



BANK OF THAILAND NEWS

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The Financial Sector Master Plan

Yesterday (January 6, 2004), the Financial Sector Master Plan (Plan), jointly collaborated by the Ministry of Finance (MOF) and the Bank of Thailand (BOT), was submitted to the cabinet. The Plan aims to improve efficiency, stability and competition within the financial institutions system, and to broaden accessibility of financial services to all potential users. The BOT, thereby, would like to provide a summary on measures under the Plan, as well as further elaboration upon implementation process as follows:

1. Rationalising the structure and roles of financial institutions system to enhance business flexibility, competitiveness and accessibility of services to users. Henceforth, there will be 2 types of Thai financial institutions that mobilise public savings.

Commercial banks: offering a full range of financial services to all groups of customers, except insurance underwriting as well as brokering, trading and underwriting of equity securities.

Retail banks: offering financial services for SMEs and low-income customers, subject to lending limit per customer. Retail banks may provide virtually all types of financial transactions with the same exceptions as commercial banks, and not permitted to conduct business related to foreign exchange and derivatives products.

In the initial phase of implementation, only currently-operating and qualified finance companies and credit fonciers are able to apply for commercial banking or retail banking licenses. These institutions must pass all the criteria of strength measurement both in quality (e.g. behavior and role of committees and executives, risk management, as well as internal audit and control) and quantity terms (comprising various financial ratios such as capital to risk weighted assets, non-performing assets to total assets, and reserves for doubtful assets which may be worthless or irrecoverable). Capital requirements and further conditions for each license are as follows

- Commercial banks with branch permits: Tier-1 capital must be maintained at the minimum of 5 billion baht, and the applicant must be the core institution for merger with, or acquisition of, other financial institutions.

- Commercial banks without branch permits: Must comply with minimum capital requirement of tier-1 capital to be determined.

- Retail banks: Tier-1 capital must be maintained at the minimum of 250 million baht. They are allowed to open branches with no limit on the number or location.

In relations to foreign-owned financial institutions, there will be 2 types of foreign-owned financial institutions:

Full branches: enjoying the same scope of business as Thai commercial banks, yet not permitted to open any branch.

Subsidiaries: enjoying the same scope of business as Thai commercial banks and allowed to open 3-5 branches. The MOF is setting up a committee to consider criteria for the establishment of subsidiaries.

The succeeding implementation phase will allow qualified existing full branches to apply for an upgrade to subsidiaries. Successful applicants will be required to comply with minimum capital requirement, which is to be determined. Also, qualified existing stand-alone BIBFs can apply for an upgrade to full branches or subsidiaries, where in the latter case BIBFs must be the core institution for merger with, or acquisition of, other financial institutions.

The aforementioned measures of restructuring financial landscape will extend the scope of business for commercial banks, as well as remove regulatory distinction in the scope of business amongst different types of deposit-taking institutions. It, thereby, renders the very reason for each financial conglomerate to comprise more than 1 deposit-taking institution futile. Indeed, to reap full benefits from economies of scale and elimination of duplicate functions, each financial conglomerate is encouraged to have only 1 deposit-taking institution within its group (One presence).

2. On top of retail banking license to be granted to improve financial services to SMEs and retail customers, an appropriate agency will be designated to assume a developmental role to provide support for community financial organizations. For that reason, further increase in accessibility of financial services to the public particularly at the grass-root level will result accordingly. The committee for Grass-Root Financial Services, chaired by the Finance Minister, will determine the final details.

3. Adjustments to rules and regulations to strengthen efficiency of the Thai financial institutions system. This includes developing the framework for consolidated supervision, encouraging the development of risk management capability, and relaxing lending-related rules imposed upon financial institutions, as well as promoting efficient market mechanism and alternatives financial-service provisions to customers.

4. Consumer protection mechanism, both in terms of information disclosure and complaint-handling procedures, will be encouraged. However, the effectiveness of such mechanism will greatly be incremented providing that the new Financial Institutions Business Act is enacted and competition within the financial institutions systems rises, resulting from the restructuring of financial institutions.

Regarding the implementation of the Plan, the MOF will in due course issue the notification detailing terms and conditions as well as procedures for the application of new bank license. Financial institutions wishing to apply for an upgrade must submit their application within 6 months from the date of the notification. Any financial conglomerates comprising more than 1 type of deposit-taking institutions within the same group, on the other hand, must submit to the BOT a plan to comply with the one-presence policy. The implementation process with regards to the restructuring of financial institutions will be achieved within 2 years, most of which is anticipated to complete within one year. The BOT will organize clarification meetings for Thai and foreign-owned financial institutions in January 2004, as well as a series of meetings for detailed discussion with each financial institution subsequently. As to other measures related to streamlining rules and regulations and consumer protection, some of these measures have already been implemented by the BOT, who will continue to implement and follow up necessary measures, thereby ensuring the goal and vision of the Plan be achieved.