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Analysis of Capital Assessment Criteria at PTI Non-life Insurance Enterprises

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Abstract
The article sheds light on the stated research objectives. Based on the set of criteria for capital assessment at non-life insurance enterprises, the author conducted an experimental assessment at Post - Telecommunication Joint - Stock Insurance Corporation. The assessment results show that PTI currently has a low capital capacity compared to the market (VND 804 billion). Specifically, PTI is ranked 3rd in terms of revenue but only 9th in terms of charter capital size compared to non-life insurance companies. PTI hardly has the opportunity to participate in large insurance policies, limiting its ability to compete with competitors in the market. PTI has a Solvency Margin as stipulated by the Ministry of Finance in 2022 is quite low (117%), a sharp decline compared to 2021 (168%). The business has a huge change in equity and it indicates the financial capacity of the business for the worse. The reason is that Vietnam Post Corporation (VNPost) successfully divested all capital in PTI, causing capital capacity to be low compared to the market and the risk of not ensuring a solvency margin. However, the equity change target shows that equity with total liabilities received without taking into account the assistance of PTI's reinsurers is still warranted. Although Vietnam Post Corporation (VNPost) divested all capital, PTI still secured capital to cope with abnormal fluctuations in losses.

Keywords: Capital, Non-life Insurer, PTI

1. Introduction

Circular No.: 07/VBHN-BTC on The Ministry of Finance's Guidance on Assessment and Classification of Insurers aims to "Insurers assess, classify and proactively take appropriate measures to improve operational efficiency, financial capacity, quality of corporate governance and risk management; The Ministry of Finance shall supervise the implementation of the contents mentioned in Clause 1 of this Article by the insurer; take appropriate measures to ensure that insurers and the insurance market operate safely, healthily and stably." [10]. This Circular eliminates potential risks for the insurance business market, enterprises, investors, partners, and customers through the quality of capital assessment indicators at non-life insurance enterprises. The goal of this article is to clarify the theoretical basis, regulations, calculation, and meaning of capital indicators at insurance enterprises. Evaluation of these indicators at the experimental research enterprise Post - Telecommunication Joint - Stock Insurance Corporation (PTI).

2. Theoretical basis

In the Law on Insurance Business (2022), the concept of a number of subjects related to this study: First, "Insurance business is the activity of insurance enterprises, branches of foreign non-life insurance enterprises, mutual organizations providing microinsurance that accept the risks of the insured, on the basis that the policyholder pays premiums for insurance enterprises, branches of foreign non-life insurance enterprises and mutual organizations providing microinsurance to indemnify and pay insurance premiums when insurance events occur as agreed upon in the insurance contract." [1].
Second, "Insurance enterprise means an enterprise established, organized, and operating in accordance with the provisions of this Law and other relevant laws for insurance business, reinsurance business, and reinsurance assignment. Insurers include life insurers, non-life insurers, and health insurers." [1].
Third, "General insurance is a type of insurance for property damage and other losses or civil liability to a third person." [1].
"Capital" is understood in many different definitions, from certain angles. To put it simply, "capital" is a monetary fund expressed in the form of money, property funds, ownership of assets of monetary value,... and used for the purpose of profitable business activities of the enterprise. Currently, there are many ways to classify the types of capital in enterprises,

here are some current basic capital classifications: Economic functions (Fixed capital, working capital, and financial investment capital); ownership relationship (Equity and liabilities); Mobilized resources (Internal capital and capital sources outside the enterprise); Time period for raising and using capital (Temporary and regular capital sources or long-term and short-term capital) [2].

3. Capital assessment criteria

3.1 Equity targets commensurate with the scale of operation

According to the provisions of Circular No.: 07/VBHN-BTC on the Guidance on assessment and classification of insurance enterprises of The Ministry of Finance. Concrete:

a) How to assess:

- Assess the commensurate level between capital and scope of operation, insurance operations and products permitted to be implemented as prescribed in Article 4 of Circular No. 125/2012/TT-BTC and amended and supplemented documents (if any), relevant provisions of law [11].
- Evaluating the implementation of compulsory reserve fund appropriation as prescribed in Clause 1, Article 97 of the Law on Insurance Business [1].
- Evaluate the management of equity capital as prescribed in Article 5 of Circular No. 125/2012/TT-BTC [11].

b) Meaning:

This indicator assesses the management of equity capital and the commensurate level of equity capital with the scale and scope of operation of the enterprise in accordance with the provisions of law.

c) Analysis of causes of indicators failing to meet legal regulations:

- Combined assessment of the ratio of solvency margin to minimum solvency margin and combined ratio.
- Policies to expand the scope of operation, new insurance operations, and products of the enterprise.
- Other causes.

3.2 Criteria for change of equity

According to the provisions of Circular No.: 07/VBHN-BTC on the Guidance on assessment and classification of insurance enterprises of The Ministry of Finance. Concrete:

a) Calculation:

$$x = \frac{\text{This Year's Equity (A) - Last Year's Equity (B)}}{\text{Previous year equity (B)}}$$

Data source:

(A), (B): Code 400 - Balance Sheet

b) Margin: $x \geq -15\%$ (not applicable to enterprises operating in the first 03 years).

c) Meaning:

This indicator assesses the change in equity of the enterprise, and indicates the financial capacity of the enterprise in the direction of improvement for more or worse.

d) Analysis of causes of indicators outside the range:

- Combined with the evaluation of indicators: change in net premium revenue, combined rate.
- Evaluate the fluctuation of the indicator in the previous 3 consecutive years to identify trends and causes of increase and decrease.
- Other factors: profit distribution policy...

3.3 Indicator of total premium on equity

According to the provisions of Circular No.: 07/VBHN-BTC on the Guidance on assessment and classification of insurance enterprises of The Ministry of Finance. Concrete:

a) Calculation:

$$x = \frac{\text{Total Premium (A)}}{\text{Equity (B)}}$$

Data source:

(A): Code 01.1 + Code 01.2 - Report on Business Contract results by activities

(B): Code 400 - Balance sheet

b) Amplitude: $x \leq 500\%$

c) Meaning:

This indicator assesses the adequacy of equity with the total responsibilities insured without taking into account the assistance of reinsurers. The larger the target, the greater the capital requirements to cope with abnormal fluctuations in losses.

d) Analysis of causes of indicators outside the range:

- Combined with the assessment of indicators: ratio of solvency margin to minimum solvency margin; meet the provisions of law on provision for insurance operations; combined proportions; change in net premium revenue.
- Evaluate the fluctuation of the indicator in the previous 03 consecutive years to identify trends and causes of increase and decrease.
- Reasons related to the implementation of the plan to expand the scope of business activities...
- Other causes.

4. Business situation of Post - Telecommunication Joint - Stock Insurance Corporation

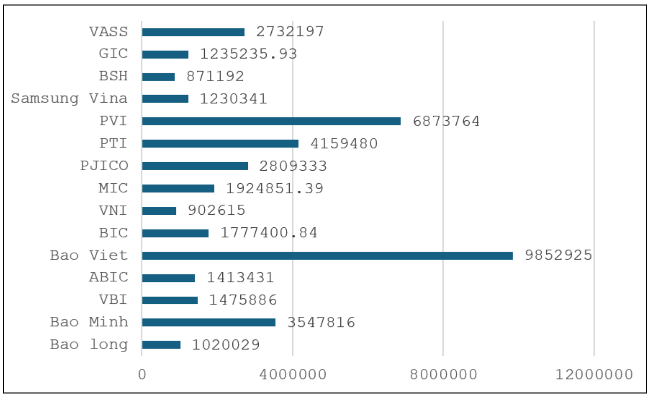
4.1 General insurance market

According to data published by the Vietnam Insurance Association, "Non-life insurance market revenue is estimated at VND 71,064 billion, up 3%, original insurance compensation is estimated at VND 23,906 billion, compensation rate is 33.6% (excluding compensation provision). The total amount of original insurance compensation is about VND 23,906 billion, the compensation rate is 33.6%, the insurance operations with a high percentage of original insurance compensation are: Motor insurance (52.5%), health insurance (34.6%), and ship insurance (35.7%). Among 32 non-life insurance enterprises, 22 insurers and 01 branches of foreign insurance enterprises have the original insurance compensation rate lower than the general insurance compensation rate of the market and the remaining 09 enterprises have an original insurance compensation ratio higher than the general compensation rate of the market" [12]. Quang (2023) quoted information from the Main Report of Insurance and Actuarial Enterprises as saying: "According to published financial statements from 13 listed insurance companies, the total profit after tax of these enterprises in the first half of

2023 will reach VND 2,944 billion, up 41.8% over the same period last year. Of these, 10 companies reported an increase in profit after tax over the same period, and only 3 companies recorded a decline in profit.

The growth in insurers' profits in the first half of 2023 came from financial performance (up 34.1% YoY). Meanwhile, the gross profit from the insurance business of these companies tended to decline (down 32.2%). In general, the majority of insurance companies listed on the Vietnam stock exchange, except Bao Viet Group (Bao Viet - Code: BVH), mainly operate in the field of non-life insurance. Therefore, these businesses are not too badly affected by the recent crisis of confidence in the insurance market" [9].

Unit: 1 000 000 VND

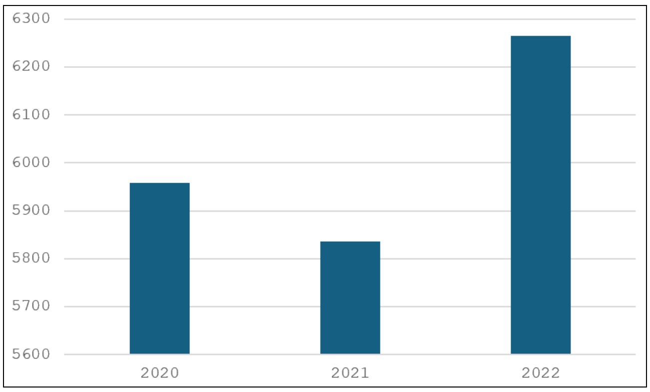


Source: Author's compilation from "2022 Insurance Market Figures" [13]

Fig 1: Insurance premium income by company

4.2 Business management of Post - Telecommunication Joint - Stock Insurance Corporation

Post Office Insurance Joint Stock Corporation (PTI) was established on 01/08/1998 with founding shareholders: Vietnam Post and Telecommunications Group (later assigned to Vietnam Post and Telecommunications Corporation); Vietnam National Reinsurance Corporation and major domestic economic groups. In terms of revenue, PTI continued to grow and held the 3rd position in terms of market share among a total of 31 non-life insurance companies in the market in 2022.



Source: The author's calculations are based on PTI's Financial Statements for the years 2020-2022 [5, 6, 7]

Fig 2: Direct premium 2020-2022

Revenue from the original insurance business in 2022 reached VND 6,266 billion, up 7.4% compared to 2021 and up 5.15% compared to 2020. Concrete:

Motor Insurance business: Increased by 10.45% over the same period in 2021, the reasons are as follows: The number of cars sold is more than in the same period. From the second quarter of 2022, PTI's vehicle material insurance premium is adjusted to increase by 10-15% compared to Q1/2022 for vehicles under VND 800 million. On the other hand, competitive pressure in the civil liability insurance segment is currently quite competitive, when insurance companies are increasing mechanisms to occupy priority positions at points of sale. Motorcycle insurance grew well due to revenue coming from affiliated sales channels, notably the cooperation with Mobile World (MWG).

Human Insurance: Growth of 5.2% compared to 2021. Which, the type of healthcare insurance grew by 6.6% as PTI maintained its market share, 80% of customers renewed their policies and attracted more new customers.

Technical Property Insurance: Growth of 7.22% compared to 2021, this is the result achieved thanks to the efforts of the business network system and improving service quality in the context of property insurance under great pressure to compete on fees to get PTI's renewal services.

Marine Insurance business: Growth of -4.2% as Northern business units remained affected by the COVID-19 epidemic until April 2022, some large customers decreased revenue. At the same time, the company tightened policies to manage risks in this product.

Table 1: Implementation situation compared to plan

Criteria	Plan	Implementation 2022	Plan completion rate	The growth rate over the same period
Direct premium	6.250.000	6.265.962	100,30%	7,40%
Profit before tax	260	-343,6	-132,14%	-204,75%
Profit after tax	208,5	-347,4	-166,61%	-234,91
Dividend Yield	0%	0%		0%

Source: Excerpt from "Report of the Board of Directors at the 2023 Annual General Meeting of Shareholders" [5, 6, 7]

Revenue from the insurance business in 2022 will reach VND 6,266 billion, up 7.4%, completing 100.3% of the plan. Negative profit after tax, much reduced compared to the previous year as a result of the following reasons:

In 2022, PTI incurred expenses related to the Firmly Assured An insurance program in the amount of VND 353.2 billion. All insurance policies of the Firm Tam An plan will expire on March 22, 2023. Therefore, in 2023, the Firm Tam An program will no longer have a high compensation capacity and affect Profit After Tax.

PTI's compensation costs increased sharply year-on-year: Total insurance claims expenditure in 2022 increased by 28% year-on-year. The reason is that in 2022, Vietnam has maintained a new normal with the Covid 19 epidemic (no longer applying the social distancing policy as in the same period last year), so people will go to medical examination and treatment more, leading to an increase in health care insurance compensation costs. Especially the compensation cost of the healthcare product line. Compensation costs related to automobile insurance operations also increased sharply compared to the same period last year (the general situation of the market due to accumulation after the epidemic).

5. Serious assessment of capital assessment criteria at Post - Telecommunication Joint - Stock Insurance Corporation

5.1 Equity targets commensurate with the scale of operation

In early 2022, PTI's shareholder structure changed when Vietnam Post Corporation (VNPost) successfully divested all its capital in PTI. The Postal Insurance Corporation has become one of the 5 non-life insurance companies with the largest non-state-owned market share. Accordingly, VNDIRECT Securities Joint Stock Company and DB Insurance Company (DB Insurance - Korea) are the two largest shareholders of PTI. In addition, PTI has another institutional shareholder, Vinare, the market-leading National Reinsurance Company.

PTI currently has a low capital capacity compared to the market (VND 804 billion). Specifically, PTI is ranked 3rd in terms of revenue but only 9th in terms of charter capital size compared to non-life insurance companies.

The company, with a small charter capital, PTI hardly has the opportunity to participate in large insurance policies because it does not meet the requirements of investors for the minimum charter capital. Besides, the small capital size also leads to limiting the ability to compete with competitors in the market. Therefore, increasing charter capital enhances financial capacity, giving the Company the opportunity to participate in large insurance contracts, especially in insurance bidding.

According to PTI's Board of Directors, low charter capital also affects the ability to retain, because according to Article 42 of Decree No. 73/2016/ND-CP, the maximum retained liability per risk or per individual loss is not more than 10% of equity. Therefore, when charter capital is increased, especially with an additional capital surplus, equity will increase, allowing PTI to increase retention for effective insurance policies/operations, helping to increase profitability.

PTI has a Solvency Margin as stipulated by the Ministry of Finance in 2022 is quite low (117%), a sharp decline compared to 2021 (168%). According to the provisions of Circular No. 195/2014/TT-BTC of the Ministry of Finance, PTI is ranked group 2. However, with a 2022 Solvency Margin of 117%, it is also within the safety warning threshold. PTI's rating is at risk of falling to tier 3 when there is a risk of failing to secure a solvency margin. In the event of relegation to group No. 3 or even group No. 4, PTI must be under the special control of the Ministry of Finance (in accordance with the Law on Insurance Business).

5.2 Indicators of change of equity

X = (1.811.542 – 2.180.222)/ 2.180.222

X= -0.16927

Data source:

(A), (B): Code 400 - Balance Sheet

Comments: The result of the Equity Change Indicator with a margin of <-15% indicates that the enterprise has a huge change in equity, and it indicates the financial capacity of the enterprise for the worse. The reason is that Vietnam Post Corporation (VNPost) successfully divested all capital in PTI, causing capital capacity to be low compared to the market and the risk of not ensuring a solvency margin.

5.3 Indicator of total premium on equity

$$x = \frac{6.265.962}{2.180.222}$$

X= 287%

Data source:

(A): Code 01.1 + Code 01.2 - Report on Business Contract results by activities

(B): Code 400 - Balance sheet

Comments: The margin of the Equity Change Indicator = 287% <500%. This means that equity with total responsibilities received without regard to PTI's reinsurers is still warranted. Although Vietnam Post Corporation (VNPost) divested all capital, PTI still secured capital to cope with abnormal fluctuations in losses.

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