Myanmar’s Banking Sector

The financial system plays a significant role in the development of a country’s economy. It also contributes towards a large number of employment, and provides necessary funds to various economic agents to enjoy sustainable economic growth.

Since the political reforms of 2011, the Banks and Financial Institutions Law of Myanmar has been passed by Parliament in 2016. In the past, the Financial Institutions Law of Myanmar, which was enacted in 1990, only provided very general rules for local financial institutions. However, the new rules include a wide range of guidelines on commercial banks, state-owned banks, private enterprises, and foreign banks. The new law stipulates a minimum capital requirement of 20 billion Kyat, and also states that the lender needs to keep 5 percent of customer deposits as cash with the Central Bank.

Compared to other ASEAN member states, the contribution of Myanmar’s banking sector to the country’s economy is limited. Myanmar has the lowest banking assets-to-GDP ratio in ASEAN. However, the banking asset growth rate is 18% which is the fastest growth rate in the region. Since 2013, banks and other financial service providers have been expending non-cash payment system in the country.

Current Banking Situation

Myanmar has four state owned banks, nine semi-governmental banks, 14 private enterprises, 13 foreign bank branches, and 49 representative office of foreign banks. Due to the vast untapped potential of the financial sector, banks are becoming more competitive in developing their innovative services, such as online payment system, mobile banking and other related applications.

Myanmar remains a predominantly cash-based economy. The Myanmar people have less trust on the banking system compared to other countries in the region since they had previously experienced a banking and currency crisis. For this reason, most people prefer to keep cash in hand, or buy property to secure their financial position.

However, in the past couple of years, the financial sector took important steps to reduce cash transactions: 21 out of 28 banks joined the SWIFT system, whereby local banks can make financial transactions to foreign correspondent banks. In 2011, the Myanmar Payment Union (MPU) was established by Myanmar banks to serve as a national payment switch for Myanmar. MPU provides electronic channels such as the Automated Teller Machines (ATM), Point of Sale (POS) terminal, and mobile banking to support non-cash payments. MPU membership consists of three state-owned banks and 14 non state-owned banks. In 2015, MPU became a public company, and 23 out of 28 Myanmar Banks joined as members. MPU cardholders can access almost 1,700 ATMs nationwide and use almost 3,500 POS terminals in Myanmar. In addition, the cardholder can also purchase products on 32 e-commerce websites.

It is the first time in 50 years that foreign banks are allowed to support the country's economy with their extensive international experience and worldwide networks. In 2016, the Central Bank of Myanmar granted licenses to 13 foreign banks to open a branch in Yangon. Foreign bank branches are limited to wholesale banking and are not permitted to engage in retail banking, even though they are expected to contribute to the development of the domestic banking sector by participating in the interbank market, lending to domestic banks, and engaging in foreign exchange business.

Foreign banks are allowed to grant loans, to take deposits from foreign corporations and domestic banks in both international currency and Myanmar Kyat. According to the regulation from CBM, each foreign bank needs to provide 75 million USD as minimum investment capital. Therefore, the arrival of foreign banks has brought substantial benefits to both foreign investors and local businesses, such as faster transactions in foreign trade and the opportunity for local investors to expand their export market.

Mobile Financial Service

The growth of mobile phone users' reached 62% in early 2016, of which 80% are using smartphones. As such, investment in mobile banking technology is one area of focus in Myanmar. Nowadays, several banks are entering the market on mobile financial services to develop mobile applications, which include bulk disbursements, airtime top-ups, e-commerce and remittances.

The Central Bank of Myanmar issued a regulation on mobile financial services on 30 March 2016, to create an enabling regulatory environment for efficient and safe mobile financial services. The regulation allows mobile financial service providers to offer a number of services including cash transfers and domestic payments. However, in order for the banking sector to grow, many factors need to be improved, such as good customer services, trust building, and a wide distribution network.

In conclusion, although Myanmar's banking sector has remained one of the most underdeveloped when compared to other ASEAN member states and other countries worldwide, the potential development of this sector is huge, and needs strong government action and effective regulations to contribute towards the national economy. Therefore, analysts and economists recommend the government to take steps towards improving regulations, to help the banking sector to move further towards international standards and a stronger banking system in the future.

References:

http://www.cbm.gov.mm/content/1228
http://www.mmtimes.com/index.php/special-features/228-banking-finance-2016/23028-modern-banking-and-the-big-leap-myanmar-must-make.html
http://www.mmtimes.com/index.php/business/18698-parliament-passes-financial-institutions-law.html
https://www.finextra.com/pressarticle/67701/myanmars-cb-bank-to-double-size-of-atm-network
Roland Berger, Study Myanmar Banking Sector 20125: the Way Forward, published September 2016 roland_berger_study_banking_myanmar_sept.pdf
Myanmar's Financial Sector: A Challenging Environment for Banks, 3 edition, 2016 (published by giz),