

**Keynote Address by Dr. Tarisa Watanagase**  
**Governor, Bank of Thailand**  
**At the Excellence in Retail Financial Services Convention 2008**  
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Distinguished Guests,  
Ladies and Gentlemen,

I am pleased to be invited to give the keynote address for this prestigious convention organized by the Asian Banker. It gives me the opportunity to share with you the Bank of Thailand's perspective on the retail banking industry, which I hope would help both service providers and consumers alike to better understand our regulatory objectives and priorities.

Retail banking business in Thailand has enjoyed rapid growth since after the Asian financial crisis, as banks -- having learned the lesson of risk concentration-- began to shift their strategies to diversify their portfolios and revenues by making inroads into the retail market segments. Over the past five years, bank consumer loans have grown at an average annual rate of 20 percent, outpacing the corporate loans which have increased three percent annually. As a result, consumer loans now constitute almost a quarter of total loan portfolio of the banking system in Thailand, compared with 16 percent in 2003. Housing loans continue to account for the largest share, followed by personal loans and credit card loans. Competition in the retail banking business has been intense, with more variety of product offerings and new delivery channels introduced to satisfy customer needs. Non-bank players have also been aggressively competing for market share in the personal loan and credit card market, although with focus on people in the lower range of income groups.

Considerable amount of investment has been made to revolutionize network channel, operational process, and risk management system in order to reduce the operational cost and service delivery time, and to manage risks more effectively. Functionalities of traditional delivery channel such as ATM have been greatly expanded, while new e-banking tools such as internet banking, mobile banking, and electronic money service have been introduced. Use of ATM, debit and credit cards continues to grow steadily, whilst internet banking transactions and use of electronic money services increase markedly both in terms of the number of users and the value of usage. Modernization of operational process and risk management system includes automating application process, credit approval process, and increasing use of credit scoring models and credit information system.

Ladies and Gentlemen,

We view increased competition and innovation in the retail banking business as beneficial to consumers and the financial system as a whole. Banks' loan portfolios have become more diversified, while a greater number of people have been given access to financial services. Many of you will recall that one of the primary objectives of the Bank of Thailand's first Financial Sector Master Plan was to broaden access to financial services for the underserved segments of our society, including people in the lower income group, in the rural areas, and small and medium-sized companies. Let me reaffirm that this is still one of our primary goals.

To be sure, broadening access to financial services does not mean ready availability of loans for unscrupulous spending. It does not mean consumers can more easily borrow to finance extravagant consumption and lifestyle that they cannot really afford and are unlikely to be able to repay their debt. Broadening access to financial services must come hand in hand with responsible lending on the part of service providers and responsible borrowing on the part of consumers. Failure to observe these fundamental principles can lead to very painful consequences and adjustments for lenders, consumers, and the economy as a whole. It is essentially this kind of failure that lies at the heart of current global market turmoil which, as we all know, originated from loose or non-existent credit underwriting standards in the US subprime mortgage market. And this is exactly the kind of problems that we sought to prevent a few years ago when we introduced a package of prudential measures related to unsecured personal and credit card loans.

These measures -- such as pre-requisite minimum income, cap on credit lines in multiples of income, and minimum monthly installments -- were aimed at pre-empting excessive household debt, especially by people in the lower income group, who could otherwise have faced severe financial distress and led eventually to social problems at large. A minimum loan-to-valuation ratio was also introduced to stem the incipient growth of high-priced residential loans that, if left unchecked, could have led to speculative property bubbles and threat to financial and economic stability down the road. Maintaining financial stability is another all-important policy objective for us as the central bank. In fulfilling that objective, it is imperative that we remain vigilant on developments which might lead to financial imbalances -- such as excessive household debt and asset price inflation -- and take timely action, including prudential measures, to prevent them from becoming a threat to the financial system and the economy.

Ladies and Gentlemen,

Another dimension of our policy towards the retail banking business is to ensure that customers are treated fairly, that they are provided with clear and complete information about the product and price before and after the sale, and that they are given sound advice which takes into account their needs and circumstances. In this connection, we have put a ceiling on interest rates on personal and credit card loans. We also require transparency and disclosure of interest rate calculation and fees that banks charge their customers. We have provided guidance to banks regarding appropriate procedures to handle customer complaints as well as fair debt-collection practices. We have also been working to improve the information available to the general public on our new website that we hope would help to facilitate consumer education and raise the level of financial literacy.

I would like to strongly urge banks and service providers to do your part in helping to raise the level of financial literacy of your customers, so that they are capable of making well-informed decisions on the financial products they really need that will not inadvertently lead to problems for themselves or for the service providers later on.

Ladies and Gentlemen,

I would like to spend the next few minutes sharing with you what I see as some of the key challenges that the retail banking industry face, going forward.

First, competition is likely to intensify further, both between banks themselves and with nonbanks. Banks will continue to diversify their sources of revenue by continuing to increase the share of consumer loans in their portfolios. An increasing number of middle-class customers -- both wealthier and more financially educated-- will be more demanding about the kind of financial products and services that they require. Higher competition and more demanding customers will drive service providers to become more customer-oriented in their product offerings in order to create some product differentiation and brand loyalty in the largely commoditized market. Competition will also likely drive service providers to seek new untapped opportunities which will increase the size of overall market. By virtually all international benchmarks -- whether they be debt service or debt to income ratios -- the average Thai household still have a relatively strong financial position. Thus, the challenge for service providers is to selectively target viable customer groups among the previously underserved segment.

The second challenge is maintaining high standards of credit underwriting and risk management in the face of more intense competition. It may be tempting for service providers to lower underwriting standards in order to compete for market share in the face of greater competitive pressures. In view of the severe consequences of the current global market turmoil that originated from poor underwriting standards in the US subprime market; this temptation should be resisted at all costs. Let me assure you that the Bank of Thailand, as prudential supervisor of banks, will remain vigilant to ensure that similar problems will not happen here.

The third challenge is managing security risks associated with the use of new technology. Advances in IT and communications technology have enabled banks to provide faster, cheaper, and safer electronic banking services to an increasingly larger group of customers. However, proliferation of internet banking, mobile banking, and e-payment also increases the risks of IT fraud, network security breach, and identity theft, etc. If these risks are not properly managed, they could have severe financial and reputational consequences for the banks. In this regard, I urge banks to pay close attention to the best-practice guidance on IT and e-banking security risk management that we issued some time ago.

Ladies and Gentlemen,

I would like to conclude by saying that the Bank of Thailand fully welcomes and supports healthy competition that will lead to efficiency and sustainable growth in the retail banking industry, which will certainly benefit the consumers at large. Our challenge as supervisor is to provide an appropriately balanced prudential framework that, on the one hand, fosters sound risk management practices on the part of both service providers and consumers, and on the other hand, does not stifle competition and innovation in the industry. And as the central bank, we will continue to be vigilant on any incipient financial imbalances, and take timely action to deal with them should they become potential threats to financial stability and the broader macro-economy.

Thank you very much for your attention. I wish the convention every success and that you all have fruitful discussions over the next two days.