Insurers eye Myanmar

Liberalisation to begin with auction for life insurance licences offering 100% foreign ownership.

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Myanmar is preparing to open up its insurance industry to foreign businesses, expecting to attract firms that see high potential in a country where few people have coverage and the middle class is growing.

Within the next few weeks, the government will announce bids for three licences that will allow 100% foreign-owned companies to offer life insurance by the end of the year, a senior finance ministry official told Asia Focus, speaking on condition of anonymity. Foreign companies will also be allowed to form joint ventures with local insurers to offer general insurance later this year, say government sources.

Liberalisation of the insurance industry has been on the cards for more than a year, according to Sean Turnell, the government's chief economic adviser. But resistance from local insurers has delayed the plan. The government understands that liberalising the insurance sector is a crucial part of a broader financial reform programme that will help provide the springboard for further economic growth, said Mr Turnell.

"The life insurance market is ripe for foreign participation, as there are no local insurers yet offering this type of policy," said William Aung, a Yangon-based independent business consultant and an insurance industry specialist.

The government has been doing its homework for the past year, with a blueprint for the liberalisation of the industry drawn up and approved by the cabinet. Since April last year, officials have been consulting with policymakers and experts, including the World Bank, regulators and local insurance companies.

"The government understands that developing the insurance industry will also boost economic growth as there is an interdependent relationship between the insurance industry and the entire economy, and therefore growth in the insurance sector will also spur greater economic growth," William Aung told Asia Focus.

Developing the life insurance market is also critical, according to Mr Turnell, in order to help create a functioning government bond market, which in turn will service the government's budgetary needs. Internationally, life insurance companies are major purchasers of government bonds, helping to alleviate many governments' budget problems.

"This is particularly important in emerging markets," he told Asia Focus. "For example, in Vietnam life insurance companies are the largest holders of government bonds, buying up more than 40% of the government's debt."

While three wholly foreign-owned life insurers will be allowed, the government has yet to announce the partnership rules for joint ventures in other insurance businesses. But from August, under the recently enacted companies law, foreign companies will be allowed to buy into existing local companies and own stakes of up to 35%.

This is an essential part of the government's strategy -- especially in the financial sector -- to harness international expertise. "If foreign insurance firms are allowed to operate here, they will bring investment, technology and expertise," Dr Sandar Oo, managing director of Myanma Insurance, told an insurance industry seminar recently. "Through cooperation, we will gain experience."

Local insurers believe that limiting foreign investment to joint ventures is the best model to develop their industry. "In a developing country, joint ventures are necessary," said Myint Han, an adviser at First National Insurance, an independent local insurer.

"Without foreign investment, we cannot develop. When it comes to investment, the amount the government has set for an insurance company to invest is large," he said. "We need insurance technology rather than money. Expertise is the main thing we need to improve our insurance service. We have too few experienced people. When we run our insurance companies in partnership with foreign firms, we will improve."

Allowing foreign insurers to compete only through JVs -- on Myanmar's terms, in other words -- gives the local industry a chance to develop, according to George McLeod, a Bangkok-based political risk analyst familiar with Myanmar.

"Restricting foreign companies to JVs opens the door for big international insurance players to compete but prevents them from killing the local sector before it matures," he told Asia Focus. "The JV model also facilitates technology and knowledge transfer from foreign to local players, which is necessary for an industry as complex as insurance."

Myanmar began to liberalise its insurance industry under the previous government of Thein Sein, by encouraging the growth of private local insurers and allowing foreign insurers to enter the market. In 2012, the government began to allow competition, ending the monopoly of state-owned Myanma Insurance. Since then licences have been issued to 12 businesses. In addition, 24 foreign companies have opened representative offices in anticipation of further liberalisation.

Late last year, however, UK-based MetLife closed its offices in Yangon. Three Japanese companies are operating in the country, but only in the Thilawa Special Economic Zone on the outskirts of Yangon, largely selling fire and automobile insurance.

But the newly formed independent insurers are still severely restricted in what they can offer. "Myanmar's domestic insurance companies are less than five years old, and still unable to really develop because the regulator still maintains a tight grip on the industry," said William Aung. Myanma Insurance still sets ratings, policy terms and conditions, and commissions.

Industry experts estimate the general insurance market is currently worth more than US$25 million, with more than 80% comprising fire and property coverage. Fewer than 10% of people in Myanmar have insurance, so the growth prospects are extremely attractive, especially since a rapidly growing middle class is expected to provide a future customer base.

Even the most modest projections put the growth rate of the Myanmar insurance business in the high double digits in the coming years, compared to more sluggish growth in mature markets.

International insurers are enthusiastically eyeing the potential of Myanmar, according to Mr McLeod. "For example, Myanmar has a growing middle class with no viable state healthcare services. Urban professionals will be coveting health insurance both for treatment at the growing number of international-quality hospitals in the country or abroad," he said.

But there are significant structural problems preventing the rapid growth of the industry. Above all there is an acute lack of trained people to staff the insurance sector. The country's geography also presents an obstacle to its development.

"An effective and efficient insurance distribution mechanism needs to established," said William Aung. "Seventy percent of Myanmar's population lives in rural areas where insurance protection is out of their reach. So an independent brokerage system has to be developed: providing an economical and efficient way for insurers to market their products throughout the country."

Mr McLeod noted that there has been considerable debate over foreign insurance investment regulations since 2012. "On one hand the Myanmar business elite favours a transition that would permit local players to mature for five years before permitting foreign competition," he said. "The overall aim would be to allow Myanmar's nascent industry an incubation period to develop its marketing, finance and human resources capacity, so it could then also compete on the regional stage."

Although there is still a long way to go before foreign companies can progress beyond representative offices, the government's clearly committed to liberalising the insurance industry. The tentative steps that are about to be announced will certainly encourage both local businesses and foreign companies that the government is serious about reforming its financial sector overall.