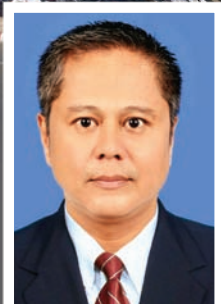


## COUNTRY PROFILE – MYANMAR

# Myanmar's insurance needs



**Mr William Aung of Bagan Capital Inc** gives an overview of the Myanmar insurance sector today, after the new government has taken over. There is still a lot of work to do done in this nascent industry.

Yangon City Hall

**M**yanmar's new democratic government is facing many daunting tasks as it comes to terms with trying to liberalise the country's economy.

Reforming the insurance sector is one of those areas that the National League for Democracy's national administration has begun to tackle. The Parliament's monetary committee invited all domestic insurers to the capital Nay Pyi Taw at the end of April 2016 to discuss the existing insurance law, rules and regulation of the insurance industry and general insurance business practice.

The new government recognises the very low insurance penetration in Myanmar, so is looking for ways to improve the insurance sector's development. At present the potential growth of Myanmar's insurance industry is severely hampered by the lack of skilled insurance professionals, a weak and deficient regulatory body, and the very limited knowledge of insurance among Myanmar's public.

Myanmar's Insurance Law (1993) empowers the Myanma Insurance Enterprise to supervise insurance business activities in the country. It

tightly controls all business activities: from promoting and selling insurance products; insurance products creation, setting premium rates and commission; to determining the wording of insurance policies.

The Insurance Business Law (1996) empowers the regulator, the Insurance Business Regulatory Board (IBRB), which reports to the Ministry of Finance -- to award business licenses for insurers, underwriting agents and insurance brokers, and to determine their capital needs and the limits to their investment. Myanma Insurance Enterprise, the state owned insurance company, performs the secretaries work and regulatory tasks for the insurance regulator (IBRB).

### Time for change

The Insurance Law was written during the military era and as a result entrenched the state owned Myanma insurance enterprise. The Insurance Law, rules and regulations urgently need to be changed or amended to bring them into line with all other relevant laws, especially the foreign investment law. The insurance industry urgently needs to be liberalised.

While it sounds easy, in reality, there are many issues and challenges.

Currently the Financial Regulatory Department (FRD) is involved in the insurance sector. The FRD replaced MI and performs the regulatory tasks of the IBRB. It is also unclear for industry experts, which is the more important authority: FRD or IBRB. IBRB should be an independent regulatory department that needs to include various insurance professionals.

While the insurance sector has opened up for 100% owned Myanmar insurance companies, its great potential for growth has yet to be realised. At the moment there are 12 domestic insurers involved in the local insurance business. In the meantime, 24 foreign insurance companies, including 10 foreign life insurers, 7 foreign general insurers and 7 brokers are waiting to get insurance business licenses.

### No indication of when the industry will open up to international players

Insurance is a knowledge-based, highly technical and with a complex business structure, with enormous barrage of laws, rules and regulation with compli-

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cated wording that demands superior technical competences. Myanmar's domestic insurers need to build their capacities to be able to compete with international rivals.

At the same time, Myanmar's insurance industry definitely needs the skills and technical expertise that international insurers can provide. International insurers are anxious to know when the Myanmar market will open up to international insurance companies. But as yet there are no hints as to when this might happen. So far there are no announced plans or schedule.

### Obstacles to development

At the Asia Insurance conference held in Myanmar in 2014, the former IBRB chairman Dr Maung Maung Thein sent a strong message to international participants, many of who were waiting anxiously to enter the Myanmar market. "Be patient", he had told them emphatically.

At that time Thein Sein's quasi-civilian government was promising continued economic reform, but had become bogged down by political problems. And the prospect of continued economic liberalisation remained uncertain. Business people and investors, particularly from abroad, were watching closely for signs of movement.

Political instability remains a major hindrance to international insurance companies wanting to enter the Myanmar market. Insurance is not a short-term "hit and run" business, it needs a long-term commitment, so the new government has to think carefully before it liberalises the industry.

### Outdated and archaic regulatory and legal frame work

Prior to May 2016, Myanmar's insurance industry was dictated virtually as one-man show. Now the new government is giving domestic insurers opportunities to put forward their issues and problems. Hopefully this will also lead to opportunities being given to the foreign insurance companies that are waiting to enter Myanmar's market.

Foreign insurance companies, which have representative offices in country, have been trying to liberalise the insurance sector but Myanmar staffs at these companies have fail to convince the government and regulators to move the insurance market

forward. Although open for the past three years, the domestic insurance market remains stagnant, because of the lack of human capacity and regulatory framework.

The new government has to urgently redress the outdated and archaic regulatory and legal frame work, which are blamed for restricting the growth of the market. Steps must also be taken to allow the development of local insurance brokers and independent adjusters to be involved in insurance distribution and claim process opportunities.

Unfortunately the government is facing too many issues so there is unlikely to be any meaningful change in near future. An acute lack of understanding and capacity in the new government – amongst lawmakers, public servants in the finance ministry, the financial regulatory department, IBRB – and within local insurance companies are significant barriers to the development of the Myanmar insurance industry.

### Way forward

The new government is facing a major dilemma – whether to open Myanmar's insurance market to international companies within next few years. Domestic insurance companies are under-capitalised, lack expertise and experience, and need protection against unfair competition from foreign insurers. The government also wants assurances that domestic insurers will survive.

While international insurers enjoy their operation 100% ownership right, on the other hand domestic insurance companies say they could be enticed to enter into joint ventures or partnerships with foreign insurers.

### Need for investment vehicles

Foreign insurers' premium investment mechanism and premium reinvestment policy are not in place, foreign insurers invest their premiums either locally or offshore. If premiums must be invested locally, there are no investment opportunities for foreign companies as they are not allowed to invest on the newly opened Yangon stock exchange.

This is very limiting, as joint ventures are also excluded from investing in YSX, as the Myanmar Company Act of 1914 clearly defines a foreign company as one which has as little as one share owned by foreign entity.

Life insurance is all about financial planning and financial security. Given the long-term nature of the insurance industry, especially the life insurance business, political stability is of paramount importance.

There are no pension plans, or mutual funds to administer insurance premiums, so long term investment for life insurance premium will be insecure for international insurers.

Life insurance is a long-term business, so the Myanmar government needs to think very carefully before allowing international life players into the market, as the government must also safeguard the interest of Myanmar economy and citizens. If international insurers collect insurance premium locally but are allowed to invest offshore, this would not help the domestic economy.

### Collaboration among everyone needed

Representative offices of foreign companies are already providing insurance education and technical training to the Myanmar Insurance Enterprise. But the Myanmar Insurance Enterprise is only one insurance company and does not represent the whole industry.

MI suffers from outdated management structure and ageing staff. International players should respect and fairly treat other domestic insurers. At present international insurance companies are focusing on their own interests; for example, international life insurers are providing only life and health related insurance products and while in the meantime, general insurers are providing their general insurance products training to Myanmar Insurance.

They are not collaborating together to draft a complete approach to the whole insurance industry. Foreign insurance companies are competing with one another to fill the gap, but without a clear framework, roadmap or blueprint.

International insurance companies should collaborate with domestic insurance professions, FRD, IBRB, Myanmar Insurance Enterprise and all other domestic insurers to draft complete framework that will enable Myanmar's insurance to move forward. ■