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Thailand Insurance Market Liberalization: Relaxation of Foreign Shareholding Limits

The long-term growth forecast for Thailand's insurance industry is quite positive, with increasing income, an ageing population, low market penetration rates, increased market liberalization in the ASEAN Economic Community (AEC), and supportive regulatory framework all expected to contribute to double-digit growth for the industry over the next few years.

The latest regulatory changes which are expected to bolster the Thai insurance industry even further are the Ministry of Finance's two Notifications, published in the *Government Gazette* on January 18, 2017, which relax the foreign shareholding (up to 100%) and board limits for life and non-life insurance companies, for the purpose of promoting stability for insurance companies and the insurance industry.

Key Criteria and Required Qualifications

A licensed insurance company ("Company") may apply to the Finance Minister for permission to have more than 49% (and up to 100%) foreign shareholding, and for foreign directors to comprise more than half of the directors on its board ("Permission") on the condition that the Company has:

- ▶ a sufficient Capital Adequacy Ratio (CAR), at a percentage not less than what is prescribed by the Office of Insurance Commission (OIC); and
- ▶ a business operation plan for promoting stability for insurance companies or the overall insurance industry.

The proposed foreign shareholder must:

- ▶ be an insurance company, or a company engaged in a business that supports, or is related to, the insurance industry;
- ▶ have not less than 10 years of expertise and experience related to and supporting the insurance business;
- ▶ have financial stability and possess a credit rating, or have a parent company with a credit rating, of not less than "A," which has been issued by a reputable credit rating agency with international network of business operations;
- ▶ have a clear direction in respect to its business operation policy and technology transfer plan, for the purpose of developing the Company's business operation system, in order to promote the Company's efficiency and ability to compete in the market; and
- ▶ have sufficient financial capability to support and promote the stability of the Company, or the overall insurance industry.

Approval Process

Within 90 days of receiving a completed application and

supporting documents, the OIC is obliged under the Notification to consider and issue its recommendations to the Finance Minister. The Finance Minister will consider and issue the Permission (or a denial) within 90 days from the receipt of the OIC's recommendations. In issuing the Permission, the Finance Minister has the authority to impose any rules or time conditions as deemed appropriate.

Other Key Considerations

Once the Permission is issued, the Company must adhere to the following conditions:

- ▶ **Total Capital Available (TCA) requirement:** The Company must maintain TCA of not less than THB 1 billion for a non-life Company, or THB 4 billion for a life Company, at all times and throughout its business operation period.
- ▶ **Change in shareholding:** Any change in the shareholding of the permitted foreign shareholder is subject to the following: (1) a 30-day notification requirement for a change of 5% or more; and (2) prior approval from the Finance Ministry is required for a change that could result in other foreign shareholders holding 20% or more.
- ▶ **Single presence requirement:** The permitted foreign shareholder and its corporate group are not permitted to operate other forms of insurance business in Thailand (either a branch or a subsidiary).
- ▶ **Dividend payment restrictions:** Dividends can only be made when: (1) the Company fully complies with its business plan, as submitted; (2) the Company has a net profit for at least two consecutive years, including the year in which the dividend is distributed; and (3) the Company's financial statement is audited without conditions.

Entire Business Transfer/Merger Plan

If a Company that has been granted Permission has a plan to accept an entire business transfer or a merger, wherein the Company acquires all the shares in the transferring Company, resulting in foreigners owning more than 49% of the transferring Company, or results in more than half of all the directors being foreigners, the Permission is deemed to have been granted for the purpose of implementing the entire business transfer or merger plan.

Implications for Thailand's Insurance Industry

These regulatory changes should effectively encourage reputable, sound, and financially strong international or regional insurers (not just any overseas players), with serious commitments to the Thai market, to expand in Thailand without foreign investment limits. The ability to own 100% of an insurance company in Thailand could attract more international insurers to set up their AEC base in this strategically located country, and complement the OIC's own initiative to promote Thailand as the insurance hub of the AEC.

This relaxation may not immediately increase competition or rivalry in the market, as insurers are not allowed to compete over prices or underwriting criteria due to regulatory requirements on policy wording, premium rating filing, and approval. However, these requirements could be deregulated in the future. No immediate impacts on insurance intermediaries are expected, as corporate brokers do not fall within the scope of these Notifications.

These efforts to promote Thailand's insurance industry represent a good first step in the country's goal of becoming an insurance hub in the AEC, and are likely to pave the way for increased activity within Thailand's insurance industry in the years ahead. 🏡