

## Myanmar insurance update: Clyde & Co on the state of the market

Clyde & Co partner Michael Horn recently visited Myanmar's commercial capital Yangon and reports on the current state of the insurance market.



### New domestic insurers - up and running

As reported by Clyde & Co 12 months ago, Deputy Finance Minister Dr. H.E. Maung Maung Thein described domestic holders of the first private insurance licences - issued after 48 years of state monopoly - as "babies".

The babies have become toddlers, with 11 of the 12 licence holders capitalised, and modest operations commencing across several lines. Near-term prospects for life products are challenged by competition from banking products, which offer higher returns.

In our view property and casualty products will be driven by the pace at which economic development drives demand for auto and fire protection.

## The questions on everyone's minds

Deputy Minister Thein, a key figure in the development of Myanmar's insurance and financial markets, recently spoke to the insurance community in Yangon at the inaugural Myanmar Insurance Summit organised by Asia Insurance Review. He shared with us the questions he is most frequently asked about the insurance sector, and his answers:

### **When will the insurance market be opened to foreigners?**

The Deputy Minister counselled patience, and cited in that regard a Japanese insurer that has maintained a representative office in Yangon for 19 years "through thick and thin". Noting that the timing of market opening is uncertain, as it may be announced "tomorrow, next year or the year after", Dr. Thein added "it will open when it opens. One thing is for certain. We must open the market to our friends, but we do not know when."

He cautioned that there is a risk of chaos if the fledgling domestic industry is too ambitious. He encouraged foreigners to use the waiting period to build a strategic alliance with a local player, help prepare that local partner for future cooperation, and undertake training and research.

Comments from Deputy Minister Thein and Myanmar Insurance Managing Director Aye Min Thein suggest government has an open mind, as joint ventures, subsidiaries, and branches, as well as tied agency, bancassurance and brokerage, were all discussed.

### **What will be the impact of the ASEAN Economic Community (AEC)?**

The Deputy Minister noted the risk that AEC-driven market liberalisation might allow "the big fish to eat the small fish". Read together with prior comments on the need for a nurturing period ([click here for previous update on Myanmar's insurance market](#)), and encouragement of capacity-building partnerships, one might infer that the advent of the AEC in 2015 will not assure full market liberalisation.

### **Will insurance be exempted from AEC liberalisation?**

The Deputy Minister noted that some advocate for application of the ASEAN Charter's "ASEAN Minus X" policy, a formula for flexible participation in AEC liberalisation.

### **Will more domestic insurance licences be issued?**

Deputy Minister Thein practically observed that more domestic licences will be issued if the market requires more coverage capacity. Given the low levels of issuance by domestic insurers, much discussed at the Myanmar Insurance Summit, it seems unlikely additional licences will be issued any time soon.

More likely is a focus on reinsurance capacity. Responding to a question from Clyde & Co about plans to support the new domestic insurers with reinsurance capacity, the Deputy Minister left the door open for either or both of a new entity - Myanmar Re - or some limited private reinsurance opportunities.

These comments are consistent with the Deputy Minister's comments last year, and Clyde & Co's suggestion to the Insurance Business Supervisory Board in early 2013 that a stand alone State-owned reinsurance unit might be useful ([click here for previous update](#)). However, any concrete decision to progress these plans is not evident.

## Limited opportunities for foreign insurers

At the moment, foreign insurers seeking a toehold in Myanmar have been left with few options.

A number have opened representative offices, which the government strongly encourages. Establishing a representative office should be a quick and easy process, although not all who have done so found the process went as smoothly or swiftly as hoped.

Presumably all foreign insurers now on the ground in Yangon, and many of those not yet present, seek to build relationships with the limited number of licence holders. One domestic insurer reported that they have received numerous offers of training from new friends, and remarked that it can be difficult for them to distinguish foreigner insurers from one another, beyond obvious cultural difference among insurers from very different countries.

The Deputy Minister noted that foreign insurers are permitted a limited scope of domestic activity, namely providing coverage to foreign companies operating in special economic zones (SEZs). As these SEZs are new, and in some cases still more concept than reality, it remains to be seen if this is a meaning market entry point.

## Positive developments in the banking world

On October 1, 2014, just days after the Myanmar Insurance Summit, Myanmar announced that it has approved nine foreign banks to receive limited banking licences.

None of the nine banks is permitted to engage in retail banking, and all are expected to focus on foreign exchange, banking services for foreign companies and interbank activities in support of local banks.

The nine banks were selected from 25 applicants. Absent from the list of licence recipients are US, European and Korean banks, and all recipients are from Asian neighbours, with the exception of a single Antipodean bank.

The news of banking licence liberalisation has been well received and much commented upon by Clyde & Co's insurance industry contacts. It is seen as a step in the right direction for foreign insurers and insurance service companies who wish to enter the market with full licences.

Michael Horn and fellow partner Ian Stewart are engaged in numerous matters related to Myanmar and are frequent visitors to the country. Please contact Mr. Horn and Mr. Stewart for queries related to Myanmar.

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