Insurance
Vietnam

Client Alert

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New Draft Regulations on Compulsory Fire and Explosion Insurance offered by Non-Life Insurers

The Ministry of Finance of Vietnam (the "**MOF**") has recently released the draft of a new Decree to regulate compulsory fire and explosion insurance products provided by local general/non-life insurers (the "**Draft Decree**"). The Draft Decree aims at improving the consistency between relevant regulations of the Law on Insurance Business and those of the Law on Fire Prevention and Fighting, as well as addressing implementation issues of current regulations under Decree No. 130.[1] Specifically, the Draft Decree proposes clarifications and amendments to current regulations on, among other things, minimum sums insured, insurance premiums, compulsory contribution of the insurers to the budget maintained by the relevant public security authority for fire prevention and fighting purposes, and exclusions of insurance policies.

Snapshot of the Vietnamese insurance market

According to a proposal letter of the MOF to the Government on the Draft Decree:

- Based on the statistics provided by the Vietnam Fire and Rescue Police Department (the Ministry of Public Security), nationwide, there are currently 77,892 establishments required under Vietnamese law to purchase compulsory fire and explosion insurance. Of these establishments, 43,693 (accounting for 56%) have purchased fire and explosion insurance;

- Based on local non-life insurers' reports, from 2007 to 2016, total revenue from original insurance premiums for compulsory fire and explosion insurance has reached about VND8,900 billion (approx. USD391 million), with an average annual growth rate of about 14%. The total amount of insurance proceeds paid for compulsory fire and explosion insurance products is approximately VND3,500 billion (approx. USD154 million), yielding an indemnity ratio of 39.3%; and

- From 2007 to 2016, local non-life insurers have contributed about VND72.47 billion (approx. USD3.1 million), equivalent to 5% of the collected insurance premiums to the budget for fire prevention and fighting expenses.

[1] Decree No. 130/2006/ND-CP dated 8 November 2006 of the Government regulating compulsory fire and explosion insurance ("**Decree No. 130**").

Specific amendments proposed under the Draft Decree

A. Determination of minimum sums insured

Under Decree No. 130, the minimum sum insured is defined as the monetary value equal to the market value of the insured properties at the time of insurance participation/inception.

In order to address the cases in which such a market value cannot be determined, the Draft Decree provides additional guidelines for the agreement between the insurer and the policyholder in this respect, specifically:

- For the insured properties that are houses, architectural works and attached equipment, machinery and equipment, the minimum sum insured shall be the remaining value or the replacement value of the insured properties at the time of insurance inception, as agreed between the insurer and the policyholder; and

- For other insured properties that are goods and supplies (including materials, semi-finished products, finished products), the minimum sum insured shall be the monetary value declared by the policyholder.

B. Determination of insurance premiums

In practice, in order to ensure their own financial safety, local insurers often cede certain parts of insurance to offshore insurers. Therefore, insurance premiums of local insurers also depend on the international re-insurance markets.

In order to allow some flexibility for local insurers, the Draft Decree generally proposes that insurance premiums be formulated based on statistics, ensuring the solvency of local insurers and corresponding to insurance conditions and liabilities. The MOF is required, based on the above general principles, to formulate detailed guidance on the determination of insurance premiums that may vary depending on the type of establishments/facilities.

C. Insurers' compulsory contribution for fire prevention and fighting purposes

Under Decree No. 130, local non-life insurers must contribute 5% of the total amount of their collected insurance premiums to a budget maintained by the relevant public security authority for fire prevention and fighting purposes. However, taking into account the losses of fire and explosion insurance businesses in recent years, the MOF proposes a reduction of this compulsory contribution. In particular, under the Draft Decree, the compulsory contribution rate is reduced to 1% of the total premiums for compulsory fire and explosion insurance products that the insurers have actually collected from their original insurance policies with their clients within the fiscal year preceding the year of contribution. With this proposed reduction of the rate, the MOF expects that the general annual growth of the compulsory fire and explosion insurance business will still reach 14% in the coming years and that the amounts to be contributed will still provide sufficient support to the fire prevention and fighting activities.

Actions to consider

In light of the above developments, local non-life insurers that sell compulsory fire and explosion insurance products may need to review their relevant policy document forms and templates to prepare for the up-coming regulations.

In the meantime, however, as these regulations are still in draft form, local non-life insurers can recommend further revisions and supplements to the Draft Decree.

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If you would like to discuss opportunities for your insurance business and how our Firm can assist you with your operation in Vietnam, please do not hesitate to contact us.

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