

BOT Digital Finance Conference 2023
"Building Ecosystem for Responsible Innovation"
Keynote Address by Governor of the Bank of Thailand
(14 September 2023 10.15–10.30)

Introduction: Financial landscape ... to digital finance development

- BOT announced Financial Landscape Consultation Paper in February 2022 as key directions for repositioning the financial sector to support sustainable digital economy.
- We want to see the financial sector able to leverage on technology and data to drive innovation and better financial services through Open Data, Open Infrastructure, Open Competition.
- The key directions – the 3-Open—continue to guide us to build an ecosystem for responsible innovation where different players, through a healthy competition and a balance between innovation and risks, develop financial services that better meet consumer needs. With great collaboration with the industry and other government agencies, what we have together achieved so far:
 1. *Open Infrastructure*
 - a. **mBridge** – The platform designed to support real-time, cross-border payments using CBDCs. The platform, developed by BIS Innovation Hub and 4 countries¹, has successfully completed its pilot phase (with 164 transactions, worth over US\$22 million) and shown potential benefits :
(1) faster transfer time from 3-5 days to several seconds; (2) potentially up to 40% lower funding costs (Nostro-vostro liquidity), FX costs and compliance costs; (3) reduce settlement risk with atomic PVP settlement;² (4) mBridge also provides traceability of the transactions (which cannot be traced in the current system)
 - b. **PromptPay & PayNow** – the world’s first linkage of faster payment systems. A total of 900,000 transactions worth \$US190 million taking place since inception in April 2021.³
 - c. **QR code payment linkages** with 6 countries. Thailand has implemented the highest number of cross-border direct real-time payment linkages in the world.
 - d. **PromptBiz** – The new digital infrastructure, launched last month, aims to facilitate digital trade and payment processes for business.
 2. *Open Data* – BOT and banking industry launched **dStatement** last year, the digital service facilitates customers to efficiently request and send bank statement information across banks and enables a digital lending process with lower operating costs.
 3. *Open Competition* – BOT has provided the draft regulation on **Virtual Bank** to the Ministry of Finance in July.

¹ Hong Kong Monetary Authority (HKMA), the Bank of Thailand (BoT), the Central Bank of the United Arab Emirates (CBUAE), the Digital Currency Research Institute of the People's Bank of China (PBC DCI)

² According to BIS (2022), US\$ 2.2 trillion of daily FX turnover was subjected to settlement risk.

³ Latest data as of May 2023.

Next phase:

But, we want to do more to enhance this ecosystem. There still exist frictions to access and transfer our own data which are generated with various service providers. We need to make it easier for players to access key digital infrastructure which will be less costly for players to enter the market. We must ensure that the foundational layer for innovation is there and players have room to experiment with new technology.

What we still need to do more? 1. Common utility 2. Open digital payment ecosystem 3. Collaborative approach to new technology

1. **Common utility** – as “public goods” for digital finance development. We will focus on Consumer empowerment ecosystem [data] where consumers exercise their rights to transfer their data stored at one provider to another. For example, a loan applicant can request to transfer their bank account information, utility usage/bill payment data and other alternative data from one service provider to another so that lenders assess the applicant’s risk and offer better tailored products.

With reduced friction on data portability, consumers can leverage the use of their own data to get better services and access to financing from different service providers.

- **Regulations and incentives to ensure that service providers put in place a mechanism** which enables data owners to request and transfer their data from one service provider to another via digital channels, i.e.,
 - Data in a machine-readable format,
 - Secure data sharing under common standards and data governance,
 - with supportive pricing structure.
- **Common standards to reduce development costs and ensure secure data sharing** among various types of financial/non-financial service providers. The BOT will facilitate the consultation and standard setting for common data standard, API standard, and security standard with banks, nonbanks, and standard specialists such as Electronic Transactions Development Agency (ETDA) and Digital Government Agency (DGA).

First, we are focusing on efficient data sharing among service providers under BOT supervision (banks and nonbanks) with customers’ consent. Then, we are also hoping to **extend the ecosystem to involve both data sources and data consumers in other sectors**, such as utility usage/bill payment.

We look to seek collaboration with the industry to explore use cases that common infrastructures can be utilized to streamline common processes or shared services. This will allow service providers to connect to key digital infrastructure with common standards, reduce investment cost and time to market, and enhance overall system efficiency.

2. **Open digital payment ecosystem** – ensuring fair access to key digital payment infrastructure to support open competition among players and having an integrated strategic direction towards more digital payment and less-cash society.
 - **Revise regulation to ensure qualified players are able to access to systemically important retail payment systems** (i.e. NITMX) and allow them to engage in setting the direction for infrastructure development.
 - **Review payment fee structure to support players' access to digital payment infrastructure and digital payment adoption.** Currently work in progress by a fee structure working group and stakeholder consultation with industry.
 - **Formulate an integrated strategy for driving digital payment adoption** in each customer segment so that Thailand can transition more smoothly into a less-cash society. BOT will need to engage and collaborate with relevant stakeholders for effective implementation and smooth transition. At the same time, we need to take care of financial inclusion where cash still plays an important role in many areas.
3. **Collaborative approach to new technology** – we want to explore new use cases with the industry for the use of new technology (such as tokenization, programmability, and AI) in the financial sector under a suitable risk framework.
 - **New Sandbox:** Currently, BOT has the Regulatory Sandbox, which allows testing of regulated activities that have the application of new technologies. What we are planning to do is to have an additional **channel, the 'New Sandbox' which is more flexible, to support the testing of unregulated financial activities that apply new technologies for use cases that benefit customers** (e.g. tokenization that helps improve access to credit for SMEs, programmability that helps enhance efficiency of payment services)
 - **AI:** BOT will engage with stakeholders and explore possibility to better utilize AI in financial services (e.g. fraud prevention & detection and financial inclusion) with proper risk management framework.

Closing: Collaboration for building ecosystem

- BOT plans to publish a consultation paper on these strategic directions by early Q4 2023 to receive feedbacks and suggestions from stakeholders.
- We cannot do this alone. Building the ecosystem for responsible innovation requires collaboration, strength, and expertise of all stakeholders (banks, non-banks, end users, technology companies, regulators in both financial and non-financial sectors) to design and implement.
- The BOT Digital Finance Conference today is an example that BOT can provide a platform for financial industry to collaborate, to share knowledge, expertise, and to foster innovation.
- Thank you for your effective collaboration with BOT and I am looking forward to a closer partnership in the future.