Making Access Possible

Thailand

Financial Inclusion Country Report

2014

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Making Access Possible (MAP) is a multi-country initiative to support financial inclusion through a process of evidence-based country diagnostic and stakeholder dialogue, leading to the development of national financial inclusion roadmaps that identify key drivers of financial inclusion and recom¬mended action. Through its design, MAP seeks to strengthen and focus the domestic development dialogue on financial inclusion. The global project seeks to engage with various other international platforms and enti¬ties impacting on financial inclusion, using the evidence gathered at the country level. The MAP framework has been developed by UNCDF in partnership with FinMark Trust and Cenfri and is intended to become a public good that can advance the global financial inclusion agenda. The partnership leverages their experience in financial inclusion development, aligning their respective strengths in implementation, primary demand-side research and diagnostic composition.

At country level, the core MAP partners, collaborate with Government, other key stakeholders and donors to ensure an inclusive, holistic process. MAP Thailand represents a partnership between UNCDF, ADB, MFS, Cenfri and FinMark Trust for the Development of a Strategic Framework for Financial Inclusion in Thailand. This report was produced by Cenfri as part of the larger diagnostic work. It forms part of the MAP outputs, which also includes:

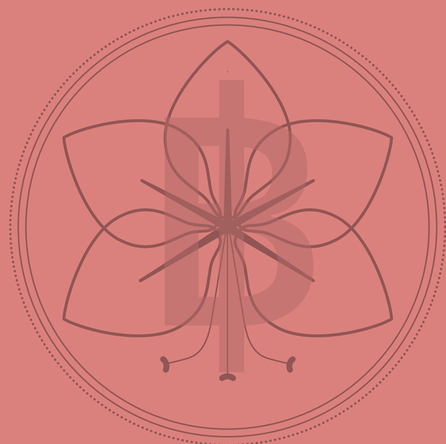
ADB

Japan Fund for Poverty Reduction

UNCDF

The cover symbol

Through the MAP programme, we hope to effect real change at country level and see the impact of financial inclusion on broader national growth and development. The cover graphic features the national flower of Thailand, which is the Ratchaphruek flower. The flower symbolises growth and development while the circle represents inclusive growth. Each flower is an example of the successful growth in a unique environment. By combining the flower with the currency symbol of Thailand we represent the characteristics of the country, linking financial inclusion with successful growth.



ABOUT MAP THAILAND

This MAP Roadmap is part of a series of documents produced as part of the Making Access Possible (MAP) Thailand initiative. MAP Thailand was a collaboration between the Asian Development Bank (ADB) and UNCDF.

Reports in the 2013 ADB and 2013/2014 UNCDF MAP Thailand Financial Inclusion Series

Reports in Thailand Financial Inclusion Series

1. Thailand Financial Inclusion:
   Microfinance Regulation Assessment Report
2. Thailand Financial Inclusion:
   Microinsurance Regulation Supply-Side Assessment Report
3. Thailand Financial Inclusion:
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5. Thailand Financial Inclusion:
   Financial Literacy Supply-Side Assessment Report
6. Thailand Financial Inclusion:
   Consumer Protection Assessment Report
7. Thailand Financial Inclusion:
   Synthesis Assessment Report

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List of Abbreviations and Acronyms

ADB	Asian Development Bank
AEC	ASEAN Economic Community
ASEAN	Association of South East Asian Nations
BAAC	Bank for Agriculture and Agricultural Cooperatives
BOT	Bank of Thailand
CAD	Cooperatives Audit Department (Min. Agriculture & Cooperatives)
CBFI	Community Based Financial Institution
CBO	Community Based Organization
CDD	Community Development Department (MOI)
CFI	Community Financial Institution
CODI	Community Organization Development Institute
CPD	Cooperative Promotion Department (Min. Agriculture & Coops)
DPA	Deposit Protection Agency Act
DTAC	Total Access Communications
EA	Executing Agency (of Government)
FAA	Funeral Aid Associations
FCC	Financial Consumer Protection Centre
FGD	Focus Group Discussion
FIPD	Bureau of Financial Inclusion Policy and Development
FPO	Fiscal Policy Office
FSMP	Financial Sector Master Plan
GSB	Government Savings Bank
IOM	International Organization of Migration
KPI	Key Performance Indicator
KTB	Krung Thai Bank
MAP	Making Access Possible
MFI	Microfinance Institution
MOF	Ministry of Finance
MOI	Ministry of Interior
NBFI	Non-Bank Financial Institution
NCB	National Credit Bureau
NPL	Non-Performing Loan
NSFI	National Strategy for Financial Inclusion
NSO	National Statistics Office
NVUCF	National Village and Urban Community Fund
OIC	Office of Insurance Commission
POS	(electronic) Points of Sale
PSA	Public Service Accounts
SEPO	State Enterprise Policy Office
RTG	Royal Thai Government
SFI	Specialised Financial Institution
SGP	Savings Group for Production
SSO	Social Security Office
TA	Technical Assistance
TCRB	Thai Credit Retail Bank
UHC	Universal Health Coverage
UNCDF	United Nations Capital Development Fund

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EXECUTIVE SUMMARY

The Thailand Financial Inclusion Synthesis Report is authored by Microfinance Service Ltd. and the Centre for Financial Regulation and Inclusion (Cenfri). The report is an output of the Technical Assistance (TA) request by the Ministry of Finance of Thailand from the Asian Development Bank (ADB) to develop a National Strategy for Financial Inclusion. The TA is funded by the Japan Fund for Poverty Reduction with technical support from the United Nations Capital Development Fund (UNCDF). The report brings together diagnostic research on financial inclusion in Thailand that was conducted between April 2012 and June 2013, applying the Making Access Possible (MAP) diagnostic and programming framework to support expanding access to financial services for individuals and micro and small businesses.[1]

The purpose of the synthesis report is to assist the Royal Thai Government (RTG) and market players to deliver a portfolio of financial services to the excluded and underserved adult population in a way that improves welfare, delivers value to customers and grows financial intermediation in the economy.

Key findings
The market analysis yielded the following key insights:

High levels of formal financial access. The 2013 FinScope survey reveals that 74% of the adult population (51.8 million persons 18 years of age and above) have a bank account. An additional 23% use other formal financial services[2] and a further 1% use only informal financial products. This leaves only 1% of the population that is not using financial services of any type.

The high level of access can be attributed to the deliberate policies pursued by the RTG over the years to extend financial services to the underserved or unserved population. These policies have been largely government led and government financed with the commercial sector playing a relatively minor role in providing access to credit and insurance, while taking the lead in the provision of savings and remittances.

FinScope revealed that only 4% of adults borrowed from commercial banks, in comparison to 25% of adults who had loans from Specialised Financial Institutions (SFIs) and other formal and semi-formal financial institutions such as Non-Bank Financial Institutions (NBFIs[3]) and Community-Based Financial Institutions (CBFIs).[4] Income levels for current borrowers vary across the different financial institutions with the median income for borrowers at commercial banks being THB 27,322, for NBFIs THB 18,676, SFIs THB 13,695 and Village Funds THB 9,098. SFIs and Village Funds account for the majority of these borrowers with 7.1 million and 7.4 million clients, respectively. However, about 1.7 million adults (with an average income of THB 10,418) indicated that they still had loans from money lenders.

Supply-side research revealed that there has been limited expansion by commercial banks to low-income or rural households despite the issuance of the Microfinance Guidelines for Commercial Banks by the Bank of Thailand (BOT) in mid-2011. The only commercial bank with a significant response has been the state-owned Krung Thai Bank (KTB) that introduced a microfinance loan programme targeted at urban microenterprises in 2011. KTB primarily wholesales credit to Village Funds and other locally established financial entities through their Community Bank project. The guidelines entitled commercial banks to charge up to 28% interest for microfinance loans, but supply-side research revealed that KTB charges urban microenterprises only 14.5% through its Community Bank project. Most formal microcredit is priced at between 6% (Village Funds and SFIs) and 15% compared to the 7.5% prime rate charged by commercial banks. Only NBFIs charge up to 28%, but they do not primarily serve the low-income market.

High use of informal credit services. FinScope reported that more than 1.7 million Thais (7.4% of borrowers) are currently borrowing from informal money lenders and a further 335,000 or more from unlicensed NBFIs despite their high interest rates (up to 3% per day charged by moneylenders for short term loans). A significant proportion of informal lending is for productive purposes and not only for consumption purposes or emergencies. Although the qualitative demand-side research revealed that Thais are very price sensitive when it comes to formal credit, they do accept high interest rates from the informal sector. This may be explained by the fact that (i) many Thais cannot comply with the collateral and other requirements set by formal lenders, (ii) formal lending products are not structured appropriately (in terms of their speed of access, flexibility and responsiveness) and/or (iii) the supply of credit is simply not sufficient to meet the demand.

High levels of debt. A substantial percentage of Thai households carry a high debt burden which causes

"FinScope revealed a most unusual risk appreciation amongst the Thai population"

them to draw upon multiple sources of credit, many of them at interest rates far higher than those charged by regulated financial institutions. Although only 12% of respondents in the FinScope survey indicated that they use credit to pay existing debts, FinScope also revealed that individual debt is inversely related to annual income - the lowest income group, those earning below THB 3,000, carries the highest debt burden. The ratio of total debt to annual income for individuals earning below THB 3,000 is 4.6. The same ratio for person earning THB 42,000 is 1. This level of indebtedness suggests that past initiatives to deal with this problem (such as programs by SFIs to purchase informal debt) have not been successful and may actually have increased the problem. A different approach going forward is required.

FinScope revealed that 53% of Thais save on a regular basis with about an equal number of adults saving in commercial banks as SFIs (32% and 30% respectively), 10% of the population saves with Village Funds, 4% with savings and credit cooperatives and 8% in informal entities only. 34% of Thai adults either do not save at all or have only in-kind savings such as gold or simply hide cash somewhere in their house.

The study revealed that the relative ease of bank transfers has a widespread impact on their use among the Thai population. At least 10% of adults receive their main income from remittances and of these 55% live in the Northeast (an additional large percentage receives remittances of some form but did not report this as their primary source of income). The large informal economy also depends heavily on the ability of making payments over distances. The bulk of remittances are sent via commercial banks through savings accounts, explaining to a large extent the very high bank account penetration rates amongst adults. The supply-side study found that in the less than THB 50,000 (US$ 1,670) category (87% of all bank savings accounts), the average bank account size is THB 4,861 (US$ 156). A large percentage of Thais maintain low bank account balances and use these accounts primarily for sending and receiving funds.

The transaction costs for many Thai citizens to send money via the banking system is however significant, particularly for smaller amounts. FinScope revealed that of the potential touch points for the delivery of financial services, respondents in non-municipal areas on average took 37 minutes to reach a bank, 36 minutes to reach a post office and 35 minutes to reach an ATM. In contrast, it took them only 8 minutes to reach a local grocery store. Furthermore, FinScope identified the two most important financial product attributes to be proximity of access and opening hours. This suggests there is an important opportunity to reduce the direct and indirect transaction[5] costs of conducting payments, especially for rural communities. The relatively higher cost of bank-based payments increases the cost of other financial services such as savings (the bulk of which is mediated through commercial banks and SFIs) and formal credit - both of which will be facilitated if the cost of payments through formal financial institutions is reduced. One of the most important opportunities to improve the extent, cost and quality of financial access therefore lies in the payments space.

FinScope revealed a most unusual risk appreciation amongst the Thai population. Normally, low-income clients are most concerned about health risks, the death of a breadwinner or funeral expenses. However, none of these risks featured in the top 10 risks identified by respondents. In fact, the top four risks all related to fears of rising prices for goods, fuel, electricity and fertilisers. This could stem from a combination of (i) traditional risks being covered by the government and community-based organizations[6] and (ii) high levels of debt where even small changes in prices can eliminate any residual monthly savings. Risks currently not covered by these government and community-based mechanisms include loss of asset and personal accident. It is therefore no surprise that the 2.1 million insurance policies underwritten by private insurers are primarily personal accident and property-related.

The Microinsurance Framework issued in 2011 has not yielded the desired results in terms of reaching low income households. Although designed to encourage private insurers to enter the low-income market, to date only about 20,000 microinsurance policies have been issued under this framework.

FinScope revealed a number of market conduct failures[7] in the provision of financial services to the low income market, notably in the credit and insurance markets. Many of the credit and insurance products provided by formal financial institutions have features that make them inappropriate for lower income households. For example, the requirement to present formal proof of income as part of a loan application excludes many in the population who make their living through informal business and can thus not present such formal documents. Similarly, the repayment schedule for credit does not necessarily match the cash flow of borrowers. Further, a number of institutions, including some formal, utilise unacceptable debt collection practices and the study revealed numerous complaints about this. Finally, most financial institutions have inadequate mechanisms and procedures to adequately assess client loan repayment capacity (underwriting), and instead rely too much upon collateral as a means of protecting against the risk of non-performing-loans (NPL).

The FinScope survey and qualitative demand research uncovered a number of financial behaviours which highlight key areas in which the financial management capabilities of Thai households can be strengthened. For example, 60% of Thais say dealing with finances is "a burden" or "stressful." 80% know budgeting is useful, but only one third currently track their monthly income and expenses.

In addition, the research revealed a widespread lack of understanding about debt. Less than 30% of rural workers across all four provinces in the qualitative research knew how to calculate interest payments, when given interest rate and the initial principal amount. Overall, several participants were not aware of the interest rate that they are being charged on their outstanding loans, saying that they simply pay the amount indicated on monthly invoices from banks and NBFIs. This suggests that some Thai borrowers cannot compare loan terms well.

Despite high levels of formal access to financial services, substantial pockets of unmet demand remain. For example, the 2006 Bank of Thailand survey[8] revealed that 30% of urban respondents in Bangkok did not believe that they could access credit from commercial banks and 14% did not believe that they could access loans in an emergency. In addition, the urban population is less likely to access CBFIs since these entities are less prevalent than in rural areas. Similarly, the International Organization of Migration (IOM) estimated that at the end of 2010 there were nearly 2.5 million undocumented migrants from Cambodia, LAO PDR and Myanmar[9] (i.e. those who do not have valid work permits) without access to any formal financial services.

Opportunities:
To meet the significant opportunities presented in this study to improve the value of financial access in Thailand it will be necessary to increase the quantity and quality of supervised financial services and to reduce the cost of such services. In addition it will be important to improve the standard of market conduct for credit providers[10], particularly at the village level. To achieve these, the following, among others, is suggested:

- Develop an open access mobile e-money platform that can be accessed by Village Funds and other CBFIs. This will put electronic payments within reach of every household at the lowest possible cost, linking them not only to each other, but also to SFIs, commercial banks and other formal financial institutions, with the potential to facilitate remittances, bill payments and the payment of insurance premiums. The development of such a platform could be put out to tender by the state, or be delegated to a specific institution. This would need to be coupled with the establishment of cash-in and cash-out facilities through nationwide cash agents which should include non-bank entities such as retail and/or convenience store outlets.
- Provide a clearly defined graduation path for CBFIs that would allow them to grow and operate their business across village boundaries and to add well defined and more advanced products/ services based on performance. Initially this could be limited to the Tambon level to preserve the value of local knowledge in credit allocation. Larger and more capable CBFIs may be allowed to graduate to a regulatory tier in which they may be afforded regulatory privileges such as the ability to mobilise public deposits.
- Encourage both SFIs and commercial banks to provide wholesale funding to these enhanced CBFIs.
- Provide financial and technical resources to allow the development of market led loan and savings products by CBFIs for their target markets (e.g. loans that accommodate irregular income flows, providing rapid access to emergency loans and attractive long-term savings products).
- Encourage both CBFIs and SFIs to collaborate with the insurance industry on the distribution of insurance products that are appropriate to the target market, i.e. products that fall within the existing microinsurance framework.
- Develop clear market conduct rules to improve credit analysis prior to the granting of loans (underwriting), not only at village level, but also through SFIs. This can be coupled with more extensive reporting to the National Credit Bureau (NCB) to track individual debt in this target market. Reporting to the NCB or oversight authority will be made much easier by the implementation of an e-money platform due to improved accuracy and ease of transmission of electronic data.
- Strengthen the supervision and oversight of CBFIs through information generated through the e-money platform.
- Raise public awareness on financial management capabilities on growing indebtedness and integrate information on the reforms outlined above and how they can reduce the risks attendant upon excessive debt.
- Improve the ability of low-income households to engage with financial services through practical financial education delivered at the community-level.
- Establish a Financial Inclusion Policy Management and Oversight Group, to be housed in the FIPD, to facilitate policy coordination and oversee the implementation of the financial inclusion national master plan and strategy.

A table of prioritised implementation actions is included in Section 11 of the report.

2 Introduction

The synthesis report considers the opportunities, challenges and scope for the development of inclusive financial markets in Thailand. The report covers the demand-side, supply-side (covering four product areas: credit, savings, payments and insurance) and regulatory dimensions of the market. The synthesis report draws on six input documents for the supply-side and regulatory assessment that include analysis of and recommendations for the supply of microfinance, microfinance regulation, supply of microinsurance, microinsurance regulation, financial literacy and consumer protection. The demand-side analysis draws from the Thailand FinScope Survey 2013 (henceforth referred to as FinScope), Focus Group Discussions (FGDs) on financial behaviours and attitudes and microinsurance FGDs (included in the supply-side microinsurance documents). Research was carried out between April 2012 and June 2013.

The report applies the Making Access Possible (MAP) diagnostic and programming framework to support expanding access to financial services for individuals and micro and small businesses. The MAP methodology and process has been developed jointly by UNCDF, FinMark Trust and Cenfri to foster inclusive financial sector growth (see Box 1 for a full description of the MAP Thailand process).

The intention of the synthesis report is to assist governments and financial service providers to deliver a portfolio of financial services to the excluded and underserved population of Thailand in a way that improves welfare, delivers value to customers and grows financial intermediation in the economy.

The rest of the synthesis report is structured as follows:

- **Section 3** provides background to financial access in Thailand and describes the deliberate policies of the RTG to extend access to financial services.
- **Section 4** describes the policy objectives to which financial inclusion contributes; for the RTG and its people.
- **Section 5** lists the key drivers that have influenced and will in the future increasingly shape the nature of financial provision for lower income household in Thailand.
- **Section 6** identifies the market segment for which improved access to appropriately designed financial services has the greatest potential livelihood and social equity impact; and evaluates the demand for financial products and services.
- **Section 7** reviews the current landscape for the distribution of financial services, as well as the individual markets for credit, insurance, savings and payments including – where relevant – regulatory and market conduct components.
- **Section 8** looks at the relevant consumer protection regulation in Thailand for the intermediation of financial services.
- **Section 9** outlines the high-level policy opportunities for the RTG to translate the key findings into policy outcomes.
- **Section 10** formulates concrete recommendations to realize the high level policy opportunities.
- **Section 11** suggests a way forward, including a set of prioritised action steps.

BOX 1:
Making Access Possible (MAP) Thailand process

MAP is a diagnostic and programming framework to support expanding access to financial services for individuals and micro and small businesses. The MAP methodology and process has been developed jointly by UNCDF, FinMark Trust and Cenfri to foster inclusive financial sector growth.

MAP Thailand represents collaboration between UNCDF and the Asian Development Bank (ADB) and is part of a larger technical assistance initiative (with funding from the Japan Fund for Poverty Reduction) for the Development of a Strategic Framework for Financial Inclusion in Thailand.

FinScope, an integral part of MAP and the larger technical assistance, is a nationally representative study of individuals' perceptions of financial services which provides insight into how people source their incomes and manage their financial lives. It explores consumers' usage of formal as well as informal products and builds a picture of the role that the informal sector can play in the financial markets. FinScope was executed by the Thailand National Statistical Office (NSO) and 5,990 face to face interviews were conducted between February and March 2013.

Unless otherwise specified, quantitative data contained in this report are drawn from the 2013 FinScope Survey.

3 Background to financial access in Thailand

Financial inclusion, as defined by the G-20[11], refers to a state in which all working adults, including those currently excluded by the financial sector, have effective access to the following financial services provided by formal institutions: credit, savings (defined broadly to include current accounts), payments, and insurance. "Effective access" involves convenient and responsible service delivery, at a cost affordable to the customer and sustainable for the provider, with the result that financially excluded customers use formal financial services rather than existing informal options[12]. The MAP methodology places particular emphasis on the discrete yet inter-related needs of low-income households for all of these services to improve their income, welfare and asset base.

Thailand currently enjoys high levels of access to formal financial services. FinScope revealed that 74% of the adult population (51.8 million persons 18 years of age and above) have bank accounts and another 25% use other formal financial services[13]. Almost all adults (99%) therefore use some form of formal financial services. According to the World Bank Findex (2012), Thailand has the highest level of financial usage compared to other South East Asian[14] countries. The high level of access can be attributed to the deliberate policies pursued by the RTG over the years to extend financial services to the underserved or unserved population. The policies have been largely government led and government financed with the commercial sector playing a complementary role in providing access to credit and insurance, while taking the lead in the provision of savings and remittances.

Figure 1 shows how the government-led financial sector interventions have evolved over the years to remain relevant to the social and economic needs of the country. Initiatives relevant to the current state and future extension of financial services are considered below:

- Specialised Financial Institutions (SFIs) are state-owned financial institutions established with the objective to provide financial services to the people of Thailand and to facilitate the implementation of economic and development policies and programmes by the government. The oldest SFI was originally established in 1913 by King Vajiravudh as the Savings Office and converted in 1949 to the Government Savings Bank (GSB). The largest SFI, the Bank for Agriculture and Agricultural Cooperatives (BAAC) was established in 1966 to provide credit and savings services to Thailand's vast agricultural sector. At present, there are eight SFIs, four of which offer banking services such as deposits, credit and bill payments, two offer credit services only and two others are corporations[15]. Savings groups for production, initiated in 1974 by the Community Development Department (CDD) of the Ministry of Interior (MOI) are community-

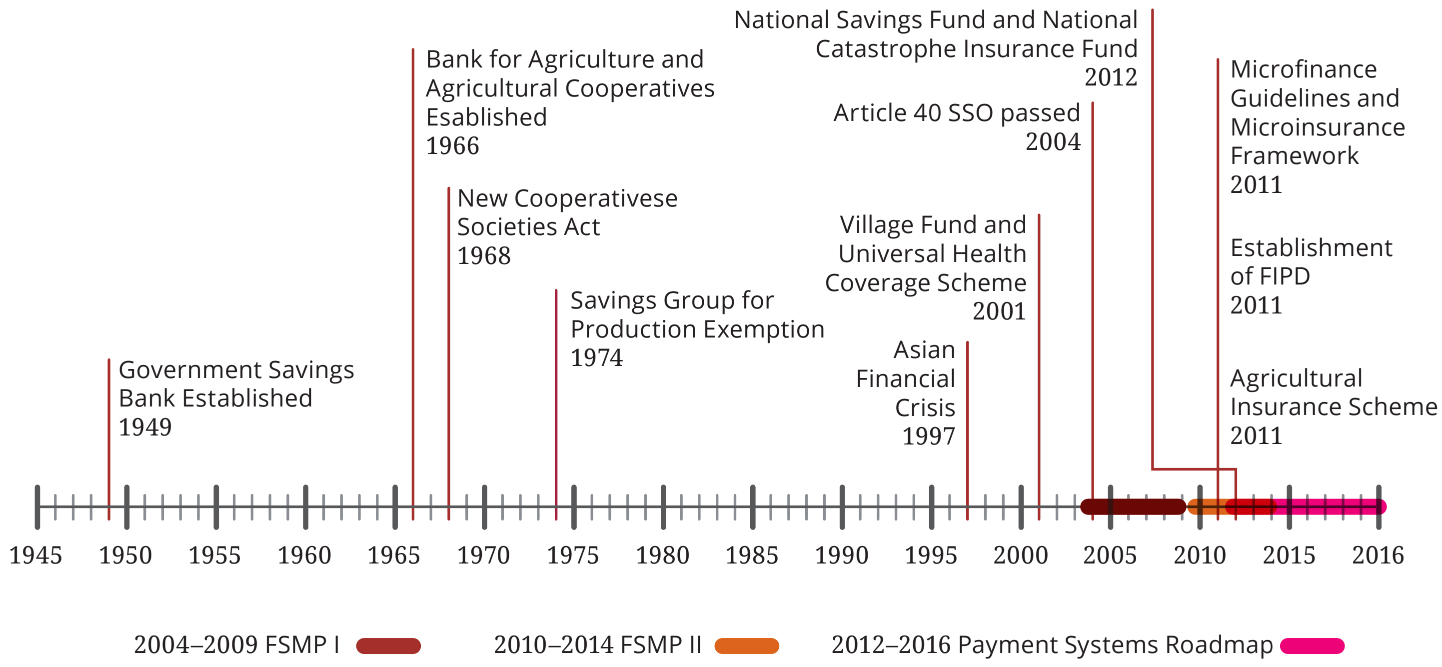


Figure 1: Thailand Financial Sector History
Source: Thailand Financial Inclusion: Microfinance Regulation Assessment Report (unpublished)

based financial institutions (CBFIs)[16]. Through CDD's support, Savings Groups for Production (SGPs) have been established in all regions of Thailand[17].

- The 1997 financial crisis forced the Ministry of Finance (MOF) and Bank of Thailand (BOT) to place the emphasis for commercial bank operations on stability and financial soundness, rather than expanding into what is perceived as higher risk lower income markets. This reinforced the approach of state-provided financial services for the bulk of the population and it has only been under the second Financial Sector Master Plan (FSMP II) that the emphasis for commercial banks and insurers changed.
- In 2001 the Royal Government of Thailand (RTG) embarked on what can be considered as its two most ambitious financial inclusion initiatives to-date. The first was the establishment of Village Funds through the National Village and Urban Community Fund (NVUCF). The establishment of the Village Funds was a nationwide effort to set up local financial associations in every village and urban community in Thailand, encouraging savings, providing rotating credit for livelihoods, and furnishing social services. The government provided initial seed money of THB one million to each of Thailand's approximately 74,000 villages and 4,500 urban communities[18] to establish a Village Fund for each, creating one of the largest microfinance initiatives in the world. The second initiative was the introduction of the Universal Health Coverage Scheme (commonly known as the 30 Baht scheme) which is a health financing scheme that provides all Thais access to health care.
- As from 2011, the RTG has intensified efforts to extend risk coverage to the informal sector. In terms of the Article 40 scheme, administered by the Social Security Office (SSO), informally employed Thai citizens can register under one of two contributory schemes that covers loss of income in case of illness or disability, as well as funeral cover and optional old-age pension. As of May 2012 there were 814,912 insured persons under this scheme[19]. Also in 2011, the RTG launched the Agricultural Insurance Scheme administered by the Ministry of Agriculture. Under this scheme, paddy farmers are covered for weather related-risks, as well as pest and disease, for one crop cycle per year to the extent of THB 1,111 per rai[20].
- The FSMP I (2004 – 2008) and FSMP II (2010 – 2014) have both included strategic objectives to increase access. The reliance on commercial banks for the extension of financial services during the implementation of FSMP I was limited, but FSMP II encourages commercial banks and commercial insurers to move down-market. This led to the issuance of the Microfinance Guidelines as well as the Microinsurance Framework in 2011. The Microfinance Guidelines spawned strong Non-Bank Financial Institution (NBFI) development, but received a limited response from commercial banks, with exception of the majority government-owned Krung Thai Bank (KTB). The Microinsurance Framework has resulted in a number of new microinsurance products as well as more insurers considering microinsurance as a business line. However, few of these insurers are actually offering microinsurance products in terms of the Microinsurance Framework.
- The Payment Systems Road Map (2012 – 2016) was introduced by the Bank of Thailand's Payment System Committee in 2010 and identified payments as a key development area going forward. The overall goal of the road map is to extend electronic payment services to all user groups, reduce reliance on cash (and the resulting costs), and promote retail electronic payment systems.
- In 2011, the Thai government established the Bureau of Financial Inclusion Policy and Development (FIPD) housed in the Fiscal Policy Office (FPO) of the MOF. The purpose of the FIPD is to develop and strengthen the extension of financial services to the low-income market in Thailand, specifically through community-based financial institutions and other financial institutions focused on this market, as well as to supervise and to provide support for regulating these institutions to ensure fair market conduct.

"The establishment of the Village Funds was a nationwide effort to set up local financial associations in every village and urban community in Thailand, encouraging savings, providing rotating credit for livelihoods, and furnishing social services."

4 Policy objectives

Financial access is not an end in itself, but contributes to the realisation of a number of policy objectives for the RTG and its people, namely:

1) **More efficient financial intermediation:** Improved access to financial services contributes to economic growth (a core goal of the FSMP II) through improved financial intermediation. With more than 60% of the population dependent on the informal sector for their livelihoods, broad-based economic growth requires that capital is also made available to small and informal businesses to expand their operations and employ people. These businesses also need savings, investment and payments services to operate and grow. The reticulation of financial services to this market beyond the corporate sector is essential to maintain Thailand's economic performance.

2) **Maintaining social stability:** An equitable distribution of financial services to all income groups and regions of Thailand serves to maintain social stability and contributes to the vision of the 11th National Plan: "A happy society with equity, fairness and resilience" and its missions: 1) to promote a fair society of quality so as to provide social protection and security, 2) to maintain and enhance the stability of the society.

3) **Rural development and agricultural production:** The majority of Thailand's population is engaged in agriculture. Access to financial services, especially productive credit and appropriate risk mitigation services, makes a critical contribution to rural development and the stability of agricultural production. Thailand's rural areas are the deep keel of a culture whose basic values include understanding sufficiency, responsibility for the land and natural resources, the maintenance of spiritual traditions and institutions, extended family and the cultivation of happiness. Financial services provide many of the institutions, tools and practices needed to support this societal structure. Similarly, ill designed financial services can undermine this societal structure.

4) **Improved household incomes, assets and livelihoods:** Access to financial services could help enhance the capacity of Thai citizens to improve their incomes, asset base and standard of living.

Whereas access to financial services is a universal objective applicable to all citizens of Thailand, the effective targeting of financial inclusion policies (also termed microfinance policies) requires targeting specific market segments that currently do not have access to a full portfolio of financial services that meet their needs. For reasons explained in section 6 it is suggested that microfinance policies should primarily target individuals with a personal income of less than THB 12,000, rather than narrowly focusing on the individuals who live below the national poverty line.

5 Key drivers for access to better financial services

Key drivers that have influenced and will in the future increasingly shape the nature of financial provision for lower income households in Thailand are discussed below. The first three drivers will tend to increase the absolute demand for financial services and also shape of the nature of this demand:

1. **Prolonged economic growth:** The success of the national economic policy has and will continue to increase the incomes of Thais across the income spectrum. Higher incomes and accumulation of assets increases the demand for financial services across payments, savings, credit and insurance. It also leads to an increasing demand for more sophisticated financial services.

2. **Migration patterns:** Thailand has seen a great deal of internal and cross-border migration. Members of rural households migrate temporarily or permanently to the cities to seek work and provide for their families back home in the rural areas. They need access to cheap domestic money transfer services. Similarly, citizens of neighbouring countries have migrated in millions across the Thai borders to seek work in Thailand. The International Organization of Migration (IOM) estimated that at the end of 2010 there were nearly two and a half million migrants from Cambodia, LAO PDR and Myanmar[21]. The level of migration will be enhanced through the establishment of the Association of South East Asian Nations (ASEAN) Economic Community (AEC) in 2015, which is likely to see the increased integration of several labour markets[22] in South East Asia. Higher mobility of labour will see increased demand for cross border financial services and the provision of financial services to non-Thai citizens.

3. **Informality:** The majority of employment in Thailand is informal in nature (62%), either through self-employed microenterprises, farming or piece work – to name a few. The profiles of self-employed and informally employed individuals often do not permit them to access commercial banking services with ease, because, amongst other reasons, they do not have a regular income and cannot produce a payslip. These citizens need specially adapted financial services that are relevant to their circumstances.

Then there are factors that will have a strong influence on the manner in which financial services are delivered. The two most important ones are:

4. **Stable society with strong social capital:** The strong cultural values placed on cohesive households and supportive communities have generated Thailand's successful signature network of community-based financial institutions. The strong extended family economic unit also shapes patterns of how family income is generated and distributed (e.g. through remittances), how families take care of the needs of their older members, how they deal with risk events and their attitudes to for example savings and credit.

5. **Connectivity:** Thailand enjoys high levels of access to mobile phones and the internet. 99% of the population use a mobile phone, 88% own a mobile phone, 50% use a mobile broadband-based phone (smart phone), and 26% currently have internet access. This is likely to impact upon and drive new business models for financial service delivery.

Finally, recent history has also shaped the attitudes to regulation and supervision of financial services:

6. **The 1997 Asian financial crisis:** The crisis saw an increased focus on the stability of commercial banking operations. As a result, the focus for commercial financial institutions shifted strongly in favour of maintaining financial stability and reliance was placed on state-supported entities to achieve financial access objectives.

6 Target market for improved financial access

The objective of the demand-side analysis is to identify the market segments for whom improved access to appropriately designed financial services has the greatest potential livelihood impact. The analysis aims to understand their economic realities, risk experience, coping strategies and knowledge, perceptions and current usage of financial services to evaluate the unmet demand for financial products and services.

6.1 Demographic information

Thailand is home to a large economy (0.5% of the world GDP) with the majority of the population employed in the informal sector (62%). Most of the adult population is still rural (65%) and predominately female (57%). The large informal sector is made-up of individuals that are either involved in the agricultural sector (63%), trade and services (28%) or manufacturing (9%). A minority of the population is formally employed (38%) and pay income tax. Table 1 provides additional demographic information.

Indicator	Approx.
GDP	USD 350b
GDP per capita	USD 5,000
GDP per capita (PPP)	USD 9,000
Total Population	66m
Adult Population	52m
Adult Male/Female split	(43%)/(57%)
Adult Urban/Rural split	(35%)/(65%)
Population living under the national poverty line	5m
Gini Coefficient(income inequality)	0.4

Table 1: Thailand demographics

Source: Thailand Financial Inclusion: Microfinance Supply-Side Assessment Report (unpublished)

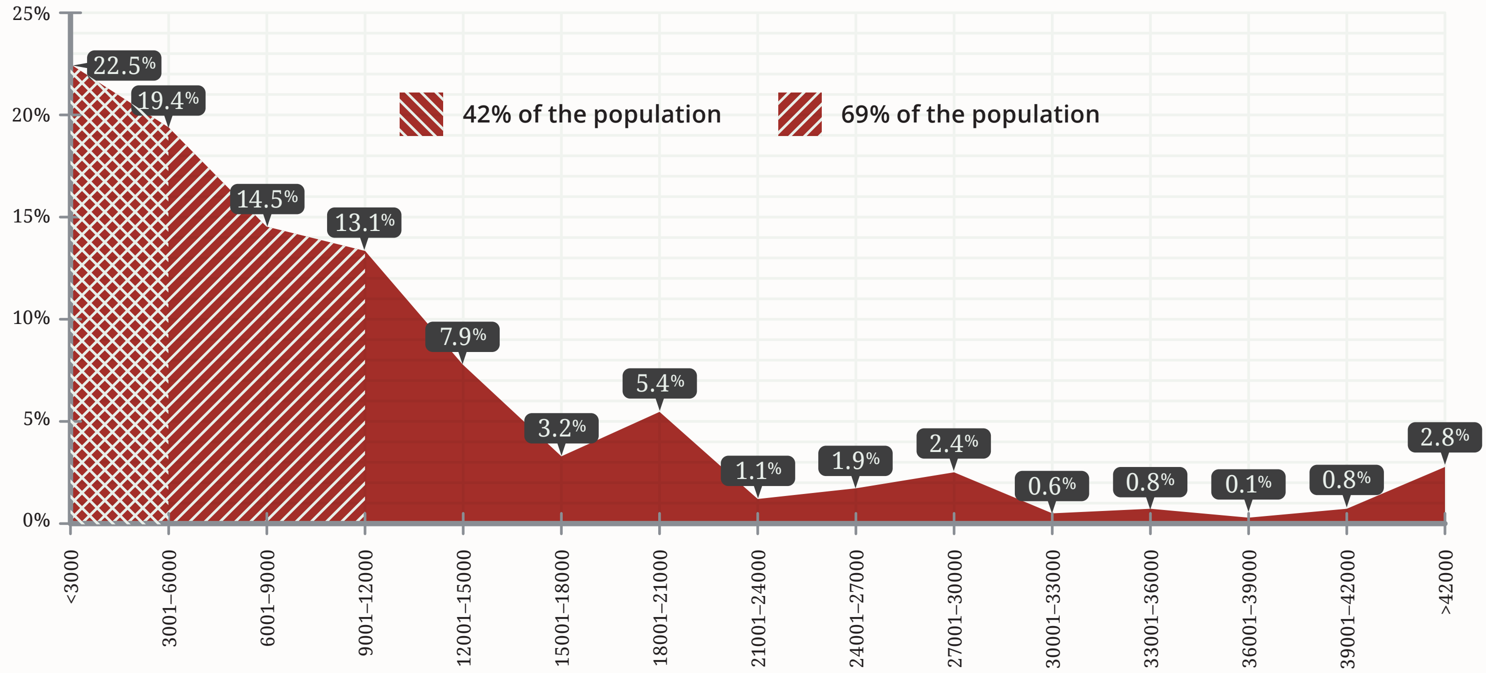


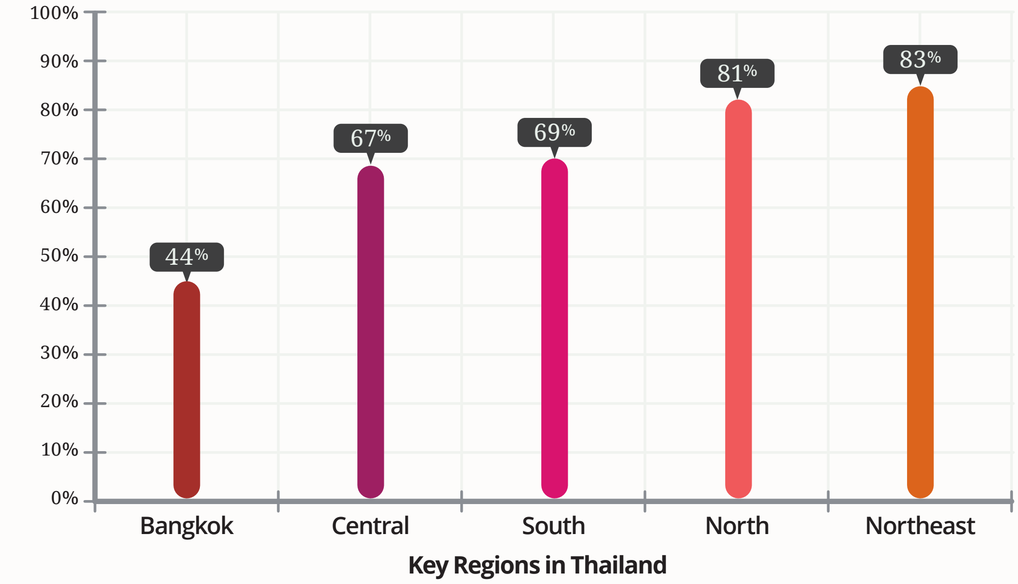
Figure 2: Monthly income distribution of adult population[24]

Source: FinScope Thailand, 2013

6.1.1 Income structure and distribution

Figure 2 below, shows that 42% of the adult population in Thailand earn less than THB 6,000 per month (the monthly equivalent of the minimum daily wage of THB 300), and 69% earn below THB 12,000 per month (twice the minimum wage). Figure 3 shows that, on average, individuals living in Bangkok or in the Central regions of Thailand enjoy higher incomes than the more rural North and Northeast. Five million individuals live below the national poverty line with an overwhelming majority (89%) residing in rural areas[23]. The rural North and Northeast represents 52% of the adult population or over 28 million adults. Figure 3 shows that over 80% of individuals living in the North and Northeast earn less than THB 12,000 per month. FinScope revealed that these individuals are largely involved in farming.

The majority of Thai adults (74%) report having a regular monthly income. Figure 4 depicts the main sources of income for Thai adults with regular monthly incomes. In addition, it reflects the average income of all the adults within a particular income source category.



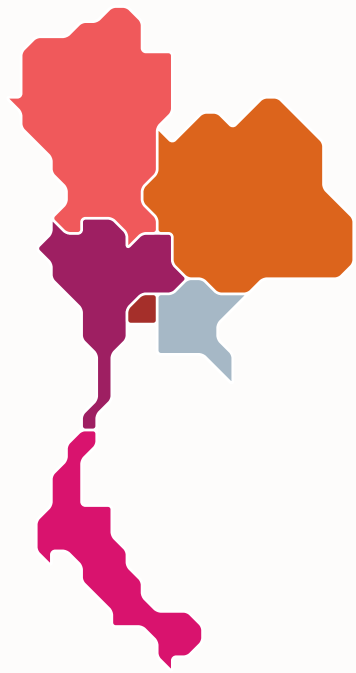


Figure 3: Regional breakdown of % of population living under THB 12,000 per month
Source: FinScope Thailand, 2013

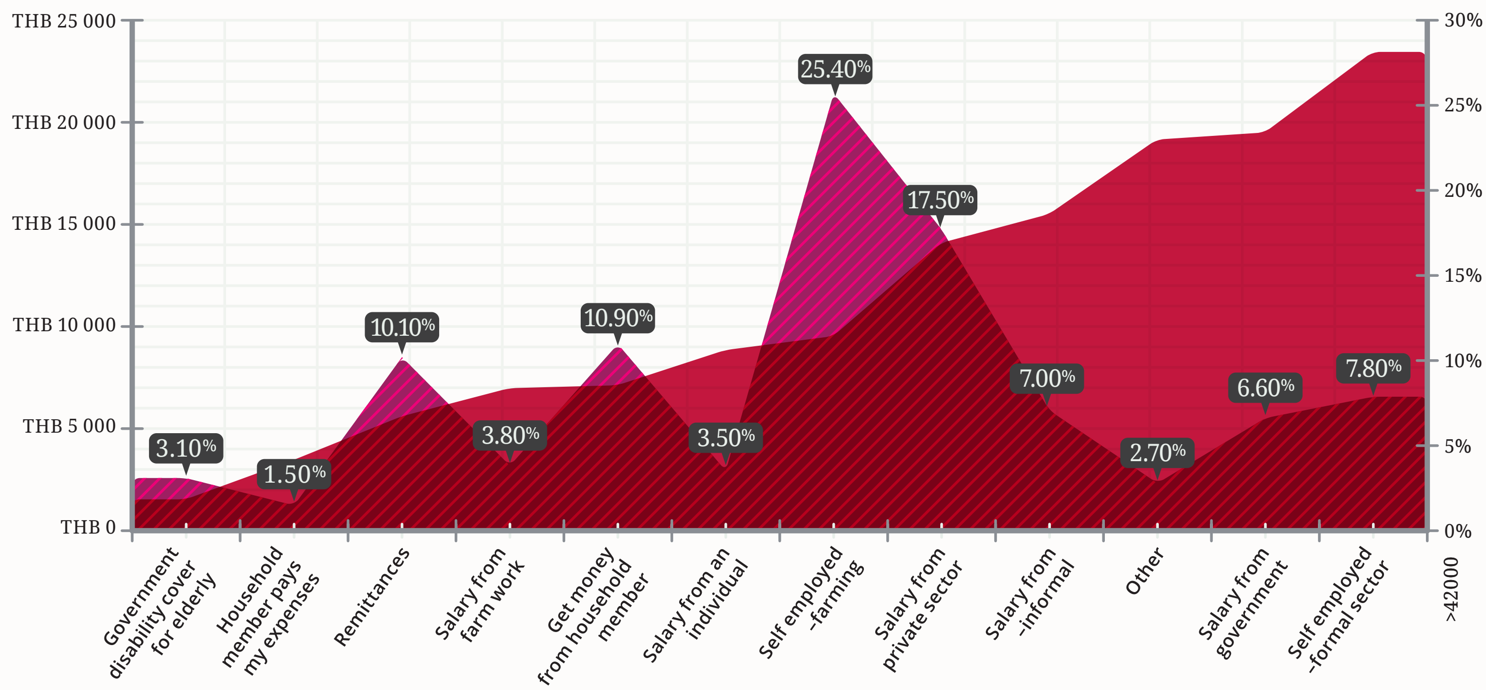


Figure 4: Main source for regular monthly incomes and average income by income source category
Source: FinScope Thailand, 2013

Figure 4 reveals that the bulk of Thai adults earning a regular monthly income below the national average of THB 11,538 fall into two broad categories. Firstly, the majority of Thai adults (29.2%) get their main source of income from farming related work. The second largest category (22.5%) derive their income from other household members, be it through the receipt of transfers or remittances or through the direct payment of expenses. Both of these are regular, but informal income sources. The only category of individuals whose main source of income is informal and earn above the national average income are self-employed individuals (7%). The bulk of the informally employed with regular incomes thus earn less than THB 11,538. Of the 26% of adults who do not earn a regular monthly income, (and who are excluded from the aggregates depicted in Figure 4), the majority would certainly earn below the national average income as well.

6.1.2 Characteristics of urban and rural low income individuals

Section 6.1.1 above reveals that the low-income adult population of Thailand are broadly characterized by the fact that they live in rural areas and gain their largest source of income from farming, that they are informally employed or self-employed, or that they receive their income from family members, either in the form of paid expenses or through remittances, or cash transfers. The study reveals that these demographic groupings have distinctive characteristics that impact their usage of financial services.

Firstly, they are largely informally employed. Informal employment is dominant in both urban and rural areas with the FinScope survey identifying 18.6 million Thai adults without proof of income or asset documentation due to the nature of their work (either as informal urban micro-businesses, employees of micro-business, those individually employed, farm workers and factory workers). They lack collateral and income documentation which limits their access to affordable credit.

Among urban households, the FinScope survey revealed that 2.4 million adults are informally employed (either as micro-business owners or by doing piece work). FGDs indicated that these groups are underserved by formal and semi-formal institutions due to their lack of ownership of assets or land as well as their lack of official documentation of residence. The result is a dependence on informal services for their borrowing needs.

Secondly, Figure 5 below reveals that the low income population in Thailand accesses financial services largely from community-based financial institutions such as Village Funds and cooperatives, as well as informal community based entities such as savings groups or informal money lenders. These individuals also utilize SFIs, but the latter also draw clients from higher income

"The low income population accesses financial services from Village Funds and cooperatives, as well as informal savings groups or informal money lenders."

categories. For example, the average income of Village Fund borrowers is THB 9,098, whereas the average income for SFI borrowers amounts to THB 13 695.

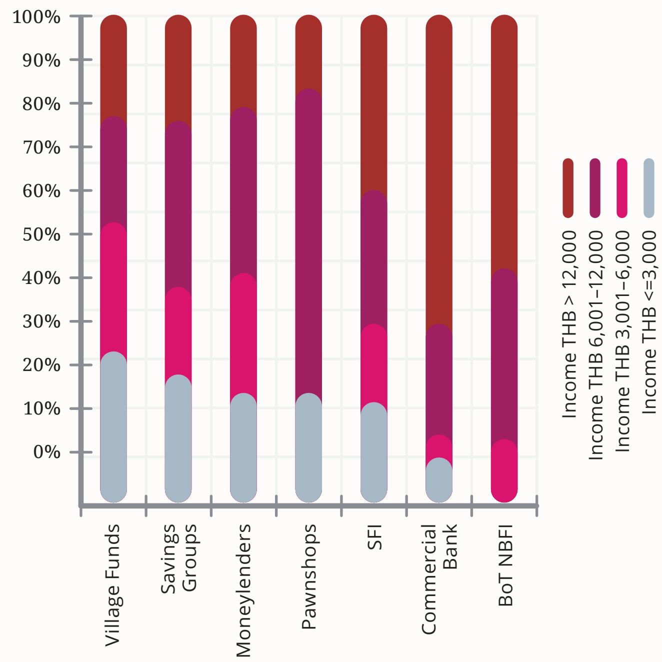


Figure 5: Borrowers by income level and institution
Source: FinScope Thailand, 2013

Thirdly, it is important to note that while the majority of the population is informal and would be considered poor in monetized terms, the family unit is highly cohesive and stable with strong intra-family support. Figure 6 below shows that intra-family support is critical when financing major risk events with 31% of Thai adults indicating that they rely on money from family and friends. In addition, very few individuals are constrained by outstanding debt on their land or homes with 76% of Thai individuals having debt free ownership of the family home and 88% of farmers having debt free ownership of their land (this excludes assets being used to secure relatively small working capital loans). Moreover, despite having a great deal of internal migration, 87% of adults indicated that they do not plan to move from their current home. This financial and social stability provides a strong foundation for the provision of financial services to lower income households and should not be undermined.

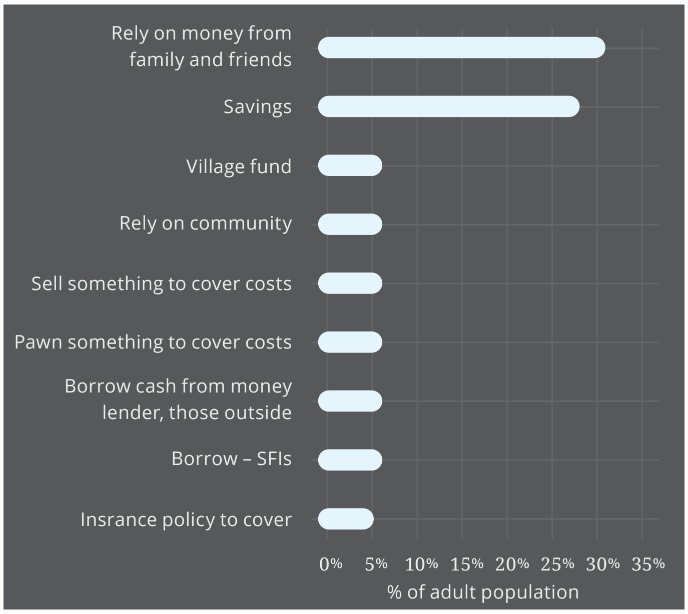


Figure 6: Financing of risk events
Source: FinScope Thailand, 2013

6.1.3 Recommended target market for financial inclusion

For the purposes of developing a strategy for financial inclusion in Thailand, the most useful monitoring and evaluation parameter would be monthly income per adult. However, to develop and implement a financial inclusion strategy will require targeting specific market segments that currently do not have access to a full portfolio of financial services that meet their needs. Reaching and impacting these target market segments will require implementation through specific financial institutions and their distribution channels. From the above analysis it is clear that the population groups most in need of expanded financial services are farmers, other informally employed and those who receive remittances. The bulk of these groups falls below the average national income of THB 11,538. In addition, as Figure 5 illustrates, these groups are best reached through community based financial institutions, and to a lesser extent SFIs.

Figure 4 also reveals that only persons receiving a government disability cover for the elderly have an average income below the national poverty line. These persons have a limited need for financial services and should not be the primary target market for a national financial inclusion strategy.

It is therefore recommended that the target market for a financial inclusion strategy be defined as Thai adults earning below the national average income, which for monitoring purposes is to be rounded up to THB 12,000 per month, and above the national poverty line.

6.2 Financial behaviour and attitudes

FGDs indicated that the level and nature of income influence financial services usage. Higher income individuals prefer accessing most of their financial services from commercial banks. While they do not typically use informal institutions to access financials services, they are often the source of informal lending (e.g. via on-lending).

Low-income individuals typically access financial services from institutions that do not require proof of income or collateral and are more closely knitted within the community (such as Village Funds, community savings groups, etc.). Rural households generally appear more risk averse and concerned about the level of indebtedness compared to urban households. These households attempt to minimise their debt load while urban households are more strongly motivated to maximise their access to credit for both investment and consumption purposes. However, the demand-side analysis revealed that rural households typically need to take on additional credit to make ends meet or finance risk events. This places additional stress and pressure on their financial management. FinScope revealed that debt (excluding credit card debt[25]) is inversely correlated with income (see Figure 12 in Section 7.3.5)

The target market for extending financial services therefore exhibits different financial behaviour and attitudes that need to be understood to design appropriate products and processes.

6.2.1 Levels of trust and satisfaction with financial services

Levels of trust and satisfaction with financial services among Thai adults vary with the type of financial service being offered and the type of institution that is offering it.

Savings and remittances: In general, Thai households have high levels of trust and satisfaction with formal and informal savings and remittances. Formal bank accounts and remittance services are generally considered to be reasonably priced in terms of fees. In total, 74% of adults have a bank account – higher in Bangkok (84%) and other urban areas (80%) than in rural areas (71%). The majority of individuals earning less than THB 1,500 per month have bank accounts. Despite the majority of Thai adults having banks accounts, many consider that saving informally in productive assets provides better value. For example, a very large proportion of adults (34%) that do not save in formal institutions revealed that they save only in informal ways (such as gold). In addition, poor savers are more likely to use community-based or informal mechanisms. The findings were supported by FGDs, which indicated that this preference for local informal systems is due to familiarity, interest received, ease of access and embarrassment over the

"Farmers borrowing from BAAC regard these loans as a "cash flow lifeline" and relied heavily on access to back-to-back loans in order to meet their consumption and business expenses."

small amounts they have to save. Complaints about these groups were largely restricted to the limitations of their available funds.

Credit and insurance: On the other hand, there seem to be lower levels of satisfaction with formal credit and insurance services and institutions. Most complaints relate to the complexity of loan application procedures (with the exception of recurrent BAAC agricultural loans), and documentation requirements which some households cannot easily provide. This is particularly the case for undocumented migrant workers and internal migrants living in rented accommodation. This is one of the reasons why informal money lenders are still used by 1.7 million adults despite what often appears to be their extraordinarily high cost. Informal lenders provide proximity, lack of intimidating and time-consuming documentation requirements and flexibility with their approach to loan repayment.

6.2.2 Market perception of financial products

Perception of financial products amongst FGD participants revealed high interest in credit products, specifically loans offered by BAAC, the largest supplier of credit to low-income households. Farmers borrowing from BAAC regard these loans as a "cash flow lifeline" and relied heavily on access to back-to-back loans in order to meet their consumption and business expenses.

The cost of credit was one of the major concerns across all regions and demographics. This suggests that the market for credit services in Thailand is price sensitive. However, borrowers are prepared to accept widely divergent interest rates depending on urgency of need and availability of credit. To some extent this would either reflect a lack of access to or understanding of alternative risk coping mechanisms to credit. For many Thai adults, the first port of call is to friends and relatives to help with any small and urgent cash flow crises. These loans are generally very flexible and interest free. If funds are not available, individuals turn to the community or informal money lenders. These options provide widely divergent interest rates and demonstrate that although rural households are more risk adverse to credit, they will take on additional debt to fund emergencies or smooth consumption when necessary. Larger and longer term borrowing (not used for consumption smoothing or financing risk events) is preferentially sourced from SFIs such as BAAC or GSB.

In regards to savings, most Thai adults indicated that they were relatively content about the services they are offered. Households' perception of the security of savings in the formal banking sector is high with about 80% of individuals feeling they can trust banks with their money and over 60% feel that banks provide products and services that meet their needs. Finscope identified the two most important financial product attributes to be proximity of access and long opening hours suggesting strong market demand for village level services.

FGDs covering perception and usage of insurance revealed a negative perception of the private insurance industry. The most commonly cited issue or reference was fraud experienced by others. In particular, fraud by agents collecting premiums was one of the problems raised. In addition, many mentioned exclusions and unfairness, as well as the complex documentation that was required, all seeming to keep them from benefiting from insurance. There is a clear trust problem toward insurance companies and their agents.

6.3 Financial capabilities of target market

FinScope and qualitative demand research have uncovered a number of financial behaviours which highlight key areas in which financial capabilities can be strengthened. Observed behaviours that are common across all demographic groups are as follows.

People feel financially "stressed" when managing their money. Over 80% of the Thai adult population knows that budgeting is useful in that it helps them manage their finances. However, only one third admit that they track monthly income and expenses. This is in line with results from qualitative research, which shows that even for middle-income groups, less than 15% of all respondents say they record income and expenses. "I feel stressed" was cited most often as the key reason they stopped recording income and expenses. According to the FinScope survey, 60% of Thais say dealing with finances is "a burden" or "stressful." This finding suggests that creating incentives for people to overcome budget stress will be an important building block to enhance financial capabilities. In other words, it is not sufficient to provide financial education tools. Such tools will need to be accompanied with constructive advice, feedback and incentives to encourage their use.

People put little emphasis on long-term saving. Only 42% Thai adults say that they "save enough" to cover household expenses each month. When asked what they save for, the majority of responses were related to short-term needs or emergencies with less than 30% indicating long-term savings for retirement, old age or education. Other major expenses that typically require long-term planning include house building, marriage, and monk's ordainment ceremonies. Low-income FGDs participants view these expenses as non-urgent. They can be downscaled and tailored to fit their financial situation. For instance, they can use local material and their own labour when building a house, and wait until they accumulate enough savings to marry or become ordained as a monk. These conditions reduce the incentives to plan ahead. The finding suggests that Thais do not yet place much emphasis on long-term saving and do not use long term savings products to reach their savings goals.

"Fear of debt" and lack of understanding hamper responsible borrowing. FinScope Thailand 2013 revealed that the top two reasons for not taking credit were fear of debt (61%) and worrying about the ability to repay (47%). Despite this fear, household debt in Thailand compared to GDP is rising at a pace that is generating concern. In first quarter (Q1) of 2013, household debt as a percentage of GDP rose to 75%, from 51% in Q1 2007. During the same period, disposable household income relative to GDP has stayed more or less flat at around 53-54%, suggesting that debt capacity has not increased in line with debt burden. In this climate, a clear understanding of debt and its implications must be a key component of every national-level financial capabilities programmes. Less than 30% of rural workers across all four provinces in the qualitative research know how to calculate interest payments, when given interest rate and initial principal amount.

Lack of understanding or awareness of alternative risk coping mechanisms. The microinsurance FGDs, highlighted that participants did not know much about insurance or whether it was available to them. For example, participants were familiar with the term prakan ("insurance" in Thai), but some participants were confused between government welfare/social protection programmes and insurance as a financial product, and most people do not understand concepts such as premium and benefits.

Lack of awareness of how to exercise consumer rights and access grievance channels. Less than half (44%) of Thais that had disputes with financial providers say they did nothing to address the dispute, and a considerable number of FGD participants say that they do not understand their loan contract. At the same time, Thai financial institutions are offering an increasingly complex array of financial products, and sometimes "bundle" different products together in such a way that consumers are not aware of exactly what they are buying. These findings suggest there is ample room for financial literacy innovations relating to debt, from facilitating a better understanding of different kinds of debt and their uses, to better disclosure of terms, to effective debt management.

Mind-set barriers to using new products and services. Overall, Thais are well-equipped with technology and are familiar with financial providers. 88% of Thai adults use mobile phones, even as high as 83% for low-income groups (i.e. those who earn less than THB 3,000 per month), 75% have a deposit account, and 79% say they "trust banks with their money." However, only 1% of Thais currently use mobile banking. More importantly, significant gaps in the understanding of products create a "mind-set barrier" which erodes the willingness to try or use new products and services.

7 Provision of financial services

This objective of the supply-side analysis is to review the current landscape for the distribution of financial services, as well as the individual markets for credit, insurance, savings and payments including – where relevant – regulatory and market conduct components.

FINANCIAL SECTOR FOOTPRINT	APPROX.
(Point of Sales) POS devices	261,167
MPay stations	100,000
Village Funds	79,255
ATMs	47,795
Counter Service points	8,500
Commercial bank branches	6,201
SFIs branches	2,240
Post office branches	1,295
Pawnshops	577

Table 2: Financial sector footprint
Source: Thailand Financial Inclusion Microfinance Supply-side Assessment Report (unpublished)

7.1 Financial sector distribution footprint

Table 2 shows the extensive financial sector footprint in Thailand made-up of commercial and SFI bank branches, fixed and mobile services centres and ATM and POS networks. Thailand also has a number of non-bank financial institutions who allow bill payments including MPay stations, other mobile payments services[26] and Counter Service at retail outlets. Commercial banks and SFIs further extend their reach through mobile branches (boats and vans) and the use of agents such as Thailand Post to increase the number of customer service points. The outsourcing of certain commercial banking functions to a third party is permitted by BOT under notification 9/2553. Agents are however prohibited from opening deposit accounts or carrying out loan approvals or deposits. SFIs do not require BOT approval to make use of agents.

The extensive reach of the financial sector is even more evident when looking at the number of districts covered by the various state and commercial institutions. According to BOT's financial access survey for 2010, of the 878 districts in Thailand, 302 (34.4 %) do not have commercial bank branches. However, when SFI branches are included, the number of districts with no branch service drops to 92 (10.48%)[27]. This is largely due to BAAC's strong rural presence as GSB's footprint is primarily urban. When including Village Funds, the financial services footprint extends to virtually 100% of the country.

Although the distribution footprint reveals that virtually the entire country is covered by one financial distribution point or another, this is does not suggest the availability of all financial services in equal measure across Thailand. For example, even though the Village Funds have a near universal footprint, they only offer credit products of a very limited kind. They do not offer any electronic payment services or the kinds of savings, credit and insurance services that may be needed by the local population. Similarly, even though commercial banks have the largest footprint in both urban and rural areas to facilitate electronic remittances, they similarly do not offer the type of credit and savings services required by the target market.

Despite this reach, the ease of access to financial services remains significantly higher in urban than in rural areas. For example, when considering proximity, the average time to financial services touch points such as ATMs and bank branches is significantly lower in urban than rural areas. Figure 7 indicates the average time to selected financial services points for urban and rural households. Interestingly, the average distance to a grocery store, a cash-handling facility, is similar across areas.

Figure 7: Average time to selected financial services
Source: FinScope Thailand, 2013

7.2 Regulatory framework

Thailand has a well-developed regulatory system governing financial services. Table 3 below summarises the main legal instruments governing the financial institutions providing services to the target market. The rest of this section focuses on the main provisions governing the institutional identity and supervision of credit providers as well as pertinent rules regulating the provision of credit. Specific rules governing the provision of savings, insurance and payment services are dealt with in the relevant sections.

Potential providers of small-scale financial services must cope with regulatory norms designed to protect clients and safeguard the financial system. Most obvious is the general interest rate cap of 15% under the Civil and Commercial Code, which not only applies to commercial banks, but also for SFIs, as well as community based financial institutions that include Village Funds, Cooperatives, pawnshops and SGPs. The rate is raised to 28% for two categories of small loans. Firstly, the MOF decree on personal loans[28] permitted banks to enter the market for small unsecured loans (maximum THB 200,000) at higher interest (28% cap) and also opened this market to non-bank companies. Second, in its Microfinance Guidelines for Commercial Banks (2011) BOT defined microfinance as loans for business or professional purposes, for an amount not more than THB 200,000, with a 28% cap on interest and fees combined. There is no collateral or minimum income requirement, and the borrower can be either an individual or an organization. Banks are allowed to conduct this business outside of their branches and offices for the convenience of potential borrowers. While the liberalization of personal loan rates has prompted the growth of a significant non-bank credit sector, the microfinance policy appears to have had little impact on commercial banking beyond the few institutions such as KTB that target the small-scale market (Discussed in more detail in Section 0).

Non-banks financial institutions (NFBIs), and limited-charter banks, in many countries play the lead role in microfinance. In Thailand, the Financial Institutions Business Act (FIBA) provides – in principle – for retail banks and for non-bank institutions that can accept term deposits. In practice, this segment is largely comprised of finance companies and credit card subsidiaries that offer consumer credit. These institutions are required to have THB 50 million in paid-up capital, to obtain a license, and also to be registered as limited companies. Where a bank owns 20% or more of any such NBFI, BOT is required to apply consolidated supervision. This means that a bank providing personal loans directly and one that owns a finance company engaged in this business are treated the same for purposes of regulatory thresholds.

The SFIs collectively play a dominant role in small-scale financial services. Each of the SFIs is governed by its own statute, and all are under the supervisory responsibility of the FPO, which delegates audit functions to BOT. The latter receives quarterly reports from the SFIs, inspects all of them annually, and reports to FPO. FPO has no supervisory norms developed specifically for the SFIs, but aims to apply the same standards as BOT uses for the commercial banks (with some exceptions). State ownership shares in the SFIs (as in other state-owned or partly state-owned entities such as KTB) are exercised by MOF through its State Enterprise Policy Office (SEPO). FPO provides legal oversight, while SEPO oversees the performance of business and policy functions, essentially from a controlling shareholder perspective.

The SFIs engage not only in the provision of financial services after the manner of commercial banks and others, but also implement government programmes. The costs to the SFIs of these initiatives are intended to be covered by Public Service Accounts (PSAs) funded by the state budget. In practice, it has sometimes been difficult for supervisors to differentiate the various parts of the business stream – PSA vs. commercial – and to determine the distinct contributions of each to SFI performance. Subsidies thus enable the SFIs to have a large presence in the small-scale credit market and to reach clients who might not qualify for commercial credit.

The NGO sector does not have a major presence in microcredit. The rules for the establishment and operation of NGOs (associations and foundations) have been described as quite restrictive for microfinance providers. Foundations, for example, are required to make a permanent deposit of THB 200,000 (in certain cases THB 500,000), and are not permitted to engage in business. On the other hand, a foundation is a legal person that can conclude contracts and take other steps, and is subject to a lower tax rate (levied on gross receipts) than a company. NGOs engaged in microfinance in Thailand frequently avoid direct provision of financial services, preferring to support cooperatives or savings groups. Alternatively, some NGOs have explored the option of transforming into NBFIs, but have generally found this to be inconvenient, due in large part to the THB 50 million minimum capital requirement.

Cooperatives, of which there are some 12,000 in Thailand, provide microfinance services. The sector has a significant financial component led by the savings cooperatives and credit unions, and is overseen by several thousand employees in the promotion and audit departments (respectively CPD and CAD) of the Ministry of Agriculture and Cooperatives. This integration of financial services and financial cooperatives into the Ministry's overall regulatory-supervisory system weakens oversight. Neither NGOs nor grassroots providers of microfinance have moved in any significant numbers to register as cooperatives. This suggests that the potential advantages of becoming a cooperative are outweighed by the reality of weak cooperative sector governance together with the inflexibility of formal institutional and operating requirements (including the interest rate cap of 15%[29]).

The Village Fund programme comprises the largest credit system beyond the formal sector and is supervised by the National Village and Urban Community Fund Committee. The headquarters' of the Committee is in Bangkok. It has only limited information on the risks, liabilities, income and expenditure of Village Funds.

The market for small-scale credit suffers from inadequate access to information on borrowers. The National Credit Bureau (NCB) has only limited reach into the low-income sector. The law governing this field, the

INSTITUTION/ SUPERVISION	SERVICES	GOVERNING LAWS	KEY REQUIREMENTS
NBFI /BOT	Credit	*The Notification of Ministry of Finance on personal loans*	*Minimum capital: THB 50 million; 28% cap on combined interest and fees on loans below THB 200,000.*
Commercial bank /BOT	Full service banking	*The Financial Institution Business Act B.E. 2551 (FIBA) Deposit Protection Agency Act; Microfinance Guidelines*	*Minimum capital: THB 5 billion; Civil and Commercial Code cap of 28% on loans below THB 200,000.*
Cooperative /CAD	Savings and credit	*Cooperatives Act*	*Cooperative form interest: Civil and Commercial Code interest rate cap of 15%; dividend rate determined by regulation for each type of cooperative.*
Retail bank /BOT	Limited banking (focused on retail and SME finance; no forex or derivatives)	FIBA *Deposit Protection Agency Act; Microfinance Guidelines*	*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.*
SFI /FPO with BOT	Banking and policy lending that includes microfinance services	*Acts for each SFI (+ Deposit Protection Agency Act)*	*SEPO KPIs[31] (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.*
Savings groups / Members, sponsor (e.g. CDD)	Savings and credit that includes microfinance services	*Social policy per sponsoring ministries*	*Requirements locally determined; in some cases (e.g. CDD's SGPs) loan purpose rules; Civil and Commercial Code 15% interest rate cap.*
Village Fund & CFI / NVUCF, SFI support in some cases	Savings and credit that includes microfinance services	*Social policy*	*Civil and Commercial Code 15% interest rate cap; Village creditworthiness ratings.*
E-money provider /BOT	Payments, mobile banking, e-money (that might include services relevant to microfinance)	*Electronic Transaction Act & regulations*	*BOT permission for e-money*
Banking agent / BOT	Deposit, withdrawal, transfer, credit to provide convenience and lower cost to client (that might include services relevant to microfinance)	*BOT Notification: Banking Agent*	*Commercial banks require BOT approval; SFIs do not require BOT approval.*
Regulated Moneylender - pawnshop / MOI, other govt. departments	Credit	*Pawnshop Act*	*Civil and Commercial Code 15% interest rate cap.*

Table 3: Regulatory framework for financial institutions
Source: Thailand Financial Inclusion: Microfinance Regulation Assessment Report (unpublished)

Credit Information Business Act B.E. 2545, defines both "credit" and "financial institution" inclusively. Loans, guarantees, purchases, and other transactions identified by NCB's governing committee are to be reported. In practice, however, potential borrowers do not enter the system until they are involved in a commercial banking transaction or in some cases a motorbike lease. Informal borrowing, trade credit, payment (or non-payment) of utility bills and other debts are not recorded in the NCB. Further, banks have not been able to obtain information from NCB on guarantors, even with consent (despite guarantees being explicitly included in the Act). Guarantors must submit inquiries about themselves and forward the results to the banks.

While most banks and NBFIs are members of NCB, the cooperatives, the Village Funds, and BAAC have not joined the system. For-profit financial institutions appear to have every incentive to become members of NCB. In the case of BAAC, the option of membership is open, but the bank has said that its own information on clients is not yet organized in a form appropriate for disclosure[30]. It is also likely that the state guarantee of BAAC's credits partly undercuts the usual incentive in favour of membership. The Act can be applied to the full range of formal small-scale financial services providers, as well as merchants selling goods on credit. But informal providers are not included. In practice, credit information is reported and accessed exclusively by the members (with limited exceptions), and most creditors who are not financial institutions appear to have little interest currently in joining the system.

Table 3 to the left summarises the regulatory framework for financial institutions engaging in extending financial access in Thailand.

7.3 Market for credit

7.3.1 Loan purposes

Credit is used for multiple purposes. The most important of these were identified during the qualitative and quantitative demand-side research. A brief summary follows below:

- **Loans for agricultural production.** FinScope revealed that 28% of Thai adults receive their main source of income from farming activities. Many more receive some form of income from farming. Loans for agricultural production are required for an array of different crops (rice, rubber, cereals, sugar cane, fruits, palm etc.) and livestock which will influence the size, duration and repayment term of the required loan size. These loans are typically obtained from Village Funds, BAAC, friends and family, money lenders, savings groups and cooperatives.
- **Consumption smoothing.** The majority of the labour force is informally employed and have uncertain and unstable streams of income which vary by season (wet vs dry) and market demand (e.g. farmers, day labourers, motorcycle drivers). 37% of individuals who use credit indicated that they use credit to cover living expenses when they do not have money readily available.
- **The use of loans for education expenses.** 14% of adults who use credit obtain credit to fund education expenses.
- **The use of credit to service existing debt.** 12% of adults who use credit indicated that they obtained the credit to service an existing debt obligation, a phenomenon that will be discussed below under indebtedness.
- **Housing and vehicle financing.** While nearly 80% of adults have used savings or an inheritance to secure their home, the remainder rely on financing to secure the purchase of this asset. These loans are typically obtained from SFIs, commercial banks and friends and family. In addition, 14% of individuals with loans indicated that they borrow to finance transportation (e.g. bicycles, motorcycles, car, pick-up truck etc.).
- **Microenterprise loans.** A large portion (2.4 million) of the labour force is self-employed (see Section 6.1.2) and engaged in micro business activities. 13% of adults' main source of income was derived from (non-agricultural) self-employment with 9% of all credit users indicating that they obtained credit for the purpose of starting or expanding their business.

7.3.2 Current usage and access

46% of the adults in Thailand reported to have outstanding loans or have borrowed money in the last 12 months. These loans have been obtained from a variety of institutions including commercial banks, SFIs, NBFIs, savings groups, cooperatives and credit unions, Village Funds, money lenders, pawnshops and family and friends.

The largest providers of credit to the target market defined in section 6 (<THB 12,000 per month) are Village Funds, other CBFIs, SFIs and informal providers (defined for the purposes of FinScope to include pawnshops and money lenders).

Figure 8 provides an overview of the credit market and compares the average income of borrowers with the average outstanding loan amount in respect of each institutional category. The size of the bubbles is indicative of the number of credit clients for each institution as revealed by FinScope Thailand (2013). As depicted, the single largest providers of loans are Village Funds with approximately 7.4 million adult clients[32], the majority (77%) of which earn less than THB 12,000 per month. This is closely followed by SFIs with 7.1 million loan clients of which approximately 66% fall into the target market. Money lenders still play a large role with 1.7 million loan clients (of which 88% fall in the target market) and then community banks with 1.6 million clients (75% of which are in the target market).

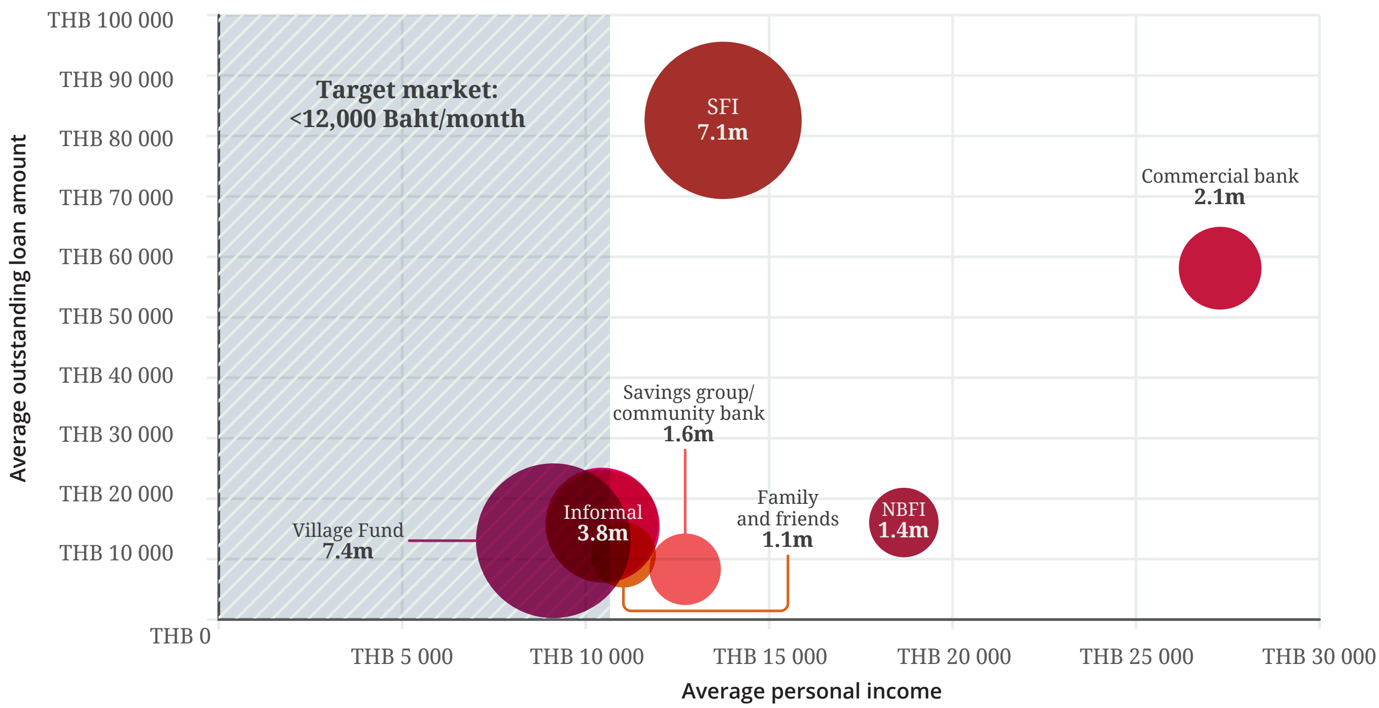


Figure 8: Relative portfolio size of loan providers vs. average outstanding loan amount and average borrower income
Source: FinScope Thailand, 2013

FinScope further revealed that village Funds, SFIs and savings group loans are primarily used for productive credit activities such as seed, fertiliser, farming equipment, buying land and livestock. Village funds do provide facilities for emergency (non-productive credit) but this usually constitutes smaller loans. Informal loans are predominantly used for consumption smoothing. Commercial banks and NBFIs are largely used for asset financing.

7.3.3 Providers

While Figure 8 provides the relative portfolio size of loan providers against the average loan size and average borrower income, the primary providers of credit to the target market are dealt with below.

Figure 9 provides an overview of the relative outreach of different lenders across the regions of Thailand. In addition, it provides a formality continuum of the different lenders using our definition of CBFIs to highlight where community, state or informal lending is highest. Figure 9 reveals the North and Northeast regions make up 83% of all borrowing from Village Funds, 73% from SFIs, 66% from savings groups and community banks and 57% from money lenders. Use of commercial banks and NBFIs remains much lower at 28% and 26% respectively.

Village Funds: The National Village and Urban Community Fund was established in 2001. The initiative provided one million Baht to each of Thailand's approximately 80,000 villages. The National Village and Urban Community Fund Committee was established to oversee the Fund and reports directly to the Prime Minister's office, providing guidelines on how to set up Village Funds. The Village Funds are managed by the village committee and are often staffed by leading members of other community based financing initiatives such as Sajjas[33]. Each Village Fund must open an account with BAAC, GSB or KTB to access seed money and further financing and each Village Fund member has to open an account with the same institutions. As of August 2012, there were 79,255 Village and Urban Community Funds with THB 162 billion[34] (in outstanding loans) and nearly 13 million members. As can be seen in Figure 10, 32% of the population that are currently borrowing are borrowing principally from the Village Fund.

Within the guidelines set up by National Village and Urban Community Fund, the individual village committees can set interest rates, maximum loan amounts and the terms of the loans. Interest rates for loans are subject to the general 15% interest rate cap but are usually set around 6% per annum. Borrowers must have an income-generating project in order to

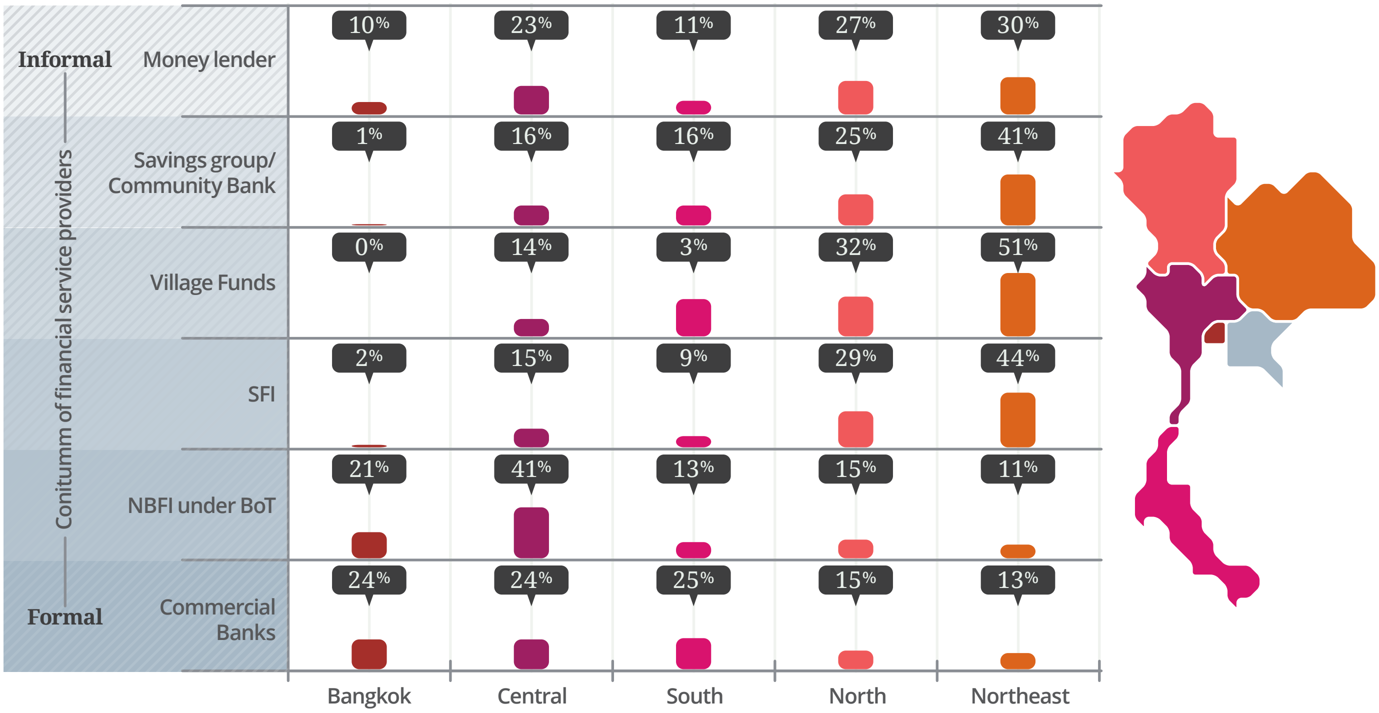


Figure 9: Percent of borrowers by key regions in Thailand and type of institution
Source: FinScope Thailand, 2013

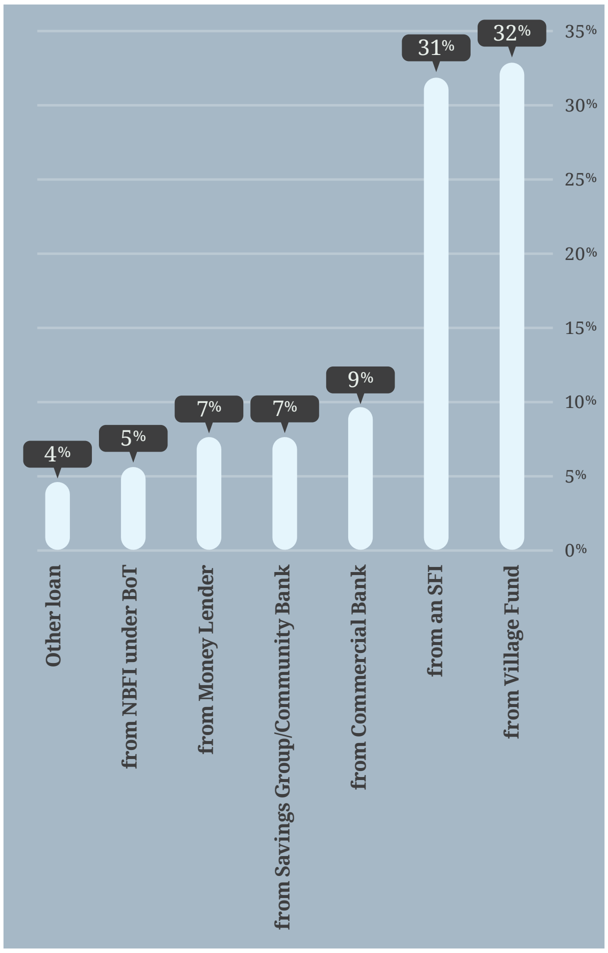


Figure 10: Primary institution used by those who are borrowing now
Source: FinScope Thailand, 2013

borrow up to the normal limit of THB 20,000, but can get higher amounts if they meet a more rigorous standard of creditworthiness. Emergency loans of THB 10,000 can be obtained without having a project. NSO's socio-economic survey data[35] reports that over 90% of loans taken out from Village Funds are paid back in full. This is consistent with reported figures by the Village and Urban Community Fund Office and with previous studies[36].

The initial capital of THB 1 million has subsequently been increased for Village Funds subject to achieving a predefined performance rating[37]. A separate account (called Account 2) holds members' shares and deposits, along with the remaining earnings, and can be used more independently as decided by members of the Village Fund. For example, loans up to THB 50,000 for more than two years are popular. Additional funds may be borrowed from SFIs to boost the capital available in Account 2. This autonomy of operation (which is likely to grow in relative importance to the government supplied funding) is strategically important as it enables another competitive player that operates both locally with local market knowledge to provide credit to the target market.

Criticism in FGDs against Village Funds has related predominantly to complaints around the unfair distribution of Village Fund capital. The first criticism is that the village elite often control the distribution of capital. However, FinScope indicated that approximately 7.4 million Village Fund members reported to be active loan clients. The income of these loan clients were distributed towards the lower end of the distribution curve with 26.9% earning monthly incomes of less than THB 3,000 and 55% earning less than THB 6,000 (as depicted in Figure 5 in Section 6.1.2). The FinScope survey would therefore seem to suggest that, even though this criticism may be valid in some cases, it is not necessarily widespread. The second criticism was that the entire available capital is captured by existing loan clients who would simply renew their loans at the end of each loan cycle. While this is possible, Village Fund loan outreach remains high and the single largest source of credit (by number of loan clients) for the microfinance target market.

Village Funds have so far been developed with the operations of individual funds confined to the boundaries of the village. There are currently plans to increase the scope for Village Funds to grow. The first option being considered is to link all community financial groups across a number of villages together under one management committee, creating a multi-village community financial institution that has larger operating capital and uniform practices in an enlarged area. The second option is to link all Village Funds together at the Tambon (sub-district) level with each Village Fund contributing a sum to a separate Tambon Fund. This proposed growth of the Village Fund raises a number of issues. Firstly, it will be important to balance the efficiency gains brought about by increased operational scale with the need for Village Fund managers to maintain local knowledge of, and close relationships with, their borrowers. This has allowed the Village Funds to successfully provide uncollateralised loans to date. It is essential to maintain this ability. Secondly, the success of the Village Funds is also based on their independence and autonomy, linked to a strong national brand that provides credibility and structure at the village level.

SFIs: The SFIs have been growing rapidly, increasing their share of the credit and deposit markets from 18% in 2003 to 27% in 2011 (a 50% increase)[38]. SFIs carry an implicit state guarantee on deposits and are exempt from deposit protection insurance and other taxes. SFIs further receive subsidies (through the Public Service Account (PSA)) to cover the higher costs associated with implementing the government's initiative to expand outreach to the target group. FPO supervises the SFIs but delegates on-site examination to BOT. FPO has no supervisory norms specifically for the SFIs, but aims to apply the same standards as BOT uses for the commercial banks – with some exceptions. FPO also provides legal oversight, for example reporting frauds such as bribes, falsified documents, and overpriced collateral to MOF. The State Enterprise Policy Office (SEPO) oversees the performance of business and policy functions, essentially from a controlling shareholder perspective. The two primary providers of micro-credit among SFIs are BAAC and GSB:

BAAC offers various loan products to support agricultural production - such as loans for agricultural assets, other investments and working capital - as well as a range of other non-agricultural loan products. These include personal loan products aimed at bettering the quality of life of clients such as loans for education purposes and loans to help farmers meet household expenses (often allowing them to postpone the sale of agricultural products until higher prices are available). BAAC recently launched a credit card for rice farmers that provides interest free credit (for up to 5 months) to farmers wishing to buy agricultural inputs. In 2010, BAAC initiated a Community Bank Project, in line with government's new policy initiative of reducing informal sector debt, that assists communities to start community based financial organizations to which BAAC then provides loans (at 12% interest per annum). As of March 2011, BAAC distributed loans to 63 organizations, to the value of THB 221.92 million, established under the Community Bank initiatives. Their technical and wholesale funding support to Village Funds is a part of this effort. Interest on BAAC loans (excluding the credit card offering and Community Bank loans) typically ranges between 6 – 9% per annum.

GSB also provides an array of relevant micro-credit products including: (i) loans for rural development that finance community development initiatives; (ii) loans under the People Bank scheme[39], that provide funds to individuals who run Small and Medium Enterprises (SMEs) or to low-income individuals who want to start their own businesses; and (iii) loans for small row-house (shop house) type businesses.

Commercial banks: With the exception of KTB and the Thai Credit Retail Bank (TCRB), commercial banks do not particularly target or have a low-income focus.

KTB is a majority state-owned bank and through its affiliation with the government holds Village Fund operating capital. In addition to BAAC, KTB also serves as an additional financing channel for triple-A (AAA) rated[40] Village Funds should the Funds wish to expand. In 2002, KTB introduced microfinance loans under its own Community Bank[41] project umbrella. The Community Bank project operates as part of the bank's Corporate Social Responsibility (CSR) activities. The target group for KTB's microfinance customers are urban micro-business operators and the main credit product for this group are loans for marketplace vendors. KTB charges interest rate of only 14.5% despite being entitled to charge up to 28% under the Microfinance Guidelines issued in 2011.

TCRB is the only privately owned bank that specifically targets lower-income customers. TCRB's target market is salaried workers earning between THB 7,500 to THB 60,000 per month and small business operators with total assets of between THB 5 million to THB 200 million. TCRB offers loans for various purposes including the purchase of motor vehicles, housing, businesses, education and medical care. One interesting and unique product of TCRB is their gold-backed loan, which allows customers to use gold as collateral.

NBFIs: Non-banks (and limited charter banks) in many countries play the lead role in microfinance. In Thailand, the Financial Institutions Business Act (FIBA) provides – in principle – for retail banks and for non-bank institutions that can accept term deposits. In practice, this segment is largely comprised of finance companies and credit card subsidiaries that offer consumer credit. NBFIs are prevalent across Thailand; BOT has licenced 28 NBFIs, the Ministry of Commerce has registered approximately 1,000 finance companies (referred to as unregistered NBFIs for the purpose of this report[42]) and an unknown number of NBFIs are not registered. Registered and unregistered NBFIs are most common in urban areas and provide loans secured by movable assets (e.g. motorbike financing) or personal loans secured by collateral (NBFI typically do not require fixed collateral). NBFIs have expanded rapidly in recent years and are replacing more traditional forms of informal microfinance such as pawnshops and money lenders.

Cooperatives: Credit cooperatives account for less that 4% of total borrowers (included under Other Loans in Figure 10). Four of the nine types of cooperatives found in Thailand have significant involvement in microfinance and include agricultural and savings cooperatives, credit unions, and farmers' groups. These organizations offer only a limited range of financial services, and are reported as having inadequate liquidity, insufficient business scale, and a lack of effective and efficient management systems. Loans are made only to members, and funds can be sourced from profits, member shares and deposits, and from obtaining bank credits. Cooperatives are supervised by the Cooperative Audit Department (CAD) and the Cooperatives Promotion Department (CPD) and fall under the Ministry of Agriculture and Cooperatives who set ceilings for interest (15% per annum) and dividends. Evaluations done by CAD found that in 2008, 40.5% of agricultural cooperatives did not meet their operational standard which was actually an improvement from 2006.

Other informal groups: Informal community groups such as SGPs, savings groups supported by the Community Organization Development Institute (CODI), informal lenders and Sajjas provide credit as an additional product for their members who primarily use these groups for savings and welfare[43] or risk mitigation services. Loan capital is sourced from member deposits and loans attract a maximum interest rate of 15%. SGPs are promoted by the CDD within the MOI, which sets guidelines for operations and receives reports from each group. Although the groups are not subject to prudential regulation, they are assessed by the CDD based on self-reported data, and the CDD assessments can be used as an indicator for financial institutions who consider providing wholesale loans to these groups. As of July 2012, there were a total of 26,819 SGPs in the country, with 3.6 million members and THB 36.9 billion in savings. A few of the stronger groups have transformed into community banks under the auspices of GSB.

Pawnshops are particularly popular for meeting short-term emergency loan needs due to their simplicity and relatively low interest rates (typically 1.5% per month). They do, however, require pawn-able assets and, as they generally lend considerably less than the value of the item, are expensive if for some reason the customer is unable to repay the loan and recover the pawned item by the required deadline. Pawnshops are separated into public and private pawnshops. Public pawnshops can be divided into those run by the Public Pawnshop Office within the Department of Social Development and Welfare (DSDW), Ministry of Social Development and Human Security. DSDW pawnshops are eligible for financing from the government budget, as well as from GSB. There are 577 registered pawnshops operating across Thailand.

Informal money lenders still account for 1.7 million clients and in the absence of more flexibly secured formal or semi-formal sector products as well as easily accessed credit for short-term emergencies will continue to thrive. To a large extent this is because of the absence of sufficiently flexible collateral requirements. In particular, potential rural borrowers frequently do not have an acceptable land title. Urban and rural underserved clients both suffer from lack of required documentation for collateral purposes including proof of income and identity/residency status.

7.3.4 Price of Credit

Figure 11 shows how the price of credit in Thailand does not follow the normal market distribution in which clients generally pay higher rates for smaller loans. Under the Civil and Commercial Code a general interest rate cap of 15% applies for formal and semi-formal financial institutions. Commercial banks currently charge a prime rate of 7.5%. SFIs offer an array of products at differentiated interest rates that typically range from 6 to 9% and do not generally exceed 12% per annum. Community based and semi-formal institutions such as Village Funds, cooperatives, pawn shops and SGPs are also subject to the 15% interest cap. However, Village Funds usually provide loans at 6% per annum, lower than the prime rate charged by commercial banks even though loan size is a fraction of that provided by commercial banks and SFIs.

In 2011, the Microfinance Guidelines for Commercial Banks increased the interest rate cap for unsecured personal and microfinance loans[44] to 28%, providing commercial banks with the space to conduct microcredit business within a higher interest rate cap. However, the only banks to take advantage of the dispensation are KTB and TCRB. KTB provides credit to urban microenterprises through its Community Bank project at 14.5%, still below the 15% general interest rate cap and well below the 28% interest rate granted under the Microfinance Guidelines. The only entities utilising the 28% cap are NBFIs, who predominantly provide consumer credit at up to 28% per annum, most of this to higher income households, as seen in figure 10.

The most expensive credit is to be found in the informal sector where rates can be as high as 3% per day (1,000% per annum) for short-term loans. However, loans from family and friends are often sourced at either no interest or up to 3% per month. There have been a number of government schemes, for example structured moratoriums, to assist borrowers from informal lenders to “formalise” their loans, i.e. bring them into a reduced interest rate regime. As will be seen in the next section, it would seem that these schemes may have increased rather than decreased the level of indebtedness of households.

Virtually no formal microcredit directed at the target market (persons earning less than THB 12,000 per month) is provided in the 15 - 28% interest band (indicated by the red circle in Figure 11), as all microcredit is provided below the 15% interest rate cap, most of it at rates below 12%. If commercial banks (with the exception of KTB who is fully government-owned) find it difficult to provide smaller value credit at this rate, it is unlikely that commercial microfinance providers, local or foreign, will be able to set up operations at a similar rate, particularly if they compete against community-based credit at below 15% and as low as 6%.

7.3.5 Indebtedness

Increasing levels of household debt in Thailand has raised concerns over the sustainability of this debt (see section 6.3). In July 2013 the BOT advised that, as of the first quarter of 2013, Thailand’s household debt had increased to THB 8.97 trillion or 77.4% of gross domestic product (GDP) compared with 1.36 trillion or 28.8% of GDP in 1997. The FinScope data indicates that 44.5% of adults currently have outstanding debt or have borrowed in the last 12 months. The average debt per indebted adult is shown to be around THB 238,395 and per indebted household around THB 606,300.

Figure 12 to the right shows that individual debt is inversely related to annual income with the lowest income group, those earning below THB 3,000, carrying the highest debt burden. The ratio of total debt to annual income for individuals earning below THB 3,000 is 4.6. The same ratio for person earning more than THB 42,000 is 1.0.

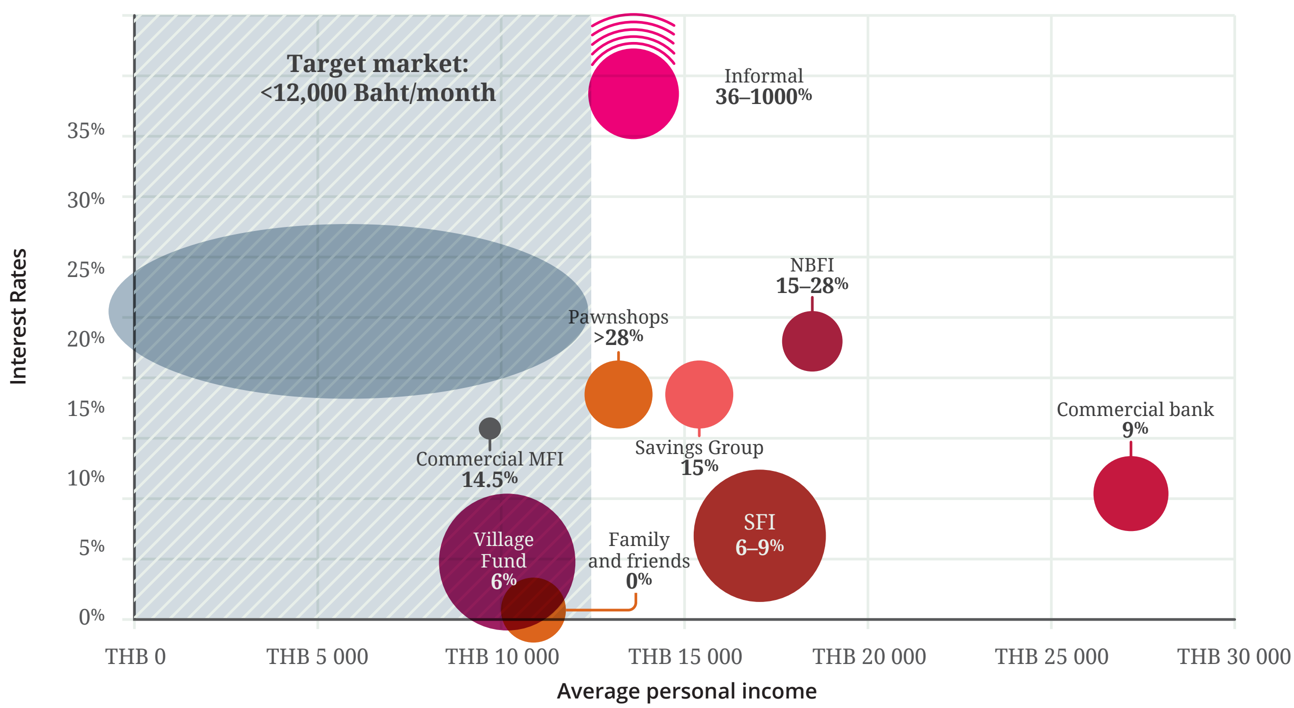


Figure 11: Interest rates by different sources of credit
Source: FinScope Thailand, 2013 and Thailand Financial Inclusion Microfinance Supply-side Assessment Report (unpublished)

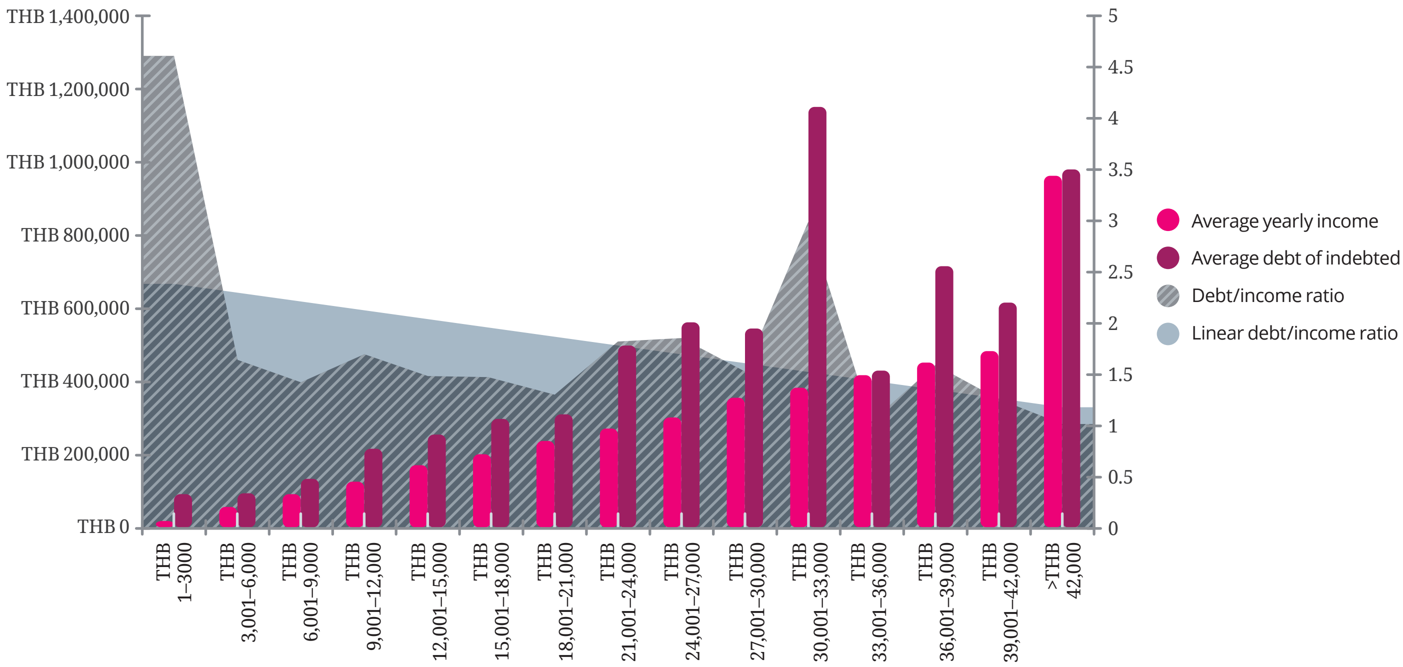


Figure 12 Debt to annual income ratio for different income groups

Source: FinScope Thailand, 2013

The disproportionality heavy debt repayment burden on low-income individuals is further skewed as debt at higher income levels is largely collateralized.

Despite most Thai adults being reluctant to talk about their indebtedness, FGDs revealed that a significant number of borrowers are caught in a perpetual debt cycle. In most cases, the cycle consists of using informal sources of credit to repay SFI or Village Fund debt simply to allow them to re-borrow from these institutions and, in turn, repay the informal lender. The FinScope study found that 12% of borrowers considered debt repayment as their main reason for borrowing.

The challenge for many households is therefore that they rely heavily on back-to-back loans in order to meet their consumption and business expenses. As noted in section 6.2.2, many households, especially farmers, regard their BAAC agricultural loans as “cash flow lifelines”. Fear of losing access to these lifelines due to failure of repayment forces households to cross-finance their debt by borrowing from “non-preferred lenders” typically an informal moneylender. This may allow the borrower to obtain a follow-up loan from his or her preferred lender, but at a cost: the household now operates under increased financial stress due to the high cost of the informal finance and the on-going interest charges of their preferred lender. This process can easily spiral out of control.

The result is that 80% of the population feel “financially stressed” and rather than being concerned about health risks, the death of a breadwinner or funeral expenses as is typical in other countries, households are worried about events that further exacerbate the debt crisis – rising input prices. In fact, the top four risks identified in the FinScope 2013 survey all related to fears of rising prices for goods, fuel, electricity and fertilisers.

7.3.6 Market conduct concerns

The qualitative demand-side research revealed a number of market conduct concerns in the provision of credit to the target market.

Debt collection: Most unethical debt collection practices seem to be restricted to informal moneylenders in the smaller, less reputable, consumer finance companies, i.e. the unregistered NBFIs. FGDs participants from Bangkok cited that moneylenders commonly used public humiliation, and failing that physical violence, in order to recover loans. The participants alleged that the police did not respond to complaints regarding these happenings and that perhaps they were paid by the moneylenders to turn a blind eye. A concern was also raised with respect to the practices of debt collection agencies hired by commercial banks and NBFIs to recover outstanding debts. These agencies were said to harass borrowers in their homes or by telephone at all hours of the day and night. Some were said to have contacted the borrower’s parents demanding that they settle their children’s debts.

Exclusion from credit: The qualitative study encountered many individuals who felt they had been unfairly excluded from access to loans from Village Funds. It was suggested that these funds had been captured by the village elite and that loans were being rolled over, therefore not becoming available to new borrowers.

Timeliness of disbursement: Practicality dictates that BAAC sometimes needs to treat rural village loans in a batch. Consequently, those wishing to take loans within a particular locality are required to take them at the same time. While BAAC attempts to coordinate loan disbursement with the beginning of the agricultural cycle, this time is not ideal for all households. For those households heavily dependent upon BAAC loans to meet consumption needs and to repay other debt, the main concern was the delay between the repayment of their last loan and the disbursement of the next loan. This is the period in which they forego consumption and often pay very high interest rates to moneylenders.

Loan Repayment Schedule: For many households in the target market, the frequency and weighting of repayments are not always well matched to cash flow. For poorer borrowers their cash flow is difficult to predict at the time of entering into the loan contract. They require a flexible repayment schedule and incentives for early repayment. When faced with inflexible formal loans, poorer households have to resort to expensive but flexible informal lenders. Consequently, the inflexibility of many formal financial institution loan products adds to their effective cost to low income borrowers. FinScope found that the two top reasons for not borrowing are fear of debt (61%) and worry about ability to repay (47%). Even the Village Fund that is much closer to clients faces this problem. It is reported anecdotally that the high pressure for 100% repayment of the Government contributed funds (the THB 1 million tranches) is an access issue for poorer people. With a smaller asset base and less experience in borrowing, they have a high fear of failure.

Need for fast loan approval with less documentation: All households in all regions stress the importance of fast loan approval and simple documentation. Poverty does not equate to idleness and these households simply cannot afford to be away from work for prolonged periods of time. Fast approval is of course especially important for emergency loans, or loans that allow individuals to take quick advantage of sporadic and unexpected business opportunities. For households with low levels of formal education, extensive documentation requirements form a barrier to access even when there is no urgency for loan approval and disbursement. Slow application and a high level of documentation are particularly characteristic of SFI loan application processes. For those working in the informal sector without regular payslips or financial records, documentation requirements can form an absolute barrier to loan access. Some commercial banks are attempting to overcome this problem by allowing potential loan customers to demonstrate income streams and cash flow through savings account records.

Lack of access to formal credit among undocumented migrants: Without Thai residency, people cannot borrow from formal financial institutions. Thus, up to 2.5 million undocumented immigrants[45] are excluded from formal credit. In some cases this may include second and third generation Burmese immigrants. Some are, however, still able to open deposit accounts with domicile records or rely on friends to open a savings account for them, and access this account via an ATM card.

Lack of reward for credit worthy clients: Non-collateralised lending is often called "relationship based" lending as loan security depends upon the quality of the relationship between the borrower and the lender. Good relationship based lenders, therefore, gradually increase their risk exposure as trust in the borrower develops over time. This takes the form of larger loan sizes and greater flexibility provided to longer term clients who have proved themselves credit worthy. This approach has not been incorporated into BAAC's credit assessment practices in which loan size is tailored to the declared loan purpose and the same rules apply to first-time borrowers as they do those successfully repaying their tenth loan.

7.4 Market for insurance

7.4.1 Insurance purposes

There are a number of purposes that illustrates the demand for risk mitigation financial products and could be explored as opportunities to extend formal insurance cover. Brief summaries of these follow below:

- **Funeral insurance.** FinScope shows that 8% of the adult population rely on insurance to cover the cost of a funeral. The qualitative demand side research indicated that Buddhist funeral expenses range between THB 50,000 and THB 100,000. These expenses, especially in rural areas, are often mitigated through membership of welfare groups or funeral associations with 49% of insured Thai adults reporting that they belong to a funeral association.
- **Personal Accident,** temporary and permanent disability insurance. Qualitative research revealed high risk appreciation for events, particularly accidents, that can lead to a loss of income for self-employed people. A large portion of the labour force derived their income informally and can thus not rely on employer provided cover in the event they cannot work. While the majority of the population rely on the 30 Baht programme to cover health expenses, this programme does not assist in loss of income or other out of pocket expenses associated to the event.
- **Asset insurance for income generating assets.** 48% of insured Thai adults have motor vehicle insurance. This is partly due to the compulsory nature of the offering. Focus group respondents showed high levels of risk appreciation for the loss of income generating assets, but the concern was not mirrored for non-income generating assets.
- **Insurance against natural disasters.** Only 2% of the population rely on insurance to mitigate against the risk of a natural disaster. At present many Thai adults draw on savings (25%) and money from friends and

family (28%) to cope with these events. The remainder rely on the sale of assets or access credit. Insurance, correctly tailored to the specific needs of the target market, could effectively compliment or replace existing coping mechanisms.

7.4.2 Current usage

The Office of the Insurance Commission (OIC) reports that 28% of Thais have life insurance from a commercial insurance company and FinScope finds that 49% of adults have risk cover with a commercial insurer or informal risk carrier. Total gross premium income as a percentage of GDP (also referred to as the insurance penetration rate) is 4.2%. This compares with a global average, in 2012, of 6.5%. Annual growth of total insurance premium over the past ten years significantly exceeded GDP growth, with an average annual growth rate of 12.6% between 2001 and 2011. Despite this rapid growth, insurance premium payments still rank low on the list of living expenses (on average 15th).

At present, the largest share of risk cover, by number of people covered (in excess of 16 million policies), is informally underwritten by SFIs, cooperatives and other community based organisations such as Funeral Aid Associations (FAAs) and Welfare Funds[46]. The most common risk covered among the low-income households is funeral followed by welfare. 6.7 million Thais have funeral cover through an FAA, 3.8 million have welfare cover and 2.6 million have life cover through community-based initiatives[47].

Credit-life and endowment[48] are the most prominent product classes among formal insurance products provided to the target market. Credit-life is offered by cooperative schemes, SFIs (GSB and BAAC) and private insurance companies with 3.6 million borrowers covered. The credit-life market is however underdeveloped due to restrictions by the OIC on compulsory bundling of insurance with loans.

While not formally categorized as insurance, most households rely heavily upon the Universal Health Coverage (30 Baht programme), provided by the state, to finance health expenditures. Availability of this basic health care service relieves households to some extent from the pressure of financing medical emergencies.

Relatively few Thai households take out commercial insurance against personal property risk. Most adults are aware of insurance but lack understanding of basic concepts such as premiums and benefits. They generally have a negative perception of insurance, mainly due to fraud experienced by others and communicated to them through word of mouth. The FGD respondents also cited inappropriate premium amounts and inability to pay, exclusivity, complexity of documentation, and unfairness as reasons for not purchasing insurance.

7.4.3 Providers

Microinsurance in Thailand is formally defined in the Microinsurance Framework issued by the Office of the Insurance Commission. The Microinsurance Framework, supported by a series of OIC Commissioner's Orders, is designed to guide insurers in the development and offering of microinsurance (see Box 2 for more detail).

BOX 2:
OIC Microinsurance Framework

The Microinsurance Framework was issued by the OIC in 2011 after consultations with the insurance industry. This initiative emanates from the Financial Sector Master Plan for 2010 through 2014 which sets an aggressive insurance penetration target of 6% of GDP.

The Framework defines what constitutes a microinsurance policy. This includes broadly defining the target market as the low and medium income population, prescribing distribution through direct sales or the use of microinsurance agents[49] and restricting premium collection to banks, counter services and microinsurance agents. The Framework requires simplified policy wording and claims processes. It also defines maximum benefits and premiums:

- Term-life and Endowment products: maximum cover THB 100,000 with maximum premiums of THB 1,000 per year for term life and THB 500 per month for endowment products;
- Accidental Death: maximum cover of THB 100,000 for maximum annual premiums of THB 450;
- Property insurance: maximum cover (depending on construction material of property) of between THB 50,000 and THB 500,000 with maximum premium of annual THB 500.

Source: Tatin-Jaleran, C., (Unpublished). Interim Microinsurance Product Supply-Side Findings and Recommendations Report. Prepared for: Fiscal Policy Office and Bureau of Financial Inclusion Development Policy, Thailand.

Provision of access to insurance varies greatly whether the households are rural or urban. It also differs in terms of the type of cover purchased. Low-income households in rural areas predominantly have access to self-organized groups (e.g. welfare groups) and access credit-life or endowment cover from institutions such as BAAC or GSB. Sometimes this latter coverage is bundled (or perceived to be linked) to existing credit with these institutions; this can further limit access. Low-income adults in urban areas have fewer community-based options but might access products such as Personal Accident through urban branches of financial institutions. Figure 13 shows that outside of government initiatives to improve risk mitigation for all Thai citizens, informal schemes and SFIs provide insurance to the greatest number of people. Policies under the OIC Microinsurance Framework have not yet had any real impact on the market.

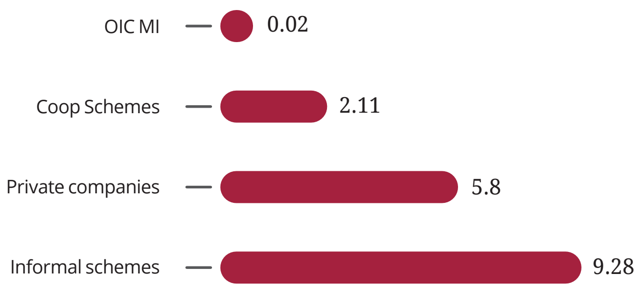


Figure 13: Number of lives (in millions) covered by type of provider
Source: Microinsurance Product Supply-Side Findings & Recommendations (unpublished)

Government: The RTG developed a set of social protection schemes that extended improved risk mitigation for all Thai citizens including those informally employed. These schemes cover, among other risks, old age, health, disability, death and agricultural production. These efforts were intensified from 2001 to 2012 and included the launch of the Universal Health Coverage (UHC) Scheme (commonly known as the 30 bath programme), Article 40 under the SSO, National Savings Fund (NSF), National Catastrophe Insurance Fund (NCIF) and the Agricultural Insurance Scheme. Both the UHC and Article 40 SSO extend benefits to the informal sector on a voluntary basis. Under the UHC all Thai citizens can receive healthcare benefits from a public health service provider. Article 40 under the SSO covers loss of income from illness or disability, funeral and old age pensions for informal employees. NSF provides savings plans with co-premium contributions from the state to citizens without retirement savings plans. The National Catastrophe Insurance Fund covers existing property policyholders and the Agricultural Insurance Scheme is available to all paddy crop farmers. UHC has seen significant take-up with 47 million beneficiaries in 2012. However, Article 40 SSO has grown at a slower pace with 814,912 insured persons as of May 2012[50]. The most important challenges relate to limited promotion and inflexible payment contributions. The, NSF (launched in 2011) and NCIF (launched in 2012) have had limited success.

Community based organisations: The most common CBO risk mitigation schemes are Funeral Aid Associations (FAA) and Welfare Funds. CBOs are member-based and, when acting as an insurer, retain risk within the member group. The CBO conducts some form of premium assessment and collection, and assesses and pays claims. They may accept some capitalization or other forms of assistance from government, donors, or others. These typically cover funeral expenses as well as limited welfare cover for life cycle events such as birth, education and old age.

Cooperative schemes: Thailand is home to thousands of cooperatives in various sectors, including agriculture, fisheries, services, savings and credit. As of August 2012, 10.8 million Thais belonged to cooperatives. Most of these were small farmers belonging to agricultural cooperatives (approximately 50%) or credit union members (25%). These entities offer community-based support in the form of cremation associations and emergency loans in exchange for an annual fee.

Private insurance companies: The private insurance sector has developed affordable products which aim to cover low income households. There are 24 Life and 61 Non-Life registered insurance companies who offer 14 products that could be categorized as microinsurance directed at the target market as envisaged by the Microinsurance Framework. However, the provision of microinsurance by commercial insurance companies is still very limited. In particular, term-life and personal accident cover, for which information has been available, have long terms and exclusions and are unattractive to low income households. The Microinsurance Framework issued in 2011 allows for a new class of insurance agent with reduced training requirements. These relaxed requirements have not proven to be a sufficient incentive for the training of microinsurance agents with only 271 life and 157 non-life agents registered at the end of 2010. Insurers, such as Muang Thai, have rather opted to use existing agents to sell microinsurance products than make use of this intermediary dispensation.

While the Microinsurance Framework provides some regulatory concessions this has not been an adequate incentive for insurers to register products, targeted at low-income consumers, under the Framework. The Framework places additional requirements on product features such as policy wording and claims process. Seeing no real benefit to registering their products, yet being required to provide additional reporting makes registration a costly endeavour without any particular incentive for insurers.

SFIs: **BAAC** and **GSB** are large providers of insurance products (both in terms of underwriting their own products and distribution of commercial insurers' products) and provide services predominantly to the low and middle income population. They are trusted institutions (in contrast to commercial insurers) underwriting 3.6 million personal accident and credit life policies between them. They are however an underused distribution channel and the uptake of commercial players' products could be much greater if distribution partnerships were set-up more efficiently.

As discussed above, Thailand has a wide array of providers offering risk cover to low income households. The majority of these risk carriers are not supervised by the OIC and presently some of these providers (GSB, Cooperatives) operate under formal laws that do not provide for technical oversight of insurance operations. Others, like FAAs, operate outside of a legal framework with no clear graduation path to become formal risk managers. However the FGDs did not reveal any widespread market misconduct within existing FAAs.

7.5 Market for savings

7.5.1 Savings purposes

There are a number of purposes that illustrate the demand and need for savings products. These purposes were identified during the qualitative and quantitative demand-side research. Brief summaries follow below:

- **Short term savings for consumption smoothing and unplanned eventualities.** 73% of adults who save indicated that they did so to provide for future living expenses. This is closely followed by 68% of adults who indicated that they put money aside for non-medical emergencies and 25% of Thai adults who rely on savings to finance the damages caused by natural disasters.
- **Savings for medical and education expenses.** 53% and 25% of adult savers respectively indicated that they set aside money for future medical and education expenses. This is further corroborated by the number of adults that rely on savings to fund education (30%) and medical (27%) expenses.
- **Long term savings for retirement.** 26% of savings respondents indicated that they save for the purpose of retirement with 37% of Thai adults indicating that they rely on savings when retiring. Interestingly, this is closely followed by 34% of Thais relying on friends and family for financing retirement expenses, a reflection of the closely knit nature of most Thai communities.
- **Saving for farming expenses.** 17% of savers indicated they saved for future farming expenses.

It is interesting that saving for business expansion did not feature at all in the FinScope responses, suggesting that this need is largely met by credit and through the revenue of the enterprise itself.

7.5.2 Current usage

Thai households recognise the importance of savings. 68% of adults indicated that they can save. FinScope further revealed that 53% of adults save regularly, mostly in a formal financial institution (Commercial Bank or SFI). This is less than the 74% of adults who hold a bank account containing at least the minimum balance. The discrepancy between the number of savers and number of bank accounts can be explained by the high incidence of dormant bank accounts or accounts that are used only for the purpose of sending and receiving remittances and are therefore not regarded as a source of savings. An additional 8% of adults save only informally. However, the definition of savings can be obscure and many do not count small savings and short term savings. Savings is, therefore, likely to be greater than reported. 28% of people use savings as their main means for meeting major expenses (31% use support from friends and family) suggesting that significant numbers of people do save substantial amounts.

Figure 14 depicts the relative portfolio size (in terms of number of savings accounts) of savings institutions against the median monthly savings amount and the average monthly income of the savers utilising each institution. The number of savers with SFIs (predominantly GSB and BAAC) is only marginally less than the number of individuals who use commercial banks for the purposes of savings.

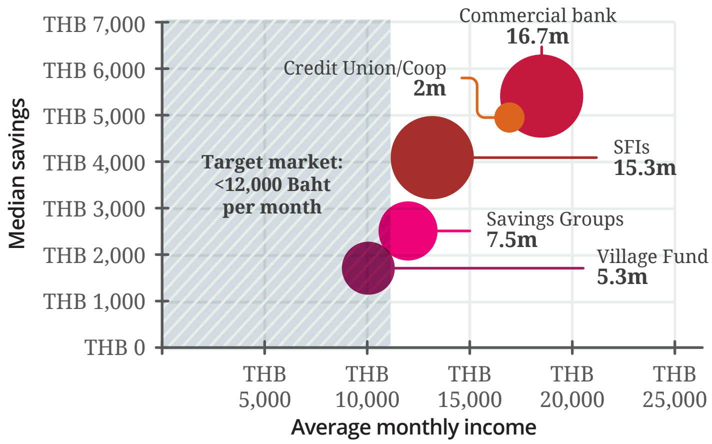


Figure 14: Relative portfolio size of savings providers vs. median savings and average monthly income of saver
Source: Thailand FinScope 2013

Additionally, it suggests that the target market (< THB 12,000) largely save with SFIs, Village Funds and community organisations. Interestingly the average monthly income of savers in Village Funds is THB 10,215, while that of borrowers is THB 9,098. This is seen also in other community based savings groups where higher income individuals tend to save while lower income individuals borrow.

As shown in Figure 15, the majority of households (61%) save a small amount in cash every month (less than THB 2,000). For many of them, in-kind savings provide an attractive alternative to cash-based savings. It is seen as a more convenient and cost effective use of surplus funds.

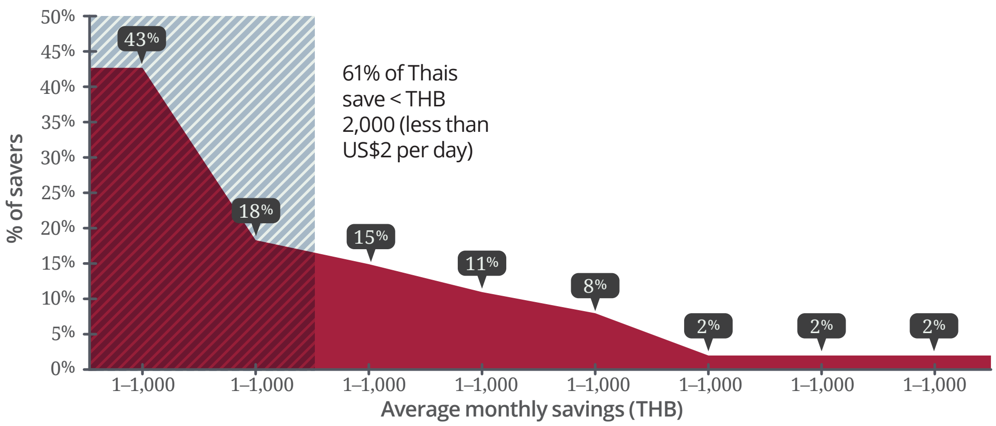


Figure 15: Average monthly savings
Source: Thailand FinScope, 2013

Figure 16 shows that the most common form of in-kind saving is in gold and jewellery which is considered to hold or increase its value. Jewellery is attractive in that it can be easily pawned to provide short-term cash needs. Due to its easily established value, pawnshops provide loans close to the real value of jewellery or gold. Business owners, especially merchants, use their savings surpluses to purchase additional stock and expand their business. In rural areas people are more likely to keep informal savings where they are readily accessible (see Figure 16). This is especially important when these savings are required for emergency needs.

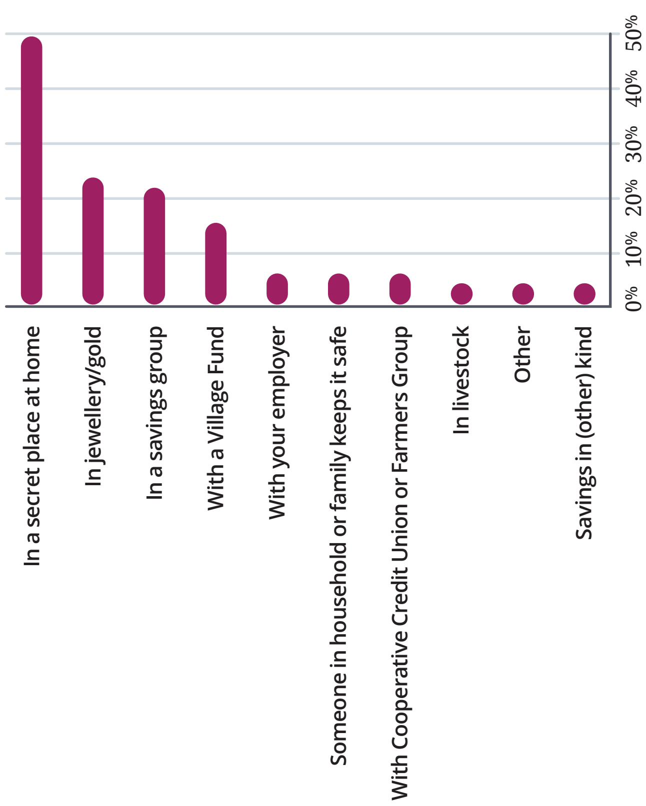


Figure 16: Informal savings
Source: Thailand FinScope 2013

Thailand has a rich culture of support for community based organisations. Of these, savings groups are important informal financial institutions that operate at the village level. There are two main types of savings groups in Thailand – Savings Groups for Production (SGPs) and informal village level groups (including Sajja savings groups). Other types of savings groups also exist, but these are not as widespread. The objectives of the groups are to promote savings and to provide credit. Profitable savings groups usually channel some of their profits to provide different types of welfare benefits to members.

Participation in informal savings groups is high among all income groups (9.8 million or 19% of total adult population), but especially among low income groups. This participation is especially prevalent in the North and Northeast. Participation in these savings groups also provides access to loans from the group and serves a social function for members. These organisations are selected based on the relative ease to save and ability to access credit through group membership.

7.5.3 Providers

Commercial banks dominate the formal market for deposit and savings accounts in both urban and rural areas with almost 50% of savers using their services (FinScope 2013). Among the SFI's, GSB is the largest holder of deposits and in 2010 had THB 1.2 trillion. GSB has had a yearly growth rate in deposits exceeding 30% for each year from 2009 to 2011 Compare this with commercial banks which had an average annual growth in deposits of around 13% during the same period.

Regulatory requirements: Only the commercial banks and SFIs may accept demand deposits (checking and regular passbook savings accounts) from the public, while financial cooperatives can mobilize savings from their members. Banks require a low minimum deposit of 100-500 THB for opening an account, and the requirements for maintaining an account (level of account activity during the year, minimum balance that must be maintained) are relatively lenient in international terms though not tailored to micro savers.

Under the banking law (FIBA), NBFIs can theoretically accept term deposits. However, the policy in practice has been to limit any public deposit-taking (in the regulated private financial sector, i.e. apart from the SFIs) to the commercial banks. On the other hand, many NBFIs are subsidiaries of banks. In this capacity, they can channel bank funds to clients under the personal loan provision while acting as depository agents for the banks.

Transaction costs related to formal savings: Figure 14 shows that outside of self-contained community savings groups, Thai citizens prefer overwhelmingly to save in commercial banks and SFIs. Due to the small values that the target market is able to save on a monthly basis, the relative transaction costs of saving in formal institutions are high - thus resulting in the low average balances observed in formal savings accounts (Figure 15). These transaction costs consist largely of the time and cost to visit fixed branches or ATMs - which is significant in rural areas. FinScope reveals that, on average, it takes 37 minutes for a rural adult living in non-municipal area, to reach a bank branch. A dramatic reduction in such transaction costs could contribute to increased savings in formal institutions. It must be remembered, that most informal savings (mandatory for Village Funds) must also be held in SFIs or commercial banks requiring similar transaction costs.

Grassroots self-help groups take deposits, often paying higher interest than commercial banks and some SFIs, although they are not regulated or supervised. In some cases, they have a network bank (usually BAAC or KTB) that exercises oversight. Sajja savings groups are set up by community members in order to save, provide welfare benefits, and offer loans to members. Based on the Sajja agreement, members gain the right to take loans from group funds only after saving for a defined period of time. Sajja savings groups also provide members coverage for hospitalization, funerals, education expenses, and community development. Since these groups have no formal (or even “semi-formal”) status, it has proven difficult to track their numbers, membership, and funds – and there has been limited knowledge-sharing among the different groups.

Many grassroots savings groups have scaled up or formed networks for such purposes as providing welfare facilities. A few of the stronger ones have transformed into community banks under the auspices of GSB or other banks. They compete with the financial cooperatives, among others. For example, in the case of SGPs overseen by the CDD housed within the MOI, operating without a cooperative title gives them more flexibility to serve their members at lower cost – but within limits and under supervision. Each SGP establishes a collective bank account, opened by the governing committee (usually three persons). Deposits and withdrawals are handled by a delegate of the group, with two signatures required for withdrawal. On reaching a scale larger than the usual savings group, grassroots organizations face the choice of remaining informal, registering as a cooperative or NGO, or linking up to a bank such as GSB or KTB as a semi-formal community bank.

While the Government might not directly promote savings there is an implicit guarantee for deposits in SFIs versus a limited cap for protection of deposits in commercial banks of THB 1 million per account per bank. Unlike commercial banks, SFIs do not pay deposit insurance premiums. This partly explains the strong growth in deposits with especially the GSB versus the lower growth experienced by the commercial banks following the phase-in of deposit protection limits under the Deposit Protection Agency Act (DPA). The outstanding deposits of GSB already exceed those of Bangkok Bank, Thailand’s largest commercial bank in terms of assets. This move involves not only small savers but also larger investors moving funds from stocks to SFI deposits to ensure protection of their investments and to also enjoy higher returns. The differential deposit-taking approach has led to an increase in the mobilization of savings that can be reallocated as credit to keep up with the growing demand. The result is that SFIs have been growing rapidly, increasing their share of the credit and deposit markets from 18% in 2003 to 27% in 2011 (an increase of 50%).

INSTITUTION	MEAN MONTHLY INCOME (THB)	CURRENT SAVINGS (THB)	TYPICAL INTEREST RATE P.A.
Commercial banks	18,531	5,438	7.5%
SFIs	13,182	4,106	6-9%
Co-ops	17,080	4,980	-
Village Fund	10,043	1,763	6%
Savings groups	11,933	2,522	-

Table 4: Client data and interest rates offered by key providers
Source: Thailand FinScope 2013

Table 4 provides the mean monthly income, current levels of savings and typical interest rate offered by institutions that provide savings products. Village Funds and savings groups attract savings clients with the lowest mean income. Unsurprisingly the current savings of these savers are lower than those of commercial bank users and SFIs.

7.6 Market for payments

7.6.1 Purpose of payments

The most basic financial service utilised by all people is making payments - paying for goods and services purchased (in person or over distances), making payments to another person over a distance (usually referred to as a remittance or money transfer), making payments to a financial institution (such as a deposit, loan repayment or payment for an insurance premium) as well as payments to government. Similarly, people receive payments - wages or salaries, transfers from a government, a remittance from a relative, etc. Most payments in Thailand are done utilising cash. However, there is a growing need and demand for electronic payments. The most important of these for electronic payments, as identified during the qualitative and quantitative demand-side research, are set out below:

- **Salary receipts.** 17% of adults in Thailand receive salary payments from private companies or the government. Qualitative demand side research indicated that formally employed individuals mostly receive their salaries by payment into a bank account. It's common for employees to open bank accounts with the same bank as their employer, which leads to multiple bank accounts when people change employment.
- **Remittances.** While 10% of individuals receive their main source of income from money transfers, 24% indicated that they receive domestic remittances, with the majority of these remittances conducted through account-to-account bank transfers. The high level of bank account ownership is driven largely by the ability to use bank accounts as a means of receiving and sending funds across the country rather than as a tool for accumulating or storing cash savings. Of the 74% of people reporting to have bank accounts, only 53% use these accounts to save money (FinScope Thailand, 2013). Five of the seven top reasons for people having bank accounts is related to the sending or receiving of remittances (the other being safety for keeping money - about 80% trust banks with their money). This is especially important in regional areas where a large number of people are wholly, or partially dependent on the receipt of remittances from family members working away from home. International remittances from Thailand to countries with weak last mile infrastructure are often done informally through remittances channels (i.e. Hundi's).
- **Bill payments and mobile airtime purchases.** Bill pay services such as utilities, loans, insurance premiums, credit card payments, products and services purchases are required by the majority of the population. Add to this the huge demand for pre-paid airtime purchases, and the growing demand for electronic payments becomes evident. Outside of the formal banking sector, these services are currently conducted at multiple touch points with retailers, Mobile Network Operators (MNOs) and other electronic payment providers.
- **Converting electronic money into cash and vice-versa.** In a largely cash-driven society, the growth of electronic payments depends to a very large extent on the ability to convert electronic money into cash and vice-versa through cash-in and cash-out points. Thailand is no exception. This service is traditionally delivered through bank branches and ATMs, but can also be delivered by authorised bank and non-bank agents.

7.6.2 Current usage

Thailand has a cash culture and the general mode of payment for goods and services is thus cash. Even large payments such as monthly rent or car payments are commonly made using cash. For very large amounts, cashier checks and cash transfers via ATMs are popular. Utility bills and other regular bills were traditionally paid in cash at the utility company, or in rural areas, through door-to-door collection. Increasingly, these bills are paid through payment services providers operating though retail stores. A recent survey (Ipsos, 2012) shows that 65% of respondents paid their utility bills at 7-Eleven stores, 27% were collected door-to-door, 26% were paid at a large retail chain and 11% were paid at the utility company office.

Besides the ubiquitous use of cash, Thai citizens use a variety of payment instruments. The FinScope survey revealed that 75% of adults currently have a savings book or savings account, while 51% of adults have a debit card or ATM card. This shows the dominance of bank-based transfer services. Only 5% of adults have a credit card and minimum monthly income requirement of THB 15,000 to obtain a credit card places it outside the reach of the target market. According to the survey less than 1% utilise internet banking or cell phone banking, however this number is growing rapidly. Figure 17 shows the rapid growth in mobile transactions from 2006 to 2011, whilst mobile penetration stood just short of 120% in 2011.

The most common method of remitting money from urban to rural areas is via a bank transfer, using an ATM card (65% in the 2012 Ispos survey[51]) or through a paper transaction from a bank branch (42%). Another common form of remittance home is to use a postal order than can be cashed at any of the 1,295 post offices (14%). While Thailand generally has good road and transport infrastructure, FinScope revealed that 70% and 64% of

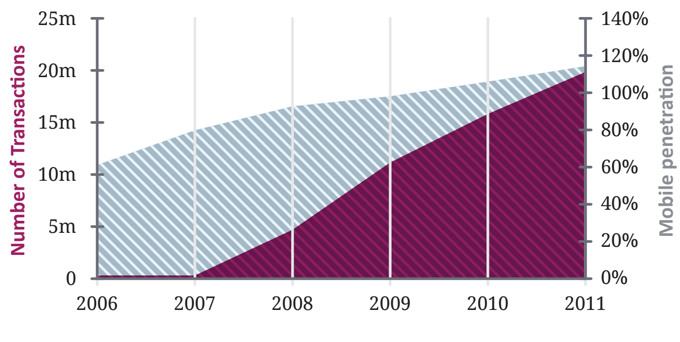


Figure 17: Growth in mobile penetration and number of financial transactions over the mobile phone
Source: Interviews with AIS MPay and BoT 2012

"Hundi's are informal money transfer operators and are used especially for cross-border transfers."

the population are 15 minutes to an hour away from a bank branch or ATM respectively. 6% of the population are more than one hour away. This is especially significant in the case of SFIs where waiting times at bank branches can be very long. It demonstrates the strong potential demand for easy access to mobile phone based transactions and use of convenience stores as a means of exchanging physical cash for e-money.

7.6.3 Providers

Commercial banks remain the single largest provider of bank accounts, ATMs and card services. With a national footprint of 6,183 branches, the bulk of the 48,000 ATMs, and in excess of 38 million debit cards and 23 million ATM cards[52], they dominate the market for remittances and bank transfers. Increasingly these transactions are handled by agents. The banking agent regulation[53] authorizes six types of agents, including financial institutions and others such as retailers. Electronic payment service providers may be used for funds transfers, utility payments, and credit card transactions.

The main reason why commercial banks rather than SFIs dominate the transfer market is that their individual branch networks are more evenly spread across the country than the branch networks of SFIs (BAAC predominantly covers rural areas whilst GSB are mostly centred in urban areas, providing a mismatch for transfers which are cheaper when sent from one account to another within the same bank). The cost of an ATM transfer ranges from free - if the two accounts are with the same bank - to about THB 30 if the banks are different. Transfers are normally limited to THB 30,000 per transfer.

SFIs (primarily BAAC and GSB) also provide payment services with a branch network of 2,240 branches. A significant portion of their customers would be Village Fund members who are required to open accounts with these institutions. It is worth noting that BAAC is in the process of building an acceptance network of 10,000 agricultural input dealers to facilitate the use of BAAC credit cards.

The Thailand Post Company offers payments, remittances and banking services as an agent for commercial banks. Their Bank@Post product allows clients to use their network of 1,295 post offices to perform banking operations such as depositing, transferring and receiving money for customers for a number of banks. The Pay@Post product allows clients to pay loans, credit cards and utility bills. In their own right the post office offers domestic money transfers at a fixed fee of THB 70 for transfers ranging from THB 1,000 to 10,000. It is generally believed that the post office is used when the sender does not want the recipient to have an ATM card, for example if there are concerns about the security of the card and the account. International money orders are operated through Euro Giro Credit and Western Union.

Trade outlets and retailers: Counter Service delivers payment services through there more than 700 franchise holders. It has recently partnered with 7-Eleven stores and has access to their more than 7,000 outlets to deliver payment services. 7-Eleven is now the most popular provider of utility and other payments in the country. Other providers include Jay Mart and Tesco Lotus. All these stores also offer POS devices and phone top-up services. Payment services are competitively priced and range from THB 10 for any utilities bill (e.g. Counter Services franchises/ Big-C) to THB 15 for payments to some commercial banks and insurance companies.

Mobile network operators: Mobile money infrastructure and transactions are growing quickly as shown in Figure 17. DTAC and True Money are experimenting with mobile banking and are looking to offer microfinance loans. BOT is encouraging commercial banks to provide mobile banking, but the banks are slow on the uptake, and firms like DTAC (who partnered with Kasikorn Bank) are struggling achieve take-up, especially in rural areas. Mobile telephone networks would be highly useful for remittances from Bangkok to rural recipients. However challenges to move households off their ubiquitous use of cash still remain. Advanced MPay is a subsidiary of Advance Info Services (AIS) and provide mobile payment and e-wallet application to its mobile payment clients. MPay provide a network of more than 100,000 MPay stations (to facilitate bill payments) and at least 10,000 cash withdrawal points nationwide.

Hundi's are informal money transfer operators and are used especially for cross-border transfers. Not much is known about the volume of transactions but they are of particular use for foreign migrant workers in Thailand. The Thailand-Myanmar Hundi corridor is well developed.

Agents and electronic money: Commercial banks are authorized by regulation to use six different types of bank and non-bank agents. However, agents are prohibited from opening deposit accounts or carrying out loan approvals or disbursements on behalf of banks. The main agent types – categorized by activity (e.g. Depository and Withdrawal) – can in most cases be other banks and in some cases other financial institutions or Thailand Post Co. Ltd. The Electronic Transactions Act governs payments by electronic means and electronic payment service providers may be used for credit card transactions. The Electronic Transactions Act is further elaborated by the Royal Decree Regulating Electronic Payment Service Business B.E. 2551, which came into force in early 2009. The Decree was issued for the purpose of maintaining financial stability and enhancing the credibility and use of e-payments. Permission must be obtained from BOT for certain types of agents as well as for purposes not indicated in the regulation. The BOT is sensitive to the need for policy development in this area and in 2010, the Bank's Payment Systems Committee presented the Payment Systems Roadmap (2012-2016) providing a framework for long-term payment systems development. The overall goal is to extend electronic payment services to all user groups, reduce reliance on cash (and the resulting costs) and promote attractive electronic payment systems.

Village funds, community banks and cooperatives linked to lagging payments environment: These community-embedded financial services providers and their clients are required to open accounts with SFIs or KTB to process all their transactions. The payments infrastructure of SFIs currently lags behind commercial banks and other emerging payment platforms as demonstrated by market trends set out above. Any proposal to enhance the functionality and delivery capacity of these entities will be limited by their access to payments. At the same time they present a ready opportunity for the extension of electronic payments.

7.7 Financial literacy providers

The financial capability of the target market is an important determinant of their usage of financial services. In section 6.3 above, key trends in the financial capability of Thailand's low-income population are discussed. Below, we discuss key trends in Thailand's existing financial education programmes:

Most financial education programmes use group-based, classroom training as the main format and there is limited evidence these approaches work. Most financial education providers (26 out of 31 programmes surveyed as part of this study) use classroom-based training. Of these few programmes conducted rigorous impact assessments to measure the effectiveness of programmes or whether programmes achieved changes in financial behaviour and/or uptake and usage of financial products and services. Global experience has shown that training programmes that focus on conveying theory using lecture-based methods usually do not result in triggering financial behaviour change (Financial Literacy Supply Side Report, 2012).

Use of mass-media channels has targeted middle to high income target audiences and focus predominantly on investment education. There is currently a litany of financial education content in the Thai media (TV, radio, and newspapers). However, the majority of this content caters only to middle-class office workers, focusing on investment advice (particularly stocks and mutual funds), financial planning, and tax management. Some initiatives underway utilize the internet, mobile phones, and tablets to reach this market segment. The wide-ranging and increasing use of such devices in Thailand can spur experimentation of new formats to convey financial literacy messages and encourage the application of new skills to the general audience.

Large networks exist that can be effective delivery mechanisms for the rural population. There is a huge opportunity to leverage existing delivery channels such as BAAC to build the financial capabilities of a large number of low-income rural individuals. BAAC's branches are virtually ubiquitous in Thailand especially in the rural areas. BAAC currently teaches budgeting and could do more by adapting budgeting curricula and tools to reflect the financial behaviour of farmers (e.g. take into consideration seasonality, farm and off-farm incomes, etc.). In addition, since BAAC is a bank, it can also help farmers understand how to use bank products and services and use new technologies such as mobile banking. There is also a considerable opportunity in leveraging rural-based channels that are not currently being used to deliver financial education. These include community learning centres and influential local celebrities such as Phra Subin Paneeto in Trad, a famous "development monk" who successfully integrates Buddhist teachings with sound financial management concepts and imparts them successfully to villagers to build one of Thailand's largest savings group networks.

Gaps in product understanding suggest a considerable disconnect between literacy programmes and product delivery. The qualitative demand-side research suggests that although Thais are reasonably familiar with financial products and services, there are considerable gaps in their understanding. For example, most people are familiar with debt, but over half of the FGDs respondents are not aware of the interest rate that they are being charged. While most people are familiar with the term "insurance," most people do not understand basic insurance concepts such as premiums and benefits. This suggests that existing financial product providers do not yet consider financial literacy as part of product design and delivery, and their separate financial education programmes also do not address this issue. Globally, there is increasing recognition that financial education delivered throughout the customer journey (i.e. in advertising, marketing, sales, customer-service activities) could improve uptake and usage of financial products and services, such as mobile banking and payments[54].

8 Consumer protection

The impact of consumer protection regulation in Thailand is largely limited to the influence of the Bank of Thailand and to a lesser extent the influence of the Ministry of Finance upon SFIs.

The Office of Consumer Protection Board (OCPB -Office of the Prime Minister) has the overall responsibility for consumer protection. However financial services are only one out of several focus areas. OCPB has issued regulations on credit cards, rental and purchase of cars and motorbikes, rental and purchase of electrical items and loans for personal use. For receiving complaints OCPB has a hotline and prepaid complaint lodgement forms are available from 7-Eleven stores.

"In Thailand the major consumer protection issue appears to be the lack of effective tools and mechanisms to prevent reckless lending and over-indebtedness."

In January 2012 the Bank of Thailand established the Financial Consumer Protection Centre (FCC) to provide recourse to consumers who are unable to resolve grievances directly with their financial institution. However, this option is available only to clients of commercial banks and the 28 BOT regulated NBFIs. Customers of SFIs are referred to the Ministry of Finance.

The main consumer protection efforts provided by the Ministry of Finance require SFIs to maintain complaint resolution procedures, impose interest rate caps on lending institutions (15% on normal loans and 28% on microfinance loans under THB 200,000 and credit card debt), prohibit bundling of products and provide debt collection guidelines.

The Foundation for Consumers (FFC) was established in 1994 as a non-government and non-profit consumer organisation working directly with consumers to do policy and advocacy work. FFC's consumer magazine "Smart Buyer Magazine" is a bi-monthly magazine with more than 12,000 subscribers. FFC also established a Complaints and Legal Assistance Centre in 1994 in conjunction with its Magazine. Relevant complaint cases are relayed to the mass media, in particular through a weekly one hour television programme called Consumers' Assembly.

In Thailand the major consumer protection issue appears to be the lack of effective tools and mechanisms to prevent reckless lending and over-indebtedness. Currently there are inadequate requirements for lenders (especially NBFIs) to undertake careful analysis of their customers' total debt liabilities and their debt servicing capacity. Reckless lending results when loans are unsecured or fully secured by physical assets, but the borrower is still incapable of servicing the loan. In Thailand it also occurs where the lender is confident that by intimidation or violence they will be able to recover capital and interest. The National Credit Bureau is a valuable tool for lenders who wish to understand the debts held and loan history of potential customers. However, it currently does not include BAAC, AEON, the smaller NBFIs and the large informal sector.

9 High level policy opportunities

State-provided, community-based and commercial financial services providers in Thailand are already more integrated in the provision of financial services to the low-income population than in comparable countries. State-provided and community-based credit providers have reached low-income households at the village-level with limited extension from the commercial sector into this space. This is predominantly a result of insulating the commercial sector from additional credit risk exposure following the 1998 financial crisis. The commercial sector has however engaged this target market through payments and savings services.

The large majority of financial services provision relies on community involvement. CBFIs and other community-based providers of financial services rely on members from the community to administer the operations. The success of this type of financial provision (among others for the design of products and credit screening) relies to a great extent on the social capital built up within the communities. The Thai context, demonstrated by high levels of current satisfaction with community based provision, provides the required conditions to effectively administer these types of operations. This is largely attributed to the fact that these initiatives build on informal safety nets that are provided by friends, family and the community; as evidenced by the FinScope survey and qualitative research.

The approach proposed in this paper is to build on the current model, so that it can evolve to meet the need for more supervised financial services, a reduction in cost and an improvement in the quality of the services.

To achieve this, the following broad strategic thrusts are proposed with the specific opportunities to implement these policy thrusts set out it the next section:

1. Improve the **coordination of public policy** on financial access through the FIPD and the establishment of a dedicated coordination body.
2. Increase the **availability of** and **reduce the cost of electronic payments** for the target market to facilitate small value transactions and to provide the infrastructure and backbone to support improvements in the delivery of other financial services.
3. Adapt the Village Fund business model to **enable** Village Funds and other existing CBFIs to evolve into **more efficient community-based financial institutions** able to offer a larger portfolio of financial services and to enter into more formal relationships with SFIs, commercial banks and other formal financial institutions.
4. Entice c**ommercial financial entities** into the low-income market by improving the **information available** and **operating environment** for the delivery of financial services.
5. Encourage the development of a **portfolio of demand-led financial services** for the low-income market.
6. Increase the distribution options for microinsurance.
7. Improve **market conduct** coupled with appropriate consumer protection measures.
8. Enable **undocumented migrants** currently excluded from the use of formal financial services to **access** these.
9. Raise **public awareness** on the need for financial capabilities to manage **indebtedness**.
10. Improve the **ability of low-income households to engage** with financial services through practical **financial education** delivered at the community-level.
11. Improve the **supervision of community-based financial institutions**.
12. Improve the **monitoring and evaluation** of public policy on financial access through the **FIPD**.

10 Recommendations to improve the value of financial access for Thailand

10.1 Create and empower a Financial Inclusion Policy Management and Oversight Group

Policy coordination: As is clear from the findings of this study, public policy on financial access is multi-pronged and multi-institutional, yet it takes aim at the same target market. It is both unlikely and undesirable that all the policy and supervisory functions affecting access to financial services for the Thai population will be centralised in one institution. A coordination function is therefore called for to ensure that policies neither conflict with nor duplicate efforts. The FIPD, which was established amongst others to recommend policies regarding the development and the strengthening of micro-finance in Thailand, is ideally placed to fulfil this role.

Establish a Financial Inclusion Policy Management and Oversight Group: To provide such policy coordination, it is recommended that a Financial Inclusion Policy Management and Oversight Group be established and housed in the FIPD. The group should be mandated as part of the approval of the national master plan and strategy for financial inclusion. At the policy level, such a Group should include representatives from at least the Ministry of Finance (FPO), BOT, OIC, National Village and Urban Community Fund, the Community Development Department (MOI), and the Cooperative Promotion Department. At the provider level representatives from SFIs and commercial banks should be invited to join as observers. A figure indicating possible management components for such a group is included in Appendix 1.

Annual work plans: To implement the national master plan and strategy for financial inclusion, annual work plans for stakeholders and the FIPD would be useful, acceptable and consistent with traditional approaches to strategic policy management. Details of activities required to operationalize the recommendations made here should be proposed in the first instance by the responsible stakeholder organizations together with Key Performance Indicators (KPIs). These can then be communicated to the FIPD and collaborating stakeholders through the Group. To improve the visibility and efficacy of Financial Inclusion Policy, internal management decision-making on required resources in stakeholder organizations should be linked to the achievement of policy outcomes. KPIs required for each of the major policy thrusts should be mirrored in each of the annual work plans offered by stakeholder groups.

Monitoring: FIPD would be monitoring the achievement of annual work plans and policy outcomes (see section 10.12 below) and request organizations for evidence-based reporting. FIPD would not be taking a directive approach of approving stakeholders work plans. FIPD would rather be in a position of monitoring the success of the achievements and providing an overview to RTG.

10.2 Extend the electronic payments platform to reach every village

The transaction costs for every financial service delivered to the target market can be reduced if the payments involved are no longer made in cash, but electronically. Three conditions have to be met for this opportunity to be realised: firstly, there has to be a mobile payments platform that reaches every village in the country. Secondly, converting cash into electronic money and vice-versa has to be easy and cheap. Thirdly, there has to be a substantial change in the behaviour of consumers who currently still largely prefer cash payments, although there are signs of change.

Mobile payments platform: Certain financial institutions, in partnership with mobile operators, are already exploring options. What is required is a mobile payments platform able to carry the transactions between the members of Village Funds and other CBFIs and their "parent banks" as well as other formal financial institutions. At the same time, the platform must be able to provide aggregated information on the transactions of Village Funds and CBFIs that would enable lower cost and more effective supervision of these entities. Such a platform would resolve Thailand's "last mile" problem and transform the provision of microfinance and microinsurance services in a similar way to that in which ATMs have transformed banking operations. There are various options to establish such a platform which should evolve within the BOTs Payment Systems Roadmap: existing initiatives can be expanded, the SFIs can be requested by the state to develop a platform and roll it out since it will also benefit their operations substantially, or the government can put out a public tender for the development of such a platform. To maximise impact, the platform must be as open as possible, and interoperable with other existing retail payment platforms.

Such an open-access e-money platform would operate in a similar facility as the Internet allowing multiple financial service providers to interact with potential clients. For example, commercial or public entities could develop software/apps that provide ready-made savings and credit products (based upon detailed

"Migrating clients who prefer cash from cash-based to electronic payments will require ubiquitous facilities to convert cash into e-money and vice versa."

market research) to individual Village Funds and CBFIs. More advanced institutions (such as consolidated Tambon or district level Village Funds) will be able to specify more precisely the nature of the interface that their organizations require. This software could provide highly valuable management monitoring and financial reports (e.g. portfolio quality, arrears reports, and insurance tracking) as well as provide necessary documentation for clients (product descriptions, transaction statements, individual loan contracts and loan repayment schedules), and facilitate premium collection and claims settlement for insurance.

The system could also link to the National Credit Bureau which would allow Village Funds and other CBFIs managers to better determine members' debt burdens from other financial institutions.

Facilitate cash-in and cash-out: Migrating clients who prefer cash from cash-based to electronic payments will require ubiquitous facilities to convert cash into e-money and vice versa.

This will require an amendment to Banking Agent regulations or an amendment to the Royal Decree Regulating Electronic Payment Service Business to provide for the establishment of cash agents whose sole function will be trading in electronic money, i.e. converting it to cash and vice versa. Cash agents will not be allowed to make deposits or withdrawals directly from bank accounts (SFI and commercial banks), but would simply exchange bank and non-bank electronic money held in accounts for cash and vice versa. In all cases all outward e-money payments would be authorised by the holder of that account by means of a secure pin code keyed into their mobile phone or device. In this way the reach of both the commercial banks and SFIs would be greatly increased and at the same time e-money and mobile services would become a lot more attractive. Retail chains such as 7-Eleven, Tesco Lotus and fuel stations could be used as Cash-in and Cash-out agents.

Other countries have benefitted greatly from this step, and Thailand stands to gain as well. The importance of pure cash agents is that they have no direct role in banking activities. These cash agents would not operate on behalf of banks or other financial institutions and would not directly touch client bank accounts. Limiting them to conversion between physical cash and e-money reduces the need for full prudential supervision. Further, the principal organizations that they serve can be required to adapt their risk management accordingly. Importantly, at all times the total value of electronic credits within the e-money platform would be matched exactly with deposits held in trust with licensed banks. This largely removes any prudential risk associated with the e-money platform.

Making a clear distinction between bank agents and cash agents would enable the BOT to be less restrictive in its policy of linking mobile payments to commercial banks under all circumstance. BOT can extend bank-like standards to activities (e.g. of cash agents) that do not amount to intermediation without requiring these to be undertaken by commercial banks.

Preparatory work: As a first step to the establishment of such a platform, the appropriate body should convene a working session with all current and potential players, public and private, that should be engaged in the establishment of a mobile payments platform to consider the options for creating such a platform or extending an existing platform. Such a gathering should identify the options, potential funders, necessary regulatory changes and map a way forward. At the same time a specific public authority should be designated to oversee the implementation process.

10.3 Design an evolving business model with/ for Village Funds and CBFIs

The strong Thai preference for, and history of, community-based financial services suggests that the future of microfinance will also evolve largely out of this model. A number of steps can be taken to facilitate an orderly expansion of CBFIs from the current dense network of Village Funds and community-based financial services providers

Graduation path for Village Funds: A first option is to provide a clear graduation path (which can also be referred to as a set of tiered licenses) for Village Funds (and other CBFIs who would wish to migrate to this regulatory framework) that would allow individual funds to grow and operate across village boundaries and to (possibly merge with other Village Funds) up to but initially limited to the Tambon level. This would enable scale to develop, but would also ensure local knowledge to be preserved. Village Funds are already evolving in this direction, creating a bottom-up evolution of community finance. Specific graduation levels should be spelled out in guidelines and a Village Fund could be permitted to offer more advanced services as it graduates upwards. This should include more sophisticated credit products.

Improved supervision of Village Funds: Larger Village Funds delivering larger and more complex portfolios of financial services will only be possible under a dispensation of enhanced supervision of such entities (see section 10.11 below).

Wholesale funding to CBFIs coupled with capacity development: The capacity of CBFIs can be supported by state-owned financial institutions such as SFIs, KTB and other institutions that provide wholesale funding. These institutions can provide training, capacity building and a level of commercial oversight in the path towards LMFI accreditation. CBFIs must be incentivised to participate in such relationships through the provision of larger loans as their capacity and efficiency improves. Village funds are subject to the same interest rate ceiling as commercial banks and can offer a ready channel for wholesale funding if it can be delivered at a low enough cost. Again this would build on models already pioneered by BAAC, GSB and KTB.

New microfinance license: In addition to (or instead of) a Village Fund graduation path (see above), an option that has been used successfully throughout the world is to create a new licensing window for financial institutions specialising in microfinance, namely "Licensed MFIs" (LMFI). This should be designed to accommodate larger CBFIs, Village Funds and perhaps the financial cooperatives (see below) as well. Experience suggests that setting up a new kind of license in Thailand is (or will soon be) timely, since there has been a build-up of microfinance providers that have grown in scale and capacity, as well as a large number of smaller actors that could evolve or consolidate. The example of Cambodia is often cited, where three tiers of licensed microfinance institution (based upon size and range of activity) are recognised and appropriate levels of supervision are applied. These include small credit-only providers who are not supervised, intermediate credit-only providers who must report and comply with basic off and on-site supervision, and the larger and more sophisticated institutions that must obtain a Microfinance Deposit-taking Institution (MDI) license and which are able to mobilise and intermediate public deposits. Eligibility for licensing at each of the 2 higher tiers is determined by the National Bank of Cambodia on the basis of governance, financial depth and management criteria. Benefits of licensing include the ability to grow beyond a fixed loan portfolio size cap, the ability to provide services to non-members or shareholders, and in the case of MDIs, the ability to capitalise loan portfolios through the mobilisation of public deposits. Licensed MFIs are also able to more easily attract private and public sector investment in the form of debt and equity financing.

Financial cooperatives: One way of improving the situation through existing structures is to reform the regulation and supervision of cooperatives. In other parts of the world, savings and credit cooperatives provide a large share of microfinance services, following a model that has proven itself since the 19th century. The difficulty is that in Thailand, as in many countries, the cooperative sector is not structured and supervised optimally to enhance financial inclusion and to safeguard the financial interests of members. A key reform step would be to enact a law on financial cooperatives creating a separate regulatory structure, supervision system, and institutional requirements for cooperatives whose primary business is finance. Other necessary steps, including development of regulations and the transition to the new regime, would follow. Ideally, the new regime would accommodate existing NGOs and grassroots that seek to formalize as savings and credit cooperatives. The reform would need to treat financial cooperatives as financial institutions, separating them from other cooperatives. Relevant supervisors at CPD and CAD could possibly be reassigned to an independent regulatory body or department of BOT.

10.4 Improve the enabling environment for commercial financial entities to serve the low-income market

The analysis contained in this report indicates that attempts by Thai regulators to entice commercial banks and purely commercial MFIs to enter the low-income market have been largely unsuccessful. It is also clear that any notion of making the space more attractive through a rise in the interest rate ceiling for microfinance would be similarly unproductive. The options to make the low-income market more attractive, especially for commercial credit providers, should therefore focus on other market failures, notably the high incidence of asymmetrical information in the target market as well as the high risk of default in current market conditions.

National Credit Bureau: Financial access in Thailand suffers from inadequate credit information and reporting systems. The NCB is member-based, and does not include a number of large creditors such as BAAC, and also fails to report on prospective borrowers who have a credit history that has gone unrecorded due to the incompleteness of the system. Thailand is well-placed to revamp this system, since official identity documents are the norm, and demand is building for a more complete system. Further research and discussion is recommended led by NCB, to determine whether the best expedient now is to revise the legislation, expand NCB, or license competing credit information providers.

Note that the introduction of a mobile payments platform would also substantially reduce the cost for commercial entities to deliver financial services to the target market.

10.5 Market-led/Demand-led financial services

Loans, savings, and insurance products need on-going development and modification in order to be relevant to low-income users. Moreover, international experience shows that products for low-income households are not merely miniature versions of products for higher income households, but need to be specifically designed with the needs and circumstances of low-income households (such as irregular and seasonal income) in mind. The purposes for financial services, identified during the research, highlighted the need, and current gap in provision, of certain financial services:

Credit: The analysis in this report revealed that the current structure (terms and conditions of the disbursement, repayment frequency and size) of credit products in the target market needs to be modified for some market segments. In many cases, the current structure creates additional barriers to accessing formal financial services and places pressure on households to turn to informal or semi-formal institutions to access additional financing or repay current outstanding debt. The result is both an increase in debt for low-income and rural households, as well as a higher than necessary use of high cost informal credit services. This situation is to a large degree caused by the current dichotomy in the provision of credit: between formal entities that are quite distant from the client and that provide very structured products at lower cost on the one hand; and informal providers at community level that are very flexible but very expensive, on the other hand. Village Funds are also more flexible, but their capital and management capacity is limited. The same applies to other CBFIs.

Credit products can thus be improved through "demand led" product development. Flexible loan sizes and repayment schedules for credit provided by formal entities, including enhanced Village Funds and formalised CBFIs, can make a significant dent in the indebtedness cycle. Further improvements in the credit space should include loan contracts that are easy to understand and provide adequate disclosure of loan obligations and cost. To this should be added easy and rapid loan assessment mechanisms that require less documentation. This is particularly important for short-term emergency loans. Farmers also require different credit products that better assist them to manage their cash flow and build their asset base rather than simply provide an advance against expenditures. While BAAC credit card speaks to some of these unmet product characteristics, these credit services are required from additional providers to reach the whole market.

Savings: To be successful, savings products provided by formal institutions need to mimic the savings behaviour observed in community savings groups. In particular, low-income persons wish to save small amounts regularly. The transaction cost of a deposit into a savings account or instrument therefore needs to be very low. There is also a need for risk-based long-term savings products to be developed by Thailand's financial service providers targeting low and medium income households, for example targeted savings products aimed at accumulating savings for the education of a child, marriage, housing and other foreseeable major expenses.

Insurance: Products labelled as "microinsurance" have tended to follow the premium cap set out in the OIC microinsurance framework as the key indicator of microinsurance. However, much more important is the structure of the product in terms of real simplicity, value to clients, and accessibility. These factors have not been well integrated in microinsurance products, and there has been a tendency to introduce products without responding to true researched needs and demands of the target market. An improvement in appropriate and demand-led microinsurance products (especially for personal accident, property and motorcycle risks) would increase the uptake and utilization of insurance as a more efficient risk management tool than current methods.

It is recommended that, as a priority, the FIPD, through the coordination body referred to in section 10.1 above, convene specific targeted working sessions with public and private financial services providers in the credit, savings and insurance markets to discuss the findings of the demand-side research, particularly as they relate to product design. These sessions should also be utilised to share international product design practices for these specific target markets.

10.6 Increase the distribution options for microinsurance

Successful business models for microinsurance tend to rely on low-cost distribution of products through channels trusted by the target market. As is the case

“Clear and enforceable guidelines and standards for calculating and presenting interest rates and fees can be developed to allow easy comparison of the cost of different credit products.”

in Thailand, these are usually not insurance-driven channels. The current definition of microinsurance agents in the OIC microinsurance framework is very narrow and provides limited incentives for commercial insurers to utilise this form of distribution. It is suggested that the framework be adjusted to enable insurers to distribute microinsurance through Village Funds and other CBFIs. This can capitalise on the already strong culture of utilising informal community-based groups for savings, credit and some forms of insurance.

SFIs could potentially also play an important role in the distribution of insurance products beyond the credit life offering. Removing some of the restrictions on the bundling of microinsurance products with other related products and services would have an important distribution enhancing effect. One of the primary means of building an insurance culture in other jurisdictions is through bundled products. This will assist to expand risk pools, reduce premiums, and incentivise insurers as well as financial and consumer retailers. These benefits lead to a higher volume of claims which results in more people observing and experiencing the benefits of insurance.

10.7 Improve market conduct[55] coupled with appropriate consumer protection

The study revealed particular market conduct abuses by current financial service providers providing services to the target market. To reduce such abuses and also to generally improve the level of consumer protection for the target market, a number of steps can be taken:

Reckless lending: Develop and implement guidelines and tools to prevent reckless lending which leads to excessive levels of indebtedness at individual household level. These guidelines should be adapted from the SMART Campaign tools and guidelines[56] and be made applicable to all financial entities extending credit to the target market.

Mandatory warnings to credit consumers: In addition MOF and BOT might tighten controls over the promotion of consumer credit products such as requiring mandatory warnings on promotional material.

Disclosure of interest rates and fees: Clear and enforceable guidelines and standards for calculating and presenting interest rates and fees can be developed to allow easy comparison of the cost of different credit products. This should be expressed as an effective annualised percentage rate which incorporates all additional fees (excluding penalties). The total amount of interest and fees to be charged should be stated clearly on the loan contract.

Address insurance fraud: Trust towards insurers has been impacted by the fraud which occurs mainly in the premium collection process by individual agents. This should be addressed if trust is to be regained. Both prevention and enforcement of regulations are required to achieve this goal.

Proactive insurance ombudsman: Although there is currently an insurance ombudsman, the office should take on a more proactive role and actively address microinsurance-specific issues. One additional trust-building mechanism would be to make information and complaints services available through a toll-free line for all Thais (not only for microinsurance target population). Such a number could be displayed on all insurance documents (leaflet, policies, certificate of insurance, etc.) to provide recourse to the population, especially in rural areas, as insurers' offices are not easily accessible.

Simplification of microinsurance products: Many of the efforts to develop truly simple microinsurance products, as well as many of the efforts to reduce administrative costs, have an important impact on consumer protection. For example detailed language on insurance policies is intended to ensure that policyholders have all the possible information that they might need about their policy. In microinsurance, in contrast, a simple policy document is advocated. Also, agents with limited skills and training are promoted as most appropriate for selling to the low income market. Much of what creates the need for extensive policy documents or highly trained agents in traditional insurance is the complexity of products. If microinsurance products are truly simple, with very limited or no exclusions, very clear coverage, a single price, group based-underwriting, an automatic premium collection method, a simple claims process, and easy access to the insurer to address questions, there is no need for long policy documents nor for extensively trained agents. In microinsurance, it is when there is too much product and process complexity that most consumer protection issues arise.

10.8 Enable undocumented migrants to access formal financial services

Thailand's undocumented foreign workers (estimated variously from 2.5 to 5 million[57]) also need financial services, in the first instance money transfer services to remit earnings to the families at home. At the same time their earnings can provide substantial deposits for intermediation in the national economy. Consideration should be given to provide such foreign workers access to selected financial services on the basis of some form of legal documentation issued by their country of origin. This will require giving flexibility to providers to allow access to these individuals based on the actual assessed risks, rather than their possession of formal identity documentation, thus allowing them to participate in the financial market.

10.9 Raise public awareness on the issue of indebtedness

The problem of growing levels of household indebtedness emerges from the analysis as prevalent in many communities. Dealing with indebtedness from a demand-side perspective calls, in the first instance, for the development of a bigger public and individual awareness of the problem. Thailand has experience of social marketing to deal with difficult social problems and this approach can also be followed to highlight the risks of unsustainable levels of household consumer credit. TV dramas have a high potential to build awareness of these issues. In terms of actual financial education, CBFIs linked to SFIs and KTB offer a ready channel for delivering on-going financial education. Such a campaign will need to provide financial management advice that allows better options for risk management so that people actually have a choice not to become over-indebted when a financial crisis strikes.

10.10 Deliver financial education at community-level

To improve the financial capabilities of the target market will require intelligent and focused financial education. A number of options are available:

Create an oversight mechanism with key players to coordinate a national financial education strategy for Thailand. This body should operate under the Financial Inclusion Policy Management and Oversight Group mentioned in section 10.1 above. The body should include representatives from the SFIs, Village Funds, other CBFIs, commercial banks, NBFIs, mobile network operators, payment agents, insurance companies, and bank or insurance associations. This mechanism would create a three-year rolling strategy and annual work plans.

Create a Financial Inclusion Innovation Fund (for product linked financial education) managed by the oversight mechanism referred to above. Some specific examples of financial education initiatives that can be supported include:

- Awareness-raising campaigns for clients
- Marketing toolkits for specific products and services
- Working with clients to reinforce uptake and continued usage of products and services
- Use of technology and behavioral techniques to issue reminders of key behaviors, such as SMS to send reminders to encourage regular savings, or to provide information or opportunities to insurance policyholders to help make insurance more tangible
- Simple tools to help SFIs, Village Funds, CBFIs and commercial banks better disclose pricing to existing and potential customers to allow for comparison shopping (see section 10.7 above for further recommendations on this issue).

Foster an insurance culture: Most respondents have mentioned their lack of knowledge about insurance products and mechanisms. Some financial education activities may be considered as part of the education system (similar to the South African effort in high schools), with a larger goal of reaching both low-income and middle-class Thais.

Improved information on social protection schemes: The Thai government has attempted to extend the social protection system to the informal sector. Yet low-income households are seldom aware of the existing schemes. Better information on government schemes available to low-income households and better targeting of the low-income households who will not be reached in the short-term by commercial insurers is required.

Delivery at community-level: The most effective delivery channel is likely to be the existing SFI networks linked into CBFIs.

10.11 Improve supervision of CBFIs and NBFIs

A financial system delivering enhanced microfinance services through larger CBFIs, will require enhanced supervision. This can be achieved by building on existing institutions, and leveraging new information flows:

Electronic reporting system for CBFIs: Create an electronic reporting system for Village Funds and CBFIs drawing upon the transaction data carried over the mobile payments platform which can be fed into a centralised supervision system. The electronic capture of data not only allows the production of accurate and timely management reports by the individual Village Funds and other CBFIs, it also provides a low cost mechanism for regulatory or oversight authorities to monitor these organisations and provide timely assistance to those experiencing difficulties. This means that the supervision of these organisations can be "risk-based" and problem oriented addressing issues in a timely and productive way, rather than attempting to physically supervise the many thousands of such organisations. The same data could be utilised for the national credit bureau or other reporting system, enabling Village Fund and CBFI members to build up a formal credit record.

Strengthen role of the National Village and Urban Community Fund Committee in the oversight of Village Funds. The capability of the NVUCF should be enhanced to allow it to monitor Village Funds and move quickly to support those facing difficulties. Monitoring of the quality of loan portfolios of individual Village Funds would be facilitated with access to electronic data coming from those connected to the e-money platform.

Graduated system of supervision: A graduated system of supervision for Village Funds and CBFIs based on the current reporting system into the NVUCF should be established. Village Funds with lower functionality will remain on a limited system of supervision and will essentially be rated for credit worthiness by SFI's and commercial banks. Prudential supervision of large CBFIs which cross the agreed regulatory threshold, should be delegated to the BOT. The option also exists to delegate much of the financial supervision to the SFIs and KTB with specific reporting duties to the Committee. While the NVUCF should continue to be the patron of the Village Funds and a quasi-supervisor of the small ones, there should be a separate supervisor for the Village Funds that cross the threshold. Otherwise, the NVUCF will face the often observed promoter-regulator conflict of interest.

Improved enforcement of existing legal provisions, especially in relation to unlicensed NBFIs. The rise of these entities appears to be contributing substantially to the problem of over-indebtedness and much of market conduct complaints relate to them. Improved law enforcement against these bodies will be an essential complement to the reforms outlined above. Along with increased enforcement, there should also be a regulatory transition path for providers who have the interest and ability to upgrade and formalize.

10.12 Monitoring and evaluation of the financial inclusion strategy by the FIPD

To fulfil the coordination role and more generally to guide policy on financial access, it will be important for the FIPD to develop financial inclusion indicators (applicable to the target market between the national poverty line and THB 12 000 monthly income identified in section 6) and to measure the impact of financial inclusion policies on stakeholder organizations and their target markets. Regular analysis of existing socio-economic surveys (such as the NSO SES) and an annual or twice-yearly specialised survey (such as FinScope) would provide a very effective mechanism for this monitoring. Financial inclusion indicators could be disseminated via an annual brochure and through the FIPD website.

11 Way forward

The Royal Thai Government has much to be proud of in its achievements of bringing formal financial services to sections of society that commonly only have access to informal financial services. The relative success of the Village Fund in comparison to similar approaches elsewhere, is a mark of the social cohesion of communities in Thailand. The challenge now is to find innovative but practical ways to diversify and improve the quality of financial services.

Table 5 below summarises the recommendations made in this report and prioritises them into actions that can be implemented without delay, actions that require some form of coordination for the medium term, and actions that require longer term changes in mandates and regulatory frameworks.

IMMEDIATE ACTION	*National master plan and strategy for financial inclusion and policy coordination: The FIPD should finalise the national master plan and strategy for financial inclusion. The strategy, to be endorsed by government, should include the establishment of a Financial Inclusion Policy Management and Oversight Group to coordinate the implementation of the master plan and strategy. At the policy level, such a Group should include representatives from at least the Ministry of Finance (FPO), BOT, OIC, National Village and Urban Community Fund, the Community Development Department (MOI), and the Cooperative Promotion Department.*
	Mobile payments platform: Convene a working session with all current and potential players, public and private, in the establishment of a mobile payments platform. Such a gathering can identify the options, potential funders and map a way forward.
	Wholesale funding to Village Funds and CBFIs: The current trend to provide wholesale funding to Village Funds and other CBFIs should be maintained and further increased to prepare the way for a new generation of CBFIs able to provide an enhanced portfolio of financial services to local communities.
	National credit reporting system: NCB to investigate the best option to extend the reach of the national credit reporting system beyond banks and NBFIS registered with the BOT.
	Capacity building and training on improved product design for credit, savings and insurance: The FIPD, through the coordination body referred to in section 10.1 above, should convene specific targeted working sessions with public and private financial services providers in the credit, savings and insurance markets to discuss the findings of the demand-side research, particularly as they relate to product design (including simplification of insurance products for the target market). These sessions should also be utilised to share international product design practices for these specific target markets.
	Facilitate access for undocumented migrants: FIPD, in partnership with the relevant Thai government authority, should enter into discussions with neighbouring countries to explore options for undocumented migrants living in Thailand to obtain official documentation to access formal financial services.
	Financial education strategy and oversight: FIPD to take the lead in establishing an oversight mechanism to coordinate financial education initiatives aimed at the target market. Redirect current initiative based on revised priorities established by the oversight committee.
	Monitoring and evaluation: Develop the financial inclusion indicators that can measure the impact of the national master plan and strategy for financial inclusion.
MEDIUM TERM ACTIONS	*National credit reporting system: Extend the reach of the national credit reporting system to include at least SFIs in the first round, and CBFIs and other credit providers in the second round.*
	Microinsurance distribution: Remove certain limitations on the bundling of microinsurance products with other products and services.
	Introduce guidelines to improve lending practices: Formulate guidelines to ensure responsible lending by institutions providing credit to the target market. The principles formulated by the SMART campaign can be used as a guideline. The guidelines should include guidance on credit advertising and the disclosure of interest rates and fees.
	Microinsurance - specific fraud: OIC addresses insurance fraud and misconduct that has a disproportionately high impact on the trust of the target market in private insurance.
	Financial education challenge fund: Establish a financial education challenge fund.
	Enforcement against unlicensed NBFIs: Improve enforcement of existing legal provisions against unlicensed NBFIs.
	Monitoring and evaluation: Undertake the necessary surveys and analysis to evaluate progress with the implementation of the national master plan and strategy for financial inclusion.
LONGER TERM ACTIONS	*Mobile payments platform: Amend regulations to enable cash-in and cash-out agents and proceed to implement the preferred option for the establishment of a mobile payments platform.*
	Amend microinsurance distribution regulation: Amend insurance regulation to allow the distribution of microinsurance regulation through CBFIs.
	Village funds and CBFIs: Create a tiered graduation path for Village Funds and CBFIs that would enable them to provide a portfolio of more sophisticated financial services under closer supervision.
	Financial cooperatives: Reform the regulation and supervision of financial cooperatives.
	Enhanced supervision of Village Funds and CBFIs: In parallel with the development of the mobile payments platform and creation of a tiered graduation path for Village Funds and CBFIs, the supervision of these entities should be increased and appropriate systems for such supervision implemented.

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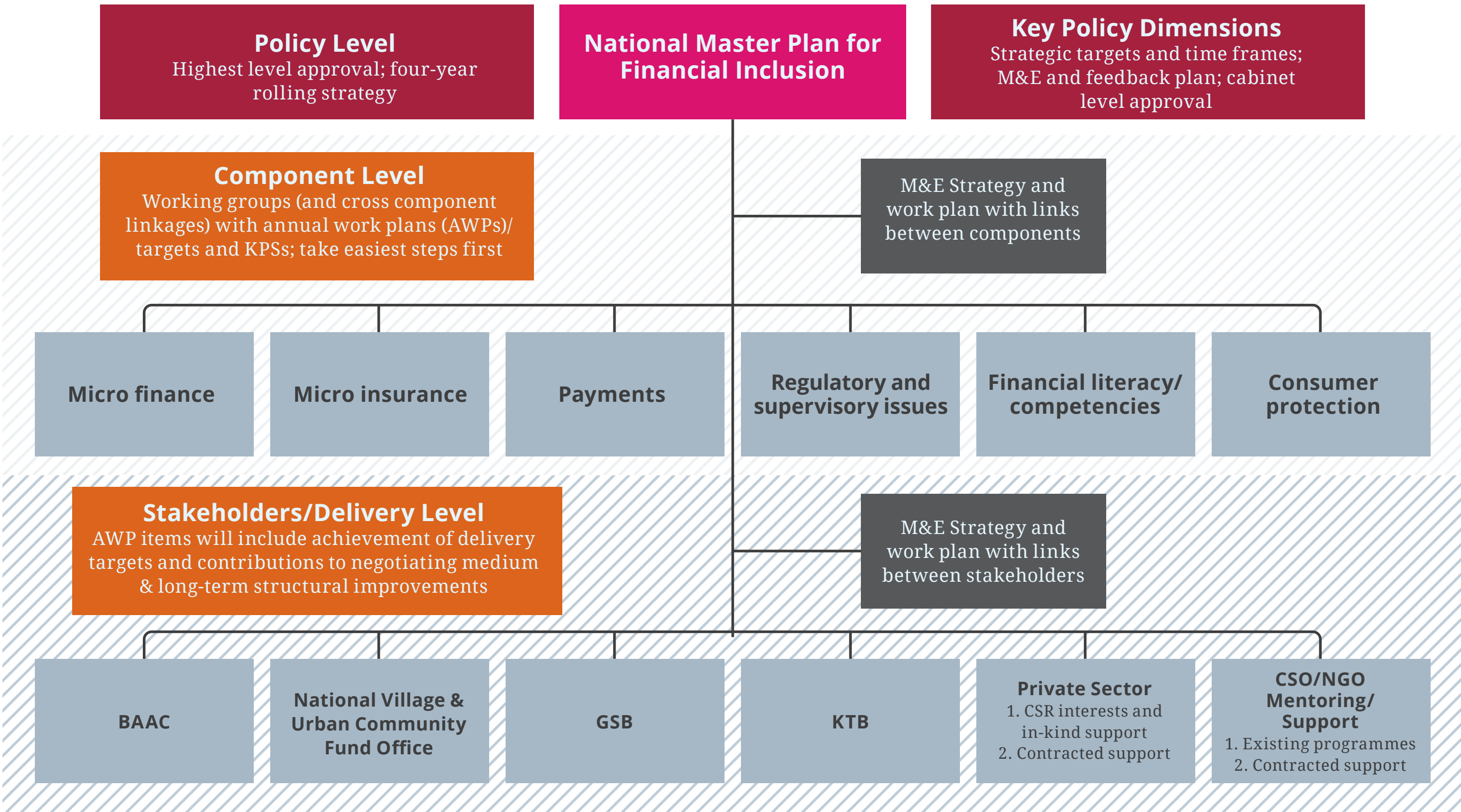
Appendix 1 – Schematic Organisation— Strategy Components and Management



Endnotes

1. The MAP methodology and process has been developed jointly by UNCDF, FinMark Trust and Cenfri to foster inclusive financial sector growth.
2. Note that far more than 23% of the population use other formal financial services and similarly far more than 1% use informal financial services. The purpose here is simply to get a total figure of those who use the formal financial sector.
3. Non-bank financial institutions (NBFIs), include formally registered consumer finance and credit card companies as well as unregistered credit providers. See section 7.3.3 for more details on the nature of NBFIs in Thailand.

4 Community based financial institutions are semi-formal, locally based entities who are supervised or overseen by a public entity, but not necessarily for the provision of financial services. Examples include Village Funds, Savings Groups for Production, Village banks – setup under the auspices of the BAAC or the GSB. CBFIs would exclude, for the purposes of this report, entities that are entirely informal with no oversight provided by any public authority. These would include informal money lenders and informal savings groups such as Sajja groups.

5 Indirect costs include costs, other than the direct cost of the services as charged by the financial services provider, incurred by the user (e.g. the cost of transport to a bank branch). .

6 Community-based organizations include those both community organisations that provide financial services and those that do not such as non-financial cooperatives.

7 A market conduct failure can be said to occur when an institution fails to conduct its business with its client market in an appropriate or responsible manner.

8 Bank of Thailand Discussion Paper/08/2007 “The Wealth and Debt of Thai Households: Risk Management and Financial Access”

9 Thailand Migration Report 2011. International Organization of Migration. Accessed on 03 September 2013. Available at: http://www.un.or.th/documents/tmr-2011.pdf

10 Market conduct here means being able to ensure the availability of highly suitable/ client defined products

11 G-20 refers to the Group of Twenty Finance Ministers and Central Bank Governors

12 GPFI (2011). Global Standard-Setting Bodies and Financial Inclusion of the poor. Accessed 28 July 2013. Available at: http://www.gpfi.org/knowledge-bank/white-papers/global-standard-setting-bodies-and-financial-inclusion-poor

13 Formal financial institutions are institutions that are regulated to provide financial services. These would include banks, insurance companies, registered-NFIs etc.

14 Compared to Malaysia (66%), Vietnam, (21%) and Cambodia (4%). Findex (2011). Financial inclusion database. Accessed 28 July 2013. Available at: http://datatopics.worldbank.org/financialinclusion/

15 The four banks that offer full banking services are the Bank for Agriculture and Agricultural Cooperatives (BAAC), Government Housing Bank (GHB), Government Savings Bank (GSB) and Islamic Bank of Thailand (I-Bank). The two banks that offer only credit services are Small and Medium Enterprise Development Bank of Thailand, and the Export Import Bank of Thailand. The two other financial institutions are Thai Credit Guarantee Corporation and Secondary Mortgage Corporation.

16 Community based financial institutions are semi-formal, locally based entities who are supervised or overseen by a public entity, but not necessarily for the provision of financial services. Examples include Village Funds, Savings Groups for Production, Village banks – setup under the auspices of the BAAC or the GSB. CBFIs would exclude, for the purposes of this report, entities that are entirely informal with no oversight provided by any public authority. These would include

informal money lenders and informal savings groups such as Sajja groups.
17 With the exception of Bangkok (CDD's objective is primarily to support and develop rural communities).
18 Boonperm et al., 2012.
19 SSO (Social Security Office Thailand), 2012. The extension of social security coverage to informal labour: Thailand's Experience. A case of the Social Security Office. [Online] Available at: www.issa.int/content/download/171180/3396312/file/2Thailand-SSO-2012-1.pdf [Accessed 02 Oct 2013].
20 A rai is a unit of area, commonly used in Thailand, and is equal to 1,600 square metres. (http://www.purethailand.com/thailand_information/misc/measurement.htm)
21 Thailand Migration Report 2011. International Organization of Migration. Accessed on 03 September 2013. Available at: http://www.un.or.th/documents/tmr-2011.pdf
22 Brunei Darussalam, the Kingdom of Cambodia, the Republic of Indonesia, The Lao People's Democratic Republic, Malaysia, The union of Myanmar, the Republic of the Philippines, the Republic of Singapore, the Kingdom of Thailand and the Socialist Republic of Vietnam
23 National Social and Economic Development Board (NESDB) 2010 Poverty and Inequality Report
24 Due to non-responses, income data is representative of 97% of the adult population.
25 Credit card debt remains the domain of the more educated and wealthier with only 5% of the population currently using credit cards to purchase goods.
26 Mobile telecommunications companies such as True and AIS also have subsidiary companies that provide e-money, bill-payment and remittance services.
27 Adair, M. et al., (unpublished).Interim Microfinance Supply Side Assessment Report. Prepared for: Fiscal Policy Office and Bureau of Financial Inclusion Development Policy, Thailand.
28 MOF Decree under Section 5 of the Notification of the Revolution Council No.58.
29 It is important to note that Cooperatives are generally limited to 15% interest on loans, but savings and cooperatives and credit unions are reportedly permitted to lend at up to 19%. In addition, Cooperatives are reportedly permitted to pay a maximum dividend of 10% to members.
30 BAAC is still to develop centralized banking software linking all of its branches, which makes it difficult for it to provide timely information to NCB or other authorities.
31 KPIs or key performance indicators are a set of parameters to measure and evaluate the impact of interventions against.
32 All date comes from FinScope Thailand 2013.
33 Sajja savings groups are community-run savings groups aimed at encouraging people to save.
34 The current government doubled the Village Fund's original capital in response to low savings and earnings (Lewis, Susewan and Tambunlertchai 2013).
35 Boonperm et al. (2012) for 2004, 2009 and 2010,
36 Information from Village and Urban Community Fund Office, as of August 2012. Data report findings for 2004 – 2006.
37 Rating for Village Funds has not been done regularly and the criteria used do not wholly coincide with the bank's own internal credit scoring. As a result, banks usually apply an additional set of screening measures before they approve loans to Village Funds.
38 Bangkok Post, 2013. What's keeping thai bankers awake at night? Accessed

on 03 September 2013. Available at: http://www.bangkokpost.com/business/economics/282449/what-s-keeping-thai-bankers-awake-at-night
39 Unlike BAAC's Community Bank Project where financial organizations are set up in the communities, GSB's People Bank scheme is operated through its branch networks. Customers wishing to take out micro-loans under the scheme must go to one of GSB branches in order to apply
40 Rating for Village Funds has not been done regularly and the criteria used do not wholly coincide with the bank's own internal credit scoring. As a result, banks usually apply an additional set of screening measures before they approve loans to Village Funds.
41 KTB Community Bank programme runs independently of BAAC
42 It should be noted that it's not Thai convention to refer to finance companies that are not registered with BoT as NBFIs. This is an international convention used for the purposes of compiling this report.
43 Welfare is defined by each savings group, but typically includes benefits in case of death, sickness, birth, education and old age.
44 The BOT issued the personal loan decree prior to these Guidelines and defined personal and microfinance loans as those below THB 200,000.
45 Thailand Migration Report 2011. International Organization of Migration. Accessed on 03 September 2013. Available at: http://www.un.or.th/documents/tmr-2011.pdf
46 While welfare is defined by each savings group, it typically covers individuals in case of death, sickness, birth, education, old age.
47 Tatin-Jaleran, C., (Unpublished). Interim Microinsurance Product Supply-Side Findings and Recommendations Report. Prepared for: Fiscal Policy Office and Bureau of Financial Inclusion Development Policy, Thailand.
48 Endowment may include benefits in the case of birth, accident, death, or funeral depending on the individual contribution level chosen, but at term, interest and savings are returned.
49 A license for microinsurance agents is for microinsurance products only, thus an microinsurance agent cannot sell any product other than microinsurance products
50 SSO (Social Security Office Thailand), 2012. The extension of social security coverage to informal labour: Thailand's Experience. A case of the Social Security Office. [Online] Available at: www.issa.int/content/download/171180/3396312/file/2Thailand-SSO-2012-1.pdf [Accessed 02 Oct 2013].
51 Adair, M. et al., (unpublished).Interim Microfinance Supply Side Assessment Report. Prepared for: Fiscal Policy Office and Bureau of Financial Inclusion Development Policy, Thailand.
52 Note that not all of these cards are issued by commercial banks, and SFIs are included.
53 Bank of Thailand Notification 9/2553: Rules for Establishment of Financial Institutions (Banking Agent).
54 GSMA, "Driving Customer Usage of Mobile Money for the Unbanked," 2011. http://www.gsma.com/mobilefordevelopment/wp-content/uploads/2012/03/drivingcustomerusagefinallowres.pdf. Accessed 1 August, 2013.
55 Market conduct is the general term used by financial sector regulators to designate the area of activity of financial providers involving advertising, sales, and distribution of financial products.
56 Access the Smart Campaign Tools and guidelines for client protection at http://www.smartcampaign.org/about-the-campaign/smart-microfinance-and-the-client-protection-principles
57 Thailand Migration Report 2011. International Organization of Migration. Accessed on 03 September 2013. Available at: http://www.un.or.th/documents/tmr-2011.pdf

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