



No 54/2552

The Financial Sector Master Plan Phase II

Today the Economic Cabinet approved the Financial Sector Master Plan Phase II (FSMP Phase II), jointly proposed by the Ministry of Finance (MOF) and the Bank of Thailand (BOT), reflecting the importance placed on the setting of goals and strategic direction for continuous development of financial institutions system. The FSMP Phase II is to be implemented during 2010 – 2014, following the implementation of the FSMP Phase I during 2004 – 2008.

The FSMP Phase II aims to enhance the efficiency of the financial institutions system, thereby enabling financial institutions to perform their financial intermediation role more efficiently, become more competitive, be able to serve a broader group of households and businesses, and maintain resiliency in face of the fast-changing environment. With greater efficiency, the financing cost of individuals and businesses would decline while the economy would be more competitive. Key measures of the FSMP Phase II can be summarized under 3 pillars: 1) reduce system-wide operating cost; 2) promote competition and financial access; and 3) strengthen financial infrastructure, with details as follows:

1. Reduce system-wide operating cost to enhance management efficiency of financial institutions, which would translate to lower costs of providing services to consumers and improved ability to compete with foreign competitors. Important measures include the followings:

1.1 Reduce regulatory costs that affect operating costs and opportunity costs for financial institutions. Improvement in financial institutions regulations is still based on the key principle that such rationalisation of regulation would promote efficiency and lower costs, without compromising stability and soundness of financial institutions and the economy as well as consumer rights.

1.2 Reduce costs from remaining NPL and NPA. Important measures include tax measures and enhancement in demand for NPA by allowing banks to partner with private firms to work on increasing the attractiveness of foreclosed immovable properties. The efficiency in trading of NPA would also be promoted by establishing an NPA information centre, and fostering an effective mechanism for foreclosure and subrogation by buyers.

2. Promote competition and financial access through various measures such as introducing new service providers into the system, expanding the scope of business of existing service providers to induce greater competition in price and service quality, and fostering greater opportunity for all sectors of the economy to access financial services from the financial institutions system. Such measures would enhance the efficiency of the overall economy. Salient features include the followings:

2.1 Promote competition within the financial institutions system by setting policies based on the following 5 principles:

1) Build a financial institutions system that provides strong and resilient support for the economy under all scenarios.

2) Encourage financial institutions to become larger through voluntary mergers while having in place measures to prevent anti-competitive behaviour to safeguard fair consumer treatment. As a result, there would be gain from economy of scale and scope, thereby lifting competitiveness of the Thai financial institutions system.

3) Promote competition by enabling financial institutions to be more flexible in managing their branch network and business scope, thus enhancing the role of existing service providers. Moreover, new service providers would be introduced in order to further increase competition, thereby raising the efficiency of the financial institutions system.

4) Allow new service providers into the financial institutions system regardless of nationality while still preserving the One Presence rule. Emphasis would be placed on new service providers with the ability to fill gaps within the system in order to enhance the efficiency and stability of the financial institutions system, in line with the trend of Thailand's international trade and investment. Approval would be on a case-by-case basis and consideration by the MOF and the BOT would be based on appropriateness for the Thai financial institutions system.

5) Support the role of Specialized Financial Institutions (SFIs) in focusing on providing financial services to low-income population and micro businesses that do not have access to services provided by commercial banks. Government ownership in the commercial banking system after the crisis in 1997 would also be reduced.

2.2 Promote financial access to various groups of the population so as to better suit their needs at a more reasonable price, especially for micro businesses and low-income individuals. There would be measures to encourage private financial institutions to

adopt business models suitable to serve the population groups that currently lack the opportunity to access financial services. For example, new entry would be permitted for service providers with expertise and proven success in microfinance. In this connection, the MOF and the BOT would consider new licenses on a case-by-case basis, subjected to rules and conditions stipulated. Meanwhile, there would be measures to support the role of the government and SFIs in filling the gaps left open by commercial service providers.

3. Strengthen financial infrastructure. Efficient and more complete financial infrastructure is an important prerequisite for enhancing efficiency of the financial institutions system. Among the key infrastructures for financial institutions are those relating to the lending mechanism, which is the main business of financial institutions. Under the FSMP Phase II, there are 5 areas of financial infrastructure improvement.

3.1 Enhance the capability and tools for risk management of financial institutions, including for credit, market, liquidity, and settlement risks, in response to financial system and economic development.

3.2 Improve the information system to support risk management of financial institutions, as well as facilitate their strategic planning and service expansion. Such improvements would include capacity enhancement of the National Credit Bureau and exploring development of a data pooling system, with due consideration for appropriate protection of client confidentiality.

3.3 Review financial laws that support risk management of financial institutions with regard to lending and managing NPA, including: 1) the secured transaction law; 2) the foreclosure law; and 3) the bankruptcy law. The review aims to establish the necessary legal infrastructure that is conducive to risk management of financial institutions while providing individuals and small businesses with potential better opportunities for improved access to the business restructuring process.

3.4 Promote greater efficiency in the use of information technology (IT) and reduce cost of providing financial services. This measure aims to support more efficient use of IT and review of related supervisory standards to ensure security of such services to enhance confidence of users.

3.5 Enhance the capacity of human resource in the financial institutions system by improving the skills and expertise of staff, enhancing the role of the Thai Institute of Banking and Finance Association and encouraging financial institutions to set clear policies on staff training and development.

The MOF and the BOT anticipate that implementation of the FSMP II would benefit individuals, businesses, the financial institutions system and the country as a whole, in the following ways.

1) An efficient financial institutions system, with good risk management and corporate governance, that is strong, not burdensome for the country, and supportive of economic development in both normal and crisis scenarios.

2) Reduction in costs of services provided by financial institutions, that would help raise income of Thai people and lower operating costs of the private sector, thus increasing the country's competitiveness.

3) Improving access for users to a broad range of financial services that is appropriate for their needs, especially through the promotion of microfinance to help reduce burden from resorting to informal market.

4) Strengthening of grass-root communities through knowledge sharing between successful microfinance experts and local grass-root micro institutions, which would lead to greater financial strength and financial immunity for all groups of the Thai society.

5) Creation of opportunities for improved access to the business restructuring process for individual debtors and small business debtors with potential, thereby enabling the continuation of their businesses and safeguarding value-added for the overall economy.

6) Infrastructure for the financial system that is conducive to risk management of financial institutions, enabling them to deal with remaining non-performing loans and assets more effectively, and thus leading to lower operating costs and greater readiness to serve customers.

After the principles stipulated in the FSMP Phase II have been approved, the FSMP Phase II Implementation Committee, chaired by the Minister of Finance, would be formed to oversee the implementation of the Plan.

In this regard, the BOT would arrange for a hearing with all financial institutions in November, this year.

Bank of Thailand
4 November 2009

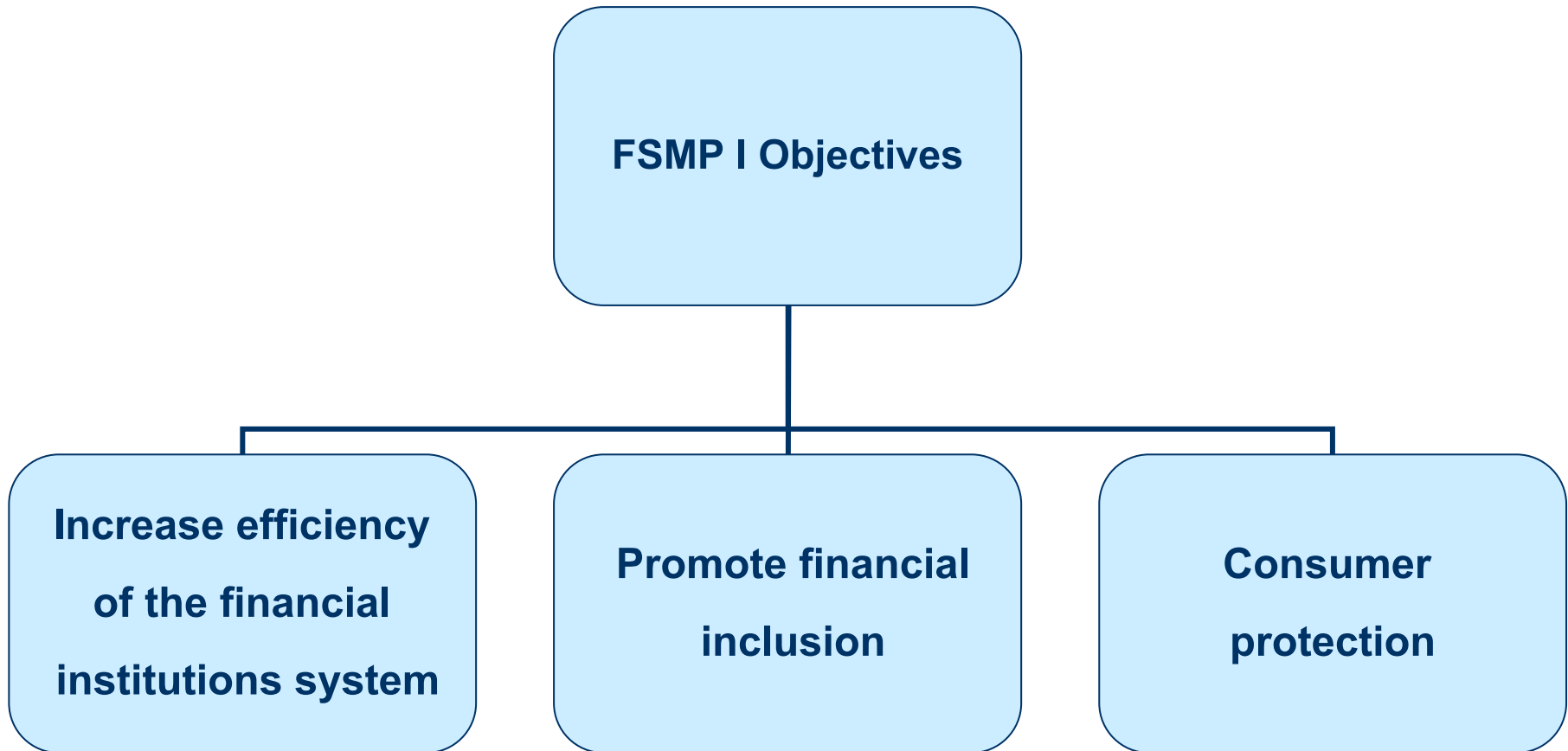


The Financial Sector Master Plan II (FSMP II)

4 November 2009



Financial Sector Master Plan Phase I Measures (2004 – 2008)





FSMP I Measures and Results

FSMP I Measures

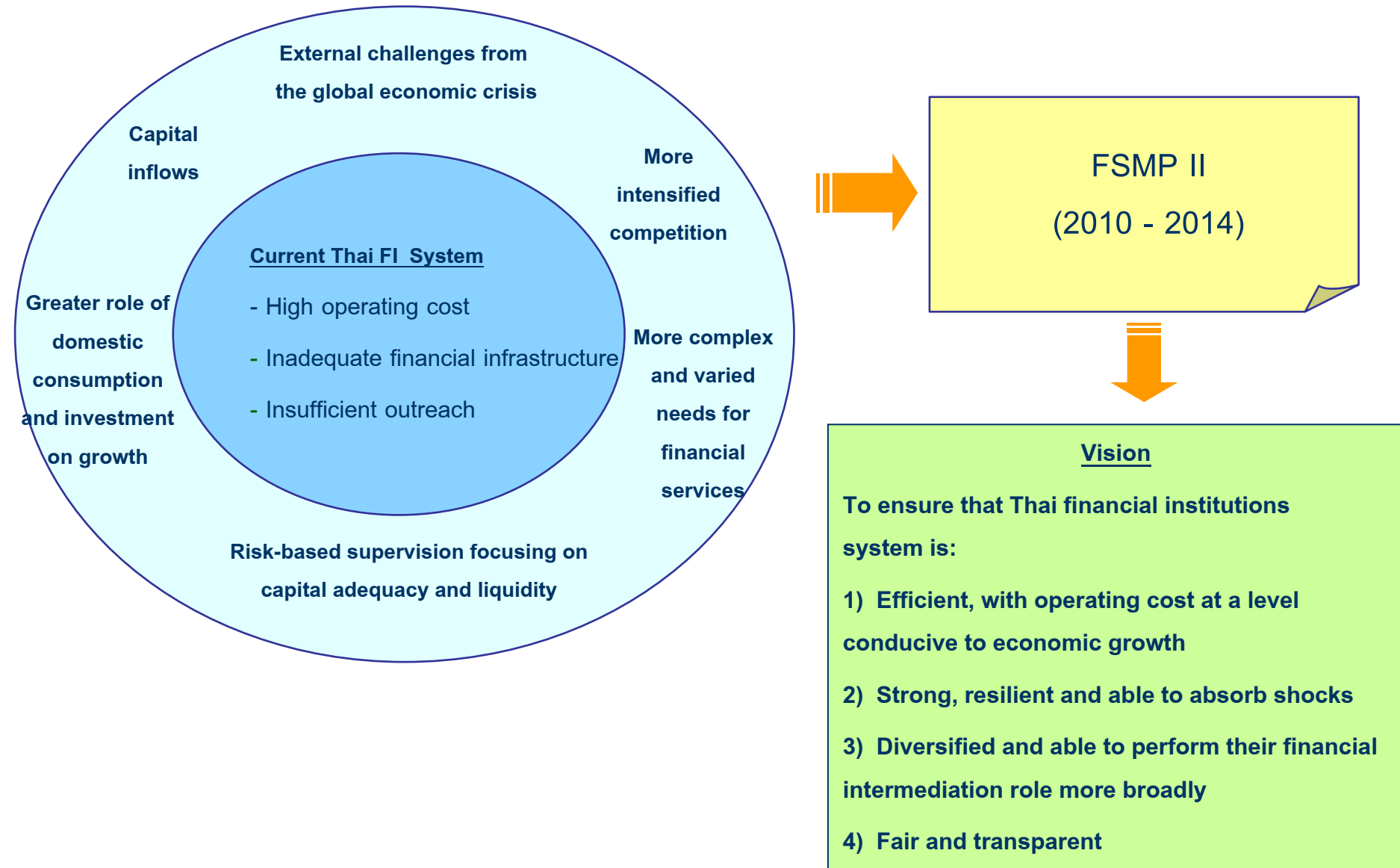
- Strengthen FIs by promoting voluntary mergers
- “One Presence” policy
- Expand scope of business: “Universal Banking”
- New licenses for retail banks and foreign bank subsidiaries



Results

- Mergers of small FIs
 - Stronger capital base
 - Improved operational management
 - Better risk management
- Formation of financial conglomerates
- Establishment of retail banks and subsidiaries

Financial Institutions System Assessment and Future Challenges





3. Expected Benefits

Individuals and Businesses

- **Greater access to financial services**
 - Proportion of households with bank accounts 80%
 - Proportion of households with loans from banks 31%
 - Proportion of households with NO service usage 9.6%
- **Greater range of available services at lower costs**
- **Improved security and convenience of electronic transactions**



3. Expected Benefits

Individuals and Businesses

- **Greater access to financing for SMEs, especially small businesses and start-ups, resulting from an expansion of the list of acceptable collaterals, etc.**
- **Improved access to business restructuring process by qualified individuals and small businesses, in case of troubled debt**



3. Expected Benefits

Financial Institutions

- **Lower operating cost resulting from**
 - Regulatory rationalization
 - Decline in NPL and NPA
 - Lower risk premium on loan granted
 - Greater usage of technology and electronic media



3. Expected Benefits

Financial Institutions

- **Greater efficiency from competition and improvement in financial infrastructure**
 - Greater flexibility in branch-opening and expansion of business scope
 - More effective risk management tools
 - Adequate information for risk management
 - Enhanced capacity of human resource in financial sector



Country

- A financial institutions system that is strong, not burdensome for the country and supportive of economic development even in crisis scenario
- Lower operating cost of financial institutions that would result in lower cost of production and increase the country's competitiveness



3. Expected Benefits

Country

- Greater choices of savings products, leading to higher savings for the country's development
- Stronger local communities given:
 - greater access to financial services, leading to higher income and standard of living
 - Higher financial literacy, thus improved financial immunity

FSMP II Measures

Pillar 1

Reduce system-wide operating cost

1.1 Streamlining regulations

1.2 Tackling remaining NPL and NPA

Pillar 2

Promote competition and financial access

2.1 Promote competition

2.2 Promote financial access

Pillar 3

Strengthening financial infrastructure

3.1 Risk management

3.2 Information system for risk management

3.3 Financial laws

3.4 Information technology utilization

3.5 Human resource in financial sector

Tackling remaining NPL and NPA

- **Enhance demand for NPA by allowing banks to partner with private firms to work on increasing the attractiveness of foreclosed immovable properties**
- **Promote efficiency in trading of NPL and NPA by establishing an NPA Information Centre**
- **Encourage write-offs of loans classified as doubtful of loss that have been fully provisioned in line with related accounting standards**



Promote competition

- **Encourage voluntary mergers to lower operating cost**
- **Enhance the role of existing service providers**
 - **Allow financial institutions with good risk management more flexibility in expanding their branch network and business scope**
 - **Upgrade qualified retail banks to commercial banks**
 - **Expand branch network of foreign banks**
- **Introduce new service providers into the system to fill remaining gaps or create value-added**
- **Reduce government ownership in the commercial banking sector**

Phasing of Liberalization

Phase 1: 2010-2011

Strengthen Thai commercial banks

Phase 2: 2012-2013

Increase competition

Last Phase: 2014

Increase competition

■ Strengthen Thai commercial banks

- Mergers / Orderly Exit
- Liberalization of branch network (Condition : Good rating according to BOT guidelines and good management)
- Widen business scope including mutual fund management and venture capital fund management
- Reduce system-wide operating cost as per Pillar I and strengthen financial infrastructure as per Pillar III

■ Increase competition

- Maximum 2 additional branches for foreign bank branches
- Upgrade retail banks to commercial banks (Condition : Tier 1 capital \geq 10 billion baht with good operational and risk management)
- Begin to reduce government ownership in commercial banks

■ Promote financial access

- Promote microfinance business in commercial banks

New entry to fill gaps and create value-added

e.g. Microfinance, Trust bank, Islamic bank, Investment bank

Foreign bank branches and subsidiaries can apply to upgrade to subsidiaries which can have max. 20 branches + 20 ATMs

(Condition : Tier 1 capital \geq 10 billion baht with good rating according to BOT guidelines and good risk management)

Efficiency assessment in line with trends in trade and investment growth with possibility of new licenses



Promote financial access

- **Facilitate banks expansion of business to foster outreach to the population group without access**
- **Introduce new service providers with microfinance expertise into the system**
- **Support Specialized Financial Institutions in focusing on providing services to the population group without access to commercial banks**



Risk Management

Promote development of financial products that would support risk management including credit, market, liquidity, and settlement risks



Information system for risk management

- **Strengthen information system to support effective risk management of financial institutions**
- **Expand data collection and enhance the scope of service of the National Credit Bureau (NCB)**
- **BOT to prepare and disseminate additional data to support more effective risk management of financial institutions**



Financial laws

Push for a draft or review of necessary financial laws to support risk management of financial institutions as well as support an expedited resolution of NPL



Information Technology Utilization

- **Promote greater efficiency in the use of IT in the provision of financial services**
- **Promote security in electronic transactions**



Human resource in financial sector

Encourage financial institutions to pay attention to development of human resource and enhance attractiveness of recruitment of new graduates to the financial sector