ธนาคารแห่งประเทศไทย
BANK OF THAILAND

Virtual Bank Licensing Framework

BOT Consultation Paper
on Virtual Bank
January 2023

Contents

Executive summary

The Thai financial sector is undergoing digital transition. In recent period, many financial institutions and non-banks have pivoted business models to be more digital led. These players use technology and data to develop products that serve each customer segment better. However, some retail and small-and-medium-enterprise (SME) customer groups including low-income individuals and small businesses are still unable to access appropriate financial services. Meanwhile, the experience of customer segments who already access financial services through the digital channel can be improved when offered a full range of financial services that are more convenient and seamless.

Under the new financial landscape to reposition Thailand's financial sector for a sustainable digital economy, the Bank of Thailand (BOT) sets a key direction in the digital dimension. The key direction supports the financial sector to leverage technology and data to drive innovation and better financial services, emphasizing an appropriate balance between promoting innovation and managing risks.

One of the key policies is the introduction of virtual banks as new players, which is consistent with the action of regulators in many jurisdictions. The objective is **to allow applicants who possess the expertise in technology, digital services, and data analytics to offer financial services efficiently through the digital channel while having lower staff and bank branch costs. These services should have new value proposition and better serve the needs of each customer segment**, particularly the unserved and underserved segments of retail and SMEs customers. Meanwhile, those already accessing financial services via the digital channel should obtain better experiences through a full range of services that are more convenient and seamless. **Furthermore, virtual banks should operate in a sustainable manner. They should not initiate a race to the bottom, engage in irresponsible lending that**

lead to excessive debt-taking or abuse dominant market position which would pose risks to financial stability, depositors, and consumers as a whole.

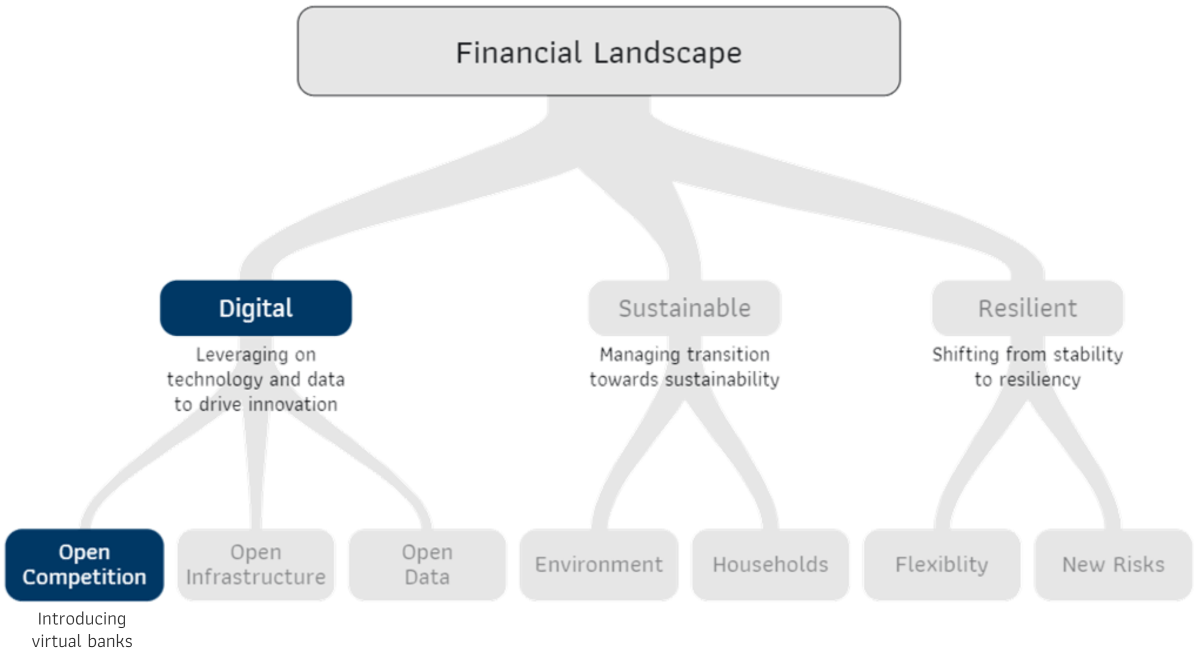
To ensure that virtual banks operate in accordance with the above objectives and that they promote responsible innovation without creating undue risks, **the BOT sets the following key licensing, regulatory, and supervisory framework.**

(1) **Virtual banks may provide full-service banking business** to be flexible and accommodate changing customer needs.
(2) **Virtual bank applicants must meet appropriate qualifications** including having business models that can sustainably achieve the stated objectives, as well as having expertise in technology, digital services, and data analytics
(3) **Virtual banks must comply with the same regulations and supervision as traditional commercial banks.** The BOT shall supervise virtual banks in a risk-proportionate manner, placing great importance on robust corporate governance and a sound risk culture.
(4) **Virtual banks shall go through a restricted phase in the initial years and be under close supervision** to ensure sustainable business operations while not posing systemic risks.

The BOT invites comments and suggestions regarding the proposed virtual bank licensing framework by 12 February 2023. The responses will be incorporated into the virtual bank licensing regulations which will be proposed to the Ministry of Finance for consideration. It is expected that the release of the final licensing regulations and the opening for applications will take place in 2023. The list of successful applicants who receive the approval from the Minister of Finance will be announced in 2024.

1. Introduction

The Bank of Thailand (BOT) earlier issued the *Financial Landscape Consultation Paper on Repositioning Thailand's Financial Sector for a Sustainable Digital Economy.* The document puts forth and invites feedbacks on key directions for repositioning the Thai financial sector. The aims are to adjust to a rapidly changing environment and facilitate the transition to a sustainable digital economy.



One important goal under the digital financial landscape in Thailand **is for the financial sector to leverage technology and data from various sources to assess customer risk and analyze behavior. This will facilitate the development of financial services that serve the needs of each customer segment better. Moreover, the obstacles to financial access for retail and SME customers will be reduced.** Such obstacles mainly derive from the deficiency in customers' data and financial records for risk assessment, as well as from high operating costs due to labor-intensive processes for serving retail and small SME customers.

Both incumbent financial institutions and non-banks have pivoted their business models to be digital led and have increasingly used technology and data to develop products for the unserved and the underserved segments. Nevertheless, **some retail and SME segments**, such as low-income individuals and small businesses on digital platforms, **are still unable to access appropriate financial services**. In addition, those customer segments that already access financial services through digital channel can have better experiences if offered a full range of financial services that are more convenient.

Under the digital pillar of the financial landscape policies, an appropriate balance is emphasized between promoting innovation and managing risks. **The BOT advocates three key policies.**

(i) Open Data: to enable better utilization of data such as promoting mechanisms in which customers can transfer their own data from one service provider to another more conveniently.

(ii) Open Infrastructure: to ensure fair access to key financial infrastructure, such as the payment infrastructure, for service providers.

(iii) Open Competition: to support greater competition in the financial system by expanding the scope of business or increasing the flexibility for incumbent players, together with introducing new players to the market.

One of the main components under 'Open Competition' is introducing virtual banks which have technological capabilities, digital service expertise, and ability to utilize data from various sources. With these qualities, it is expected that **virtual banks would offer financial services with new value proposition that serve each customer segment efficiently and with reasonable pricing. In particular**, financial access should be improved among **the unserved segments of retail and SME customers, as well as the underserved segments** who already access financial services through the digital channel but can have better experiences when offered a full range of financial services that are more convenient.

The introduction of virtual banks as new financial institutions in Thailand is consistent with the action of regulators in many jurisdictions, such as South Korea, Hong Kong, Taiwan, Singapore, Malaysia, the United Kingdom, and Australia[1]. The policy objectives of these jurisdictions include fostering innovation through promotion of new financial services that better serve customer needs, as well as stimulating overall competition in the market. In addition, regulators in some jurisdictions[2] also expect virtual banks to reduce financial access gap for the underserved and unserved segments.

The experiences of virtual banks that are already operational in other jurisdictions illustrate the following **key success factors. Virtual banks need large customer bases and need to have the expertise in serving customers through the digital channel. They also need to be efficient at utilizing technology and data to conduct risk assessment and analyze customer behavior, while reducing staff and bank branch costs. Virtual banks who possess such qualities are able to offer financial services for each customer segment with new value proposition and reasonable pricing, especially the underserved and unserved segments of retail and SME customers.**

For instance, a virtual bank in China has used alternative data to offer unsecured loans to micro-SMEs, providing many with access to formal credit. Another virtual bank in South Korea has developed faster and more seamless digital on-boarding process, while also offering a deposit product in which customers can set their own weekly deposit amount and earn higher interest the longer they deposit. **Virtual banks have furthermore stimulated adaptation by incumbent players and encouraged healthy competition.** For example, several traditional commercial banks in Hong Kong have removed account maintenance fees to be competitive with virtual banks that did not charge such fees.

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[1] The term "Virtual Bank" may vary from jurisdiction to jurisdiction, including digital bank, virtual bank, internet-only bank, and neobank.

[2] Malaysia, Singapore, South Korea

2. Objectives of introducing virtual banks in Thailand

2.1 Green Lines

What the BOT expects to see from virtual banks ("Green Lines") is the leveraging of technology, data, and digital services expertise to offer financial services with new value proposition to serve the needs of each customer segment better. Virtual banks should:

- **Offer a full range of financial services that are appropriate to each customer segment, especially helping the underserved and unserved segments of retail and SME customers to do business and promote financial discipline.** Examples are
  - Deposit products in which customers can set deposit amounts and frequencies that are suitable to their cash flows and behavior
  - Lending products in which the credit limits, terms, and interest rates are determined by each customer's behavior and risk profile, while excessive debt-taking is not encouraged
- **Provide better experiences of financial services for customers.** The interface, processes, and procedures should be seamless, fast, secure, and match customer lifestyle.
- **Stimulate healthy competition within the financial institution system**. All players are encouraged to competitively innovate and improve financial services, such as promoting appropriate financial access and offering products with greater quality, prices, convenience, and ease of use.

2.2 Red Lines

What the BOT expects not to see from virtual banks ("Red Lines") is the conduct of business that pose risks to financial stability, depositors, and consumers as a whole. The BOT expects that virtual banks shall not:

- **Engage in unsustainable business models** that create risks to the virtual bank's own business and its depositors. Examples include growth strategies that do not adequately account for risks nor impacts to the bank's solvency.
- **Initiate a race to the bottom** that leads to financial stability risks. In particular, virtual banks must not use aggressive pricing tactics to attract customers, which would not be viable in the long term. They should also not promote excessive debt-taking through irresponsible lending.
- **Give preferential treatment to related parties or abuse dominant market position.** These may lead to unfair competition and affect consumer interests. Examples include (1) the virtual bank granting preferential credit to related parties or (2) related parties of the virtual bank coercing their business partners to use financial services offered by the virtual bank.

To ensure that virtual banks operate according to the Green Lines while not creating unacceptable behaviors by crossing the Red Lines mentioned above, the **BOT sets the following licensing, regulatory, and supervisory framework.**

(1) **Virtual banks may provide full-service banking businesses to be flexible** in accommodating changing customer needs (detailed in 3.1).

(2) **Virtual bank applicants must meet qualifications to ensure they can achieve Green Lines sustainably** (detailed in 3.2).

(3) **Virtual banks shall go through a restricted phase during the initial years of operation.** They must possess adequate capital and prepare an exit plan in case of business wind-downs. These would ensure virtual

banks operate prudently during the initial years while not posing systemic risks (detailed in 3.3 and 4.2).

(4) **Virtual bank applicants may request waivers on shareholding limits on a case-by-case basis.** The BOT shall consider the qualifications and behavior of the virtual bank applicant and may impose additional conditions prior to granting the request (detailed in 3.4 and 4.3).

(5) **Virtual banks shall comply with the same regulations and supervision as traditional commercial banks. The BOT will supervise virtual banks in a risk-proportionate manner, placing great importance on robust corporate governance and a sound risk culture** (detailed in 4.1).

3. Licensing framework for virtual banks

3.1 License type, business scope, and service channel

- **Virtual banks shall be locally incorporated in Thailand[3] and may provide a full-service banking business, albeit without physical branches**. This is to ensure that they are able to offer a full range of services and accommodate rapidly changing customer needs in the digital age.
- **Virtual banks need to operate and serve customers principally through the digital channel.** They are prohibited from establishing own physical and electronic branches, including automated teller machines (ATMs) and cash deposit machines (CDMs). This will help reduce operational expenses, such as the costs of maintaining staffs and physical branches, in parallel with facilitating the transition to digital economy.
- **Nevertheless, virtual banks may offer cash-in and cash-out services by appointing banking agents or pooling ATMs with other providers.** They can thus service certain customer segments who still depend on cash at a time when the financial system in Thailand is not yet fully digitalized. Despite that, virtual banks must not unduly rely on such channels.
- **Virtual banks must establish a local headquarters in Thailand** for the purposes of effective BOT supervision and examination, as well as for customer contact and complaints when necessary. The local headquarters must not be used to circumvent the requirement for serving customers digitally.

[3] Section 9 of Financial Institutions Business Act B.E. 2551 (2018)

3.2 Key qualifications for virtual bank applicants

The BOT expects virtual banks to sustainably achieve Green Lines in their operations. The key qualifications for the applicants are therefore set as follows.

<table>
<tr><th>Qualification</th><th>BOT expectation</th></tr>
<tr><td>1) Business model that sustainably achieves the Green Lines</td><td>• The applicant needs to have a potential in acquiring and scaling the customer base to ensure viability.
• Product plans should serve the needs of each customer segment, especially the underserved and unserved.
• The applicant must possess business capabilities and must be able to manage cost and revenue in a sustainable manner. The business model and financial projection should be reasonable and have been validated by an independent external expert.</td></tr>
<tr><td>2) Robust corporate governance</td><td>• The following groups must have qualifications or composition that comply with the regulations on corporate governance of financial institutions[4]. Furthermore, they must display robust corporate governance and a sound risk culture. They must never have failed to comply with laws and regulations under Thailand's jurisdiction and other jurisdictions, nor have had significant governance issues. These groups include:
(1) major shareholders[5] of the virtual bank,
(2) companies within the same business group as (1), and
(3) directors and executive officers of the virtual bank.
• Directors and executive officers who hold significant roles or positions at the virtual bank should be the same person on the day of business commencement as on the day of application. Exceptions in necessary cases have to be consulted with the BOT on case-by-case basis.</td></tr>
<tr><td>3) Digital service expertise</td><td rowspan="2">• The IT plan for the proposed virtual bank needs to be clear and suitable for the business model, particularly IT governance, IT architecture, and IT personnel, while the IT risk management standards should be of very high quality. Further, these should be assessed by an experienced and qualified external IT expert.
• At least 1 director as well as 1 executive officer of the virtual bank must have expertise and experience in IT-related or digital services for at least 3 years. The Chief Technology Officer (CTO) must not be the same person as or simultaneously work full-time at other companies.</td></tr>
<tr><td>4) Agile technology</td></tr>
</table>

[4] Notification of the Bank of Thailand Re: Corporate Governance of Financial Institutions

[5] This includes both direct and indirect shareholders of the virtual bank which possess control or possess shares in the virtual bank for more than 20 percent of the total number of shares sold.

Qualification	BOT expectation
5) Capability to manage financial business risks	• The risk management plan for the proposed the virtual bank should be clear and suitable for a banking business, especially IT/cyber and credit risks. The dimensions to be considered are: (1) organization structure, (2) personnel, particularly the chief risk officer and the chief compliance officer, and (3) risk management procedures and system.
6) Ability to access and utilize various kinds of data	• The capabilities and methods of acquiring data from various sources should be clearly identifiable and be realistic. • The applicant should be able to utilize such data to develop financial services that serve customer needs, especially the underserved and unserved segments. This could be achieved by using various technologies to manage data, for example, data mining, big data, artificial intelligence, and machine learning.
7) Robust financial position	• Major shareholders of the virtual bank must demonstrate the capability and commitment to provide oversight and adequate funding to the virtual bank. This will support business continuity and cushion against initial losses. Major shareholders should also be able to compensate depositors in case the virtual bank winds down.

3.3 Operations under the restricted phase

In ensuring that initial operations of the newly licensed virtual banks are prudent and do not lead to risks to the financial system, the BOT requires that:

- **Virtual banks shall go through a restricted phase during the first 3–5 years. The BOT will closely communicate and monitor the operations of newly licensed virtual banks during this period.** In addition, if the BOT deems that the virtual bank does not have adequate operational readiness, or that the virtual bank plans to conduct/is conducting any transactions which may pose risks to its own solvency, the financial system, or consumers as a whole, the BOT may order the virtual bank to rectify the situation or carry out any further actions as appropriate.

Virtual banks that fulfill requirements set by the BOT will complete the restricted phase and progress into the full-functioning phase. However, for those that fail to fulfill the requirements for completing the restricted phase, the BOT may recommend its wind-down and propose to the Minister of Finance for revocation of the virtual bank license (details of the restricted phase are elaborated in 4.2).

- **Newly established virtual banks shall have a paid-in capital of at least 5 billion baht on the day of business commencement. The level of paid-in capital shall gradually increase to at least 10 billion baht before the virtual banks complete the restricted phase and operate in a full-functioning manner.** This will ensure that virtual banks have adequate capital to support business expansion and cushion against potential initial losses.

- **Virtual bank applicants must prepare an exit plan in case they need to wind down orderly during the restricted phase. Appropriate and well-planned exit procedures are required to support stakeholders of the virtual bank in a timely manner, especially depositors.** The exit plan should elaborate various exit scenarios, including (1) non-viability of the virtual bank due to insolvency, which may affect customers especially the depositors and may also impact overall financial stability, (2) significant contraventions of the regulations or license conditions, and (3) voluntary exit.

  The exit plan needs to be approved by the BOT and should include the following at minimum:

  - **Exit indicators and triggers for activating the exit plan.** Exit triggers must be sufficiently high so that there is ample time for the virtual bank to wind down orderly. Stakeholders, especially depositors, must be supported appropriately and in a timely manner.

- **Scenarios that may lead to the exit decision.** Each scenario should be appropriate to the business model of the individual virtual bank and be plausibly severe to lead to the exit trigger.
- **Exit options once the exit triggers are reached.** These comprise key steps and timelines for implementing each exit option, including the plan for supporting stakeholders (especially customers and staffs), sources of funds to pay back depositors, and communications plan.

3.4 Waiving shareholding beyond general limits

The BOT welcomes virtual bank applications from all who meet qualifications. Applicants may request a waiver for shareholding beyond general limits on a case-by-case basis in these following aspects:

- **Individual shareholder owning more than 10% of shares in a virtual bank**
- **Foreign shareholders together holding more than 25% of shares in a virtual bank**[6] and/or
- **An incumbent financial institution holding shares in a virtual bank**, **under the same financial business group.**

In considering requests for shareholding waiver, the BOT shall consider the qualifications, background, and behavior of the applicant concerning appropriateness and the ability to support virtual banking business in a sustainable manner. The BOT may, on a case-by-case basis, impose additional conditions when granting the permission[7] (detailed in 4.3).

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[6] The BOT may permit persons of non-Thai nationality to hold up to 49% of the total number of voting shares sold as defined in Section 16 of Financial Institution Business Act B.E. 2551.
[7] If it is found that a virtual bank significantly or willingly contravenes license conditions, the BOT may propose to the Minister of Finance to revoke its license.

4. Regulatory and supervisory framework for virtual banks

4.1 Overall regulatory and supervisory framework

- **Virtual banks shall comply with the same regulations and supervision as traditional commercial banks. They must contribute to the Financial Institutions Development Fund (FIDF) and the Deposit Protection Agency (DPA) like all other financial institutions from the commencement of business during the restricted phase.** Deposits at virtual banks will therefore receive the same protection as deposits at other financial institutions.
- **BOT supervision of virtual banks shall be risk proportionate. The emphasis shall be on robust corporate governance and a sound risk culture**, as well as other important factors including (1) IT system continuity, (2) effectiveness of customer support through the digital channel, and (3) suitability of third-party outsourcing. This is because virtual banks use technology, data, and digital channel for business operations and customer servicing.

Key BOT concerns	
1) IT system continuity	• The IT system of virtual banks shall support business continuity without prolonged disruptions: (1) total system downtimes must not exceed 8 hours per year and (2) system recovery time must not exceed 2 hours per occurrence.
2) Customer support through the digital channel	• Virtual banks must have an effective system of serving and protecting customers through the digital channel. • Virtual banks must have a business continuity plan that details the procedures for customers to withdraw money in emergency scenarios.
3) Suitability of outsourcing	• Virtual banks may outsource the IT system and other non-strategic functions. However, if the virtual bank wishes to outsource core banking system or related IT infrastructure supporting the core banking system, they should obtain permission from the BOT on a case-by-case basis. In deciding whether to grant permission, the BOT shall consider the risks as well as impacts on the virtual bank, customers, and the overall financial institutions system.

4.2 Additional conditions during the restricted phase

To ensure prudent operations without posing systemic risks, **virtual banks shall operate under the following conditions during the initial 3-5 years**. (1) Virtual banks need to be operationally ready and have effective internal controls before commencing operations. (2) Virtual banks shall be committed to achieve the Green Lines and focus on core businesses before expanding to other areas. (3) Virtual banks may expand business if they could maintain robust financial position while not creating risks to the financial system or exhibiting other behaviors that significantly lead to the Red Lines.

- **The BOT shall closely monitor each virtual bank during the restricted phase.** The virtual bank must discuss with the BOT if there are any significant deviations in the business plan from what had been submitted during application. In addition, if the BOT deems that the virtual bank does not have adequate operational readiness, or that the virtual bank plans to conduct/is conducting any transactions which may create risks to its own solvency, the financial system, or consumers as a whole, **the BOT may order the virtual bank to rectify the situation or carry out any further actions as appropriate**.
- **The BOT expects virtual banks to maintain adequate BIS ratio to support stressed situations.** During the restricted phase, virtual banks must start developing a framework and a system for stress-testing as well as conducting partial stress tests. This is to ensure that the virtual bank would be ready to conduct a full-scale stress test when they prepare to complete the restricted phase for progressing into the full-functioning phase.
- **In evaluating whether to allow a virtual bank to progress into the full-functioning phase, the BOT would take into account the readiness and behavior of the virtual bank, together with the robust and sustainable nature of its performance in accordance with the Green and Red Lines.** The particular focuses will be on:

- Does the virtual bank offer financial services that significantly serve retail and SME groups, especially the underserved and unserved segments?
- Does the virtual bank's financial performance show promising prospects going forward, such as the potential to expand business and generate income or profits sustainably?
- Does the virtual bank strictly comply with regulations? Does the virtual bank exhibit undesirable behavior such as initiating a race to the bottom, giving preferential treatment, or abusing dominant market position, which may lead to financial stability risks or consumer protection concerns such as excessive debt-taking and unfair competition?

The evaluation can lead to 3 outcomes:

(A) **The virtual bank fulfills the requirements set by the BOT** and enters the full-functioning phase.

(B) **The virtual bank does not sufficiently fulfill the requirements but has valid justifications and clear plans to rectify the situation.** The BOT may consider extending the restricted phase for that virtual bank, so that it can make modifications before entering the full-functioning phase.

(C) **The virtual bank does not fulfill the requirements due to the potential for significant impacts on the financial system or consumers as a whole. Moreover, the virtual bank has no valid justifications or clear plans to rectify the situation.** The BOT may ask the virtual bank to wind down by activating procedures as laid out in the pre-approved exit plan (detailed in 3.3)

4.3 Additional conditions for waiving shareholding beyond general limits

In granting requests for shareholding waivers beyond general limits (detailed in 3.4), the BOT may impose additional conditions[8]. For example:

- **The virtual banks may be subject to additional qualitative conditions on granting credits, making investment, and undertaking contingent liabilities for major shareholders and businesses with beneficial interest (related party transactions[9]).** For example, all related party transactions of a virtual bank must obtain prior unanimous approval by the Board of Directors without exceptions[10].
- **If the parent company[11] of a virtual bank owns non-financial subsidiaries,** the financial and non-financial businesses within the group need to be structurally separated. In case the parent company owns more than one financial businesses, these businesses shall be placed under the same financial business group for an extensive and effective supervision by the BOT.
- **If a major shareholder of the virtual bank is an existing financial institution or a holding company that has an existing financial institution as a subsidiary**, the following conditions must be met.
    - The affiliated virtual bank shall not share the same trademark or logo as the financial institution or the holding company thereof. This is to prevent public misunderstanding that the financial institution or the

[8] If it is found that a virtual bank significantly or willingly contravenes license conditions, the BOT may propose to the Minister of Finance to revoke its license.
[9] Notification of the Bank of Thailand regarding Guidelines on Transacting with Major Shareholders or Businesses with Beneficial Interest (Related Lending)
[10] There are some exceptions under the current regulations. The Board of Directors of the financial institution may delegate authority to the Credit Committee or the Executive Committee to approve credit (for example, when approving new credit to a client who had previously obtained approval from the financial institution's Board of Directors). In any case, these procedures must be in line with the credit approval procedures set by the financial institution. Furthermore, detail regarding the loan amounts extended to major shareholders and businesses with beneficial interest need to be ratified in the next Board of Director meeting with unanimous approval.
[11] A parent company is defined as a company which has power to control the business of another company whether directly or indirectly as defined in Section 4 of the Financial Institution Business Act B.E. 2551 (2018).

holding company thereof would be responsible for the operations of the virtual bank.

- For the purpose of capital adequacy, the financial institution shall calculate investments in the virtual bank using the method specified by the BOT[12]. If the virtual bank resides within the same financial business group as the parent financial institution, group capital should be calculated on a consolidated basis. This will ensure the accuracy of capital positions of the parent financial institution and the whole financial business group.
- The financial institution may grant credit[13] to the affiliated virtual bank only during the restricted phase. After the virtual bank progresses into the full-functioning phase, no additional credit may be granted by the financial institution to the affiliated virtual bank except during crises. This will motivate the virtual bank to develop its own business viability without relying on the financial support or the capital of the affiliated financial institution.

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[12] The threshold deduction method shall be applied. If the financial institution holds no more than 10% of shares in the virtual bank, the risk weight is 100%. If the financial institution holds over 10% of shares in the virtual bank, the risk weight is 250%.

[13] These include granting credits, making investment in securities, undertaking contingent liabilities, as well as conducting transactions similar to granting credits.

5. Virtual bank application and selection process

5.1 Applications

All interested applicants for the virtual bank licenses are welcomed to consult and submit the application as well as related documents to the BOT within 6 months starting from the effective date of the Ministry of Finance's Notification concerning Virtual Bank Licensing Regulations.

5.2 Applicant screening process

The BOT[14] shall take no more than 6 months to screen all virtual bank applications starting from the closing date of the period for receiving applications[15]. **The BOT shall propose a list of most appropriate candidates to the Minister of Finance. The Minister of Finance shall grant approval within 3 months** from the date that the BOT submits the list.

The BOT expects to include no more than 3 candidates in the list that will be submitted to the Minister of Finance. This will enable the BOT to select the most appropriate candidates in achieving the Green Lines sustainably while stimulating a healthy level of competition within the financial institution system. In parallel, the stability of the financial system and financial institutions, as well as effective supervision will be ensured in accordance with the intentions of the Financial Institution Business Act B.E. 2551 (2018).

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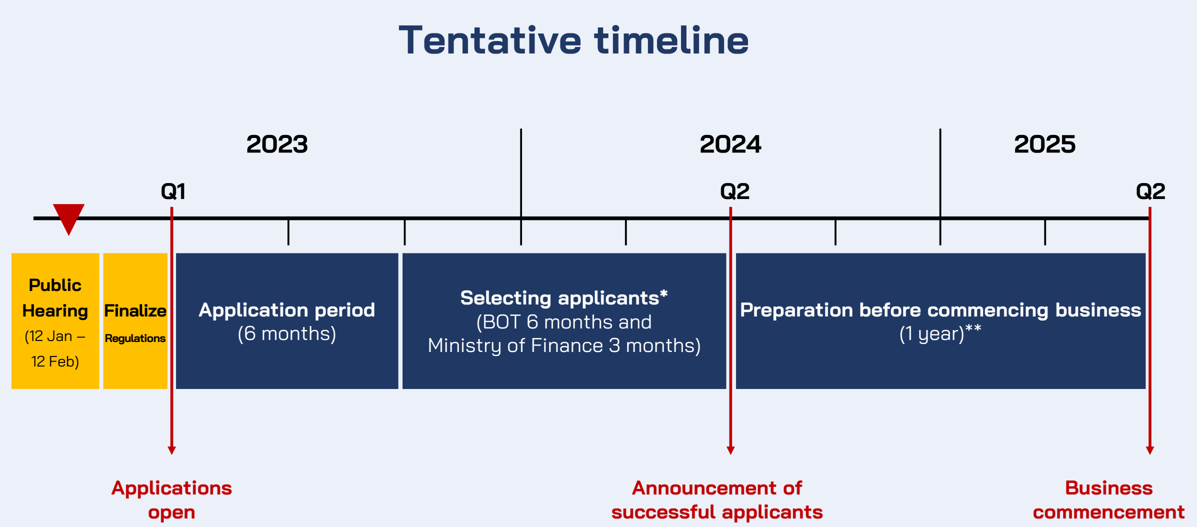
[14] The BOT shall appoint a Virtual Bank Selection Committee which consists of banking sector and IT experts.

[15] This is except for the case that there is a very large number of applications or other reasons which may require extension in the application screening process.

5.3 Preparations of successful applicants before commencing business

Successful applicants need to commence operations within 1 year of receiving approval by the Minister of Finance. The BOT will assess the operational readiness of the newly established virtual bank before proposing to the Minister of Finance to grant license for the virtual bank to commence operations. Nevertheless, the BOT may make exemptions and allow the virtual bank to commence operations after 1 year of receiving approval from the Ministry of Finance if deemed necessary.



* The BOT expects to include no more than 3 candidates in the list that will be submitted to the Minister of Finance.

** The BOT may make exemptions and allow the virtual bank to commence operations after 1 year of receiving approval from the Ministry of Finance if deemed necessary.

6. Expected results of introducing virtual banks

The BOT expects virtual banks to sustainably achieve Green Lines, namely, (1) offering full-service banking businesses that serve the need of each customer segment, especially the underserved and unserved, (2) offering better experiences of financial services for customers, and (3) stimulating healthy competition in the Thai financial institution system. On the other hand, virtual banks should not be creating risks to the financial system, depositors, or consumers as a whole. The BOT and the Ministry of Finance will monitor and evaluate the performance of virtual banks continually and closely. If the future context suggests that there should be more virtual banks in the financial institution system to achieve Green Lines, the BOT and the Ministry of Finance may consider opening for more virtual bank licenses in the future.

For the virtual bank introduction in Thailand to achieve Green Lines and be successful, the BOT invites comments and suggestions on this proposed framework. The BOT and the Ministry of Finance will incorporate the responses when designing the licensing regulations for virtual banks. Release of the final licensing regulations and the start of the period for receiving virtual bank applications will take place in 2023. The list of those who receive the Ministry of Finance's approval will be announced in 2024. **Responses can be submitted via BOT website or virtualbank@bot.or.th by 12 February 2023.**

Appendix: Comparing Virtual Bank Licensing Framework in Other Jurisdictions and in Thailand

Financial institution regulators in other jurisdictions have allowed for virtual banks to be established. The objectives include (i) allowing businesses with expertise in technology, digital service, and data to develop financial services that bring about new value proposition and serve customers better, (ii) improving level of financial access, and (iii) stimulating competition within the financial institution system. There have been two main approaches.

1. Those whose main objective is to stimulate competition within the financial institution system, such as the United Kingdom and Australia. These countries accept virtual bank applications on an ongoing basis and do not limit the number of licenses. The supervisory focus is on ensuring that virtual banks would not create financial stability risks. In case of necessary exits, there are procedures to ensure orderly wind-downs without affecting customers and depositors. In the United Kingdom and Australia, many new virtual banks have offered new value proposition and better experiences for customers. However, there were some virtual banks which wound down due to their inability to generate revenue and manage costs effectively.

2. Those whose main objectives are to improve financial access and promote healthy competition, such as Singapore, Malaysia, and South Korea. These countries accept virtual bank applications in rounds and limit the number of licenses to select the most appropriate applicants to achieve stated objectives in a sustainable manner. Moreover, Singapore and Malaysia require that virtual banks undergo some restrictions during the initial years of operations and prepare exit plans, in order to ensure prudent operations without posing systemic risks.

Most regulators abroad impose the same regulatory framework on virtual banks as traditional commercial banks because they have similar scopes of business.

In Thailand's case, there remain gaps to financial access and customers' financial literacy. The introduction of virtual banks in Thailand therefore follows the second approach above. The objective is for virtual banks to serve the need of each customer segment efficiently with appropriate pricing, focusing on the underserved and unserved segments of retail and SME customers. Furthermore, virtual banks should operate in a sustainable manner. They should not initiate a race to the bottom or abuse dominant market position, which would pose risks to financial stability, depositors, and customers as a whole.

	UK	Singapore	Thailand
I. Intended outcomes of introducing virtual banks			
Green Lines	• Increase competition	• To have financial services with new value proposition that offer better experiences for customers, as well as to improve financial access • Stimulate healthy competition	• To have financial services with new value proposition that offer better experiences for customers, particularly for the underserved and unserved segments of retail and SME customers • Stimulate healthy competition
Red Lines	• Virtual banks cannot take care of stakeholders especially depositors appropriately and timely.	• Non-viable business • Initiate a race to the bottom • Give preferential treatment to related parties or abuse dominant market position	• Non-viable business • Initiate a race to the bottom • Give preferential treatment to related parties or abuse dominant market position

<table>
<tr><th></th><th>UK</th><th>Singapore</th><th>Thailand</th></tr>
<tr><td colspan="4">II. Licensing framework</td></tr>
<tr><td>Key qualifications</td><td colspan="3">• Business model that demonstrates the ability to manage revenue and costs sustainably
• Expertise in technology and digital services, as well as the ability to acquire and utilize data
• Have robust corporate governance and capable of managing financial business risks</td></tr>
<tr><td>Conditions during the initial years of operation</td><td>• None</td><td>• Conditions are imposed for the first 5 years of operations. The business scope is restricted through limits such as the cap on deposit amount per depositor and the cap on total deposits. There is also close monitoring by the supervisor.</td><td>• Conditions are imposed for the first 3-5 years of operations. The BOT shall closely monitor the virtual bank's business. If the BOT deems that the virtual bank does not have adequate operational readiness, or that the virtual bank plans to conduct/is conducting any transactions which may create risks to its own solvency, the financial system, or consumers as a whole, the BOT may order the virtual bank to rectify the situation or carry out any further actions as appropriate.</td></tr>
<tr><td>Exit plan</td><td colspan="3">• Required</td></tr>
<tr><td colspan="4">III. Regulatory and supervisory framework</td></tr>
<tr><td>Overall</td><td colspan="3">• Same framework as traditional commercial banks</td></tr>
<tr><td colspan="4">IV. Application and the number of licenses</td></tr>
<tr><td>Rounds</td><td>• None (ongoing)</td><td>• Limited rounds</td><td>• Limited rounds</td></tr>
<tr><td>Licenses</td><td>• Unlimited</td><td>• Limited number</td><td>• Limited number</td></tr>
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ธนาคารแห่งประเทศไทย
BANK OF THAILAND