Study of Cashflow Effect on Performance Development of Dai-ichi Life Insurance Company of Vietnam

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I. Theoretical part

- **Gather theories and past researches about effects of cashflow on development of firms.**
- **Prepare critical literature review of cashflow effects on Vietnam's companies.**

II. Practical part

- **Characterize Dai-ichi life insurance company.**
- **Applied the new found theory into cashflow effects of particular Dai-ichi insurance company.**
- **Develop solutions to boost Dai-ichi performance.**

Conclusion

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ABSTRAKT

Cash flow je nesmírně důležitým faktorem, který ovlivňuje přežití a rozvoj jakéhokoli podniku. Je třeba důkladně porozumět a analyzovat podrobně zmíněnou oblast, aby mohlo dojít k včasným řešením a zlepšení finanční situace podniků. Abychom měli co nejlepší představu o finanční situaci podniků, bude téma " Studie vlivu Cashflow na vývoj výkonnosti vietnamské životní pojišťovny Dai-ichi" zkoumat tento hlavní finanční problém. Obsah DP se zaměřuje na finanční situaci a změny peněžních toků s cílem analyzovat vývojový trend, tempo růstu a stav peněžních toků podniků. Práce rovněž obsahuje doporučení, která pomáhají zlepšit finanční situaci a pomáhat podnikům pracovat efektivněji.

Klíčová slova: Cash flow, Cashflow, finančná analýza, finanční poměry, efektivní výkon, management, vývoj společnosti

ABSTRACT

Cash flow is an extremely important factor that affects the survival and development of any business. It is necessary to thoroughly understand and analyze in detail to have timely solutions and improve the financial situation of enterprises. Therefore, to have the best view on the financial situation of enterprises, the topic "Study of Cashflow Effect on Performance Development of Dai-ichi Life Insurance Company of Vietnam" will study this major financial concern. The content of the study focuses on financial situation and changes in cash flow to analyze the development trend, growth rate and cash flow status of enterprises. Also, the study provides recommendations that help improve the financial situation and help businesses operate more efficiently.

Keywords: Cash flow, Cashflow, financial analysis, financial ratios, effective performance, management, company development.

CONTENTS

INTRODUCTION

Finance is an extremely important factor that affects the survival, development and demise of any business. Therefore, it is necessary to thoroughly understand and analyze in detail in order to develop strengths as well as to present shortcomings in order to have timely solutions and improve the financial situation of enterprises. Therefore, to have the best view on the financial situation of enterprises, the topic "Study of Cashflow Effect on Performance Development of Dai-ichi Life Insurance Company of Vietnam" will offer an angle into analysis to solve one of manager's biggest financial concerns.

In the past two decades, as the quality of life was improved, higher needs have been increasing. Consumers have become conscious and demanded more for their own safety as well as their relatives. In order to meet that demand, insurance companies were born. Insurance service industry is currently receiving special attention from the public because it not only provides protection but also contributes a large amount to the annual income of each country. .

In Vietnam, the life insurance market began to increase as more and more foreign insurance companies invested and opened branches in Vietnam. The higher competition level now requires each company to accelerate its business and expand across Vietnam to ensure its position in the market. Dai-ichi Life Insurance Company of Vietnam (DLICV) is a member of Dai-ichi Life Holdings (DLH) in Japan and has 100% foreign capital from DLH. DLICV now is firmly established as one of the top 4 life insurance providers in Vietnam and ranked the 3rd place in customer service network nationwide. As a successful figure in the industry, DLICV is an ideal example for the study effect of Cash flow on performance of Life Insurance companies.

OBJECTIVES AND METHODS OF MASTER THESIS PROCESSING

Cash flow for businesses is as important as the blood stream in the human body. Therefore, forecasting the cash flow will help investors and managers assess the performance of enterprises and make economic decisions. Researching and analyzing about cash flow help with forecasting to determine the factor that can predict the efficient cash flow, which is significantly important to both theoretical and practical aspects.

The content of this paper looks at financial situation and changes in cash flow which clearly shows the development trend, growth rate and cash flow status of the enterprises. It can provide recommendations and solutions that help improve the financial situation, as well as help businesses operate more efficiently.

The study area is the consolidated financial statements of Dai-ichi Life Insurance Company of Vietnam, Ltd. Method for data collection includes collection of secondary data and data from financial reports of the DLICV.

Numbers of methods are utilized for data analysis:

- Comparison method: is used to evaluate the results and determine the trend of the analysis of both absolute and relative analysis. This includes:

  .Vertical analysis: to review and determine the proportion of each indicator overall.

  . Horizontal analysis: is the comparison of the absolute and the relative in the same row in the consolidated financial statements, which shows the fluctuation of the indicators.

- Balanced Approach: a balance between the total assets and contributing factors within that form assets, or between revenues and expenditures and results, or between asset purchases and use, etc. From this, we will determine the influence of factors on the fluctuation of expenditure reflects the object of analysis.

- Financial analysis methods: help us to clearly show the nature and financial propensity of enterprises

I. THEORY

1 CONCEPT OF CASH FLOW IN BUSINESS

Cash plays an important role, affecting the economic decisions of the business. For example, businesses need to look for information on future cash flows to estimate the value of an investment and make an investment decision. In addition, cash flow is also referred to as the "most effective healing dose" for liquidity of the business (Ittelson, 2009).

The Keynesian economist (1936) points out that the particular economic function of money is "liquidity." Business liquidity is reflected in the liquidity of assets and it is easy to see that money is the most liquid asset. In the competitive economy, however, the opportunity cost is increasing, leading to the continued availability of liquidity that is costly to businesses (Ittelson, 2009). However, thanks to this liquidity, businesses avoid the negative impact and the "shock" of unexpected cash flow.

When referring to the cash flow of the business, there is no concept of one general cash flow but rather it's needed to understand the concept of cash flow through cash inflow, cash outflow and net cash flow (Brigham, 2010). *Net cash flow* is determined by the sum of incoming money in the period minus the amount went out in the same period. Cash flow is different from the profit target in the period calculated by accrual method. Cash flow is recognized as *cash inflow* when it is actually received by the company; also, it is not certain that the cash inflow is an income of the company. In contrast, the cash flow is recorded as *cash outflow* when the money is spent; and likewise, it may not be the expense of the company (Jury, 2012).

Cash flow statement presents cash flow fluctuations in 3 main activities of an enterprise: business operations, financial activities and investment activities (Jury, 2012). According to the principals of cash basic, cash flow of business activities is the indicator showing operating profit in the period (Brigham, 2010). Therefore, it is necessary to fully understand the other items in the report on business performance results to get a comprehensive view on the cash flow statement of the business.

For example, items on the balance sheet and income statement listed as depreciation & amortization are accounting estimates and are recognized as an expense in the period and affect the profit after tax. However, these items do not directly affect the cash flow. On the other hand, some prepaid items such as insurance, advances to sellers, maintenance contracts, repairs, etc. are accrued and paid in cash. These items affect the cash flow, but do not affect the profit of the business in the current accounting period.

For this reason, although the balance sheet and financial statement provide useful information, but it is insufficient information on the sources of cash generation and use (Brigham, 2010). Thus, the cash flow statement is important and also a comprehensive reflection of the cash flow of the business.

2 CHARACTERISTIC OF CASH FLOW IN BUSINESS

Cash flows in business operation include different types because they reflect the streams of cash coming from different sources. They are presented in Cash flow statement every period. Cash flow from cash flow statement is presented as cash or cash equivalents from operating activities, investment activities and financial activities. Details about each type are discussed further below.

2.1 Cash Flow from Operating Activities

Cash flow from business activities is the cash flow related to activities that generate the company's core revenue (Brigham, 2010). This cash flow (including cash inflows and outflows) is derived from the expansion of debt conditions, investment in inventories, and capital from suppliers. Information about cash flows from business operations, when used in combination with other information, will help users anticipate future cash flows. Significant cash flows from operating activities include: revenues from sales of services, revenues from other revenues (royalties, fees, commission, etc.) (Jury, 2012).

Cash flow from business activities is presented in two ways: direct and indirect.

- *Direct method*: collecting information from direct cash flow such as collecting money from customers, paying suppliers, employees, obligations to the government and other payments. Cash flow is determined by the direct method including cash inflows and cash outflows from business activities of enterprises (Brigham, 2010).

- *Indirect method*: determining cash flow through balance sheet and income statement. This method starts from the net profit on the accrual basis, and then adjusts the effect of non-cash transactions such as depreciation, working capital change (short-term assets - short-term debt). Indirect method is only used to determine cash flow from production and business activities. The formula is as follows (Brigham, 2010):

	Profit
+	Depreciation & Amortization
+/-	Gain / Loss from assets liquidation
+/-	Increase/ Decrease in current assets and account receivables/payable
	Net cash flow from operating activities

Indirect methods are commonly used in many countries around the world. When determining indirect cash flow, the firm will see the relationship between the financial statements.

In addition, the direct method of reducing the volume of imported direct cash flow data. This reduces the cost of determining the cash flow of the business.

Cash flow from operating activities is considered the most important. By analyzing the cash flow from operating activities, the business found its operating capacity, especially when that cash flow is determined by the direct method (Drake & Fabozzi, 2012). The difference between net profit and cash flow from operating activities helps businesses to evaluate the quality of its profits.

2.2 Cash Flow from Investing Activities

Cash flows arising from investing activities are cash flows related to the acquisition, construction, sale, liquidation of long-term assets and other non-cash equivalents. Significant cash inflows from investing activities include: cash for the acquisition, construction of fixed assets and other long-term assets (including amounts related to capital expenditures that have been capitalized as intangible fixed assets); the cash from liquidation, sale of fixed assets and other long-term assets (Drake & Fabozzi, 2012).

2.3 Cash Flow from Investing Activities

Cash flow generated from financial activities is cash flow related to the change in size or structure of equity and loans of the business (Drake & Fabozzi, 2012). Cash flows from financing activities include:

- Cash from share issuance, equity contribution;
- Payments of capital contributed to owners, or repurchase of own shares issued by the enterprise;
- Proceeds from short-term, long-term borrowings;

Cash flows from investing activities and financial activities are determined using the direct method based on the nature of cash flow.

By analyzing the formation of cash flow from the basic operations of the business as above, following characteristics of business's cash flow have been found:

- Being determined at the time of fund entry and fund transfer.
- Being the cash flow actually collected or spent.

- Content of amount being received or spent is identified and recorded.
- Can be forecasted and monitored to control.

3 CASH FLOW ANALYSIS FROM MANAGEMENT PERSPECTIVE

3.1 An Overview of Concept

Cash flow management is part of financial management. Cash flow management is related to the different aspects of corporate finance such as: asset management, capital management and profit management. A change of asset, capital or profit will affect the cash flow of the business. Therefore, the content of cash flow management of enterprises should be studied in conjunction with the contents of asset management, capital and profit.

This cash flow is generated based on the core business activities: business operation, investment and finance. Cash flow includes cash inflows, cash outflows and net cash flows. For that reason, good cash flow management helps the company to ensure its ability to meet payment deadlines, ensure the money is collected properly (from the right source, at the right time and in the right amount) to increase profitability (Jury, 2012).

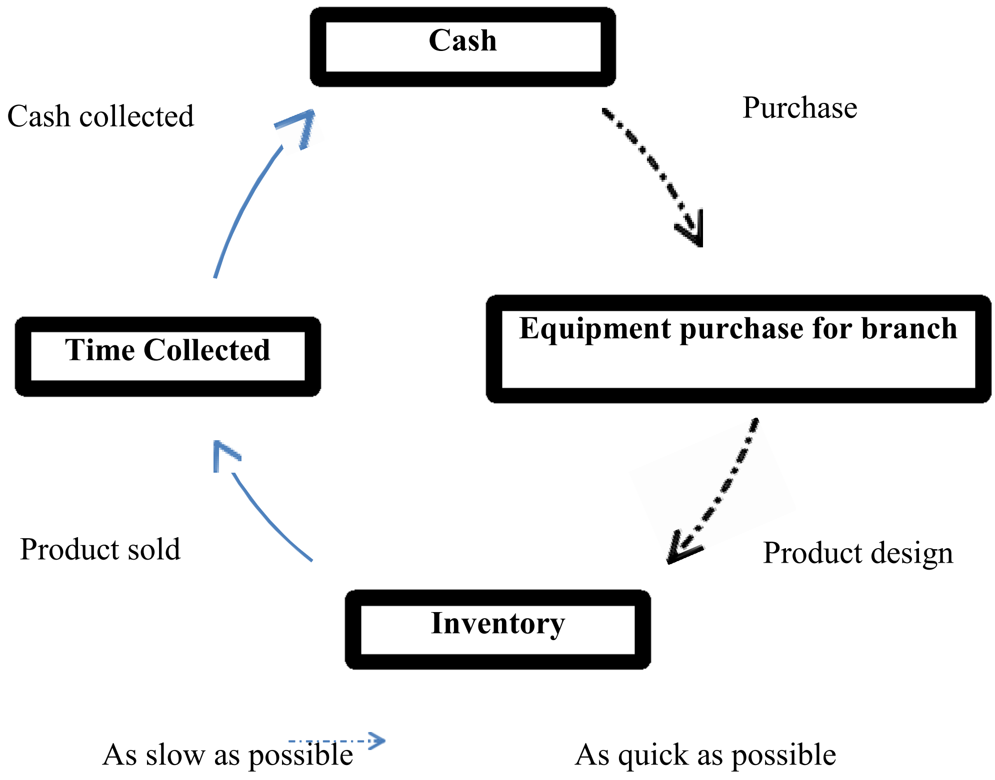
Fundamentally, payment capability is often being studied and evaluated in the short run (Ittelson, 2009). Thus, cash flow management focuses on short-term goals of financial management, usually associated with the content of asset management and short-term capital management of the business. Specifically, this governance involves short-term assets and short-term liabilities of the business. Items in the cash flow management of an enterprise are:

- Short-term assets: including cash, cash equivalents, liquid securities, receivables, prepayments and other short-term assets;
- Short-term liabilities: including payables, receivables and accruals.

However, the cash flow management is not just simply to identify where the money comes from or from what activities? It is the whole idea that financial managers need to develop a strategy to increase their cash inflow and minimize cash outflow.

Therefore, it is necessary to be able to interpret a full concept of cash flow management. As discussed above, cash flow management is not just simply a guarantee of payment capability. Cash flow management needs to be implemented following the whole process: from operations arising, recorded, controlled to financial transactions to optimize the treasury and treasury of the business (Ittelson, 2009). Cash flow management should be understood as executing the process as follows:

Figure 1: *Cash flow management process [own elaboration]*



Thus, according to this cycle, many activities will be carried out. First, when starting a business operation, the DLICV company needs money to: buy office equipment, make other outside investments, product creation, supplying of consultant service to customers. However, when the product and service is being consumed, DLICV can collect money or recognize receivables, but the receivables would turn into cash inflow with time lag. DLICV wants this time lag period as short as possible, and this is to enhance the recovery of account receivables. Similarly, when DLICV buys inputs (branch supplies, promotion campaign…), it generates account payables and wants to delay the conversion of account payables into cash outflow as long as possible. Therefore, the cycle of money and the cycle of activity do not usually and completely match each other's. So, cash flow management is a continuous effort to minimize the negative impact of the operation and focus on the money management principle "not too much money but also not too little". To determine the amount of money needed to optimize the operation of the business, attention should be paid to the following factors:

- Sufficient cash available to pay bills on daily basis.
- Able to meet urgent deadlines: such as maturity date of loan, payment of service charges.
- Sufficient cash to handle emergency situations or take advantage of unexpectedly arising opportunities.
- To maintain smooth operations of business: payroll, dividends payment or profits.

According to the above analysis, good cash flow management is essential because of some typical scenarios: frequent mismatches between cash inflows and cash outflows, uncertainty of cash inflows and time-driven factors, costs related to maintain amount of cash or emergency loans to compensate for money shortages.

As a result, a cash flow management system need to be established with priority to shorten the cycle of monetization through effective management of assets, liabilities, revenues and costs of the business. To do that, DLICV need to pay attention to the following objectives:

- Control and monitor cash flows.
- Optimize capability and use cash.
- Maximize revenue and minimize spending.
- Collect earned money as quickly as possible.
- Only use cash when really needed.
- Make payment to the creditor no earlier than the due date.
- Try to forecast the fluctuation of cash flow as closely as possible.
- Ensure the sufficient amount of money reserved for daily payments.
- Seeking appropriate external funding in case of emergency.
- Effective use of excess cash.

Therefore, cash flow management is necessary. In order to manage cash flow, following important aspects should be emphasized and implemented:

- Maximize cash outflow and minimize cash inflow.

- Investing, repaying and borrowing.
- Good administration of receivables and payables.
- Good planning for short-term cash flow.
- Determine net cash flow to handle surplus or deficit money more effectively.

Cash flow management is the process from the time the transaction occurs, until the cash flows arise, and the cash flows are generated. For these facts, good cash flow management will generate effective cash flow needed for smooth operations and ensure timely debt payment to creditors, employees and partners in business operations (Jury, 2012). To do this, businesses need to improve the efficiency of asset use and investment to increase profits.

3.2 Cash Outflow and Cash Inflow Analysis

As analyzed, cash flow management needs to be carried out in a process that includes the full range of transactional, control, and financial transactions to optimize cash flow and treasury operations of the business. So, basically the content of cash flow management of the business consists of determining the cash inflow (collection), and determining the cash outflow (expenditure).

3.2.1 Cash Outflow Management

As analysis of the cash flow characteristics, the cash flow of the business is determined directly or indirectly. In principle, direct cash flow is straightforward. However, businesses will have to spend high costs and time to implement. Meanwhile, indirectly, the enterprise will adopt the items in the adjusted income statement for the balance sheet items to determine the cash flow. Accordingly, this method helps businesses save time and costs for recording, tracking and determining cash flow.

Basically, the cash flow of the business is created from:

- The revenues of customers from the sale of goods and services.
- Interest on deposits from banks and investment.
- Investments of shareholders.

The cash flow is determined by the direct method as follows (Jury, 2012):

Cash Inflow = Cash receivable from sales + Interest from investment (bank deposit, other investments)

According to the above formula, it can be seen that the impact of the cash flow on the business should be recognized. The business does not immediately receive money to reduce the flow of money into the business, and vice versa, businesses receive advance payment of the buyer will increase the cash flow of the business. Thus, to increase the cash flow, enterprises need to reduce the receivables. Therefore, receivables play an important role in determining the cash flow of the business. Most businesses accept receivables in the activity. The policy of granting commercial credits (receivables) of enterprises is different. Therefore, the time to collect receivables is not the same in every business. The following indicators reflect the time to collect receivables (Brigham, 2010):

Receivables turnover = Revenues /Average receivables

Days in receivables = 365 /Receivables turnover

These two ratios tell you how much money is owed by a business and how many days it takes to recover the receivable.

In commercial activities, the purchase and sale of deferred payment is inevitable. Therefore, this activity affects the cash flow of the business. It is important for businesses to recover their receivables as quickly as possible. When the receivables are recovered, the cash flow to the enterprise funds will appear. In the enterprise, the financial manager is responsible for increasing the efficiency of the payables transfer system (Brigham, 2010).

The timely withdrawal of receivables is very important, increasing the cash flow of the business. Typically, the value of a large receivable includes a set of sales from different customers, combined with a commercial credit policy and debt recovery policy that applies differently to each customer. Therefore, timely retrieval is not easy. Enterprises that effectively track the receivables on the accounting account will ensure that the business receives the money on time. However, cash managers are not limited to ensuring cash inflows, which require the use of useful cash flow withdrawals.

In addition to receivables, inventory also has an impact on the cash flow of the business. If the inventories increase, the sales revenue decreases, therefore the cash flow decreases. Therefore, the movement of inventory will affect the flow of money into the business.

3.2.2 Cash Inflow Management

As mentioned above, the method of determining the direct cash flow, when the money flow out, then the enterprise is allowed to record a payment. Basically, the cash outflow of the business by direct method includes:

- Expenses for purchase of fixed assets, goods, tools, raw materials in warehouses (more applicable to manufacturing business).
- Expenses for payment of salary for the employees.
- Expenses for payment of taxes.
- Other expenses incurred.

Therefore, the cash inflow of enterprises is determined as follows (Jury, 2012):

Cash outflow = Fixed asset expenses + Salary expense + Tax expense + other expense

According to the analysis of cash inflows, in business, commercial credit is indispensable for businesses. Therefore, there is a phase difference between the product line, materials, tools, fixed assets purchased and cash outflows. Account payable appears and has an important impact on the cash flow of the business. If the account payable rises, the cash outflow of the business down relatively and vice versa. Thus, the cash outflow of an enterprise is determined by the impact of account payable as follows (Jury, 2012): (indirect method)

Cash outflow = Expenses incur + Δ Account payable + depreciation.

By defining the cash outflow as above, it can be seen that the cash outflow is closely linked to the enterprise's account payables.

Account payable management is monitored with helps of the following indicators (Brigham, 2010):

Account payable turnover = Revenue /Average payment

Average payment period = 365 /Account payable turnover

In order to effectively manage payable and receivables, businesses need to understand what their partners are doing when they enter into economic relations. Although there are many different ways, businesses often approach based on the view of delayed the payment and fasten up collecting receivables.

When the business is aware and evaluates the supplier properly, it will lead to a positive effect on cash flow, especially the cash flow of small and medium enterprises. From there, the business will ensure sufficient cash flow to pay for the amount due at maturity. To do this, the cash flow manager should control all the payments.

4 THE APPLICATION OF CASH FLOW ANALYSIS (FROM FINANCIAL ASPECT AND MANAGEMENT ASPECT)

In the context of global and domestic economy's fluctuations with rising inflation and rapidly changing interest rates as today, capital mobilization of enterprises is increasingly difficult. Cash flow management plays an important role in the existence and development of the business. However, many businesses are still not interested in this issue. Some businesses have valued the need for profit management more than cash flow management. Therefore, the goal of these businesses is to focus on maximizing profits. However, unlike profit, cash flow plays a role in supporting short-term business activities, ensuring the short-term solvency of the business. Thus, cash flow management is an important element in the financial management of enterprises.

Cash flow management is an important factor for the liquidity of firms. Liquidity helps businesses avoid the "shock" of unexpected cash flows (Keynes, 1936). In particular, Enron's scandal in the United States in 2001, the case impacted the bankruptcy of Arthur Andersen who is the fifth-oldest auditor in US. This event proves that the reports are based on accounting disciplines with no longer appropriate. They also argue that the financial managers and investors should pay more attention to the cash flow of the businesses because cash flow is one of the important measures that reflect the financial "health" of the business (Henry, 2004). Roychowdhury (2006) finds that financial managers are interested in managing cash flow and getting benefits from their cash flow. Melendrez (2005) demonstrate that the firms with better the cash flows generate higher returns. With these studies, the authors mention the important role of cash flow management. Cash flow management is more concerned with financial management besides profitability management.

Besides, there are many studies related to cash flow management. Von Westerman et al. (2002) argue that many factors impact the cash flow management such as liquidity, profit and financial risk. In addition, the authors argue that the cash flow management also includes strategies and implementation plans to focus on working capital, risk management and relationships with commercial banks. These factors affect the cash flow and financial results of the business. The research conducted by San Jose et al. (2008) suggests that the cash flow management include managing receivables, payables to create the optimal cash levels. Fionnuala M. Gormley and Nigel Meade (2006) show that managing and forecasting cash flow saves money for the companies. Penttinen (1991) presents the relationship between cash flow forecasting and transaction costs. In detail, when the firm forecasts cash flow effectively, it saves transaction costs. A number of recent studies in the world indirectly point out that financial executives can benefit a business from cash flow management. Roychowdhury (2006) points out that the companies have made financial statements with small profits rather than reporting negative profits. Thus, in order to forecast the cash flow effectively, businesses need to access cash flow statements rather than just focus on business results.

Cash flow management techniques are used to manage cash inflows and outflows. These techniques are approached in a variety of ways, such as accelerating cash flow and managing cash flow, increasing cash flow forecasts, identifying cash inflows and cash outflows, confirming money transfer, and managing spending (Pinches, 1997). Moreover, Brigham (2004) documents that the firms can improve the cash flow management by cash flow forecasting, accelerated collection and reduced spending. Amy L.Gile (2003) conduct that the cash flow management affects many different aspects of the business such as debt costs. Daniel Havran (2009) addresses the relationship between cash flow management and corporate debt costs. When the business manages the cash flow, the financial manager should pay attention to the cost of debt if the cash flow is not managed effectively. Ran Zhang (2010) studies the impact of cash flow management on market prices of listed companies. The author has quantified the impact of cash flow management on stock market volatility. Therefore, the firms need to manage the cash flow better to improve the market value of firms.

Managing cash flow is important for every business. However, in Vietnam, there are very few studies on the cash flow management of enterprises. Some master's thesis have researched cash flow management through the management of budget revenues and expenditures. Specifically, the master thesis of Pham (2005) indicates the ways to improve the budget management at TNT-Vietrans Company. In addition, Duong (2006) studies the cash management policy at Petroleum Region II Company. Additionally, Do (2006) documents the strategies for strengthening treasury management in Dong A Bank. These studies address the cash flow management of enterprises in specific sectors but there are no studies about the insurance sector.

In recent years, cash flow management has been mentioned in a lot of articles or papers with the views of different authors. The study of Hang and Pham (2006) mentions cash flow management through working capital management of the business. The author argues that cash flow is the flow of money (cash in, cash out) of a business. In the author's view, the cash flow of a business is primarily based on generating detailed cash flows. In general, with this article, the author relies on the accounting information to identify and manage the cash flow.

It can be seen that basic research in the world offers a different approach to cash flow management as well as assesses the impact of cash flow management on the business. Therefore, it is necessary to conduct a comprehensive study the influence of the cash flow of enterprises on the firms. Especially, in Vietnam, there have been a number of studies on the cash flow management of enterprises. However, there has been no about the cash flow management of insurance companies.

5 CASH FLOW ANALYSIS METHOD

To handle an accounting case, the accountant could choose different method to record and measure it, and this would create different view effects on business's profit from business operation.

Operating cash flow and free cash flow methods are important for the evaluation of a company being considered for investment. Booking a large sale would only contribute to better earnings if the company is paid for the same sale, cash flow is affected. In other situations a company could have a good cash-flow but slow earnings because it is in capital intensive industries (require large fixed asset spending). Also, increasing asset depreciation also creates a big mismatch between cash flow and accounting earnings.

5.1 Operating Cash Flow (OCF)

To improve it, the accounting analyst has developed an alternate method for cash flow to have a better measurement for the efficiency of a business' operation: Operating Cash flow. This is a very useful tool to analyze and realize the advantage, as well as limitation of a business (Brigham, 2010).

OCF = Net income + (Depreciation & Amortization + Prepaid expenses (non-cash expense)

This simple method has advantage & disadvantage:

- Advantage: help avoid the value difference incurring from different accounting measuring method and the un-similarity when estimating the depreciation period.
- Disadvantage: it doesn't show the details structures of the Cash flow and affecting factors. It also can't replace standard method of Net Cash flow when calculating ROA.

5.2 Free Cash Flow (FCF)

Free cash flow is one of the most useful tools in cash flow analysis. Assessing a company's free cash flow (FCF) for investors is a more objective and comprehensive way of assessing the financial condition of the business. It shows that cash flow is available at the enterprise after capital expenditures to maintain normal operating and income yields for investors, reflecting financial flexibility and meeting the expansion of investment. new or sudden changes in operation. And the greater the cash flow, the more active the financial capacity. The formula is below (Brigham, 2010):

FCF = CFFO + Investment in Operating Capital

Advantages: Eliminate the effects of using different accounting forms in assessing the financial health of the business.

Disadvantage: Due to the existence of multiple capital expenditure concepts, there are many different results of the assessment of FCF. Therefore, it is necessary to explain the view of capital expenditure when calculating the free cash flow to overcome this limitation.

Two methods of determining free cash flow (Jury, 2012):

Free Cash Flow to Firm (FCFF): The cash flow is generated by the company and is used to pay for the company's funding.

FCFF = EBIT*(1-T) + depreciation & amortization – change in Net working capital – Capital expenditure

Free Cash Flow to Equity (FCFE): Determining this cash flow tells you the cash flow of the owner after paying the debt to the provider and the capital requirements necessary to meet the growth needs of the company.

FCFE = Net income + depreciation & amortization – change in Net working capital – Capital expenditure + New debt – Debt repayment

6 CASH FLOW FINANCIAL RATIO

Cash flow indicators are a useful tool for analyzing business cash flow. These financial ratios are used to forecast the cash flow as well as the probability of bankruptcy of the business and the ability to repay the debt. The basis of these ratios is the operating cash flow of the business. These ratios provide a picture of the financial health of the business. Cash flow ratios are a reflection of business performance rather than financial ratios based on balance sheets and business results (reflected through the group of indicators about solvency or liquidity). Because cash flow is a major factor in cash flow ratios, it eliminates the impact of non-cash items such as depreciation and profit / loss on sales (Jury, 2012). As such, financial ratios from business results and balance sheets are often used as quick ratio; current ratio is not a sufficient measure to assess the likelihood of payment ability of critical debts of the enterprise.

As we are aware, the profit is very important for a company. However, through the manipulation of accounting data and transactions not based on cash, companies can look very different to investors. They may present themselves as profitable, but they actually carry the financial risk if they generate little money from the profits (Jury, 2012). For example, if a company sells mostly on credit term, their Income statement looks good but have yet to really get the cash for the sale, and this can negatively impact their financial health because they have deadline with creditors to meet.

Managing cash flow of the business is considered good when the needs of business expenses are met. For example, does a business payer's principal, business line, have enough cash flow to meet this need? The ratios can help give answer to those questions.

6.1 Cash Current Debt Coverage Ratio

The numerator consists of retained operating cash flow—operating cash flow less cash dividends. The denominator is current debt—that is, debt maturing within one year (Brigham, 2010). This is, again, a direct correlate of an earnings current debt coverage ratio, but more revealing because it addresses managements dividend distribution policy and its subsequent effect on cash available to meet current debt commitments.

As with this ratio, it indicates the company's ability to carry debt comfortably. Like most other ratios, as long as the company is not insolvent, the appropriate level varies by industry characteristics.

Some notes when calculating this ratio: Only consider incremental inventory, and ignore investments in other liquid assets (such as receivables because they are usually funded by short-term credit - Payables).

The ratio is considered not good when it is less than 1 because internal cash flow is insufficient to sustain the current dividend and growth. On the other hand, it is good if it is more than 1 because the company is able to cover cash without external financing.

6.2 Cash Re-Investment Ratio

The ratio formula is presented below (Brigham, 2010):

Cash re-investment ratio = (CFFO -Dividend) / (Fixed asset + other asset + Working capital + Real estate investment)

This ratio measures the degree to which net income in the form of cash is reinvested into the business. The ratio is useful for measuring the percentage of the investment in assets that is available to be reinvested in both asset replacement and expansion. The higher the reinvestment, the greater the expected future cash flows from operations. Data will come from the balance sheet, the income statement and statement of cash flows.

6.3 Operating Cash Flow/Sales Ratio

The ratio formula is presented below (Brigham, 2010):

Operating cash flow /Sales Ratio = (CFFO / Sale revenue) *100%

This ratio, which is expressed as a percentage, compares a company's operating cash flow to its net sales or revenues, which gives investors an idea of the company's ability to turn sales into cash.

It would be worrisome to see a company's sales grow without a parallel growth in operating cash flow. Positive and negative changes in a company's terms of sale and/or the collection experience of its accounts receivable will show up in this indicator.

6.4 Free Cash Flow/Operating Cash Flow Ratio

We formula for the last but also important ratio (Brigham, 2010):

FCF / CFFO ratio = FCF *(CFFO – Capital expenditure) / CFFO

The free cash flow/operating cash flow ratio measures the relationship between free cash flow and operating cash flow.

Free cash flow is most often defined as operating cash flow minus capital expenditures, which, in analytical terms, are considered to be an essential outflow of funds to maintain a company's competitiveness and efficiency.

The cash flow remaining after this deduction is considered "free" cash flow, which becomes available to a company to use for expansion, acquisitions, and/or financial stability to weather difficult market conditions. The higher the percentage of free cash flow embedded in a company's operating cash flow, the greater the financial strength of the company.

6.5 Limitation of Cash Flow Indicator Ratios

There are big companies operating in different market belong to different industries. For these, it's difficult to apply these ratios and interpret any relevant meaning.

Inflation sometimes is a factor that highly impact and misdirect some values in corporate's balance sheet. Net profit would be also influenced if this is the case and become inaccurate to be considered into the formula. So, analyzing company using historical performance data should be treated with caution.

Seasonal factors could affect these financial ratios in some ways. Being aware of these seasonal effects when analyzing ratios could help reduce misinterpretation. E.g.: Inventory of school supplies may be high during summer to stock up for back-to-school sales in September. So, the accrued expense for this quarter would be high and ROA, in turn, would be lower than other quarters.

Different account methods would also generate different results when comparing different companies or even the same companies.

A company may have some good financial ratios and also bad ratios. So it may be hard to make the right judgment if the company has strong or weak performance.

6.6 Cash flow from Operation

Income is derived from sales. A company generates revenue, and then has to pay the vendor for the cost of goods sold and other costs associated with the operation. It sounds simple, but there are a lot of accounting conventions used to match revenue and expenses during the period in which they arise. It is a system called cumulative accounting (Jury, 2012).

As a result, the income may be much different from the actual cash flow of a company, and analysts want to use the cash flow from operating as a cleaner proxy for profit than earning or net income.

Companies can also control cash flow from operations. So it is important to pay close attention to some accounting conventions. Some companies deduct the cost of depreciation from revenue although it does not represent a real cash flow. Depreciation is an accounting convention that records the value of assets over time, but not actual cash (Jury, 2012). As a result, companies add cash depreciation back in cash flow from operations.

Another way that companies can manipulate cash flow is to pay the bill later. If the companies pay the bill later, they can extend the payables and the cash they have at hand. Likewise, if companies apply looser credit policies, they can increase sales and receivables, reduce cash. It seems counterintuitive that a company can increase its revenue and show a decrease in its operating cash flow, but this is how it happens and savvy analysts know where to look for it.

II. ANALYSIS

7 INSURANCE INDUSTRY

After Vietnam has *Doi Moi* policy, the Vietnamese economy is developing very fast. Besides that, Vietnam's insurance market has had an impressive growth rate with 13.7% between 2005 and 2016 (Nguyen, 2016). Currently, the insurance industry in Vietnam has 62 insurance companies including: 29 non-life insurance companies, 18 life insurance companies, 14 insurance brokers companies, 2 re-insurers corporations and 1 non-life insurance branch of foreign corporation. The insurance businesses have contributed to the Vietnamese economic development. In detail, in 2017, the total amount of investment from the insurance companies is estimated at 247,801 billion, increased 26.74%. In addition, the financial capacity of insurance companies has been improved and total assets of the insurance market in 2017 is estimated at VND 302,935 billion, raised 23.44%.

According to the Department of Insurance Management of Vietnamese government, in 2017, the insurance companies have performed well as a financial shield to participants in unexpected cases. And, the insurance companies have paid compensation with 29.423 billion VND, increased 14.92%. The government needs to improve the legal system to support the insurance market continues to develop in 2018 and the coming years. In addition, the Department of Management improves the ways of managing and supervising the insurance market. Then, the management agencies not only detect and prevent the offenses, but also can change the policy to have better legal environment, contributing to the development of the market in safe and effective way.

The government supports the market to develop but the market segment is still small. Although insurance demand rise but the weight of insurance profit is only 2.5% contributed to gross domestic product (GDP) in 2016. This is a low proportion in comparison with other regions such as Thailand with 14%, Malaysia with 16%. In particular, insurance premiums per person in Vietnam has risen nearly 50 times from 10,000 dong (US $ 0.5) in 1993 to 490,694 dong (about US $ 24) per person in 2013, this proportion is still low. Compared with other ASEAN countries, the average is about 68.8 US dollars per person. Then, the insurance market is still very potential to develop in the future.

There are some favorable points for developing the insurance industry as followed. Firstly, the world economic situation has improved, and global trade recovery has had a positive impact on the Vietnamese economy. Consequently, the business investment environment and the society is developing in better ways. Secondly, the legal framework of the insurance business sector is becoming perfect to boost the development of the market. In 2016, the Ministry of Finance submitted to the Government for issuance of Decree No. 73/2016 / ND-CP which assist insurance companies in developing insurance products for social security purposes. Thirdly, the efforts of the insurance companies improve their financial capacity, performance and competitiveness. Moreover, most insurance companies have developed the professional procedures in accordance with the law, step by step standardizing the business in accordance with international standards.

However, there is still having some difficulties that the insurance companies have to face. Firstly, the labor force of the insurance sector in Vietnam is still not meeting the requirements of the job. Most insurance companies employ new graduates who lack a lot of knowledge and practical experience in the field. Furthermore, the increase of insurance companies in recent years lead to a high demand for the labor in the industry but this has caused a serious shortage of qualified staffs. Secondly, the insurance agents are an important channel for selling insurance products to customers but the quality of staffs in this channel is still low in terms of expertise and soft skills. Most insurance agents are considered as a temporary job to increase income while they are seeking more stable job. Thirdly, the perception of Vietnamese people is limited. With the population of more than 90 million people, the segment of insurance is still very low. Thus, Vietnam is a potential market for many insurance companies. Additionally, there are two aspects of insurance products: the risk aspect to protect the buyer against the risks, and the savings aspect to generate additional income for the buyers. However, buyers tend to focus only at the savings aspect and they assume that the profit margin from insurance products is low so they are not excited about the insurance products.

Many foreign insurance companies have been attracted by the growing of Vietnam market. Moreover, the industry and the density of insurance products are still very low in Vietnam compared to other countries in the region. This shows that the growth potential of the insurance industry in Vietnam is still great. There are many insurance companies which are competitive in the industry. Among them, DLICV has 10% share of the market segment.

8 COMPANY PROFILE

8.1 History and Development

Dai-ichi Life Insurance Company of Vietnam (DLICV) is registered as Limited Corporation and 100% owned by Dai-ichi in Japan. The company's main service is to provide consultancy and products about financial solutions. It has opened total of 209 offices across the country to serve the local need of market:

- In the North of Vietnam, the company has 71 locations servicing the local market with main office locating in the capital Ha Noi.

- In the Eastern centre part, 47 locations have been opened for the market with regional office in Da Nang city. In the Western mountain part, it has 27 offices with regional office in Da Lat city.

- In the Southern part, it has 64 offices. This is where the 1st office was established and also the main market, which concentrate the most employees of Dai-ichi.

The widespread presence across the country shows the strong desire to dominate the Vietnam's market. Currently, the company is still showing strong market power by continuing to expand and broadcast its public image more broadly in Vietnam.

The owner of DLICV, Dai-ichi Life Japan, was found in 1902 and became one of leading companies in Japan in provide life insurance products. It changes the ownership to **share-owned** structure and registered as Dai-ichi Life Holding (DLH) in October 2016. It has total assets of 443 billion USD and total revenue of 49.5 billion USD for life insurance products and services (up until March 31, 2017). Beside the Vietnamese market, DLH has expanded business operation to India, Thailand, Australia, Indonesia and America.

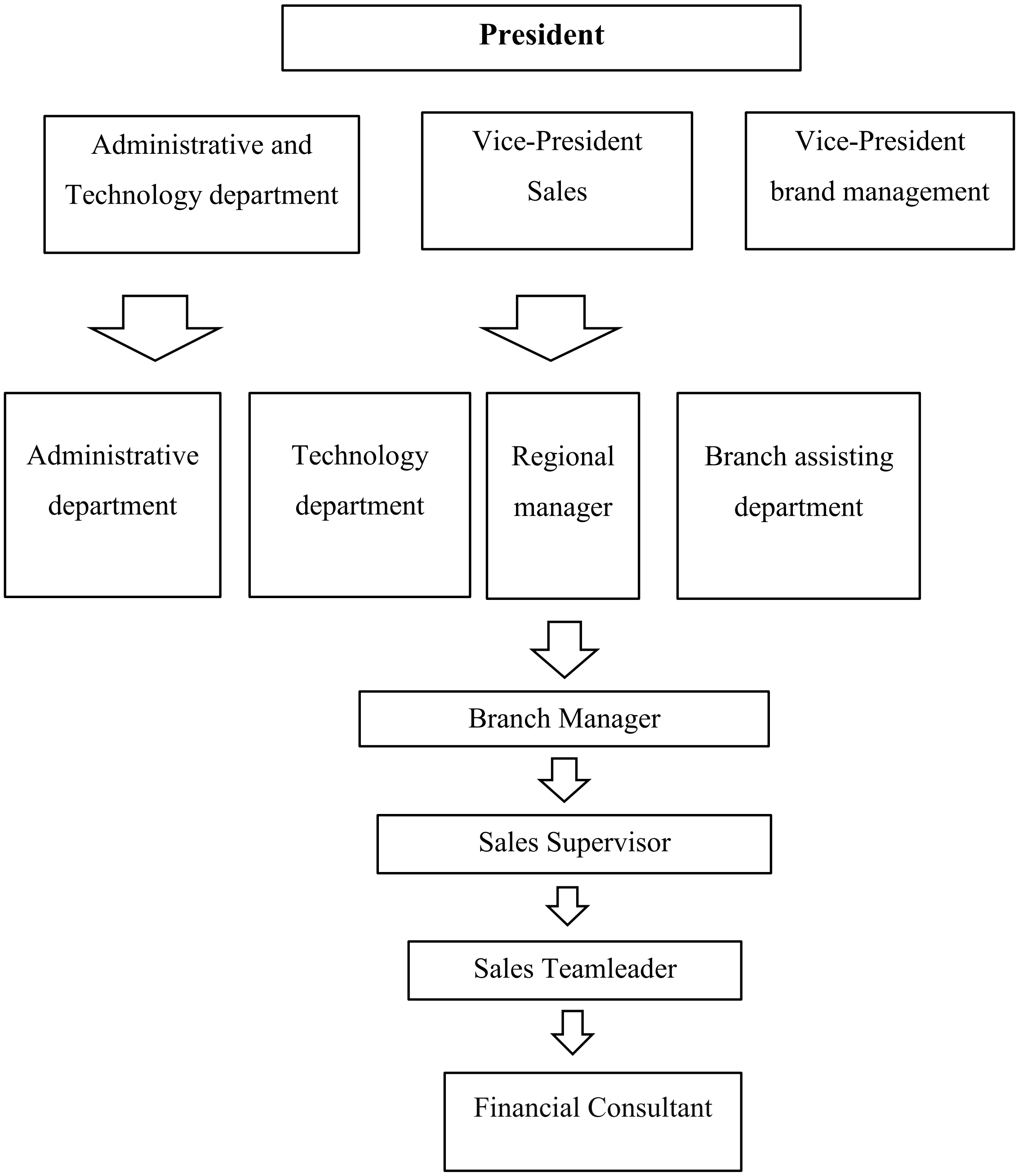
DLICV is the first life-insurance company opened by Japanese in Vietnam. First, DLH open representative office in 2005 to gather information about Vietnamese market to develop long-term strategy. After that, DLH open DLICV in January 2008 by acquiring Bao Minh life insurance CMG and changing the name into DLICV. This move demonstrated the determined and long-term commitment of DLJ in Vietnamese market and the strong desire to contribute constructively to this market.

The birth of DLICV is an important event in 115 years of DLH's operation. As a member of large DLH family, DLICV's working capital is wholly owned by DLH. After 9 years of operating, DLICV has built a solid foundation in the Vietnamese market and became one of the top 4 biggest life insurance companies in Vietnam regarding total gross revenue. DLICV has served 1.6 million customers with the team of 900 employees and 60,000 financial consultants. DLICV is proud to own the best 3rd customers network with the system of 200 offices across Vietnam.

8.2 Corporate Structure

DLICV structure is built simple to serve the purpose of easy management. It is presented in the table below:

Figure 2: *DLICV corporate structure. Source: Dai-ichi Life Insurance Company of Vietnam, Ltd.*



With brief responsibilities of each position listed below:

President: Mr. Quan Tran is the head of DLICV. He's responsible for overseeing and managing all aspects of business operation.

Vice-President of Sales: managing all sales activities. He reported and update the President about sales result on a regular basis.

Vice-President of brand management: managing all operations regarding brand development and strong brand recognition.

Administration department: include all administrative assistants like receptionist, accountant, budgeter, secretary…..

Technology department: includes all personnel to assist with internal network and technology.

Regional managers: there are 3 managers responsible for the market in the North, Centre and South respectively. They monitor closely regional business operation and update Vice-President of Sales frequently.

Branch assisting department: carries out necessary tasks to assist branches and offices with operation. They also hold company's contest to motivate productivity among branches.

Branch manager: manages the branch or office and reports directly to Regional manager.

Sales supervisor: manages smaller groups of team within branch.

Sales team leader: manages each small team for better efficiency.

Financial consultant: directly interact with customers to provide financial advice and products.

8.3 Product Ranges on Market

As one of leading Life Insurance companies, DLICV follow international standard to design product packages suitable to different needs of customers. DLICV wants their customers to have peace of mind and think of financial safety every time they think about possibility of fatal accident.

Products are designed based on the idea of giving customers the best protection for their life. Moreover, DLICV also helps customer to build their saving to achieve their future goals or protect to surviving family members in case of fatal hazards. DLICV's products focus on building saving toward below objectives:

- Saving for important future goals.
- Saving for children' future education.
- Saving for valuable self-purpose.

Beside savings, DLICV also helps:

- Receiving a reasonable lump sum in permanent loss of household's main-income earner.
- Receiving an annuity if a household's main-income earner loses ability to work due to accident. A lump sum can be negotiated if the surviving member wants to invest into business.
- Receiving financial assistance to handle medical cost after big accident.

Some specific names for main products:

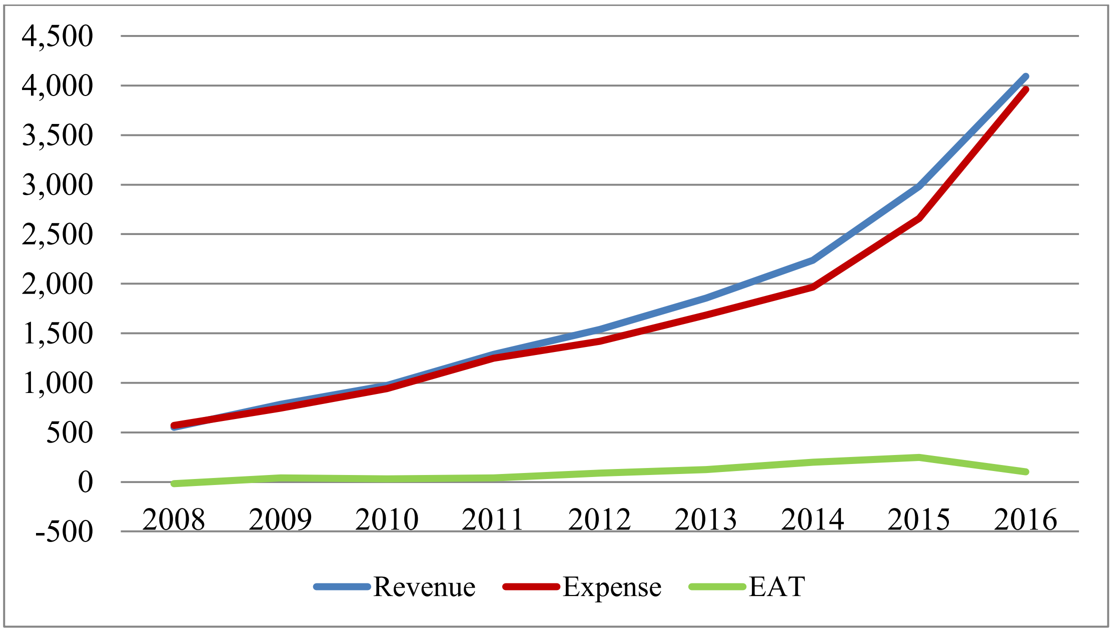
- An Tam Hung Thinh (protection for fatality)
- An Tam Suc Khoe (protection for disability)
- An Sinh Giao Duc (protection for education)
- An Nhan Huu Tri (protection for retirement)

8.4 Performance and Ratios

8.4.1 Historical Performance (2008 -2016)

The Figure below presents graph of Revenue, Expense and EAT over the years to see how DLICV's EAT has performed historically.

Figure 3: *DLICV financial performance 2008-2016 (million VND) [own elaboration]*



Financial Performance shows revenue tended to increase strongly in the last 9 years. The increase is fast and continual. In 2008, DLICV gains 551,633 million VND in sale but it still experienced negative profit of 19,189 million VND because of 570,821 heavy investment expenses during opening. Since then, DLICV shows a sharp change when revenue reached 783,370 million VND (42.01% increase) and expenses increased 30.3% compared to 2008, which resulted in net profit of 40,204 million VND. The revenues kept rising in following years, especially 2012 with astounding 1,540 billion VND and expense of 1,421 billion VND. This gained 119,258 billion VND net profits for DLICV, almost doubling the profit of 2009. The increase was the most strongest in 2014-2016 when revenue rose 83.06% within those 3 years. 2016's Net profit decreased down to 133,390 billion VND because DLICV incurred more expense for put in extra investment to gain more market share and become more competitive with current market. With the average yearly revenue increase of 71.36% and yearly Net profit increase of 72.21%, DLICV has shown the business capability and efficiency. This proves the high credibility, strong public image and high customers' trust DLICV has gained successfully. As a result, DLICV hold a firm and solid market position with great market power.

8.4.2 Performance Ratios (2008 -2016)

We could estimate the financial management capability of DLICV based on these ratios. This would help develop a better strategy to build a sounder financial structure. These ratios also help management to evaluate financial situation, liquidity and average payment period from different perspectives.

These ratios in table below show the asset and equity structure has been managed properly and suitably to financial insurance company. The liquidity ability is always well maintained. In 2009-2010, quick ratio and current ratio reach the highest (14.89 -18.85 respectively in 2009; and 10.68 -12.43 respectively in 2010). Average EBT/Total asset ratio is 2.89%; average EAT/Net profit is 6.44% and average EAT/Owner's equity is 5.78%, the fact that profitability ratios keeps rising more strongly since 2012 shows the effectiveness of business operation, credited from continual improvement in operating structure.

Table 1: *DLICV ratios 2008-2016 [own elaboration]*

	2008	2009	2010	2011	2012	2013	2014	2015	2016
Asset									
Fixed asset /Total asset	73.00 %	59.00 %	59.00 %	52.00 %	67.00 %	70.30 %	77.30 %	76.91 %	74.30 %
Current asset /Total asset	27.00 %	41.00 %	41.00 %	48.00 %	33.00 %	29.70 %	22.70 %	23.09 %	25.70 %
Equity									
Total liability /Total equity	83.00%	58.00 %	64.00 %	67.00 %	67.00 %	67.40 %	67.52 %	69.38 %	71.79 %
Owner's equity /Total equity	17.00%	42.00 %	36.00 %	33.00 %	33.00 %	32.60 %	32.48 %	30.62 %	28.21 %
Liquidity									
Quick ratio	7	14.89	10.68	6.35	5.14	4.95	3.27	3.13	3.15
Profitability									
ROA	(0.04)	0.07	0.01	0.01	0.03	0.04	0.06	0.06	0.02
EAT /Total revenue	(0.02)	0.02	0.04	0.04	0.08	0.10	0.13	0.14	0.05
ROE	(0.10)	0.04	0.03	0.04	0.08	0.10	0.14	0.14	0.05

9 ANALYSIS OF CASH FLOW COMPONENTS

The table below lists the Cash flow value from 2008-2016, and it includes three main sources. Let's take an overall look at the value and see how they affect the Net cash flow.

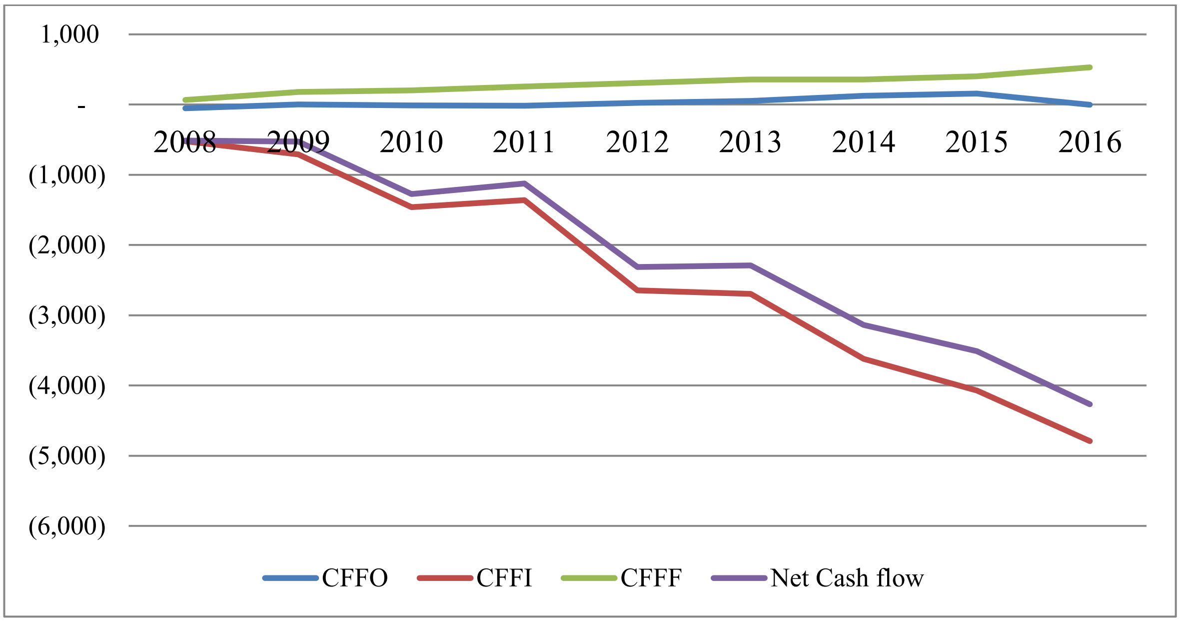
Table 2: *Cash flow component 2008-2016 (million VND) [own elaboration]*

Year	Cash flow from Operating activities	Cash flow from Investing activities	Cash flow from Financing activities	Net cash flow
2008	(55,489)	(524,667)	65,482	(514,674)
2009	2,166	(709,659)	178,074	(529,420)
2010	(14,750)	(1,462,881)	201,344	(1,276,286)
2011	(16,449)	(1,363,098)	257,166	(1,122,381)
2012	24,695	(2,644,893)	305,649	(2,314,549)
2013	52,498	(2,697,414)	354,600	(2,290,316)
2014	125,901	(3,621,068)	355,217	(3,139,950)
2015	157,753	(4,070,965)	402,063	(3,511,149)
2016	(3,592)	(4,793,588)	529,590	(4,267,590)

In the cash flow structure from table above, cash flow from operating activity (CFFO) is always positive. This shows that DLICV operating activities generate a fair and increasing cash flow. DLICV also tends to make strong investment over the year to gain competitive advantages and expand further into the market. This is also the same case with cash flow from financing activities (CFFF). CFFF kept rising due to profiting from investment in shares of other companies.

Also, these valued are graphed into the figure below, so we could see more clearly how the graph line development of NCF was being affected by each graph line of CFFO, CFFI and CFFF.

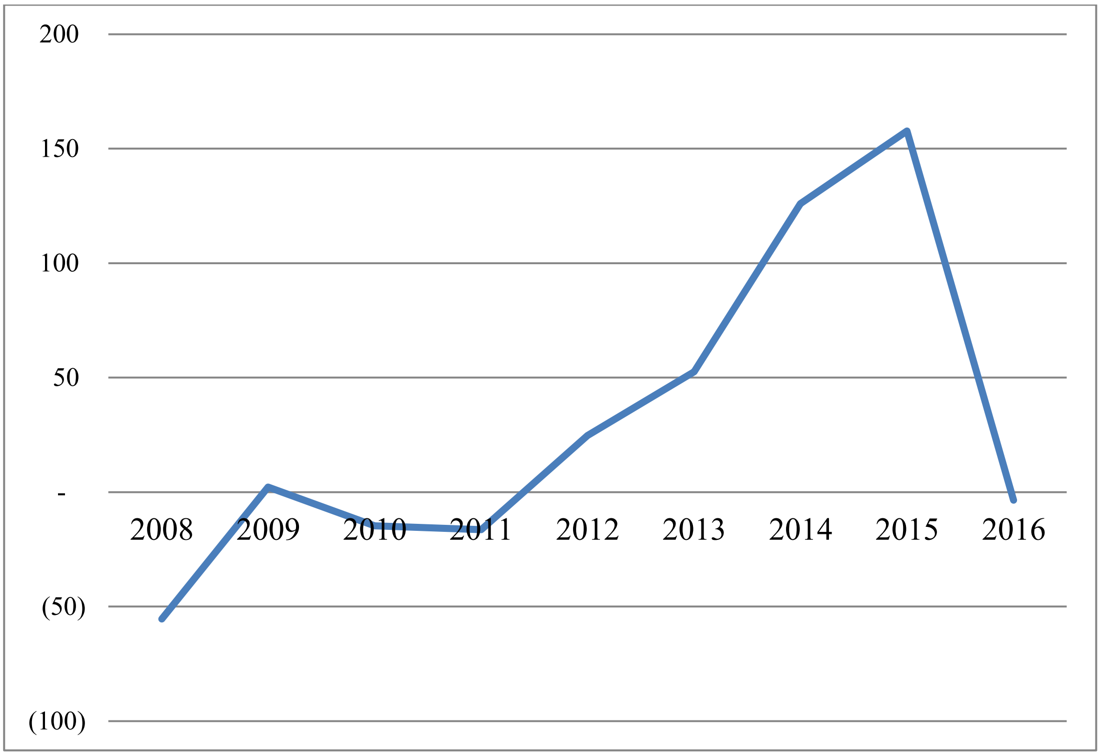
Figure 4: *Cash flow component 2008-2016 (thousand million VND) [own elaboration]*



9.1 Cash Flow from Operating Activities (CFFO)

Under this section, we will focus on CFFO. CFFO value is graphed in figure below to see the changes over the year of DLICV.

Figure 5: *Cash flow from Operating activities 2008-2016(thousand million) [own elaboration]*



CFFOs during 2008, 2010, 2011 and 2016 are all negative value with the lowest in 2008. The main reason is that DLICV was new into the operation, so it has small market share, low credibility in the market and weak brand recognition. However, since 2012, DLICV has proved financial capability and increased the market influence with effective operation and being on the rise during 4 years 2012-2015 (from 24,695 million VND in 2012 to 157,753 million VND in 2015). The CFFO increased 5 times during these 4 years with an average of 134.7% increase each year. Part of this success is credited to lower expense compared to the beginning, higher revenue and bigger business operation. CFFO in 2016 decreased to negative value because there was a domestic economic shake which affected customers' financial situation negatively and in turn affected the sale.

Above is typical starting situation of new business in the market, also a common strategy used by most businesses. First few years of operation usually generate low revenue, high investment expense and high interest for borrowing loan. As a result, CFFO is usually negative, and this is very normal. To keep up with the strategic expanding, businesses necessarily need to put more investment into operation, buy more inventory, increase warehouse, borrow more loans and increase other liabilities.

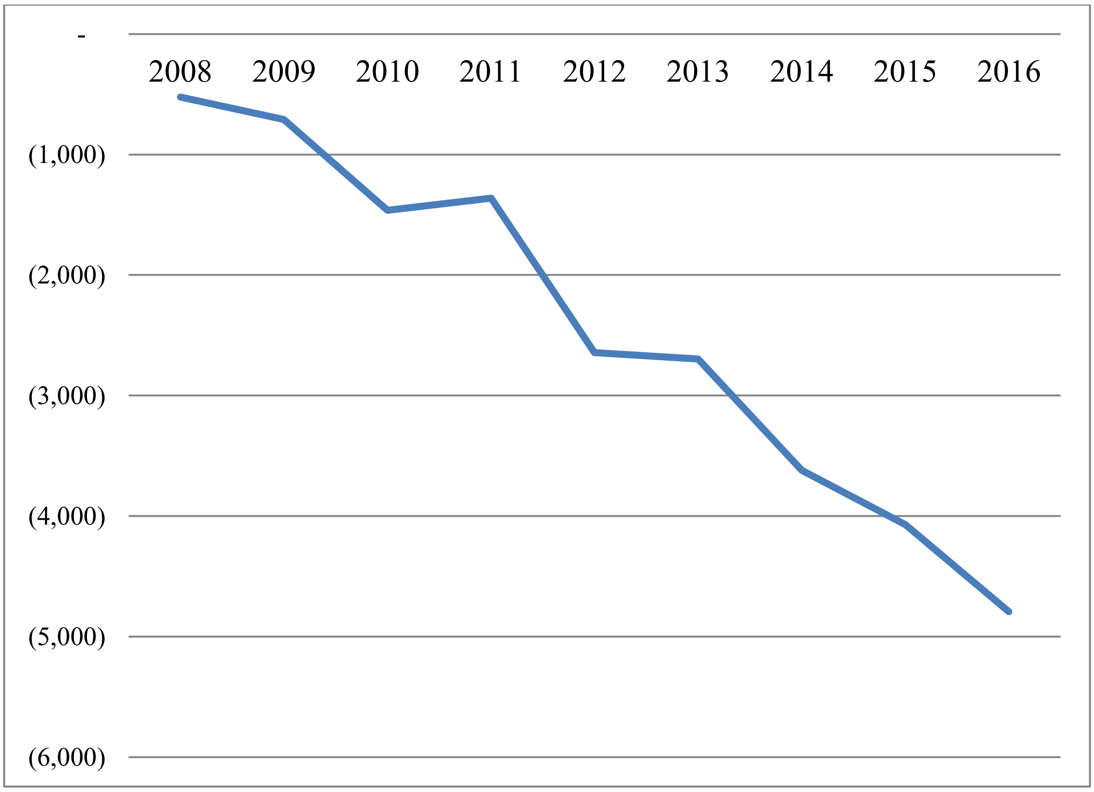
Possible cause for the effect on CFFO: Adjustment for the change in Current Assets:

Fixed Asset depreciation: relatively stable over 9 years, around 64,830 million VND yearly. This is normal because DLICV has applied straight-line method. Main factors contributing to this depreciation are new branch construction, capital investment, equipment purchased for the daily business operation.

9.2 Cash Flow from Investing Activities (CFFI)

For this section, CFFI will be analyzed. CFFI value is graphed in figure below to see the changes over the year of DLICV.

Figure 6: *Cash flow from Investing activities 2008-2016 (unit: thousand million) [own elaboration]*



CFFI has been negative and kept decreasing over 9 years (2008-2016). DLICV's CFFI includes 2 main parts:

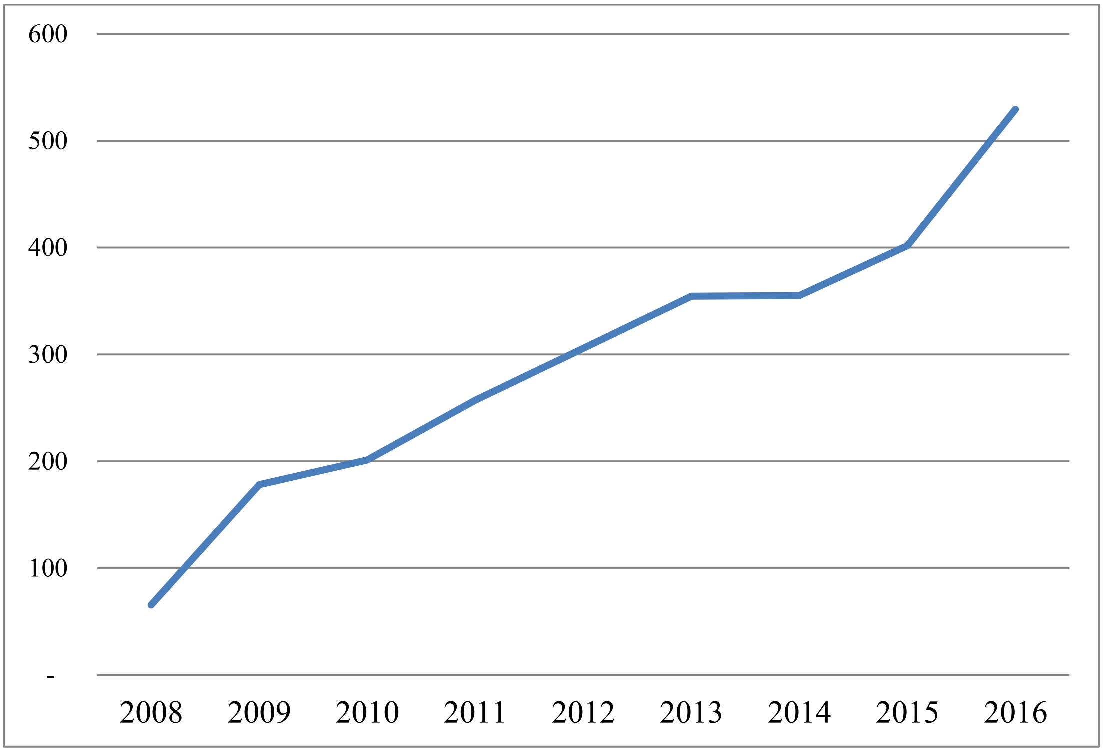
- Purchase to input more investment into Fixed asset: to increase public reputation and market power. This purchase tends to stick to DLICV's strategy and stay high every year to expand the business operation, increase competitive advantage and for better management.
- Investment into other partner companies: or banks, and other potential businesses to build up a balanced and diversified investment portfolio, which doesn't exclusively rely on DLICV's main business operation.

This CFFI shows DLICV's current strategy which is to expand quickly to gain trust with more physical presence and capture more potential market share.

9.3 Cash Flow from Financing Activities (CFFF)

And for this section, CFFF is presented. CFFF value is graphed in figure below to see the changes over the year of DLICV.

Figure 7: *Cash flow from Financing activities 2008-2016 (unit: thousand million) [own elaboration]*



2016's CFFF was 529,59 billion VND. This means that DLICV has borrowed 1,597,391 billion VND loan and paid the due amount of 1,007,618 billion plus the interest of 60,183 billion VND. The value presents the fact that DLICV has increased ratio Total liabilities /Total Assets. It may be risky because this strategy may backfire if the hefty investment couldn't bring more efficiency and profit back to DLICV.

10 ANALYSIS OF CASH FLOW EFFECT TO DLICV’S BUSINESS OPERATION

To achieve long-term success, a business must pay close attention to its cash flow and profitability. Cash flow is the result of business transactions related to operations, investments and other financial activities. A business must have adequate cash on hand to pay for operations and borrowed funds, and to make investments. Therefore, any ongoing cash flow concerns could have a negative impact on a business' overall cash flow performance as measured by periodic net cash flows and the total amount of cash reserves (Ittelson, 2009).

Cash flow from operating activities is a main area of concern for businesses when measuring cash flow performance. During the course of operations, a business receives cash from customers that it uses to make cash payments to suppliers. However, not all sales generate immediate cash inflow, and certain expenses may be incurred on credit, delaying cash outflow. If a business predicts that the level of non-cash sales and any uncollected previous sales may increase, this can translate into an unsatisfactory cash performance with reduced cash inflow (Jury, 2012). On the other hand, a business' inability to obtain vendor credit may require it be prepared for increased cash outflow, equally hurting cash flow performance.

10.1 Comparison of CFFO and Earning After Tax (EAT)

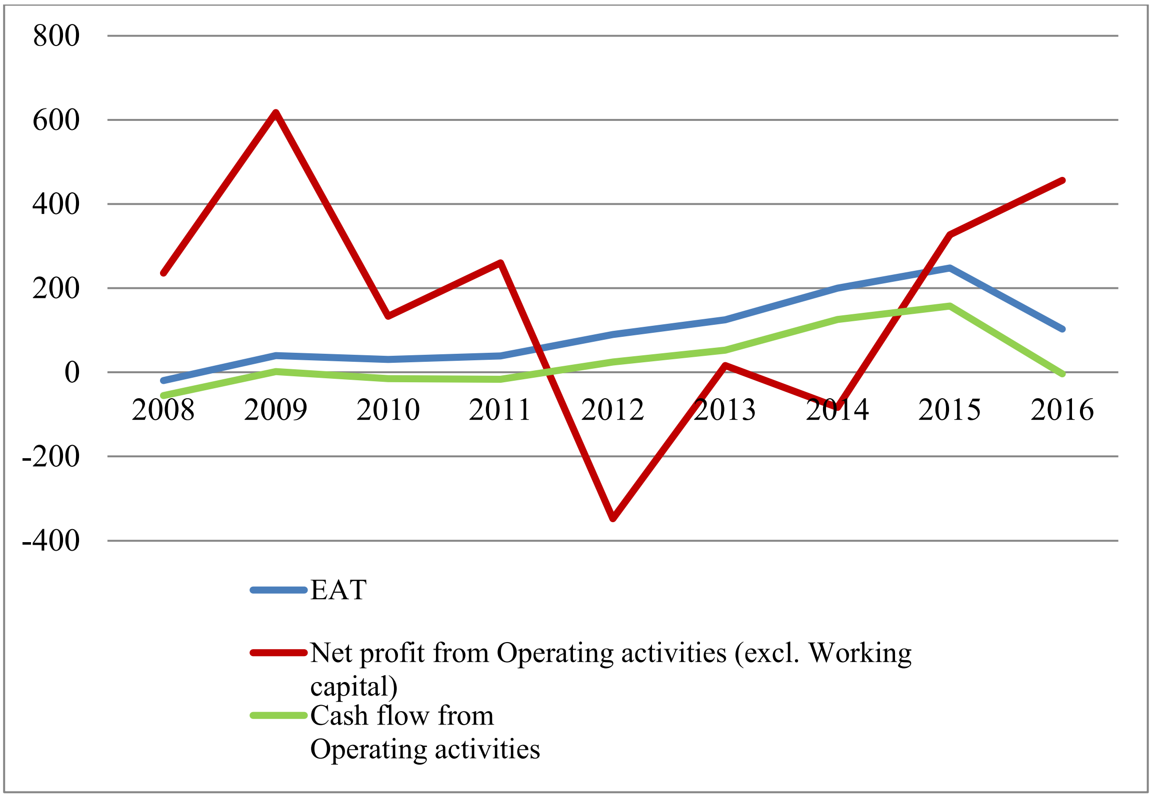
CFFO is an indicator method to give management an overall picture of business operation compared to EAT. CFFO is also a tool to monitor and manage the effectiveness of EAT and help management to estimate the short-term liquidity and ability to pay long-term liability. The flow of CFFO takes into account all cash transaction involved in DLICV’s business operation. It gives management the signal of profit, expense, account receivable, inventory as well as account payable.

Table 3: *CFFO and EAT 2008-2016 (unit: thousand) [own elaboration]*

	EAT	**Net profit from Operating activities (excl. Working capital)**	**Cash flow from Operating activities**
2008	-19,188,611	235,790,452	-55,488,513
2009	39,801,591	617,752,685	2,165,606
2010	30,921,551	133,488,575	-14,749,608
2011	39,212,016	260,479,826	-16,449,417
2012	89,609,785	-347,542,833	24,694,532
2013	124,664,180	16,243,759	52,497,936
2014	200,341,095	-82,987,513	125,900,992
2015	247,940,698	326,967,453	157,753,008
2016	102,905,194	456,715,538	-3,592,227

EAT of DLICV over the course of 9 years are mostly positive (except for 2008) and increasing yearly. Average EAT from 2009-2011 is 36.645 billion VND. The strongest increase was in 2012-2015 when EAT reach 89.61 billion VND in 2012 (128.53% increase compared to previous 2011) and up to 247.94 billion VND in 2015 (176% increase compared to 2012). In 2016, compared to previous successful 2015, EAT decreased more than half down to 102.905 billion VND.

Figure 8: *CFFO and Net profit from Operating activities (excl. Working capital) 2008-2016 (unit: thousand million) [own elaboration]*



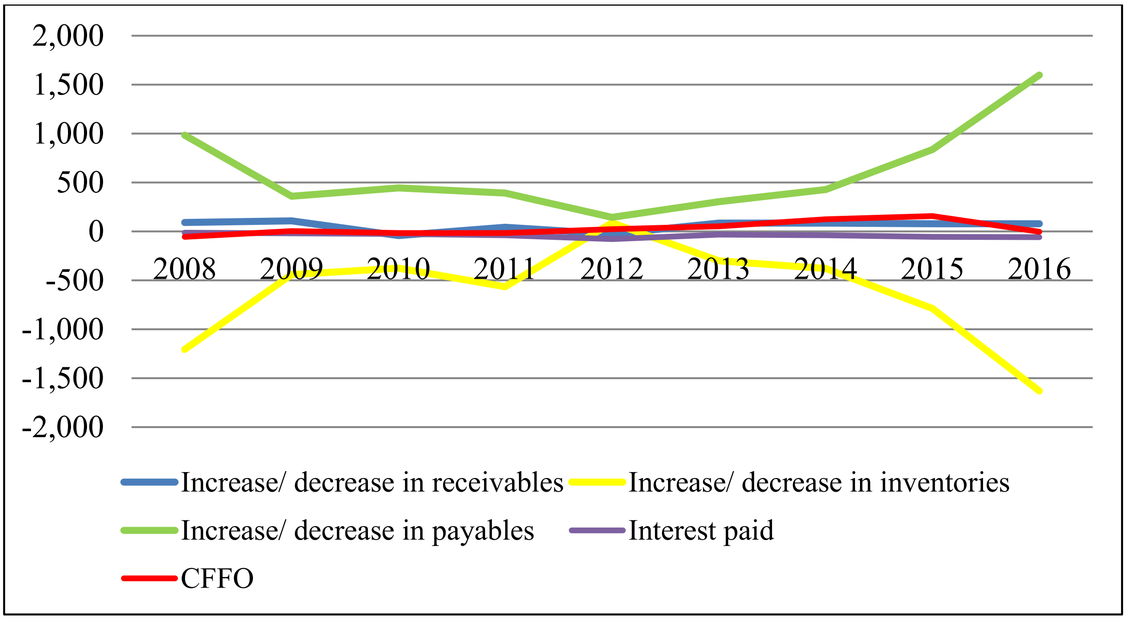
Net profit from Operating activities (excl. Working capital) has the tendency to be improved and kept increasing over the years, mostly stay positive and at high value. That Net profit has negative value in year 2008, 2010, 2011 and 2016 but not very significant. This gives us a slightly optimistic signal that DLICV is strictly following strategy to expand aggressively to capture more market share and prove its effective business operation management.

10.2 Factors Affecting CFFO

Analyzing changes within CFFO helps us realize micro effects, contributing factors and financial stability of that cash flow. Factors that cause changes in CFFO over the operating years of DLICV are being reviewed in table Appendix P.I: Factors causing changes in CFFO 2008-2016 in the Appendices.

These factors are also graphed into the Figure 9 below, so we can see how all the movement of all the line (all factors) would affect the movement of red line (CFFO). The Green line (Increase/decrease in payables) fluctuated very much compared to other factors, but CFFO seems to remain stable over the years.

Figure 9: *Factors causing changes in CFFO 2008-2016 (unit: thousand million VND) [own elaboration]*



11 ANALYSIS OF CASH FLOW METHODS

As mentioned in theoretical part, two different methods would present two different views about company's cash performance. More details examples are presented below.

11.1 Operating Cash Flow (OCF)

For specific value, let's look at the table below:

Table 4: *Factors contribute to OCF method 2008-2016 (unit: million VND) [own elaboration]*

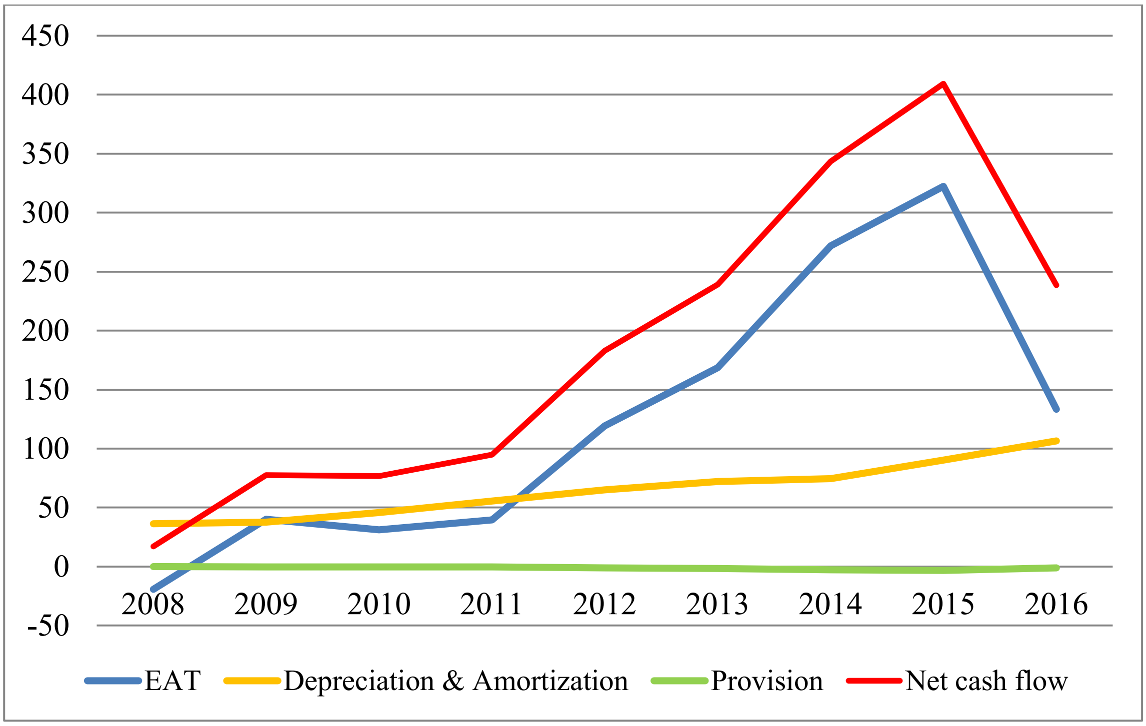
	EAT	Depreciation & Amortization	Provision	OCF
2008	-19,189	36,300	0	17,111
2009	40,204	37,636	-402	77,438
2010	31,234	45,671	-312	76,593
2011	39,608	55,661	-396	94,873
2012	119,258	64,915	-1,193	182,980
2013	168,575	72,166	-1,686	239,056
2014	271,780	74,440	-2,718	343,502
2015	322,313	90,188	-3,190	409,310
2016	133,390	106,497	-1,240	238,647

From simple formula above, we've got table with calculated value for DLICV's Net cash flow. It has always been positive and kept increasing over 9 years because DLICV's operation generated good profit (EAT), while Depreciation & Provisions also increased but little compared to EAT and don't have much significant weight when calculating Net cash flow.

DLICV's EAT are all positive and increased strongly during 2009-2015, especially strongest in 2015. EAT in 2009 increased 3 times more than EAT in 2008 with 59.393 billion VND higher. 2010's EAT decrease 22.31% compared to 2009's EAT, equaling an amount of 8.97 billion VND. 2011's EAT increased 8.374 billion VND (around 26.81%) higher than 2010's EAT. For 2012, EAT suddenly increased strongly 79.65 billion VND, almost 2 times of 2011. EAT kept increasing fast after that. Especially in 2015, EAT reached 322.313 billion VND. In 2016, EAT decreased back down 58.61%.

Meanwhile, Depreciation increased about 21.49% yearly on average and estimated to keep increasing by 26.06% yearly, which is still lower than the estimated 79.62% growth of EAT.

Figure 10: *Factors contribute to OCF method 2008-2016 (unit: thousand million VND) [own elaboration]*



DLICV's Net cash flow shows the great ability and potential of the company to generate revenue. However, it tends to lose the momentum and failed to pick up the same growth speed in recent year (e.g. 2016)

11.2 Free Cash Flow (FCF)

DLICV's free cash flow has always been negative and unevenly increasing over the years. The reason is that the net cash inflows from net capital expenditures are always in a negative and high level over the years, along with the income payouts are always negative but much smaller and the net cash flow from the business activities It is very low, sometimes negative. This shows that DLICV's financial flexibility, ability to meet new investment expansion, or sudden changes in its business ... are low and dependence on resources. Aid from outside is quite high. However, the leaders of the company have determined the strategy in 2017 is no new investment but mainly exploit the existing infrastructure so the negative cash flow will have less negative impact on the company's liquidity.

Table 5: *Factors affect FCF method 2008-2016 (unit: million VND) [own elaboration]*

	OCF	**Net Capital Expenditure**	**FCF**
2008	-55,489	-291,279	-346,767
2009	2,166	-906,866	-904,700
2010	-14,750	-1,055,104	-1,069,854
2011	-16,449	-1,332,033	-1,348,483
2012	24,695	-959,796	-935,102
2013	52,498	-923,542	-871,044
2014	125,901	-714,653	-588,752
2015	157,753	-883,868	-726,115
2016	-3,592	-1,344,176	-1,347,768

11.3 Compare between OCF and FCF method

The OCF and FCF of DLICV differ greatly. OCF has always been positive over the years, while FCF has always remained high throughout the years. The table below shows the two series side by side for easier comparison.

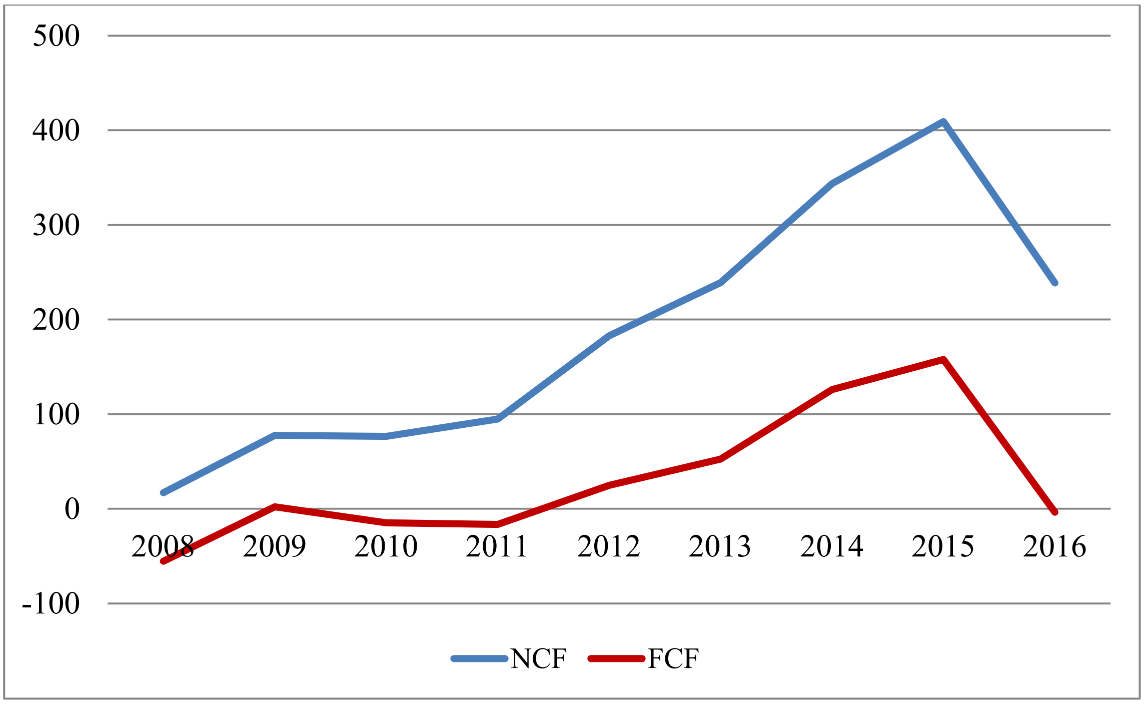
The difference between the two cash flows is that the OCF is calculated from the after-tax profit, while the FCF is calculated from net cash flow from operating activities. The reason is that DLICV is in the stage of development, effective business operation (positive profit), receivables, inventory, prepaid expenses and interest expenses. In addition, the company also uses a lot of external financing so the interest expense is large. The cash flow from operating activities was not enough to offset the outflows so net cash flow from trading activities during this period was mainly negative.

Table 6: *OCF vs FCF 2008-2016 (unit: million VND) [own elaboration]*

	NCF	FCF
2008	17,111	-346,767
2009	77,438	-904,700
2010	76,593	-1,069,854
2011	94,873	-1,348,483
2012	182,980	-935,102
2013	239,056	-871,044
2014	343,502	-588,752
2015	409,310	-726,115
2016	238,647	-1,347,768

The figure below shows the movements of the two cash flows are also different from each other's. The OCF tends to increase slightly over the years while the free cash flow fluctuates more strongly over the years.

Figure 11: *OCF vs FCF method 2008-2016 (unit: thousand million VND) [own elaboration]*



12 CASH FLOW INDICATOR RATIO

For this section, we look at specific value for financial ratios mentioned in the theoretical part and analyze. These give us the big picture of levels of cash being generated and the safety degree the company is currently having.

12.1 Cash Current Debt Coverage Ratio

The ratio is a measure of the ability to generate enough cash to cover capital expenditures, inventory, and cash income. With a low cash flow guarantee ratio of 0.0272 <1, DLICV will have to use external financing (parent company ...) to finance its capital needs.

***Table** 7: Cash current debt coverage ratio (unit: million VND) [own elaboration]*

Total cash	**272,732**
Capital expenditure	8,411,318
Inventory	1,631,744
Ratio	0.0272

12.2 Cash Re-Investment Ratio

Assessment of the ratio: within range of 7% -11% is well appreciated.

The ratio is a measure of the percentage of investment in assets representing cash held and reinvested in the company for replacement and growth in business operations. From 2008 to 2016, this ratio ranged from -14.45% to 14.72%. In the period 2008-2011, due to the impact of the economic crisis, the investment in expanding the network has been stagnant. From 2014 to 2015, DLICV has invested heavily in its assets and increased its operating network.

Table 8: *Cash re-investment ratio 2008-2016(unit: million VND) [own elaboration]*

	OCF	**Fixed asset**	**Other assets**	**Current asset & Current liabilities**	**ratio**
2008	-55,489	70,065	22,533	291,279	-14.45%
2009	2,166	115,703	27,307	906,866	0.21%
2010	-14,750	136,740	29,500	1,055,104	-1.21%
2011	-16,449	132,442	31,892	1,332,033	-1.10%
2012	24,695	133,313	30,917	959,796	2.20%
2013	52,498	138,474	50,911	923,542	4.72%
2014	125,901	126,196	54,065	714,653	14.07%
2015	157,753	140,443	47,744	883,868	14.72%
2016	-3,592	56,850	227,830	1,344,176	-0.22%

12.3 Operating Cash Flow/Sales Ratio

Good ratio: The higher the score, the better. For companies that have grown steadily this ratio is usually> 25%.

The table below shows that the ability to sell cash to DLICV is relatively low. The reason is partly because DLICV has to invest in expanding its operations and developing its customer base.

Table 9: *OCF/Sales ratio 2008-2016 (unit: million VND) [own elaboration]*

	CFFO	**Net Revenue**	**Ratio**
2008	-55,489	472,309	-11.75%
2009	2,166	584,908	0.37%
2010	-14,750	743,443	-1.98%
2011	-16,449	991,198	-1.66%
2012	24,695	1,154,632	2.14%
2013	52,498	1,464,362	3.59%
2014	125,901	1,838,814	6.85%
2015	157,753	2,523,547	6.25%
2016	-3,592	3,500,123	-0.10%

12.4 Free Cash Flow/Operating Cash Flow Ratio

Good ratio: The higher the ratio, the greater the financial strength of the company.

The ratio in table below shows that the solvency of DLICV is high, proving strong financial strength and solidity, creating trust in customers.

Table 10: *FCF/CFFO ratio 2008-2016 (unit: million VND) [own elaboration]*

	CFFO	**Capital expenditure**	**Ratio**
2008	-55,489	291,279	-5.249
2009	2,166	906,866	418.759
2010	-14,750	1,055,104	-71.534
2011	-16,449	1,332,033	-80.978
2012	24,695	959,796	38.867
2013	52,498	923,542	17.592
2014	125,901	714,653	5.676
2015	157,753	883,868	5.603
2016	-3,592	1,344,176	-374.190

13 FINANCIAL EVALUATION

13.1 Advantages

During the main 9 years of operation 2008 – 2016, DLICV has become 9 times stronger regarding Total revenue of Life insurance product. It has well maintained the position of 4th largest life insurance company in Vietnamese market with the most efficient and stable expanding strategy.

Through the task of financial analysis, more specifically the cash flow, we can see the net cash flow or free cash flow mostly increase every year. Moreover, the DLICV has good liquidity ability and financial situation. The capability to generate profit is also good with Total revenue increased fast and continually over the operating years (thanks mainly to revenue from selling Life insurance product). The Cash flow status of DLICV is also stable and balanced. With the advantage of great financial support from DLH Parents Company, DLICV clearly prove their strong position and capability in Vietnamese market.

Analyzing DLICV's Cash flow is a good foundation task to realize factors that affect negatively on its financial operation. From this, management could have clearer picture of current financial status of DLICV, any financial weakness DLICV may be having, and any potential to expand more in the future. Besides, it also helps to identify bad debt, account receivables and estimate payment ability. It also helps management to identify more accurately the available cash to pay off current liabilities, or long-term liabilities that are due. Last but not least, it helps identify which expense is cash or non-cash.

13.2 Disadvantages

Even though the fast increase of Life insurance product price is relatively high at average of 30% yearly, it's still very low compared to big competitors like Prudential and Manulife. This may create challenges and difficulties for DLICV's management to develop a suitable strategy. The pouring investment from DLH is great, but the numbers of operating DLICV's branches are still low. Under no circumstances, the number of branches and revenue could be offset by expanding more aggressively get more profit.

Moreover, the assign of investment tasks are running out of time after 2008-2009. If the investment is so diverse and big, DLICV's management may have more difficulty when prepare financial management. As a result, CFFO may be unstable and have negative effect on efficiency of DLICV's business operation and expanding strategy.

14 OBJECTIVE FOR COMPANY'S PROPOSALS

By analyzing financial data of DLICV over 9 years, we can see DLICV had an impressive performance. Especially, total revenue of recent 2017 exceeds 5.3 billion VND, a 51% increase compared to 2016, and 14.4 times more than 2008. For the scale of business, DLICV has built the network of 209 branches domestically, serving almost 1.6 million customers through the team of more than 900 administrative employees, plus around 60,000 professional financial consultants. By using an aggressively expanding strategy, DLICV has successfully gained more than 10% of market share (end of 2017), a strong increase from 4.4% market share (beginning 2008). This help DLICV maintained strong market position as one of top 4 life insurance companies in Vietnam. Moreover, supporting for the potential expanding strategy, DLH has increased funding investment for DLICV 3 times. This represents strong belief of DLH for DLICV of potentially positive performance.

Furthermore, DLICV has built relationship with big and well-established players in financial market (like HD Bank, VNPost, Mocap, LVP Bank, ACB, Sacom bank, VP bank, VP securities, OCB, BA Bank…) by signing some partnership contract and project to improve mutual benefits for both and bring financial product to customer in all corners of Vietnam.

If DLICV is working toward objective of gaining 15% of market share, DLICV needs to continue the strategic goal of "stable growth and expanding", "outstanding customer service", "efficient operation" and "long-term commitment".

15 PROPOSALS FOR IMPROVING CASHFLOW PERFORMANCE

During business operation of 2008 -2016, with impressive performance result, marking great turning point and build strong-hold position in market and customers' mind, but DLICV still have some strategic limitation in management process and internal operation. Therefore, to improve the efficiency of business operation and its competitive advantage, few proposals are recommended from Management perspective and Business operation's perspective to resolve limitation and improve existing strength, boosting DLICV more market power.

15.1 For Management

Improve process of recruiting branch outlet: currently, morality among life insurance outlets are becoming an alarming problem. The nature of this industry relies heavily on trust between customers and financial consultants (salesman). Highly ethical practice from consultants would build great trust and long-term commitment with customers, and vice versa.

If the hiring process is improved, it would help DLICV choose the righteous and ethical consultant with professional manner to deliver its product. The focus should be on quality, not quantity like in present, and also the suitable consultant for different life insurance products. One way is to emphasize on attitude of candidate towards career in life insurance industry during mock interview, for example: their belief of benefits from product, their adequate knowledge of product to advise customers properly...

Raise spirit of responsibility level among managers toward financial consultants: Besides training sessions to improve skills, seminars and meetings should be organized more often to provide a bridge between managers and consultants. Both sides could have more chances to convey the opinion, listen to each other's, or share the job experiences for the purpose of better handling complex arising situation. These meetings also give managers the chance to inspire and motivate consultants' loyalty and to sell more products. If done successfully, this would have positive impact on DLICV's revenue. Moreover, managers should do their best to provide consultants comprehensive info about prospective customers and incentive to attract more customers. The information is valuable because it helps understand the primary target market and customers to focus the right attention. Managers could also help consultants prospecting the potential customers and develop strategic goals to boost sale.

It's important for managers to constantly monitor branch level business operation to step in right time in case wrong practice occurs, because some consultant may be willing to cross the ethical border to increase sales quota, which would badly affect customer's benefit and DLICV's public reputation.

Besides some DLICV's internal contest, incentive standard should be designed to reward deserved individual for their contribution and push those who violates company's practice guideline. This would help build credibility and loyalty between managers and employees, and boosting bottom-line profit.

Develop Marketing plan: Marketing campaign is very important to promote the brand and public image of DLICV. However, DLICV's website is not professional enough to serve this purpose. It's simple and not enough sufficient information for potential customers to read more about interested product, compared to big competitors like Prudential or Manu-life.

Campaign promoting DLICV's image and products on different marketing channels need to be pushed forward faster by managers because DLICV currently has no official market campaign, and customers are only aware of the brand when physically visiting one of DLICV's branches. The good promoting campaign would help push brand recognition and quality assurance further to the market, attracting more potential customers and build credibility of DLICV with customers' investment.

15.2 For Business Operation

For businesses competing in the same product, the richness & diversity of the product range will be able to create a large competitive advantage over other businesses. Especially the insurance industry, because the insurance products have invisible characteristics: invisible, unable to touch but very easy to imitate. A customer who needs a certain insurance product would have difficulty choosing which company to join the insurance program if not being advised properly with adequate information because the high numbers of competing insurance companies for the same type of product can be confusing, especially for customers with weak financial sense or knowledge.

The easy-to-imitate nature of insurance products requires insurance companies to constantly research and launch new products in order to maintain and grow their customer base and market share.

Presently, the range of products being offered at DLICV is quite diverse, able to meet different needs of different age groups. Fortunately, the “An Sinh Giao Duc” (protection for education) insurance product is currently the most popular sell and receives the most attention. It helps contribute the most toward DLICV's annual revenue since its launch. Due to its success, nowadays, when referring to the protection for education, customers immediately recall DLICV brand.

In order to continue similar success like that, DLICV should promote such activities as:

- Plan annual investment funds for market research, including markets in major provinces, cities and regions throughout the country.
- Build a R&D department, specializing in market’s demand research, design new products and innovate existing products.
- Marketing campaign to create awareness of new products to customers.
- When introducing new products into market, monitor its sale performance to analyze strengths & weaknesses to gather experiences for development of next products.

In order to improve efficiency of DLICV’s business operation, the following conditions must be emphasized:

- Equity: DLICV’s management team need to discuss and agree on the annual investment fund set aside for market research and product development. This fund must be determined on the basis of strict calculations to ensure to satisfy the expenditures for necessary research and product development.
- Infrastructure: Established the R&D department.

Human Resources: carefully recruiting qualified staff with adequate skills to conduct market research and help with development of new products.

CONCLUSION

Insurance is becoming a part of the lives of Vietnamese people, fostering financial stability and reducing mental anxiety. Insurance services are an important means of mobilizing capital for economic development and are an effective tool to reduce risks. DLICV is a foreign insurance company, officially operating in Vietnam market not long, the current market share may be small but the DLICV's future set-out target is not small at all.

DLICV is committed to become the best life insurance company in terms of serving customers and contributing to the development of Vietnamese market and local community.

Try to build the highest customers' satisfaction and create the best working environment for employees are the most important mission that DLICV always wants to achieve well and thrive to make it better.

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LIST OF ABBREVIATIONS

DLH	Dai-ichi Life Holdings.
DLICV	Dai-ichi Life Insurance Company of Vietnam, Ltd.
CFFO	Cash flow from Operating activities.
CFFI	Cash flow from Investing activities.
CFFF	Cash flow from Financing activities.
NCF	Net Cash flow
FCF	Free Cash flow
OCF	Operating Cash flow

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APPENDIX P I: FACTORS CAUSING CHANGES IN CFFO 2008-2016

	2008	2009	2010	2011	2012	2013	2014	2015	2016
Net accounting profit before tax	-19,189	40,204	31,234	39,608	119,258	168,575	271,780	322,313	133,390
Depreciation and amortisation	36,300	37,636	45,671	55,661	64,915	72,166	74,440	90,188	106,497
Provisions	0	402	312	396	1,193	1,686	2,718	3,190	1,240
Profits/loss from investing activities	298	254	1,378	622	1,814	1,242	3,208	1,303	4,644
Unrealised foreign exchange losses	0	0	2,741	0	0	0	0	1,105	22,157
Profits/loss from investing/ liquidated fixed assets	58,051	-96,464	-123,633	16,314	-312,400	-223,338	-266,037	-316,180	-331,703
Interest expense	13,545	20,134	27,550	39,525	77,749	33,852	39,793	55,834	60,183
Operating profit before changes in working capital	89,005	2,166	-14,748	152,126	-47,472	54,184	125,901	157,753	-3,592
Increase/ decrease in receivables	90,403	107,413	-40,868	43,704	-25,611	84,519	84,420	79,564	77,777

Increase/ decrease in inventories	-1,205,519	-440,678	-375,705	-565,169	87,327	-299,437	-379,891	-787,612	-1,631,744
Increase/ decrease in payables	984,817	358,147	444,604	393,454	145,174	303,788	429,878	836,388	1,597,391
Increase/ decrease in prepaid expenses	0	0	0	0	-28,455	-13,770	-26,495	-2,461	41,937
Interest paid	-13,545	-20,134	-27,550	-39,525	-77,749	-33,852	-39,793	-55,834	-60,183
Corporate income tax paid	0	0	0	0	-28,455	-42,225	-68,721	-71,182	-29,245
Other receivables from operating activities	298	254	1,378	622	1,814	1,242	3,208	1,303	4,644
Other payments on operating activities	-947	-5,002	-1,861	-1,662	-1,878	-1,950	-2,606	-166	-577
Net cash outflows/inflows from operating activities	**-55,489**	**2,166**	**-14,750**	**-16,449**	**24,695**	**52,498**	**125,901**	**157,753**	**-3,592**