

# *Myanmar: A Roadmap for Financial Services*



## Introduction



It is impossible to ignore the enormous economic, political and social transformations which have been sweeping through Myanmar in recent times.

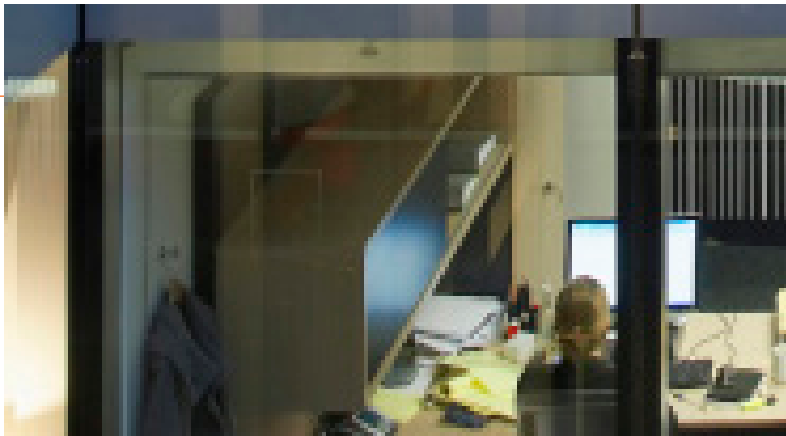
Change is happening at a rapid pace – this also rings true for the financial services sector. Following a change of government in 1988, the country adopted a market-oriented policy and transformed its structure of financial institutions through new bank laws passed in 1990. Additionally, Myanmar implemented various important reforms and liberalisation in the financial services sector since the new government took up office, making Myanmar’s financial system ready for the future.

The financial sector of Myanmar is made up of state-owned banks, private banks, finance companies and representative offices of foreign banks. A new banking law license allows 19 domestic private banks to operate and permits 32 foreign banks to open representative offices in Myanmar.

The Central Bank of Myanmar has also allowed 11 out of a total of 19 local private banks to operate foreign currency accounts. However, only four banks have started operating Foreign Currency accounts up to date.

Challenges do remain. Among them is building the people’s trust to encourage the public-private sector to invest and work in Financial Services. Good banking governance and a robust risk management culture can help build this trust to further spur the growth of the country.

## Banking Governance



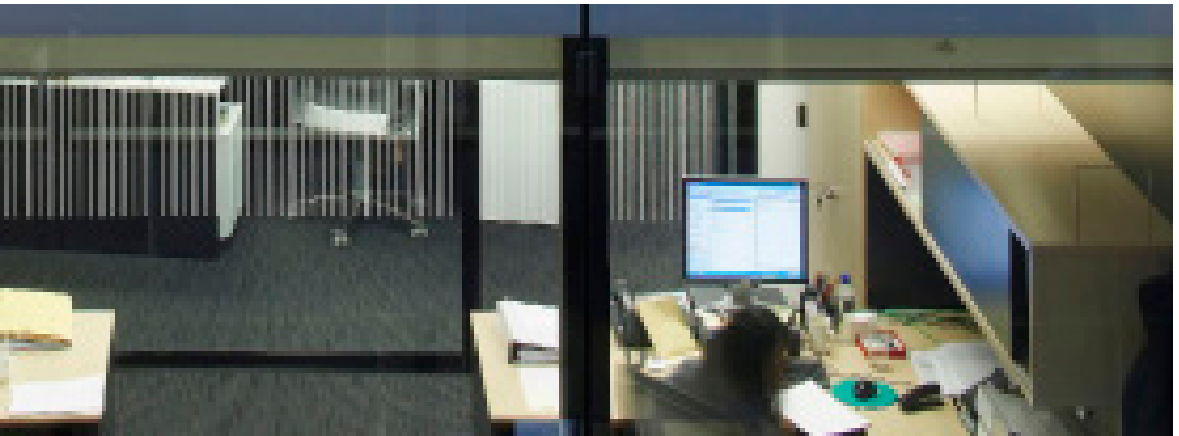
Good banking governance in Financial Institutions (FIs) plays a vital role in underpinning the integrity and efficiency of a strong, sound financial system.

Banks in particular, perform two standard tasks on behalf of the economy:

1. Maturity transformation, whereby they transform short-term deposits into longer-term loans.
2. Managing the payments system, such as clearing the cheques and credit card payments.

As a steward of economic development which supports the financing of further economic growth, FIs including privately owned ones, need to be held to a very high standard of governance than other corporations.

The recent global financial crisis can be best understood as a crisis of governance. While policy makers are doing their best to avoid a repeat, having strong banking governance is the best form of defence.



There are many elements of strong governance, and these include the following:

- General oversight of strategy, risk management, the control framework and management's capabilities
- This means that the Board must:
  - Have adequate skill, experience and be sufficiently independent to ensure that it asks the right questions and that management does the right things. Often in emerging economies, foreign expertise is brought in to strengthen the Board's expertise.
- The following elements are seen as requirements of good governance at the Board level:
  - Independent, non-executive chairman;
  - Sufficient number of independent non-executive directors;
  - Dedicated Board Risk Committee, to whom the Chief Risk Officer has direct access; and
  - Dedicated Board Audit Committee, to whom internal audit reports.

# Roadmap to setting up a company in Myanmar

## Limited Liability Company\*

\*There are two types of limited liability company in Myanmar, namely a private LLC and a public LLC. Currently, there is no public foreign company in Myanmar. A private LLC is required to have at least two shareholders and the number of members is limited to 50. The transfer of shares to a foreigner is restricted. A public LLC is required to have at least seven shareholders.

Foreign investors may register their companies in conjunction with the Union of Myanmar Foreign Investment Law.

Companies registered are:

1. Eligible for tax incentives
2. Can undertake manufacturing activities and services provision like companies registered under the Myanmar Companies Act. However, minimum foreign share capital requirements are higher.



### LEGEND

MIC: Myanmar Investment Commission

DICA: Directorate of Investment and Company Administration

CRO: Company Registration Office

CBM: Central Bank of Myanmar

## Branch office of a company incorporated outside of Myanmar

Are you performing direct commercial or revenue generating activities?

YES

NO

Application for Trade Permit at DICA

Application for registration at CRO

## Representative office\* of a company incorporated outside Myanmar

\*A representative office is permitted to liaise with its head office and assist with data collection.

Is your company a financial institution?

NO

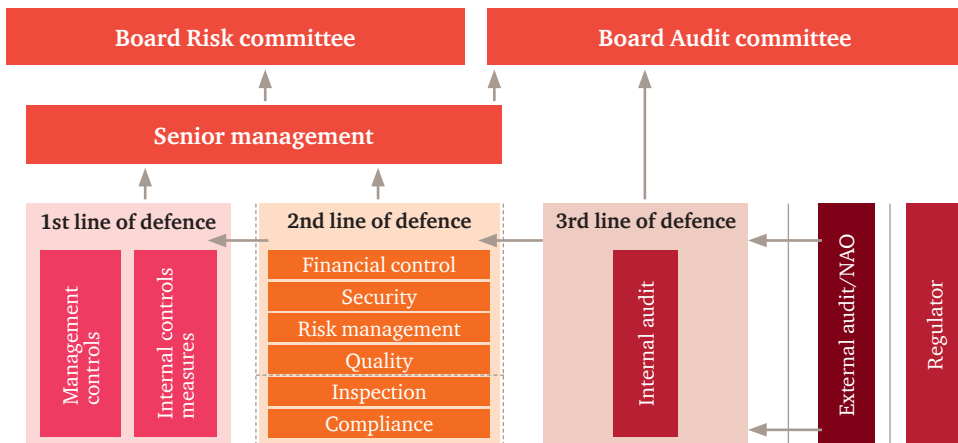
YES

Approval of CBM

# Risk Management



## Three lines of defence model



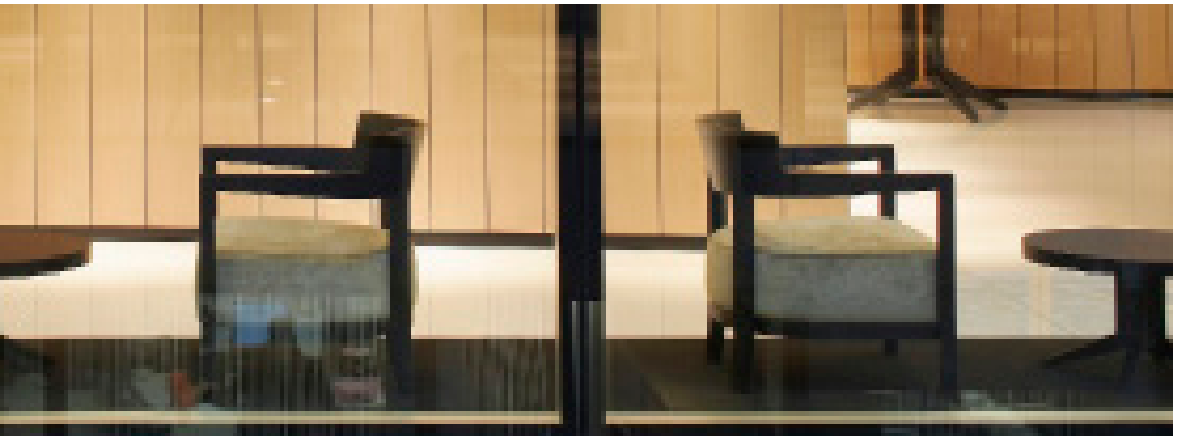
Moving down from the Board into the management of the FI itself, the model which is regarded as the best today is the so-called 'three lines of defence' model.

Under this model, the first line of defence is the business itself. Business managers must be held accountable for the risks they take on.

Risk management provides the second line of defence. The usual approach to credit approval is a joint responsibility between the business and the credit analysts to review and recommend the transaction to the relevant committee or approving person.

The final line of defence is internal audit, which will ensure that all the relevant policies and procedures are adhered to and that the control environment is robust and working effectively.





### **Robust risk management**

Within the second line of defence, it is essential that any FI has a robust risk management function.

Some of the key elements of a robust risk management function are:

- Sufficiently competent and adequately staffed
- Independent and objective
- Reporting directly to CEO
- Direct access to Board/Board Risk Committee
- Basel Committee on Banking Supervision has issued documents setting out the principles for managing various risk types, including:
  - o Credit risk
  - o Interest rate risk
  - o Liquidity risk

Very often, the cause of failure of FIs is the failure to get risk management right. Taking on too much risk, and/or not understanding the nature and magnitude of the risks taken on, invariably leads to a situation where unexpected, adverse events such as an economic downturn or a fall in property prices exposes an FI to severe losses. This could lead to a withdrawal of depositor/investor confidence and ultimately the collapse of the FI.

The key elements of managing any aspect of risk are:

- Ultimate responsibility lies with the Board for ensuring that there is a robust framework for risk management
- Risk appetite and strategy – how much risk can the FI bear?
- Board-approved policies
- Appropriate procedures and controls
- Clear authorities for approval
- Limits structure
- Proper measurement and monitoring
- Robust stress testing framework

## How PwC can help:

1. Mergers and acquisitions advisory
2. Capital project and infrastructure advisory
3. Market entry advisory and market studies
4. Taxation, customs and excise duties advisory services
5. Audit and other assurance services\*
6. Human resources advisory and international assignment services
7. Accounting, incorporation and corporate secretarial services
8. Anti-corruption and corporate restructuring services
9. Consulting services

*\*In accordance with the laws in Myanmar.*



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