

The main reason that financial institutions set minimum deposit requirements on current accounts is to ensure that a minimum level of funds will be raised to cover the institution's cost of managing the accounts. To lower or eliminate minimum deposit requirements, savings service providers must find ways to lower the cost of opening and maintaining current accounts for the low income market. MFOs have done this in a variety of ways:

- Mobilizing savings from groups instead of individuals.
- Allowing withdrawals to be made at any time, but limiting the number of withdrawals that can be made during a given period of time (e.g., per month, or per quarter).
- Eliminating minimum deposit requirements but paying interest only on accounts with a balance above a certain amount.
- Giving clients the option to withdraw their funds while motivating them not to do so through lotteries, prizes and/or progressive interest rates.
- Bundling a voluntary savings service with an existing compulsory savings service (see Box 19).

Box 19: Combining Compulsory and Voluntary Savings

Uong Bi Women's Union used to offer two savings products: 1) compulsory savings with a monthly interest rate of 0.4 percent; and 2) voluntary savings with a monthly interest rate of 0.2 percent. In 2003, it combined these two products into one - a demand deposit with a monthly interest rate of 0.4 percent. With this new product, members made regular deposits with a minimum amount of VND 1,000, but they could access their savings at any time. This was true even for members with outstanding loans as long as the amount that would be left in their account after the withdrawal was at least 10 percent of the loan amount outstanding.

3.2.3 Products that facilitate the accumulation of assets

In general, there are two types of products that can help savers accumulate assets: time deposits and contractual savings products. Time deposit products are offered by all of the banks, PCFs, VPSC and a few MFOs (see Table 12). Banks offer term options ranging from one month to five years while PCFs and MFIs offer terms of only 3, 6, 9 or 12 months but may pay slightly higher interest.

Time deposit products are very accessible to the low income market from a proximity perspective, but again, minimum deposit requirements of VND 50,000 limit the usefulness of the product. Indeed, time deposits by nature are a relatively less appropriate product for low income households because they require that a lump sum be deposited up front and not be touched until the term of the deposit expires. Most low income households do not usually have lump sums ready to deposit and, if they do, they are rarely in a position to put those funds away for an extended period of time. The opportunity cost of not being able to access their funds if and when they are needed is too high.

As shown in Table 12, regulated financial institutions allow depositors to withdraw funds from their account before the maturity date of the deposit, but will penalize the client for doing so by paying only a demand deposit interest rate on the funds rather than the higher time deposit rate. Some institutions (e.g., Eximbank, Techcombank, SEAbank) offer a product that pays a relatively lower interest rate on the time deposit but allows withdrawals and imposes penalties only on the amount that is actually withdrawn and not on the entire deposit. This kind of product may be more useful to low income households than a locked-in time deposit, but it would be much more difficult for financial institutions to manage from a cash flow perspective.

Table 12: Overview of Time Deposit Products

Organization	Term Options	Monthly Interest Rate (%)	Penalty for Early Withdrawal	Account Opening Requirements and Other Restrictions
VBARD	1, 3, 6, 9 mth, 1 3, 5 yr	0.60-0.78	Interest paid as if demand deposit	Minimum balance requirement, identity documents must be presented
PCFs	3, 6, 9, 12 mth	0.71-0.80	Interest paid as if demand deposit	Identity documents must be presented
VPSC	3, 6, 12, 24 mth	0.62-0.74	Interest paid as if demand deposit	Identity documents must be presented
EAB	1, 2, 3, 6, 9, 12, 13, 18 mth; 2, 3 yr	0.61-0.83	Interest paid as if demand deposit	Identity documents must be presented
VBSP	1, 3, 6, 9 mth, 1, 2 yr	0.60-0.69	Interest paid as if demand deposit	Identity documents must be presented
Sacombank	1-3, 5, 6, 7, 9, 11, 13, 15, 18 mth; 2, 3 yr	0.60-0.82	Interest paid as if demand deposit	Identity documents must be presented
TYM	3, 6 mth		Early withdrawal not permitted	Membership; Fund only meets four times per month; Compulsory savings of 3,000 VND per week; Have to notify the organization in advance before making a withdrawal; Deposits are collected by a field officer so the customer does not have to go to a branch
Dong Trieu Women's Union	3, 6, 9, 12 mth	0.65-0.72	Early withdrawal not permitted	Membership; Fund only meets twice per month; Have to notify the organization in advance before making a withdrawal; Compulsory savings; Deposits are collected by a field officer so the customer does not have to go to a branch
CEP	3, 6, 9, 12 mth	0.65-0.72	No penalty	Membership; Have to notify the organization in advance before making a withdrawal; Compulsory savings of 12% of borrowing amount; Deposits are collected by a field officer so the customer does not have to go to a branch

Contractual savings products are generally more useful to low income households because they tend not to require an initial lump sum deposit. Indeed, they are designed to help depositors create lump sums through a series of relatively small sum deposits over time. They can be very effective at helping low income households accumulate assets, especially if they are designed to meet a client's individual savings goal, rather than a standard schedule of payments or maturity date options. Access to funds is usually limited, so the product is not well-suited to meeting emergency or unexpected needs. It can, however, be bundled with an insurance product or emergency loan product with relative ease, and these add-on services can help keep the client's longer-term savings intact.

Contractual savings products have much in common with the savings services provided by ROSCAs. They have a specific purpose and a standard deposit is made at a regular interval. The ease with which they can substitute for a familiar informal savings habit is perhaps one of the reasons for their popularity. Some MFOs offer a “Spring Savings” product that is designed to help households save for their New Year celebrations. This product essentially duplicates a service that is offered by ROSCAs established expressly for this purpose, but it can offer greater security, both in terms of the safety of the funds deposited and in terms of confidentiality (since it may not be necessary to disclose to the public the amount of funds that are being saved each period). It may also offer greater functionality if the client is already using other services offered by the MFO and the savings deposit can be made as part of an already scheduled transaction, or if the savings deposited can potentially be used as collateral for a loan (should the client ever need a loan during the term of the savings contract).

Contractual savings products also have a lot in common with compulsory savings products: a standard deposit must be made at a regular interval (usually bi-weekly or monthly) and may be used as collateral for a loan. There are two important differences between the products, however. First, a contractual savings product is a stand-alone product that is not automatically tied to a loan, so it can be used by individuals who do not wish to borrow. Second, the maturity date and deposit amount can often be chosen by the depositor to meet a particular savings goal. The savings pattern is not predetermined by a loan cycle or loan amount.

Low income savers generally prefer contractual savings products to compulsory savings products, but organizations that are not allowed to mobilize voluntary savings cannot legally offer the product. Commercial banks can and do offer contractual savings products (see Table 13), but their minimum deposit requirements of VND 50,000 and above exclude the participation of most low income savers. In general, the contractual savings products that MFOs have been testing are still limited in their design. It is more common to offer a “Spring Savings” product with a standard maturity date and deposit amount than a flexible product that allows each client to choose his or her maturity date and deposit amount. This limited product offering is largely the result of the limited capacity of information systems within MFOs to manage a range of savings patterns. Furthermore, there are still no contractual savings products being offered by MFOs with a term greater than one year. This is hardly surprising given the lack of a clear legal status for MFOs to date and the risks involved with mobilizing long term deposits, but it does limit clients' longer-term savings options.

Table 13: Summary of Contractual Savings Products

Organization	Term Options	Frequency of Deposit	Minimum Deposit Amount (VND)	Interest rate paid (%)	Is early withdrawal permitted (Y/N)?	Penalty for late deposit or early withdrawal
ACB	3, 6, 9, 12 month		500,000	From 0.45/ mth	Y	Interest rate of demand deposit account
EAB	3, 6, 9, 12 month		500,000	0.71-0.77/ mth	Y	Interest rate of demand deposit account
Techcombank	1- 10 year	Monthly	100,000	7.08 to 8.56/yr (1-3)	Y	Interest rate of demand deposit account
Sacombank	1, 3, 6, 8 month	Monthly	None	0.6 -0.635/mth		Interest rate of demand deposit account
VPSC	6, 9, 12, 18 month 2 5 year	Monthly	50,000	0.55 - 0.72/mth	Y	Interest rate of demand deposit account

3.2.4 Delivery Mechanisms

Most savings products are delivered to low income households through group meetings or through tellers in a branch office. There has been little innovation to date with respect to delivery channels, but three developments merit attention.

Doorstep Deposit Collection. As noted in Section 3.2.2, CEP is offering limited daily collection services in urban markets where its clients work, but no institution has attempted to create a doorstep deposit service along the lines of that which has been so popular in West Africa. Some PCFs now appear to be considering a variation on that theme. Referred to as “the personal approach,” PCF staff plan to go to members who want to save and collect their deposits on their doorstep, rather than asking the member to come to the PCF office.

Mobile Banking. The mobile banking mechanism in Viet Nam generally consists of two staff members, a car and a laptop computer. The financial institution borrows a room from a school or local committee where it sets up operations once per month with the volume of business determining the length of the visit. Mobile banking is conducted through groups of generally 20 to 25 people. Each group member has a passbook which the group leader carries to the mobile transaction center to be checked against the staff members' simple Foxpro database. Both VBSP and VBARD are using mobile banking to reach remote communities, but the effectiveness of this delivery channel in the Vietnamese context is unclear. Security issues and fraud by some group members (who help coordinate the mobile service) are limiting the mechanism at the moment. VBSP has temporarily suspended its mobile savings collection until it finds a way to strengthen the mechanism. Questions also remain with respect to the profitability of the service because neither

institution has fully costed its savings product using this delivery channel.

New Technologies. Financial institutions in Viet Nam are beginning to experiment with new technologies for distributing their services more cost-effectively and with greater convenience for customers. According to the State Bank of Viet Nam, as of June 2006, there were 17 banks that had issued 3.5 million ATM cards and were operating 2,154 ATMs throughout the country. The Prime Minister's Decision No. 291 approving the development of non-cash payment schemes aims to have 15 million cardholders by 2010 and 30 million by 2020.⁷⁷ Eastern Asia Bank already has more than 400 ATMs in operation across 30 provinces and cities, while Vietcombank has more than 700.⁷⁸ At several commercial banks, including EAB, Techcombank and Incombank, customers can check their account balances via email, mobile phone, telephone and the internet. Although these services are not yet available to low income households, the fact that the infrastructure is becoming available means that it could soon be applied to the low income market.

Financial institutions that serve the low income market are beginning to make investments in systems that will make it more possible for them to leverage technology in the future. One hundred and eleven PCFs contributed VND 5 million each to a fund for developing a management information system (MIS) that was tested in 7 PCFs in 2006 with the support of Developpement International Desjardins (DID). That system will begin to be rolled out to other PCFs in 2007. VAPCF launched a website and is using it to facilitate communication and capacity building among its PCF members. The website offers an information gateway, a question and answer function, online discussions, and other features. VPSC has 200 of its 816 outlets that offer savings services connected electronically and is intending to develop a withdrawal and deposit service based on smart cards. A handful MFOs have computerized MIS including CEP, the Capital Aid Fund for Cooperative Members of Ho Chi Minh City (CCM), and the Microfinance Fund of the HCMC Women's Union, while TYM has a system under development.

Building on these investments and the new technologies entering the market, institutions serving low income households should be able to:

- Make savings services safer (e.g., by improving the management of information and funds, by providing group leaders with solar-powered handheld devices that can record each deposit made by a group member whenever it was made);
- Lower the costs of delivering savings services (e.g., by decreasing the number of mistakes made during manual calculations, by improving institutional capacity to manage risks and control fraud, by facilitating communication and minimizing the need for expensive physical infrastructure or expertise at the field level);
- Make savings services more convenient (e.g., by facilitating mobile banking, by allowing customers to conduct transactions at multiple locations, or by offering 24 hour access to funds in areas with ATM machines); and

⁷⁷ Viet Nam Law and Legal Forum, 29 January 2007, <http://news.vnanet.vn/vietnamlaw>.

⁷⁸ www.eab.com.vn and www.vietcombank.com.vn

- Increase the quality and functionality of services delivered (e.g., by increasing the speed of service, the range of products offered, or the flexibility of individual product features).

Of course, electricity fluctuations, limited bandwidth, the lack of high speed information links in many areas and other infrastructure challenges will inhibit this technology roll out. The high cost of acquiring and installing the technology will also limit expansion, especially for smaller institutions that seem most willing to look down market for a profitable niche.

4. Constraints and Challenges: Why Aren't Savings Services Being Expanded to the Low Income Market?

The major constraints and challenges to expanding low income households' access to savings services are summarized below, grouped into four main categories: 1) awareness and attitude constraints; 2) product design constraints; 3) institutional constraints; and 4) policy constraints.

4.1 Attitude and Awareness Constraints

4.1.1 Support for microfinance by the State has been limited

There is no national strategy that articulates the role of microfinance in building an inclusive financial sector and in contributing to the country's development. Provincial Peoples' Committees refer only to formal sector financial activities in their annual achievement reports and action plans, disregarding the role that can and should be played by semi and informal sector financial activities. The door to a legal and regulatory framework for microfinance was opened with Decree 28, but guidelines that would enable institutions to walk through that door have been delayed for two years. As long as the political and regulatory environment remains indifferent to microfinance, many opportunities for expanding low income households' access to savings services through the direct or indirect provision of services by microfinance organizations will be missed.

4.1.2 Few financial institutions consider the low income market a priority

It can cost just as much to manage a small balance savings account as a large balance one while the revenue that is generated with funds raised through the small account will be much less. Because of this, if financial institutions have the option of fully utilizing their resources by serving larger-balance savings accounts, and if there are no significant incentives for them to do otherwise, they will focus on larger balance accounts (i.e., not the low income market). In Viet Nam today, most financial institutions still have the option of fully utilizing their resources by serving larger-balance accounts. The banking system is relatively young, the economy is growing and savings balances are growing without

financial institutions having to recruit "large-balance customers of the future" by serving small-balance customers today.⁷⁹ The State is still heavily involved in the sector and, with its large branch networks, is perceived to have a competitive advantage serving the primarily rural low income market. Even if competition were driving some private financial institutions to consider low income markets, it would be difficult for smaller players to consider entering the market when doing so effectively would require massive infrastructure investments to build the network, and the state-owned institutions would be there ready to compete, perhaps with subsidized prices.

4.1.3 As a development strategy, savings mobilization is considered a lower priority than credit

This is perhaps the most serious barrier to the expansion of low income households' access to **effective** savings products. A great deal of time, effort and money has been spent trying to make credit available to low income households because it is believed that credit can make it possible for low income households to take advantage of economic opportunities that will pull them out of poverty. Credit is an important financial service, but it is not the most appropriate financial service for all households, particularly those that have no income generating activities or are already indebted. Credit is also expensive. If low income households could find a way to save for expected expenses instead of borrowing, they could use the money they would have paid in loan interest and fees for another purpose. As long as credit continues to be valued more highly than savings as a mechanism for accumulating assets and managing risk, pricing strategies will continue to favour credit over savings and limited research and development resources will continue to be channeled towards credit products rather than savings.

4.1.4 "The poor cannot save" stereotype still persists

As hard as it is to believe given the Vietnamese culture and available data about the degree to which poor Vietnamese do save, the assumption that they cannot save is still prevalent and was articulated in several of the interviews conducted during this study. Until this stereotype is firmly broken, at least among decision-makers, it will be difficult to prioritize the delivery of savings services as a development strategy.

4.1.5 Informal savings mechanisms are not perceived to be risky

Members have limited means of knowing whether the organizations to which they are entrusting their funds are actually secure. Unless there has been a recent case of abuse in the community, the risky nature of informal savings mechanisms is likely to be hidden from their sight. Even though informal mechanisms offer limited savings options, their ability to satisfy many basic needs at an apparently acceptable level of safety makes it seem less urgent for community leaders and policy makers to prioritize bringing regulated savings options into low income communities.

⁷⁹ To cite a few examples, deposits at EAB grew 28% in 2005; at ACB they grew 53% in 2005 and 46.2% in the first 9 months of 2006. Financial reports of EAB and ACB.

4.1.6 “Clash” of cultures

Although some have argued that low income households do not trust banks, recent statistics on the number of low income households holding savings accounts with banks suggests that the issue may be less one of trust and more one of comfort. Clearly, there is a difference between the formal, large-scale, professional approach to service that banks generally adopt, and the more informal, small-scale, personal approach that low income households would prefer to receive. Large, shiny offices and fancy brochures are not as welcoming and do not facilitate the same kind of relationships as a personal invitation to a small meeting room in the local school. Services delivered through the latter mechanism are more familiar, more enjoyable to use, and in many respects, easier to trust, especially if the individual who is inviting people into the room is a respected member of the community. Thus, if banks want to make their services more attractive to the low income market, they will need to think about how they package and deliver their product, and not just about the product features themselves.

4.1.7 Lack of information

A lack of information constrains access from both the supply and the demand perspectives. On the supply side, it is impossible to know which institutions are providing which services to how many low income households. The World Bank's recent study made a valiant effort to estimate these numbers, but the calculations were necessarily riddled with assumptions. Most institutions do not segment their clients by income level, so it is difficult to know how close their estimates come to reflecting reality. Data could not be gathered from the vast majority of microfinance organizations. Although a few microfinance organizations are performing at a large enough scale and sharing enough information about their performance that it is possible to see their impact, this is not the case for the majority of microfinance providers. Even those organizations that are sharing their data with the Microfinance Working Group are not always using standardized calculations or submitting their data to independent verification. It is impossible to know the real scale and quality of microfinance operations in the country.

On the demand side, there has been limited research on the need for and use of savings products in the country, in large part because of the cost of such a study. The few statistics that are gathered on a regular basis through the Household Living Standards Survey are not available on the Government Statistics Office website. The lack of information about the type of access currently being provided by different savings service suppliers is a barrier to identifying and prioritizing future strategies for expanding outreach.

4.2 Product Design Constraints

4.2.1 Market Segmentation is Rare

With respect to savings services, few institutions have segmented their market and made a deliberate attempt to determine what the needs of savers in different segments are and

what design features would best meet those needs. Market segmentation is not a popularly applied technique within financial institutions in Viet Nam in general, but it is particularly true with respect to the low income market. An effort has not yet been made to understand the diversity of needs that exist within this market and to design different products to meet those needs.

4.2.2 Security and Safety Issues

In this area, low income households face a dilemma. The institutions offering them access to secure savings services (i.e., the banks) are not offering them access to affordable and functional services. Minimum deposit requirements are too high, processes can be complex and time-consuming, the service may not be available within reasonable walking distance, etc. At the same time, institutions that do offer a nearby, affordable and functional savings service are not offering high levels of safety.

Of course, it is virtually impossible to offer all of these types of access at once, but security matters most when low income households are trying to accumulate assets for the medium to long-term, and in this area, no institution is offering a product that meets their needs. With the exception of VBARD's experiment in Quang Binh, contractual and time deposits are not currently accessible to low income households through a regulated, supervised institution with deposit insurance for small scale savers.

The mechanism that holds the most potential for enabling banks and regulated MFOs to deliver secure long - term savings products to rural areas is the mobile banking delivery channel. As experiences at VBSP have proven, however, this channel is vulnerable to fraud and effective control mechanisms have not been found.

4.2.3 Proximity Issues

In theory, since VBSP reaches all communes in the country, as long as it provides the savings services that low income clients need, proximity should not be a constraint. At the moment, however, VBSP does not provide all the savings services that clients need, so the capacity of other institutions to deliver services near to the places where low income households live and work is an issue. No single institution can provide this kind of access but a variety of different institutions - including PCFs, MFOs, VPSC and VBARD could do this collectively. With the possible exception of VBSP, it makes less sense to focus on strengthening individual institutions than to focus on coverage and to support those institutions that are willing to provide access to savings services for low income communities that cannot currently access those services near where they live or work.

Even VBSP's impressive network, which manages to reach all 10,776 communes, only delivers services at one physical location in a commune. With the average commune covering an area of 30.6 square kilometres, it is still possible that low income households will live too far from the point of service for regular savings deposits to be cost-effective. The opportunity cost of leaving one's income generating activities for a round trip of 20 km may be acceptable to access a loan once per year, but it would not be acceptable each week or month to make a small deposit.

4.2.4 Functionality Issues

The main question with respect to functionality concerns the extent to which the savings services that are available to low income households actually meet their needs for: 1) quick access to flexible sums to manage risks or take advantage of an opportunity at unexpected moments; 2) timely access to funds for an expected expenditure; and 3) general accumulation of funds to finance future investments or consumption.

The ILO/MOLISA demand side research in 2003 clearly indicated that low income households' number one reason for saving was to have funds available in the event of illness. The second most important priority was the accumulation of funds to finance a child's education. The vast majority of savings products that are available to low income households today cannot meet these two needs well. Most microfinance organizations offer compulsory savings only. In general, savings mobilized through these schemes are not accessible in the event of an emergency, although Uong Bi and TYM's experiments with the bundling of compulsory and voluntary savings components shows how product design and delivery could be altered to meet this need. The compulsory savings product can finance expected needs such as education only if a saver can manage to time the repayment of her/his loan so that she/he pays her/his last instalment at the time her/his accumulated savings are needed.

As discussed in Section 3.2.3, time deposits are not a particularly functional product for low income households, although they can be useful for the general accumulation of funds, particularly by those households who are in the upper layers of the low income segment. They can also be useful to farmers who might have a large sum of cash at harvest time that they would want to put away for six months to guarantee that funds would be available to finance consumption during the leaner season. Contractual savings products can be more valuable to the low income market, particularly if there is flexibility in the timing and savings purpose, because they help households accumulate lump sums over a longer term. However, contractual and time deposit products can only legally be offered by regulated financial institutions, whose products are not currently affordable. Also, regular payments of a standard amount can be difficult for savers that do not have a steady income stream.

A recent VBARD experiment might be able to help this kind of saver by allowing greater flexibility with respect to the amount that needs to be saved each week (see Box 20). However, an even more functional product might draw on the successful mutual support component of group lending products and allow individual savers within a group to make savings deposits on each other's behalf. For example, if an individual with unstable cash flow could not make her/his savings payment this month, another member could make that payment for her/him (so as to maintain the group's contract with VBARD) and be "repaid" the following month when the member has cash. This kind of mechanism might layer nicely on top of ROSCAs or other informal groups (such as the Accelerated Savings and Credit Associations (ASCAs) being created by World Vision) that keep internal records and could even charge members interest when deposits are advanced on someone else's behalf. This could support the steady accumulation of assets in a regulated financial institution by low income individuals with unstable cash flows.

Box 20: Group-based Contractual Savings at VBARD

In Quang Binh province, SNV collaborated with a district-level VBARD branch to launch a group-based model for delivering a contractual savings service.⁸⁰ The branch is currently serving approximately 14,000 people in 400 groups (each with 20-100 members) that were mobilized by VBARD in cooperation with mass organizations for the primary purpose of delivering credit services. The branch had tried once before to offer the groups a voluntary savings product, but its requirement that the entire group's savings be deposited in the name of a single group member proved unpopular with clients and the product was unsuccessful. In November 2006, the branch began testing a new approach. It introduced a contractual savings product that allows group members to have individual accounts but requires a minimum average deposit per group member of VND 30,000 per month. The key word here is average. Although the group as a whole must contribute at least VND 30,000 per person, individual members of the group can save more or less than that amount. What is important to VBARD is a guaranteed minimum level of deposit from the group, and a standard repayment amount that is easy to manage and control for fraud.

Demand deposits products would be particularly valuable to low income households, especially if they rewarded growing account balances with a higher interest rate or other benefits. They do not require regular deposits each week, deposits can be made in flexible amounts and they can be withdrawn at any time. Unfortunately, these products are the most difficult and costly to manage, and are also the least available.

4.2.5 Affordability Issues

The major affordability issue is the high minimum deposit requirement associated with most savings products on the market today. In addition, transaction costs related to complicated paperwork or procedures limit access to products offered by many regulated financial institutions. Related to proximity, the cost of travelling to reach an institution's point of service can be high and, related to functionality, the opportunity cost of not being able to access funds tied up in compulsory savings or having to delay access until the next group meeting can be significant.

4.3 Institutional Constraints

In addition to the awareness and attitude barriers discussed in Section 4.1, there are other institutional constraints that make it difficult for financial institutions to offer low income households better access to appropriate savings services.

4.3.1 Lack of a profitable business model

For regulated financial institutions to expand in low income communities, the challenge of

⁸⁰ SNV is a Netherlands based international development organization that provides advisory services to government and local organizations in developing countries.

identifying a profitable business model remains. Microfinance providers have successfully mobilized deposits through compulsory and contractual products, but offer very few options for longer-term (beyond one year) or flexible savings. They have also not yet proven their ability to provide sustainable financial services to low income communities in a regulated environment (which would require additional controls and reporting that will increase costs). State-owned financial institutions are accessible to many low income households through their wide networks and mobile banking services but the profitability of these delivery channels in low income communities has not yet been proven. State-owned financial institutions and commercial banks remain hesitant about promoting the use of savings services by low income clients because they are unsure that they can cover the costs of processing a large number of small deposit and withdrawal transactions. The PCF model certainly has the potential for operating self-sufficiently in rural and remote areas, but expansion of the model into these areas without the support and assistance of VAPCF or another experienced party would be risky. In general, the lack of a successful blueprint or model that can be easily replicated will limit the speed with which access can be expanded.

4.3.2 High cost of establishing new branch networks

Adding the minimum capital requirements mandated by Decision 888 to the already significant costs of opening a new branch, non-State financial institutions are unlikely to develop major networks outside the main urban centres. This means that the major players of the future in rural areas will either be: 1) VBSP; 2) VBARD; 3) VPSC; 4) PCFs; or 5) transformed microfinance organizations.

4.3.3 Infrastructure barriers

The deeper institutions try to go in terms of reaching out to remote low income communities, the more difficult the distance and infrastructure challenges will become. Poor or non-existent roads, electricity supply and/or communications infrastructure will raise costs and pose operational limitations.

4.3.4 Inadequate capacity to manage growth

Within the universe of financial service providers, microfinance organizations have shown particularly strong knowledge of the low income market and a willingness to adapt to meet the needs of that market. Some have achieved substantial success in their particular niche, but nearly all lack the systems and human resource capacity to manage large-scale growth and the diversification of products. Performance tracking and analysis, risk management, product costing, and asset and liability management skills are all in need of development, as are the computerized information systems that can support these functions (see Box 21).

Box 21: The Danger of Success

The success of TYM's "Family Savings" product outpaced the institution's ability to manage it. The Excel spreadsheets that it used to track operations became large and unworkable and TYM ended up suspending the term-deposit component of its product. Clients were unhappy because they valued that component and some expressed their dissatisfaction by closing their account. From May to September 2005, the number of voluntary savers in the two pilot branches decreased from 1528 to 1374. To overcome these challenges, TYM is developing a more comprehensive management information system and is considering the introduction of a new savings product that would be less flexible but easier to manage.

4.3.5 Lack of incentives

Motivation is a challenge on two levels - at the institutional level and at the individual level. At the institutional level, it is not easy to see how savings products bring profits to an institution, particularly if institutions are accustomed to sourcing their funds relatively easily through alternative sources and if the target market is a low income clientele that is likely to maintain relatively small-balance accounts. The institution must either: 1) be committed to local financial intermediation; 2) possess a strong social mission and be able to see the benefit of savings mobilization from an economic development point of view; or 3) believe that customers value savings services enough that by offering them it can increase customer loyalty to other more profitable products. At the moment, institutional motivation seems to be a challenge for all private commercial banks as well as for VBARD and VPSC.

Motivation is also a challenge at the level of individual staff members. Even if an institution makes a commitment to provide the low income market with effective access to savings products, this will not happen in reality unless frontline staff are convinced that it is important for them to spend their time and energy on this activity. Motivating staff to mobilize savings is likely to be a particular challenge for VBSP and VPSC.

4.4 Policy Constraints

4.4.1 Subsidies for VBSP and VDB

In an effort to fulfill its mandate of providing poor Vietnamese with affordable access to credit, the Viet Nam Bank for Social Policy (VBSP) subsidizes its lending rates, charging approximately half the market rate for its loan products. This low interest rate not only discourages VBSP from mobilizing deposits (since the cost of mobilizing deposits is higher than the income that can be made by lending at the established interest rate), but also causes distortions in the market. Institutions that want to provide savings services will have difficulty charging lending rates that are high enough to cover the costs of offering a savings service. Another distortion seems to be the result of policies that require VPSC to transfer deposits to the Viet Nam Development Bank (VDB). This is creating a disincentive for VPSC to mobilize savings from smaller-balance account holders because the cost of

maintaining such accounts cannot be covered by the interest income generated through investments at VDB. If VPSC were able to invest its deposits more freely, it would have a greater incentive to increase deposit mobilization.

4.4.2 Lack of a legal and regulatory framework that integrates microfinance into the formal financial system

The challenge is not simply to get Decree 28 and its accompanying circular approved. The challenge is to articulate a vision and to build an enabling environment for providing financial services to low income households that will support their economic development and integrate them into the formal financial system. The approval of a revised Decree 28 would be an important step in the right direction, but will be insufficient for the development of a truly inclusive financial sector.

5. Recommendations: What Could Be Done to Expand Access to Savings Services for Low Income Markets?

The following recommendations emerge from the analysis above as priority actions for expanding low income households' access to savings services in the future.

5.1 The Government

5.1.1 Develop a national strategy for microfinance sector development

The Ministry of Finance, the State Bank of Viet Nam, the Ministry of Planning and Investment, MOLISA, and/or other Government and non-Government stakeholders could come together to discuss and agree upon the role that microfinance can and should play in the country's social and economic development. Ideally, these stakeholders would define a vision for microfinance's contribution to an inclusive financial system that enables low income households to take advantage of the opportunities for growth while at the same time managing the risks that can so easily push them into poverty. It would view microfinance as a subset of the larger financial system and the low income market as a potentially self-sufficient business segment with particular needs that warrant special product development attention and investment.

The strategy should articulate a vision for increasing low income households' access to savings services from the broader perspective described in Section 3 (i.e., one that considers security, proximity, functionality and affordability) and not only geographic coverage. It should articulate the importance of savings as a tool for asset building and risk management. It should also communicate how all types of financial institutions can play a role in the delivery of microfinance services to deepen and strengthen the country's financial system.

5.1.2 Finalize the amendments to Decree 28 and its implementing circular as soon as possible

MFIs could be strategic players in the expansion of savings services to low income communities, but their potential cannot be tested until they are legally allowed to mobilize savings and have the systems in place to do so. Implementation of a modified Decree 28 and an implementing circular will open the door for expansion and additional experimentation.

5.1.3 Recognize and provide guidelines for another category of microfinance service provider

Proposed amendments to Decree 28 remove the restrictions formerly placed on microfinance service providers that will not offer voluntary savings and leave the role and responsibilities of these service providers unclear. To protect the small depositors that are likely to save through these entities, and to facilitate cooperation between these organizations and regulated financial institutions, legal guidance along the lines of Decree 144 on ROSCAs would be helpful. Another category of microfinance service provider could be created and basic guidelines for registration and reporting could be specified to assist transparency, accountability and industry capacity building. Prudential supervision of these entities does not need to be provided, but non-prudential oversight functions could be delegated to a member-based federation or association such as the Microfinance Working Group, which could play a role similar to that of the VAPCF. Microfinance service providers that meet minimum transparency requirements and/or good practice standards in areas such as portfolio quality control and deposit reserves could receive a logo (e.g., a large star) or a certificate to post in their premises to demonstrate to members that they have met the standards. There could even be different grades or levels of classification depending on an entity's ability to meet the standards.⁸¹ Awareness of the system would have to be generated through a public education campaign.

5.1.4 Communicate the role of microfinance as articulated in the national strategy

Once the role of microfinance is defined, it should then be made public through an effective communication campaign. This effort could be integrated into the proposal called for by Decision 112 to promote the role of microfinance. Awareness-raising is required at a variety of levels, from senior Government officials to the general public, and different promotion mechanisms should be chosen to communicate effectively at each level. For example, radio dramas, jingles or road shows might influence general public perception, while small, informal gatherings with appropriate resource people might be more effective at changing the mindset of key officials.

⁸¹ See www.themix.org for an example of how such a system is implemented at an international level. The quality of information received is rated on the basis of five stars. In Viet Nam, local leaders and mass organizations might be able to help collect or verify the data submitted.

5.1.5 Map current supply and demand to identify outreach priorities

Two types of research initiatives might be useful in helping to identify priorities. On the demand side, a survey tool such as the one presented in Box 13 could measure financial services, needs and usage and track changes over time. On the supply side, a mapping exercise could plot the current supply of financial services against population density (on one map) and against the concentration of low income households across the country (on another map). These maps could be used to determine which communes have little or no access to particular savings services and to design actions and partnerships to expand services to those communities.

5.1.6 Implement VBSP's draft reengineering strategy

By transforming itself from “an institution that gives subsidized credit to the poor” to one that assists low income households to take advantage of opportunities and manage risk, VBSP can be a much stronger partner in creating equitable growth. The widespread mobilization of savings by low income households and the expansion of financial services to underserved areas deserve to be important components of VBSP's new approach. Its plans to gradually remove credit subsidies, to increase savings services for the low income market, and to invest in information technology as a means to provide profitable financial products to the low income market are all sound and strategic decisions that warrant support. Implementation plans should include incentives that reward staff for growth in the number of low income savings accounts and the amount of deposits mobilized. It should also offer staff training, particularly for those who are not accustomed to selling savings products, which will enable them to improve customer service and increase the market's trust in the institution's ability to manage their savings.

5.1.7 Conduct an industry-wide technology study

This study could assess the current state of communications infrastructure and the investments that would be required to enable the networking of financial institutions in each province of the country. It could research the options and cost of purchasing or developing various e-technologies domestically vs. importing them from abroad. It could also explore the availability and capacity of domestic technicians to support and maintain these technologies. This type of study would help financial institutions to identify feasible technologies that could assist them with expansion. It might also open the door to industry-wide cooperation to remove any major infrastructure barriers.

5.1.8 Provide incentives to encourage the expansion of savings services to more low income markets

There are several types of incentives that could be considered. First, the Government could co-finance the research, development and/or testing of new products, new delivery channels and new technologies. Second, once a new product or delivery channel is tested and found to be effective for the low income market, the Government could subsidize the cost of introducing that product or delivery channel in additional locations. The subsidy

would support initial infrastructure and training investments; it would not provide ongoing operational support. Third, it could offer a tax rebate or preferential tax rate to financial institutions operating in underserved areas. Fourth, it could offer an innovation or achievement award to the institution(s) that made the most progress in expanding low income households' access to savings during a given year. Fifth, it could encourage Provincial People's Committees to include all financial service providers in its plans for local development.

5.1.9 Consider adjustments to Decision 888

Minimum capital requirements could be set on a progressive scale so that they are lower for small or remote branches than for large branches. A clear definition of what constitutes a branch, transaction office and outlet and the minimum capital requirements associated with each would also assist institutions in planning the kind of network that would enable them to cover their costs.

5.2 Service Providers

5.2.1 Embrace a systematic approach to product development that involves customers in defining priorities and design characteristics

There is no single savings product that can meet all the savings needs of all low income households. The low income market is diverse and its constituents have varying needs. Even within an individual household needs can vary by family member, by lifecycle stage, and by season. Although all households generally seek savings products that are safe, affordable, available nearby and easy to use, it is difficult for institutions to offer products that excel in all these areas at once. Fortunately, certain access characteristics will be more important to users than others for a particular savings need. For example, households that purchase a long-term savings product to finance their child's education will be much more concerned about the safety of their savings than an individual who makes compulsory savings deposits linked to a loan.

Service providers that want to serve the low income market more effectively can make their product development job easier by asking their low income customers (or the particular segment of low income customers they want to serve) which savings needs are their highest priority and then focus on developing products that meet those needs. If an institution has limited resources, it could choose one priority need to focus its efforts upon, or it could seek out partnerships that would enable a broader package of services to be delivered to its market.

As products are developed - either new products or adaptations of existing products - it is important to seek regular feedback from the market. Participatory market research techniques offer quick, low cost methods for understanding customer preferences as they evolve, for testing the attractiveness of a new design before it is actually launched, and for determining what adjustments might need to be made to make a product more useful at

meeting the particular savings need it was originally designed to meet. As TYM learned in its efforts to develop a voluntary savings product, this systematic approach is key to designing an ultimately successful product.

5.2.2 Be creative about potential partnerships that can lead to a sustainable business model

Because there is no financial service provider that is offering low income households effective access to savings products across the country, and because it will be challenging for any one institution to meet all the savings needs of a particular household in the near future, partnerships will be key to expanding access. There is an almost endless range of possibilities for cooperation, for example:

- Financial institutions that lack expertise serving the low income market or have difficulty establishing trust with that market could ally with organizations whose field knowledge and relationships are stronger and together offer a savings product that is distributed by the field organization and managed by the regulated institution.
- Banks like Eastern Asia Bank that develop technology infrastructure could “rent” their electronic network or ATM machines to other financial institutions for a per-transaction fee.
- Postal outlets could provide payment services for any financial institution and not just VPSC.
- Financial institutions could subcontract the job of savings collection to retail agents in low income communities and pay them a commission (see Box 22).

Box 22: Branchless Banking in Brazil

In Brazil, private and state-owned banks deliver financial services through retail agents including pharmacies, post offices, seed and fertilizer retailers, gas stations and lottery kiosks among others. These agents are called “banking correspondents.” In the year 2000, 1,600 of Brazil’s 5,800 municipalities - more than one quarter - lacked access to formal banking services. By 2003, all municipalities had access to these services through banking correspondents. By the end of 2005, nearly 58,000 banking correspondents were operating, according to Brazil’s central bank. This network represents a new “branchless banking” distribution channel that allows financial institutions and other commercial actors to offer financial services outside traditional bank premises.

What makes branchless banking work are information and communication technologies that customers, retail agents, and banks or non-bank e-money issuers use to record and communicate transaction details quickly, reliably, and cheaply over vast distances. For banks, branchless banking through retail agents is used to reduce the cost of delivering financial services, relieve crowds in bank branches, and establish a presence in new areas. The setup cost of a retail agent in Brazil can be as little as 0.5

percent of the cost of setting up a bank branch. In Brazil and India, banks also use retail agents to help meet political or regulatory requirements to distribute credit in low income and rural areas that they could not profitably serve with conventional branch-based banking. Retail agents conducting cash transactions for banks and non-banks earn transaction fees, turning idle cash and underutilized staff into new revenue generators. Retail agents also gain business from the increased foot traffic of customers coming for financial services.⁸²

- Mass organizations, NGOs or even informal savings groups could mobilize voluntary deposits from individuals that could be collected by a mobile unit on a periodic basis. VBARD and VBSP have experimented with this model but not on a wide scale.
- Savings services providers might partner with insurance providers to develop bundled savings-plus-insurance products that can help low income households simultaneously manage risk and meet longer-term savings needs (see Section 5.2.4 below).
- Purchasers (such as those who buy rice from farmers) could partner with financial institutions to deposit payments directly into farmers’ savings accounts.
- VBARD might be able to rent space in its branches to serve as temporary service centers to microfinance institutions. In Georgia, the microfinance institution Constanta was able to leverage the existing infrastructure of a rural bank to deliver appropriate services to its target market and the bank earned a fee for each transaction processed through its tellers (see Box 23). VBARD and perhaps VPSC could use this model to support the provision of financial services to a lower income market without having to develop and deliver those services themselves.
- A bank could partner with a mobile phone company interested in capturing market share in Viet Nam to develop a cellular phone-based banking service.

Box 23: Temporary Service Centres in Georgia

Constanta, a microfinance institution in Georgia, uses temporary service centers - usually rented rooms in branches of rural banks - to lower the costs of expanding into rural areas. Constanta sends a loan officer to each service center a couple days a week to meet with client groups and supervise disbursements and repayments. Constanta pays the banks a fee for each client that uses their cashier function, and transfers funds through the banks to avoid having to transport cash. If the partner bank has a management information system (MIS) that can provide daily client data, Constanta also pays the bank a fee for each transaction that uses this teller function. If the partner bank cannot provide this service, a Constanta teller spends two days a week at the

⁸² Lyman Timothy and al. 2006. *Use of Agents on Branchless Banking for the Poor: Rewards, Risks and Regulation*. CGAP Focus Note 38. Washington DC: CGAP.

service center disbursing loans and collecting repayments, and transactions are entered directly into Constanta's MIS. Service centers have low operating costs and can be viable in small towns. For example, a partner bank in the town of Khashuri charges Constanta just \$60 a month (VND 960,000) to rent a service center office, and another \$70 a month (VND 1.1 million) to use its systems for disbursements and repayments. If only direct costs are taken into account, service centers can be profitable with fewer than 300 active clients.⁸³

5.2.3 Further develop contractual savings products to motivate savings among low income households while limiting institutional costs

These products mimic a service that has long been provided by informal savings groups (i.e., standard, regular deposits in pursuit of a particular savings goal). They are cost-effective for financial institutions because they motivate regular savings and provide a much more predictable cash flow than demand deposits. They can also be personalized to meet an individual's savings needs - the time frame, amount, frequency and even purpose of saving can be negotiated by the client and the institution (although a computerized information system will generally be required to manage flexibility in all these areas simultaneously). This feature is rarely taken advantage of in Viet Nam.

Microfinance institutions around the world have used contractual products to help clients save for housing, a business investment, school fees, etc. Some institutions have given clients bonus interest or a prize if they saved on schedule and achieved their goal. Others have found that specifying a particular savings goal in the savings contract helps motivate clients to save and facilitates the development of regular saving habits. The results can be impressive, as shown by the Green Bank of Caraga in the Philippines (see Box 24), in terms of encouraging and enabling low income clients to accumulate assets.

In Viet Nam, contractual savings products with smaller minimum deposits and more flexibility are needed. The group savings mechanism tested by VBARD in Quang Binh is one that many organizations may be able to use to facilitate mutual support in savings just as in credit, making it possible for members that cannot save a large enough amount individually to still gain access to a regulated savings service as a group.

⁸³ Pearce Douglas. 2002. *Pro-Poor Innovation Challenge Case Study, Constanta (Georgia)*. Occasional Paper 11. Washington DC: CGAP.

Box 24: Committing to a Savings Goal rather than a Deposit Amount

A team of university researchers designed and implemented a commitment savings product called SEED (Save, Earn, Enjoy Deposits) together with the Green Bank of Caraga, a small rural bank in Mindanao, Philippines. The SEED account requires that clients commit not to withdraw funds that are in the account until they reach a goal date or amount but does not explicitly commit the client to deposit funds after opening the account. After one year, individuals who were offered the product increased their savings by 81 percent relative to a control group. A follow-up survey and administrative data collected after two and a half years showed that the product caused an increase in household decision making power for married women, measured both in the women's own reporting of how household decisions were made and in the household's purchases of goods typically used by women.⁸⁴

5.2.4 Consider a relationship with a commercial insurer as a mechanism for providing longer term "savings plus insurance" options to members

Informal savings mechanisms provide numerous options for low income households to save in the short-term, but they provide few options for longer-term savings. Life/savings, annuity and endowment products have long-term savings characteristics that could meet certain risk management needs and help low income households to accumulate funds for an expected future event such as a child's education (a savings goal that many households consider more important than the old age benefits provided under social insurance). As noted previously, there is a dearth of appropriate longer-term life insurance products on the market today that are appropriate for low income households, and this is an area where collaboration between insurers and savings service providers could yield a valuable new product.

An endowment policy that combines life insurance and contractual savings, for example, or a savings completion product that pays the difference between a member's savings target and her/his savings balance at the time of death, could encourage regular savings habits among low income households and be piggybacked onto existing financial service delivery channels. For example, unregulated microfinance organizations that cannot legally offer voluntary savings could work as agents to offer life insurance products to members that could meet some of their longer-term savings needs. This method of protecting one's family for the future would certainly be less flexible than other savings options, but it could offer a larger benefit at a time of crisis and could be managed by a regulated service provider with much stronger capacity to ensure the long-term sustainability of those benefits.

⁸⁴ Ashraf Nava, Karlan Dean and Wesley Yin. 2006. *Female Empowerment: Impact of a Commitment Savings Product in the Philippines*. Discussion Paper No. 949. New Haven: Economic Growth Center, Yale University. <http://www.econ.yale.edu/~egcenter>, December 2006.

5.2.5 Conduct product costing exercises to determine the profitability of existing mobile banking delivery systems

If products delivered through this system are deemed profitable, the model can be recommended for replication. If they are not profitable, process mapping can be used to pinpoint weaknesses in the delivery system and to identify opportunities for improving efficiency and risk control.

5.2.6 Experiment with appropriate controls for new distribution mechanisms

Even if all other features of a product remain the same, the introduction of a new distribution mechanism or delivery partner can introduce risks that threaten the safety of customers' deposits. VBSP's transparency about the fraud challenges it faces with the mobile banking delivery model is both illustrative and useful. VBSP and any other institution interested in delivering savings services through a group mechanism will need to experiment with controls other than the trust-based relationships that are often found in groups to make this delivery mechanism more secure. They might consider some of the following ideas: training for groups and/or agents that emphasizes the community development function of the savings service; stand-in mobile bankers who periodically accompany groups or agents as they collect deposits; monitoring clerks who spot check office records against client passbooks; policies that require all transactions to be read out loud, recorded in ink and signed by the depositor; lockboxes that clients can use to store regular savings until a mobile agent arrives to collect their deposits; stamps that are given to clients in exchange for a cash deposit; and portable electronic devices that record the amount of a deposit when it is made in the presence of the client.

5.2.7 Leverage technology

This paper has noted many opportunities for using technology to deliver more efficient, higher quality, more affordable and safer savings products to low income communities. Computerized MIS, portable electronic devices and smart cards (to name a few of the more immediately relevant examples) can increase the speed, accuracy and mobility of transactions, reduce fraud and improve the quality of institutional analysis and decision making. They can also make it possible to operate cost-effectively over a larger geographic area by changing the configuration of staff skills and physical infrastructure required at the field level and facilitating effective communication between mobile units and a higher-level support structure. Any savings service provider that wishes to operate at a significant scale, or partner with a network of institutions that is capable of achieving significant scale, should carefully consider the role of technology in its strategic plan.

5.2.8 Cooperate to define priority training needs within the industry and to finance curriculum development and delivery

The expansion of quality savings services to the low income market will require more staff and, at the management level, more qualified staff. Regulated financial institutions will need

to develop microfinance knowledge and expertise. Microfinance organizations will need to develop more sophisticated asset and liability management, treasury, marketing and other functions to deal with the increased complexity that growth will bring to their operations. Managers in all institutions will need access to information and mentors that can help them deliver savings products successfully to low income markets. Field staff will need customer service, communication and product specific training.

At least two opportunities present themselves for cooperation in this area. First, service providers could jointly invest in (and donors or the Government could provide matching funds for) a curriculum development initiative that would compile training templates for core skill areas and/or staff positions and distribute them to all participating financial institutions for adaptation to their particular circumstances and needs. Templates for many types of training already exist in English and would only need to be adjusted to the Vietnamese context and translated. Second, the Microfinance Working Group could be reorganized to represent any and all institutions providing microfinance services and members could bring their identified needs for staff training to the group and collectively identify capacity building priorities that might be financed through a combination of service provider, Government and/or donor contributions.

5.2.9 Increase the visibility of savings activities

Service providers at all levels can contribute to increased awareness of and greater support for microfinance by making themselves and their savings activities, in particular, more visible. A simple effort to register themselves and to provide basic statistics to the Microfinance Working Group or some other representative industry entity would allow a more accurate picture to be painted of whether savings services are being provided to low income communities, where, by whom and with what results. Annual submission of this data would enable trends to be analysed over time, and for resources to be devoted to addressing the challenges to outreach that may present themselves. A small time investment by each informal, semi-formal and formal financial institution serving low income households today could have a major impact on policy makers' decision making and would also make it easier for institutions to find partners with which they can expand their outreach to the low income market in the future.

5.3 Enablers

There are many entities in Viet Nam that are not direct providers of savings services, but would like to see low income households have better access to these services. This includes both domestic and international non-government organizations, research and training institutions, mass organizations, donors, and government agencies. These entities can support increased access to savings products for low income households by taking the following actions.

5.3.1 Lobby for the definition of an appropriate microfinance strategy

Enablers that understand the impact that financial services can have on low income

households' ability to manage risks and opportunities should proactively engage with the Government to influence the design of a microfinance strategy that:

- Integrates microfinance into the larger financial system.
- Promotes savings and insurance as economic development tools that are equally if not more important than credit.
- Defines access from a multi-faceted perspective (e.g., in terms of safety, proximity, functionality and affordability).

5.3.2 Encourage access to multiple savings products that accommodate the different sources and uses of savings among low income households

Since low income individuals may have stable or unstable income flows and may want to save for short-term, long-term or emergency purposes, a variety of savings products is required to give low income households the opportunity to save regularly, irregularly, for specific purposes and for general needs with the option of easy or restricted withdrawals. Supporting a single service provider to offer this range of products in a particular community may not be the best strategy because it is difficult to manage a diverse product portfolio and it will take time and resources to develop a whole portfolio of products that are appropriate for the low income market. An alternative would be to support the development of different products at different institutions to meet different needs. Later, the institutions could partner to facilitate the marketing and distribution of each others' products.

5.3.3 Organize training for financial institutions in participatory market research for product development

The training should guide participants through a systematic process for exploring customer needs and designing a product that meets customer priorities while limiting institutional costs. The training could be used to disseminate information about product design compromises that have enabled other institutions to deliver profitable savings services.

5.3.4 Co-finance a product costing and process mapping of the mobile banking delivery channel at VBSP

If it is the first time that VBSP conducts such an exercise, it could be time and resource consuming, but would indicate whether this model could be used to expand the distribution of savings services through an already extensive delivery channel. If so, resources could then be focused on institutional strengthening, product development and incentive system design at VBSP (and perhaps VBARD). If the mobile banking channel is not profitable and cannot be redesigned to be profitable, follow up resources might be better spent exploring partnerships with informal service providers or PCFs.

5.3.5 Co-finance investments in technology that create more cost effective delivery structures

The building of new technology infrastructure is costly and will take time for savings

services providers to self-finance. By subsidizing some of this cost, enablers can speed the pace of construction and encourage more institutions to consider how technology might be able to help them to increase outreach. Ongoing efforts by VBSP, PCFs and MFOs to computerize their MIS and network their branches and outlets are worth supporting, as are new experiments with portable data assistants as part of the mobile banking model. In addition to mobilizing domestic sources of support, local stakeholders may want to explore funding available from the CGAP Technology Program and the Bill and Melinda Gates Foundation's Financial Services for the Poor Initiative.⁸⁵

5.3.6 Organize a “Partnership Forum”

Enablers could organize an event that would bring together all types of institutions that are interested in partnering with others to develop and/or deliver savings products to the low income market. The event could invite brief presentations during which organizations could share their plans and express interest in recruiting a specific type of partner; it could organize informal discussions around specific types of products or partnerships; it could also invite organizations to set up a display or distribute literature. Ample time for informal networking should be a core feature of the event. It would be useful to invite insurance companies, particularly those that are interested in developing “savings plus insurance” products, and to recruit at least a few field level representatives of ROSCAs and other locally-based savings service providers. If funds were available, the forum could provide an excellent opportunity to announce the availability of resources to support the pilot testing of new partnerships for delivering savings products to the low income market.

5.3.7 Support the activities of industry associations and networks

The Viet Nam Association of People's Credit Funds and the Microfinance Working Group could play a critical role in expanding low income households' access to savings services. They could facilitate the gathering and consolidation of information that would assist decision makers to design appropriate strategies and allocate funds to priority areas. They could support their members' capacity building by providing operational guidance, setting standards, facilitating communication, and helping to identify and build partnerships. They could also represent their members' interests in public and private forums and yield more influence at the industry level than any one member alone. However, both VAPCF and MFWG are young institutions and will require support themselves if they are to effectively support members. VAPCF now has a legal identity and full time staff, but the MFWG still lacks these assets. Its volunteers have created a nascent network with substantial legitimacy and a strong reputation, but lacking clear membership criteria, operational policies, or a business plan.

⁸⁵ The CGAP Technology Program supports projects which test technology - based banking approaches in developing countries. See <http://cgap.org/portal/site/Technology>. The Bill and Melinda Gates Foundation's Financial Services for the Poor initiative works with partners to improve the standards and accessibility of services such as loans, savings accounts and insurance for families in developing countries. It focuses its funding support in four areas: 1) new and improved financial services products for the poor; 2) business models that can speed growth in service supply; 3) more predictable cash flow to service providers; and 4) improved financial policy-making through better data collection and analysis. See www.gatesfoundation.org.

5.3.8 Help low income households make smart savings choices

Consumer education and financial literacy training can help low income households to judge the relative risks of available savings options and to learn how different options can help them manage their finances more effectively. Enablers can support such initiatives at the local level through specific training programs, one-on-one counseling, or awareness campaigns in the locations where they operate. Alternatively, they can support more general consumer education initiatives, such as the development of financial literacy materials that can be used by any locally-based enabler, or a national campaign to raise awareness of good savings practices or the existence of a “quality grading system”. Enablers can also help to create a saving culture at whatever level they work by promoting the importance of savings and encouraging regular savings habits.

5.3.9 Advocate good microfinance practice by unregulated savings service providers

Enablers that operate at a local level can use their strategic position to encourage unregulated savings service providers to follow good practice as articulated by an appropriate Government strategy and/or microfinance association. They could encourage registration and basic reporting, as relevant, and assist with the identification of partners that could help deliver a broader range of quality savings services to their members.

ANNEXES

1. List of Research Questions

2. List of Secondary Sources

3. a. Sample Interview Guidelines and Questionnaire

b. Savings Product Survey

4. List of Interviews Conducted

5. Insurance Companies Active in Viet Nam

Annex 1: List of Research Questions

Insurance

1. What is the current attitude of insurers toward the low-income market?
 - Is there interest in serving the low income market?
 - Is that interest increasing or decreasing? What trends have been observed in the past few years and what has been driving those trends?
 - Are there any insurers that are less interested now than they used to be? If so, why did they lose interest?
 - If there are insurers that are more interested now than they used to be, why are they more interested?
 - Which specific institutions or agents would be potentially interested and/or best positioned to serve this market?
2. What is the current attitude of microfinance agents towards insurers?
 - Is there an increasing interest in partnering with insurance companies? What trends have been observed in the past few years and what has been driving those trends?
 - Which service providers would be potentially interested in partnering with insurance companies?
 - With what type of partner might they be willing to collaborate? Are some insurers looked upon more favourably than others? If so, why?
3. Which insurance products have been successful in serving low-income households and what are their features? (This includes special efforts to increase rural outreach of insurance such as mobile branches, marketing efforts, agency arrangements, and daily collection services.)
4. Are there any new (post-2003) insurance providers or products available in Viet Nam?
 - In the formal (both public and private) sector
 - In the semi formal sector: NGOs, mass organisations, INGOs
 - In the informal sector
5. How do the insurers that began offering services to the low-income market before mid-2003 describe their performance since that time? Have they made any changes in their services? Have they improved their existing insurance product(s) in some way, or introduced a new product?
6. What are the challenges/obstacles (financial, legal, others) that discourage insurance providers from serving the low income market? Are there specific challenges/obstacles to serving the low income rural market or low income women?

7. Has the regulatory environment for insurance for low income households changed in the past few years? Has it become more conducive for low income households? Is there any strategy to make it more conducive in the next 5 years? What are the critical issues in the regulatory environment that prevent or facilitate access to insurance products for low-income households?
8. Does the macro-economic environment have an impact on the insurance sector (international interest rate and exchange rate, etc.)?
9. How to overcome the challenges/obstacles faced by providers to effectively offer insurance services to low-income clients (new products, new delivery channels, partnership options, new legal requirements)?
10. What could be done by policy makers and support institutions (e.g., government agencies, international development organisations, regulators, researchers, etc.) to help financial institutions and service providers increase their outreach to the low-income market? Would carrots (e.g., tax incentives to institutions that serve the low-income market) or sticks (e.g., a law requiring financial institutions to include among their clients a certain percentage of low-income or rural households) be more effective?
11. What needs to be done to increase the supply of appropriate insurance products in rural areas?
12. What technologies exist in Vietnam that might be used to extend insurance to the low-income market?
13. What are the features of each insurance product currently being offered to the low-income market?
 - a. Product design
 - b. Price
 - c. Place
 - d. Promotion
 - e. Positioning
 - f. Process
 - g. Physical evidence
 - h. People
14. What is the performance of each insurance product currently being offered to the low-income market?
 - Number of customers (insurance policy holders)
 - Scale of business and recent growth trends
 - Geographical distribution, network (branches, agent network offering insurance services).

- Product profitability
- 15. What are the features of each insurance product currently under development for the low-income market?
- 16. Are some institutional types (or combinations of types) more effective (or likely to be more effective) in serving the low-income market than others, and why?

Savings

1. Which savings facilities have been successful in attracting deposits from low-income households and what are their features? (This includes special efforts to increase rural outreach of savings such as mobile branches, marketing efforts, agency arrangements, and daily collection services.)
2. What is the current attitude of financial institutions to attracting savings from the low-income market?
 - Is there interest in serving the low income market? Why or why not?
 - Is that interest increasing or decreasing? What trends have been observed in the past few years and what has been driving those trends?
 - What types of institutions are interested? Are the interested institutions already serving the low-income market with a savings service and wanting to expand their outreach, or are they new to savings and/or the low-income market?
 - Are there any institutions that are less interested now than they used to be? If so, why did they lose interest?
3. Are there any new (post-2003) service providers or savings products available in Viet Nam?
 - In the formal (both public and private) sector
 - In the semi formal sector: NGOs, mass organisations, INGOs
 - In the informal sector
4. How do the providers that began offering savings services to the low-income market before mid-2003 describe their performance since that time? Have they made any changes in their savings services? Have they improved their existing product(s) in some way, or introduced a new product?
5. What are the main constraints and challenges that providers face with respect to expanding their savings services to the low-income market?
 - What makes savings mobilisation difficult in the low-income market?
 - Are there specific challenges/obstacles to serving the low income rural market or low income women?
 - Is there any clear strategy to make it more conducive in the next 5 years (SEDP)?
 - What are the main constraints and challenges to expanding savings services to the low-income market? To rural areas?

6. Has the regulatory environment for savings facilities changed in the past few years? Has it become more conducive for low income households? What are the critical issues in the regulatory environment that prevent or facilitate access to savings products for lowincome households? Is there any clear strategy to make it more conducive in the next 5 years (SEDP)?
7. Does the macro-economic environment have an impact on savings mobilisation (international interest rate and exchange rate, etc.)?
8. What needs to be done to increase the supply of appropriate savings services in rural areas?
9. What could be done by policy makers and support institutions (e.g., government agencies, international development organisations, regulators, researchers, etc.) to help financial institutions and service providers increase their outreach to the low-income market? Would carrots (e.g., tax incentives to institutions that serve the low-income market) or sticks (e.g., a law requiring financial institutions to include among their clients a certain percentage of low-income or rural households) be more effective?
10. Are there steps that could or should be taken by financial institutions and service providers at the industry level to make it easier for all suppliers to deliver savings services to the low-income market?
11. What technologies exist in Vietnam that might be used to extend savings to the low income market?
12. What are the features of each savings product currently being offered to the low-income market?
 - a. Product design
 - b. Price
 - c. Place
 - d. Promotion
 - e. Positioning
 - f. Process
 - g. Physical evidence
 - h. People
13. What is the performance of each savings product currently being offered to the low-income market?
 - Number of customers (depositors)
 - Scale of business and recent growth trends (outstanding savings balances)
 - Savings mobilisation disaggregated by geographic area
 - Main sources of funds (role of savings mobilisation)

- Costs of savings service provision
 - Management issues relating to savings mobilisation
14. What are the features of each savings product currently under development for the low-income market?
 15. Are some institutional types (or combinations of types) more effective (or likely to be more effective) in serving the low-income market than others, and why?

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21/2005/TTLT/BYT-BTC: Guidelines for the implementation of compulsory health insurance scheme. July 27, 2005

21/2005/TT-BLĐTBXH: Circular providing guidance and amendments of Circular No. 11/2005/TT-BLĐTBXH dated January 5, 2005 on adjustment in retirement pension and social insurance allowance. 09/08/2005

22/2005/TTLT/BYT-BTC: Guidelines for the implementation of voluntary health insurance. August 24, 2005

270/2005/QĐ-TTg: Guidelines on the mobilization, the management and the use of postal savings by the VPSC. October 31, 2005

310/QĐ-CP: Approval of the project of equitizing Bao Viet Insurance Company and pilot test the establishment of Bao Viet Insurance - Financial Corporation. November 28, 2005

111/2005/TT-BTC: Circular of the Ministry of Finance providing guidelines for value added tax and corporate income tax applicable to insurance trading. December 13, 2005

2006

71/2006/QH11: New Social Insurance Law. July 29, 2006

14/2006/TT-BLĐTBXH: Guidelines for the increase of the pension and Social Insurance subsidy under the Government Decree No. 94/2004/ND-CP dated September 7, 2006. September 15, 2006

240/2006/QĐ-TTg: Guidelines for the implementation of the Voluntary Health Insurance scheme for population staffs, households and children at commune, ward and town levels. October 25, 2006

130/2006/ND-CP: Regulations on the compulsory Fire and Explosion Insurance scheme. November 8, 2006

Selected websites

AON Viet Nam: http://www.aon.com/as/en/about/aon_asia/asian/vietnam.jsp

Bao Minh: www.baominh.com.vn

Bao Viet: www.baoviet.com.vn

CEP: www.cep.org.vn

General Statistic of Viet Nam: www.gso.gov.vn

GRET: www.gret.org.vn

Micro-Credit Program: www.vietnamplus.org

Ministry of Finance: www.mof.gov.vn

The Canadian Centre for International Studies and Cooperation: www.cecivietnam.com

Viet Nam Development Information Center: www.vdic.org.vn

VUFO-NGO Resource Center: www.ngocentre.org.vn

The World Bank: www.worldbank.org/

Savings

Legal documents relating to savings issued since 2003

2004

1114/NHCS-KHNV: Guidelines on some trust contents between the Bank for Social Policy and socio-political organizations on the work of lending to low income households. July 3, 2004

1160/2004/QĐ-NHNN: Regulations on deposits promulgated by the Governor of the State Bank following to the Decision No.1160/2004/QĐ-NHNN of September 13, 2004. September 17, 2004

2005

28/2005/ND-CP: Decree on the organization and the operation of microfinance institutions. March 09, 2005

69/2005/ND-CP: Decree amending and supplementing a number of articles of Decree No. 48/2001/ND-CP of the Government on organization and operation of the People's Credit Funds. May 26, 2005

60/2005/QĐ-BNV: Decision allowing the establishment of the Viet Nam Association of People's Credit Funds. June 14, 2005

888/2005/QĐ-NHNN: Regulations on opening, setting up, and termination of operation of transaction bureaus, branches, representative offices and non-business units of commercial banks. June 16, 2005

109/2005/ND-CP: New regulations on deposit insurance. August 24, 2005

270/2005/QĐ-TTg: Regulations on the organization, the mobilization, the management and the use of the post-savings deposit source. October 31, 2005

2006

03/2006/TT-NHNN: Guidelines for some contents of the Government Decree No.89/1999/ND-CP on deposit insurance and the Government Decree No.109/2005/ND-CP on the revision and addition of some articles to the Decree No.89/1999/ND-CP. April 25, 2006

112/2006/QĐ-TTg: Decision approving the Banking Sector Development Strategy until 2010 and orientations toward 2020. May 24, 2006

06/8/2006/NHNN: Implementing Circular for the Decree 270/2005/QĐ-TTg. August 25, 2006

47/2006/QĐ-NHNN: Regulations on the revision and the addition of some articles to the Regulations on savings deposit promulgated together with the Decree No.1160/2004/QĐ-NHNN on September 13, 2004 by the Governor of the State Bank. September 25, 2006

144/2006/ND-CP: Decree guiding the operation of the rotating savings and credit associations, clarifying the rights and responsibilities of participating individuals. November 27, 2006

291/2006/QĐ-TTg: Decision approving the scheme on non-cash payment in Vietnam in the 2006-2010 period and orientations to 2020. December 29, 2006

Reports

General Statistics Office (GSO). 2000. *Viet Nam Living Standard Survey 1997-1998*. Hanoi: Statistical Publishing House.

Le Lan and Tran Nhu An. 2003. *Entering a new market: commercial banks and small micro-enterprises lending in Viet Nam*. ILO working paper No 3. Hanoi: ILO.

Le Lan and Tran Nhu An. 2003. *Towards a Viable Microfinance Sector in Viet Nam: Issues and Challenges*. ILO working paper No 5. Hanoi: ILO.

Ministry of Finance. 2006. *Viet Nam Insurance Market 2005*. Hanoi: Ministry of Finance.

State Bank of Viet Nam. 2003. *Plan of international integration of Viet Nam's banking system*. Unpublished report.

Selected websites

ACB Financial Annual Report for 2005:

www.acb.com.vn/english/news/images/pdf05/bc05en-46.pdf

Bank for Investment and Development of Viet Nam: www.bidv.com.vn

Eastern Asia Bank: www.eab.com.vn

Online Newspaper of the Communist Party: www.cpv.org.vn

Post-Life insurance services at Hanoi's Post Office: www.hnpt.com.vn

State Bank of Viet Nam: www.sbv.gov.vn

Viet Nam Economic Time: www.vneconomy.com.vn/eng

Viet Nam Postal Saving Service Company: www.vpsc.com.vn

Annex 3a: Sample Interview Guide and Questionnaire

Insurance

1. Could you please describe your clientele? *(Probe to understand the general composition: rural/urban, male/female, income level, type of employment, etc.)*
2. Do you serve or have you ever served a low income market? If so, how would you describe that market? *(Probe to understand where they live, their gender, average annual income, type of assets, type of employment)*



If the respondent's description matches our definition of low income, go to question 30. If not, continue with question 3.

3. Are you interested in serving LOWER income clients than you are currently serving? Why or why not? *(If no, probe for the specific financial, legal, market knowledge or other obstacles that discourage them from serving a lower-income market.)*
4. Are you interested in serving more rural clients than you are currently serving today? Why or why not? *(If no, probe for the specific financial, legal, market knowledge or other obstacles that discourage them from serving a rural market.)*
5. Have you tried in the past to reach lower income or more rural clients? If yes, what was your experience? What was the market's response and why do you think it responded in that way?



If the respondent is interested in serving lower income clients, go to question 14. If not, continue with question 6.

6. What would make the lower income market more attractive to you in the future? *(Probe for specifics, e.g., how profitable would the market have to be, how many successful examples would they need to see, etc.)*
7. Would a tax incentive encourage your organization to serve lower income clients? If yes, what kind of an incentive would be attractive?
8. If a law were passed that required insurance providers to include among their clients a certain percentage of low income or rural households, how would you respond?
9. Are you currently partnering with other organizations or companies to provide insurance services? Have you ever tried to deliver an insurance product through a partnership with another entity? If no, why not? If yes, how does/did the partnership

work? *(Probe to uncover the roles and responsibilities of each partner, the benefits gained by each partner, the secrets to success of the partnership or the reasons for failure.)*

10. If you were to partner with another organization to provide insurance services in the future, what kind of partner would you look for *(e.g., size of institution, type of institution, location, history)*? Who would you not partner with and why?
11. Are you using electronic technologies such as ATMs, biometrics, smart cards, point-of-sale devices or handheld devices to deliver your product? Have you explored the possibility of using such technologies?
12. Have you heard about any institutions that are currently experimenting with insurance products for lower income households? *(Probe for details.)* Do you find any of these experiments intriguing?
13. What recommendations do you have for increasing the supply of insurance services to lower income households?

END OF INTERVIEW FOR “NON-INTERESTED” SOURCES

14. Do you think any of your current products might be of interest to lower income clients? If so, which products? *(Try to gather literature and/or marketing materials for each product mentioned.)*
15. What do you think prevents or deters lower income clients from accessing these products today? Do certain criteria/features/mechanisms exclude lower income women in particular? How accessible are these products in rural areas?
16. In your opinion, what would it take to make the products mentioned above attractive to lower income households? To rural clients? To lower income women? *(If the respondent has identified several products, ask for each product.)*
17. How important is it for you to reach a lower income market *(e.g., low priority, medium priority, high priority)*? Is this part of your 3-5 year business/strategic plan?
18. Do you have any products currently under development for a lower income market? If not, what are the steps that your organization would need to take to develop a product for lower income clients? *(Probe to estimate how long the process would take.)*
19. If you were to develop an insurance product for a lower income market, would you prefer to partner with another organization to deliver the product or would you prefer to deliver it on your own? Why?
20. Are you currently partnering with other organizations or companies to provide insurance services? Have you ever tried to deliver an insurance product through a partnership with another entity? If no, why not? If yes, how does/did the partnership work? *(Probe to uncover the roles and responsibilities of each partner, the benefits gained by each partner, the secrets to success of the partnership or the reasons for failure.)*

21. If you were to partner with another organization to provide insurance services in the future, what kind of partner would you look for *(e.g., size of institution, type of institution, location, history)*? Who would you not partner with and why?
22. What do you think would be most difficult about delivering insurance to lower income clients?
23. What would make the idea of serving a lower income market more attractive to you in the future? *(Probe for specifics, e.g., how profitable would the market have to be, how many successful examples would they need to see, what would the government have to do, etc.)*
24. What would make the idea of serving a lower income market less attractive to you in the future?
25. Would a tax incentive encourage your organization to serve lower income clients? If yes, what kind of an incentive would be attractive?
26. If a law were passed that required insurance providers to include among their clients a certain percentage of low-income or rural households, how would you respond?
27. Are you using electronic technologies such as ATMs, biometrics, smart cards, point-of-sale devices or handheld devices to deliver your product? Have you explored the possibility of using such technologies?
28. Have you heard about any other institutions that are currently experimenting with insurance products for lower income households? *(Probe for details.)* Do you find any of these experiments intriguing? Why? *(Probe to find out why other experiments are perceived to be successful, unsuccessful or interesting.)*
29. What recommendations do you have for increasing the supply of insurance services to lower income households?

END OF INTERVIEW FOR “POTENTIALLY INTERESTED” SOURCES

30. Approximately what percentage of your customer base would you consider to be low income?
31. When did you start serving the low income market? Was this deliberate or accidental? *(If deliberate, what did they start doing differently in attempt to reach the low income market?)* Why did you decide to serve this market?
32. Which insurance products do you market specifically to lower income households? *(Try to gather literature and/or marketing materials for each product mentioned.)*
33. Which of these products are particularly popular in low income markets? In urban vs. rural areas? With women? Why are they so popular? *(Probe for specific marketing or delivery features.)* Have they always been popular or have they been improved over time? *(If they have been improved, probe to find out what changes were made, why, and*

which changes were received most positively.)

34. Are your popular products also profitable for your institution? How long have they been profitable? Have they been consistently profitable? What makes them profitable? *(If institutions cannot provide statistics, try to get a sense of which products they perceive to be most profitable. Also, probe to find out what they think makes the product successful, e.g., the incentive system, the product design, a delivery mechanism, etc.)*
35. Do low income households use any other insurance products that you market generally *(i.e., not specifically for the low income market)*? If so, which products and why are they attractive?
36. What do you think prevents or deters some low income households from accessing your products today? Do certain criteria/features/mechanisms exclude lower income women in particular? How accessible are your products in rural areas? *(Probe to find out what low income households do not like about the insurance products currently on offer.)*
37. Have your lower income clients requested insurance products that you do not currently offer? If so, which products? Do you have any plans to introduce these products?
38. Do you have any new products currently under development for the low income market? If not, what are the steps that your organization would need to take to develop a new product for low income clients? *(Probe to estimate how long the process would take, how systematic it would be and where it would begin.)*
39. Have any of the products that you specifically marketed to low income clients failed or been discontinued? If so, what was the reason for the failure or termination?
40. In the last three years, what challenges or obstacles have you overcome with respect to delivering insurance products to low income households? How have you overcome them?
41. What challenges or obstacles do you still face with respect to delivering insurance products to low income households? *(Probe to identify challenges specifically related to expansion, reaching urban vs. rural areas, and reaching low income women.)*
42. What is your plan *(or do you have any ideas)* for meeting those challenges?
43. What could others do to help you meet your challenges and/or remove some of the obstacles you face as you try to serve low income households? *(Probe to identify what specific types of actors might do, e.g., different government agencies, regulators, researchers, other financial institutions, mass organizations, etc.)*
44. In the last three years, has the legal and regulatory environment become more or less supportive of your efforts to deliver insurance to low income households? What are the critical issues that prevent or facilitate access to insurance products for low income households?

45. In the last three years, has the macroeconomic environment had an impact on your ability to provide insurance services to low income households?
46. Are you currently partnering with other organizations or companies to provide insurance services? Have you ever tried to deliver an insurance product through a partnership with another entity? If no, why not? If yes, how does/did the partnership work? *(Probe to uncover the roles and responsibilities of each partner, the benefits gained by each partner, the secrets to success of the partnership or the reasons for failure.)*
47. If you were to develop a new insurance product for the low income market, would you prefer to partner with another organization to deliver the product or would you prefer to deliver it on your own? Why?
48. If you were to partner with another organization to provide insurance services in the future, what kind of partner would you look for *(e.g., size of institution, type of institution, location, history)*? Who would you not partner with and why?
49. Would a tax incentive encourage your organization to serve more low income clients? If yes, what kind of an incentive would be attractive?
50. In your opinion, should a law be passed that requires insurance providers to include among their clients a certain percentage of low income households?
51. Are you using electronic technologies such as ATMs, biometrics, smart cards, point-of-sale devices or handheld devices to deliver your product? Have you explored the possibility of using such technologies?
52. Have you heard about any other institutions that are currently experimenting with insurance products for lower income households? *(Probe for details.)* Do you find any of these experiments intriguing? Why? *(Probe to find out why other experiments are perceived to be successful, unsuccessful or interesting.)*
53. In general, do you believe that insurance services are becoming more or less accessible to low income households in Vietnam? Why?
54. What recommendations do you have for increasing the supply of insurance services to lower income households?

 **END OF INTERVIEW FOR “ALREADY INTERESTED” SOURCES**

Savings

1. Could you please describe your clientele? What market(s) or customers are you trying to serve? *(Probe to understand the general composition: rural/urban, male/female, income level, type of employment, etc.)*
2. Are you currently reaching the low income market? If so, how would you describe that market? *(Probe to understand where they live, their gender, average annual income, type of assets, type of employment).* If not, why not?



If the institution is serving a market that matches our definition of low income, go to question 27. If not, continue with question 3.

3. Are you interested in serving LOWER income clients than you are currently serving? Why or why not? *(If no, probe for the specific financial, legal, market knowledge or other obstacles that discourage them from serving a lower-income market.)*
4. Are you interested in serving more rural clients than you are currently serving today? Why or why not? *(If no, probe for the specific financial, legal, market knowledge or other obstacles that discourage them from serving a lower-income market.)*
5. Have you tried in the past to reach lower income or more rural clients? If yes, what was your experience? What was the market's response and why do you think it responded in that way?



If the institution is interested in serving lower income clients, go to question 13. If not, continue with question 6.

6. What would make the lower income market more attractive to you in the future? *(Probe for specifics, e.g., how profitable would the market have to be, how many successful examples would they need to see, etc.)*
7. If a law were passed that required savings service providers to include among their clients a certain percentage of low income or rural households, what strategy might you take in response?
8. Are you currently partnering with other organizations or companies to provide savings services? Have you ever tried to deliver a savings product through a partnership with another entity? If no, why not? If yes, how does/did the partnership work? *(Probe to uncover the roles and responsibilities of each partner, the benefits gained by each partner, the secrets to success of the partnership or the reasons for failure.)*
9. If you were to partner with another organization to provide savings services in the future, what kind of partner would you look for *(e.g., size of institution, type of institution, location, history)*? Who would you not partner with and why?

10. Are you using electronic technologies such as ATMs, biometrics, smart cards, point-of-sale devices or handheld devices to deliver your product? Have you explored the possibility of using such technologies?
11. Have you heard about any institutions that are currently experimenting with savings products for lower income households? *(Probe for details.)* Do you find any of these experiments intriguing?
12. What recommendations do you have for increasing the supply of savings services to lower income households?



END OF INTERVIEW FOR “NON-INTERESTED” SOURCES

13. Do you think any of your current products might be of interest to lower income clients? If so, which products? *(Try to gather literature and/or marketing materials for each product mentioned.)*
14. What do you think prevents or deters lower income clients from accessing these products today? Do certain criteria/features/mechanisms exclude lower income women in particular? How accessible are these products in rural areas?
15. In your opinion, what would it take to make the products mentioned above attractive to lower income households? To rural clients? To lower income women? *(If the respondent has identified several products, ask for each product.)*
16. How important is it for you to reach a lower income market *(e.g., low priority, medium priority, high priority)*? Is this part of your 3-5 year business/strategic plan?
17. Do you have any products currently under development for a lower income market? If not, what are the steps that your organization would need to take to develop a product for lower income clients? *(Probe to estimate how long the process would take, how systematic it would be and where it would begin.)*
18. If you were to develop a savings product for a lower income market, would you prefer to partner with another organization to deliver the product or would you prefer to deliver it on your own? Why?
19. Are you currently partnering with other organizations to provide savings services? Have you ever tried to deliver a savings product through a partnership with another entity? If no, why not? If yes, how does/did the partnership work? *(Probe to uncover the roles and responsibilities of each partner, the benefits gained by each partner, the secrets to success of the partnership or the reasons for failure.)*
20. If you were to partner with another organization to provide savings services in the future, what kind of partner would you look for *(e.g., size of institution, type of institution, location, history)*? Who would you not partner with and why?

21. What do you think would be most difficult about delivering savings to lower income clients?
22. What would make the idea of serving a lower income market more attractive to you in the future? *(Probe for specifics, e.g., how profitable would the market have to be, how many successful examples would they need to see, what would the government have to do, etc.)*
23. If a law were passed that required savings providers to include among their clients a certain percentage of low-income or rural households, what would you do?
24. Are you using electronic technologies such as ATMs, biometrics, smart cards, point-of-sale devices or handheld devices to deliver your product? Have you explored the possibility of using such technologies?
25. Have you heard about any other institutions that are currently experimenting with savings products for lower income households? *(Probe for details.)* Do you find any of these experiments intriguing? Why? *(Probe to find out why other experiments are perceived to be successful, unsuccessful or interesting.)*
26. What recommendations do you have for increasing the supply of savings services to lower income households?

 END OF INTERVIEW FOR “POTENTIALLY INTERESTED” SOURCES

27. Approximately what percentage of your customer base would you consider to be low income?
28. When did you start serving the low income market? Was this deliberate or accidental? *(If deliberate, what did they start doing differently in attempt to reach the low income market?)* Why did you decide to serve this market?
29. Which savings products do you market specifically to lower income households? *(Try to gather literature and/or marketing materials for each product mentioned.)*
30. Which of these products are particularly popular in low income markets? In urban vs. rural areas? With women? Why are they so popular? *(Probe for specific marketing or delivery features.)* Have they always been popular or have they been improved over time? *(If they have been improved, probe to find out what changes were made, why, and which changes were received most positively.)*
31. Are your popular products also profitable for your institution? How long have they been profitable? Have they been consistently profitable? What makes them profitable? *(If institutions cannot provide statistics, try to get a sense of which products they perceive to be most profitable. Also, probe to find out what they think makes the product successful, e.g., the incentive system, the product design, a delivery mechanism, etc.)*

32. Do low income households use any other savings products that you market generally *(i.e., not specifically for the low income market)*? If so, which products and why are they attractive?
33. What do you think prevents or deters some low income households from accessing your products today? What makes it difficult for them to use your product? Do certain criteria/features/mechanisms exclude lower income women in particular? How accessible are your products in rural areas? *(Probe to find out what low income households do not like about the savings products currently on offer.)*
34. Have your lower income clients requested savings products that you do not currently offer? If so, which products? Do you have any plans to introduce these products?
35. Do you have any new products currently under development for the low income market? If not, what are the steps that your organization would need to take to develop a new product for low income clients? *(Probe to estimate how long the process would take, how systematic it would be and where it would begin.)*
36. Have any of the products that you specifically marketed to low income clients failed or been discontinued? If so, what was the reason for the failure or termination?
37. In the last three years, what challenges or obstacles have you overcome with respect to delivering savings products to low income households? How have you overcome them?
38. What challenges or obstacles do you still face with respect to delivering savings products to low income households? *(Probe to identify challenges specifically related to expansion, reaching urban vs. rural areas, and reaching low income women.)*
39. What is your plan *(or do you have any ideas)* for meeting those challenges?
40. What could others do to help you meet your challenges and/or remove some of the obstacles you face as you try to serve low income households? *(Probe to identify what specific types of actors might do, e.g., different government agencies, regulators, researchers, other financial institutions, mass organizations, etc.)*
41. In the last three years, has the legal and regulatory environment become more or less supportive of your efforts to deliver savings to low income households? What are the critical issues that prevent or facilitate access to savings products for low income households?
42. In the last three years, has the macroeconomic environment had an impact on your ability to provide savings services to low income households?
43. Are you currently partnering with other organizations or companies to provide savings services? Have you ever tried to deliver a savings product through a partnership with another entity? If no, why not? If yes, how does/did the partnership work? *(Probe to uncover the roles and responsibilities of each partner, the benefits gained by each partner, the secrets to success of the partnership or the reasons for failure.)*

44. If you were to develop a new savings product for the low income market, would you prefer to partner with another organization to deliver the product or would you prefer to deliver it on your own? Why?
45. If you were to partner with another organization to provide savings services in the future, what kind of partner would you look for (*e.g., size of institution, type of institution, location, history*)? Who would you not partner with and why?
46. In your opinion, should a law be passed that requires savings providers to include among their clients a certain percentage of low income households?
47. Are you using electronic technologies such as ATMs, biometrics, smart cards, point-of-sale devices or handheld devices to deliver your product? Have you explored the possibility of using such technologies?
48. Have you heard about any other institutions that are currently experimenting with savings products for lower income households? (*Probe for details.*) Do you find any of these experiments intriguing? Why? (*Probe to find out why other experiments are perceived to be successful, unsuccessful or interesting.*)
49. In general, do you believe that savings services are becoming more or less accessible to low income households in Vietnam? Why?
50. What recommendations do you have for increasing the supply of savings services to lower income households?

☒ **END OF INTERVIEW FOR “ALREADY INTERESTED” SOURCES**

Annex 3b: Savings Product Survey

ILO/Ford Foundation Research Initiative on Expanding Access to Savings and Insurance Services for Low Income Households

I. General information

1. Information on the respondents:			
Full name	Position	Contact	
.....			
2. Name of institution:			
3. Ownership (public, private, joint venture, NGO...):			
4. When was the institution established?			
5. Chartered capital:			
6. Total assets:			
7. Location of operations (nation wide, in some provinces/cities, region...):			
8. Please specify the number of the institution's branches, representative offices, agents and ATMs that provide savings services. Branches:Agents: Representative offices: ATMs:			
9. When did your institution start mobilizing voluntary savings?			
10. The total number of clients/members of your institution today: Out of which the number of savings depositors is:			

II. Product Information:

11. Please list all of the savings products that are currently provided by your institution and the respective interest rate and term of each (<i>For example: Term saving, 3 months, 0,55%/month...</i>):			
No	Product	Term	Interest rate
.....			
.....			

12. Does your institution set limits for its savings products?
If No, note No; if Yes please specify the amount:

No	Product	Opening Deposit		Each Subsequent Deposit		Balance	
		Minimum	Maximum	Minimum	Maximum	Minimum	Maximum

13. Please specify the reasons why your institution set the above limits:
.....
.....

III. Deposit and withdrawal procedures:

14. Please explain the savings deposit procedure :
(Requirements? Identification papers? Steps to follow? Papers kept by the depositor after transaction...)
.....
.....

15. Please explain the withdrawal procedure:
Papers to be submitted:
.....
Steps to follow:
.....

16. What are the terms and conditions for early withdrawal?
.....

17. What are the terms and conditions for late withdrawal?
.....

18. Where do the clients perform the deposit and withdrawal transactions?
☐ At a branch or service outlet
☐ At ATMs
A staff member or agent will meet clients at a place outside of the branch
(Please specify where they meet and how frequently, e.g. at the clients' home or business)
.....
☐ Other.....

19. Please specify your weekly working time:
.....

IV. Client Market:

20. Are there any restrictions or conditions on who can save with your institution?
(For MFIs and community-based groups, please specify the conditions for becoming a member of your institution.)
.....

21. How does your institution market its savings products? *(For example, through advertising, personal sales, word-of-mouth, sales promotions, public relations, direct marketing)?*
.....

22. Has your institution ever conducted studies on the needs and potential for savings of low income clients, particularly in rural areas? Why?
.....
If “Yes” how was that study conducted? Could you give us the results of the study?
.....

V. Results

23. Please provide us with some information on the savings results gained by your institution in the past 3 years:

	2003	2004	2005
Total number of savings accounts (as of Dec 31)			
Total amount of deposits (as of Dec 31)			

24. If it is possible, could you provide us with information on your savings results segmented by product:

Product	Number of Depositors			Average Outstanding Balance			Profitability		
	2003	2004	2005	2003	2004	2005	2003	2004	2005

25. Could you specify the mechanisms to protect clients' deposit from risks?
(E.g. insurance...)
.....
.....

Thank you for taking the time to contribute to this research initiative!

Annex 4: List of Interviews Conducted

Insurance

	Representative	Institution	Location
1.	Mr. Hoang Tran Hau, Insurance Lecturer	Academy of Finance	Hanoi
2.	Dr. Jerry Skees, Chief Consultant	ADB-sponsored Agriculture Insurance Development Project	Hanoi
3.	Ms. Tran Thi Hoang Lan, Deputy Managing Director	Aon Viet Nam Ltd., Insurance Broking Firm	Hanoi
4.	Mr. Phung Dac Loc, General Secretary	Association of Vietnamese Insurers	Hanoi
5.	Ms. Hua Thanh Binh, Manager of Personal Insurance Department and Mr. Vo Duy Cuong, of same Department	Bao Minh Corporation	Hanoi/HCMC
6.	Mr. Luong Xuan Truong, Head of Product Development Department	Bao Viet Life Insurance Company	Hanoi
7.	Mr. Do Hoang Phuong, Deputy General Manager	Bao Viet, Department of Health & Personal Accident Insurance	Hanoi
8.	Ms. Truong Thi Hoan, Head of Reinsurance Department	BIC (Bank for Development and Investment Insurance Company)	Hanoi
9.	Mr. Alain Latouche, Technical Director	Groupama Viet Nam	HCMC
10.	Dr. Nguyen Thi Dinh, Vice Dean, Insurance Department	Hanoi National Economics University	Hanoi
11.	Dr. Nguyen Duong Nghieu, Professor	Institute of Finance Research	Hanoi
12.	Dr. Phi Trong Thao, Director	Insurance Training Centre, Bao Viet	Hanoi
13.	Dr. Nguyen Hai Huu, Director of Social Protection Department	Ministry of Labour, Invalids and Social Affairs	Hanoi
14.	Mr. Do Minh Hoang, Acting Director	Agriculture Bank JS Insurance Company	Hanoi

15.	Mr. Tran Ba Phuoc, General Director	Prevoir Viet Nam Life Insurance Company	HCMC
16.	Mr. Hoang Kien Thiet, Director of Voluntary Health Insurance/Mr. Luu Viet Tinh, Head of General Department, Voluntary Health Insurance	Viet Nam Social Insurance	Hanoi
17.	Dang Tung Lam, Legal Officer	Techcombank	Hanoi
18.	Mr. Nguyen Van Chien, Director	Viet Nam Farmer Organization	Hanoi
19.	Ms. Nguyen Thi Bich Van, National Project Coordinator	ILO Office in Viet Nam	Hanoi
20.	Ms. Pham Thi Hong Hanh, Deputy Head of Social Employment Division	Viet Nam Red Cross Society	Hanoi
21.	Ta Duong Thuong, Head of the Research and Training Department/Le Vo Tan Luy, Expert	CEP	HCMC
22.	Mr. Nguyen Thanh Hoa, Commercial Line Manager	AIG	HCMC
23.	Mr. Dao Nam Hai, Deputy General Director	PJICO	Hanoi
24.	Mr. Dang Duc Hoang, Deputy General Director and Mr. Ngo Quang Dung, Chief Controller	AAA	HCMC
25.	Mr. Le Van Nghia, Head of Commercial Insurance Department	Vien Dong	HCM
26.	Ms. Nguyen Thu Huong, Marketing and Communication Manager	Gras Savoye Willis Viet Nam	HCMC
	Mr. Le Song Lai - Vice CEO	State Capital Investment Cooperation	Hanoi

Savings

	Representative	Institution	Location
1.	Mr. Bui Chinh Hung, Deputy Head of Information and International Relation Division	Viet Nam People's Credit Association	Hanoi
2.	Mr. Phan Cu Nhan - Head of International Cooperation Department	Viet Nam Bank for Social Policy	Hanoi
3.	Ms. Quach Tuong Vy, Head of Microfinance Unit; Non-bank Credit Institution Division	Bank and Non-bank Credit Institutions Department, State Bank of Viet Nam	Hanoi
4.	Ms. Pham Thi Hai, Vice - Director	Department for Credit Cooperative, State Bank of Viet Nam	Hanoi
5.	Mr. Michel Belanger, Project Director; Ms. Nguyen Thi Van Anh, Officer	Desjardins International Developpment (DID)	Hanoi
6.	Ms. Pham Thuy Linh, HR Manager	TYM (Central level)	Hanoi
7.	Ms. Nguyen Thi Xuan - Chairwoman and Ms. Nguyen Thi Viet Ha	Women's union (Vinh Tuong District - Vinh Phuc Province)	Vinh Phuc
8.	Mr. Luu Van Chien, Deputy Director, and Ta Tien Thanh, Head of Planning Division	Provincial Bank for Social Policy (Vinh Phuc Province)	Vinh Phuc
9.	Nguyen Cong Luu, Director	Bank for Social Policy of Vinh Tuong District (Vinh Phuc Province)	Vinh Phuc
10.	Ms. Le Thi Thom and Ms. Pham Thi Hong (TYM); Pham Dinh Chien (Party Secretary of Commune)	TYM branch in Vinh Phuc (Co Tich Hamlet, Dong Cuong Commune, Yen Lac District, Vinh Phuc Province)	Vinh Phuc
11.	Mr. Dam Van Tan, Manager	People's Credit Fund of Vinh Thinh Commune (Vinh Tuong District, Vinh Phuc Province)	Vinh Phuc

12.	Ms. Le Thi Thom, Manager of Fund	Branch of GRET (Co Tich Hamlet, Dong Cuong Commune, Yen Lac District, Vinh Phuc Province)	Vinh Phuc
13.	Ms. Nguyen Thi Coi , Manager of Fund; Ms. Ha Thi Tinh, Ms. Le Thi Liem	Branch of GRET (Hoang Xa Hamlet, Vinh Thinh Commune, Vinh Tuong District, Vinh Phuc Province)	Vinh Phuc
14.	Mr. Pham Khanh Son Deputy Director, Ms. Dinh Thi Ngoc Anh, Accountant	Easten Asia Bank (Ha Noi Branch)	Hanoi
15.	Dr. Dao Van Hung - Vice	Faculty of Banking and Finance, National Economics University	Hanoi
16.	Ms. Le Lan, Freelance consultant	AAV	Hanoi
17.	Ms. Dao Thu Nga, Officer	Bank Training Center	Hanoi
18.	Ms. Dinh Thi Hau, Manager	Uong Bi Fund for Women's Promotion (Uong Bi, Quang Ninh)	Quang Ninh
19.	Ms. Nguyen Thi Soat, Manager	Dong Trieu Women's Trust Fund (Dong Trieu, Quang Ninh)	Quang Ninh
20.	Nguyen Huu Tat, Director	Cau Dien People's Credit Fund (Tu Liem District, Hanoi)	Hanoi
21.	Ms. Nguyen Thi Mai Huong, Auditor	TECHCOMBANK	Hanoi
22.	Ms. Le Quynh Lan, Deputy Head of Administrative Organization Division	Vietnam Postal Service Company (VPSC), Headquarter	Hanoi
23.	Mr. Ta Duong Thuong, Head of the Research and Training Department	CEP in Ho Chi Minh City	Ho Chi Minh City
24.	Mr. Nguyen Quang Ben, Director	PCF in An Lac, HCM City	Ho Chi Minh City
25.	Ms. Nguyen Thi Thai, Branch Director	ACB Branch in Phu Nhuan, HCM City	Ho Chi Minh City
26.	Mr. Tran Ngoc Hung, Director	CCM	Ho Chi Minh City
27.	Pham Thi Viet Phuong - Accountant	SACOMBANK	Hanoi
28.	Ms. Pham Thi Minh Tam - Chief Accountant	Vietnam Bank for Agriculture and Rural Development	Hanoi

Annex 5: Insurance Companies Active in Vietnam

Name of Companies	Established	Ownership
Non-Life Sector		
1. Bao Viet Viet Nam Corporation	1964	State owned
2. Bao Minh JS. Insurance Company	1994	Joint Stock
3. Bao Long JS. Insurance Company	1995	Joint Stock
4. Petrolimex JS. Insurance Company (PJICO)	1995	Joint Stock
5. Petro Viet Nam JS. Insurance Company (PVI)	1996	Joint Stock
6. Vietnam International Assurance Company (VIA)	1996	Joint Venture
7. United Insurance Company (UIC)	1997	Joint Venture
8. Post and Telecommunication JS. Insurance Company (PTI)	1998	Joint Stock
9. Groupama Viet Nam General Insurance Company	2001	100% Foreign Investment
10. SamSung-Vina Joint Venture Insurance Company	2002	Joint Venture
11. Incombank Asia Insurance Company (IAI)	2002	Joint Venture
12. Vien Dong JS. Insurance Company	2003	Joint Stock
13. AAA JS. Insurance Company	2005	Joint Stock
14. AIG Viet Nam Company	2005	100% Foreign Investment
15. QBE Insurance Company	2005	100% Foreign Investment
16. BIC	2006	State owned
17. ACE Insurance Company	2006	100% Foreign Investment
18. Liberty Insurance Company	2006	100% Foreign Investment
19. Bao Tin JS. Insurance Company	2006	Joint Stock
20. Global Insurance Company (GIC)	2006	Joint Stock
21. Agriculture Bank JS. Insurance Company (AIC)	2006	Joint Stock

Life Sector

1. Prudential Viet Nam Co., Ltd	1999	100% Foreign Investment
2. Bao Viet Life	1996	State owned
3. Prevoir Viet Nam Life Insurance Co., Ltd	2005	100% Foreign Investment
4. Bao Minh CMG Life Insurance Co.	2000	Joint Stock
5. AIA Co.	2000	100% Foreign Investment
6. ACE Life Viet Nam	2005	100% Foreign Investment
7. Manulife Life Insurance Co.	1999	100% Foreign Investment

Insurance Brokers

1. AON Viet Nam Ltd.,	1994	100% Foreign Investment
2. Marsh Viet Nam Ltd.,	2005	100% Foreign Investment
3. Gras Savoye-Willis Viet Nam Ltd.,	2003	100% Foreign Investment
4. A Dong JS. Insurance Broker	2003	Joint Stock
5. Viet Quoc JS. Insurance Broker	2003	Joint Stock
6. Dai Viet JS. Insurance Broker	2003	Joint Stock
7. Cimeico JS. Insurance Broker	2006	Joint Stock