Myanmar's Insurance Market: a mixed bag

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Like many areas in Myanmar – opening up to the global economy after more than half a century of isolation – the country's fledgling private insurance industry is at a significant watershed. There are certainly many opportunities for growth, but at the same time there are many challenges ahead. "*Asia Insurance Review* boldly projects that Myanmar's market could generate premium volume of US$2.8 billion in 2030." A significant danger at present is being over optimistic and talking up the overwhelming potential development in country's hitherto untapped insurance industry.

In 2013, twelve local private insurance companies were authorized to conduct business in Myanmar; four were awarded licenses to sell "Life" insurance and the others were given "General and Life" licenses. All the private insurers are only allowed to sell the same products at the same price, the same policy wording, the same premium, commission and compensation rates were all set by insurance regulatory, IBRB (Insurance Business Regulator Board). Under these licenses, private companies can offer five categories of life insurance products and further five categories of general insurance products.

One of those companies was Grand Guardian Insurance (GGI). Based on the analysis in their 2014-2015 annual report, Myanmar insurers can expect to reap significant profits in the future, but in the meantime face the daunting task of marketing their insurance products and eliminating their operating costs. GGI is a public company, which is believed to be one of the market leaders amongst Myanmar's domestic insurance companies in terms of its clientele and income from premiums.

Insurance companies have two main sources of revenue: underwriting gains, that is, the excess of premiums against loss claim payments and expenses, plus investment income. In the GGI annual report, income from premiums totaled 4 billion kyat whereas claims, operating costs and direct expenses totaled only 3 billion kyat, and investment income was 2.7 billion kyat.

GGI's profit from underwriting -- before tax -- was around 1billion kyat, which looked impressive to most analysts because there is a very low insurance penetration rate in Myanmar compared to its Asian neighbors. Myanmar's insurance industry certainly presented an admirable growth potential.

General insurance covers fire, comprehensive motor vehicle, cash in transit, cash in safe and fidelity insurance. Fire insurance is one of the most profitable insurance products as so far in Myanmar, GGI has generated 1.47 billion kyat from fire insurance premiums compared to a pay-out of only 0.14 Billion kyat in claims for damages and loss.

When the current quasi-civilian government of U Thein Sein opened the country to the international economy, the demand for more and more luxury buildings – like shopping malls, hotels, office buildings and residential buildings – led to a construction boom. This mushrooming of demand spanned most major cities across Myanmar and as a result the need for insurance protection for those buildings significantly increased.

Comprehensive Motor Vehicle insurance is regarded as one of the more insurance products on sale. There are more than 600,000 registered vehicles in Myanmar, but only a fraction -- 18,000 are insured. This is a represents a market penetration of only 0.03%, according to sources in the state-owned Myanmar Insurance Enterprise.

The premium is prescribed by (IBRB) Insurance Business Regulatory Board. At present the annual premium is based on the value of the motor vehicle – approximately 1% for personal vehicles and 2% for commercial vehicles that could offer 100% own protection of the value of vehicle, regardless of whose fault in any accident was, but limited to a maximum of 50 million kyat for third party liability.

According to the GGI report, the company insured 7,500 vehicles and earned 1.7 billion kyat from the sale of the premiums, and paid 0.82 billion kyat to cover claims against the insurance.

However many questions remain for participants in the auto insurance industry: for example, how to assess who is the *fault* and damages in double and multi-vehicle accidents, when it was an uninsured vehicle driver who was at fault; and how to determine compensation as a result of their negligence. There are no laws, rules or regulations on third party liability and subrogation.

Subrogation is the right of an insurer to assume the recovery rights of an insured after a claim has been paid.

More and more people own cars in Myanmar, and streets are getting increasingly congested, making it inevitable that number of accidents will increase, which in turn could severely dent the insurer's financial position.

On other products –'Cash in Transit' insurance, 'Cash in Safe' insurance and 'Fidelity' insurance – the GGI annual report offers no details. Neither premium income nor claims are shown in report, so the assumption is that there is little or no business for these products.

For life insurance there is a market -- but it is far from being mature. According to state own Myanmar insurance enterprise there are around 700,000 active life policies in Myanmar. So for a population of some 51 million, market penetration is very limited -- only 1.37%. According to the GGI annual report, the premium income from the life insurance is 867 million kyat, with claims around 9.5 million kyat. Compared to Myanmar's neighbors -- Thailand, Malaysia and the Philippines–the market for life insurance is very under developed. This is largely because the life insurance packages are relatively unattractive, while the premiums are too high and unaffordable for most middle-income earners.

High infant mortality, poor health care systems and low safety standards make the life insurance premiums high. In contrast to life insurance, other life related products like – group life insurance, sportsman life, snake bites insurance and special travel insurance for highway buses -- are all sold at low premiums that would not even cover for the company's overhead costs to collect premiums. The premiums for automobile insurance and some forms of life related products cover so low that they could end in insurers incurring losses, rather than being profitable.

Myanmar insurance companies have signed *co-insurance agreement*, which allow domestic insurance companies to spread the risk. According to the regulatory co-insurance agreement, the insurer has limited single policy retention of up to 500 million kyat for fire insurance and 300 million kyat for comprehensive auto cover; if more than the retention amount for a single policy, it must be in co-insurance pool. The basic idea is to spread the risk across a chain of domestic insurance companies, so they can minimize the risk and remain financially strong, and able to meet their obligations under any circumstances. That could create a major problem for the insurance industry when an unexpected catastrophe strikes Myanmar like cyclone Nagris in 2008 or major earthquake because all insurance companies would be involved in paying indemnities to their clients.

Hampered by only being able to offer a limited range of insurance products, and inadequate distribution channels, the Myanmar insurance market have been slow to evolve. After only two years, there are only a small number of individuals and companies that have acquired insurance protection. Potential customers are constrained by cultural values and spiritual beliefs. Discussing death or potential accident injuries are generally regarded as taboo by most Myanmar people as they are highly superstitious. Many in Myanmar believe that to talk about these things – and unexpected misfortune -- would invite these things to happen.

Lack of public awareness, and a lack of understanding of the insurance business knowledge, coupled with insufficient insurance professionals, severely limits the sales of insurance products.

Outdated formulas for the calculation of premiums, has resulted in uncompetitive premiums, making policies and products unattractive. Myanmar’s insurers are struggling to survive and at the same time prepare for the arrival of international rivals. The local insurance industry is no ready to understand let alone comply with internationally recognized rules and regulations, procedures and processes.

The future of Myanmar insurance companies depends heavily on the policy maker (IBRB) and how it steers the country’s insurance industry. The government policy makers have to redress the out of date and antiquated regulatory and legal framework. This is the root cause of the failure of the insurance industry to adapt and grow, as they also restrict insurance education, knowledge transfer and the development of intermediaries, like insurance brokers, sales agents and independent adjusters involved in the insurance claim process opportunities for domestic insurers.

Unfortunately the insurance industry is dogged by too many issues, which hamper its development. With no change likely in the near future, the lack of regulatory capacities in implementing international standard rules and regulations and taking slow actions will limit the industry’s potential development. The restrictions on insurance education, insurance distribution and the absence of new product creations and development, won’t allow Myanmar’s insurers to progress beyond pure survival. One of the keys to unlocking this potential is to promoting awareness and knowledge of insurance amongst Myanmar’s citizens. Providing insurance training to every employee in the domestic insurance industry, and beyond to general public, would be a significant step in the right direction, allowing the industry to develop and prosper in the future.