

# Azeem Azimuddin, CFO and Advisor to Chairman, Aya Bank; Antony Picon, Managing Director, Colliers International; Kim Chawsu, Managing Partner, Katalysts Investment Group; and Hal Boshier, CEO Yoma Bank: Interview

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## Interview: Azeem Azimuddin, Antony Picon, Kim Chawsu, and Hal Boshier

**Can you discuss the main challenges that banks might encounter in their efforts to drive a profitable mortgage market here in Myanmar?**

**AZEEM AZIMUDDIN:** There are structural issues and there are operational issues. On the operational side, there is no central land registry. There are also difficulties concerning inheritance and similar legal challenges relating to perfection of security and foreclosure. On the financial services side there is the problem of the inability of banks to refinance themselves. Wherever you have a developed mortgage market you also have well-developed mechanisms in place for a bank to refinance itself. For this type of environment, you need the interest rate system to be structured to allow banks to go through the separate layers of transactions that make money. In the environment we have now, all loans, irrespective of their classification, must pay 13% and all deposits must pay 8%. This means there is no incentive for banks to diversify products as there is no financial benefit. However, regulations are in place that allow for loans that are twice the capital allocation, so that incentive is there, but the interest spread remains a major challenge.

**Assuming Myanmar is able to get past potential challenges, is the banking sector in a position to take on a mortgage market?**

**HAL BOSHER:** First of all, that's a big assumption. If there's one thing the financial services sector in Myanmar has done a lot of, it's assuming. I believe expectations need to be managed.

In the end, I do not think that banks are well-positioned. In order for banks to accommodate a large number of low-value mortgages, banks need to have a system in place. Most banks are not structured to handle high volumes of mortgages. You need an efficient processing system to get the volumes necessary to make the business sustainable.



Another thing to keep in mind is that, to a large extent, all the bank's credit books are backed by land and buildings. In other words, the banks are already large buyers of land and mortgages. By law, when banks lend, they must lend by backing it with land. You can imagine the challenges caused by this, for example when a bank buys a building but its price is positively affected by the historic value of the building rather than its commercial value. I think that this is something to think about when considering if banks are getting into property exposure. Currently banks have huge levels of property exposure already.

**What impact would a Myanmar-based credit bureau have on the creation of a more transparent and open housing market?**

**KIM CHAWSU:** Of course, one of the main reasons for the creation of a credit bureau would be to allow credit information to be shared among all the country's banks in a clear and open way. Considering only 10% of the population of Myanmar have a bank account, sharing information is crucially important. However, there are many concerns about how the information will be kept confidential, as well as about how to verify its accuracy.

When it comes to the formation of the credit bureau, the government has a duty to legally ensure the privacy of the collected data, and we as banks have a responsibility to ensure that the collected data is indeed accurate. When you have a credit bureau, the line between receiving and not receiving a mortgage can become very thin, and when you have this high degree of information sharing, for the sake of the client it is critical that this information is accurate.

This is the same for small to medium-sized enterprise owners who are also applying for loans. Accuracy of information is critical. Therefore, as a bank, we need to work hand-in-hand with the government in order to maintain the highest standards of privacy laws and data collection methods.

**The relationship between affordability and a healthy mortgage market is widely known. How would you define affordability in Myanmar?**

**ANTHONY PICON:** That is a very challenging question and one faced by every country. It must be understood that in Myanmar this question has vastly different answers. Many segments of the population are fighting just to have shelter. There are others who are seeking to improve their quality of shelter, and then there are those who are looking to move out of the homes owned by their extended family, although this latter group is not as urgent.

When you look at the lower end of the segment, affordable can mean many things. We would probably put the lowest end of the market at about \$10,000 per unit, and that's often financed by extended families. The next stage, which is in a very nascent stage, is what we have seen happen in Thailand. It occurs especially in commercial areas, where properties are priced at approximately \$30,000 and are occupied by a typical office worker earning \$1000 a month. However, we've come to realise the critical importance of factors like location and available transport to the success of affordable housing projects. Of course, you could go ahead and build affordable housing here similar to the housing that is found in Thailand, but the equivalent transport network does not exist here.

In Thailand, you can take a moto-taxi to the Bangkok Mass Transit System (BTS) station and take the BTS to your office and be there in 45 minutes to an hour. Here, in Myanmar, you can build this type of affordable housing, but because of the lack of existing transportation infrastructure, it would be very difficult to encourage people to live there.

The second problem is parking regulations: under existing regulations, condominiums must have 1.2 parking spaces per unit. I think that's unreasonable – every country in South-east Asia has a lower ratio of parking spaces, which in turn allows them to develop smaller unit sizes. The problem is, when you have this restriction, it's very difficult to make any housing project feasible with smaller units. In Thailand, affordable housing units are typically about 30 sq metres and the typical size in Myanmar is about 50 sq metres. So determining what is affordable is not as much of an issue as ensuring the feasibility of affordable housing developments.

**What concerns are there, if any, of a housing bubble forming here in Myanmar?**

**PICON:** One of the pertinent examples here is that of Vietnam. The housing market saw a bubble forming because houses were being flipped. This was caused by a large amount of secondary buyers who would buy a house and sell it in a short amount of time for a nice profit. In Myanmar, I don't see much of a secondary buyer's market currently. As I mentioned before, the cost of affordable housing – or housing for the majority of the population – is around \$10,000 or so. As such, at this level, I really don't think the incentive is there for the secondary buyer, because the margins for flipping would be too small. So I don't think that there is a worry that a housing bubble will form in Myanmar.

**BOSHER:** For lenders, despite the fact that we think our credit is going to be part of the solution, we all recognise that there's interest in leveraging our credit and jumping into the banking sector. There may be ways that we as a bank are exposed without our knowledge. There are those that have assets and pledge those assets as a way to receive credit. I think this underscores that buildings and land are simply crucial to the overall credit market in the country. Issues around access to land, land titles and land inheritance all contribute to land becoming a very sensitive commodity.

Furthermore, there may be questions over how land is assessed and what value is attributed to it. I know that there are current government reforms looking at the issue of land titles and this is something that we are monitoring closely.

**AZIMUDDIN:** I think that it is important to step back and look at the imperatives for the new government. I think that one of these imperatives is the question of quality of life and how it pertains to the home. Of course, as a government, it is important to look at various ways of not only guaranteeing the population a basic home, but also progressing to better and better homes.

I may not agree that banks do not have the capacity to handle a large volume of affordable housing mortgages. One of the ways that we are utilising our resources is through project finance or residential finance products. That being said, the main challenge we face in creating a healthy mortgage market is not having the capability to do long-term 15- or 20-year mortgages.

We've recently heard concerns about the regulators deregulating interest rates and how this might affect pensioners and savings schemes, and the possibility of interest rates going down. However, these concerns may have been overstated: countries around the world have developed schemes that protect specific pensions and savings. I think the issue is more to do with the regulation or deregulation of the finance and property sectors.

**Can foreign banks play a role in the creation of a healthy mortgage market in Myanmar?**

**KIM CHAWSU:** I believe we need to get to the point where a bank is free to structure the interest rate at a level that creates an appetite for the bank to lend. Another factor is education. Customers need to understand that mortgages are a commitment and not something that happens overnight. Mortgages require commitment.

In the past we had issues with the launch of credit cards, when customers didn't understand how credit cards were supposed to work and didn't understand that they would ultimately be required to pay back the debts they had accrued. As a result, in the aftermath of that period a lot of banks ended up having to write off much of this debt.

**How appropriate have other governments' roles been in the creation of mortgage markets in more developed countries?**

**BOSHER:** In a certain segment of the market it's entirely appropriate. Otherwise, government in general has not always proven to be that efficient in allocating capital. A great example of this is what has happened in the US with speculation and property bubbles. I think that markets tend to orient themselves correctly provided that there are not too many market distortions. It is my opinion that in most cases, the government should get out of the way. This is with the caveat that in certain market segments, there should be government assistance to ensure affordable housing to its population – not just in Yangon, but throughout the country.

Furthermore, I believe that there is far more capital in Myanmar than the statistics suggest. There is buying capacity in various forms, such as gems or gold. I think future development is contingent upon the ability of banks and governments to unlock that capital and allow it to enter the market. Rapid change is possible, as we saw with the rapid transition from the horse and cart to the car. In that respect, there's a large engine of wealth to be put to use. Moreover, there's a lack of documentation of deals because people don't want to pay taxes.

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