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THE ROLE OF INSURANCE AND REINSURANCE IN SECURING GLOBAL TRADE

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Abstract

Global trade, a cornerstone of economic prosperity, relies heavily on the efficient and safe transportation of goods across oceans. The global maritime trade network, a vital artery of the world economy, relies heavily on the efficient and safe transportation of goods across oceans. This article explores the critical role played by insurance enterprises in mitigating the inherent risks associated with seaborne transport, enabling smooth and secure trade flows. Challenges facing insurance enterprises, including rising claims, technological disruptions, and competition, are discussed alongside opportunities for innovation, technological integration, and sustainable practices.

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Introduction

Billions of dollars worth of goods are transported across the globe each year via maritime routes, fueling economies and connecting consumers with products from distant lands. This complex and vital network, however, is not without inherent risks. From natural disasters and piracy to accidents and cargo damage, the sea poses numerous threats to the safe and timely delivery of goods. Insurance enterprises, acting as crucial intermediaries, play a pivotal role in mitigating these risks, safeguarding the interests of both importers and exporters, and ultimately fostering a stable and secure global trade ecosystem. The interconnectedness of the modern world is intricately linked to the seamless movement of goods across borders. The vast majority of global trade relies on maritime transport, with billions of dollars worth of goods traversing the oceans each year. This intricate network, however, is not without its inherent risks.

Trade between countries in the world now, has a close relation with insurance. Insurance is a means of economic compensation, plays an important role in international trade. The development of international trade not only promotes the progress of the insurance industry, which in turn requires the insurance industry to provide better service, in order to ensure the smooth development of international trade. From natural disasters and piracy to accidents and cargo damage, the sea presents numerous challenges to the safe and timely delivery of goods. Insurance enterprises, acting as vital intermediaries, play a crucial role in mitigating these risks, safeguarding the interests of both importers and exporters, and ultimately fostering a stable and secure global trade ecosystem.

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Metadology.

Research and analaysis. (literature review).

Marine insurance, a vital component of non-life insurance, safeguards imported and exported goods against various risks during their journey by sea and land. From accidental damage to natural disasters and even piracy, this insurance provides a crucial layer of protection for shippers, allowing them to manage risk and secure their valuable assets. The roots of marine insurance run deep, dating back to 1339 in Italy, where the earliest recorded policy was issued. This industry has grown alongside global trade, evolving to meet the ever-changing demands of a complex and often unpredictable shipping environment. While the initial principles of marine insurance were formalized in 1779 through the Lloyd's Contract, this policy was eventually replaced in 1982 by a more modern contract form established by the Association of London Insurers. This standardized contract remains in use today, providing a framework for global marine insurance practices. In Vietnam, the journey of maritime cargo insurance began much later, with Bao Viet Enterprise (formerly a state-owned entity) pioneering this service in 1965. Since then, the industry has continued to grow, playing a vital role in supporting the country's expanding trade activities. Prior to the 1970s, Vietnam's involvement in marine insurance for import and export goods primarily focused on reinsurance activities, primarily for Chinese enterprises. This was a time when Vietnam's trade relationships were primarily with socialist countries such as Russia, North Korea, and Poland. Following the reunification of Vietnam in 1975, Baoviet, a leading insurance company, expanded its operations and scope of activities significantly. Beyond socialist countries, Baoviet began collaborating with international partners in the field of marine insurance. Recognizing the crucial role of marine insurance in fostering economic development through trade, Vietnam established a legal framework to support this industry. This included the issuance of the General Rules 1990 and the Vietnam Maritime Code, which streamlined regulations for marine insurance practices. A further boost came in 1993 with the enactment of Decree 100/CP, which effectively encouraged the establishment of new insurance businesses. This led to a surge in the number of non-life insurance companies, with 31 out of 32 now actively engaged in marine insurance. This has created a dynamic, competitive, and rapidly growing market, driving Vietnam's maritime insurance landscape towards greater maturity and international integration.

The maritime cargo insurance sector in developing nations like Vietnam faces significant challenges but also presents opportunities for growth. Further research focused on addressing these challenges, leveraging technological advancements, and implementing strategic initiatives is crucial to enhance competitiveness, improve risk management, and foster a thriving insurance industry for import and export goods transported by sea.

According to the Swiss Re Insurance Sigma database, non-life insurance includes, among other things, property insurance, comprehensive and compulsory motor-vehicle insurance, liability insurance, financial insurance, and health insurance.

Marine cargo insurance encompasses a range of policies tailored to specific risks and needs, including:

Hull and Machinery insurance it covers the physical vessel itself, protecting owners against damage, loss, or liabilities arising from accidents, collisions, fire, or other perils. This policy protects the vessel itself, covering damage, loss, or liabilities arising from accidents, collisions, fire, or other perils at sea. It safeguards the investment of ship owners and ensures the continuation of their operations.

Cargo Insurance focuses on protecting the goods being transported, covering damage, loss, or theft during the journey. This type of insurance focuses on protecting the goods being transported, covering damage, loss, or theft during the journey. This can be tailored to specific cargo types and risks, including:

All Risks covers a broad range of risks, including natural disasters, accidents, and theft, offering

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comprehensive protection.

Named Perils covers only specific risks listed in the policy, such as fire, collision, or heavy weather, providing more targeted coverage. Institute Cargo Clauses: These standardized insurance clauses, used worldwide, offer varying levels of coverage depending on the risks covered, ensuring consistency and clarity in policy terms.

Freight Insurance this policy provides protection against loss of freight charges due to vessel damage, delay, or other unforeseen events that prevent the delivery of goods. It safeguards the financial interests of shipping companies and ensures their ability to recoup lost revenue.

War Risks Insurance covers losses arising from war, terrorism, or political unrest during the journey, often offered as an additional coverage on top of standard cargo insurance. This additional coverage, often purchased on top of standard cargo insurance, protects against losses arising from war, terrorism, or political unrest during the journey. It provides vital security in volatile regions and ensures that businesses can operate safely in challenging environments.

There are so many benefits of Marine Cargo Insurance. Marine cargo insurance offers a range of benefits to both importers and exporters, contributing to a more secure and efficient global trade network.

Risk Mitigation provides financial protection for importers and exporters, reducing the impact of losses and allowing them to continue their business operations despite unforeseen events. By providing financial protection against losses, insurance allows businesses to mitigate the impact of unforeseen events and continue their operations despite challenges. This reduces uncertainty and fosters confidence in international trade.

Access to Finance insurance policies can serve as collateral for securing loans, facilitating smoother trade financing and reducing the cost of capital for importers and exporters. This makes it easier to access the necessary resources for trade activities, promoting growth and expansion.

Enhanced Trade Relations Insurance policies build trust between importers and exporters, as they guarantee compensation in the event of losses, facilitating smoother transactions and stronger business relationships. This contributes to a more reliable and collaborative global trade environment.

Stability in Global Trade, by mitigating risks and providing financial security, insurance contributes to a more stable and predictable global trade environment, fostering economic growth and promoting international collaboration. It encourages businesses to engage in international trade with greater confidence, supporting a more robust global economy.

Through the methodology, the author has collected documents related to the insurance business of import and export goods transported by sea. The research draws upon historical documents examining the evolution of marine insurance, the emergence of insurance businesses in Vietnam, and the country's specific development trajectory in this field. The author has gathered data on the insurance business of imported and exported goods by sea from the Vietnam Insurance Association. This data encompasses revenue figures, growth rates, and market share information for the top marine insurance companies over a five-year period (2018-2022). Through a process of analysis and synthesis, the author has synthesized this data to provide a comprehensive overview of the current state of the Vietnamese marine cargo insurance market. The research critically analyzes the strengths and weaknesses of the market, highlighting potential shortcomings and areas for improvement. Overall, this research method aims to provide a detailed understanding of the Vietnamese marine cargo insurance market by blending historical context, theoretical insights, and quantitative data analysis.

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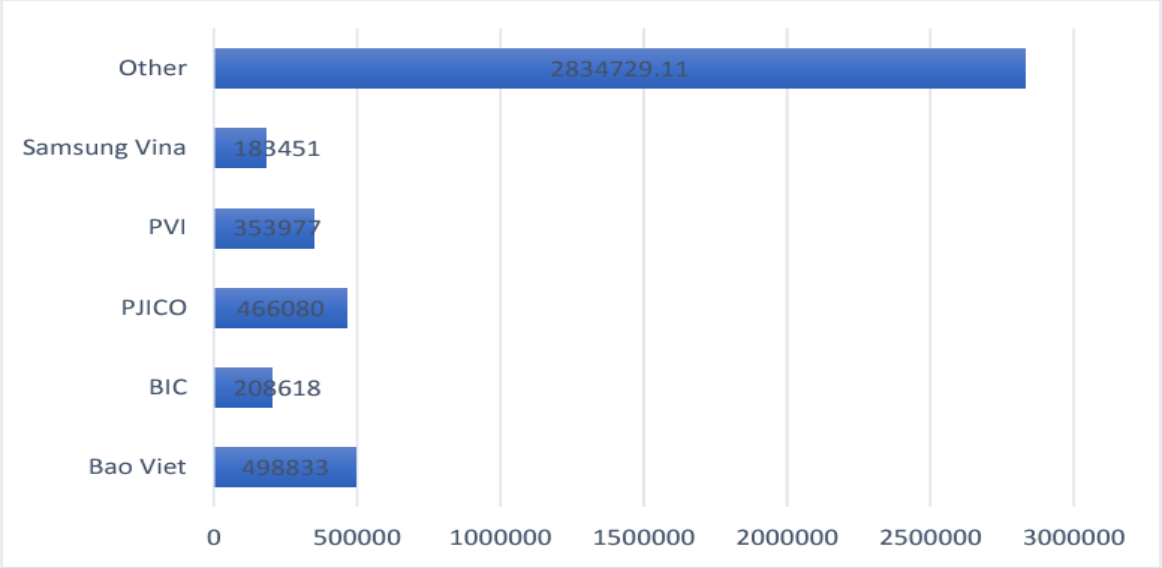

Figure 1: Market share of import and export cargo insurance by sea Unit: million VND

Source: Vietnam Insurance Association

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

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

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

Source: Vietnam Insurance Association

Result. While Vietnam boasts a significant export industry, primarily focused on raw materials and processed goods, its competitive edge in the global marketplace remains limited. This is exacerbated by the fact that foreign partners frequently outsource shipping and insurance arrangements when negotiating commercial contracts, even for Vietnam's key exports like seafood, rice, coffee, and pepper. This trend results in a low participation rate for Vietnamese exporters in purchasing domestic insurance. The lack of familiarity with international trade practices among many Vietnamese businesses, particularly smaller and medium-sized enterprises, contributes to this situation. They often opt for FOB

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(Free On Board) pricing, which transfers the responsibility for shipping and insurance to the buyer, thus eliminating the need for them to purchase transport insurance. This reluctance to utilize domestic insurance has significantly impacted the growth of Vietnam's marine import-export cargo insurance industry. While domestic insurers offer the advantage of streamlined claims processing compared to overseas insurers, this benefit is often overlooked. A shift is evident in the import sector, where Vietnamese companies increasingly recognize the importance of domestic insurance. However, the majority of imported goods are still insured by foreign companies, indicating a limited awareness of the benefits of utilizing local insurance providers. This situation highlights a missed opportunity for Vietnam's marine cargo insurance industry. By promoting greater awareness of the advantages of domestic insurance and supporting businesses to understand international trade practices, Vietnam can unlock its potential to capture a larger share of the import-export insurance market and strengthen its position within the global trade landscape.

Challenges Facing Insurance Enterprises. The marine cargo insurance sector operates within a dynamic and challenging landscape, facing a range of hurdles:

- Rising Claims, increased occurrences of extreme weather events, piracy, and accidents at sea lead to more frequent and larger claims, putting pressure on insurers to manage their risk portfolios effectively. This requires constant adaptation and adjustment to ensure profitability and sustainability.
- Technological disruptions, the advent of automation, digitization, and blockchain technology, while offering potential benefits, also presents challenges in data security, risk assessment, and fraud prevention. Insurers must navigate these changes to stay competitive and ensure the integrity of their operations.
- Competition- the insurance market is becoming increasingly competitive, with traditional insurers facing competition from non-traditional players like fintech startups and digital platforms offering innovative solutions. Insurers must adapt to these new market dynamics to remain relevant and attract customers.
- Regulatory changes, evolving international conventions and national regulations necessitate constant adaptation and compliance for insurers to operate effectively. Keeping abreast of these changes and ensuring compliance with new regulations is crucial for maintaining a legitimate and responsible presence in the market.

Opportunities for innovation and growth including:

Data Analytics, advanced data analytics can improve risk assessment, personalize policies, and optimize pricing, leading to more efficient and tailored insurance solutions. This allows insurers to better understand and manage their risks while providing customers with more customized and responsive services.

Technological integration, blockchain technology can enhance transparency, efficiency, and security in the claims process, reducing fraud and disputes, and fostering trust among stakeholders. This fosters a more reliable and efficient system for managing claims and resolving disputes, benefiting both insurers and customers.

Sustainable shipping, the growing emphasis on environmentally friendly shipping practices presents opportunities for insurers to develop products and services that support green shipping initiatives and contribute to a sustainable future. This allows insurers to play an active role in promoting responsible maritime practices and contributing to a more sustainable global economy.

New products and services, innovation in insurance products, such as parametric insurance and digital platforms for policy management, allows insurers to offer more flexible and convenient solutions to meet diverse customer needs. This helps insurers stay ahead of the curve and cater to the evolving demands of the global trade landscape.

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Conclusion.

Insurance enterprises play a vital role in safeguarding global maritime trade, ensuring the smooth flow of goods and contributing to economic stability. While facing challenges in a dynamic environment, insurers have opportunities to leverage technological advancements, embrace innovation, and foster sustainable practices to navigate the future of marine cargo insurance and continue their crucial role in securing global trade. Marine cargo insurance plays a crucial role in securing global trade by mitigating risks, fostering trust, and promoting a stable economic environment. While facing challenges, the sector offers opportunities for innovation and growth, allowing insurance enterprises to leverage technology, embrace sustainability, and develop innovative solutions to meet the evolving needs of the maritime industry. By staying ahead of the curve, embracing new technologies, and collaborating with industry stakeholders, insurance enterprises can continue to navigate the global seas and ensure the smooth flow of goods across the oceans, contributing to a more prosperous and interconnected world. The theoretical justifications for such programs are not well articulated; nor have they been strongly supported with clear evidence of the costs of the distortions cited or the benefits of interventions to correct them. The onus is on the proponents of export credit and insurance to demonstrate why and how these distortions exist, gather evidence of their importance, and show that export credit and insurance are the best ways to correct these failures.

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