

SCM Demystifies...

Myanmar Insurance Reforms

14 January 2019

1. Introduction

Finance sector watchers have waited on news about the liberalisation of Myanmar's insurance sector for years. More than 30 foreign insurance companies established representative offices, patiently waiting for the chance to apply for licenses.

A Myanmar Insurance Sector Roadmap has been under development since the days of the previous Government (with little transparency), and after months of rumour and speculation about the ownership models to be used, coupled with much behind-the-scenes lobbying, the Ministry of Planning and Finance issued Announcement 1/2019 on 2 January 2019 (**Announcement 1**). This sets out the framework for liberalisation and invites expressions of interest from companies interested in investing in the insurance business in Myanmar.

2. Licensing Structure

The licensing structure in Announcement 1 provides for:

- up to three new 100% foreign-owned life insurance businesses;
- foreign life insurance company participation in Myanmar life insurance businesses via joint venture (there are currently four Myanmar-owned life, and seven Myanmar-owned composite insurers); and
- foreign non-life/composite insurance company participation in Myanmar non-life insurance businesses via joint venture (there are currently seven Myanmar-owned composite insurers).

The seven licensed Myanmar composite insurance companies will be required to split their operations into life and non-life businesses to implement any life insurance and general insurance joint ventures.

Their foreign JV partners are required to have had a representative office in Myanmar.

The timetable and process for lodgement of EOIs has not yet been released.

3. Impact

While this is not the clearest or most comprehensive model for liberalisation, it will permit much needed foreign capital, expertise and technology to enter the sector, which will in turn stimulate growth and development.

The lack of cover available for the higher risks that investors must assume in this frontier market has been a fetter on growth, and ordinary people are without access to effective life, health, property and similar insurance products that citizens in other countries have to protect themselves against accident, illness, natural disasters and other vicissitudes of life.

The indirect benefits for Myanmar will be significant too, such as the mobilisation of large amounts of capital for domestic investment (starting with Government bonds, thereby reducing the cost of funds to government so that it may in turn invest more in infrastructure and services). Many new jobs and business opportunities will be created throughout the country too in what is a labour-intensive service industry.

We expect Announcement 1 is simply the first important step in the journey towards a more open insurance market, as we are experiencing with the opening of the banking sector. We therefore welcome the announcement as a clear sign that the broader economic reform process is continuing in Myanmar, and we look forward to the process moving forward in the first half of the year.

4. Questions, opportunities and other points to note

As we prepare for implementation, you may be interested in the following potential issues and impacts of the reform process:

- the maximum level of foreign participation in an insurance JV is not yet known. Under the Investment Law the default level for regulated JVs in Myanmar is 80%, but a lower number may be prescribed here – 49% has been suggested, but this is contested.
- how “foreign” and “Myanmar” ownership will be measured for JV purposes is also not clear. The obvious thing would be to rely on the foreign and Myanmar company definitions used in the Companies Law. However, as the Myanmar company definition in that law allows for up to 35% foreign ownership of such a company without it being considered foreign-owned, protectionists may argue that a more restricted definition of “citizen ownership” is used for insurance businesses. This would cause great confusion and red-tape and would, in our view, be unfortunate and potentially limit foreign investment opportunities.
- The approach to the licensing and regulation of related services, such as insurance broking, is not clear. Competition and innovation in this part of the sector is important and we hope that this is dealt with as the reforms develop.
- Whether Announcement 1 will affect the three Japanese insurance companies licensed to operate out of the Thilawa Special Economic Zone is not clear. Will these companies be permitted to operate beyond Thilawa under their existing approvals, or will they have access to the three new life insurance licenses on offer? Time will tell.
- The Investment Law requires companies holding an MIC permit or receiving MIC approved tax incentives to take out certain insurances, including PL insurance. Whether this list of mandatory insurances increases with the development of the sector will be something else to watch.
- The new Companies Law sets out a comprehensive regime of directors’ and officers’ duties and regulates the insurance which companies are able to offer to protect against these risks. Currently very little cover is available in the Myanmar market. As awareness of these risks increases with further implementation of the law there will be a much greater demand for D&O cover. This is a clear opportunity, but implementation remains uncertain.
- Mobile money and financial services and microfinance have been developing rapidly in Myanmar, reaching millions of consumers who were not served by the formal banking system and providing a de facto system of consumer and personal finance. While somewhat of a grey area from a regulatory point of view, developing structures for the adaption of insurance products and services to address this market offers an opportunity for rapid growth. We see opportunities here for innovators.

5. How we can help

Our team of international and Myanmar lawyers has deep experience in the Myanmar financial services sector – regulatory and transactional, established products/providers, fintech and early innovators. We’re the Myanmar reform specialists too, having been at the forefront of the telecommunications, banking, investment and company law and sector reform processes. Talk to us to see how we can help you make the most of the upcoming insurance reforms.

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