

Myanmar's banking system makes gradual progress on a long journey

January 09, 2017 01:00
By ACHARA DEBOONME,
KHINE KYAW
THE NATION

MYANMAR'S banking industry has demonstrated that it is making progress, little by little, but it still has a long way to go before it can match the levels in other Asean countries, let alone the rest of the world.

According to the World Bank, there were 3.1 bank branches for every 100,000 inhabitants in Myanmar in 2014. That's up from 1.7 in 2004, but the figure lags the average 3.3 for all LDNs (least developed nations) in 2014. The average in East Asia and the Pacific was 10.8.

With so few branches, Myanmar banks are limited in their reach. This has resulted in low availability of bank credit.

Bank credit to the Myanmar private sector amounted to 17.4 per cent of gross domestic product in 2015. That was a big improvement from less than 10 per cent a decade ago, but it remained well below the average 135.4 per cent in East Asia and the Pacific.

This is despite a statutory interest spread that gives ample room for profit: the lending rate is capped at 13 per cent per annum, while deposit rates must not fall below 8 per cent.

Across Myanmar, 1.56 automated teller machines were available for every 100,000 adults in 2014, compared with none at all three years earlier. That contrasts with an average of 4.33 for LDNs and 53.17 across East Asia and the Pacific.

Despite the slow development, foreign banks with a presence in the country are undeterred. After opening its Yangon branch in 2015, Bangkok Bank (BBL) foresees a bright future.

"We are delighted with our part in opening up a country that shows huge opportunities," said BBL president Chartsiri Sophonpanich.

BBL has taken a leading role in supporting the Thai government's Pracha Rath scheme to boost Thai investment in Myanmar. A two-month workshop was hosted for 50 businesspeople seeking to establish a presence in the country. During the workshop, they were familiarised with Myanmar in all aspects – from the political and economic landscape to culture.

BBL's branch has struggled to meet its lending target. According to Kanet Buranasin, the bank's senior vice president and Yangon branch manager, this year's target will be met thanks to an onshore loan syndication worth US\$40.2 million (Bt1.43 billion) to Malaysia-based OCK Group, which is contracted to build 920 telecommunication towers for Telenor Myanmar.

BBL is one of four foreign banks in the syndication. The others are OCBC Bank, Malayan Banking and United Overseas Bank (UOB).

For the months and years ahead, Kanet expressed a wish to join local and foreign banks in providing more syndicated loans in Myanmar, where a number of infrastructure projects are in the pipeline. That would be well supported by the branch's capital of \$200 million, well above the Central Bank of Myanmar's \$75-million minimum requirement.

Kanet said that since foreign banks had begun opening branches in Myanmar, new products and services were being introduced.

Lauding syndication as an innovative product, he said that among the new services was the letter of credit. Bangkok Bank also pioneered the launch of a currency-hedging instrument for clients doing business in Myanmar, after sharp fluctuations in the US dollar/kyat exchange rate during the past two years.

Interbank settlement kicked off in early 2015. Improvements are under way thanks to the Japan International Cooperation Agency's 5.1-billion-yen (Bt1.55 billion) grant for the development of an ICT (information and communications technology) system for the central bank.

The CBM-NET (Central Bank of Myanmar financial network system) and CBM-OA (CBM office automation system) were developed to provide a new payment infrastructure and prompt office functions for CBM and to promote a payment environment and real-time gross settlement between the central bank and financial institutions.

The ICT system for interbank fund settlement and T-bond/T-bill settlement is one of the top priorities, as Myanmar needs to catch up with other Asean member states in financial sector development.

"The situation is a lot like Thailand about 20 years ago when it took as many as seven days to clear a cheque. In Myanmar, electronic banking is just in its infancy stage. It should take a long while," Kanet said.

Prioritising focus

Ian Wong, managing director and head of group strategy and international management at UOB, said his bank focused on helping companies make strategic long-term investments in four key sectors: energy, infrastructure, manufacturing and hospitality.

"These are industries that have been identified by the Myanmar government as instrumental to the country's long-term economic development," he said.

UOB's Yangon branch has facilitated several deals in these sectors, such as the financing of a new power plant in Yangon with Singapore-based Royal GK and a loan – the first onshore loan by a foreign bank in the country – to Rangoon Excelsior Co, a French-Myanmar joint venture.

UOB also signed loan agreements with Cycle & Carriage Automobile Myanmar Co to fund the building of two automobile showrooms and a servicing workshop in Yangon.

Wong said most of the companies it had done business with originated in Singapore.

Though UOB has been operating in Myanmar since 1993, he said the bank still needed to monitor market developments closely. While Myanmar has made progress in its transformation, its financial and commercial laws are still evolving.

He added that to help clients invest meaningfully in Myanmar, a strong grasp of the local business and regulatory landscape was necessary.

"As such, we continue to make it a priority to understand the market operating environment as well as commercial and financial laws [of the nation] ... It takes time and patience to understand the ground and to build a solid foundation in a new market.

"Through prudence, hard work and an entrepreneur's sense of timing, UOB has built a strong network and deep presence across Southeast Asia over the last few decades," Wong said.

"For our customers and their businesses, we have also invested time and resources to understand their needs and priorities. This is the approach we are taking in building our business in Myanmar. We will continue to strengthen our close ties with Myanmar's banks and businesses in the years to come."

Talent development is another key area of focus for UOB. Most of its employees in the country are Myanmar nationals who have gone through extensive training at UOB's headquarters in Singapore.

UOB has also started a university scholarship programme to help broaden the banking and finance talent pool. Launched in August 2014 in partnership with two of Myanmar's leading universities, the Yangon University of Economics and the University of Yangon, the programme aims to help the top students from all backgrounds to complete their studies.

In addition to funding, UOB helps to connect its clients with strategic business partners and key government agencies in Myanmar through its FDI (foreign direct investment) advisory unit. UOB was the first foreign bank to establish such a unit in Myanmar, in 2013, to help businesses identify and to explore opportunities in the country.

UOB has nine such dedicated units in Asia, which it says have helped more than 1,000 companies expand across the region.

Through the FDI advisory unit, UOB supports companies in their expansion plans by quickly connecting them with the right people through its relationships on the ground, Wong said. In Myanmar, one of the bank's local partners is the Myanmar Investment Commission.

Local players' handicaps

At present, foreign bank branches are allowed to provide a full range of financial services covering deposits, business lending, trade services, fund transfers and foreign-exchange services for foreign firms, joint ventures and domestic banks in both foreign currencies and kyat.

Besides providing loans to support foreign companies expanding into Myanmar, UOB also offers trade facilities to support trade flows into and out of Myanmar. Its non-credit services also include payments and remittances, deposits, foreign exchange and FDI advisory.

Altogether, 13 foreign banks have been awarded branch licences. They operate alongside four state-owned banks and 23 private banks, including the largest, KBZ.

It will take a while before foreign banks can offer all of the products and services that local banks can, Kanet admitted.

He acknowledged the handicaps that local banks have, saying KBZ, though the largest private bank, is capitalised at only \$198 million and operates with just 410 branches. At KBZ, only 40 per cent of interbank settlements are electronically executed. The smallest bank does not even have any branches.

In the next three years, UOB sees its role as complementary with domestic banks and hope to work more closely with them for onshore infrastructure projects and knowledge sharing. It says it also looks forward to closer relationships with Myanmar businesses, along with the main focus on investments that are directed at meeting the country's growing urbanisation and industrialisation needs.

"We continue to be excited about Myanmar's economic prospects, as are our clients from across the continents who have invested actively in the country," Wong said. "Through UOB's network, connections and strong understanding of the local culture, we continue to help our clients navigate the country's evolving regulatory and business landscape as they expand their business."