



**FINANCIAL STABILITY AND FINANCIAL SECTOR SUPERVISION:  
LESSONS FROM THE PAST DECADE AND WAY FORWARD**

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**THAILAND'S EXPERIENCE OF BANKING AND  
FINANCIAL SECTOR REFORM AFTER THE CRISIS**

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# **Thailand's Experience of Banking and Financial Sector Reform after the Crisis**

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**Bank of Thailand**

**17 December 2007**



# Outline

- I. Overview of banking system from crisis up to now (1997 – 2007)**
- II. Regulatory & Supervisory reforms (1997 – 2007)**
  - Stage 1 : cleaning up balance sheet and regulatory changes (1997 – 2001)**
  - Stage 2 : starting to making profit (2001 – 2007)**
    - moving to risk-based management & supervision
    - consolidated supervision
    - migration into more consumer lending and more focus on consumer protection
    - IAS 39
- III. Retrenching the system and preparation for the future (2004 – 2007)**
  - FSMP 1 (2004 – Beginning of 2007) : catalyst for merger & acquisition
  - FSAP (the end of 2004 - 2007) : mapping our system to the international standards
  - FSMP 2 (2008) : how to go forward
  - New FI Laws (FIBA, DIA, and BOT Act) : legal recognition of past developments and for future changes
  - BASEL II : go with the flow in the EMEAP groups

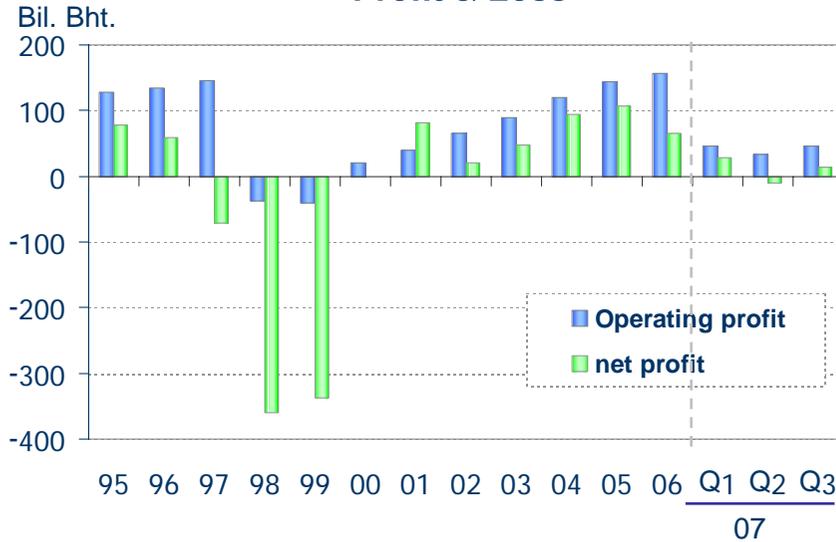


# **I. Overview of banking system from crisis up to now (1997 – 2007)**

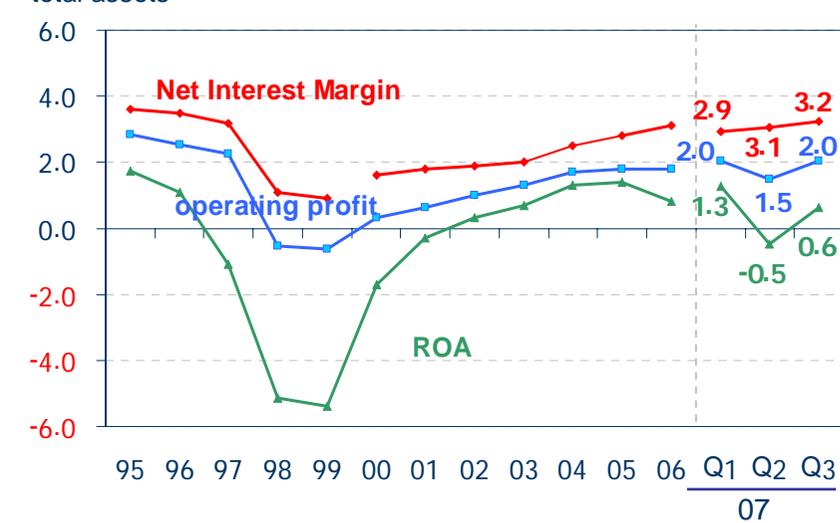


# Overview of Banking system

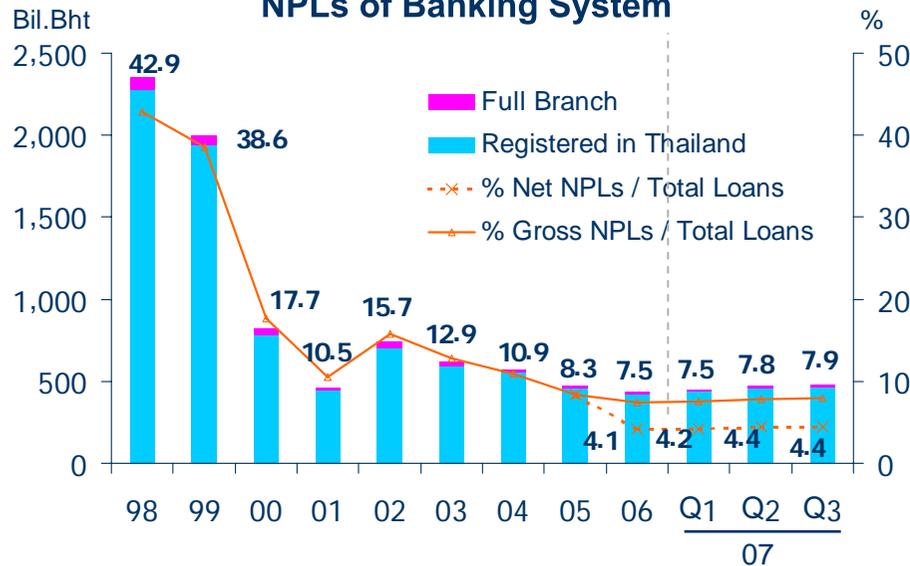
### Profit & Loss



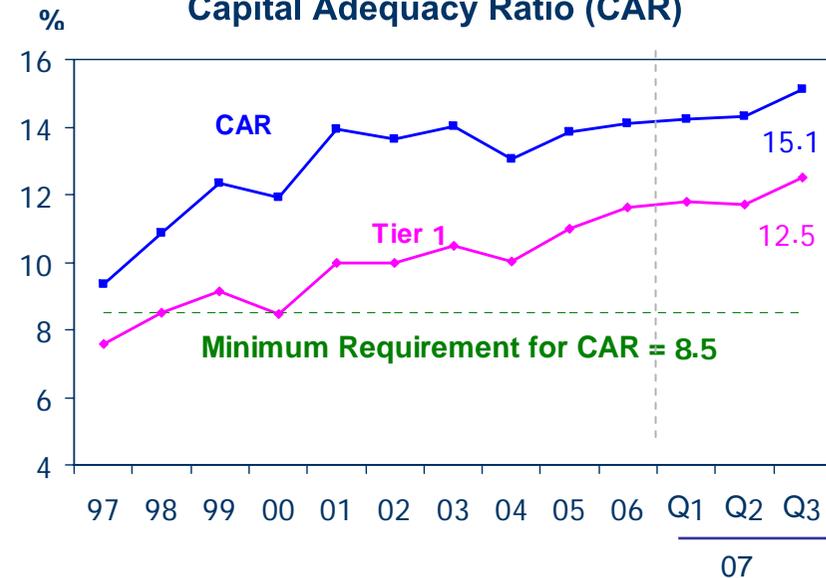
### Profitability



### NPLs of Banking System



### Capital Adequacy Ratio (CAR)





# ROA of Banking System

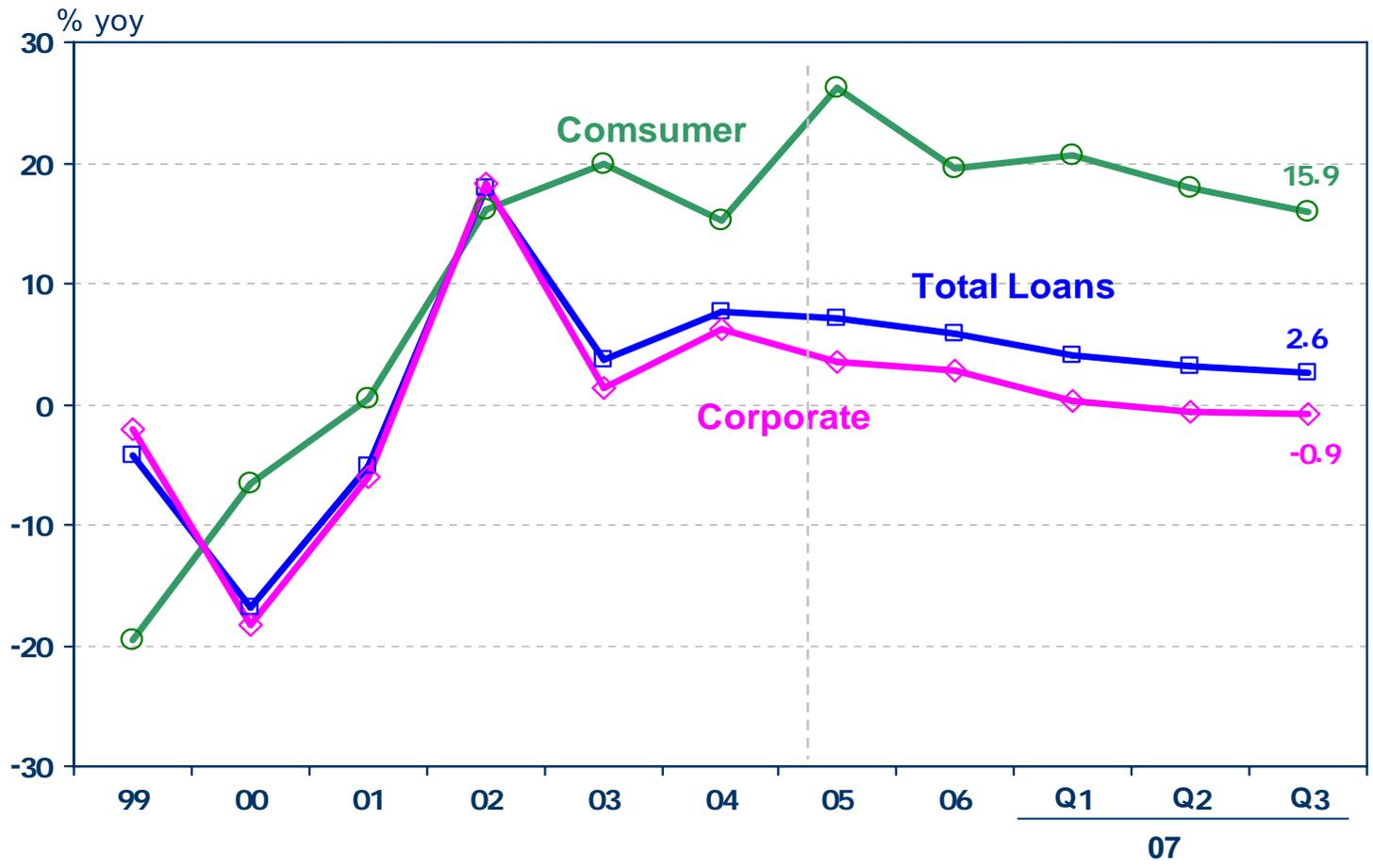
## Drop in 2006 owing to introduction of IAS 39

Country		02	03	04	05	06	07 (March)
ASIA	Indonesia	1.4	2.6	3.5	2.6	2.6	2.7
	Phillippines	0.8	1.1	0.9	1.1	1.3	1.0
	Singapore	0.8	1.0	1.2	1.2	1.4	1.4
	Hong Kong	2.1	1.9	1.7	1.7	1.8	1.8
	Thailand	0.2	0.6	1.2	1.4	0.7 (Sept.)	0.5
	Malaysia	1.3	1.3	1.4	1.4 (Sept.)	1.3	n.a.
	Korea	0.6	0.2	0.9	1.3	1.1	1.1
	India	0.8	1.0	1.1	0.9 (Jun.)	0.9	n.a.
	Bangladesh	0.5	0.5	0.7	0.6	0.8	n.a.
	Japan	-0.7	-0.1	0.2	0.5 (Mar.)	0.4	n.a.
Others	Germany	0.1	-0.1	0.1	0.3 (Jun.)	0.5	n.a.
	USA	1.3	1.4	1.3	1.3	1.3	1.2
	Canada	0.4	0.7	0.8	0.7 (Oct.)	1.0	n.a.
	UK	0.4	0.6	0.7	0.8	0.5	n.a.
	Netherlands	0.5	0.5	0.4	0.4 (Sept.)	0.4	n.a.
	Switzerland	0.5	0.7	0.8	0.9	0.9	n.a.
	Italy	0.5	0.5	0.6	0.7	0.8	n.a.
	Belgium	0.5	0.5	0.6	0.7 (Jun.)	1.1	n.a.
	France	0.5	0.4	0.5	0.6	n.a.	n.a.
	Australia	1.4	1.6	1.5	1.8	n.a.	n.a.

1/ Source : Global Financial Stability Report (September 2007), IMF



# Loan Growth



Consumer loan / Total loan = 23.1%  
Corporate loan / Total loan = 76.9%



# Chronology of Incidents Measures

## (Dual Crisis = Economic + Financial)

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**May 1996**

- 1<sup>st</sup> Bank run on BBC and intervention (beginning of May 1996)
- Baht was being attacked a number of times

**1997**

- 2<sup>nd</sup> Bank run on 58 finance companies and intervention (3 March – August 1997)
- Baht was floated from 25 to 45 baht per US\$ (December 1997)
- Issued blanket guarantee for depositors & creditors (5 August 1997)
- Set up FRA + AMC (National AMC) to deal with 58 finance companies (56 closed down + 2 survived). A year later FRA started to sell assets.
- Intervened on BMB (November 1997)

**1998 - 1999**

- Intervened in 5 banks and 7 finance companies (February 1998 to July 1999)
- Introduced “The 14 August 1998 packages” for mergers / acquisitions and government’s capital support scheme.



# Chronology of Incidents Measures (Dual Crisis = Economic + Financial)

**1998 – 1999**

**(continued)**

- Recapitalized intervened Fls.
- Established the Corporate Debt Restructuring Advisory Committee (CDRAC).
- Issued an Emergency Decree to set up Private AMC to accelerate restructuring of Fls.
- Amended Bankruptcy Act and approved for the setting of the Central Bankruptcy Court in 1999.
- Issued new loan classification, provisioning and interest recognition rules (new 6 categories and new interest recognition)
- Allowed the use of hybrid capital instruments to recapitalize.
- Issued policies and measures to encourage debt restructuring.



# Chronology of Incidents Measures (Dual Crisis = Economic + Financial)

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**June 2001 - Setting up of TAMC**

**2002 - 2004 - Amended definition of NPLs and regulation on loan classification and provisioning.**

**- Established a credit bureau.**

**- Privatized intervened FIs. (2 Banks).**

**2005 - 2007 - The Cabinet approved the merger of the National AMC and the Bangkok Commercial Asset Management Co., Ltd. (BAM) FIDF in order to purchase NPLs and NPA from FIs.**

- **1998 – 2002** Recapitalization of State-Owned Banks by the Authorities up to 716,929 million baht (by direct equity injection, debt/equity conversion, and reversal of reserves from NPL transfer).
- **2002 – 2007** Tier 1 recapitalization of banks up to 253,018 million baht (by public and private placement, conversion of convertible instruments, and issuance of hybrid instruments). See details in slide 14.



## **II. Regulatory & Supervisory Reforms (1997 – 2007)**



# Changing Financial Landscape

## Pre-Financial Crisis, January 31, 1997

1. Commercial Banks (31)
  - Locally-incorporated (15)
  - Foreign bank branches (16)
2. International Banking Facilities (IBFs) attached to commercial banks (25)
3. Stand-alone IBFs (17)
4. Finance and Securities Companies (91)
5. Credit Foncier (12)

Total Number of Financial Institutions: 176

## Post-Financial Crisis, December 31, 2003

1. Commercial Banks (31)
  - Locally-incorporated (13)
  - Foreign bank branches (18)
2. International Banking Facilities (IBFs) attached to commercial banks (24)
3. Stand-alone IBFs (5)
4. Finance and Securities Companies (18)
5. Credit Foncier (5)

Total Number of Financial Institutions: 83



# Stage 1 : Cleaning up balance sheet and regulatory changes

## Loan Classification & Provisioning

Loan Classification	Before 1997		After 1997			
	Aging	Provisioning	Aging	Provisioning		
				1997-2005	Current (IAS39)	
1. Pass	-	-	-	1%	1%	
2. Special mention	-	-	more than 1 months	2%	2%	
3. Substandard - with collateral or no collateral - with collateral	more than 6 months more than 12 months	} 15%	more than 3 months	20%	} 100% of PVCF of debt or PV of collateral	
4. Doubtful (no collateral)	more than 12 months		100%	more than 6 months		50%
5. Doubtful of loss	-		-	more than 12 months		100%
6. Loss	worthless or irrecoverable assets	written off	worthless or irrecoverable assets	written off	written off	



## Recapitalization & Opening up to foreign ownership

Unit : Million baht

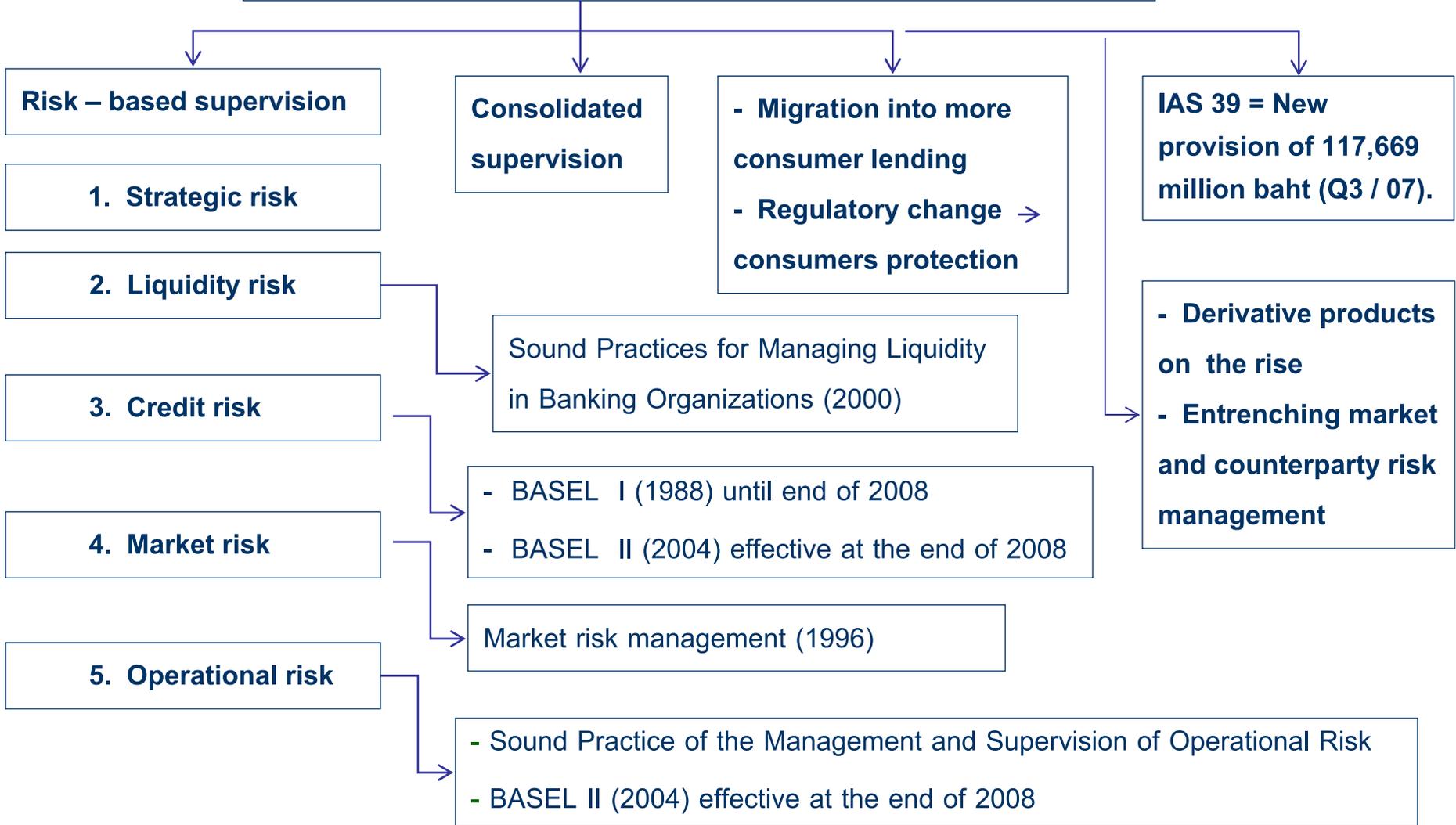
Banks (Tier 1)	2002	2003	2004	2005	2006	2007 9 m	Remark
State – owned banks	13,164					4,479	Public Placement
Large private – owned banks		5,363	2,207	1,707		-	Conversion of convertible instruments and issuance of hybrid instruments, but nearly paid back
Other private – owned banks	7,839	74,050	56,983	29,327	20,677	37,222	Public Placement, Private Placement, and issuance of hybrid instruments

- Regulatory total BIS ratio maintained at 8.5% (Tier 1 = 4.25%), but the average actual ratio stands at 15.1% (Tier 1 = 12.5%) as of Q3 / 2007.
- Foreign ownership 25% → 100% for 10 years, after which foreign ownership cannot be raised until capital increase has been diluted to below 49%. Thereafter, the foreign stake can be increased up until the limit of 49%.
- Sales of distress assets to investors and AMCs.



# Stage 2 : Starting to make profit (2001 – 2007)

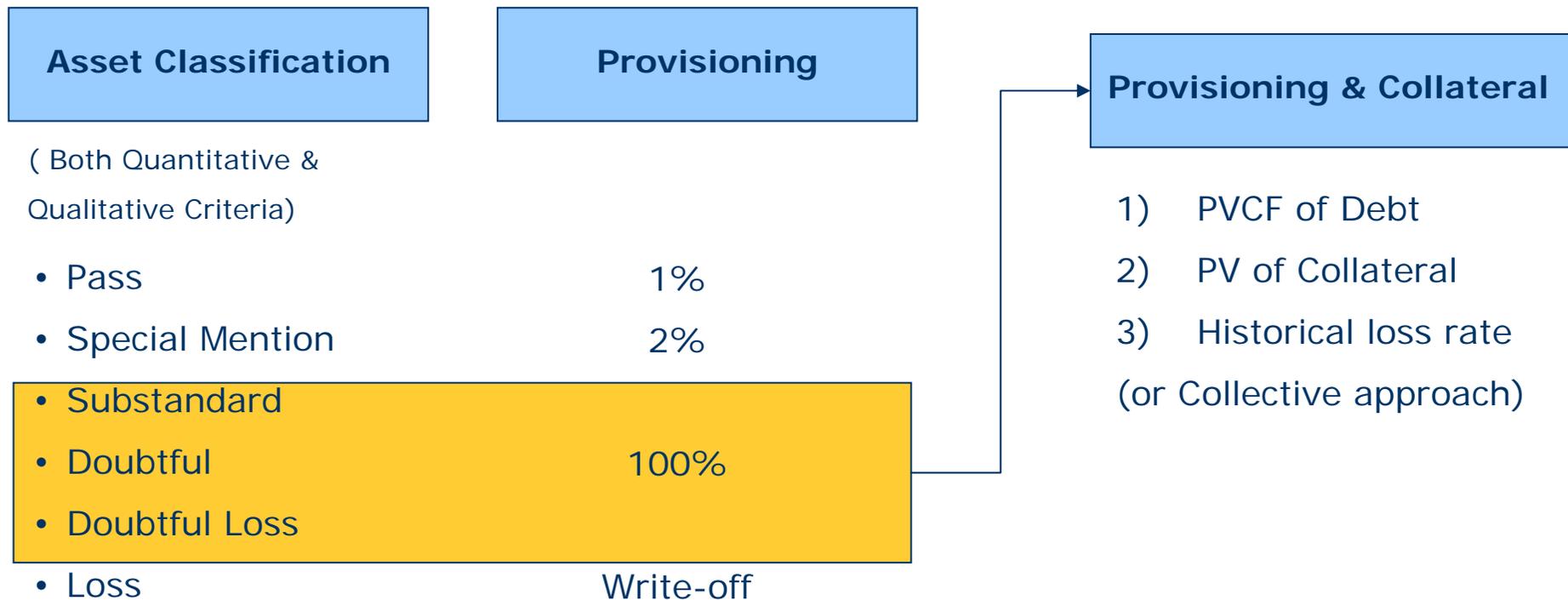
## Moving to risk – based management & supervision





# IAS 39 Implementation for provisioning

- Asset side
- Phasing-in Period (From End-2006 to End-2007)





### **III. Retrenching the system and preparation for the future (2004 – 2007)**



# FSMP 1

## (2004 – beginning of 2007)

### I Measures to broaden general access to financial services

- In Urban Areas
- In Rural Areas

### II Measures to increase efficiency of the financial sector

- Rationalizing the structure and roles of financial institutions
  - Thai FIs
  - Foreign-owned FIs
  - One Presence Policy
  - Risk-weightings for SMEs and Retail customers
- Streamlining rules and regulations

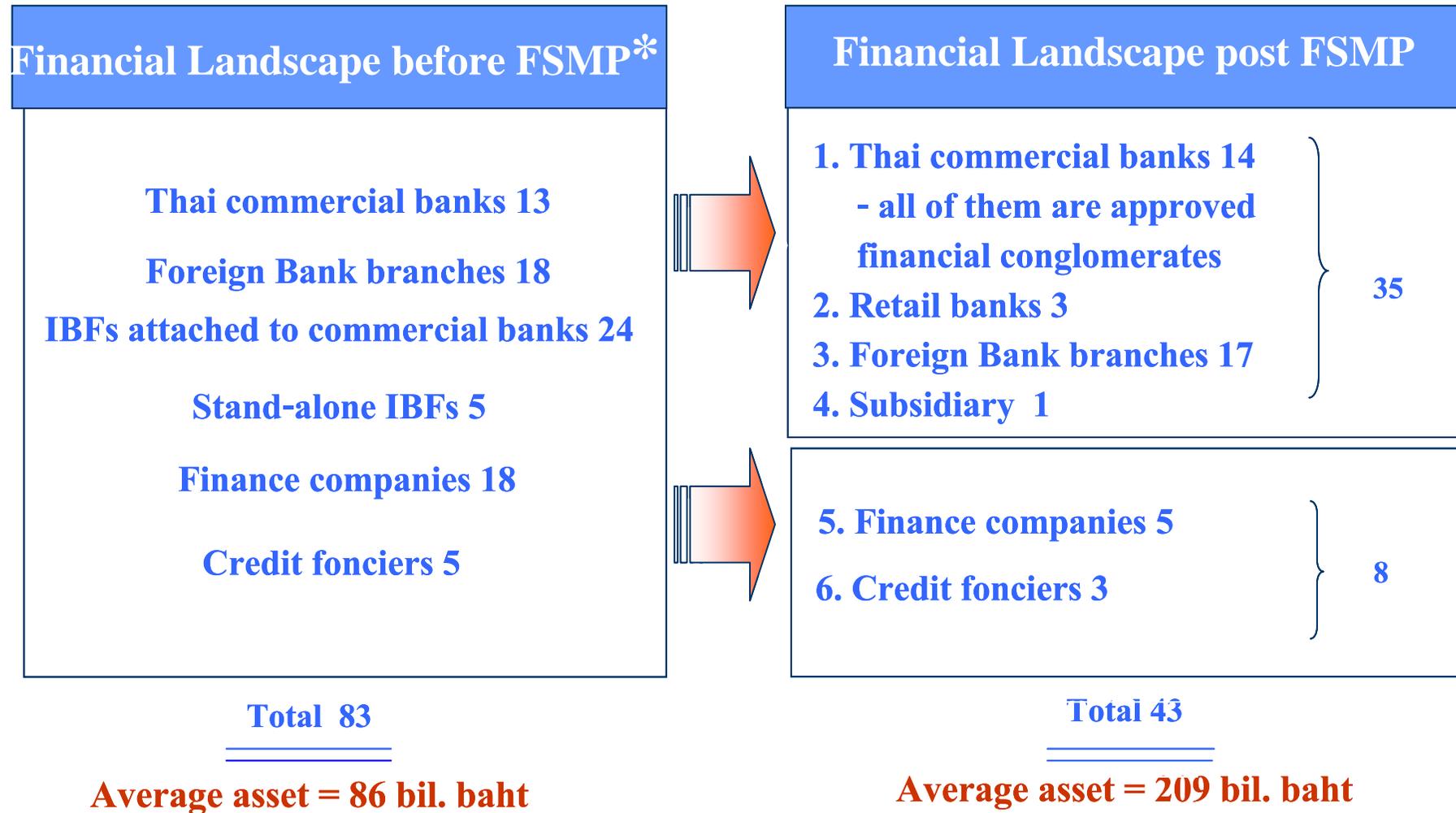
### III Measures to protect consumers

- Enhancing transparency and information disclosure
- Constructing consumer feedback /complaint mechanisms



# FSMP 1

## (2004 – beginning of 2007)



\* As of 31 Dec 2003

\*\* Including merger between UOB Radanasin Bank PCL; and Bank of Asia PCL and between GE Money and Retail Bank with BAY



# FSAP in Thailand (the end of 2004 – 2007)



FSAP Preparation	ROSCs / FSAP	Development Issues
<ul style="list-style-type: none"> <li>■ Preliminary assessment</li> <li>■ Consultation with TA</li> <li>■ Changes and improvements</li> <li>■ Final decision</li> </ul>	<ul style="list-style-type: none"> <li>■ Banking supervision</li> <li>■ Securities market</li> <li>■ Payment systems</li> <li>■ Monetary policy transparency</li> <li>■ AML / CFT</li> </ul>	<ul style="list-style-type: none"> <li>■ Insurance and pensions</li> <li>■ Housing finance and access to finance</li> <li>■ Specialized Financial Institutions (SFIs)</li> <li>■ Legal issues</li> <li>■ Capital market development</li> <li>■ Stress testing</li> <li>■ Banking sector</li> </ul>

Note : Preparatory period started in 2005



# FSMP 2 (2008)

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## Objectives

- Improve efficiency, competitiveness, and resiliency of the financial sector
- Promote financial access



**Note :** Preparation period started in 2007



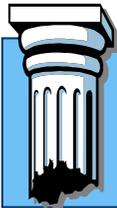
# FSMP 2

## ■ Areas of policy measures in FSMP- II: 10 Loops

- Cost reduction: relaxation of rules and regulations
- Future financial landscape
- Enhance competition and efficiency
- Legal Framework
- Information system, transparency, and enhanced market discipline
- Risk transfer mechanism
- Financial access (esp. role of SFIs )
- Human resource development
- Payment system
- Corporate social responsibility



# Basel II and the 3 Pillars



## Pillar I Minimum Capital Requirements

- Calculation of minimum capital requirements on**
- Credit risk
  - Operational risk
  - Trading Book Issues (including market risk)



## Pillar II Supervisory Review Process

Four key principles :

1. Banks' Own Assessment of Capital Adequacy (ICAAP)
2. Supervisory Review Process
3. Capital Above Regulatory Minimum
4. Supervisory Intervention



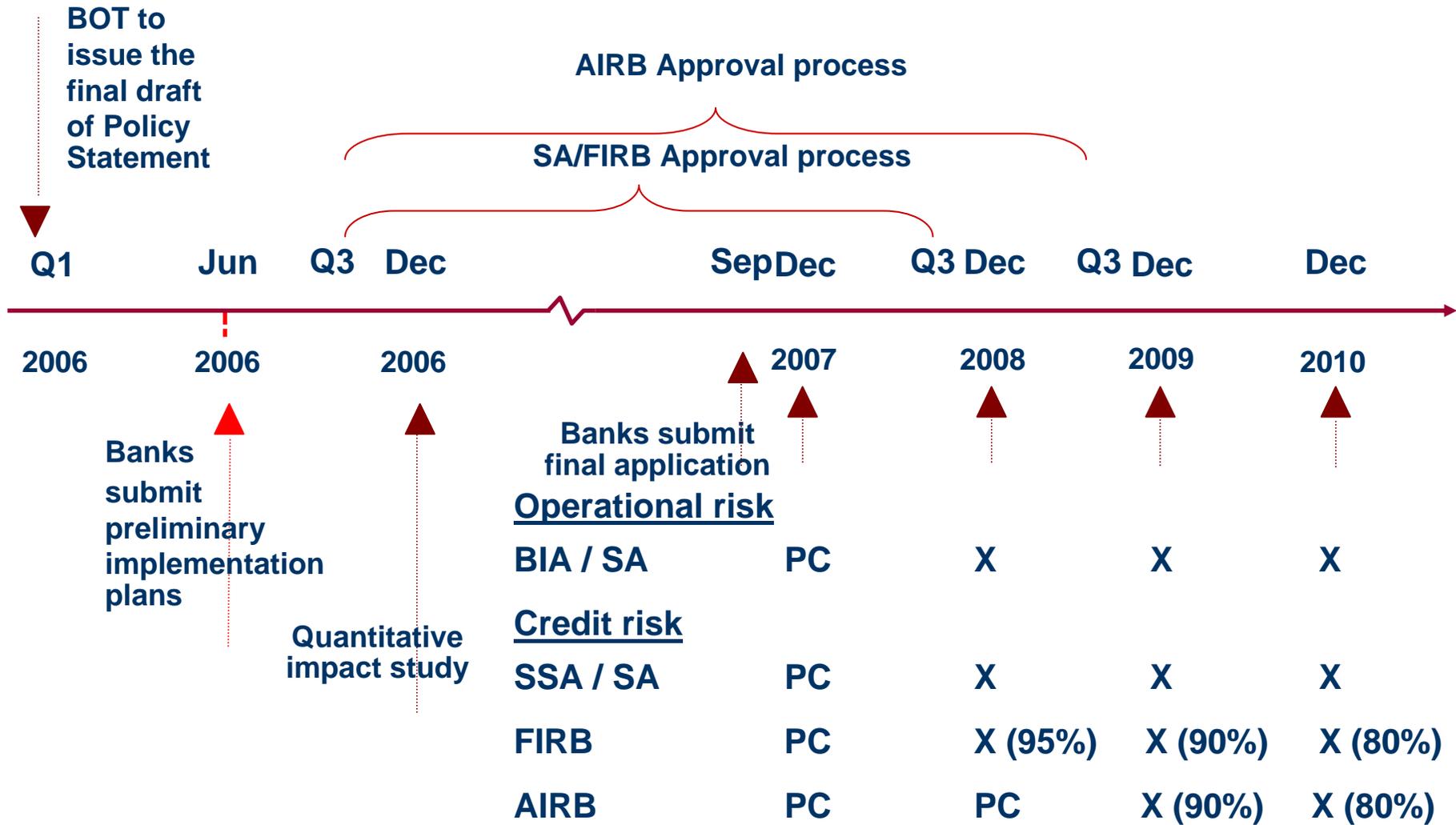
## Pillar III Market Discipline

Disclosure of information; e.g.

- Capital adequacy
- Risk management process (including credit risk, market risk, operational risk, IRRB).



# Basel II Implementation Timeframe



PC = Parallel Calculation    X = implementation year    xx% = Floor