



ธนาคารแห่งประเทศไทย
BANK OF THAILAND

Virtual Bank Licensing Framework

Revised Consultation Paper

Virtual
Bank

BOT Consultation Paper
on Virtual Bank
June 2023

Contents

Executive summary	3
Summary of important issues for the second public consultation.....	5
1. Introduction	8
2. Objectives of introducing virtual banks in Thailand.....	11
3. Licensing framework for virtual banks	14
4. Regulatory and supervisory framework for virtual banks	23
5. Virtual bank application and selection process	29
6. Expected results of introducing virtual banks.....	32
Appendix: Comparing virtual bank licensing framework in other jurisdictions and Thailand	33

*In this revised Consultation Paper, the **text in blue** shows the changes from the first Consultation Paper that was published on January 12th, 2023. ([Click to read](#))*

Executive summary

The Thai financial sector is undergoing digital transition. In recent period, many financial institutions and non-banks have pivoted business models to be more digital led. These players use technology and data to develop products that serve each customer segment better. However, some retail and small-and-medium-enterprise (SME) customer groups including low-income individuals and small businesses are still unable to access appropriate financial services. Meanwhile, the experience of customer segments who already access financial services through the digital channel can be improved when offered a full range of financial services that are more convenient and seamless.

Under the new financial landscape to reposition Thailand’s financial sector for a sustainable digital economy, the Bank of Thailand (BOT) sets a key direction in the digital dimension. The key direction supports the financial sector to leverage technology and data to drive innovation and better financial services, emphasizing an appropriate balance between promoting innovation and managing risks.

One of the key policies is the introduction of virtual banks as new players, which is consistent with the action of regulators in many jurisdictions. The objective is **to allow applicants who possess the expertise in technology, digital services, and data analytics to offer financial services efficiently through the digital channel while having lower staff and bank branch costs. These services should bring about new value proposition and better serve the needs of each customer segment,** particularly the unserved and underserved segments of retail and SMEs customers. Meanwhile, those already accessing financial services via the digital channel should obtain better experiences through a full range of services that are more convenient and seamless. **Furthermore, virtual banks should operate in a sustainable manner.**

They should not initiate a race to the bottom, engage in irresponsible lending that lead to excessive debt-taking or abuse dominant market position which would pose risks to financial stability, depositors, and consumers as a whole.

To ensure that virtual banks operate in accordance with the above objectives and that they promote responsible innovation without creating undue risks, **the BOT sets the following key licensing, regulatory, and supervisory framework.**

- (1) Virtual banks may provide full-service banking business** to be flexible and accommodate changing customer needs.
- (2) Virtual bank applicants must meet appropriate qualifications** including having business models that can sustainably achieve the stated objectives, as well as having expertise in technology, digital services, and data analytics
- (3) Virtual banks must comply with the same regulations and supervision as traditional commercial banks, as well as certain specific regulations applicable to virtual banks.** The BOT shall supervise virtual banks in a risk-proportionate manner, placing great importance on robust corporate governance and a sound risk culture.
- (4) Virtual banks shall go through a restricted phase in the initial years and be under close supervision** to ensure sustainable business operations while not posing systemic risks.

Summary of important issues for the second public consultation

After the Bank of Thailand (BOT) released the *Consultation Paper on Virtual Bank Licensing Framework* for public consultation between January 12th and February 12th, 2023, the BOT received comments and suggestions from various stakeholders including public agencies, individuals, and businesses in Thailand and abroad. Most respondents were supportive of the overall objective and framework of the virtual bank license. At the same time, there were a number of questions regarding important aspects of the licensing framework which may significantly affect decisions or business plans of applicants, as well as the business model of the proposed virtual bank.

The BOT has therefore revised the *Consultation Paper on Virtual Bank Licensing Framework*, taking into account the feedback received from the first public consultation. The revised paper provides further clarifications on important issues to ensure that all applicants have sufficient and equal information to make informed decisions, as follows:

(1) Green Lines and Red Lines: clarification is provided on how the BOT expects virtual banks to stimulate healthy competition in the financial institution system. In particular, virtual banks should have mechanisms in place to facilitate transmission or transfer of customers' personal data to other service providers in accordance with the customers' legal rights, and in line with the BOT's policy on Open Data (detailed in [2.1](#)). Conversely, the BOT does not wish to see virtual banks obstruct or hinder the transmission or transfer of customers' data to other service providers in accordance with the customers' consent and legal rights (detailed in [2.2](#)).

(2) Key qualifications of virtual bank applicants are further elaborated as follows.

(2.1) Robust corporate governance: additional detail is specified that no director, person with power of management, or advisor¹ of a virtual bank may concurrently serve as a director, person with power of management, or employee of another financial institution. This is to prevent potential conflicts of interest and enable such personnel to fully devote their time to the management of the virtual bank (detailed in [3.2](#)).

(2.2) The use of agile, secure, resilient, and high availability technology and IT system: additional clarification is provided that virtual banks must not share critical IT systems with other financial institutions, such as core banking, mobile banking, and internet banking systems. This is to prevent potential contagion risks, data leakage, and cyber threats (detailed in [3.2](#)).

(2.3) The ability to access, manage, and utilize diverse types of data: an additional requirement is specified that applicants must demonstrate capabilities to manage data in compliance with data governance principles and to develop data portability mechanisms to facilitate customers' use of their personal data in transacting with other financial service providers (detailed in [3.2](#)).

(3) Applicant selection: additional clarification is provided that, in determining successful applicants, the BOT will choose the combination of the most qualified applicants, considering the applicants' capabilities to deliver the Green Lines in an effective and sustainable manner, and to positively contribute to the overall financial and economic system of Thailand (detailed in [5.2](#)).

(4) Other licensing conditions: an additional condition is imposed, prohibiting the change of shareholders that are deemed critical to the success of the virtual bank during the first 3-5 years of its operations (restricted phase), except in necessary cases as permitted by the BOT. This is because such

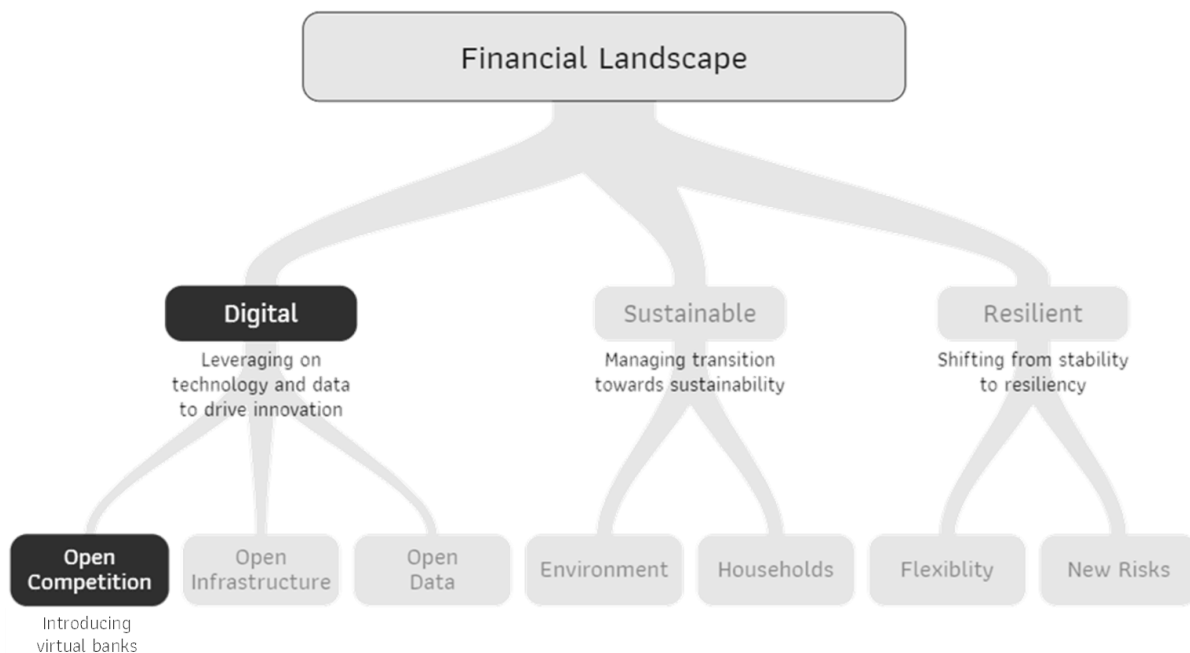
¹ "Advisor" refers to the definition in BOT Notification Re: Corporate Governance of Financial Institutions and Financial Business Groups.

shareholders have a crucial role in building up the business during its initial stage (detailed in [4.2](#)).

To ensure that virtual banks in Thailand would be able to offer financial services that provide new value propositions and effectively serve the needs of different customer segments, the BOT is seeking comments and suggestions on the revised licensing framework in parts where significant clarifications and conditions have been added. The consultation period runs from June 19th, 2023, to July 4th, 2023. The responses received will be taken into account in the design of the virtual bank licensing regulations which will be proposed to the Ministry of Finance for consideration. The publication of the final licensing regulations and the start of the application process are expected in 2023. The list of successful applicants who receive approval from the Minister of Finance will be announced in 2024.

1. Introduction

The Bank of Thailand (BOT) earlier issued the *Financial Landscape Consultation Paper on Repositioning Thailand's Financial Sector for a Sustainable Digital Economy*. The document puts forth and invites feedbacks on key directions for repositioning the Thai financial sector. The aims are to adjust to a rapidly changing environment and facilitate the transition to a sustainable digital economy.



One important goal under the digital financial landscape in Thailand **is for the financial sector to leverage technology and diverse types of data to assess customer risk and analyze behavior. This will facilitate the development of financial services that serve the needs of each customer segment better. Moreover, the obstacles to financial access for retail and SME customers will be reduced.** Such obstacles mainly derive from the deficiency in customers' data and financial records for risk assessment, as well as from high operating costs due to labor-intensive processes for serving retail and small SME customers.

Both incumbent financial institutions and non-banks have pivoted their business models to be digital led and have increasingly used technology and data to develop products for the unserved and the underserved segments. Nevertheless, **some retail and SME segments**, such as low-income individuals and small businesses on digital platforms, **are still unable to access appropriate financial services**. In addition, those customer segments that already access financial services through digital channel can have better experiences if offered a full range of financial services that are more convenient.

Under the digital pillar of the financial landscape policies, an appropriate balance is emphasized between promoting innovation and managing risks. **The BOT advocates three key policies.**

(i) Open Data: to enable better utilization of data such as promoting mechanisms in which customers can transfer their own data from one service provider to another more conveniently.

(ii) Open Infrastructure: to ensure fair access to key financial infrastructure, such as the payment infrastructure, for service providers.

(iii) Open Competition: to support greater competition in the financial system by expanding the scope of business or increasing the flexibility for incumbent players, together with introducing new players to the market.

One of the main components under ‘Open Competition’ is introducing virtual banks which have technological capabilities, digital service expertise, and ability to utilize diverse types of data. With these qualities, it is expected that **virtual banks would offer financial services that bring about new value proposition, which serve each customer segment efficiently with reasonable pricing. In particular**, financial access should be improved among **the unserved segments of retail and SME customers, as well as the underserved segments** who already access financial services through the digital channel but can have better experiences when offered a full range of financial services that are more convenient.

The introduction of virtual banks as new financial institutions in Thailand is consistent with the action of regulators in many jurisdictions, such as South Korea, Hong Kong, Taiwan, Singapore, Malaysia, the United Kingdom, and Australia². The policy objectives of these jurisdictions include fostering innovation through promotion of new financial services that better serve customer needs, as well as stimulating overall competition in the market. In addition, regulators in some jurisdictions³ also expect virtual banks to reduce financial access gap for the underserved and unserved segments.

The experiences of virtual banks that are already operational in other jurisdictions illustrate the following **key success factors. Virtual banks need large customer bases and need to have the expertise in serving customers through the digital channel. They also need to be efficient at utilizing technology and data to conduct risk assessment and analyze customer behavior, while reducing staff and bank branch costs. Virtual banks who possess such qualities are able to offer financial services for each customer segment with new value proposition and reasonable pricing, especially the underserved and unserved segments of retail and SME customers.**

For instance, a virtual bank in China has used alternative data to offer unsecured loans to micro-SMEs, providing many with access to formal credit. Another virtual bank in South Korea has developed faster and more seamless digital on-boarding process, while also offering a deposit product in which the customers can set their own weekly deposit amount and earn higher interest the longer they deposit. **Virtual banks have furthermore stimulated incumbent players to adapt and compete to improve services.** For example, several traditional commercial banks in Hong Kong have removed account maintenance fees to be competitive with virtual banks that do not charge such fees.

² The term “virtual bank” may vary from jurisdiction to jurisdiction, including digital bank, virtual bank, internet-only bank, and neobank.

³ Malaysia, Singapore, South Korea

2. Objectives of introducing virtual banks in Thailand

2.1 Green Lines

What the BOT expects to see from virtual banks (“Green Lines”) is the leveraging of technology, data, and digital service expertise to offer financial services that bring about new value proposition to serve the needs of each customer segment better. Virtual banks should:

- **Offer a full range of financial services that are appropriate to each customer segment, especially helping the underserved and unserved⁴ segments of retail and SME customers to do business and build financial discipline.** Such customers may include those with low income, irregular income, or inadequate financial history, who cannot access existing formal financial services. Examples of the products are
 - Deposit products in which customers can set deposit amounts and frequencies that are suitable to their cash flows and behavior
 - Lending products in which the credit limits, terms, and interest rates are determined by each customer’s behavior and risk profile, while excessive debt-taking is not encouraged
- **Provide better experiences of financial services for customers.** The interface, and processes should be seamless, fast, secure, and match customer lifestyle.
- **Stimulate healthy competition within the financial institution system.** All players are encouraged to competitively innovate and improve financial services, such as promoting appropriate financial access and offering products with greater quality, prices, convenience, and ease of use.

⁴ The BOT does not specifically define the underserved and unserved segments. Prospective virtual bank applicants should define their target customer segments with credible justifications, as well as set their own key performance indicators in serving such target segments. This is to accommodate different business opportunities and expertise of each prospective applicant. Nevertheless, the BOT will provide some examples of the underserved and unserved segments, which will be published on the BOT’s website to help guide prospective applicants.

For example, virtual banks should have mechanisms in place to facilitate transmission or transfer of customers' personal data to other service providers in accordance with the customers' legal rights, and in line with the BOT's policy on Open Data⁵.

2.2 Red Lines

What the BOT expects not to see from virtual banks ("Red Lines") is the conduct of business that pose risks to financial stability, depositors, and consumers as a whole. The BOT expects that virtual banks shall not:

- **Engage in unsustainable business models** that create risks to the virtual bank's own business and its depositors. Examples include growth strategies that do not adequately account for risks nor impacts to the bank's solvency.
- **Initiate a race to the bottom** that leads to financial stability risks. In particular, virtual banks must not use aggressive pricing tactics to attract customers, which would not be viable in the long term **and pose risks to depositors and the financial system**. Virtual banks should also not promote excessive debt through irresponsible lending.
- **Give preferential treatment to the virtual bank's shareholders⁶, companies under the control of such shareholders, or businesses with related interest⁷, as well as take any action that could result in these entities abusing their market power to the virtual bank's benefit** which may lead to unfair competition and harm consumer interests. Examples include (1) the virtual bank conducting transactions on preferential,

⁵The BOT's Open Data policy can be found [here](#).

⁶In this consultation paper, the term "shareholder" refers to person(s) who directly or indirectly hold or possess shares of the virtual bank in an amount exceeding 10% of the total number of shares sold.

⁷"Business with related interest" refers to a company in which the financial institution, its directors, persons with power of management, or any related person of those persons hold shares in combination in excess of 10% of the total number of shares sold of that company. Refer to Section 49 of the Financial Institutions Business Act B.E. 2551 (2008).

unjustifiable terms with companies under the control of the virtual bank's shareholders, (2) the virtual bank participating in or supporting market power abuse, or compelling business partners of the companies under the control of its shareholders to only use financial services provided by the virtual bank, and (3) the virtual bank obstructing or hindering the transmission or transfer of customers' personal data to other service providers upon customer's consent in accordance with their legal rights.

To ensure that virtual banks operate according to the Green Lines while not creating unacceptable behaviors by crossing the Red Lines mentioned above, the **BOT sets the following licensing, regulatory, and supervisory framework.**

- (1) Virtual banks may provide full-service banking businesses to be flexible** in accommodating changing customer needs (detailed in [3.1](#)).
- (2) Virtual bank applicants must meet qualifications to ensure they can achieve Green Lines sustainably** (detailed in [3.2](#)).
- (3) Virtual banks shall go through a restricted phase during the initial years of operation.** They must possess adequate capital and prepare an exit plan in case of business wind-downs. These would ensure virtual banks operate prudently during the initial years while not posing systemic risks (detailed in [3.3](#) and [4.2](#)).
- (4) Virtual bank applicants may request waivers on shareholding limits on a case-by-case basis.** The BOT shall consider the qualifications and behavior of the virtual bank applicant and may impose additional conditions prior to granting the request (detailed in [3.4](#) and [4.3](#)).
- (5) Virtual banks shall comply with the same regulations and supervision as traditional commercial banks. The BOT will supervise virtual banks in a risk-proportionate manner, placing great importance on robust corporate governance and a sound risk culture** (detailed in [4.1](#)).

3. Licensing framework for virtual banks

3.1 License type, business scope, and service channel

- **Virtual banks shall be locally incorporated in Thailand⁸ and may provide a full-service banking business, albeit without physical branches.** Thus, they can serve all groups of customers like traditional commercial banks. This is to ensure that they are able to offer a full range of services and accommodate rapidly changing customer needs in the digital age. Nevertheless, the BOT expects that virtual banks will prioritize services that support the businesses and financial discipline of retail and SME customers, particularly the underserved and unserved segments as set out in [2.1](#).
- **Virtual banks need to operate and serve customers principally through the digital channel⁹.** They are prohibited from establishing own physical and electronic branches, including automated teller machines (ATMs) and cash deposit machines (CDMs). This will help reduce operational expenses, such as the costs of maintaining staff and physical branches, in parallel with facilitating the transition to digital economy.
- **Nevertheless, virtual banks may offer cash-in and cash-out services by appointing banking agents or pooling ATMs with other providers.** They can thus service certain customer segments who still depend on cash at a time when the financial system in Thailand is not yet fully digitalized. Despite that, virtual banks must not unduly rely on such channels. Applicants may seek permission to provide services through such channels during the virtual bank license application stage and submit a plan to phase them out in line with the policy to reduce cash usage.

⁸ Section 9 of Financial Institutions Business Act B.E. 2551 (2008).

⁹ For services that do not result in financial transactions, a virtual bank may provide such services itself or appoint business partners to provide services on its behalf. Examples include setting up know your customer (KYC) service points or employing personnel for debt collection or collateral valuation. The provision of such services needs to comply with BOT regulations including the regulation on the use of services from business partners of financial institutions and the regulation on know your customer (KYC) for deposit-account opening at financial institutions.

- **Virtual banks must establish a local headquarters in Thailand** for the purposes of effective BOT supervision and examination, as well as for customer contact and complaints when necessary. The local headquarters must not be used to circumvent the requirement for serving customers digitally.

3.2 Key qualifications for virtual bank applicants

The BOT expects virtual banks to sustainably achieve Green Lines in their operations. The key qualifications for the applicants are therefore set as follows.

Qualification	BOT expectation
<p>1) Business model that sustainably achieves the Green Lines</p>	<p>The business model and business plan of the virtual bank must meet Green Line objectives while not incurring Red Line issues. Furthermore, the applicant needs to clearly demonstrate the capability to operate the virtual bank in keeping with the proposed business model and business plan, and provide credible reasoning. The proposed business plan must at least demonstrate the applicant’s ability to:</p> <ol style="list-style-type: none"> 1) Acquire and scale customer base to ensure the business’ viability. The applicant should identify their target customer segments, especially the underserved and unserved. The applicant needs to describe the strategies for acquiring such target customers as well as set clear and concrete key performance indicators. 2) Develop digital financial products and services that have different value propositions from those provided by the existing commercial banks, including the use of appropriate pricing strategies¹⁰, to meet the needs of each target customer segment. 3) Run the business sustainably. The applicant should demonstrate their capability to operate the virtual bank in keeping with the proposed business plan, including having the appropriate people, processes, and systems. The applicant should also demonstrate

¹⁰ The BOT is currently considering policy direction on “risk-based pricing”. This policy direction will apply to personal loan providers that are under the BOT supervision and that meet qualifications set by the BOT, both commercial banks (including virtual banks) and non-banks. Such providers could be allowed to set loan rates that are proportionate to the risk of each borrower. Under this policy, lower-risk customers should have access to lower rates and customers with higher risk than the current rate ceiling will have greater access to formal financial services at appropriate prices. Nevertheless, for the time being, virtual bank applicants should prepare the retail lending section of their business plans based on the current rate ceiling.

Qualification	BOT expectation
	<p>the ability to properly manage revenue and costs. The applicant must submit a pro-forma financial projection of at least 5 years. The financial projection must be certified as having been prepared on the basis of reasonable assumptions and presented in accordance with relevant financial reporting standards by an external expert with a moderate level of assurance in line with the Federation of Accounting Professions’ Thai Standards on Assurance Engagements. Additionally, the external expert must meet the following qualifications:</p> <ul style="list-style-type: none"> ○ Has knowledge and experience in preparing business plans for, or auditing the financial statements of, (1) other virtual banks or (2) commercial banks with respect to the digital banking services offered by such banks, such as mobile banking or internet banking. ○ Is a registered auditor and a certified public accountant (CPA) according to the Federation of Accounting Professions. ○ Is an independent party and is not involved in the preparation of the applicant’s business plan or the financial projection¹¹.
2) Robust governance	<p>1) The virtual bank’s shareholders, directors, and persons with power of management¹² must meet the following governance-related qualifications:</p> <ul style="list-style-type: none"> ○ The following persons need to meet qualifications as specified by the BOT’s regulations: the virtual bank’s direct and indirect shareholders (including beneficial owners), directors, and persons with power of management, together with (1) juristic persons controlled by the beneficial owner who has control over the virtual bank and (2) directors of the juristic person who holds shares directly in the virtual bank and has control over the virtual bank. These persons must not have prohibited characteristics according to Sections 24 (1) to (9) of the Financial Institutions Business Act B.E. 2551 (2008) and according to BOT Notification No. FPG. 3/2564. Furthermore, these persons must never have contravened laws and regulations under the Thai or foreign jurisdiction, nor have had significant governance issues, nor have had the intention to conceal important information from authorities. ○ Shareholders, directors, and persons with power of management of the virtual bank must have the competency to support virtual bank’s operations in a sustainable manner.

¹¹ The external expert may be employed in the same company as the advisor who helps the virtual bank applicant to prepare their business plan or financial projection. Nevertheless, the external expert who provides assurance must not take part in the preparation of the business plan or the financial projection. The two functions must be clearly separated.

¹² For definition of the “person with power of management”, refer to Section 4 of Financial Institutions Business Act B.E. 2551 (2008).

Qualification	BOT expectation
	<ul style="list-style-type: none"> ○ Shareholders who are deemed to be critical to the success of the virtual bank must be the same persons throughout the application stage and during the first 3-5 years of the virtual bank’s operations (restricted phase), except in necessary cases as permitted by the BOT on a case-by-case basis¹³. ○ Directors and persons with power of management who hold important positions¹⁴ in the virtual bank must be the same persons throughout the application stage and during the restricted phase, except in necessary cases as permitted by the BOT on a case-by-case basis. ○ No director, person with power of management, or advisor¹⁵ of a virtual bank may concurrently serve as a director, person with power of management, or employee of another financial institution¹⁶. This is to prevent potential conflicts of interest and enable such personnel to fully devote their time to the management of the virtual bank, in accordance with the law¹⁷. <p>2) The proposed organizational structure and committees’ structure must be in compliance with the BOT regulation on corporate governance of financial institutions.</p> <p>3) The applicant must have a plan to change or form a financial business group as follows:</p> <ul style="list-style-type: none"> ○ Where the virtual bank will be in the same financial business group as an incumbent financial institution: the applicant must submit the proposed change in the structure of the existing financial business group, showing direct and indirect shareholding in the virtual bank. ○ Where the virtual bank has a non-bank parent: the applicant must submit a plan to form a new financial business group that includes the virtual bank. If the non-bank parent’s current group structure includes entities providing financial services, such entities should be separated from those that are non-

¹³ This is because these shareholders have a crucial role in building up the virtual bank’s business as approved by the BOT during the initial stage. Changes of these shareholders during the early period may significantly affect operations of the virtual bank.

¹⁴ The virtual bank applicant should identify the names of those who will occupy these positions during the application stage: (1) the chairman of the board of directors, (2) the director who has knowledge or experience in IT-related or digital services for at least 3 years, (3) the chief executive officer (CEO), and (4) the chief technology officer (CTO). For persons who will take up other senior executive positions (e.g., chief compliance officer: CCO, chief risk officer: CRO, and chief information security officer: CISO), the applicant should at least provide information on their qualifications, competencies, and experience to the BOT as part of their application.

¹⁵ “Advisor” refers to the definition in BOT Notification Re: Corporate Governance of Financial Institutions and Financial Business Groups.

¹⁶ Except when an employee who does not have the power of management at another financial institution is on full secondment and acts as a person with power of management in the virtual bank.

¹⁷ Section 24 (6) of Financial Institutions Business Act B.E. 2551 (2008).

Qualification	BOT expectation
	financial entities. The entities providing financial services together with the virtual bank should make up the new financial business group.
<p>3) Digital service expertise which can help the virtual bank to deliver Green Lines</p>	<p>1) The IT plan for the proposed virtual bank needs to be clear and suitable for the business model, particularly IT governance, IT architecture, and IT personnel. Virtual banks must not share critical IT systems with other financial institutions, such as core banking, mobile banking, and internet banking systems. The IT risk management standards should be in accordance with BOT regulations and subject to assessment by an external IT expert who meets the following qualifications:</p> <ul style="list-style-type: none"> ○ Has experience in assessing or auditing (1) other virtual banks or (2) commercial banks with respect to the digital banking services offered by such banks, such as mobile banking or internet banking. ○ Has at least one IT or cyber security certification, such as CISM or CISSP. ○ Is an independent party and is not involved in preparing the IT plan for the applicant¹⁸.
<p>4) The use of agile, secure, resilient, and high availability technology and IT system which can quickly respond to changing situation or customers' needs</p>	<p>The expert assessment should at least cover these aspects:</p> <ul style="list-style-type: none"> ○ The reasonableness of the IT plan consistent with the virtual bank's business plan. ○ The suitability and adequacy of the IT plan including IT risk management policies and governance, IT resiliency/availability, IT/cyber security, and effective financial fraud prevention, which must be in compliance with BOT regulation and policies¹⁹. <p>2) At least 1 director as well as the chief technology officer (CTO) must have knowledge or experience in IT-related or digital services for at least 3 years. The CTO must have full-time employment with the virtual bank and must not concurrently work at other financial institutions or other companies.</p>
<p>5) Capability to manage financial business risks</p>	<p>The risk management plan must demonstrate the capability to manage financial business risks. Furthermore, the applicant should demonstrate that they have:</p> <ol style="list-style-type: none"> 1) A sound risk culture. 2) A risk management plan that is suitable to banking business, especially the management of IT risks, cyber risks, and credit risks, and an appropriate market conduct plan that includes

¹⁸ The external expert may be employed in the same company as the advisor who helps the virtual bank applicant to prepare their IT plan. Nevertheless, the external expert who assesses the IT plan must not take part in the preparation of the IT plan. The two functions must be clearly separated.

¹⁹ For example: BOT regulations on IT risk, BOT guiding principles for mobile banking security, and BOT policy on the prevention of financial fraud.

Qualification	BOT expectation
	<p>responsible lending. These should include (i) a plan for personnel, particularly the chief risk officer (CRO) and the chief compliance officer (CCO), (ii) a plan for the internal control structure consistent with 3 lines of defense framework, and (iii) risk management process and system.</p> <p>3) A credible and practical exit plan suited to the virtual bank's business.</p>
<p>6) Ability to access, manage, and utilize diverse types of data</p>	<p>The data-related operational plan must be clear, realistic, and suited to the business. The applicant should also demonstrate that:</p> <ol style="list-style-type: none"> 1) They are able to acquire diverse types of data with clear and realistic acquisition methods. 2) They have the capability to manage data in line with data governance principles. They are able to utilize such data to develop financial services that serve customer needs, especially the underserved and unserved segments. This could be achieved by using various technologies to manage data e.g., data mining, big data, artificial intelligence, and machine learning. 3) They have the capability to develop data portability mechanisms to facilitate the transmission or transfer of customers' personal data to other financial service providers.
<p>7) Robust financial position</p>	<p>Virtual bank applicants must demonstrate their financial capabilities, sources of capital and liquidity, including a clear and credible plan for capital increase, as well as the commitment to provide adequate funding and oversight for the virtual bank. This will support business continuity and cushion against initial liquidity shortfall or losses. Virtual bank applicants should also be able to appropriately compensate depositors in case the virtual bank winds down.</p>

3.3 Operations under the restricted phase

In ensuring that initial operations of the newly licensed virtual banks are prudent and do not lead to risks to the financial system, the BOT requires that:

- **Virtual banks shall go through a restricted phase during the first 3–5 years. The BOT will closely communicate and supervise the operations of newly licensed virtual banks during this period.** In addition, if the BOT deems that the virtual bank does not have adequate operational readiness, or that the virtual bank plans to conduct/is conducting any transactions

which may pose risks to its own solvency, the financial system, or consumers as a whole, the BOT may order the virtual bank to rectify the situation, [to suspend or restrict its services or transactions](#), or to carry out any further actions as appropriate.

Virtual banks that fulfill requirements set by the BOT will complete the restricted phase and progress into the full-functioning phase. However, for those that fail to fulfill the requirements for completing the restricted phase, the BOT may recommend its wind-down and propose to the Minister of Finance for revocation of the virtual bank license (details of the restricted phase are elaborated in [4.2](#)).

- **Newly established virtual banks shall have a paid-in capital of at least 5 billion baht on the day of business commencement. The level of paid-in capital shall gradually increase to at least 10 billion baht before the virtual banks complete the restricted phase and operate in a full-functioning manner.** This will ensure that virtual banks have adequate capital to support business expansion and cushion against potential initial losses. [Moreover, the level of paid-in capital which is not too low would give confidence to the depositors and customers of the virtual banks in their early stage. In addition, such level is consistent with the actual level of paid-in capital of virtual banks in other jurisdictions²⁰.](#)
- **Virtual bank applicants must prepare an exit plan in case they need to wind down orderly during the restricted phase. Appropriate and well-planned exit procedures are required to support stakeholders of the virtual bank in a timely manner, especially depositors.** The exit plan should elaborate various exit scenarios, including (1) non-viability of the virtual bank due to [losses that potentially lead to](#) insolvency, which would

²⁰ The required level of paid-in capital of 5 billion baht in Thailand is similar to the average of virtual banks' actual paid-in capital on the first day of commencement in other jurisdictions, such as Hong Kong (5 billion baht) and South Korea (7 billion baht).

affect customers especially the depositors and may also impact overall financial stability, (2) significant contraventions of the regulations or license conditions, and (3) voluntary exit.

The exit plan needs to be approved by the BOT and should include the following at minimum:

- **Exit indicators and triggers for activating the exit plan:** exit triggers in the case of losses that potentially lead to viability problem must be linked at least to capital and liquidity indicators. These triggers must be sufficiently high so that there is adequate time for the virtual bank to wind down orderly without breaching the minimum capital and liquidity requirements (BIS ratio of 8.5% and Liquidity Coverage Ratio of 100%), and to properly manage stakeholders, especially depositors, in a timely manner.
- **Scenarios that may lead to the exit decision:** Each scenario should be relevant to the business model of the virtual bank and of sufficient severity to lead to the exit trigger.
- **Exit guideline(s):** The guideline(s) should specify (1) a plan for managing assets and liabilities and (2) a plan to responsibly manage customers, staff, and stakeholders, particularly depositors in an appropriate and timely manner. Such plans should at least identify responsible persons, key steps, timelines, as well as communication plan. Virtual bank applicants could propose more than one set of exit guidelines to accommodate different exit scenarios.

3.4 Waiving shareholding beyond general limits

The BOT welcomes virtual bank applications from all who meet qualifications²¹. Applicants are able to request a waiver for shareholding beyond general limits on a case-by-case basis in these following aspects:

- **Individual shareholder owning more than 10% of shares in a virtual bank**
- **Foreign shareholders together holding more than 25% and up to 49%²² of shares in a virtual bank and/or**
- **An incumbent financial institution holding shares in a virtual bank, under the same financial business group.**

In considering requests for shareholding waiver, the BOT shall consider the qualifications, background, and behavior of the applicant concerning appropriateness and the ability to support virtual banking business in a sustainable manner. Examples of factors that may be considered include financial strength, governance, business expertise, and business networks that may support the virtual bank's operations. The BOT may, on a case-by-case basis, impose additional conditions when granting the permission²³ (detailed in 4.3).

²¹ These may include financial business operators (such as commercial banks or non-bank financial service providers), non-financial business operators, or joint ventures between financial and non-financial business operators.

²² The BOT may permit persons of non-Thai nationality to hold up to 49% of the total number of voting shares sold as defined in Section 16 of Financial Institution Business Act B.E. 2551 (2008).

²³ If it is found that a virtual bank significantly or willingly contravenes license conditions, the BOT may propose to the Minister of Finance to revoke its license.

4. Regulatory and supervisory framework for virtual banks

4.1 Overall regulatory and supervisory framework

- **Virtual banks shall comply with the same regulations and supervision as traditional commercial banks as well as specific regulations applicable to virtual banks.** Virtual banks must contribute to the Financial Institutions Development Fund (FIDF) and the Deposit Protection Agency (DPA) like all other financial institutions from the commencement of business during the **restricted phase**. Deposits at virtual banks will therefore receive the same protection as deposits at other financial institutions.
- **BOT supervision of virtual banks shall be risk proportionate. The emphasis shall be on robust corporate governance and a sound risk culture**, as well as other important factors including (1) IT system continuity, (2) effectiveness of customer support through the digital channel, and (3) suitability of third-party outsourcing. This is because virtual banks use technology, data, and digital channel for business operations and customer servicing.

Key BOT concerns	
1) IT system continuity	<ul style="list-style-type: none">• The IT system of virtual banks supporting digital services must have high availability. Total system downtimes must not exceed 8 hours per one calendar year. Moreover, for each incident, the time taken to recover the system must not exceed 2 hours. These are virtual bank-specific requirements.
2) Customer support through the digital channel	<ul style="list-style-type: none">• Virtual banks must have an effective system of serving and protecting customers through the digital channel²⁴.• Virtual banks must have a business continuity plan that details the procedures for customers to continue making financial transactions such as withdrawing money in emergency scenarios.

²⁴ Virtual banks must comply with BOT regulations such as having a prudent KYC process, providing sufficient and accurate information when offering financial products to customers, appropriately obtaining consent to use customers' personal data, having appropriate IT risk management, as well as complying with BOT policy on the prevention of financial fraud.

Key BOT concerns	
3) Suitability of outsourcing	<ul style="list-style-type: none"> Virtual banks may outsource the IT system and other non-strategic functions, including the use of public cloud computing. However, all outsourcing must comply with BOT regulation on IT risks²⁵. Virtual banks must not share critical IT systems with other financial institutions, such as core banking, mobile banking, and internet banking systems. This is to prevent potential contagion risks, data leakage, and cyber threats.

4.2 Additional conditions during the restricted phase

To ensure prudent operations without posing systemic risks, **virtual banks shall operate under the following conditions during the initial 3-5 years.**

(1) Virtual banks need to be operationally ready and have effective internal controls before commencing operations. (2) Virtual banks shall be committed to achieve the Green Lines and focus on core businesses before expanding to other areas. (3) Virtual banks may expand business if they could maintain robust financial position while not creating risks to the financial system or exhibiting other behaviors that significantly lead to the Red Lines.

- **The BOT shall closely supervise each virtual bank during the restricted phase.** The virtual bank must discuss with the BOT if there are any significant deviations in the business plan from what had been submitted during application. **Further, it is prohibited to change shareholders who are deemed critical to the success of the virtual bank during the first 3-5 years of its operations (restricted phase), except in necessary cases as permitted by the BOT.** This is because such shareholders have a crucial role in building up the business as approved by the BOT during its initial stage.

²⁵ BOT regulation on IT risk of financial institutions

- If the BOT deems that the virtual bank does not have adequate operational readiness, or that the virtual bank plans to conduct/is conducting any transactions which may create risks to its own solvency, the financial system, or consumers as a whole, **the BOT may order the virtual bank to rectify the situation, to suspend or restrict its services or transactions, or to carry out any further actions as appropriate.**
- **The BOT expects virtual banks to maintain adequate BIS ratio to support stressed situations.** During the restricted phase, virtual banks must start developing a framework and a system for stress-testing as well as conducting partial stress tests. This is to ensure that the virtual bank would be ready to conduct a full-scale stress test when they prepare to complete the restricted phase for progressing into the full-functioning phase.
- **In evaluating whether to allow a virtual bank to progress into the full-functioning phase after 5 years of operations²⁶, the BOT would take into account the readiness and behavior of the virtual bank, together with the robust and sustainable nature of its performance in accordance with the Green and Red Lines.** The particular focuses will be on:
 - Does the virtual bank develop products and financial services that bring about new value propositions which are in line with the Green Line objectives? Does the virtual bank offer financial services that significantly serve retail and SME groups, especially the underserved and unserved segments, when benchmarked against the virtual bank's proposed key performance indicators as set out in the business plan approved by the BOT?
 - Does the virtual bank's financial performance show promising prospects going forward, such as the potential to expand business and generate income or profits sustainably?

²⁶ If the virtual bank is ready to exit the restricted phase before 5 years, they may ask the BOT to assess its readiness, but not before having operated for at least 3 years.

- Does the virtual bank strictly comply with regulations? Does the virtual bank exhibit undesirable behavior such as (1) initiating a race to the bottom, (2) giving preferential treatment, or (3) taking any actions such that the virtual bank's shareholders, companies under the control of such shareholders, or businesses with related interest, would abuse their market power for the benefit of the virtual bank? Have these led to financial stability risks or consumer protection concerns such as excessive debt-taking and unfair competition?

The evaluation can lead to 3 outcomes:

- (A) The virtual bank fulfills the requirements set by the BOT** and enters the full-functioning phase.
- (B) The virtual bank does not sufficiently fulfill the requirements but has valid justifications and clear plans to rectify the situation.** The BOT may consider extending the restricted phase for that virtual bank. The timing of the extension would depend on the nature of the problem and the virtual bank's plan to rectify the situation, as the case may be. This is so that the virtual bank can make modifications before entering the full-functioning phase. Nevertheless, only one extension will be granted.
- (C) The virtual bank does not fulfill the requirements due to the potential for significant impacts on the financial system or consumers as a whole. Moreover, the virtual bank has no valid justifications or clear plans to rectify the situation.** The BOT may ask the virtual bank to wind down by activating procedures as laid out in the pre-approved exit plan (detailed in [3.3](#))

4.3 Additional conditions for waiving shareholding beyond general limits

In granting requests for shareholding waivers beyond general limits (detailed in 3.4), the BOT may impose additional conditions²⁷. For example:

- **The virtual banks may be subject to additional qualitative conditions on granting credits, making investment, and undertaking contingent liabilities for major shareholders and businesses with related interest (related party transactions²⁸).** For example, all related party transactions of a virtual bank must obtain prior unanimous approval by the Board of Directors without exceptions²⁹.
- **If the parent company³⁰ of a virtual bank owns non-financial subsidiaries,** the financial and non-financial businesses within the group need to be split away from each other. In case the parent company owns more than one type of financial business, these businesses shall be placed under the same financial business group for an extensive and effective supervision by the BOT.
- **If an incumbent financial institution, or a holding company in the same financial business group as the incumbent financial institution, holds shares in a virtual bank,** the following conditions must be met.
 - No financial institution (or its holding company) and virtual bank may bear names, trademarks, or logos which are identical with, similar to, or connotative of each other, whether the virtual bank is in the same

²⁷ If it is found that a virtual bank significantly or willingly contravenes license conditions, the BOT may propose to the Minister of Finance to revoke its license.

²⁸ BOT Notification Re: Guidelines on Transacting with Major Shareholders or Businesses with Related interest (Related Lending)

²⁹ There are some exceptions under the current regulations. The Board of Directors of the financial institution may delegate authority to the Credit Committee or the Executive Committee to approve credit (for example, when approving new credit to a client who had previously obtained approval from the financial institution's Board of Directors). In any case, these procedures must be in line with the credit approval procedures set by the financial institution. Furthermore, detail regarding the loan amounts extended to major shareholders and businesses with related interest need to be ratified in the next Board of Director meeting with unanimous approval.

³⁰ A "parent company" refers to a company which has power to control the business of another company whether directly or indirectly, as defined in Section 4 of the Financial Institution Business Act B.E. 2551 (2008).

financial business group as the former or not. This is to prevent public misunderstanding that the financial institution or the holding company thereof would be responsible for the operations of the virtual bank.

- For the purpose of capital adequacy, the financial institution shall calculate investments in the virtual bank using the method specified by the BOT³¹. If the virtual bank resides within the same financial business group as the parent financial institution, group capital should be calculated on a consolidated basis. This will ensure the accuracy of capital positions of the parent financial institution and the whole financial business group.
- A financial institution may grant credit³² to the affiliated virtual bank only during the restricted phase. After the virtual bank progresses into the full-functioning phase, no additional credit may be granted by the financial institution to the affiliated virtual bank. This restriction applies in cases where the virtual bank is in the same financial business group as the financial institution, or the virtual bank is a business with related interest of the financial institution. Nevertheless, exceptions are provided for short-term interbank transactions for liquidity management and the recovery of the virtual bank's condition during a crisis. Such restriction will motivate the virtual bank to develop its own business viability without relying on the financial support or the capital of the affiliated financial institution.

³¹ The threshold deduction method shall be applied. If the financial institution holds no more than 10% of shares in the virtual bank, the risk weight is 100%. If the financial institution holds over 10% of shares in the virtual bank, the risk weight is 250%.

³² These include granting credits, making investment in securities, undertaking contingent liabilities, as well as conducting transactions similar to granting credits.

5. Virtual bank application and selection process

5.1 Applications

All interested applicants for the virtual bank licenses are welcome to consult as well as to submit the application and related documents to the BOT within 6 months starting from the effective date of the Ministry of Finance's Notification concerning Virtual Bank Licensing Regulations.

5.2 Applicant selection process

The BOT³³ will begin screening all virtual bank applications starting from the closing date of the period for receiving applications and shall propose a list of the most appropriate candidates to the Minister of Finance for consideration. The process will take no longer than nine months³⁴.

The BOT expects to include no more than 3 candidates in the list that will be submitted to the Minister of Finance for the following reasons:

- 1) Virtual bank is a new form of commercial bank in Thailand which takes deposits from the public. As such, there should be a limited number at first so that the successful applicants can be effectively supervised. This would give confidence to depositors and customers. Therefore, the emphasis is placed on:
 - o Choosing a combination of the most qualified applicants, considering their abilities to deliver Green Lines in an effective and sustainable

³³ The BOT shall appoint a Virtual Bank Selection Committee which consists of experts on the banking sector, IT, and financial technology, who do not have conflict of interest with the applicants.

³⁴ This is except for the case that there is a very large number of applications or other reasons which may require extension in the application screening process.

manner, and to positively contribute to the overall financial and economic system of Thailand.

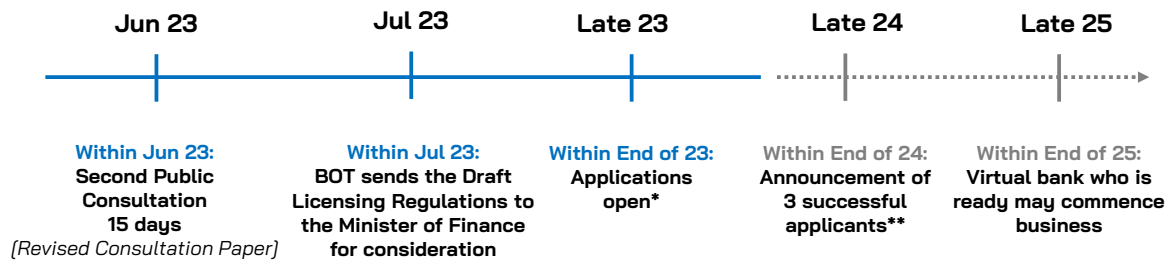
- Closely monitoring the operations of the new virtual banks to ensure that they can continue to deliver on the Green Line objectives and do not become unviable in a short period of time, which would undermine the confidence of depositors and customers.
- Effectively supervising the new virtual banks, especially on risk management and consumer protection, such as the management of online financial fraud risks or the liquidity management in the event of severe and continuous cash outflows.

2) There should be an appropriate number of new players to stimulate healthy competition in the Thai financial system. An excessive number of new players may pose risks to the stability of the financial system and the financial institution system. In particular, the retail loan market already has a high level of competition. If too many new players enter this market, it may encourage excessive borrowing and exacerbate Thailand's household debt problem. Moreover, excessive competition may undermine virtual banks' financial position, which could negatively impact the confidence of depositors and the overall financial system.

5.3 Preparations of successful applicants before commencing business

Successful applicants need to commence operations within 1 year of receiving approval by the Minister of Finance. The BOT will assess the operational readiness of the newly established virtual bank before proposing to the Minister of Finance to grant license for the virtual bank to commence operations. Nevertheless, the BOT may make exemptions and allow the virtual bank to commence operations after 1 year of receiving approval if deemed necessary, but for no more than 1 additional year. In granting this exemption, the BOT may impose additional conditions.

Tentative Timeline for Next Steps



* The application period is 6 months, starting from the effective date of the Ministry of Finance's Notification concerning Virtual Bank Licensing Regulations

** The BOT will select and propose the most appropriate candidates to the Minister of Finance for consideration. The total process will take no longer than 9 months. This is except for the case that there is a very large number of applications which may require extension in the application selection process.

6. Expected results of introducing virtual banks

The BOT expects virtual banks to sustainably achieve Green Lines, namely, (1) offering full-service banking businesses that serve the need of each customer segment, especially the underserved and unserved, (2) offering better experiences of financial services for customers, and (3) stimulating healthy competition in the Thai financial institution system. On the other hand, virtual banks should not be creating risks to the financial system, depositors, or consumers as a whole. The BOT and the Ministry of Finance will monitor and evaluate the performance of virtual banks continually and closely. [After virtual banks become operational for some time, it will be possible to assess their performance.](#) If Thailand's future financial context suggests that there should be more virtual banks in the financial institution system to achieve Green Lines, the BOT and the Ministry of Finance may consider opening for more virtual bank licenses in the future.

For the virtual bank introduction in Thailand to achieve Green Lines and be successful, the BOT invites comments and suggestions on this proposed framework. The BOT and the Ministry of Finance will incorporate the responses when designing the licensing regulations for virtual banks. Release of the final licensing regulations and the start of the period for receiving virtual bank applications will take place in 2023. The list of those who receive the Ministry of Finance's approval will be announced in 2024. **Responses can be submitted via [BOT website](#) or virtualbank@bot.or.th by July 4th, 2023.**



Appendix: Comparing Virtual Bank Licensing Framework in Other Jurisdictions and in Thailand

Financial institution regulators in other jurisdictions have allowed for virtual banks to be established. The objectives include (i) allowing businesses with expertise in technology, digital services, and data to develop financial services that bring about new value proposition and serve customers better, (ii) improving the level of financial access, and (iii) stimulating competition within the financial institution system. There have been two main approaches.

1. Those whose main objective is to stimulate competition within the financial institution system, such as the United Kingdom and Australia. These countries accept virtual bank applications on an ongoing basis and do not limit the number of licenses. The supervisory focus is on ensuring that virtual banks would not create financial stability risks. In case of necessary exits, there are procedures to ensure orderly wind-downs without affecting customers and depositors. In the United Kingdom and Australia, many new virtual banks have offered new value proposition and better experiences for customers. However, there were some virtual banks which wound down due to their inability to generate revenue and manage costs effectively.

2. Those whose main objectives are to improve financial access and promote healthy competition, such as Singapore, Malaysia, and South Korea. These countries accept virtual bank applications in rounds and limit the number of licenses to select the most appropriate applicants to achieve stated objectives in a sustainable manner. Moreover, Singapore and Malaysia require that virtual banks undergo some restrictions during the initial years of operations and prepare exit plans, in order to ensure prudent operations without posing systemic risks.

Most regulators abroad impose the same regulatory framework on virtual banks as traditional commercial banks because they have similar scopes of business.

In Thailand’s case, there remain gaps to financial access and customers’ financial literacy. The introduction of virtual banks in Thailand therefore follows the second approach above. The objective is for virtual banks to serve the need of each customer segment efficiently with appropriate pricing, focusing on the underserved and unserved segments of retail and SME customers. Furthermore, virtual banks should operate in a sustainable manner. They should not initiate a race to the bottom or abuse dominant market position, which would pose risks to financial stability, depositors, and customers as a whole.

	UK	Singapore	Thailand
I. Intended outcomes of introducing virtual banks			
Green Lines	<ul style="list-style-type: none"> • Increase competition 	<ul style="list-style-type: none"> • To have financial services that bring about new value proposition and offer better experiences for customers, as well as to improve financial access • Stimulate healthy competition 	<ul style="list-style-type: none"> • To have financial services that bring about new value proposition and offer better experiences for customers, particularly for the underserved and unserved segments of retail and SME customers • Stimulate healthy competition
Red Lines	<ul style="list-style-type: none"> • Virtual banks cannot take care of stakeholders especially depositors appropriately and timely. 	<ul style="list-style-type: none"> • Non-viable business • Initiate a race to the bottom • Give preferential treatment to related parties or abuse dominant market position 	<ul style="list-style-type: none"> • Non-viable business • Initiate a race to the bottom • Give preferential treatment to related parties or abuse dominant market position

	UK	Singapore	Thailand
II. Licensing framework			
Key qualifications	<ul style="list-style-type: none"> • Business model that demonstrates the ability to manage revenue and costs sustainably • Expertise in technology and digital services, as well as the ability to acquire and utilize data • Have robust corporate governance and capable of managing financial business risks 		
Conditions during the initial years of operation	<ul style="list-style-type: none"> • None 	<ul style="list-style-type: none"> • Conditions are imposed for the first 5 years of operations. The business scope is restricted through limits such as the cap on deposit amount per depositor and the cap on total deposits. There is also close supervision by the supervisor. 	<ul style="list-style-type: none"> • Conditions are imposed for the first 3-5 years of operations. The BOT shall closely supervise the virtual bank's business. If the BOT deems that the virtual bank does not have adequate operational readiness, or that the virtual bank plans to conduct/is conducting any transactions which may create risks to its own solvency, the financial system, or consumers as a whole, the BOT may order the virtual bank to rectify the situation, suspend or restrict its services or transactions, or to carry out any further action as appropriate.
Exit plan	<ul style="list-style-type: none"> • Required 		
III. Regulatory and supervisory framework			
Overall	<ul style="list-style-type: none"> • Same framework as traditional commercial banks 		
IV. Application and the number of licenses			
Rounds	<ul style="list-style-type: none"> • None (ongoing) 	<ul style="list-style-type: none"> • Limited rounds 	<ul style="list-style-type: none"> • Limited rounds
Licenses	<ul style="list-style-type: none"> • Unlimited 	<ul style="list-style-type: none"> • Limited number 	<ul style="list-style-type: none"> • Limited number



ธนาคารแห่งประเทศไทย
BANK OF THAILAND