

# **On Collaboration for the Thai Financial System**

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## **Keynote Address, Bangkok FinTech Fair 2019**

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Ladies and gentlemen,

A very good morning, and welcome to the 2019 Bangkok FinTech Fair.

I stood here in the First Bangkok Fintech Fair one and a half years ago. In that event, I emphasized that the Bank of Thailand's financial sector policy focused on improvements in three key areas: productivity, inclusivity, and immunity. In order to uplift our economy's competitiveness and the standard of living of the people, financial technology will be instrumental in helping us meet these three objectives. It is this strategic direction that has guided our approach to the digitalization of Thailand's payment system and set the stage for many ongoing FinTech developments today. These three objectives of productivity, inclusivity, and immunity will continue to guide our financial sector policy in the world of digital finance.

Ladies and gentlemen,

Since the First Bangkok FinTech Fair was held here in March 2018, we have witnessed a remarkable progress in advancing digital financial services and creating foundations needed to digitally transform our financial system. Let me highlight some of them:

- Almost 50 million IDs are now linked to bank accounts via PromptPay, and the number of merchants accepting payments via standardized Thai QR code has reached 5 million.
- The number of electronic payment transactions increased from only 440 million transactions per month a year and a half ago to almost 700 million transactions in May of 2019. Many value-added digital payment services have been developed on top of our faster pay infrastructure to meet the needs of digital economy.

- The Thailand Blockchain Community Initiative, with 22 financial institutions participating, has started executing electronic letters of guarantee through blockchain, one of the very first to do so in the world.
- Many cross-border payment platforms were introduced to lower the cost of international fund transfers and improve financial connectivity in ASEAN, many of which will be showcased here throughout our two-day event.
- Project Inthanon, our central bank digital currency, has completed its second phase, and is recognized as a leading central bank digital currency initiative. You will also hear more about Project Inthanon and other central bank digital currency initiatives later on today.
- Lastly, a number of laws and regulations were introduced to facilitate digital payment and digital finance, including the new Payment Act, the Electronic Transaction Act, Digital Asset Law, as well as regulations on peer-to-peer lending platforms.

These developments are results of our shared visions and collaborative efforts undertaken by all stakeholders to advance our digital finance ecosystem. These include Thai banks' aim to reduce cash usage and payment cost, leading to collective investment in the new faster pay infrastructure; banks' and non-banks' leveraging on the interoperability of our open infrastructure and common standards to compete and expand the range of products and services; and regulators' and policy agencies' active roles in promoting financial innovations and digital adoption.

FinTech and digital finance have been and will continue to be among the top policy agenda of the Bank of Thailand. We need to further develop digital finance infrastructure, promote innovation, enable dynamic competition, and enhance adoption by the Thai people and businesses.

Ladies and gentlemen,

While technology advancement and technology adoption will remain crucial, there is another important aspect of financial services that we must not forget as we move on with our FinTech agenda: the value of financial network.

Unlike other products and services, financial services will serve the people and the society best only when money—either in the form of physical cash or digital money—can freely flow without cost and friction. In today's digital world, it is equally important that individuals and society can benefit from financial transaction

data. Therefore, preserving and strengthening the value of financial network will be imperative in advancing the development of our financial system.

On the opposite end of a strong financial network is fragmentation, whereby financial systems and payment services become fragmented by the use of different core infrastructures or different standards that are controlled by a few dominant players. With different standards and core systems, financial transactions and data flows will face frictions, which will discourage competition, collaboration, and innovation. In the world of Big Tech, strengthening the value of our financial network is critical for a small economy like Thailand, and it needs to be done so that our network remains dynamic and efficient, fostering an ecosystem conducive to innovation and competition. The nature of financial services requires that we emphasize on strengthening the value-added of our financial network. Therefore, the transformation towards digital finance cannot be efforts of individual firms alone, and we need to focus on creating the digital finance ecosystem with active collaboration from a wide range of stakeholders.

Ladies and gentlemen,

Today I would like to take this opportunity to highlight **four important principles** that have underpinned our recent developments and will continue to guide our FinTech agenda. These are principles that will strengthen the value of our financial network and develop our digital finance ecosystem.

The first principle is the **open architecture framework**. Important infrastructure must be made open, allowing both old and new market participants to easily connect as long as they meet the required security standards, appropriately share the cost of development and maintenance, and do not pose financial stability risks. The open architecture framework will level the playing field and eliminate barrier to entry for new players who often enter the market with innovations.

The second principle is **interoperability of systems**. Because every financial service provider is different and they might operate on different systems, we need to make sure that these different systems can communicate, that money and data can flow among them—in other words, that they are interoperable. And this is where standards come in. Common standards—be they for data structure, QR code payment, or biometric authentication—would allow us to benefit from competition between systems, while ensure that the competing systems are interoperable, and the financial network as a whole does not become fragmented. The concept of

interoperability can also be extended internationally, as we have seen in the case of cross-border QR codes for payment in ASEAN.

The third principle is **creating the right incentive structure**. Ensuring that both service providers and customers benefit from any given financial technology and digital financial services is critical for the adoption, the continued development, and ultimately the sustainability of those innovative financial services. In addition to convenience and pricing, an important aspect that would incentivize customers to adopt digital financial services is the confidence in digital finance. Customers need to be safeguarded against technology-related risks. A desirable incentive structure must also be able to limit distortion of market power, especially by dominant market powers who could undermine ongoing competition, and hence innovation. Making sure that our digital finance ecosystem has the right incentive structure will provide a foundation for wide adoption by customers, ongoing innovation and upgrade of services by financial service providers, and market access among new innovative players.

The fourth principle is **creating regulatory framework that promotes agility and innovation while preserving financial stability**. Regulators must continually review and ensure that their governing frameworks remain relevant in the context of the fast-changing digital world. Outdated and inflexible laws and regulations need to be amended accordingly. With the advancement of technology, financial innovations usually start off small and scale up quickly. Regulators must therefore keep in mind the concept of proportionality, allowing themselves to be more tolerant towards low-risk financial activities and more scrutinizing towards activities that might pose risks to the financial system.

We also need to keep in mind that financial products and activities are expanding across jurisdiction of different agencies. Regulatory framework must shift from entity-based regulations, which have formed the core of our regulatory framework, to activity-based ones.

Most importantly, the regulations must be agile and able to adapt to the ever-changing environment of the digital world. To give you an example, our regulatory sandbox scheme that was introduced less than two years ago might be too slow and out of sync with market requirements today. In response, we have decided to allow financial institutions to develop their own sandbox and move from the approval concept to registration concept, with a view to reducing time-to-market and increasing flexibility for innovation and investments. We have also amended our regulations governing banks' IT-related services with the aim to facilitating

partnerships between banks and tech companies, and enhancing connectivity between banks and the digital world.

Ladies and gentlemen,

It is my firm belief that these four guiding principles will be key to building a sustainable digital finance ecosystem that will strengthen the value of our financial network—the network that will eventually lead to a better society through improvements in productivity, inclusivity, and immunity. In doing this, close collaboration among key stakeholders within our financial system is crucial. And this is why “**Collaboration for the Future of Finance**” has been selected as the theme for the 2019 Bangkok FinTech Fair.

The 2019 Bangkok Fintech Fair presents an exciting venue for stakeholders to learn from leaders of financial innovation on different aspects of collaboration—from the art of multiple-stakeholder engagement to the various types of partnership. The panel discussions will highlight how collaboration can help benefit customer experience, improve financial inclusion, and advance competitiveness of our digital finance ecosystem. You will also learn of many exciting new innovations from the Technology Talk room, the ASEAN FinTech Connectivity room, as well as booth presentations throughout our venue.

I would like to thank our speakers, participants, and the audience for your presence at the 2019 Bangkok Fintech Fair. I would also like to take this opportunity to thank our partners and the Bank of Thailand staff for their tremendous and tireless efforts in organizing this event.

The Bank of Thailand looks forward to working closely with all of you to create the digital finance ecosystem in Thailand and ASEAN that encourages innovation and close collaboration among stakeholders.

Thank you very much for your participation. I wish you a productive and joyful conference ahead.