

## Spotlight: Developing a Financial System for the Future

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Distinguished guests,

Ladies and gentlemen,

A very good morning to you all.

It is my pleasure to be here today and take part in this event. First of all, I would like to thank Bloomberg for organizing this exciting conference and for inviting me to share with you my thoughts on “Developing a Financial System for the Future.” It is a timely and important topic as I am sure that most of us have been pondering how, in this age of disruptions, the financial system will develop to support economic growth while at the same time preserve financial stability.

Ladies and gentlemen,

In this **VUCA world** of high volatility, uncertainty, complexity, and ambiguity, Thailand’s economy, like other emerging economies, is facing new challenges. Monetary policy normalization in advanced economies, record-high debt levels in many parts of the world, stretched global asset valuation, and risks of an all-out trade war are posing **immediate challenges** to the stability of our financial systems. At the same time, technology disruption, aging society, and growing income inequality are also presenting **structural challenges** to many emerging economies, including Thailand.

Against this backdrop, the Bank of Thailand has the duty not only to preserve and maintain economic and financial **stability**, but also to develop our financial system so that it can effectively unlock Thailand’s economic potential, uplift productivity, and bring about more inclusive growth for the future.

Ladies and gentlemen,

For the Bank of Thailand, maintaining **economic and financial stability is a prerequisite** for sustainable growth. Thus far, the Thai macroeconomic outlook remains favorable, with the economy expected to grow 4.4 percent this year, the highest since 2012. Additionally,

the Thai economy has **adequate buffers** to withstand any immediate challenges, with ample international reserves, covering 3.5 times our short-term external debts; low dependency on external borrowing; and current account surplus of around 8 – 9 percent of GDP<sup>1</sup>. Moreover, our **banking sector** is robust, with high capital adequacy ratio and stable domestic funding. In the first quarter of 2018, the capital adequacy ratio of the banking system averaged 18 percent, among the highest in the region.

To further safeguard financial stability, additional **micro and macro-prudential measures** were introduced, such as the regulations on domestic systemically important banks (**D-SIBs**), along with more stringent regulations on **credit cards** and **personal loans** to tackle household debt challenges. Moreover, the Bank of Thailand recently revised regulations to enhance financial institutions' corporate governance, with emphasis starting at the Board of Director's level. Meanwhile, in collaboration with the Thai Bankers' Association, we established a "**debt clinic**" to offer multi-creditor debt restructuring program for troubled individuals. Another initiative ongoing is to work with other agencies to enhance supervision of saving cooperatives as well as other non-bank entities, which do bank-like businesses, to mitigate **shadow banking** risks.

Ladies and gentlemen,

Amidst the structural challenges facing the Thai economy, the Bank of Thailand has stepped up our "**stewardship**" role by providing policy directions and ensuring that the financial system develops with the sustainable well-being of the Thai people as the main goal. Taking advantage of the **rapid advancement in technology**, which has become increasingly more powerful and affordable, we have focused on three key imperatives of **productivity, immunity, and inclusivity** to guide the development of our financial system for the future.

First, uplifting **productivity** is a critical requirement for long term economic growth. One of the main challenges Thailand is facing is structural change due to an aging workforce. Moreover, our labor productivity growth has been on a decline, with growth rate of labor productivity averaging 2.9 percent during 2002 to 2017 compared with an average of 5 percent during 1986 to 2001. A shrinking workforce and low labor productivity growth will pose a challenge to Thailand's long term growth prospect. To ensure sustainable growth for our economy, we must become more productive. Undoubtedly, proactive adoption of modern technology will be the key to achieve this goal.

Second, **immunity** must be emphasized given the VUCA nature of the future global economic landscape. We are living in a time of disruptions, where outcomes can be unpredictable

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<sup>1</sup> Estimated for 2018. BOT

and volatile, bringing with them new forms of risks. Not only will firms face risks related to finance and operation, but they will also face strategic risks and risks associated with driving digital transformation. All these uncertainties necessitate that building sufficient immunity becomes a key factor to safeguard resilience of our economy and financial system.

Third, **inclusivity** is a prerequisite for long-term sustainable growth. Any policy or action that does not pay attention to inclusivity can threaten long-term growth and stability. In many emerging economies, income inequality is a significant cause of economic and social instability and could lead to widespread support of populist policies. Unbanked and underserved people need to have access to financial services, which can help them raise their standards of living. Emergence of FinTech and TechFin firms, along with their diverse platforms, can offer more targeted financial products at lower costs and improve financial access, especially to the underserved people.

Ladies and gentlemen,

To fulfil these three key imperatives, the Bank of Thailand has taken on various initiatives during the past few years:

On boosting **productivity**, we have many exciting projects underway. Last year, the Bank of Thailand together with the Ministry of Finance and the Thai Bankers' Association launched the **PromptPay** faster payment infrastructure. With PromptPay, funds can be transferred to a recipient's preferred bank account in real time and at virtually no cost. PromptPay provides a crucial payment infrastructure, which helps propel a wider adoption of e-payment. Currently, there are almost 43 million registered user accounts and over 3 million transactions per day. The increasing usage of PromptPay also served as a catalyst that led all banks in Thailand to eliminate electronic fund transfer fees for online retail transactions. Besides, being a common infrastructure, PromptPay has also paved ways for many other digital payment features, including cross-bank bill payment, request-to-pay as well as e-donation services.

Another initiative to promote digital payment services is **the standardized QR code**. Launched in collaboration with the five major global payment card network providers, Thailand's standardized QR code for payment allows acceptance of common QR code for e-payment on any platforms regardless of merchants' and consumers' service providers. Its interoperability has led to remarkable speed of adoption; in less than one year since its launch, QR code payment is accepted by over 2 million merchants all over Thailand. More importantly, having common standards would improve competition and innovation, as they allow easy market entry for all players, especially small innovative players. Ultimately, greater adoption of digital payment will

help facilitate the transformation from collateral-based lending to information-based lending for SMEs as their payment transactions information can be consolidated and analyzed.

In addition, the Bank of Thailand also supports financial innovation through our **regulatory sandbox**. The sandbox serves as a platform for financial institutions and FinTech firms to test new technologies and operating standards in a safe environment before the products and services are launched to the general public. Technologies under reviewed include biometrics for electronic know-your-customers, machine learning for alternative credit scoring models, and blockchain applications for cross-border payments, supply chain financing, and document authentication.

Another way in which productivity is being enhanced is through improving **regional financial connectivity**. Recent efforts by banks in the region to partner and adopt the Thai QR code standard and blockchain applications for cross-border payments are examples of how financial innovations can help improve regional financial connectivity and facilitate smoother cross-border financial services.

Let me now turn to building **immunity**, which is a significant imperative for the future VUCA world. With the vast amount of data and modern analytical tools available, resilience can be significantly improved. For example, banks can use transactional data to better forecast customers' credit demand and credit risks. Regulatory agencies can analyze financial connectedness through network analysis to detect risk events and safeguard financial stability. The Bank of Thailand has employed a number of **big data analytics** to detect early signals of imbalances in the economy and respond pre-emptively should risks arise.

Additionally, in this increasingly digital environment, **cyber resilience and cyber security** must be a top priority and all of us must be prepared to prevent and respond effectively to cyber threats. Adoption of modern technologies like biometrics and blockchains can help safeguard financial information and reduce the number and magnitude of fraudulent activities. In our part, last year the Bank of Thailand in collaboration with 15 Thai banks and the Electronic Transactions Development Agency, set up the Thailand Banking Sector Computer Emergency Response Team (TB-CERT) as a platform for banks and regulators to share information on cyber incidents and build standards and capacity for IT-personnel to handle new threats.

Furthermore, to ensure that our legal framework fits with the current digital environment and can keep up with new innovations, the Bank of Thailand had proposed the **New Payment Systems Act**, which became effective in April of 2018. The Act unifies previously fragmented payment laws and regulations and empowers the Bank of Thailand to oversee development of the Thai payment systems and regulate new payment innovations and players. Moreover, our supervisory guidelines on management of information technology risks have also

been updated to ensure that banks have appropriate governance structure in place and can swiftly respond in the event of cyber attacks. These developments will contribute to safer environment for both service providers and customers.

**On inclusivity**, despite high level of financial access in Thailand relative to other emerging countries, financial inclusion remains one of our top priorities. Various measures to promote financial inclusion have been implemented and many more are in the pipeline. The Bank of Thailand and the Thai Bankers' Association will soon launch the **Basic Banking Account** scheme to improve financial access for vulnerable groups, especially those in the lower-income brackets. The basic banking account has no minimum balance requirement and offers free ATMs and debit cards to those who qualify. The scheme is expected to roll out by October this year.

The Bank of Thailand is also undergoing **regulatory reform** to review outdated rules and regulations, to facilitate ease of doing business and ensure that our regulations do not impede competition and innovation and contribute to high costs of financial services. We started with foreign exchange regulations last year and are now reviewing banking regulations to improve digital banking environment and SME financing.

In addition, the current backdrop of high household debt in Thailand and the need to improve individual's financial safety net necessitate an overall improvement in **financial literacy** as well as **financial planning skill**. We have also tightened our **market conduct** regulations to ensure that misselling is minimized and financial institutions provide fair and transparent products and services. Given the growing importance of digital technology for financial services, we must also make sure that those with lower skills can reap the benefits that technology brings, to avoid digital divide.

Last but not least, creating a financial ecosystem that values sustainability is critical to ensure that the Thai financial system of the future can continue to develop in such a way that would benefit all segments of the society and create minimal negative externalities. Later this month, the Bank of Thailand will host the first **Bangkok Sustainable Banking Forum**. The event will allow industry leaders to learn from one another and showcase their efforts and services to promote sustainability and highlight areas we must improve.

Ladies and gentlemen,

The Bank of Thailand is committed in our duty to maintain economic and financial stability amidst this VUCA environment and future disruptions. We are also committed to supporting the adoption of financial technology and promoting financial innovations to develop a financial system for the future that will improve productivity, immunity, and inclusivity. Such a

financial system will unlock our economic potential, ensure sustainable economic growth, and improve the well-being of our people. The Bank of Thailand is also committed to supporting regional connectivity through collaboration with other central banks, public agencies, and the private sector. Together, we can fulfill our vast potential, build strong safeguard against unintended consequences of disruptions, and develop a strong and inclusive financial system for the future.

Thank you very much for your kind attention.