

**The Opening Address at the Third Asia Pacific Conference
on Migrating Bank Payment Card Infrastructures to EMV
EMV Thailand 2004**

by

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Good morning ladies and gentlemen,

It is indeed an honour and privilege to address such a distinguished audience participating in the "Third Asia Pacific Conference on Migrating Bank Payment Card Infrastructures to EMV".

Indeed, I am pleased to see the cooperation among private sectors, ranging from banking industry to card payment associations to take an initiative in organizing this national conference. The theme of the conference is in line with both regional and global concerns, as several countries are currently facing an increasing difficulty in dealing with card frauds. The costs relating to these criminal acts are getting higher and higher, and commercial banks as card issuers and acquirers are always the party that bears most of the costs. Although Thailand has encountered fewer cases on card frauds, over complacency might lead all of us to a disadvantage and unprepared position. However, considering the effort and willingness of all parties taking part in arranging this event, I firmly believe that not only the payment industry, but also the country as a whole will benefit from this two-day conference.

Similar to experiences of many countries, card payments have grown very rapidly and have become one of the most popular non-cash payment instruments. In 2003, card payment transactions accounted for 75 percent of all non-cash categories. There were almost 30 million ATM and debit cards in circulations, with value of almost 3 trillion baht. Another interesting

figure was the inter-bank funds transfer via ATM machine or 'ORFT' which has been increasing significantly both in term of volume and value. The ORFT transaction volume reached 14 million transactions while its transaction value was 87 billion baht.

Let me move to credit cards, in the second quarter of 2004, there were 8 million credit cards with 3.7 million credit cards issued by banks and 4.3 million credit cards issued by non-banks. The total value of credit cards usage was 90 billion baht. 'Affinity cards', which are co-issued by banks and international brand like Visa or MasterCard, were the most popular credit cards in the country, accounting for 92 percent of total credit cards. The remaining 8 percent was bank cards.

The last type of card payments I would like to mention is debit card. Although at present Thai consumers tend to prefer credit cards to debit cards, the past few years have witnessed a steady increase in the share of debit card to total cards; thanks to its multi-purpose functions integrating main features of debit card and ATM card into a single card. Debit cards tend to have the brightest prospect among all types of payment cards, and only commercial banks will have an exclusive right to reap the benefit as debit cards can only be used in conjunction with cardholders' saving accounts.

Now most card issuers are preparing for the next generation of payment cards. In a near future, '**smart cards**' will replace most of magnetic stripe cards. With their capability to do multi-applications, smart cards will increase business opportunities by integrating financial, governmental, telecom, and transportation features within a single card. Therefore, it is likely that a widespread use of smart cards in payment will be the next big thing that changes the way of doing business in the near future.

Early this year, the Bank of Thailand conducted the study and survey on the behavior and attitude of customers toward the use of various payment instruments. The aim of the effort is to promote a widespread use of electronic payment in the country. What we have found from the survey is that **security** is among very top factors that are of customers' concerns when deciding on payment methods. The finding reassures the need to enhance security standard and also lends support to the theme of this conference.

As commonly agreed, a widespread use of payment cards is desirable and would be a win-win status for all related parties. For commercial banks, card payments, especially debit cards, will be

a good alternative to reduce high cash handling cost. For the Bank of Thailand, card payments are regarded as a good substitution of cash that is generally perceived as less efficient payment instrument. For the next five-year time, it is believed that card payments would rein the retail payment market as cash used to do in the past.

Card frauds not only cause financial losses to the commercial banks, but also cause reputation risk that will affect long-term trust from their stakeholders, especially customers and regulators. Losses from reputation risk are a lot more terrifying.

Clearly, integrity and credibility of financial institutions are important hallmarks that will ensure customer confidence that their money will be securely handled. Furthermore, the worst aspect about reputation risk is that it affects public's sentiment, and this is the most difficult task to handle. In addition, this problem, if happens, is likely to run counter to the industry's efforts in encouraging a greater use of the electronic payments.

Ladies and gentlemen,

As a payment systems regulator, the Bank of Thailand is responsible for promoting safety and efficiency of the payment systems in the country. Although our prime concern is always on the large-value payment systems due to their systemic nature that may cause "domino effects" to the entire financial market, the retail payment systems are still within our concern. Our mission on retail payment systems is to ensure that security standards, operating standards and infrastructure arrangements employed by the banking industry are matched the international level and will not pose any threats to entire economy. This mission is in line with the policy guideline on retail payment systems proposed by the Bank for International Settlement or BIS.

The security standards, as widely agreed, can either be **set through regulatory or market means**. Some central banks prefer the regulatory approach. In Malaysia, for example Bank Negara Malaysia gives a clear and definite mandate that all banks will have to completely migrate all of their card products to EMV standard within the end of 2005. While some still rely on market approach such as Bank of Japan and Bank of England.

For us, we think that these two approaches have both strengths and weaknesses in themselves; therefore we will balance them in order to keep their merits. Two years ago, the Bank of Thailand

set up the **Subcommittee on National Payments Cooperation (SNPC)** to work under the **Payment Systems Committee (PSC)**. The SNPC consists of nine representatives, seven from banking sector, the rest from the Thailand Post Co., Ltd. and the Bank of Thailand.

The setting up of SNPC is a good example of our approach with an aim to synergize regulatory and market means.

As one can see, the SNPC will be the first payment industry body responsible for handling cooperation issues. These include creating the shared-network infrastructures and formulating payment guidelines and common standards that are coordinated with wider public policy. Each members of the SNPC can express their needs and make any suggestions in SNPC forum which will be taken into consideration of the Bank of Thailand, through the PSC that is chaired by the Governor. In other words, they also have indirect regulatory power whenever their suggestions get approval.

For the Bank of Thailand, we can take advantage of first hand information provided by the SNPC to understand what really happens in the payment industry. Consequently, our payment policy is likely to be more effective and better fit the reality. Besides, we can put most of our efforts to concentrate more on oversight issue. The Bank of Thailand has put a very high stake on the SNPC.

Early next year, the SNPC and the Bank of Thailand will announce barcode standard for financial sector. I do hope that security standard for card payment will be the next successful project for the SNPC by working hand-in-hand to set a prudent and possible long-term solution for the payment industry. In the next five-years time, card payments, especially smart cards, are expected to be omnipresent. Evidently, card payment will bring several advantages as well as disadvantages. Therefore, commercial banks need to take a courageous management decision to minimize any risks involved. Today, we have already made a good start and I strongly hope that all of us here today would gain considerable benefits from this two-day conference. Thank you.