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THAILAND

Newsletter

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Bank of Thailand Plans to Grant Up to Three Virtual Bank Licenses in the First Round

Technology and data have proved to be the key drivers in enhancing financial inclusion, competition, and customer experiences within the financial markets over the past decade. Nowadays, not only the private sector, but also regulators tap into these tools to solve financial market problems.

On 12 January 2023, the Bank of Thailand (BOT) issued the Virtual Bank Licensing Framework for public hearing as virtual banks, which technically are commercial banks that operate mainly via digital channels, will be a key player to enhance competition within the financial market in the digital economy.

This briefing will provide you with the overview of virtual banks in Thailand based on the Virtual Bank Licensing Framework in the public hearing process.

1. License Application Timeline

The application will be opened in rounds. The application period and the selection process by the BOT and the Ministry of Finance will take around one year and three months.

The first round is expected to start this year. The BOT aims to grant up to three virtual bank licenses for the first round. After obtaining approval from the Ministry of Finance, successful applicants must commence operation within one year.

2. Place of Incorporation and Scope of Operations

Virtual banks must be incorporated in Thailand as commercial banks which provide a full range of financial services. It is also required to set up a local headquarters in Thailand for the purpose of supervision by the BOT and customer complaints, but such headquarters must not be used to circumvent the requirement to provide services via digital mediums.

Virtual banks must operate and provide services mainly via digital channels. Branches and electronic branches such as automated teller machines (ATMs) and cash deposit machines (CDMs) are prohibited. In the face of Thailand's transition to a full-on digital financial landscape, virtual banks may provide cash-in and cash-out services through banking agents and networks of other service

providers such as ATM pooling, but virtual banks must not in compliance rely on these agents and networks to conduct their business.

3. Characteristics of Applicants

The BOT evaluates virtual bank license applicants based on the following seven criteria: (1) business model; (2) good governance; (3) expertise in provision of digital services; (4) adoption of agile technology; (5) capability to manage risks associated with financial businesses; (6) ability to access and leverage data; and (7) strong financial health.

Characteristics and composition of major shareholders, business groups of major shareholders, board of directors and senior executives of virtual bank are subject to requirements on good governance set out by the BOT. At least one director and one senior executive must have expertise or experience in IT or digital service fields of not less than three years. The chief technology officer ("CTO") must not be a CTO of or work full time at other companies.

Regarding shareholding, as a virtual bank will be considered as a commercial bank which is a 'financial institution' under the Financial Institutions Business Act B.E. 2551 (2008) ("FIBA"), the virtual bank will be subject to the same shareholding restrictions as traditional commercial banks. The BOT allows virtual bank license applicants to file for a relaxation of these restrictions, and the BOT may grant approval on a case-by-case basis with additional conditions if applicable.

Set out below is a summary table of the restrictions and the relaxations.

Restriction by Default	Relaxation
Voting shares in a financial institution must be at least 75% held by Thai persons.	Foreigners may hold more than 25% but not more than 49% of voting shares in the virtual bank.
A person must not hold more than 10% of shares in a financial institution.	A person may hold more than 10% of shares in the virtual bank.
A financial institution must not hold shares in another financial institution.	A financial institution may hold shares in the virtual bank (where a financial institution may include up to one virtual bank in its financial business group)

In the case that a major shareholder of a virtual bank is a financial institution or a holding company having a financial institution in its financial business group, there will be additional conditions; for example, such major shareholder and the virtual bank are prohibited from using the same trademark or logo, and the financial institution is prohibited from providing any financial support to the virtual bank during the full-functioning phase except in the case of crisis.

4. Operational Phases and Capital Requirements

(a) Restricted phase

This phase covers the first three to five years of operations and is subject to close supervision by the BOT. To enter the full-functioning phase, virtual banks must pass the evaluation criteria set by the BOT, and in particular the following:

- (i) Virtual bank offers customer-centric financial services which significantly serve retail consumers and SMEs, especially those that are underserved or unserved.

(ii) Virtual banks' operational performance shows good signs of prospective growth and sustainable generation of incomes and profits.

(iii) Virtual bank strictly complies with rules and regulations and does not exhibit undesirable behavior regarding competition, favorable treatment and use of market power which may jeopardize the stability of the financial system and consumers at large.

On the initial operation date, a virtual bank must have paid-up registered capital of not less than THB 5,000 million which must be gradually added towards to at least THB 10,000 million before the completion of this phase.

(b) Full-functioning phase

Only virtual banks that pass the evaluation criteria with the paid-up registered capital of not less than THB 10,000 million can proceed to the full-functioning phase.

(c) Exit plan

Applicants of virtual bank licenses must arrange for an exit plan for the case in which the virtual bank needs to go out of business during the restricted phase. Such exit plan must be approved by the BOT in accordance with the prescribed criteria.

5. Regulatory Compliance

Virtual banks will be subject to the same compliance requirements as traditional commercial banks, including obligations to make contributions to the Thailand Financial Institutions Development Fund (FIDF) and the Deposit Protection Agency (DPA) since the restricted phase. Deposits at virtual banks will be protected in the same way as deposits at traditional financial institutions.

The BOT will take a risk-proportionality approach in supervising virtual banks while focusing on good corporate governance, risk culture, and the following matters:

(a) Continuity of IT system, e.g., total downtime must not last more than eight hours per year and recovery time must not last more than two hours per occurrence.

(b) Customer support via digital channels, e.g., virtual bank must adopt a business continuity plan which sets out the steps for customers to withdraw money in the case of emergency.

(c) Suitability of outsourcing.

Please note that the above criteria are subject to the result of the public hearing which will end on 12 February 2023 and the final criteria set out in the regulation which is targeted to be finalized by March 2023. CMHM will closely monitor this framework and keep you updated once it is enacted.

If you have any questions in relation to the issues raised, please contact the authors in the left-hand column.

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