FINANCIAL INCLUSION, FINANCIAL REGULATION AND FINANCIAL EDUCATION IN THAILAND

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Agenda

- Introduction
- Conceptual Framework
- Financial inclusion, regulation, and education
- Policy Recommendations
Introduction: Objectives

- To provide an overview of the current status of financial inclusion, regulation, and education in Thailand
- To identify gaps and obstacles to furthering the objective of financial inclusion
- To provide policy recommendations
Conceptual Framework

- Institutional Analysis (IFAD 2009)
  - Clear identification of **desired outcomes**, map outcomes to actions, identify key actors, and understand the institutional context
Institutional Analysis

Policy Recommendations

Identifying Desired Outcomes

Knowing the Actors (service providers, enabling agencies)

Understanding Institutional Context
Conceptual Framework

- **Premise**: to achieve goal of financial inclusion, it is important to have the support of sound financial regulation and adequate financial education
  - Financial inclusion is the goal
  - Financial regulation and education provide the context and the means for achieving the goal
Definition of Financial Inclusion

CGAP:
“Financial inclusion means that households and businesses have access and can effectively use appropriate financial services. Such services must be provided responsibly and sustainably, in a well regulated environment.”

UN and Millennium Development Goals Summit 2010:
“Financial inclusion means universal access, at a reasonable cost, to a wide range of financial services, provided by a variety of sound and sustainable institutions. The range of financial services includes savings, short and long-term credit, leasing and factoring, mortgages, insurance, pensions, payments, local money transfers and international remittances.”
Desired Outcomes

- Universal access
- Appropriate financial services
- Reasonable cost
- Sound and sustainable providers
- Well-regulated environment
Desired outcomes are in line with national goals

- “A happy society with equity, fairness, and resilience.” (11th NESDP: 2012 – 2016)
  - Development of diverse microfinance institutions and savings systems
  - Support SMEs to increase competitiveness and contribution to GDP

For Thailand, the main targets for financial inclusion are low-income households and SMEs.
Thailand Country Profile

Population | Gini Coefficient
--- | ---
66 Million | 0.39

Population Under National Poverty Line
13.2 Percent

Proportion of Poor People Living in Rural Areas
88.8 Percent

Proportion of Poor People Living in Urban Areas
11.2 Percent

SMEs Contribution to GDP
37 Percent

Small Enterprises
97.9 Percent of All Enterprises
Employ 71.8 Percent of Workers

Sources: World Development Indicators, OSMEP Annual Report 2013
Large informal labor force
62 Percent

Informal Workers Mostly By Region
41.5 Percent of informal labor work in the Northeast
21.4 Percent work in the North

Informal Workers By Sector
62.5 Percent in Agriculture
28.3 Percent in Trade and Services

Such a large informal sector means that financial inclusion must include low-income people, people who work in the informal sector, and small enterprises which usually operate in the informal sector. Many of the workers work away from their hometowns.

Source: NSO Labor Force Survey 2012
Microfinance in Thailand

- Provision of microfinance services driven by two main factors
  - Insulation of commercial banks against repeat of the 1997 financial crisis
  - Use other policy instruments (community and state) to provide access for low-income households

Small role of commercial banks, larger roles of state-owned financial institutions and community-based financial institutions.
# Landscape of Financial Service Providers

<table>
<thead>
<tr>
<th>Sector</th>
<th>Key Players</th>
<th>Number*</th>
<th>Credit Volume†</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Formal</strong></td>
<td>Commercial Banks, Finance Companies, Credit Fonciers</td>
<td>36†</td>
<td>$395.5 Bil. (92.7%)</td>
</tr>
<tr>
<td></td>
<td>Specialized Financial Institutions (SFIs)</td>
<td>8</td>
<td>(Non-bank $3.9 Bil.)</td>
</tr>
<tr>
<td></td>
<td>Non-Bank Financial Institutions (NBFIs)</td>
<td>28†</td>
<td></td>
</tr>
<tr>
<td><strong>Semi-Formal</strong></td>
<td>Cooperatives and Occupational Groups</td>
<td></td>
<td>$29.8 Bil. (7%)</td>
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<tr>
<td></td>
<td>Savings Groups for Production Village Fund</td>
<td>13,000x</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>27,000</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>80,000</td>
<td></td>
</tr>
<tr>
<td><strong>Informal</strong></td>
<td>Self-Help/ Community Financial Organizations (Sajja Savings Groups, Village banks, etc.)</td>
<td>28,000‡</td>
<td>$1.26 Bil. (0.3%)</td>
</tr>
</tbody>
</table>

Source: Lewis et al. 2013

Note: * Numbers for semi-formal and informal institutions are rounded

‡ Estimated

† Includes Thai commercial banks (15), foreign subsidiaries and foreign bank branches (16), credit fonciers (3), and finance companies (2)

‡ NBFIs registered with BOT only. Non-banks offering credit services not registered with BOT are not included.

x Includes cooperatives (7,000), and agricultural and occupational groups (6,000)
Participation in Microfinance

Total Credit
- Semi-Formal: 7%
- Informal: 0%
- Formal: 93%

Micro Loans
- Semi-Formal: 35%
- Informal: 4%
- Formal: 61%

Source: Data from Lewis et al. 2013, FPO Presentation 2014.
Does Thailand have a financial inclusion problem?

- Is there universal access?
- Are there availability of appropriate financial services at reasonable cost?
- Are there rules to ensure the soundness and sustainability of service providers?
- Do providers operate in a well-regulated environment?
- What role, if any, should financial education play?
Financial Access

Formal Financial Institutions (81.06%)

Commercial Banks (Thai and foreign) (59.27%)

Use financial services (87.99%)

Finance Companies and Credit Fonciers (0.58%)

SFIs (20.22%)

Does not use financial services (12.01%)

Other Formal (1.57%)

Semi-Formal (3.39%)

Informal (3.53%)

Financially Excluded (4.23%)

Source: BOT Survey 2013
Financial Access

- Thailand does relatively well in terms of financial access
- Array of service providers providing a wide variety of financial services
- Service variety and people’s behavior in next slide
- BUT there are still gaps in supply and demand
Financial Services

<table>
<thead>
<tr>
<th>Credit</th>
<th>Savings</th>
<th>Insurance</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Many households, especially farmers, regarded these as a “cash flow lifeline”</td>
<td>• 80% of people feeling they can trust banks with their money, but majority use for moving cash (remittances)</td>
<td>• Majority of risks covered are by the community and the state</td>
</tr>
<tr>
<td>• Borrowers are prepared to accept widely divergent interest rates</td>
<td>• Deposits at SFI’s (GSB) are growing at more than 30% a year</td>
<td>• Private insurers cover motor vehicles and credit-life</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Institution</th>
<th>Consumer Loans</th>
<th>Micro-Loans (&lt;THB 200k)</th>
<th>Deposits</th>
<th>Remittances</th>
<th>Payments Collection</th>
<th>Pre-paid / Stored Value Cards</th>
<th>Insurance / Risk Protection</th>
</tr>
</thead>
<tbody>
<tr>
<td>Government</td>
<td></td>
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</tr>
<tr>
<td>Commercial Banks</td>
<td>✓ ✓ ✓</td>
<td>✓</td>
<td>✓</td>
<td>✓ ✓</td>
<td>✓ ✓ ✓</td>
<td>✓</td>
<td>✓ ✓ ✓</td>
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<tr>
<td>SFI: BAAC</td>
<td>✓ ✓ ✓</td>
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<tr>
<td>SFI: GSB &amp; GHB</td>
<td>✓ ✓ ✓</td>
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<tr>
<td>NBFIs</td>
<td>✓ ✓ ✓</td>
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<tr>
<td>Credit Unions / Co-Ops</td>
<td>✓ ✓ ✓</td>
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<td>✓ ✓</td>
<td>✓ ✓ ✓</td>
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<tr>
<td>Village Fund</td>
<td>✓ ✓ ✓</td>
<td>✓ ✓ ✓</td>
<td>✓</td>
<td>✓ ✓</td>
<td>✓ ✓ ✓</td>
<td>✓</td>
<td>✓ ✓ ✓</td>
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<tr>
<td>Moneylenders / Pawnshops</td>
<td>✓ ✓ ✓</td>
<td>✓ ✓ ✓</td>
<td>✓</td>
<td>✓ ✓</td>
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<tr>
<td>Post Office</td>
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<tr>
<td>Private Insurers</td>
<td></td>
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<tr>
<td>Community-based institutions</td>
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<tr>
<td>Modern Trade Outlets</td>
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<tr>
<td>Mobile Network Operators</td>
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</tr>
</tbody>
</table>

Degree of usage
Low ✓ - High ✓✓✓

Payments
• 65% of utility payments are made at 7-Eleven stores
• Mobile payments are growing exponentially

Different types of service providers operate in different market segments

- Commercial banks: mostly urban, savings, remittances
- Specialized Financial Institutions (SFIs): reach rural areas, savings, credit, pilot/facilitate new microfinance initiatives of the government
- NBFI S: credit, mostly urban, regular-income earners
- Semi-formal institutions: savings, credit, many rural, cater to agricultural workers and micro-enterprises
- Informal institutions: savings, credit, insurance
Universal access to appropriate services at reasonable cost?

No.

- Low-income households in South and Northeast have lower access than others
- Low-income urban dwellers report problem accessing credit
- Small enterprises find it hard to obtain credit, especially those with unstable income and little collateral
- Over-subscription to credit products, especially in rural areas
Over-indebtedness is high and rising, although it is more prevalent in rural areas than in urban areas.

Household Debt to GDP
82.3 Percent in 2013
60.0 Percent in 2010

Household Debt to Disposable Income
120 Percent in 2013
90 Percent in 2010

Source: BNP Paribas 2013, FinScope Survey 2013, NSO SES Survey 2011
Universal access to appropriate services at reasonable cost?

No.

- Interest rate on loans vary greatly
- Remittance mostly through banks, can be costly to send and access especially for rural dwellers
Financial Regulation

- Are there rules to ensure the soundness and sustainability of service providers?
- Do providers operate in a well-regulated environment?
Regulation of Financial Service Providers

<table>
<thead>
<tr>
<th>Sector</th>
<th>Key Players</th>
<th>Regulators</th>
<th>Prudential regulations</th>
</tr>
</thead>
<tbody>
<tr>
<td>Formal</td>
<td>Commercial Banks, Finance Companies, Credit Fonciers</td>
<td>BOT</td>
<td>Prudential regulations (international standard)</td>
</tr>
<tr>
<td></td>
<td>Specialized Financial Institutions (SFIs)</td>
<td>MOF</td>
<td>Prudential regulations (less than international standard)</td>
</tr>
<tr>
<td></td>
<td>Non-Bank Financial Institutions (NBFIs)</td>
<td>BOT</td>
<td>Non-prudential regulations</td>
</tr>
<tr>
<td>Semi-Formal</td>
<td>Cooperatives and Occupational Groups</td>
<td>MoAC, MOI,</td>
<td>Non-prudential regulations</td>
</tr>
<tr>
<td></td>
<td>Savings Groups for Production Village Fund</td>
<td>NVFO</td>
<td></td>
</tr>
<tr>
<td>Informal</td>
<td>Self-Help/ Community Financial Organizations (Sajja Savings Groups, Village banks, etc.)</td>
<td>None</td>
<td>Self-regulation</td>
</tr>
</tbody>
</table>

Source: Adapted from FPO 2014
Key Features of Financial Regulation

- Multiple agencies overseeing different types of financial service providers
- Varying degrees of stringency, and provisions for sustainability and stability of service provider
  - Formal financial institutions face toughest rules
  - Semi-formal institutions face laxer standards
  - Most informal institutions are not regulated
- Consumer protection does not extend to all users of microfinance
Financial Regulation: Problems

- Unlevel playing fields
  - SFIs vs. other formal financial institutions
  - Semi-formal and informal service providers vs. formal service providers
- Weak governance of vehicles for delivery of microfinance
  - Compared to commercial banks, institutions which deliver microfinance services are subjected to far fewer requirements in terms of soundness and sustainability, transparency, and reporting requirements
- Capacity of regulators is a problem, especially for microfinance service providers
Are there rules to ensure the soundness and sustainability of service providers?

- Rules exist but mostly for formal service providers
- Informal service providers have no externally-imposed rules

Do providers operate in a well-regulated environment?

- Fragmentation of regulatory oversight
- Different rules for different types of institutions
Risks

- Slow-down in economic growth and problems in the agricultural sector threaten the sustainability of financial service providers
- Urgent need for finance in low-income agricultural households could drive more people to unregulated lenders
What role for financial education?

- Two key areas for financial education in Thailand
  - Debt-related education programs/content
  - Consumer rights
- These programs exist, but coverage and usage remain a problem
Suppliers of financial education

- Commercial Banks: mostly as CSR measures, small-scale, target students/potential users of formal financial products
- SFIs: covers debt management in low-income households and agricultural sector
- Independent Bodies: foster long-term savings habit, target potential investors in the stock market
- Civil Society and NGOs: target low-income, disadvantaged and unbanked group
- Informal providers: influential local leaders provide education to grassroots and foster appropriate financial behavior
Debt Doctor and Smart Farmer are two government initiatives operated through SFIs.

- Debt Doctor aims to address over-indebtedness problem.
- Smart Farmer integrates financial education with product delivery.

Bank of Thailand’s consumer protection center addresses consumer rights awareness and provide other financial education.

National Credit Bureau provide some debt counselling and advice.
Demand-side findings:

- Thai people have adequate arithmetic skills but find it stressful when managing money
- Many do not save for long-term purposes such as retirement or education
- While there is a fear of debt, there is also a lack of understanding of credit products
- Poor understanding of new products hinder willingness to try them
- Some differences across geographical locations and demographics

Source: FinScope Survey 2013, Diaz and Achavanuntakul 2013
What role for financial education?

- Two key areas for financial education in Thailand
  - Debt-related education programs/content
  - Consumer rights

- Financial education to help people overcome budget stress and unwillingness to try new products would help further financial inclusion goal
Policy Recommendations

- Expansion of financial services to meet growing demand
- Extension of financial access to serve unbanked and underserved segments
- Strengthen governance of microfinance institutions (MFIs)
- Consideration of new regulatory structure to have one specialized agency/committee/office overseeing microfinance
Policy Recommendations

- Put financial education and consumer protection on the national agenda
- Expansion of financial education programs that highlight risks of over-indebtedness and tailor programs to different target groups
- Extension of reach of financial education programs
- Extension and development of financial education for consumer protection
- Development of financial education programs to ensure customers use appropriate financial services
Thank You!

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References


