

## Tongurai Limpiti: Future of Thai banking system – the road towards AEC 2015

Keynote address by Ms Tongurai Limpiti, Deputy Governor for Corporate Support Services and Banknote Management of the Bank of Thailand, at the IDC Financial Insights, Thailand Financial Services Summit 2012, Bangkok, 8 November 2012.

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Good morning, ladies and gentlemen.

It is an honor to join all of you today and I would like to thank the IDC Financial Insights for inviting me to deliver a keynote address at this event.

The title of my remark today is about “**Future of Thai Banking System: the Road towards AEC 2015**”. I think that this issue is appropriate and timely as we are now approaching a new face of regional economic integration, or the ASEAN Economic Community, which will come into effect in 2015. To be aware of its impacts and to identify company positions and strategy in responding to its impacts would be of a great benefit. I hope that this event will provide a very good opportunity for us to share experiences and views on the way to move forward.

With the given time, I will use this opportunity to touch on three topics which are current situation of Thai banking system and the new challenges from AEC, the impacts of AEC on financial institutions, and the role of central bank.

Ladies and Gentlemen,

When we talk about Thai banking system, I think it can be claimed, now, that we have safe and sound banking sector with sustained profitability, despite the ongoing global financial crisis and severe flood last year.

The financial institutions have robust risk management system. The average capital adequacy ratio is highly above the minimum requirement at around 15%. Loans expand in line with economic recovery, while banks increase provision in anticipation of global economy. Loan quality also improves as reflected in the reduction in Non-Performing Loan ratio. There is also adequate liquidity in the system.

In the second quarter of 2012, the banking system reported net profit of 49 billion baht, increasing 21% from the last quarter.

While we have a stable and strong banking system, there are **new challenges coming from the regional integration of the ASEAN Economic Community in 2015**.

The AEC is not, and has no intention of transforming ASEAN into a European style union. What the AEC does aim to do is to “transform ASEAN into a single market and production base, a highly competitive economic region, a region of equitable economic development, and a region fully integrated into the global economy”.<sup>1</sup>

The AEC blueprint crystallizes this in its goal of a single market and production base by achieving free flow of goods, services, investment, and skilled labor, and freer flow of capital, while continuing to reach out to the rest of the world.

The adoption of AEC will **have many implications on financial institutions and central bank**. In order to make Thai banking sector to stay resilience and competitive in the more open market, we need to explore and analyze the impacts of AEC on both practitioner and regulator sides.

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<sup>1</sup> Taken from the “Declaration of the ASEAN Economic Community Blueprint”, 20 November 2007

Ladies and Gentlemen,

I would like to talk firstly about the impacts of AEC on financial institutions, and secondly on the role of central bank for small economy like Thailand.

**For financial institutions, the AEC can give both opportunities and challenges.** Obviously, financial institutions will benefit from market expansion and the increasing in cross-border financial and trading activities as well as revenue remittance. However, the AEC will induce higher competition and more risk exposure.

To maximize benefits and minimize any negative effects, financial institutions need to adjust their business to the changing environment. Truly understanding customer demand, business culture, and regulatory requirement of other ASEAN countries are inevitable.

In the midst of this process, there are three words that management may need to take into consideration. The keywords are **connectivity, innovative, and efficiency.**

- **Connectivity:** the connection that can reach to customers in the region will be an important criterion to maintain or increase international competitiveness of financial institutions. These can be done through traditional ways of correspondent banking or establishing new networks and presence in other countries.
- **Innovative:** financial institutions need to be able to respond quickly and effectively to customer demand, and must not lose sight of the new opportunities from mobile banking and other social network. Higher levels of innovation are necessary, while still focusing their attention on their own core competencies.
- **Efficiency:** financial institutions need to deliver financial services with high efficiency in terms of cost, quality, and product availability. Business processes, strategies, and supporting systems may need to be revised or reconsidered in order to maintain market share and attract new customers.

Dealing with the above factors is not an easy task. **At this moment, Information and Communication Technology is perhaps going to be the most powerful catalyst.**

As a central bank, the Bank of Thailand faces the challenge of **maintaining stability, encouraging development, and ensuring financial inclusion.** All of these roles are interrelated. Stable economic and financial system will allow private sector to invest and consume optimally which is good for development. The development in financial system must meet local needs and done in good pace. Importantly, central bank needs to make sure that no one is left behind and, that there are appropriate access to financial services.

The introduction of AEC will have implications on all functions of central banking, and the central bank will have to take into account the three roles when performing its functions.

Today I will focus on how these roles have been taken into account when performing our functions in relation to banking system and payment and settlement systems

In banking system, the Bank of Thailand has always been aware of the momentum towards financial service liberalization. We, therefore, did not neglect our roles in **reshaping our financial landscape** to meet changes in the environment. Financial Sector Master Plan Phase I and II have been launched to prepare banking sector to get ready for more open economy.

FSMP Phase I focused on strengthening Thai banking sector through the policies of consolidation and one presence. In FSMP Phase II, the focuses are on comprehensive risk management, cost reduction, and enhancing competitiveness in banking system.

**Further liberalization of financial services** in ASEAN is being considered. The ASEAN central banks are now discussing on what should best constitute Qualified ASEAN Banks (QABs), which will be able to operate on a region-wide basis. However, such liberalization must be done with great care to ensure stability in each country.

As we already know, the payment and settlement systems are the backbone of a modern economy. They are gaining even more significance in the period of regional economic integration. This is because they are **financial infrastructures that facilitate flows of goods, services, investment, skilled labor and capital**.

Especially for the AEC that already embarked on Free Trade Area, the increase in trade of goods among member countries needs efficient payment and settlement systems to support their business transactions. The movement of skilled labor also needs payment instruments and products that meet and serve their personal needs.

In this part, I would like to highlight key considerations for future development in payment and settlement systems in response to the ASEAN economic region.

**The first one is Regional Connectivity** for which I think many works have been initiated. At the policy level, the ASEAN Central Bank Governors Meeting has endorsed the Working Committee on Payment and Settlement Systems (WC-PSS) since 2010 to promote future enhancement, development and harmonization. The WC-PSS has set a vision to foster integrated, safe, and efficient payment and settlement systems in the region that enable businesses and individuals to make or receive electronic payments with greater convenience.

In achieving its goals, the working committee has identified the roadmap for regional connectivity which is divided into three phases.

- In **Short Term** (2012–13), the roadmap focuses on promoting standardization to enable interoperability and inter-linkage among payment and settlement systems. International standards such as SWIFT message or other message standards are encouraged to be implemented.
- In **Mid Term** (2014–15), the roadmap focuses on improving existing infrastructure and payment environment. The improvement should meet economic needs, and takes the opportunity to standardize the systems to be ready for long term goal of regional integration. The Bank of Thailand has been proactive in this aspect. We have already upgraded our cheque clearing system from paper-based to image-based system, namely ICAS in Bangkok and the Metropolitan areas and we will launch the ICAS for the entire country within next year, and the new version of BAHTNET system will also be launched next year. In addition, a policy to set up a system for local switching (i.e. a system for switching, clearing, and settlement of domestic payment transactions via local debit card) has been prescribed, and will come into force within 2013.
- In **Long Term** (beyond 2015), ASEAN payment and settlement linkage should be explored. Currently, the Bank of Thailand is exploring the potential of linking our payment and settlement systems with that of other countries, such as the linkage with Hong Kong USD CHATS which aims to reduce FX settlement risk.

#### **The second consideration is new channel of payment and new technology**

Advanced development in Information and Communication Technology (ICT) has made it possible for money to move faster and more safely.

Important development nowadays is **ATM ASEANPay**, operated by National ITMX, which already connects ATM system between Thailand and Malaysia. More connections will be made in the future, which will help facilitate retail payment and money remittance across ASEAN countries.

Moreover, other payment channels and instruments such as e-banking, e-payment, and mobile payment will play an important role in enhancing efficiency and inclusiveness of financial services.

To get the real benefit from the advancement in ICT, we need to educate and persuade customers to change their behavior in using other payment instruments, from cash to non-cash instruments. In addition, the central bank needs to coordinate with financial institutions and service providers to make electronic payments to be more accessible, reliable and, of course, available at reasonable price.

***The third consideration is the implementation of principles for financial market infrastructures.***

From the regulatory point of view, the important payment and settlement systems need to be appropriately regulated. The recent financial crisis has shown that financial market infrastructures, such as payment and settlement systems and central counterparty, can be sources of financial shocks or major channels that shocks are transmitted across domestic and international financial markets.

To enhance safety and efficiency, the principles for financial market infrastructures have been prescribed by the Committee on Payment and Settlement Systems (CPSS) and the Technical Committee of the International Organization of Securities Commissions (IOSCO) in April 2012 with objectives to limit systemic risk and foster transparency and financial stability.

In response to the new international standard, the Bank of Thailand intends to adopt these principles to our systemically important payment and settlement system which is BAHTNET system. Moreover, we will coordinate with other regulators to ensure that all systemically important payment and settlement systems are adequately supervised.

I would like to conclude here that, to join the AEC in 2015 both central bank and financial institutions need to have proactive strategies to deal with the changing economic and social environments.

The central bank will play an important role in supporting private sectors and ensuring the stability and efficiency of financial system and infrastructures.

Concurrently, the financial institutions need to rethink and redesign their business processes and strategies in order to stay at the forefront of highly competitive environment as well as to reap the full benefit of the integrated economic community.

Thank you.