

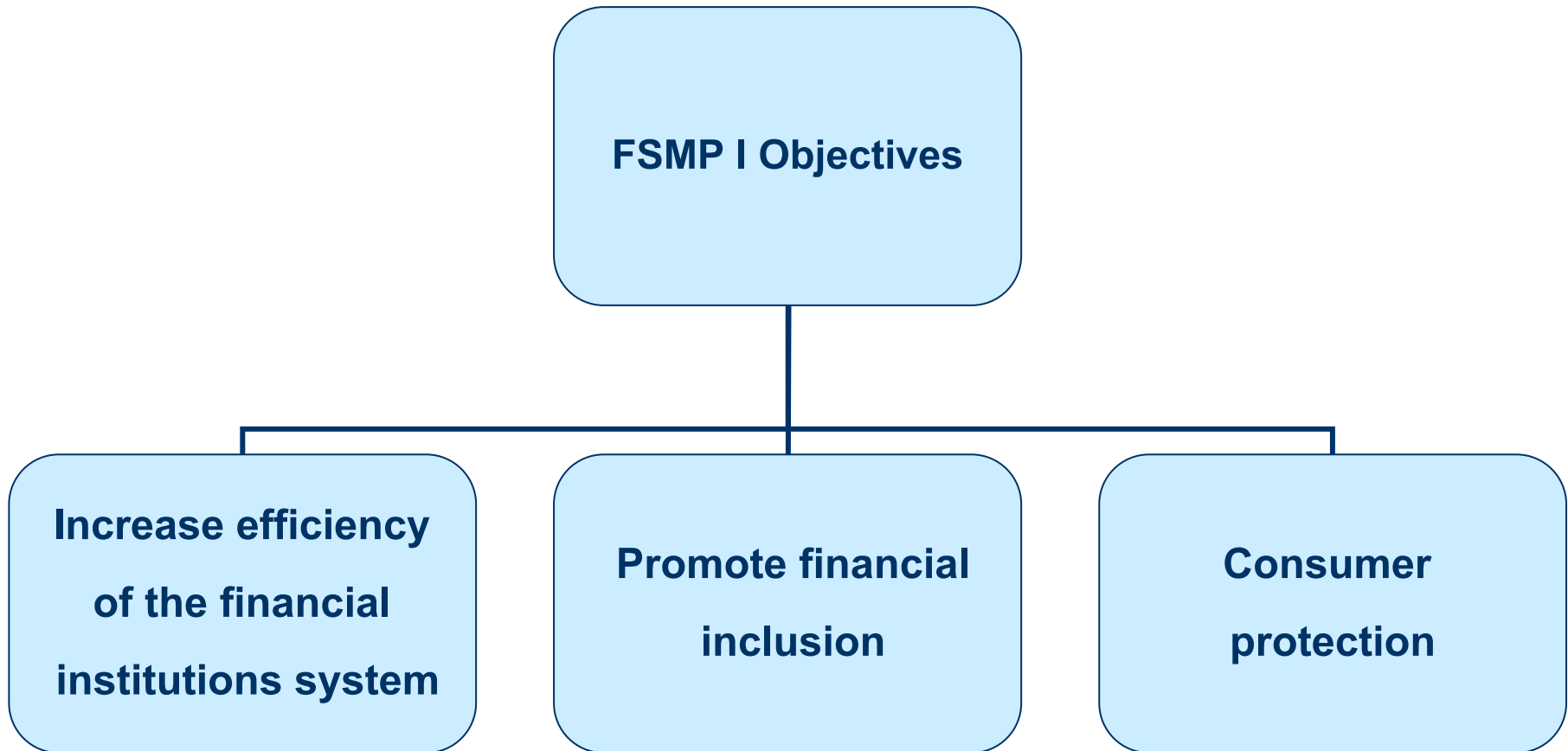


# **The Financial Sector Master Plan II (FSMP II)**

**4 November 2009**



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





# FSMP I Measures and Results

## FSMP I Measures

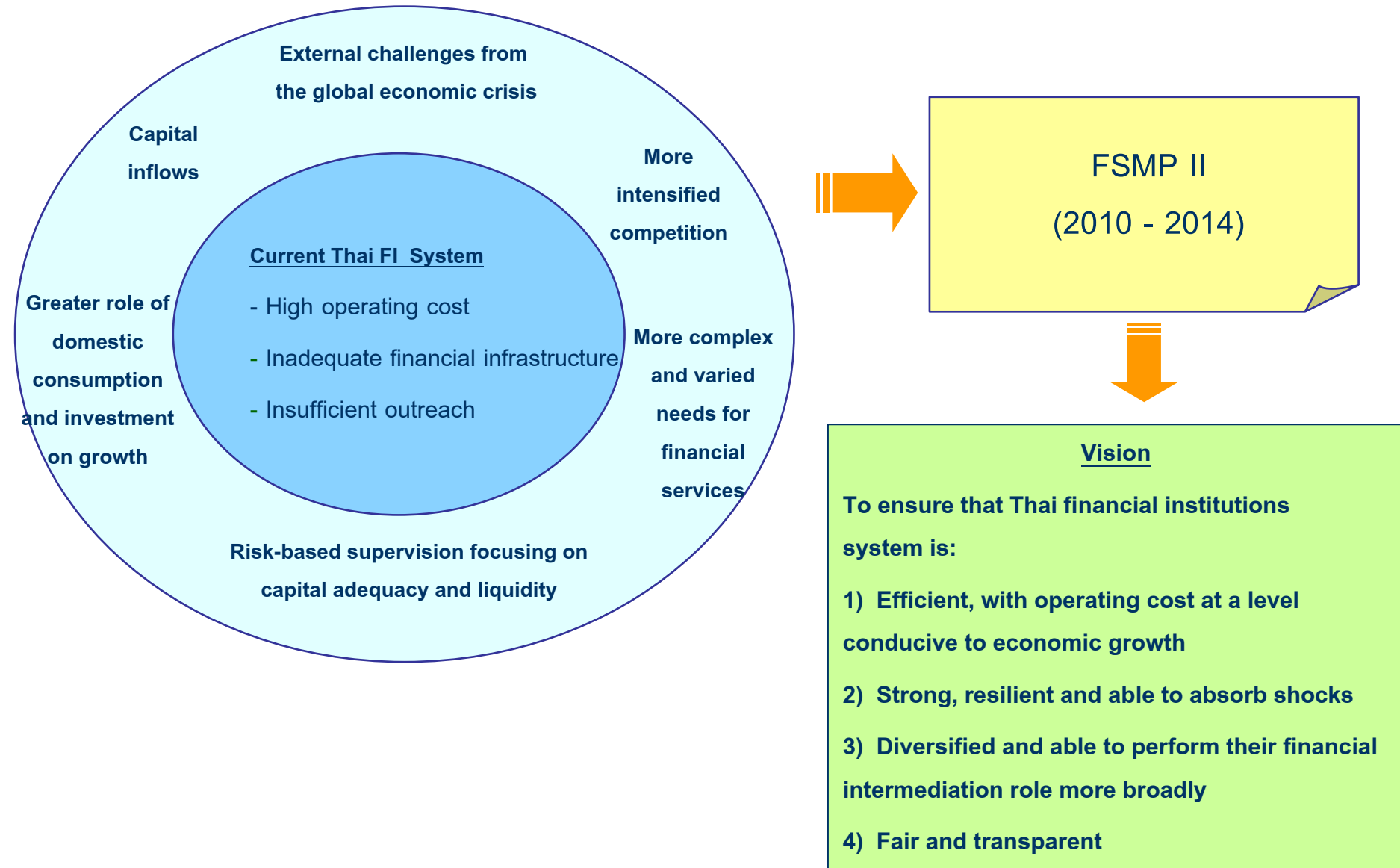
- Strengthen FIs by promoting voluntary mergers
- “One Presence” policy
- Expand scope of business: “Universal Banking”
- New licenses for retail banks and foreign bank subsidiaries



## 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

<p style="text-align: center;"><b>Phase 1: 2010-2011</b></p> <p style="text-align: center;"><b>Strengthen Thai commercial banks</b></p>	<p style="text-align: center;"><b>Phase 2: 2012-2013</b></p> <p style="text-align: center;"><b>Increase competition</b></p>	<p style="text-align: center;"><b>Last Phase: 2014</b></p> <p style="text-align: center;"><b>Increase competition</b></p>
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■ 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**