

## **M R Pridiyathorn Devakula: Commercial Banking and Financial Services - our Vision for Thailand**

Speech by M R Pridiyathorn Devakula, Governor of the Bank of Thailand, at the Conference on "Modernizing our Financial System: Challenges for the New Millennium", Bangkok, 23 January 2002.

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Your Excellencies Distinguished Guests Ladies and Gentlemen,

I would like to take this opportunity to welcome all of you to our conference on "Modernizing our Financial System: Challenges for the new Millennium". I would also like to express our deep appreciation for the distinguished speakers who came all the way from Australia, Canada, Hong Kong, and South Africa to share with us their expertise and knowledge on this very important topic. And, of course, to the World Bank, our co-host, for help organizing the conference.

Our financial crisis in 1997 and its subsequent impacts highlighted the lesson of critical importance that dynamic and strong domestic financial institutions are vital to sustainability of development and growth. Over the past 20 years, financial sector has been one of the major forces that support our progress and financial services share in our GDP has grown from a mere 3 percent to roughly 8 percent. It is the fifth largest industry in term of value added to our GDP, and currently employing more than 300,000 of our workforce. Nevertheless, despite such favorable development, there are some concerns:

- First, in term of competitiveness of our financial institutions, there is room for improvement. The International Institute for Management Development in its well-known World Competitiveness Report ranked our competitiveness position in finance for the year 2001, 44th from the top 49 countries in the world.
- Second, in term of financial service availabilities, there are still some people lacking adequate access to the mainstream banking activities, particularly those in the rural area and those with low-income in the urban area. Recent statistic reveals that 54 districts in Thailand have neither branches of commercial banks nor those of specialized financial institutions.
- Third, there are inherent weaknesses within our system. We are overly dependent on commercial banks as the main channel of financial intermediaries with bank loans accounting for 70 percent of external funding in Thailand, comparing to 20 percent in the US. Although large corporate and the Royal Thai government have recently turned to capital market as their alternative sources of financing, bank loans remains dominant, making the economy particularly vulnerable to changes in commercial banking sector.

These are the issues that we will be focusing on today. And following this conference, the Bank of Thailand will embark on the process to articulate our medium-term plan to increase competitiveness of financial institutions, improve people access to financial services, ensure financial system sustainability, and take this opportunity to systematically correct problems which remain unresolved by financial reform implemented thus far.

Ladies and Gentlemen

Our financial institutions must be the sources of our national strength and should be the main instrument in our development. In the past five years, significant and comprehensive reform of our commercial banking system has been achieved, with financial stability being restored; corporate governance, strengthened; competition within domestic banking system enhanced with the entrance of new competitors. At the same time, new financial services such as E-banking and other innovative instruments such as smart cards are on the offer to customers giving them more choices of financial services with greater qualities.

We are therefore at this point ready to move forward to the next step – to articulate our vision for the future of commercial banking and financial services in Thailand, taking into consideration powerful forces from the rapidly globalized international financial markets and the emerging financial landscapes within the region.

Ladies and Gentlemen

The new financial sector master plan must be realistic and address the fundamental problems that we have. I see no role for the plan to strive to be a financial center or to develop the financial sector for its own sake. Thailand has a dual economic structure, with the modern industrial sector overlaying with the more traditional sectors outside Bangkok which employed more than half of our population. Thus, we should concentrate on improving the efficiency and stability of our domestic financial institutions to best serve our real sector. And our vision for Thai commercial banking and financial services – if it is to be useful – must consist of two parts within a single integrated framework: one for our main banking activities and the other for those in rural areas.

As we look at cross-country experiences on commercial banking and financial system inquiries, we were drawn toward the experiences of Australia, Canada, and South African. The South African's Standard Bank has been quite innovative in using new technologies to reduce cost of providing banking services to the urban poor who were formerly thought of as un-bankable. Similarly, the Canadian Financial Services Taskforce put much emphasis on “ensuring highest standard of quality and services to consumers, regardless of their income, and regardless of where they live; urban or rural, and also to individual businesses, whether they are large or small”.

On the other hand, the emphasis of the Australian Financial System Inquiry on “the facilitation of financial conglomerates to realize economies of scale and scope as well as streamlined regulatory structure base on functional not institutional distinction” will become more and more relevant in the future as consolidation and diversification within our financial system lead to similar types of business model.

Coming up with a broad vision is comparatively a simple task; the real challenge is to work out the details of how we plan to modernize of our financial system. Here, we have to articulate our vision and implementation strategies together from both practitioners' and regulators' point of view. We have to:

- identify potential unfulfilled need for financial services in the medium term so that we can adequately accommodate needs of our consumers and corporate in the real sector. These include financing of small and medium-sized enterprises as well as long-term financing.
- determine problems, obstacles, and bottlenecks within our financial infrastructures as well as tax issues that will constraint us from achieving our full potential;
- revisit the existing specified scopes of businesses for each types of financial institutions and determine appropriate structures for our financial conglomerates, taking into consideration the increasingly blurring of traditional lines that have previously separated commercial banking, investment banking, and insurance businesses from one another;
- prioritize our aims and construct appropriate benchmarks to set clear targets of development and measure our performance;
- and, of course, re-examine the current regulatory structure once the market reform is already underway.

Ladies and Gentlemen

You may ask how you can be involved?

In the next nine months, our staff will conduct background studies, commission additional research papers, and take inputs from relevant stakeholders through market interviews and focus groups. We invite you to actively participate in our public consultation process and encourage you to take initiatives by making public submission on topics which you feel are critical for the development of our desired financial system.

Though most of our work and recommendations will focus on financial institutions under the supervision of the Bank of Thailand, we expect that the outcome of this process will provide a common framework for policy-making among the supervisory authorities in Thailand and serve as a shared foundation for coordinating our efforts between the private and public sectors in transforming our financial infrastructures towards a deeper, more efficient, balanced and sound system.

As we move forward, this plan together with the new Financial Institutions Act currently under consideration by the Joint Committee of the Senate and the Lower House, the Deposit Insurance Act,

and the supervisory standard as will be specified in the New Basel Accord, will provide a future framework within which our financial institutions will operate.

Ladies and Gentlemen

I would like to close by saying that our future is in our hand. We ask for your cooperation in positioning our financial system for the future. I am fully confident that together we can contribute to the benefits of our nation.

Thank you.