

FinTech and Improving Financial Access: The Case of Thailand

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Research grantor

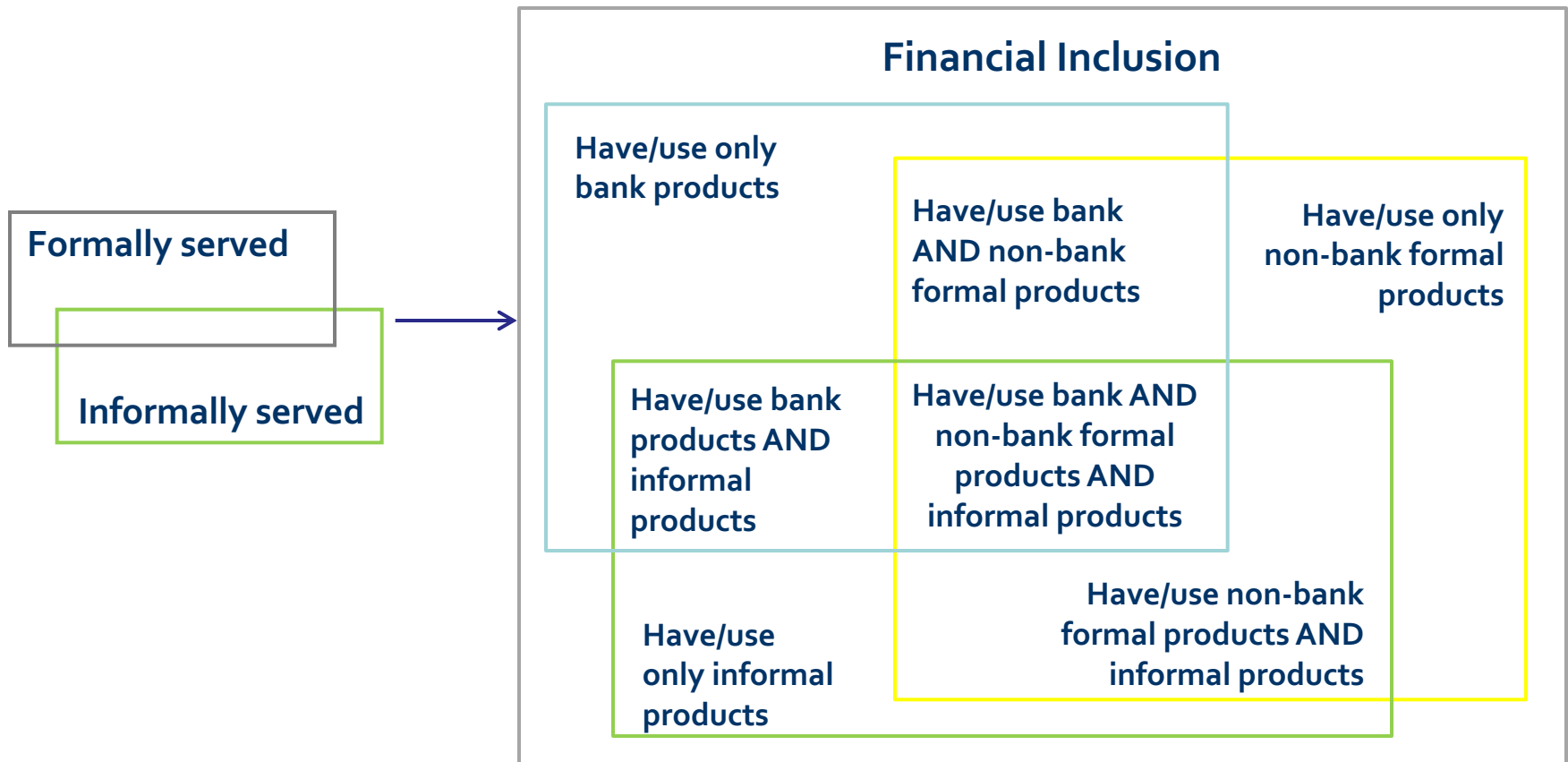


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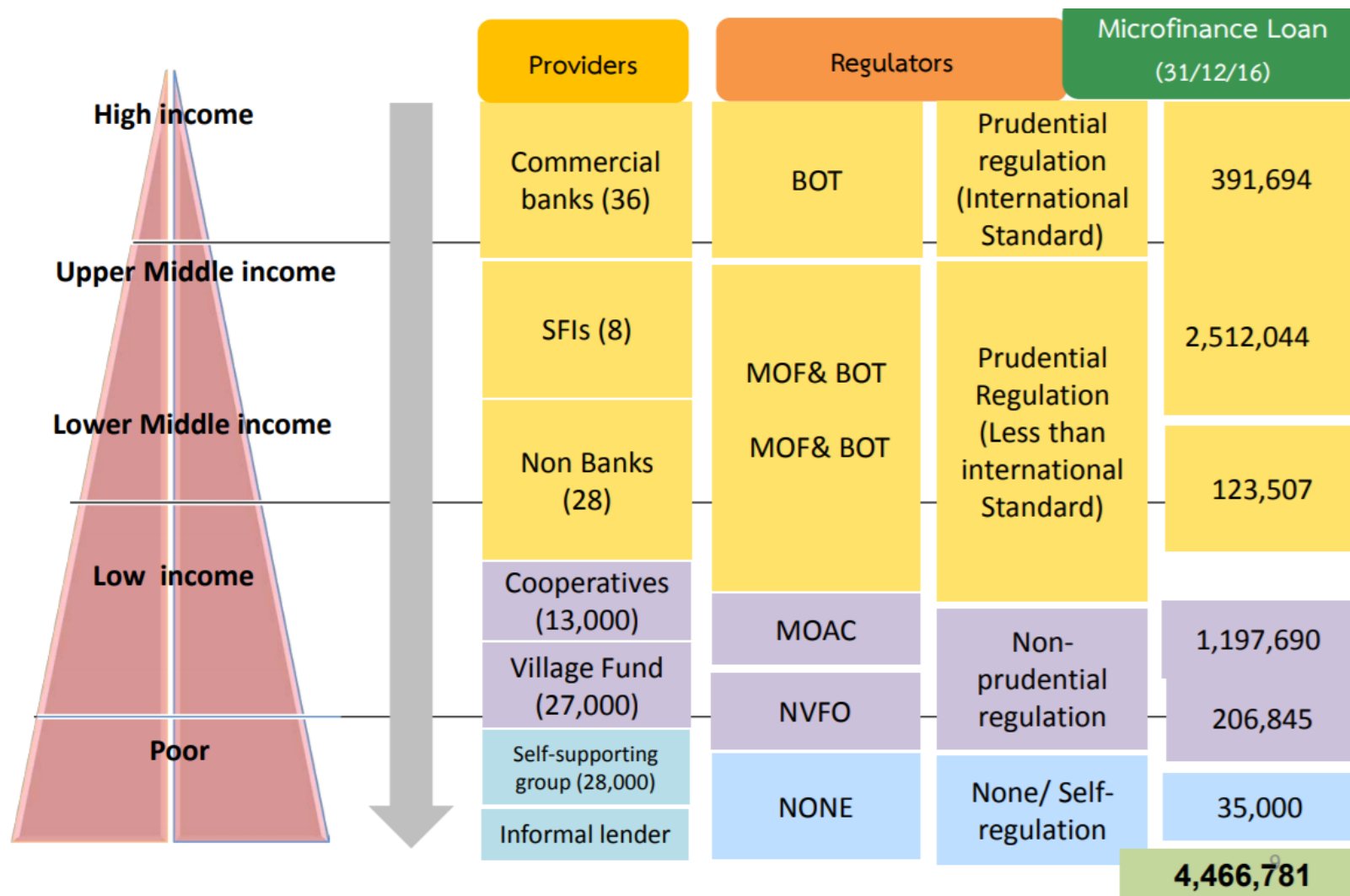
Research objectives

- Funded by Thailand Sustainable Development Foundation (TSDF)
- Create and disseminate knowledge on “sustainable banking”
 - “FinTech and Improving Financial Access” whitepaper (October 2017)
 - “Innovative and Responsible Products for Retail Customers” whitepaper (March 2018)
 - “Environmental, Social, and Governance (ESG) Risks and Banks’ Risk Management System” whitepaper (forthcoming)
- Exchange knowledge via seminar and stakeholder engagement to create awareness and acceptance from Thai banking sector and banking regulator

Definition of “financial inclusion”

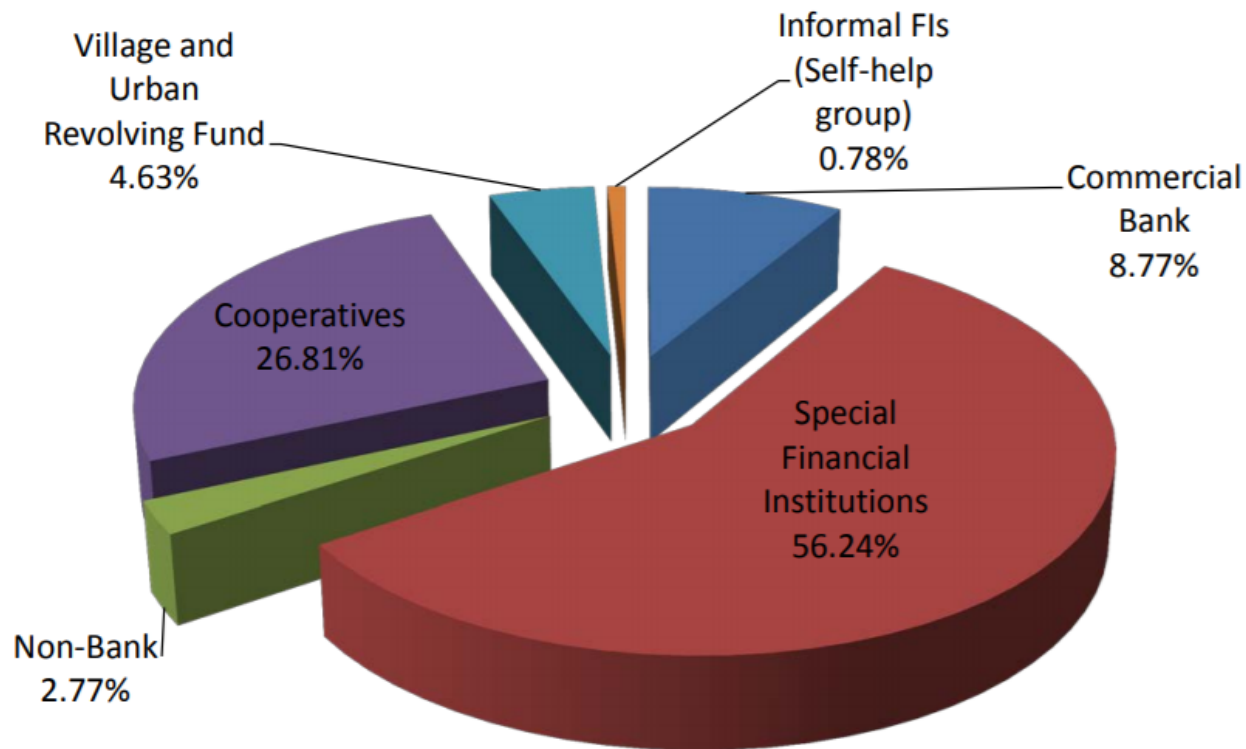


Landscape of financial service providers in Thailand



Supply of 'microfinance' in Thailand (2016)

- Bank of Thailand definition of 'microfinance' (2011): No more than 200,000 Baht loan, interest rate no more than 28%



Supply of ‘microfinance’ in Thailand (2016) (cont.)

Unit: Baht million

Financial Institution	Total Deposit	%	Total Loan	%	Microfinance Loan	%	% total loan
1. Commercial Bank	12,302,716	67.73	13,218,274	69.74	391,694	8.77	2.07
2. Special Financial Institutions	4,180,617	23.02	4,161,253	21.96	2,512,044	56.24	13.25
3. Non-Bank	-	-	133,568	0.7	123,507	2.77	0.65
Total of Formal FIs (1+2+3)	16,483,333	90.75	17,513,096	92.40	3,027,246	67.77	15.97
4. Cooperatives	1,621,317	8.93	1,197,690	6.32	1,197,690	26.81	6.32
5. Village Fund	20,000	0.11	206,845	1.09	206,845	4.63	1.09
Total of Semi-Formal FIs (4+5)	1,641,317	9.04	1,404,535	7.41	1,404,535	31.44	7.41
6. Informal FIs (Self-help group)	38,763	0.21	35,000	0.18	35,000	0.78	0.18
Total	18,163,413	100	18,952,631	100	4,466,781	100	23.57

Bank of Thailand: Financial Access Survey

(1) **Income level:** divided into five groups by ranking each responding households' monthly income from lowest to highest. Each income group consists of an equal number of samples (20% of all samples).

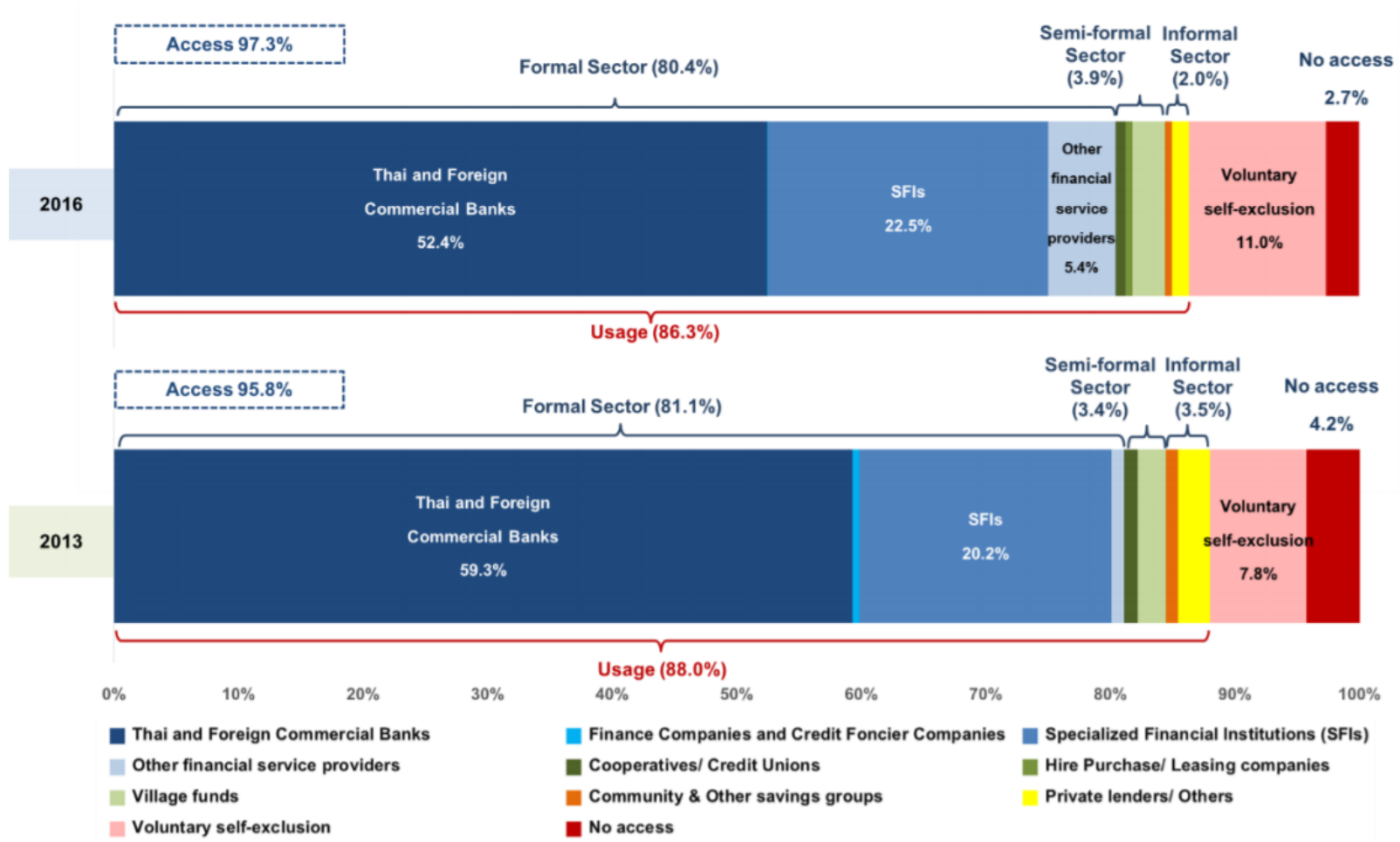
Unit: Baht

Group	Lowest income	Highest income	Average income
1 (Lowest)	0	8,500	5,742
2	8,501	13,140	10,727
3	13,141	19,674	16,137
4	19,675	30,774	24,484
5 (Highest)	30,775	800,000	58,521

(2) Gender

- Female: 6,538 respondents
- Male: 4,328 respondents

Financial inclusion: 2016 vs. 2013



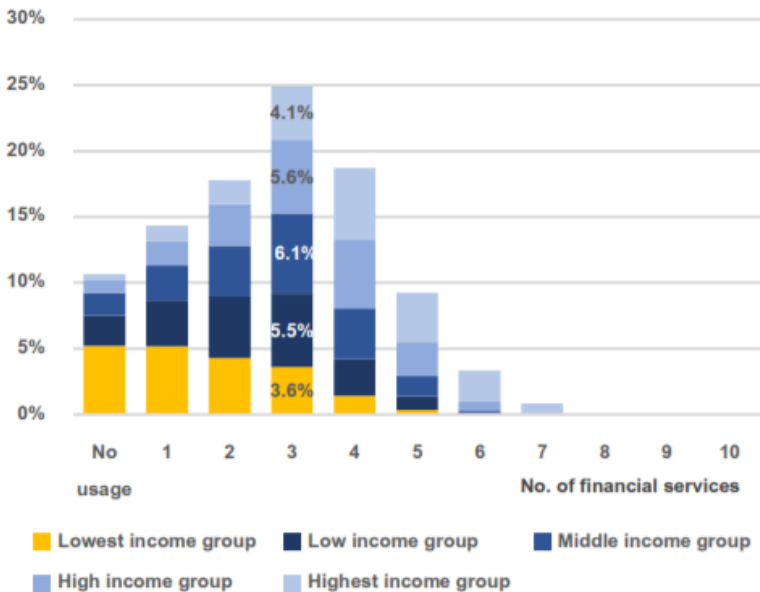
Note: Total samples in 2013 and 2016 were 10,613 and 10,866 households, respectively.

Access by income level, res. area, region, gender

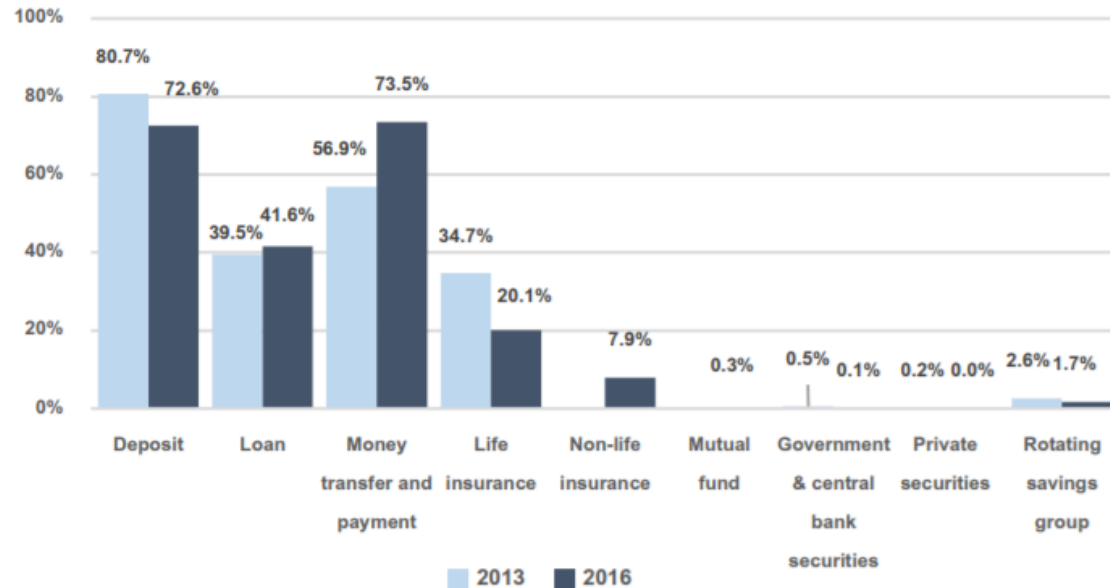


Number of services used vs. usage

Number of financial services used

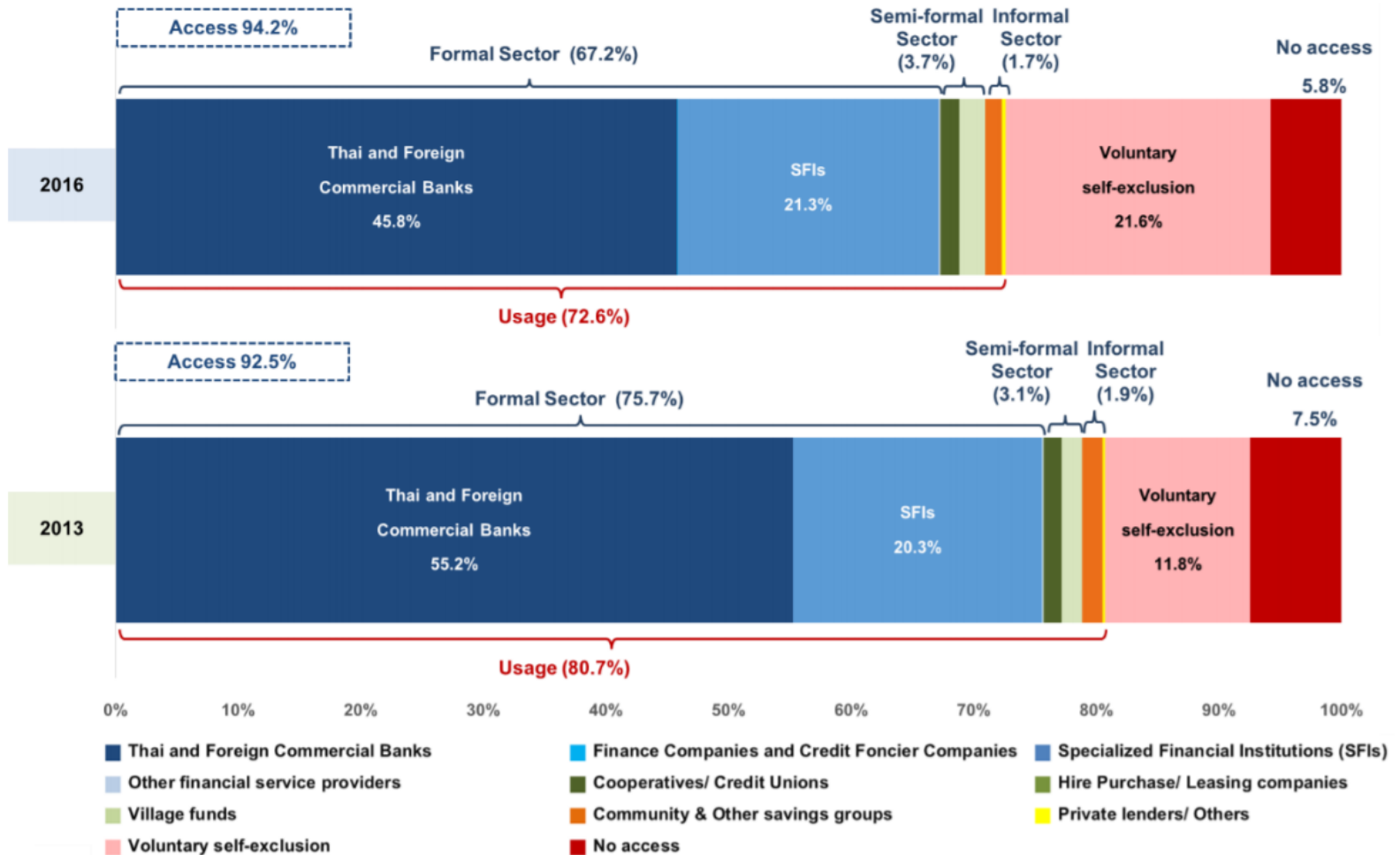


Usage of financial services in percentage



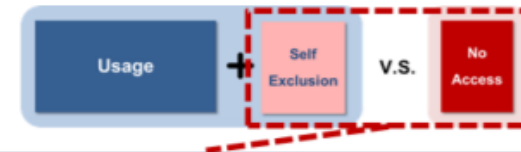
Note: The usage rate of non-life insurance and mutual funds were not examined in the 2013 survey.

Access to savings/deposits



Note: Total samples in 2013 and 2016 were 10,613 and 10,866 households, respectively.

Obstacles to access savings/deposits



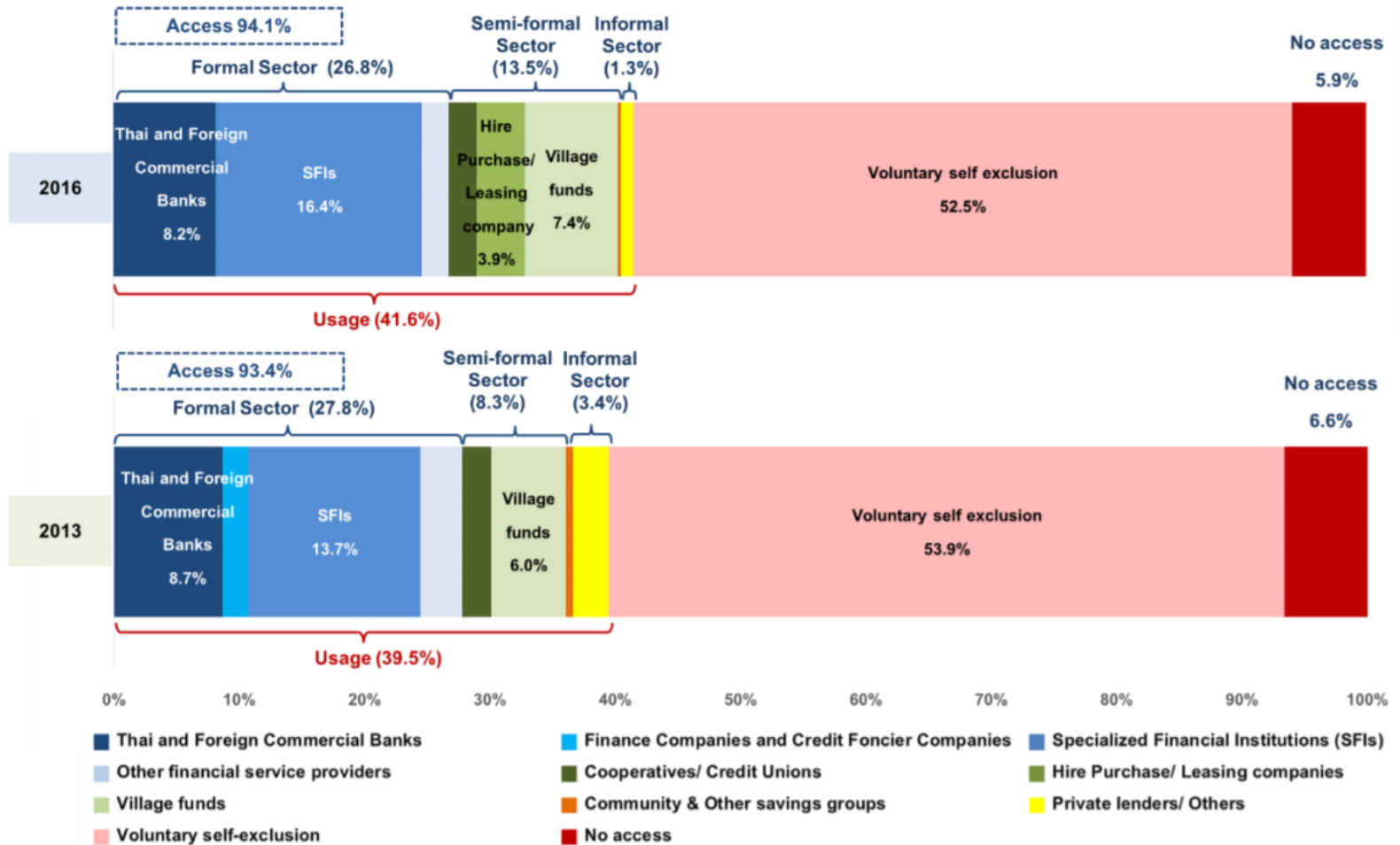
Reasons cited for not using commercial banks' deposits/ savings services	
1. Poor financial position/ insufficient income	86.3%
2. Lack of understanding in services	2.9%
3. Lack of confidence/ Fears of rejection	1.9%
1. Poor financial position/ insufficient income	49.0%
2. No need to use services	37.4%
3. Lack of understanding	7.1%

Reasons cited for not using SFIs' deposits/ savings services	
1. Poor financial position/ insufficient income	84.0%
2. Lack of understanding in services	4.9%
3. Lack of confidence/ Fears of rejection	3.2%
1. No need to use services	43.2%
2. Poor financial position/ insufficient income	38.6%
3. Lack of understanding	12.8%

No access

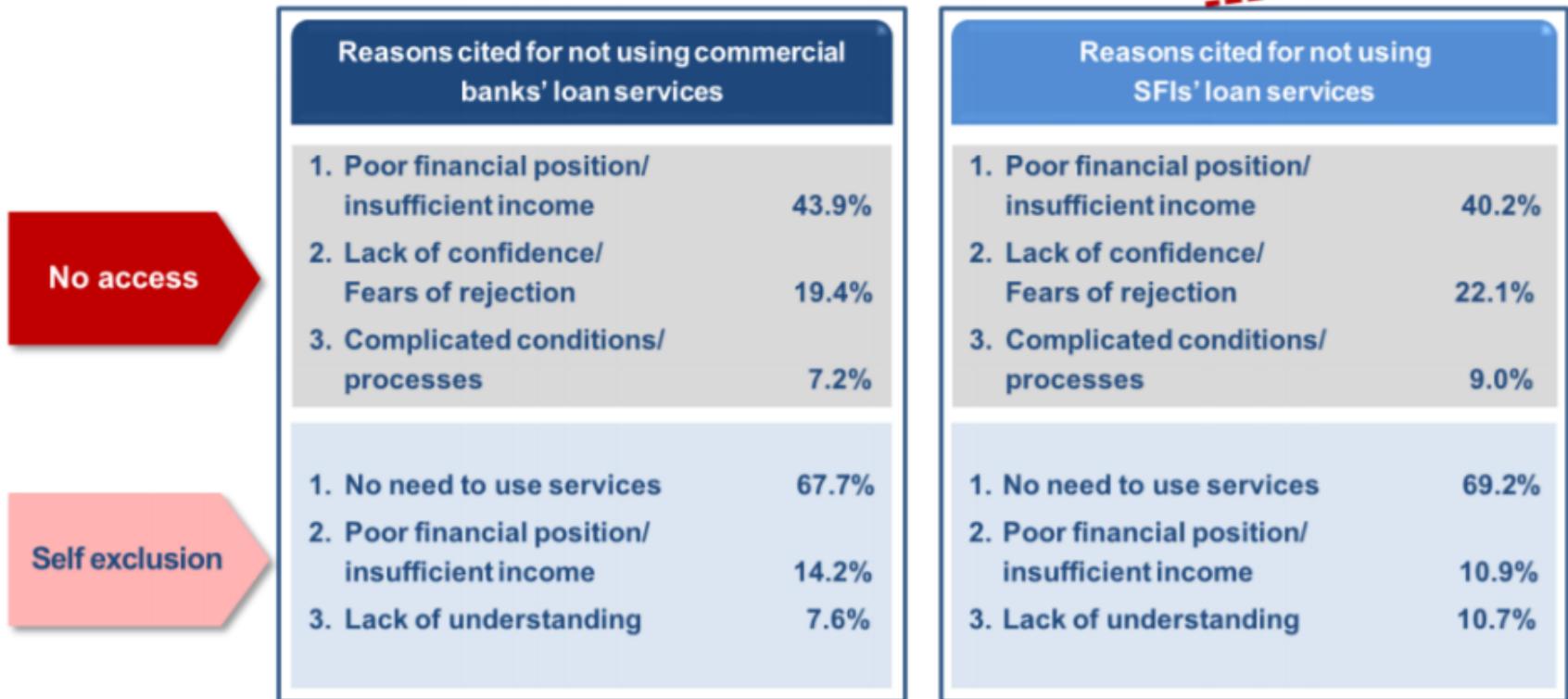
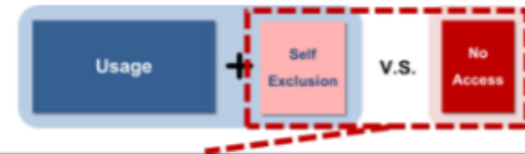
Self exclusion

Access to loans

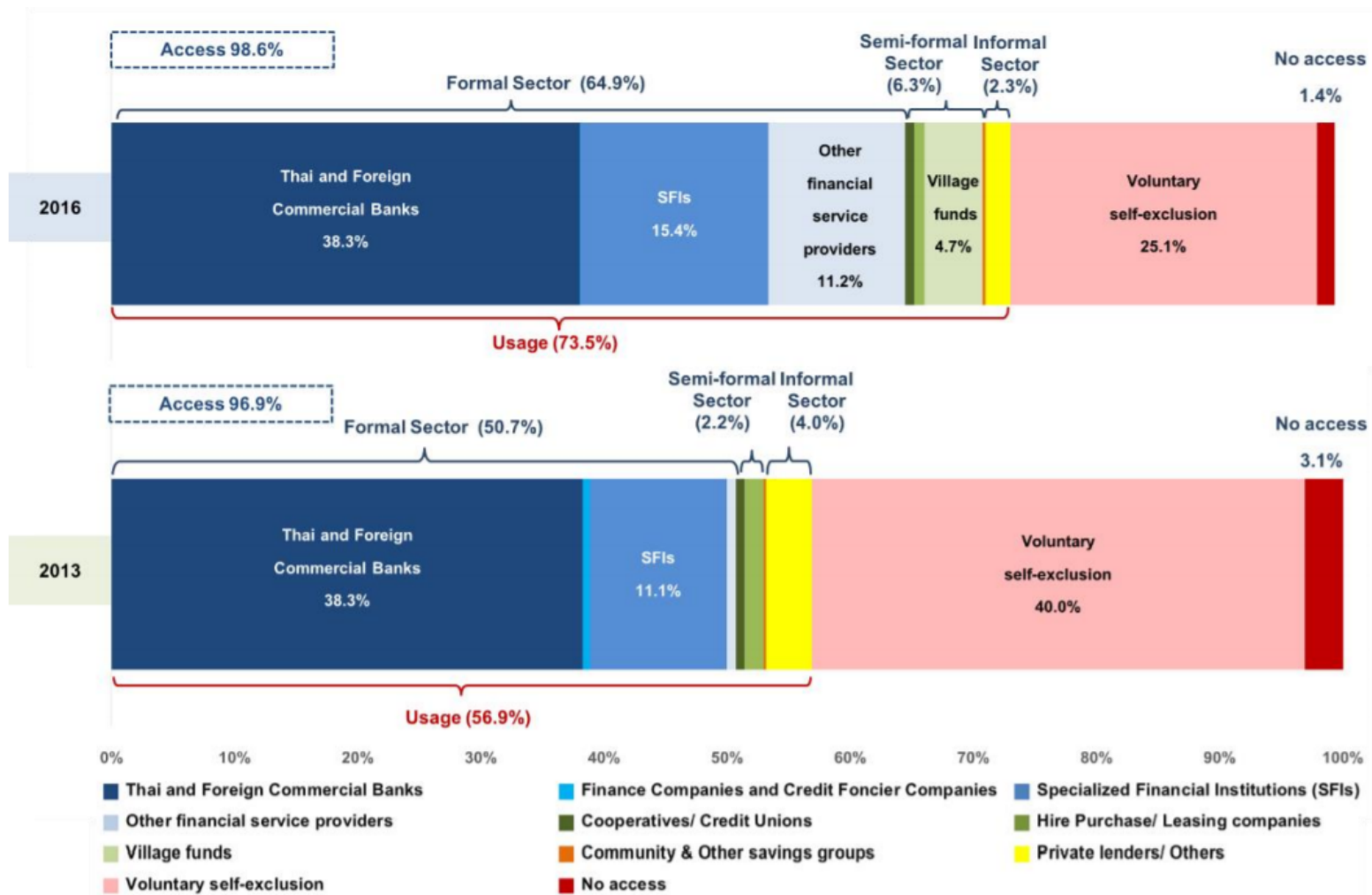


Note: Total samples in 2013 and 2016 were 10,613 and 10,866 households, respectively.

Obstacles to loans

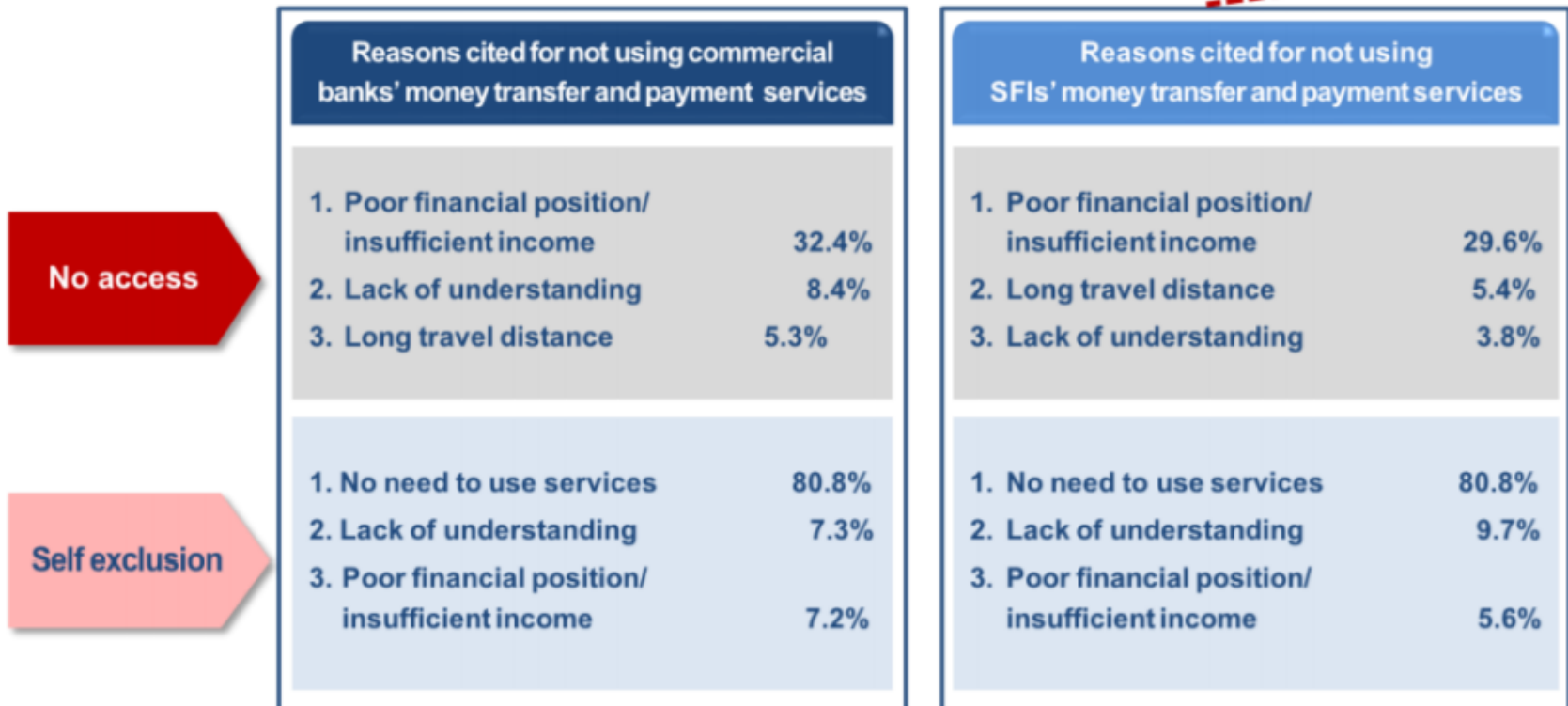
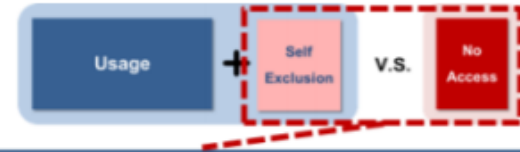


Access to money transfer & payments



Note: Total samples in 2013 and 2016 were 10,613 and 10,866 households, respectively.

Obstacles to money transfer & payments



Financial behavior

(2013)

Insurance

- Majority of risks covered are by the community and the state
- Private insurers cover motor vehicles and credit-life

Savings

- 80% of people feeling they can trust banks with their money, but majority use for moving cash (remittances)
- Deposits at SFI's (GSB) are growing at more than 30% a year

Credit

- Many households, especially farmers, regarded these as a "cash flow lifeline"
- Borrowers are prepared to accept widely divergent interest rates

Source: FinScope
2013

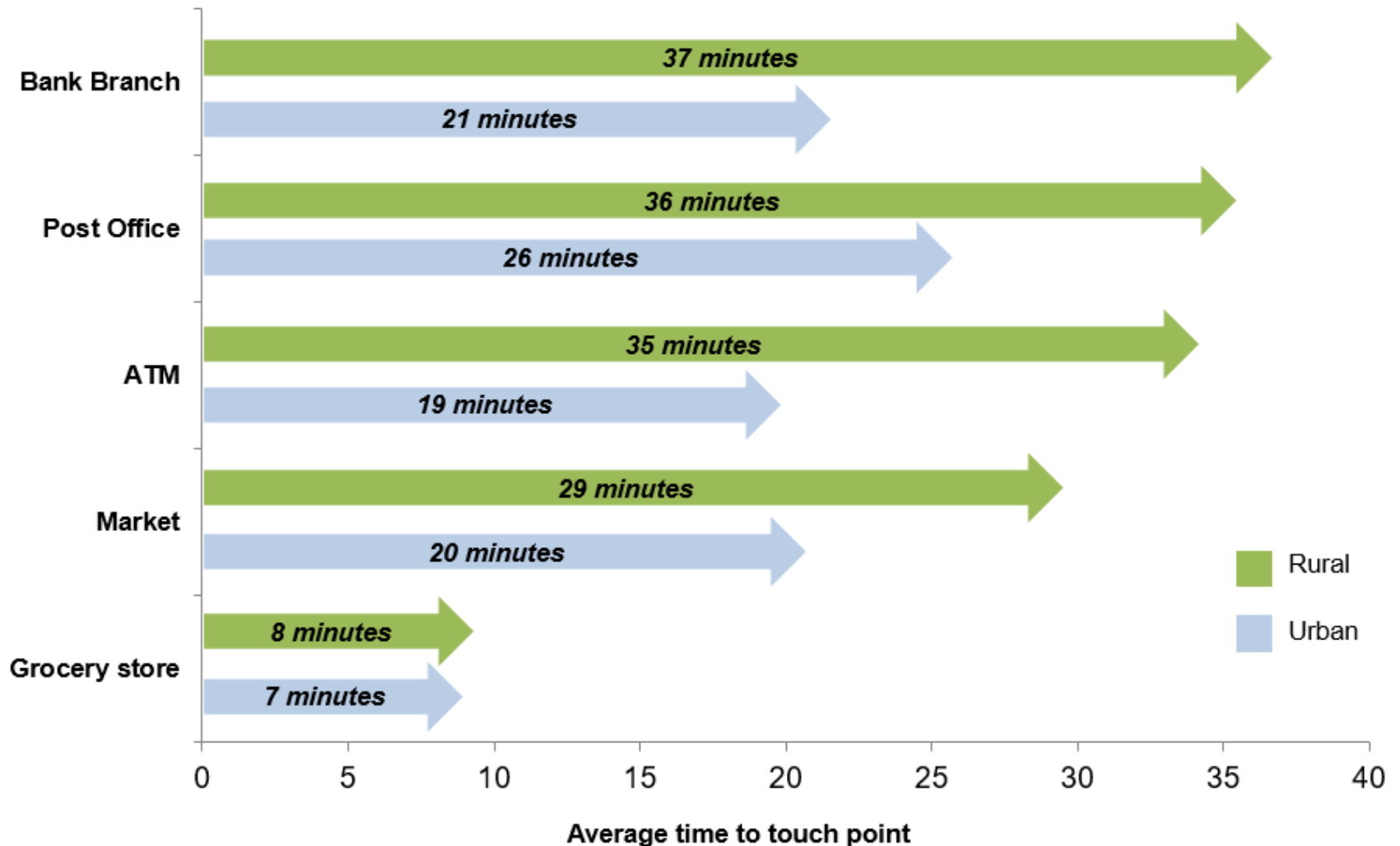
Degree of usage
Low ✓ -
High ✓✓✓

Institution	Consumer Loans	Micro- Loans (<THB 200k)	Deposits	Remittances	Payments Collection	Pre-paid / Stored Value Cards	Insurance /risk protection
Government							✓✓✓
Commercial Banks	✓✓✓	✓	✓✓✓	✓✓✓	✓		
SFI: BAAC	✓✓✓	✓✓✓	✓✓	✓	✓		✓✓
SFI: GSB & GHB	✓	✓✓	✓✓✓	✓			✓
NBFIs	✓✓✓	✓✓✓					
Credit Unions / Co-Ops	✓✓	✓	✓✓				
Village Fund	✓	✓✓✓	✓				
Moneylenders / Pawnshops	✓	✓✓					
Post Office				✓✓	✓		
Private Insurers							✓
Community-based institutions							✓✓✓
Modern Trade Outlets					✓✓✓	✓✓	
Mobile Network Operators				✓	✓✓	✓✓✓	17

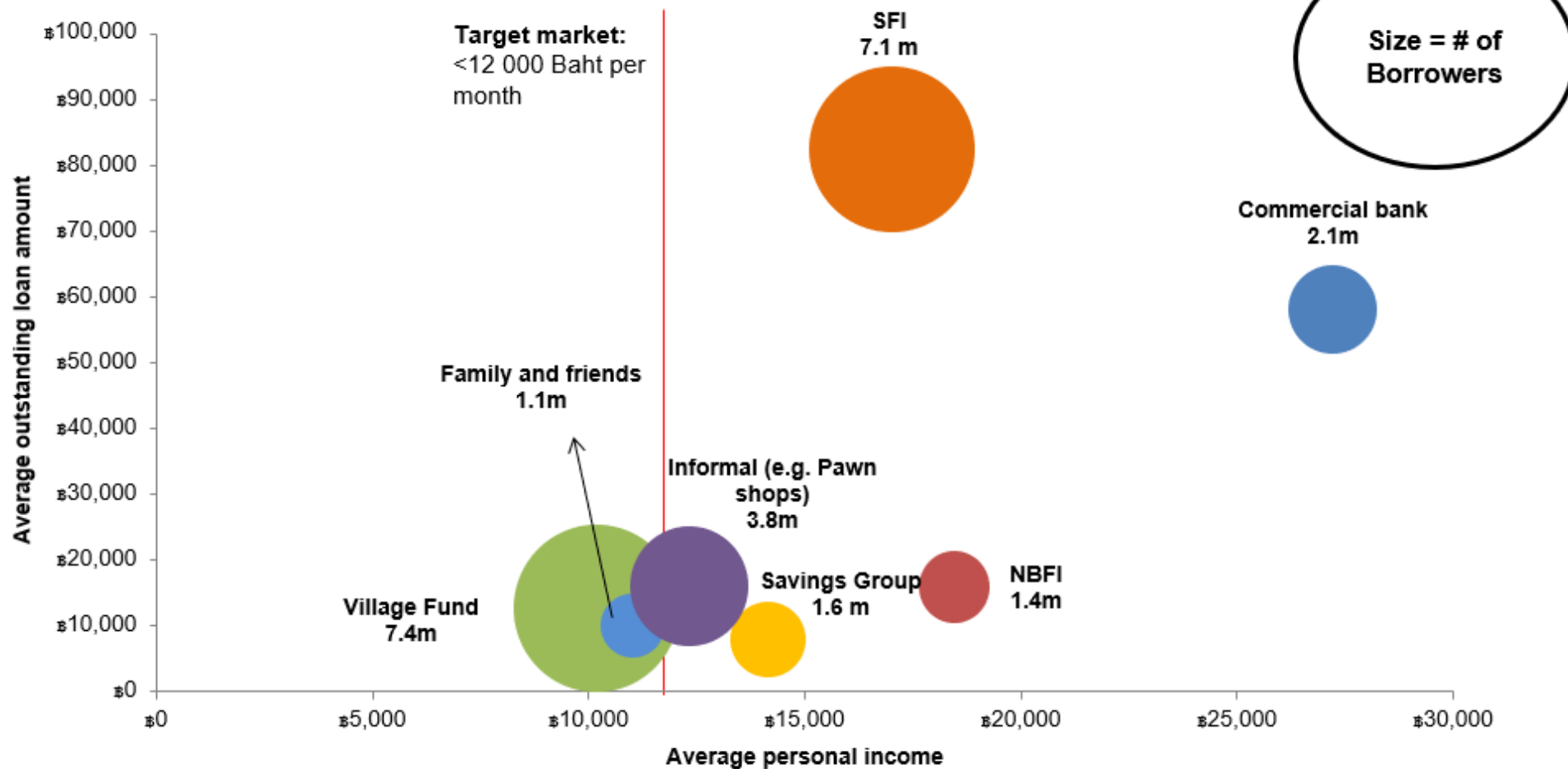
Payments

- 65% of utility payments are made at 7-Eleven stores
- Mobile payments are growing exponentially

Distance to touch points in Thailand: Rural vs. Urban

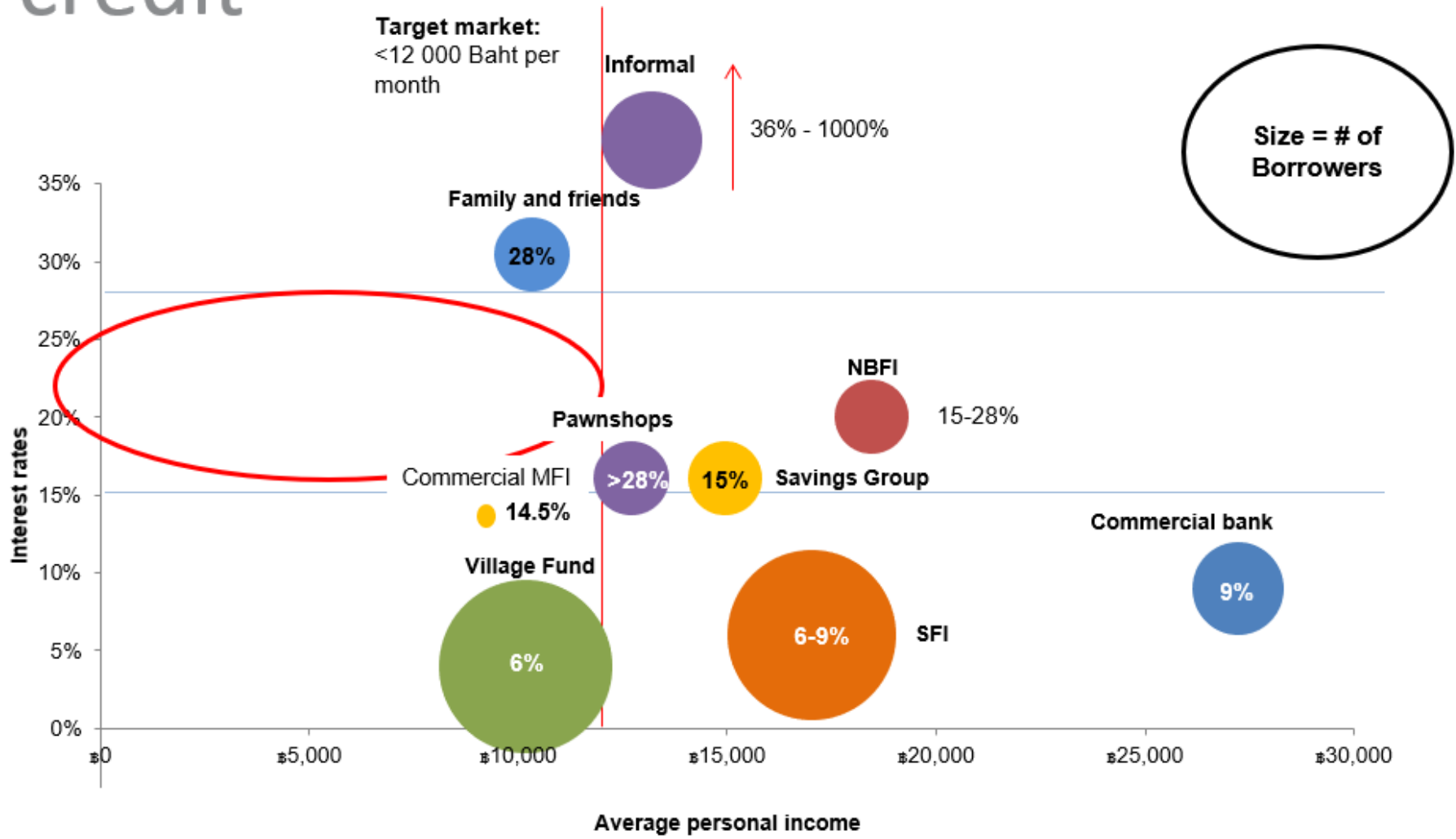


Market for credit: borrowing patterns



Market for credit: cost of credit

Village funds and SFI provide credit in the low-end of the market and commercial banks in the upper end. **No market for commercial bank MFIs in the same space as Village Funds and SFIs.**



Source: FinScope 2013

Qualitative study 2013: respondents

- 200 focus group discussions (FGDs) in
 - Nakhon Si Thammarat (40 FGDs)
 - Sisaket (40)
 - Chiang Rai (40)
 - Chainat (40)
 - Bangkok (40)
- Six participants per group
- 25% middle-income, 75% low-income
- Differentiate urban/rural, business owner/wage earner/farmer

Qualitative study objectives

- To understand which financial services are used by richer and poorer households, and why
- To understand the impact of wealth on financial services access
- To understand impact of seasonality on financial needs of different market segments
- What are the major life cycle lump-sum expenses, how do they cope, what are the constraints and what are the opportunities for innovation by financial institutions

Qualitative study objectives (cont.)

- To understand which product attributes are most liked and disliked by different market segments and why
- To understand major consumer protection concerns in Thailand
- To understand the level of financial capabilities of target market

Conducting focus group discussions (FGDs)



Which financial services are used by richer and poorer households, and why

- Nearly everyone knows of the Village Fund, but many consider it a ‘gift’ from the government whose benefits are not equally shared (‘captured’ by powerful local influencers)
- The poorer you are, the more you rely on semi-formal and informal institutions. Poor households’ choices are often limited to village funds, local saving groups, friends, relatives, and moneylenders

Which financial services are used by poorer households, and why

- Savings groups yield high returns to savers and are popular in remote rural areas
- Finance/leasing companies are important sources of loans for consumer durables
- Friends and relatives are important sources of loans but loan size is limited

The impact of wealth on financial services access

- Higher income households borrow mostly to invest, lower income households borrow mostly to consume
- The poorer you are, the less experience and knowledge you have about financial services
- Once falling into indebtedness, it is not easy for the poor to get out of debt, especially informal lenders that require lump-sum repayment

The impact of wealth on financial services access (cont.)

- Pawnshops and informal lenders are common sources of urgent loans for poor and middle-income households, because these loans are quick and easy (few conditions)
- The poor want to save but think they have no ability to save. Community saving groups are popular because they can save in tiny amounts each month

The impact of wealth on financial services access (cont.)

- The poor sometimes use the loans for activities different from what they declared to the financial institutions. For examples, they may use part of agricultural loans for emergencies
- The poor borrow from many sources to rotate their debt repayment, constantly 'refinancing' to maintain good credit with lenders they perceive are the most important to them, such as borrowing from informal lenders to repay BAAC

The impact of seasonality on financial needs of different market segments

- There is seasonality of financial needs by farmers and rural workers
- Seasonality of farming related income requires flexible timing of loan disbursement and repayment
- Children's education creates seasonality in expenditures, but this is a predictable event
- Calamities like crop failure and sickness can put farmers in permanent debt

Difficulties in accessing financial services to meet major lump sum financial expenses

- Expenses which cannot be broken down or postponed, such as school fees and medical emergencies, often provide more stress than larger expenses which can be postponed and downscaled based on the availability of funds (e.g. marriage, house building, and monk ordainment ceremony)
- Medical emergencies require money urgently no matter what cost

Difficulties in accessing financial services to meet major lump sum financial expenses (cont.)

- Education is the best asset to bequeath
- Business start-up costs are a major cost
- Funeral expenses have strong community support mechanisms
- Own pick-up is seen as essential for middle income farmers
- Major expenses that are flexible and require “social capital” are easier to handle

Which product attributes are most liked and disliked and why

- Loans are the most contentious of financial products
- “Low payment amount” is most important; will pay high informal rates if required
- The poor require greater flexibility on loan repayment schedules so fit income flows
- The poor require alternative forms of collateral
- Proximity to financial service is a concern for the remote rural

Which product attributes are most liked and disliked and why (cont.)

- Group guarantees “good” and “bad”. Good in that it provides alternative to collateral; bad in that it excludes people who suffer from discrimination and cannot find group
- Fast approval and less documentation highly valued, but rarely found
- The poor require greater responsiveness by financial institutions to urgent needs

Which product attributes are most liked and disliked and why (cont.)

- Need easy-to-understand loan conditions
- Generally people are satisfied with loan sizes from formal financial institutions
- Government banks provide slow service
- Consumer loans, both from formal and informal sources, are increasingly popular
- Participants of FGD know savings is important but think they do not have ability to save or the amount of their saving is insignificant

Financial literacy: respondents' views

- People feel financially “stressed” when managing their money
- People put little emphasis on long-term saving
- “Fear of debt” and lack of understanding hamper responsible borrowing
- Lack of awareness of how to safeguard consumer rights and grievance channels
- Confusion and mind-set barriers to using new products and services

Some take-aways

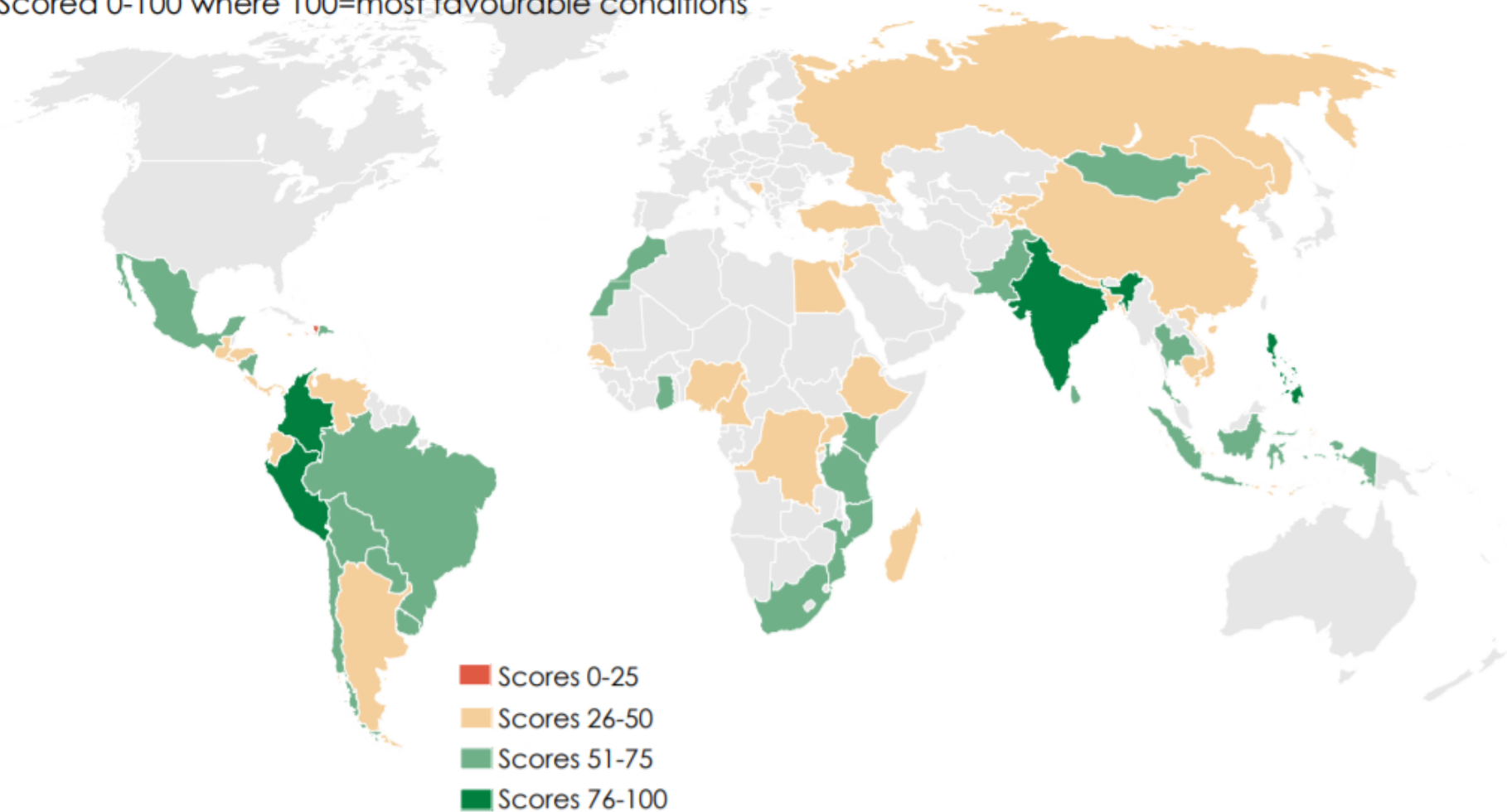
- Opportunities for new and better-tailored products
 - To encourage long-term savings, e.g. integrate National Pension Fund with existing village fund and saving groups networks
 - To help better cope with risks, e.g. insurance against crop failures
- Key to debt management is to prevent runaway debt
- Disclosure standards should be improved and rules for responsible marketing designed and enforced
- Stand-alone financial education tools are not enough; need proper incentives and integrate education into product delivery to create financial capabilities

Some potentials for innovation

- Expand ‘proof of income’ to expensive assets e.g. motorcycle queue jackets
- Expand services to accommodate non-Thai citizens e.g. hill tribe people, and people who are barred because of social stigma e.g. sex workers
- More extensive mobile banking
- Easier-to-understand disclosure of interest rates and fees

Financial inclusion in Thailand vs. the world

Weighted sum of all indicator scores with adjustment factor applied
Scored 0-100 where 100=most favourable conditions



Financial inclusion indicators

- 1. Government support for financial inclusion**
Sub-indicator 1: Existence and implementation of a strategy
Sub-indicator 2: Data collection
- 2. Regulatory and supervisory capacity for financial inclusion**
Sub-indicator 1: Technical capacity to supervise
- 3. Prudential regulation**
Sub-indicator 1: Appropriate entry and licensing requirements
Sub-indicator 2: Ease of operation
- 4. Regulation and supervision of credit portfolios**
Sub-indicator 1: Interest rates
Sub-indicator 2: Risk management of credit portfolios
Sub-indicator 3: Risk management framework for microcredit portfolios
- 5. Regulation and supervision of deposit-taking activities**
Sub-indicator 1: Ease of offering savings products by regulated institutions
Sub-indicator 2: Existence of in-depth deposit-insurance coverage
- 6. Regulation of insurance targeting low-income populations**
Sub-indicator 1: Existence of regulation of insurance for low-income populations
Sub-indicator 2: Delivery channels for insurance targeting low-income populations
Sub-indicator 3: Consumer protection for insurance targeting low-income populations
- 7. Regulation and supervision of branches and agents**
Sub-indicator 1: Ease of setting up a branch
Sub-indicator 2: Ease of agent operation
- 8. Requirements for non-regulated lenders**
Sub-indicator 1: Information reporting and operational guidelines
- 9. Electronic payments**
Sub-indicator 1: Available infrastructure for financial inclusion
Sub-indicator 2: Digital financial services

Financial inclusion indicators (cont.)

11. Market-conduct rules

Sub-indicator 1: Existence of a framework and institutional capacity to protect the financial consumer

Sub-indicator 2: Existence and content of disclosure rules

Sub-indicator 3: Existence of fair-treatment rules

12. Grievance redress and operation of dispute-resolution mechanisms

Sub-indicator 1: Internal complaint mechanisms

Sub-indicator 2: Existence and effectiveness of a third-party-redress entity

ADJUSTMENT FACTOR: Stability

Sub-indicator 1: General political stability

Sub-indicator 2: Shocks and policies affecting financial inclusion

Scoring methodology: Each of the indicators contains between one and three sub-indicators and, in turn, each sub-indicator is composed of between one and four questions that were scored from 0 to 4, where 4 = best and 0 = worst. Once indicator scores were assigned, these were normalised and weighted according to a consensus among clients and experts, then aggregated to produce an overall scoring range of 0–100, where 100 = best and 0 = worst. Each of the 12 indicators was given equal weight, while sub-indicator weights varied according to importance and the number of sub-indicators included.

Finally, the adjustment factor, Stability, adjusts each country's score for political stability and policies that affect financial inclusion.

Financial inclusion challenges



Bank of Thailand's measures to increase access

Intended Outcome

- The general public can better access financial services, both qualitatively and quantitatively.
- Financial institutions have more products and services for retirements to serve people's increasing needs.

Current Status

- + The level of financial access for Thai households is good.
- Some people are not able to access financial services.
- Branches of commercial banks and SFIs are concentrated in urban areas while ATMs are not well distributed.
- Some community-based financial institutions lack legal status and do not have adequate management and/or accounting system.

Opportunities and Challenges

- + The government's Digital Economy Policy and National e-Payment Master Plan will elevate the public's quality of life. People will be able to better access public services and financial services more equally.
- Thailand is entering aging society while the saving rate is low.

Measures

1. Promote access to financial services

- Increase service channels: Agent/ Internet & Mobile banking/ Point of sale (POS).
- Encourage financial institutions to offer basic financial services (deposit, withdrawal, transfer, and payment transactions) to the general public at reasonable prices.
- Support capacity building programs for community financial institutions.

2. Encourage financial institutions to offer products and services aimed at savings for retirement, and promote the development of pension and retirement fund system

- Urge financial institutions to develop and offer financial products and services for senior citizens such as reverse mortgage and asset management.
- Advocate mandatory/ supplementary pension system and provident funds.

FinTech development in a nutshell

- FinTech 1.0 (1866 - 1967): from analog to digital
- FinTech 2.0 (1967 - 2008): use of digital in banking
 - 1967: introduction of ATM and programmable calculators
- FinTech 3.0 (2008 – present): democratization of finance (?)

FinTech diversity and scope

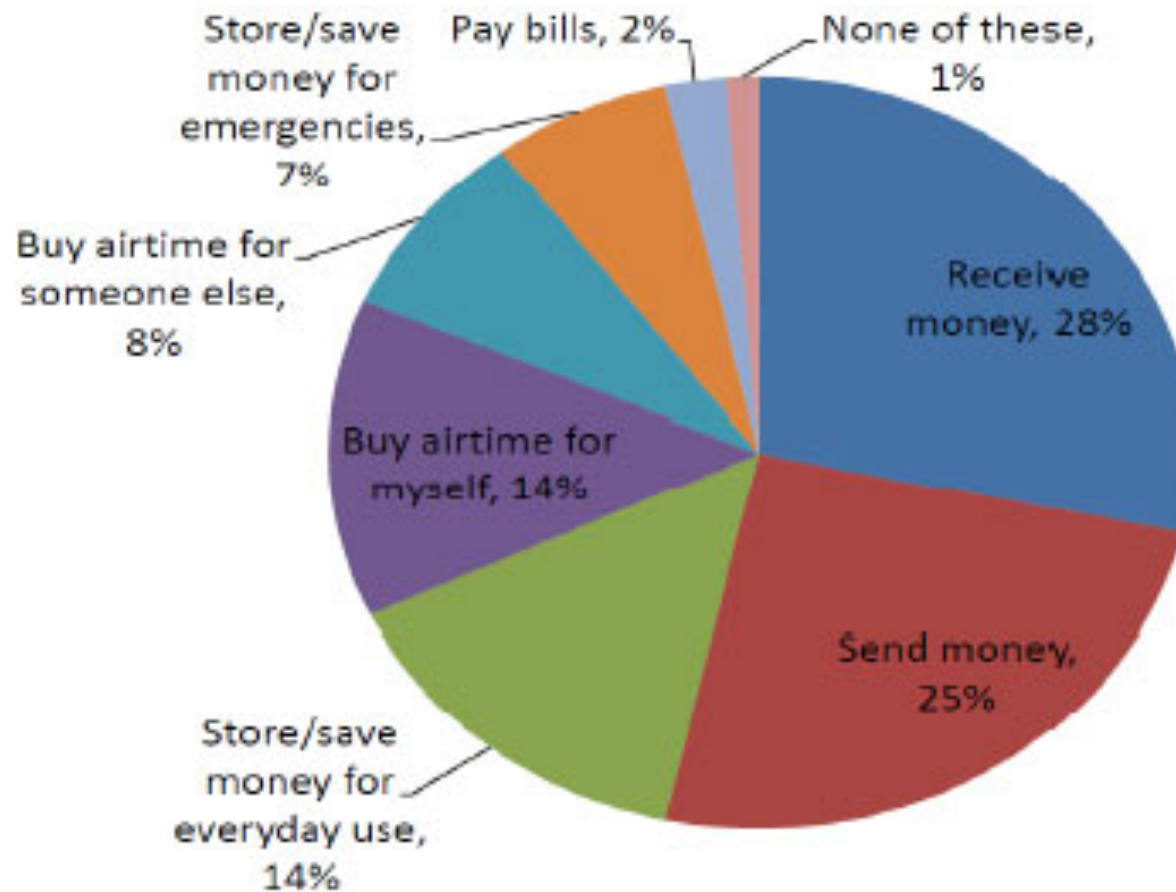




M - Pesa

“Mobile Money”

Uses of M-Pesa



Benefits of M-Pesa (Dec. 2016)

M-PESA has significantly reduced transaction costs in Kenya. When it was launched the average distance to the nearest bank was 9.2 kilometres. Eight years later in 2015 the average distance to the nearest M-PESA agent was a mere 1.4km.

When M-PESA started it created a network of agents that were geographically dispersed which meant that more people in rural and sparsely populated areas were within reach of one. This resulted in significant and widespread adoption.

Now that mobile money users are able to form more diverse risk-sharing networks, it's not surprising that users, compared with non-users, tend to receive more remittances from more people. This is particularly marked when users are responding to negative shocks.

Mobile money users are therefore more financially resilient and can protect themselves better against economic and other shocks. It also allows them to increase their consumption in bad times. This is key to enabling households to lift themselves out of extreme poverty.

The recent findings also show that in areas that have experienced large increases in access to mobile money people were more likely to be working in business or sales rather than in subsistence farming. Additionally, fewer people in these areas reported having secondary occupations.

Both these findings were seen to be particularly true for women. This was found to be true in female-headed households as well as male-headed households. An estimated 185,000 women have been induced to switch from subsistence farming to business or sales as their primary occupation as a result of mobile money access.

Better rates. Together.

Personal Loans up to \$40,000

\$ | How much do you need?

I need the money for... ▾

My credit is... ▾

Check My Rate >

Checking your rate won't impact your credit score

Respond to mail

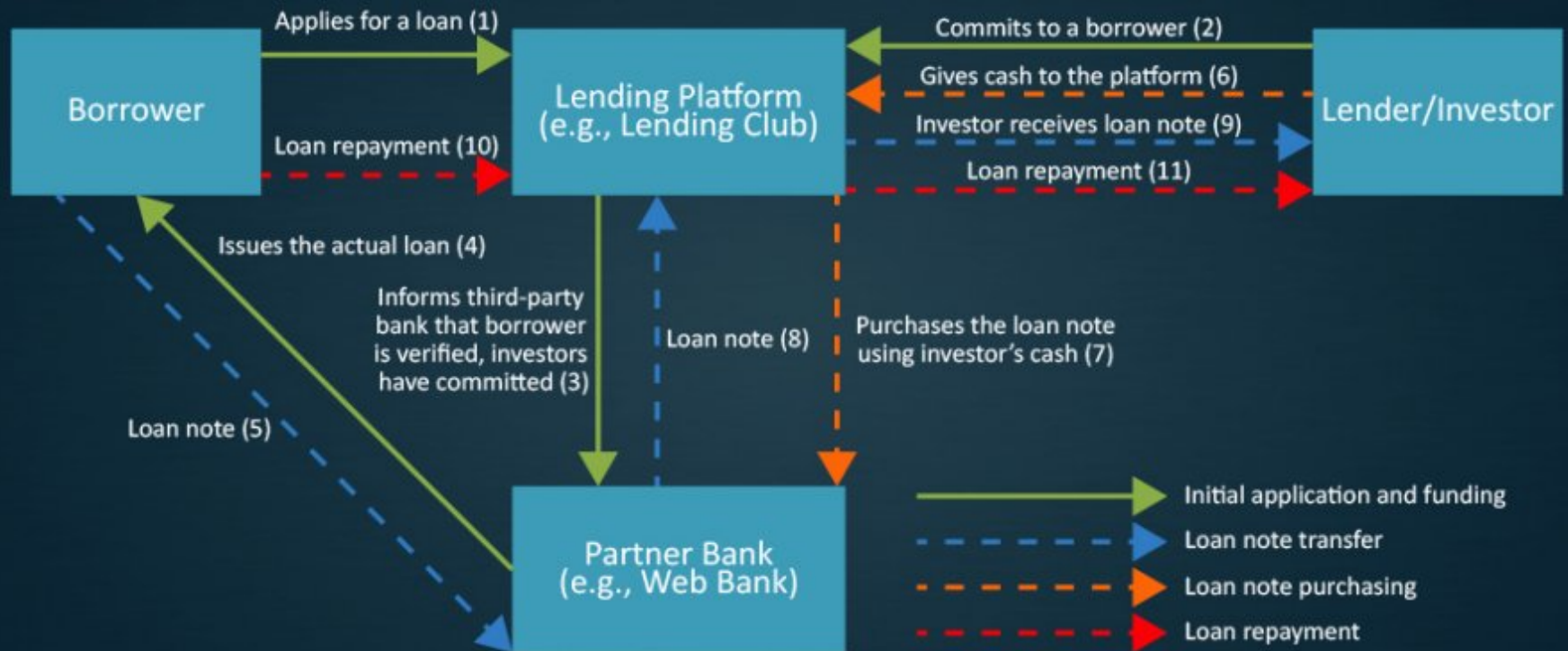
Katie used a personal loan through Lending Club to consolidate her debt.

\$ 24 Billion +
Borrowed

1.5 Million +
Loans Issued

★★★★★
Average Customer Rating

How Peer-To-Peer Lending Works*



*This is a simplified graphic showing how a loan is processed through a peer-to-peer marketplace - revenue sources such as fees are not included

Providing Value to Both Borrowers and Investors



1. Based on responses from 21,347 borrowers in a survey of 98,585 randomly selected borrowers conducted from April 1, 2014 – April 1, 2015, borrowers who received a loan to consolidate existing debt or pay off their credit card balance reported that the interest rate on outstanding debt or credit cards was 21.8% • 2. National average APY paid on savings accounts paid by U.S. depository institutions for non-jumbo deposits as of March 30, 2015 (Source: FDIC) • 3. Average interest rate for borrowers who received a loan to consolidate existing debt or pay off their credit card balance per the Lending Club Survey • 4. As of March 31, 2015. Median Adjusted Net Annualized Return for investors with 100+ notes, note concentration of <2.5% of portfolio value, all loan grades, and portfolio age of 12-18 months (Source: Lending Club)

For more information

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