

Unofficial Translation

This translation is for the convenience of those unfamiliar with the Thai language

Please refer to the Thai text for the official version

Notification of the Bank of Thailand

No. FPG. 6/2567

Re: Regulations on Virtual Bank Supervision

1. Rationale

Under the new financial landscape to reposition Thailand's financial sector for a sustainable digital economy, the Bank of Thailand's key direction in the digital dimension is to provide opportunity for the financial sector to harness the benefits of technology and data to develop innovations and financial services that meet the needs of customers in a sustainable manner. The Bank of Thailand emphasizes the need to maintain balance between promoting innovation that would benefit customers, and appropriately managing risks. One of the key policies is the introduction of virtual banks – a new type of financial service provider license—that will allow applicants who possess the expertise in technology, digital services, and utilising data to develop innovations and introduce new financial services through digital channels in order to meet the needs of customers who are ready to use the services through digital channels in a targeted and effective manner to support and improve financial access of retail and small and medium enterprises (SMEs) customers, especially the underserved and the unserved, and improve the overall customer experience as well as stimulate a healthy competition in Thailand's financial institution system.

The Minister of Finance, with the advice of the Bank of Thailand, has required the virtual bank license. Such virtual banks operate differently from traditional commercial banks, providing services exclusively through digital channels. Therefore, in addition to requiring compliance with the general regulations applicable to commercial banks, the Bank of Thailand deems it appropriate to set additional regulations for virtual banks to comply with in order to ensure that virtual banks operate in a manner suited to their business model and align with the objectives of the financial landscape with proper risk

management that does not threaten the stability of the financial institution system or cause any harm that could impact the confidence of depositors, service users, and the public to the overall financial institution system.

2. Statutory Power

By virtue of Section 13, Section 24 (6), Section 24 (10), Section 30, Section 39, Section 41, Section 47, Section 49, Section 56, Section 57, Section 59, Section 71, and Section 84 of the Financial Institution Business Act B.E. 2551 (2008), the Bank of Thailand hereby issues regulations as specified in this Notification for virtual banks, parent companies, subsidiaries, and affiliates of virtual banks in financial business groups to comply with.

3. Scope of Application

This Notification shall apply to virtual banks, parent companies, subsidiaries, and affiliates of virtual banks in financial business groups according to the law on financial institution business.

4. Content

4.1 Definition

“Virtual bank” means a public limited company that has been permitted to operate as a commercial bank, but does not include a retail bank and a subsidiary of foreign commercial bank, and provides their services through digital channels.

“Initial phase” means the initial period from the first operating date of the virtual bank up until the date on which it is permitted by the Bank of Thailand to move into the next phase of its operations as prescribed by the Bank of Thailand.

“Financial business group” means a financial business group that comprises a commercial bank, parent company, subsidiaries at all levels, and affiliates, of commercial bank, both domestic and overseas, but excluding branches of foreign commercial bank’s branch.

“Senior executive” means a senior executive as specified by the Notification of the Bank of Thailand on corporate governance of financial institutions and financial business groups.

“Digital channel” means digital channels as specified in the Notification of Bank of Thailand on the regulations on commercial bank’s banking channel.

“Electronic branch” means electronic branches as specified by the Notification of the Bank of Thailand on the regulations on commercial bank’s banking channel.

4.2 Regulations on virtual bank supervision

4.2.1 Principle of supervision

A virtual bank operates within the same scope as traditional commercial banks but follows a distinct business model by providing services exclusively through digital channels. Therefore, while a virtual bank must adhere to the regulations for commercial banks and financial business groups under the law on financial institution business, the virtual bank and their financial business group are also required to comply with additional regulations specified in this Notification in order to ensure that supervision and risk management are appropriate and aligned with the business model of virtual banks and financial business groups.

4.2.2 General regulations

(1) Supervision of financial business group

(1.1) Virtual bank business is designated as a financial business specified in the Notification of the Bank of Thailand on the regulations on the structure and scope of business of commercial banks’ financial business groups that a company within a financial business group can operate.

(1.2) In cases where a virtual bank is a company within the same financial business group of another financial institution, the company within the financial business group shall comply with the following regulations:

(1.2.1) The parent company of the financial business group must classify the virtual bank as an entity outside the Solo Consolidation group of the other financial institution. This means that the Solo Consolidation group of the virtual bank is considered separate from the Solo Consolidation group of the other financial institution, albeit under the same Full Consolidation group of the other financial institution.

(1.2.2) Once a virtual bank has commenced operations and completed the initial phase, the other financial institution and subsidiaries within the Solo Consolidation group of the other financial institution are prohibited from granting credit, undertaking contingent liabilities, or conducting transactions similar to granting credit with the virtual bank and subsidiaries within the Solo Consolidation group of the virtual bank, except for interbank borrowing for short-term liquidity management, rectification of condition or operation or liquidity problems of the virtual bank, other circumstances as specified by the Bank of Thailand in the conditions for relaxation granted to such financial institution to hold shares in the virtual bank, or receive permission from the Bank of Thailand on a specific basis.

(2) Supervision of capital

In cases where another financial institution holds or possesses shares, whether directly or indirectly, of a virtual bank in a manner that results in an increase in the required capital of the financial system beyond the actual investment amount in the system, potentially impairing the effective management of business risks and leading to high risk exposure for the other financial institution—such as when the other financial institution's investment in the virtual bank simultaneously increases in conjunction with the virtual bank's lending to major borrowers—the Bank of Thailand may order the other financial institution that holds or possesses shares in the virtual bank to maintain capital requirement as deemed appropriate by the Bank of Thailand.

(3) Supervision of operational risk

A virtual bank shall not use names, symbols, or trademarks that are identical to, similar to or able to imply those of other financial institutions or financial business groups of other financial institutions to avoid public confusion or misunderstanding regarding the services or stability of the virtual bank or the other financial institution, regardless of whether the virtual bank is part of the same financial business group as the other financial institution.

(4) Supervision of corporate governance

(4.1) At least one director and the highest-ranking technology executive of the virtual bank must have a minimum of three years of experience in information technology or digital services.

(4.2) The highest-ranking technology executive of the virtual bank must serve in this role of the virtual bank on a full-time basis and must not be employed by any other juristic person.

(5) Supervision of related lending

(5.1) In cases where a virtual bank or a subsidiary within the Solo Consolidation group of the virtual bank conduct a transaction with a major shareholder or business with related interest to the virtual bank or its subsidiaries within the Solo Consolidation group, such transaction shall be approved by the board of the virtual bank or the board of the subsidiary within the Solo Consolidation group of the virtual bank, whichever is applicable, and the approval must be unanimous in all cases. The board of the virtual bank or the board of the subsidiary within the Solo Consolidation group of the virtual bank must personally review those cases and cannot delegate or assign the responsibility.

(5.2) A virtual bank and its subsidiaries within the Solo Consolidation group must prepare a report on transactions with major shareholders or businesses with related interests to the virtual bank. This report must be submitted to the board of the virtual bank or the board of the subsidiary within the Solo Consolidation group, whichever is applicable, every six months. The report must be kept at the virtual bank or its subsidiaries within the Solo Consolidation group for inspection by the Bank of Thailand or provided to the Bank of Thailand upon request.

(6) Supervision of service channels and outsourcing

A virtual bank shall provide services exclusively through digital channels, except in cases where it is necessary to use alternative channels, such as through electronic branches of other commercial banks via ATM pooling, using banking agents to meet cash needs of customers, or offering occasional on-site services. Such exceptions require prior permission from the Bank of Thailand. In granting permission, the Bank of Thailand will consider the reasons, necessity, the plan for gradually reducing the use of such alternative channels, and ensure that it is not a means to avoid service delivery through a digital channel. Additionally, the virtual bank shall report annually to the Bank of Thailand on the progress of implementing the plan and upon its completion.

In providing services through banking agents and outsourcing by a virtual bank within the scope permitted by the Bank of Thailand as mentioned above, the virtual bank shall comply with the Notification of the Bank of Thailand's on the use of services from business partners of financial institutions.

(7) Supervision of information technology systems supporting service delivery through digital channel

A virtual bank must ensure that its information technology systems provide uninterrupted service, with no more than 8 hours of downtime in a calendar year. Additionally, each instance of system downtime must be resolved, and normal service restored, within 2 hours.

Furthermore, the virtual bank must not share its deposit systems, loan systems, internet banking systems, or mobile banking systems with other financial institutions, either within Thailand or abroad.

4.2.3 Initial phase

(1) Supervision of corporate governance

A virtual bank may request permission from the Bank of Thailand to appoint an individual who is not a director, manager, or person with power of management of another financial institution to serve as a manager or person with power of management of the virtual bank, provided this individual is assigned by the financial institution to perform the duties full-time on a secondment basis. The Bank of Thailand will consider granting such permission based on the reasons, necessity, and measures to prevent conflicts of interest.

(2) Stress test

The Bank of Thailand relaxes the stress testing guidelines as specified in the Notification of the Bank of Thailand on Supervisory Review of Capital Adequacy (Pillar 2) for virtual banks in the initial phase. A virtual bank must comply with the following regulations:

(2.1) A Virtual bank may conduct stress tests using either self-developed scenarios or supervisory scenarios set by the Bank of Thailand. These scenarios must include at least two levels of severity: baseline¹ and adverse².

(2.2) A virtual bank must assess risks covering at least three areas: credit risk, market risk in trading accounts, and liquidity risk. The frequency of testing and the period for evaluating impacts for each risk must follow the requirements specified in the Notification of the Bank of Thailand on Supervisory Review of Capital Adequacy (Pillar 2). If a virtual bank lacks sufficient data to develop models for assessing impacts under stress scenarios, it shall establish qualitative criteria or exercise discretion as appropriate, based on a principle of prudence.

(3) Recovery plan preparation

Virtual banks are not yet required to prepare and submit a recovery plan to the Bank of Thailand in accordance with the Notification of the Bank of Thailand on Recovery Planning Requirements for Commercial Banks .

Once a virtual bank has moved beyond the initial phase, it must comply with the Notification of the Bank of Thailand on recovery plan preparation requirement for commercial banks. For the first recovery plan prepared, a virtual bank shall comply with the following:

(3.1) If approval to move beyond the initial phase is granted between April and June, the recovery plan shall be submitted by October of that year.

(3.2) In cases other than those in (3.1), the recovery plan shall be submitted according to the normal reporting period.

If a virtual bank encounters a circumstance that prevents it from complying with Article 4.2.3 (3.1) or (3.2), it may request a relaxation for the first submission of the recovery plan from the Bank of Thailand on a specific basis. The Bank of Thailand will consider the reasons, necessity, and the appropriate timeframe for compliance when granting such relaxation.

¹ Baseline means scenarios expected to actually happen.

² Adverse means scenarios that are extreme but plausible events that reflect significant risks to the credit portfolio and business of the virtual bank, both currently and potentially in the future.

5. Effective Date

This Notification shall come into force as from the day following the date of its publication in the Government Gazette.

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