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# Overview of Developments in Thai Financial Markets: A Banker's Perspectives

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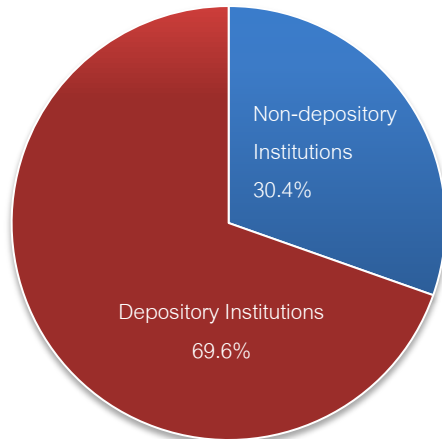
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# Thailand's Financial System

## Thailand's Financial Landscape

- Financial Institutions** There are 2 types of financial institutions in Thailand: (1) Depository Institutions and (2) Non-depository Institutions.



As of year-end 2014, total assets of financial institutions amounted to 36 trillion Baht or 2.7 times the country's GDP.

***Depository Institutions played the most important role with a share of 69.6 percent,*** while Non-depository corporations had a share of 30.4 percent.

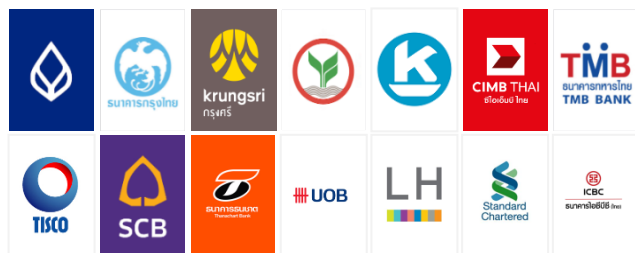
## Number and Asset Size of Financial Institutions as of year-end 2014

	Number	% of Total Assets of Financial Institutions
<b>Depository Institutions</b>	2,020	69.6
Commercial Banks	30	47.9
Specialized Financial Institutions	6	15.0
Saving Cooperatives and Credit Unions	1,943	6.0
Money Market Mutual Funds	41	0.7
<b>Non-Depository Institutions</b>	7,074	30.4
Mutual Funds	1,495	9.8
Insurance Companies	86	7.6
Leasing Companies	661	3.0
Credit Card & Personal Loan Companies	29	2.8
Provident Funds	418	2.3
Government Pension Fund	1	2.0
Asset Management Companies	33	0.9
Securities Companies	47	0.8
Agricultural Cooperatives	3,748	0.5
Pawn Shops	556	0.2

Source: Bank of Thailand. (2016). *Thai Financial System Structure*. Retrieved from <https://www.bot.or.th/Thai/FinancialInstitutions/FIStructure/Documents/financialstructure.pdf>.

# The Strength of the Financial Institutions in Thailand

As of March 2016, there are 31 Commercial Banks in Thailand including 14 Thai Commercial Banks:



Number of Commercial Banks (Thai 14+1, Foreign 16)

Type of Commercial Banks	Number of Banks
Thai Commercial Banks	14
Retail Banks	1
Subsidiary	4
Foreign Banks Branches	12

Source: Bank of Thailand. (10 March 2016). Names, Addresses and Websites of Financial Institutions.

Commercial banks had a high level of reserves and capital at the end of Q4 2015, Commercial banks had average BIS and Tier 1 Capital/Risk assets (Basel III) ratios 16.98 and 13.71 respectively, higher than the minimum threshold set at 8.5%.

Capital Adequacy Ratio (CAR or BIS ratio) of Thai Commercial Banks<sup>1/</sup>

	Large Thai Commercial Bank <sup>2/</sup>	Medium Thai Commercial Bank <sup>3/</sup>	Small Thai Commercial Bank <sup>4/</sup>	Average Thai Commercial Bank
Number of Banks (Places)	4	3	7	14
Financial Ratio				
Asset Quality and Capital Adequacy Ratio (%)				
Capital funds/Risk assets	16.93	15.52	20.44	16.98
Tier 1 Capital/Risk assets	13.79	11.84	17.23	13.71
Off-balance-sheet Transactions/Assets	113.61	114.97	309.34	136.46
Loan to related parties/Loans	2.09	7.25	2.27	3.27
Non-performing loan/Loans	2.84	2.10	3.04	2.69
Actual allowance/Required allowance	157.06	141.28	156.26	153.87
Problem asset/Assets plus allowance	2.42	1.94	2.63	2.34
Loans/Deposits	103.20	113.91	122.23	107.32
Liquidity/Deposits and Borrowings	25.49	19.56	26.97	24.27
...	...	...	...	...

Remark:

<sup>1/</sup> Thai Commercial Banks: excludes Retail Banks and Subsidiaries.

<sup>2/</sup> Large Banks: include Thai Commercial Banks with market share of Total Assets > 10%

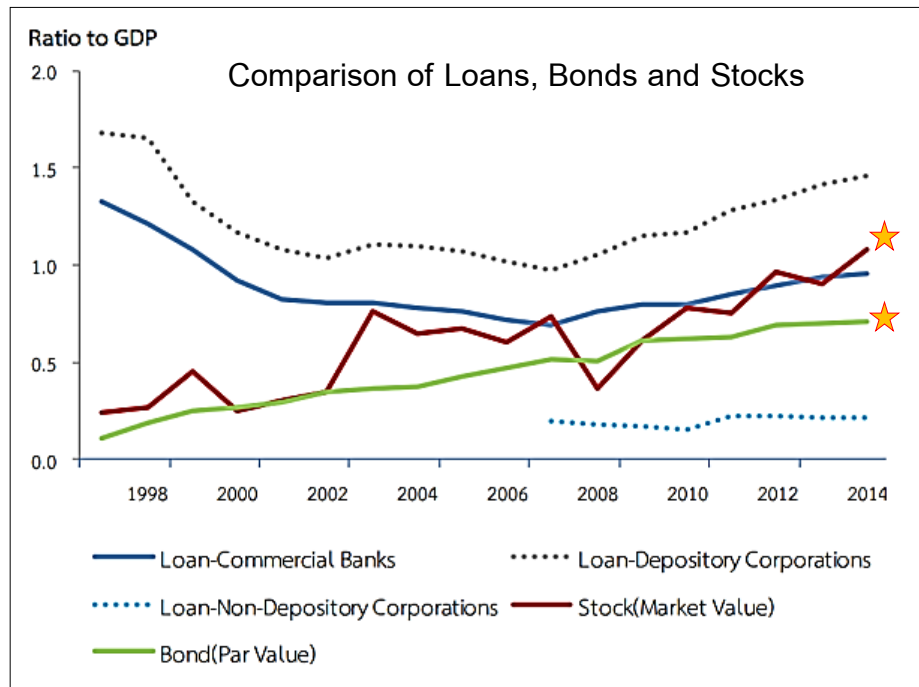
<sup>3/</sup> Medium Banks: included Thai Commercial Banks with market share of Total Assets 3% < x < 10%

<sup>4/</sup> Small Banks: included Thai Commercial Banks with market share of Total Assets < 3%

Source: Bank of Thailand. (February 10, 2016). *Average of Ratio of Thai Commercial Banks (Peer Group)*. Retrieved from <http://www2.bot.or.th/statistics/BOTWEBSTAT.aspx?reportID=759&language=ENG>.

# Thailand's Financial System

2. **Financial Markets** These comprise (1) Money Market (2) Capital Market (3) Foreign Exchange Market (4) Derivatives Market.



The size of money market reached 2.1 trillion Baht with the majority of transactions conducted by financial institutions. Bond and stock markets continue to develop and expand their roles in supporting the Thai economic and financial system. At the end of 2014, bond markets were worth 9.3 trillion Baht. At the same time, stock market capitalization reached 14.2 trillion Baht, with corporates being the major players.

For the foreign exchange market, the monthly value of transactions of authorized entities averaged 6.8 trillion Baht. The derivative market is not yet widely used - most transactions were for hedging among counterparties on the over-the-counter (OTC) market.

3. **Payment Systems** These consist of BAHTNET, Cheque Clearing System, Bulk Payment System and Funds Transfer via ATM.

Source: Bank of Thailand. (2016). *Thai Financial System Structure*. Retrieved from <https://www.bot.or.th/Thai/FinancialInstitutions/FIStructure/Documents/financialstructure.pdf>.

# The Role of Financial Institutions in Capital Markets

## Size of Thai Financial Markets

Unit: THB bln

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015p
Bank Loans <sup>1/</sup>	4,298.9	4,602.7	4,701.5	5,081.4	5,488.4	5,738.4	6,221.8	7,368.7	7,675.6	8,591.4	9,612.5	11,075.0	12,140.8	12,609.3	13,218.0
Equities (SET mkt. cap)	1,607.3	1,986.2	4,789.9	4,521.9	5,105.1	5,078.7	6,636.1	3,568.7	5,873.1	8,334.7	8,407.7	11,831.5	11,496.8	13,856.3	12,283.0
Domestic Bonds (at par)	1,882.9	2,300.0	2,518.0	2,740.4	3,412.9	4,202.0	4,888.2	5,086.0	6,118.2	6,962.1	7,327.2	8,580.0	8,991.8	9,287.3	10,028.8
GDP (current price)	5,133.5	5,450.6	5,917.3	6,489.4	7,092.8	7,844.9	8,525.2	9,080.4	9,041.5	10,104.8	10,540.0	11,375.3	11,898.7	12,141.0	13,537.5
GDP Growth rate (at 1988 prices)	2.2	5.3	7.1	6.3	4.6	5.1	5	2.5	(2.3)	7.8	0.1	6.5	2.9	0.7	2.8
<b>Domestic Bonds / Bank Loans</b>	43.8%	50.0%	53.6%	53.9%	62.2%	73.2%	78.6%	69.0%	79.7%	81.0%	76.2%	77.5%	74.1%	73.7%	<b>75.9%</b>

Remark: <sup>1/</sup> Bills, Loans and Overdrafts, excluding inter-bank loans

Source: The Thai Bond Market Association (2016). *Size of Thai Financial Markets*. Retrieved from [http://www.thaibma.or.th/fact\\_figure/factandfigure.xlsx](http://www.thaibma.or.th/fact_figure/factandfigure.xlsx).

- The domestic bonds to bank loans ratio has increased from 43.8% in 2001 to 75.9% in 2015p.
- The key players in the Domestic Bond market are Commercial Banks which act as Issuers, Investors and Underwriters.

## Key Observations: Global Trends and Domestic Impact/Challenges

Institutional changes taking place over the years while functional needs remain.

- Payment and settlement business is increasingly important.
- Broader scope of distribution role is widely seen.

### Challenge:

Proper supervision with various regulator integration and cooperation.

## Key Observations: Global Trends and Domestic Impact/Challenges

Global and regional integration will bring in competition in new forms.

- New players can come in with newer platform of service delivery.
- Fin-Tech can pose threats and offer new opportunities.
- Regulatory capital is where focus is; new financial instruments are to look for.

### Challenge:

Regulatory boundary is to be reviewed to keep market force balance.

## Key Observations: Global Trends and Domestic Impact/Challenges

### Migration of products from intermediaries to market

- Capital market become the household name for both consumers and corporate.
- SMC is an example that has a role to play in this migration.
- New financial instruments will be introduced due to risk appetite.

#### Challenge:

Consumer protection is necessary but over-protecting should be avoided.



## Key Observations: Global Trends and Domestic Impact/Challenges

Safety net is to be built with lighter government hand.

- Deposit protection gradual lowering is taking place in Thailand.
- Savers will look for more alternatives.
- Capital market activities will increase.

### Challenge:

Depository institutions must make use of their customer base well or risk losing revenue from them.