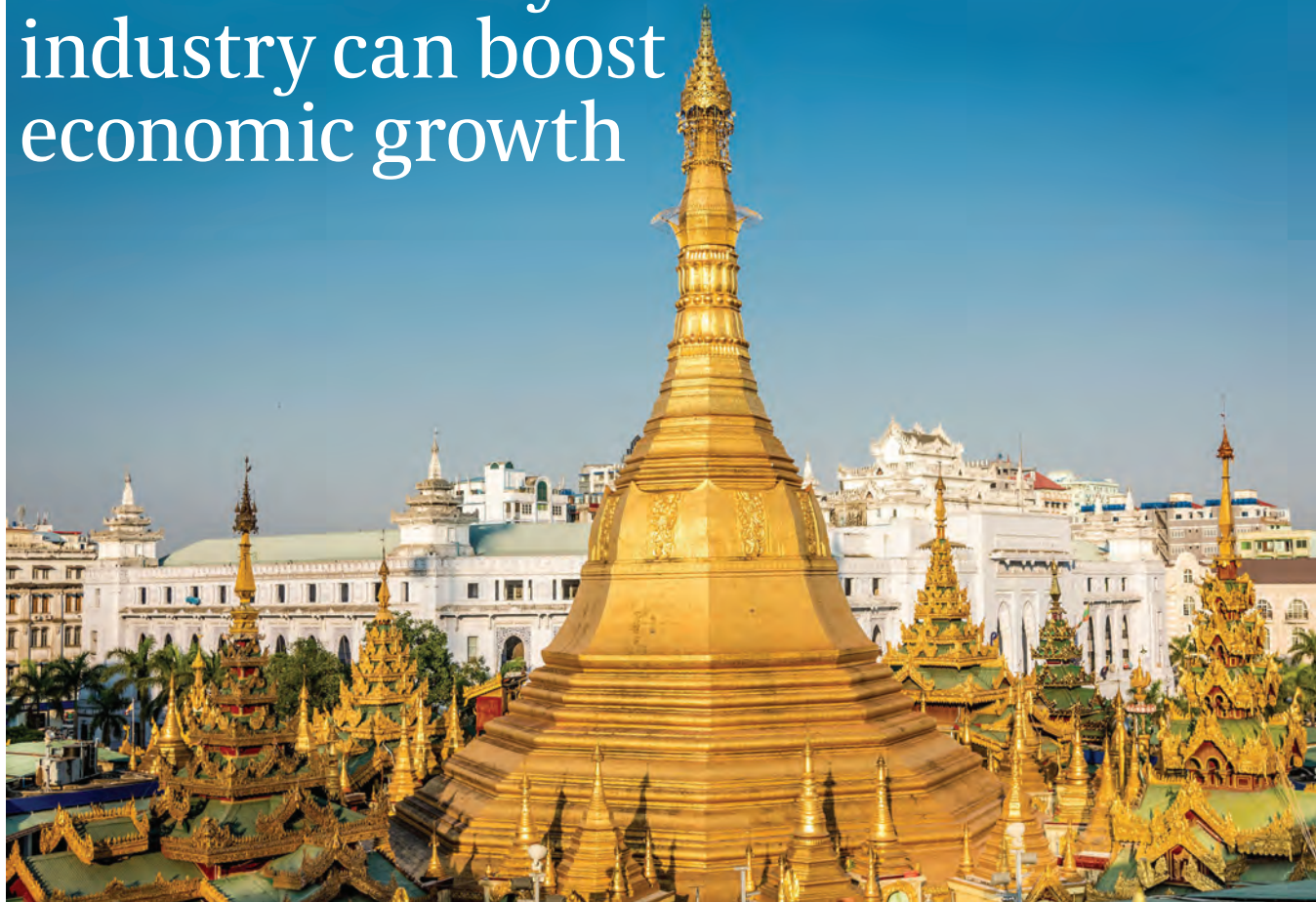


# A liberalised Myanmar insurance industry can boost economic growth



Developing the insurance sector is now a top priority in the government's plans for financial reform as it understands that developing the insurance industry will also boost economic growth. A recent change made was that Myanmar Insurance will retain up to 30% of all risks and not front some of them as in the past.

**Mr William Aung** gives an update on the country's insurance sector.



**T**he National League for Democracy (NLD) government led by Aung San Suu Kyi plans to liberalise the country's insurance industry soon. A blueprint for the future of the sector is currently being developed which is expected to be released in the near future.

In the past few months, the government has been consulting policy makers, including the World Bank, Japan International Cooperation Agency (JICA), USAID, regulators and the insurance companies themselves, sounding out opinion and trying to put together a sound plan to revitalise the insurance sector.

Insurance plays a constructive role in the economy, society and the country as a whole, by providing security, confidence, a form of savings, and encourages investment. Furthermore, it provides a certain freedom of action and ease of mind, encouraging activities to flourish in industry, commerce, and throughout society as a whole. Myanmar is now opening businesses

to international investors: the more projects and more businesses there are, the more insurance will be required.

## Liberalising the sector

Myanmar's domestic insurance companies are only four years old, and still unable to really develop because the regulator still maintains a tight grip on the industry.

But that may be about to change: the government and regulators are in the process of liberalising the insurance industry. Domestic insurance companies might require the ability to insure businesses that are beyond their current resources, such as mega buildings, international standard hotels, shopping malls, hospitals, and complex projects.

Regulators should allow domestic insurance companies to create new products, self-underwrite and perform their own claims process, and be allowed to offset a portion of their risk with international reinsurance companies. In the meantime,

international insurance companies could be allowed to participate in the Myanmar market, albeit with limited conditions.

### Following the experience of the banking sector's liberalisation

The insurance regulator could consider from Myanmar's experience of liberalising the banking sector, and allowing foreign banks to enter the country. These banks are not allowed to freely conduct business in Myanmar: they are only allowed to do business with foreign companies and lend to domestic banks.

For the insurance industry, the regulator could follow the example of the banking sector, and allow international insurers to conduct their insurance business within limited conditions, for the time being at least. The regulator, for instance, could allow foreign insurance companies to underwrite 100% of the insurance needs of foreign companies operating in Myanmar, joint venture companies and state-owned properties and state-owned corporations.

### Foreign reinsurers' expertise

Foreign insurers could also be allowed to conduct reinsurance business for domestic insurance companies. By allowing the reinsurance business, domestic insurance companies could learn and acquire technical expertise about international standard in relation to underwriting practices and the claims' process.

Reinsurance is a very important tool for the stabilisation of an insurance companies' sustainability in Myanmar. A good reinsurance programme is essential to the insurer's continued existence and success.

The reinsurance business could also be a key element of the Myanmar insurance industry in which foreign insurers can participate. Reinsurance would cover four basic functions: financing, stabilisation, capacity and resource protection. It also provides domestic insurers a role in at least one of these functions, and most can serve several functions simultaneously.

### MI fronting the complex risks

Myanmar needs to create a healthy insurance marketplace: a healthy

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market is one where consumers' needs are able to be met by products that are readily available, affordable and where both insurers and claimants are treated fairly, according to societal expectations.

Currently in Myanmar, international corporations are able to access international insurers through "fronting" insurance arrangements with only the state owned Myanma Insurance Enterprise.

But Myanma Insurance (MI) is unable to provide complex insurance protection and policies to international corporations. If Myanma Insurance cannot provide the type of insurance required by foreign businesses operating in Myanmar, these foreign corporations can then arrange insurance on the international market, but it must be "fronted" by Myanma Insurance.

Fronting is a procedure in which the primary insurer – in this case, Myanma Insurance – acts as the insurer by issuing a policy, but then passes the entire risk through facultative reinsurance to international reinsurers, in exchange for a commission.

### MI will retain up to 30% of all risks

Until November 2017, the fronting business was 100% exportable, with the foreign reinsurer accepting a 100% risk, except 15% of the gross exportable premium. This 15% fronting fee is known as service fee (or RI) commission, which must be paid to Myanma Insurance for its services.

As a part of the planned liberalisation effort, Myanma Insurance (MI) is about to change. MI will retain up to 30% of all the risk on new policies and renewed business policies from 1st January 2018 if the sum insured is up

to US\$8 million or a certain percentage equivalent to a maximum \$2.5 million. If the sum insured exceeds \$8 million, MI will retain only 25% of the risk. In addition, MI will take a 15% commission on RI premiums on the reinsurer's portion.

### Broker as distribution channel

As distribution channels are the ways in which products are made available to the public, an effective and efficient insurance distribution mechanism must be developed.

Seventy percent of Myanmar's population lives in rural areas where insurance protection is out of their reach. For Myanmar, an independent brokerage system has to be developed: providing an economic and efficient way for insurers to market their products and make them available throughout Myanmar. The size of Myanmar and its sparse and dispersed population makes broker-based business a practical option.

An effective and healthy insurance industry could stimulate the country's economy. Insurers could spend billions of kyat each year for repairs to damaged property, the replacement of lost or damaged property, medical treatment and rehabilitation, lost wages and the services of the people responsible for the sale of the premiums and the claims-settlement process. The country economy would continuously benefit from these annual cash injections. This would create jobs – both directly and through spin-offs – which in turn would generate increased tax revenue for the government and boost the country's economy. It is a win-win situation. ■

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