Green light for global insurers as Myanmar opens up

- 29 Apr 2019 at 04:30
- WRITER: Larry Jagan

The Myanmar government has picked up the pace of liberalisation to attract foreign investment and help spur economic development in the last two years of its term in office.

"Myanmar is truly open for business, and we are putting into place the reforms and the legal framework needed to reassure foreign investors that we do indeed mean business," Thaung Tun, the Minister for Investment and Foreign Economic Relations, told Asia Focus in a recent interview.

After more than two years of talk about business reform, the government's words are finally being matched by deeds. In the last few weeks five foreign insurance companies have been granted provisional licences to issue life insurance policies through subsidiaries.

As well, four foreign trading companies have been allowed to conduct retail and wholesale business in Myanmar, under amendments made last May to a law that previously prohibited foreign companies, except as joint-venture partners.

The two announcements earlier this month suggest the government is keen to push its liberalisation programme forward and create greater opportunities for foreign investors and local businesses alike.

"The latest liberalisation is an important signpost -- not just in once more signalling that Myanmar is open to foreign investment, but also that it is taking the crucial steps needed to underpin the broader reform of its fiscal arrangements, and in restructuring its financial sector," Sean Turnell, special economic adviser to the State Counsellor, told Asia Focus.

But not everyone is convinced that the changes are more than window dressing. There is still widespread scepticism among local businesses and foreign investors alike.

The government has shown an underlying failure to appreciate the role of the private sector, and still fails to offer strong economic leadership and vision, complained Dr Thet Thet Khine, a businesswoman who also happens to be an MP with the governing National League for Democracy (NLD) led by Aung San Suu Kyi.

"Currently there are many obstacles to Myanmar's sustained economic development: the most critical, the government's weak economic leadership and management coupled with imperfect market mechanisms, poor infrastructure, a lack of industrial diversification, and inadequate access to finance," she said.

"What is needed overall is a detailed development agenda. This should be based on stable macroeconomic management and building an enabling business environment for the private sector to develop.

"A broad range of new economic and investment opportunities will open up if we could diversify the economy into a range of key business activities: especially in tourism, the financial sector, manufacturing, trading and infrastructure."

Liberalisation of the insurance business has been in the pipeline for some time. Two years ago the Planning and Finance Ministry floated the idea of allowing 100% foreign-owned companies to offer life insurance policies to the Myanmar public. But these moves, along with a greater liberalisation of the financial sector, including banks, were strongly resisted by local businesses -- especially those involved in the industry -- and the public servants whose role is to regulate the financial services sector.

The original plan was for three companies to be allowed into one of Southeast Asia's least-insured countries, but finally five foreign multinational companies were approved to establish wholly owned subsidiaries: AIA of Hong Kong, US-based Chubb, Japan's Dai-ichi Life Holdings, the Canadian company Manulife and UK-based Prudential.

The final announcement was delayed by a week, and ministry sources suggest that reflected the decision to add two more firms.

"There is no doubt that the way the announcement was handled and the number of insurance companies included was a political decision," said William Maung, an independent insurance analyst based in Yangon.

In any case, he said, the move is largely symbolic because very low life-insurance penetration in Myanmar makes the business commercially unviable in the short term. The ratio of insurance premiums to gross domestic product is estimated to be less than 0.1%. Even Vietnam has a higher rate of 2.1%, while the region's high end -- Japan -- is estimated to be around 8.6%, according to the Swiss Re Institute.

"These foreign companies are committing themselves to the future, when they expect the market to expand significantly," said William Aung.

In 2017 revenue from life insurance premiums was estimated to be worth only US$13 million. But Dai-ichi forecasts the market could expand some 100-fold to $1.3 billion in 10 years' time.

Since 2013, 11 local insurers have been granted licences to operate, while 14 foreign insurers have set up 30 representative offices. But none have been allowed to do business except in Thilawa where three Japanese companies operate non-life businesses in the special economic zone -- Tokio Marine & Nichido Fire Insurance, Sampo Japan Insurance and Mitsui Sumitomo Insurance.

Earlier this year, Samsung Life Insurance of South Korea closed it offices in Yangon, citing frustration with the slow pace of reform in the sector.

For this insular and strictly controlled industry, the announcement that foreign companies were finally being warmly welcomed by the government was shocking news, said Willam Maung. "It is a major wake-up call to the local insurers, who have become complacent and unadventurous," he said. will with 100% foreign-owned rivals and will have to restructure, he said. "Some companies are laying off their senior executives, who were formerly from state-owned Myanma Insurance, and replacing them with younger innovative staff."

Most domestic insurance staff are eager to move to the foreign companies when they set up shop later this year, in the hope of higher incomes and greater job security, he added.

More significant will be the expected participation of other international insurers in the domestic industry. Under the Companies Law enacted last year, foreign companies can buy into domestic businesses. In the insurance sector -- which is also under the supervision of the Myanmar Central Bank -- the government plans to allow other foreign insurers with a 35% foreign ownership cap. An announcement is expected before the end of May.

Asian insurers are the most likely contenders. The Japanese giants Taiyo Life Insurance, Mitsui Sumitomo Insurance, Sompo Japan Nipponkoa Insurance and Tokio Marine & Nichido Fire Insurance are negotiating with local companies. Thailand's Muang Thai Life Assurance and Thai Life Insurance are also in talks with potential partners.

"The entry of the foreign insurance [companies] will have a positive effect on development of our industry because they can bring technology, capital and also expertise" said Sandar Oo, managing director of Myanma Insurance.

"Everyone is agreed that liberalisation of the insurance industry, and foreign participation in the sector is good for the country and the public," said William Maung. The problem is the regulator, he complained, as it has not allowed the development of new policies and products, or allowed the local insurers to set their own premiums.

The local industry remains lukewarm about the potential for the growth of the life insurance business.

"Other products -- health, accident and fire and theft policies -- are much more attractive," Myo Min Thu, managing director of AMI (AYA Myanmar Insurance), told Asia Focus recently. Now with the liberalisation of the industry, these can be developed. These are products that will be sold through banks such as AYA Bank, of which the insurer is a subsidiary, he said.

But for the broader business community, the government is doing too little, too late.

Even Dr Thet Thet Khine expresses frustration with the attitudes of her NLD colleagues. "Too much time and effort is currently focused on the role of the government's ownership and control of economic activities," she said.

"That is why comprehensive reform of the state-owned enterprises is needed, to stimulate fair competition and create a level playing field for all private enterprises. Administrative and regulatory reforms that can create an efficient and effective government system are also sorely needed."

Mr Turnell admits there is much more to be done to liberalise the financial sector, but he sees the opening up of the insurance business as a very good sign.

"The broader development role is one played by insurance companies throughout Asia, not least in China and -- of perhaps particular relevance to Myanmar -- in Vietnam," he said. "In Vietnam it is foreign life insurers that are the backbone of that country's bond markets, and a critical factor in the ability of that country to rely on domestic capital -- not just that which must be sought through borrowing overseas."