NATIONAL FINANCIAL INCLUSION STRATEGY: THAILAND EXPERIENCE

ASIA-PACIFIC FINANCIAL INCLUSION SUMMIT
October 2015

Luxmon Attapich
Senior Country Economist
Asian Development Bank
Thailand Resident Mission
ADB Technical Support to Thailand

• A technical support to Thailand on Development of a Strategic Framework for Financial Inclusion was implemented during 2012-2014.

• Desire to develop the micro finance sector and improve financial inclusion

• Strong government involvement in the sector and lack of private sector participation

• High household debt, relatively low financial literacy and inadequate financial consumer protection
History of Financial Inclusion

1949 - Government Savings Bank Established
1956 - Bank for Agriculture and Agricultural Cooperatives Established
1963 - New Cooperatives Societies Act
1966 - Savings Group for Production Exemption
1974 - Asian Financial Crisis
1977 - Establishment of FIPD
1984 - Microfinance Guidelines and Microinsurance Framework
1991 - Article 40 SSO passed
1997 - Establishment of FIPD
1998 - Agricultural Insurance Scheme
2001 - Village Fund and Universal Health Coverage Scheme
2004 - Article 40 SSO passed
2005 - National Savings Fund and National Catastrophe Insurance Fund
2008 - Payment Systems Roadmap
2011 - Microfinance Guidelines and Microinsurance Framework
2011 - Establishment of FIPD
2011 - National Savings Fund and National Catastrophe Insurance Fund
2012 - Nanofinance
2015 - Master Plan for Financial Inclusion
FinScope Survey: Thailand
Profile: income and poverty

Income structure

- 23% under THB 3000
- Poverty line
- 18% over THB 15 000

Mean income by employment category
- Mean income - 11 537 THB
- Farm worker: 5,512
- Involved in farming only: 8,553
- Farming and other work: 10,198
- Not involved in farming: 14,172

Main source of income
- Salary - Government: 6%
- Salary - private company: 11%
- Self employed: 13%
- Money from household: 13%
- Remittances: 14%
- Money from farming: 32%
## Access to Infrastructure

<table>
<thead>
<tr>
<th>Infrastructure Access</th>
<th>National</th>
<th>Municipal</th>
<th>Non-Municipal</th>
</tr>
</thead>
<tbody>
<tr>
<td>Grocery store</td>
<td>7</td>
<td>7</td>
<td>8</td>
</tr>
<tr>
<td>Access public transport</td>
<td>24</td>
<td>16</td>
<td>29</td>
</tr>
<tr>
<td>A market</td>
<td>26</td>
<td>20</td>
<td>29</td>
</tr>
<tr>
<td>An ATM</td>
<td>29</td>
<td>19</td>
<td>35</td>
</tr>
<tr>
<td>Medical facility</td>
<td>30</td>
<td>27</td>
<td>32</td>
</tr>
<tr>
<td>Bank branch</td>
<td>31</td>
<td>21</td>
<td>37</td>
</tr>
<tr>
<td>Post Office</td>
<td>33</td>
<td>26</td>
<td>36</td>
</tr>
</tbody>
</table>
## Access to Finance

<table>
<thead>
<tr>
<th></th>
<th>Banked (38,374,707)</th>
<th>Formally included (11,927,274)</th>
<th>Informally served (1,037,154)</th>
<th>Excluded (518,577)</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Banked</strong></td>
<td>74%</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Formally included</strong></td>
<td>23%</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Informally served</strong></td>
<td>2%</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Excluded</strong></td>
<td>1%</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

- 61% of those banked have National Insurance, 55% vehicle insurance
- 23% have credit life insurance
- 16% borrow and 12% save with a Village Fund
## Savings mechanism and behaviour

<table>
<thead>
<tr>
<th>Institution</th>
<th># of people</th>
<th>Monthly income</th>
<th>Mean savings</th>
</tr>
</thead>
<tbody>
<tr>
<td>Commercial banks</td>
<td>16,689,557</td>
<td>THB 18531</td>
<td>THB 5438</td>
</tr>
<tr>
<td>SFI’s</td>
<td>15,262,221</td>
<td>THB 13182</td>
<td>THB 4106</td>
</tr>
<tr>
<td>NBFI</td>
<td>117,222</td>
<td>THB 10997</td>
<td>THB 3898</td>
</tr>
<tr>
<td>Credit Union/Co-op</td>
<td>2,029,637</td>
<td>THB 17080</td>
<td>THB 4980</td>
</tr>
<tr>
<td>Village Fund</td>
<td>5,287,301</td>
<td>THB 10043</td>
<td>THB 1763</td>
</tr>
<tr>
<td>Savings group</td>
<td>7,549,652</td>
<td>THB 11933</td>
<td>THB 2522</td>
</tr>
</tbody>
</table>
## Borrowing patterns

<table>
<thead>
<tr>
<th>Institution</th>
<th># of people</th>
<th>Income</th>
<th>Total debt</th>
<th>Reasons</th>
<th>Region</th>
</tr>
</thead>
<tbody>
<tr>
<td>Commercial bank</td>
<td>2,088,926</td>
<td>THB 27,217</td>
<td>THB 176,034</td>
<td>Means of transport</td>
<td>Bangkok 24% Central 24% South 24%</td>
</tr>
<tr>
<td>SFI</td>
<td>7,146,243</td>
<td>THB 17,012</td>
<td>THB 189,361</td>
<td>Farming expenses</td>
<td>North East 44%</td>
</tr>
<tr>
<td>NBFI under BoT</td>
<td>1,374,340</td>
<td>THB 18,456</td>
<td>THB 229,255</td>
<td>Living expenses</td>
<td>Central 41% Bangkok 21%</td>
</tr>
<tr>
<td>Savings Group</td>
<td>1,566,990</td>
<td>THB 14,148</td>
<td>THB 237,038</td>
<td>Vehicle</td>
<td>North East 41%</td>
</tr>
<tr>
<td>Village Fund</td>
<td>7,423,963</td>
<td>THB 10,177</td>
<td>THB 322,366</td>
<td>48% farming expenses</td>
<td>North East 51%</td>
</tr>
<tr>
<td>Cooperative</td>
<td>1,043,897</td>
<td>THB 24,322</td>
<td>THB 222,506</td>
<td>64% farming expenses</td>
<td>Central 33%</td>
</tr>
</tbody>
</table>
Thailand Financial Inclusion Synthesis Assessment
Loan Portfolio

Target market: <12,000 Baht per month

- NBFIs: 1.4m
- Savings group/community bank: 1.6m
- Village Fund: 7.4m
- Family and friends: 1.1m
- Informal: 3.8m
- SFI: 7.1m
- Commercial bank: 2.1m

Average personal income vs. Average outstanding loan amount
Borrower Profile

Informal

- Money lender
  - Bangkok: 10%
  - Central: 23%
  - South: 11%
  - North: 27%
  - Northeast: 30%

- Savings group/Community Bank
  - Bangkok: 1%
  - Central: 16%
  - South: 16%
  - North: 25%
  - Northeast: 41%

- Village Funds
  - Bangkok: 0%
  - Central: 14%
  - South: 3%
  - North: 32%
  - Northeast: 51%

- SFI
  - Bangkok: 2%
  - Central: 15%
  - South: 9%
  - North: 29%
  - Northeast: 44%

- NBFI under BoT
  - Bangkok: 21%
  - Central: 41%
  - South: 13%
  - North: 15%
  - Northeast: 11%

Formal

- Commercial Banks
  - Bangkok: 24%
  - Central: 24%
  - South: 25%
  - North: 15%
  - Northeast: 13%
Interest rates

Target market:
<12 000 Baht per month

Informal
36% - 100%

Pawnshops
>28%

NBFI
15-28%

Savings Group
15%

Family and friends
0%

Commercial MFI
14.5%

Village Fund
6%

Commercial bank
9%

Average personal income

THB 0
THB 5 000
THB 10 000
THB 15 000
THB 20 000
THB 25 000
THB 30 000
Savings Portfolio

Target market: <12,000 Baht per month

Average monthly income

Commercial banks
Credit Union/Coop
Savings Groups
Village Fund
SFIs

Median savings

THB 0
THB 1,000
THB 2,000
THB 3,000
THB 4,000
THB 5,000
THB 6,000
THB 7,000
## Regulatory Framework

<table>
<thead>
<tr>
<th>Institution/ Supervision</th>
<th>Services</th>
<th>Governing laws</th>
<th>Key requirements</th>
</tr>
</thead>
<tbody>
<tr>
<td>NBFI /BOT</td>
<td>Credit</td>
<td>The Notification of Ministry of Finance on personal loans</td>
<td>Minimum capital: THB 50 million; 28% cap on combined interest and fees on loans below THB 200,000.</td>
</tr>
<tr>
<td>Commercial bank /BOT</td>
<td>Full service banking</td>
<td>The Financial Institution Business Act B.E. 2551 (FIBA) Deposit Protection Agency Act; Microfinance Guidelines</td>
<td>Minimum capital: THB 5 billion; Civil and Commercial Code cap of 28% on loans below THB 200,000.</td>
</tr>
<tr>
<td>Cooperative /CAD</td>
<td>Savings and credit</td>
<td>Cooperatives Act</td>
<td>Cooperative form interest: Civil and Commercial Code interest rate cap of 15%; dividend rate determined by regulation for each type of cooperative.</td>
</tr>
<tr>
<td>Retail bank /BOT</td>
<td>Limited banking (focused on retail and SME finance; no forex or derivatives)</td>
<td>FIBA Deposit Protection Agency Act; Microfinance Guidelines</td>
<td>Minimum capital: THB 250 million; Civil and Commercial Code interest rate cap of 15% raised to 28% on combined interest and fees on loans below THB 200,000.</td>
</tr>
<tr>
<td>SFI /FPO (with BOT)</td>
<td>Banking and policy lending that includes microfinance services</td>
<td>Acts for each SFI (+ Deposit Protection Agency Act)</td>
<td>SEPO KPIs (and adapted BOT standards); PSA accounting; Civil and Commercial Code interest rate cap of 15%. SFIs have regulations (BAAC) or internal policies (GSB) setting interest rates within this limit.</td>
</tr>
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## Regulatory Framework

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<tr>
<td>Savings groups / Members, sponsor (e.g. CDD)</td>
<td>Savings and credit that includes microfinance services</td>
<td>Social policy per sponsoring ministries</td>
<td>Requirements locally determined; in some cases (e.g. CDD’s SGPs) loan purpose rules; Civil and Commercial Code 15% interest rate cap.</td>
</tr>
<tr>
<td>Village Fund &amp; CFI / NVUCF, SFI support in some cases</td>
<td>Savings and credit that includes microfinance services</td>
<td>Social policy</td>
<td>Civil and Commercial Code 15% interest rate cap; Village creditworthiness ratings.</td>
</tr>
<tr>
<td>E-money provider /BOT</td>
<td>Payments, mobile banking, e-money (that might include services relevant to microfinance)</td>
<td>Electronic Transaction Act &amp; regulations</td>
<td>BOT permission for e-money</td>
</tr>
<tr>
<td>Banking agent / BOT</td>
<td>Deposit, withdrawal, transfer, credit to provide convenience and lower cost to client (that might include services relevant to microfinance)</td>
<td>BOT Notification: Banking Agent</td>
<td>Commercial banks require BOT approval; SFIs do not require BOT approval.</td>
</tr>
<tr>
<td>Regulated Moneylender - pawnshop / MOI, other govt. departments</td>
<td>Credit</td>
<td>Pawnshop Act</td>
<td>Civil and Commercial Code 15% interest rate cap.</td>
</tr>
</tbody>
</table>
Financial Literacy

- Most financial education programmes use group-based, classroom training as the main format and there is limited evidence these approaches work.
- Use of mass-media channels has targeted middle to high income target audiences and focus predominantly on investment education.
- Large networks exist that can be effective delivery mechanisms for the rural population.
- Gaps in product understanding suggest a considerable disconnect between literacy programmes and product delivery.
Consumer Protection

• The Office of Consumer Protection Board has the overall responsibility for consumer protection but financial services are only one out of several focus areas.
• The Bank of Thailand established the Financial Consumer Protection Centre to provide recourse to consumers who are unable to resolve grievances directly with their financial institution. This channel is only for clients of commercial banks and the 28 NBFIs.
• The National Credit Bureau is a valuable tool for lenders who wish to understand the debts held and loan history of potential customers.
• the lack of effective tools and mechanisms to prevent reckless lending and over-indebtedness
Policy Recommendations

- Improve the **coordination of public policy** on financial access
- Increase the **availability of** and **reduce the cost of electronic payments** for the target market
- **Enable** Village Funds and other existing CBFIs to evolve into **more efficient community-based financial institutions**
- Improve the **supervision** of community-based financial institutions
- Increase the distribution options for microinsurance
- Improve **market conduct** coupled with appropriate consumer protection
- Raise **public awareness** on the need for financial capabilities to manage **indebtedness** and improve the **ability of low-income households** to engage with financial services through practical **financial education** delivered at the community-level
- Improve the **monitoring** and **evaluation** of public policy on financial access through the **FIPD**.
National Strategy for Financial Inclusion
## Master Plan for Financial Inclusion (2015-2018)

<table>
<thead>
<tr>
<th>Strength</th>
<th>Weakness</th>
</tr>
</thead>
<tbody>
<tr>
<td>- Strong financial access</td>
<td>- Low income segment</td>
</tr>
<tr>
<td>- SFI</td>
<td>- High household debt</td>
</tr>
<tr>
<td>- CBFI</td>
<td>- Consumer protection</td>
</tr>
<tr>
<td>- Village funds</td>
<td>- Commercial banks do not reach down</td>
</tr>
<tr>
<td>- Cooperatives</td>
<td>- CBFIIs do not have legal status</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Opportunities</th>
<th>Threats</th>
</tr>
</thead>
<tbody>
<tr>
<td>- Financial inclusion is high on national priority</td>
<td>- Economic slowdown</td>
</tr>
<tr>
<td></td>
<td>- Lack of coordination</td>
</tr>
<tr>
<td></td>
<td>- Balanced supervision</td>
</tr>
</tbody>
</table>

Vision

Quality and sustainable financial access for all

Mission

Financial service providers deliver efficient financial services to all segments of the population

Thai population has appropriate financial management capability

Public sector provides necessary financial infrastructure
Thank you

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