

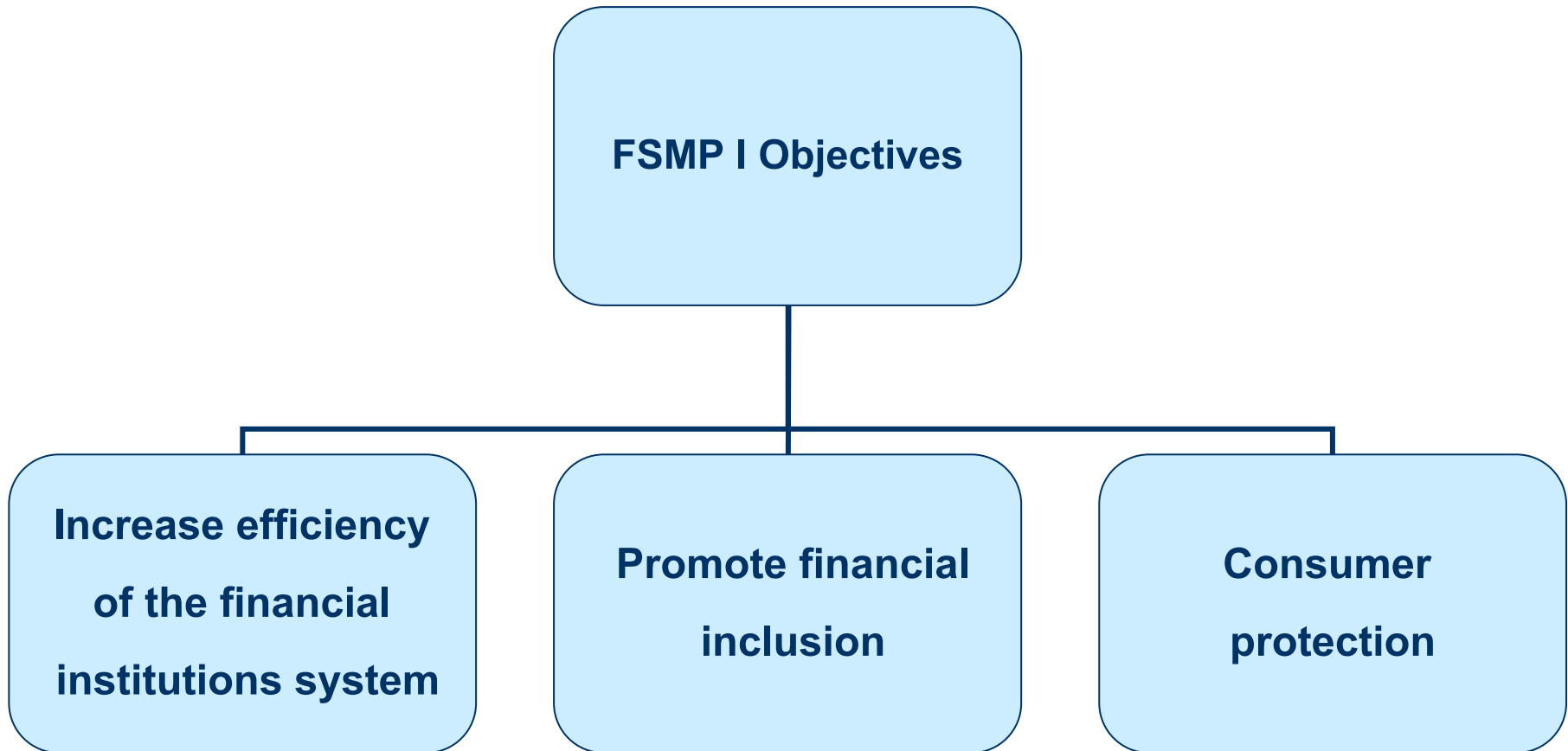


The Financial Sector Master Plan II (FSMP II)

4 November 2009



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





FSMP I Measures and Results

FSMP I Measures

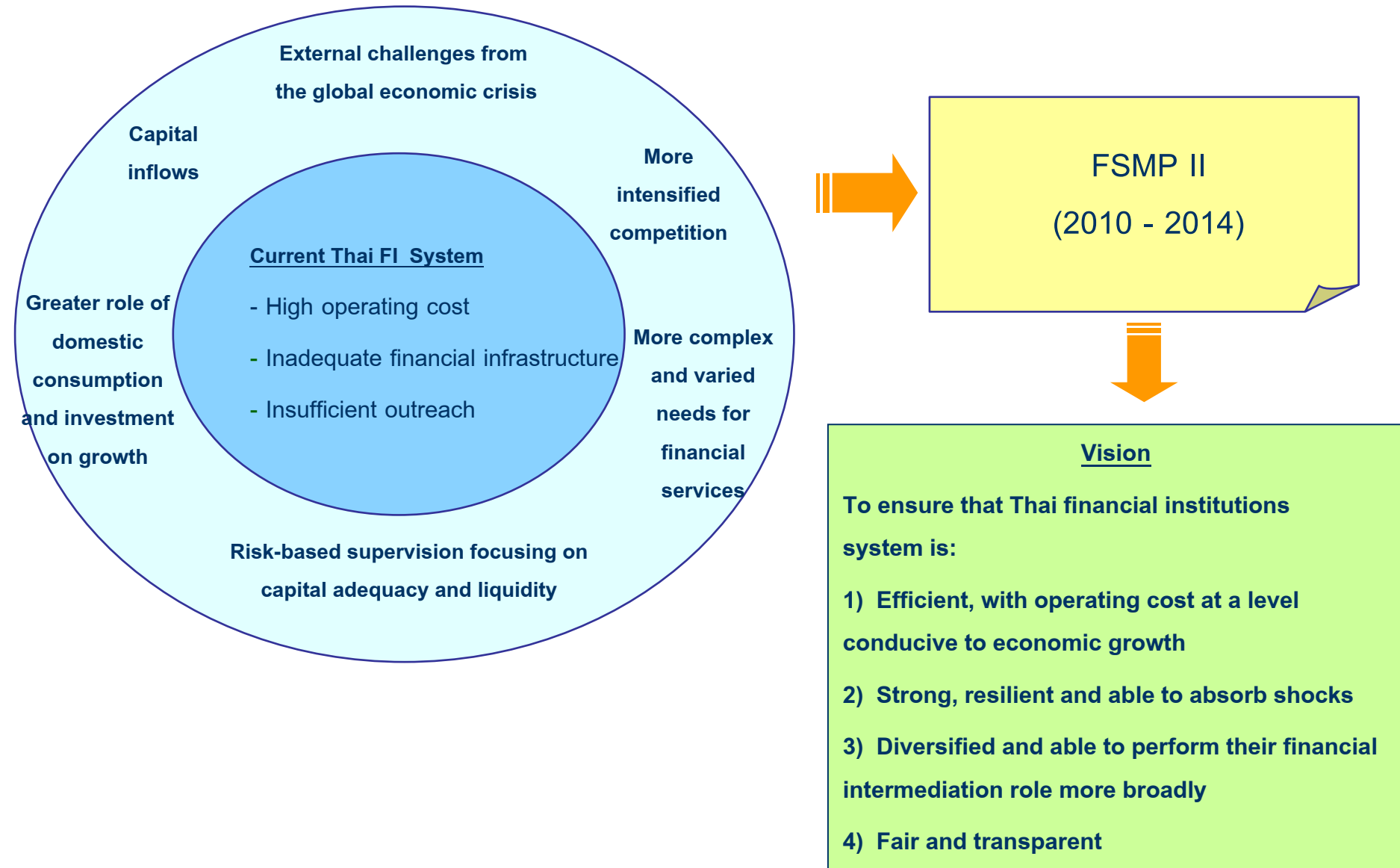
- Strengthen FIs by promoting voluntary mergers
- “One Presence” policy
- Expand scope of business: “Universal Banking”
- New licenses for retail banks and foreign bank subsidiaries



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

Phase 1: 2010-2011

Strengthen Thai commercial banks

Phase 2: 2012-2013

Increase competition

Last Phase: 2014

Increase competition

■ 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