Chapter 5

Qualitative impact of foreign bank entry

Having analysed the quantitative impact of foreign bank entry on the efficiency of the domestic commercial banking sector and implicitly on the pricing of commercial banking services in the previous chapter, this chapter now focuses on the impact of foreign entry on the quality and availability of commercial banking services, the role of foreign entry in triggering restructuring processes and changes in corporate culture, and the development of ancillary institutions.

5.1 Quality and availability of banking services

Lowering barriers to entry by relaxing foreign ownership restrictions has given commercial banks incorporated in Thailand not only access to capital, but also to the global management expertise of institutional investors. Those banks, which are majority controlled by foreign institutions, benefit most as they can fully draw on ready-made financial solutions as well as state-of-the-art technology and take advantage of the strong brands developed by their parent banks abroad. Upon acquisition of majority stakes in local banks, foreign parent banks immediately addressed those areas exhibiting the strongest weaknesses, namely information technology and system integration, risk management, as well as products and services, to bring them in line with international standards. Experts were temporarily sent in from abroad to reorganize management structures, to restructure operations, and to introduce a strong performance ethic. Key positions have been filled permanently via the recruitment of international experts. To enable local staff to better meet the standards set as well as to promote a corporate culture receptive to knowledge transfers from the parent group, personnel training was introduced and/or upgraded. Training has been provided in basic

areas such as computer literacy and English, but also in marketing, risk evaluation, and customer service. The four hybrid banks majority controlled by foreign institutions, led by BOA[1], were thus able to secure a first-mover advantage in many areas[2]. Aggressive in initiative as well as in price and within a short period of time these banks:[3]

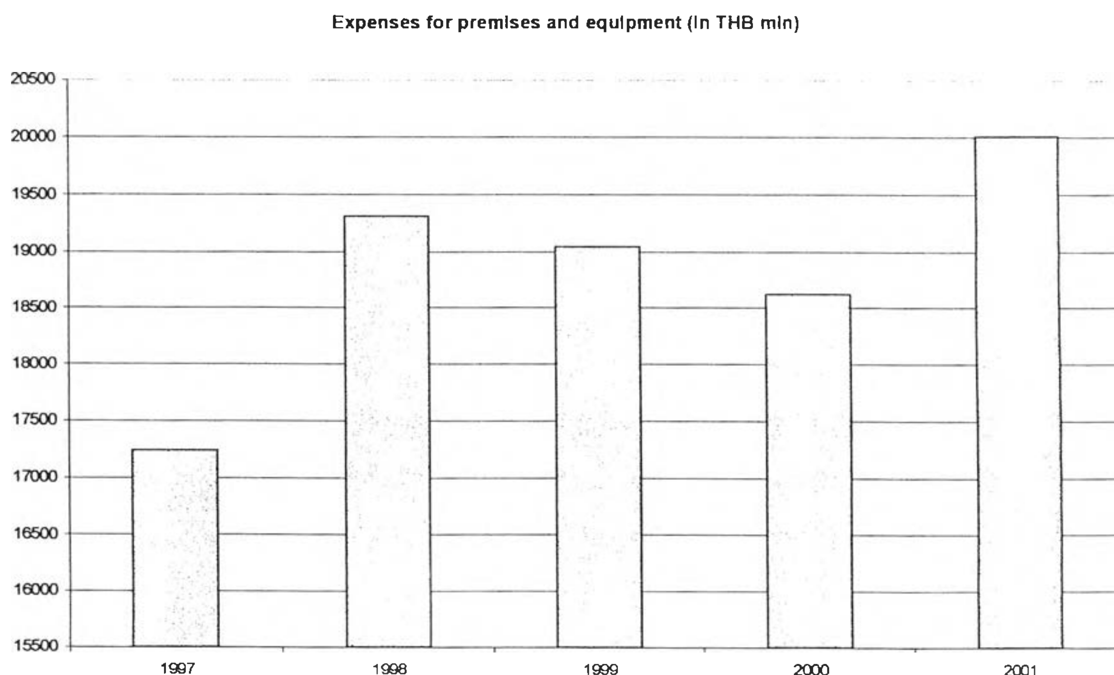
- introduced weekend banking and extended banking hours
- expanded distribution channels (e.g. telephone banking, e-banking, e-commerce (both B2B and B2C (i.e. business-to-business and business-to-consumer)), mini-branches in supermarkets and BTS skytrain stations), with the focus on e-banking reflecting a strategy to cherry-pick more affluent and often better educated customers
- upgraded and redesigned branches (e.g. implementation of online, real-time and centralised data processing[4]), thus enhancing interactive capacity and facilitating searching, coordinating and monitoring processes
- introduced withdrawal fees for use of their ATM machines by customers of other banks, and designed ATM transaction slips allowing users to participate in games to win prizes, which generates additional income as public use of their ATM machines increases
- offered aggressively priced products (e.g. credit cards and housing mortgages), thus signalling their willingness to stand apart from the crowd, especially since there has always been more than a passing suspicion that domestic-owned banks incorporated in Thailand are colluding on interest rates and fees, which stiffled competition
- developed innovative and tailor-made products, such as the Asia Senior account, which offers depositors aged between 45 and 65 free accident insurance and hospital in-patient department

insurance benefits underwritten by AXA Insurance[5], reflecting a marketing strategy based on the life-stages of customers

- offered customised solutions, replacing the previous concept of "one-size-fits-all"
- established strategic partnerships with e.g. telecommunication companies to provide e-banking services[6].

Pre-crisis, few domestic banks targeted individual customers for anything but traditional deposit collection to fund corporate lending, despite increasing personal wealth. Domestic-owned banks incorporated in Thailand have now lost their closed market in which clients could be taken for granted and the entry of world-class competitors as well as the threat of further foreign bank entry[7] has encouraged them to move quickly to also invest in new technology (as can be seen from Figure 8), products and services, and to become more customer-focused.

Figure 8 Expenses for premises and equipment of domestic-owned banks incorporated in Thailand[8]

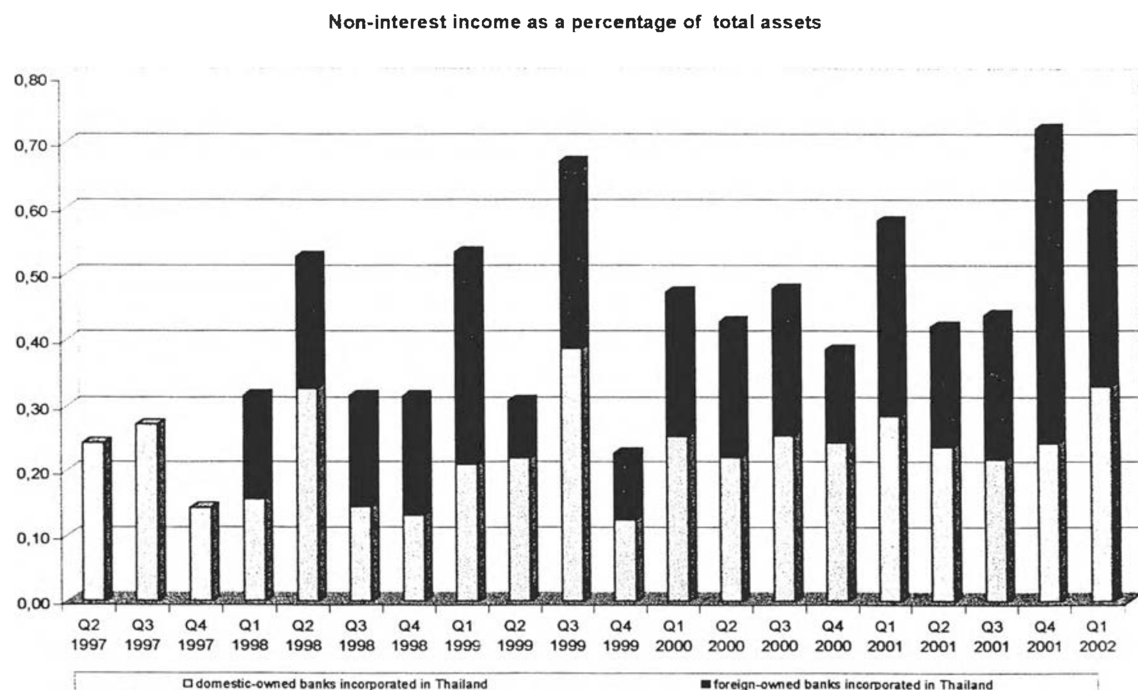


Within short time, TFB, one of the most progressive domestic-owned commercial banks, introduced and/or expanded telephone banking services, e-banking, e-commerce as well as e-web shopping cards, and surprised competitors with its innovative e-girls campaign.[9] Furthermore, in 2001 TFB moved towards direct sales of retail products, approaching customers outside its branches to offer products such as credit cards[10] and personal accounts.[11] Most domestic-owned banks announced a shift to retail and middle market banking, introduced new innovative products, and implemented professional marketing campaigns primarily featuring young presenters. KTB, for example, recruited graduates to promote the state-owned bank through a new and modern image.[12] Other banks established strategic partnerships to assist their expansion as in the case of BAY, which entered into a 50:50 partnership with GE Capital to operate credit card and consumer finance businesses, with GE Capital providing marketing, information technology, and risk management support.[13] Although relationships are still important, they now have to be supported by the right services and adequate pricing as customers become more demanding.

The increasing importance of technology to provide banking services results in banks moving away from the "bricks and mortar" concept of branch-based retail banking towards e-channels of distribution, which increases the quality as well as the availability of banking services, inter alia eliminating time-wasting visits to local bank branches. Another aspect is that routine transactions handled by machines have a huge savings potential. BOA, for example, revealed that teller transactions conducted at a branch counter cost the bank approximately THB 50 per visit, whereas the same transaction done through an ATM or via the internet cost the bank only THB 17 and THB 5 respectively.[14] TFB claimed that every customer using counter services costs the bank around THB 25 per visit, compared to THB 6 to 7 if the customer uses an ATM instead.[15] Thus, banks have a strong incentive to change customers' behaviour by forcing low-value transactions away from the counter and to promote a shift from cash to electronic payments. Cash is still the preferred payment mechanism in Thailand and cash in circulation amounts to

about 8 percent of GDP compared to 3 to 4 percent in industrialized countries, such as the UK and Australia.[16] With the increasing acceptance of e-banking, branch staff has to be further trained and relocated to perform more complex tasks and services, such as customer segmentation and leveraging existing client relationships through cross-selling. Uniform pricing of services will gradually disappear to give way to service fees fully reflecting transaction costs and customers' potential value to the bank, also featuring reward incentives to attract clients. The focus has shifted from interest income to fee-based income as can be seen from Figure 9, especially given the still prevalent burden of non-performing loans in the sector and the emerging shift of corporates (e.g. Siam Cement, Advanced Info Service[17]) towards mobilizing funds via capital markets instead of taking bank loans.

Figure 9 Non-interest income of banks incorporated in Thailand (Quarterly non-interest income as a percentage of total assets. Ratios are calculated for each bank and then averaged for domestic-owned and foreign-owned banks incorporated in Thailand separately.)[18]



While bank shareholders and staff have had to shoulder losses and pressures, bank customers have clearly profited.

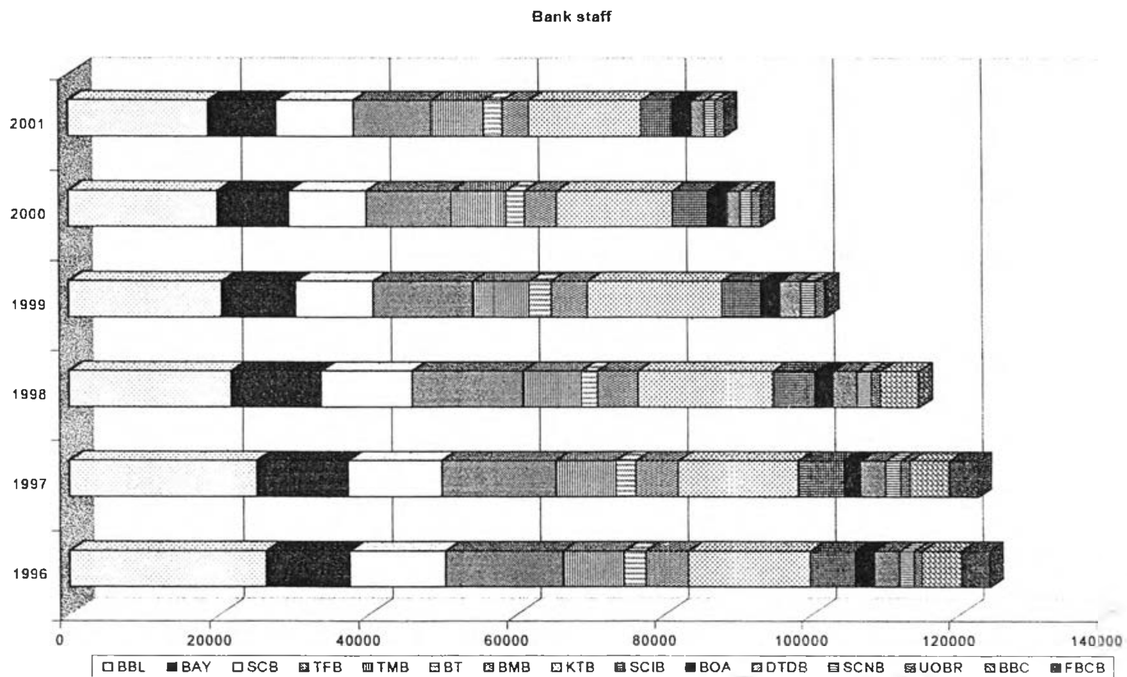
5.2 Restructuring efforts and changes in corporate culture

The financial crisis did not leave any bank incorporated in Thailand unscathed and nearly every institution has already undergone a wave of restructuring programmes. Restructuring efforts are rather crisis-induced, but to a large extent also stem from foreign bank entry and increased competition. Whether in product and service design[19], headcount, branch network, investment policies, operational structures and processes, or shareholder structure, the changes have been enormous.

Human resources policies

To fight overstaffing problems, which to some extent result from the introduction of new technologies and the decrease of workflow at the branch level, most banks announced voluntary early retirement schemes in 1999[20], granting compensation to retirees. New hiring was limited, and large pay-outs were offered to encourage staff departures.[21] Overstaffing problems have been particularly severe in the case of state-owned banks. The absorption of FBCB by KTB, for example, resulted in all FBCB staff becoming KTB employees.[22] This and the integration of BBC staff led inter alia to approximately one third of all KTB staff of 18,169 at the end of 1999 being redundant.[23] Under the amalgamation of UBB, KTT, and the 12 financial companies, all employees of the merged companies kept their jobs, which initially resulted in BT having 4,500 staff, despite requiring 3,000 at the most.[24] Generally, downsizing has been easier for foreign-owned banks incorporated in Thailand, as they are free from the constraints of family and business relationships.

Figure 10 Number of employees of banks incorporated in Thailand[25]

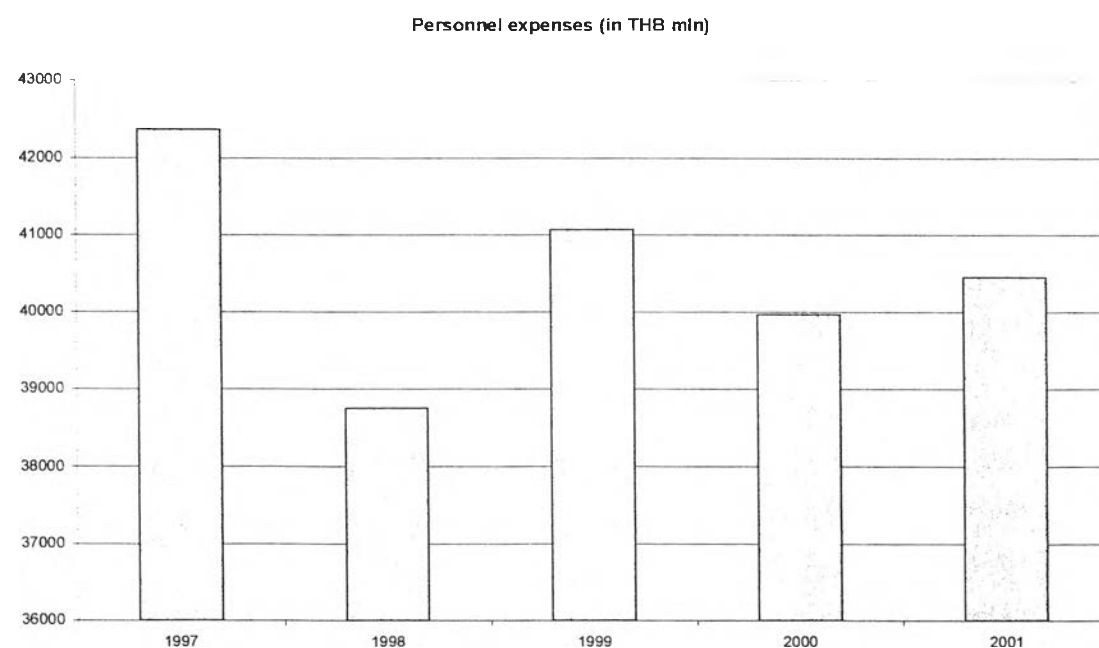


As can be seen from Figure 10, the number of employees of banks incorporated in Thailand fell from 124,088 as of 31 December 1996 to 88,436 as of 31 December 2001. Whereas DTDB and SCNB downsized headcount by 48.4 percent and 22.9 percent, BOA and UOBR increased the number of employees by 2.6 percent and 11.3 percent over the period. Domestic-owned banks incorporated in Thailand downsized on average by 23 percent (BT: -11 percent, BMB: -39.6 percent, KTB: -8 percent, SCIB: -31.8 percent, BBL: -28.7 percent, BAY: -18.9 percent, SCB: -19.3 percent, TFB: -33.5 percent, TMB: -15.8 percent).

Efforts to downsize staff expenses have also been addressed by initiatives to raise staff performance (e.g. improved training, recruitment, and placement policies). The "job-for-life" attitude prevalent in the pre-crisis era gradually disappears, giving way to the adoption of performance-based

compensation systems. Fixed bonuses, based on seniority, have been replaced by incentive structures and performance benchmarks have been introduced.[26] As a humane and responsive corporate culture goes hand in hand with performance, DTDB for example has switched to a formal top management open door policy under the guideline "all staff members are equally valued and equally valuable", thus breaking down established hierarchies and changing the management culture.[27] DTDB's move clearly signals the willingness to draw on ideas from staff, who are close to customers.

Figure 11 Personnel expenses of banks incorporated in Thailand[28]



Although overall personnel expenses substantially decreased over the period, increases could be observed in 1999 and 2001, which are primarily due to the early retirement schemes, which, however, should result in a reduction of expenses in the long-run. The shift towards performance-based remuneration as well as increased staff training to facilitate the adjustment to the new business climate have also led to increases in personnel expenses.

Furthermore, given the shortage of e-business experts, head-hunting has intensified, resulting in higher remuneration packages for key personnel. Although pay scales are confidential, analysts in 2000 were of the opinion that foreign banks tend to pay up to 25 percent more than their local counterparts.[29]

Table 13 Staff productivity[30]

	Assets per employee (in THB mln)				
	1999	2000	change in %	2001	change in %
BT	77,5	92,9	19,9	106,1	14,2
TFB	54,8	66,7	21,6	74,0	10,9
SCIB	49,2	53,9	9,7	71,5	32,5
SCB	66,1	69,2	4,7	69,4	0,3
BBL	57,8	62,4	7,9	67,0	7,3
KTB	54,6	62,9	15,0	64,1	2,0
BOA	63,3	59,7	-5,7	60,3	1,1
DTDB	37,9	47,8	26,1	55,9	16,9
BMB	32,6	37,9	16,1	54,1	42,9
TMB	44,3	46,3	4,4	51,8	12,0
BAY	44,7	44,7	0,0	48,3	7,9
UOBR	47,9	44,0	-8,2	48,2	9,5
SCNB	32,7	45,0	37,5	44,8	-0,4

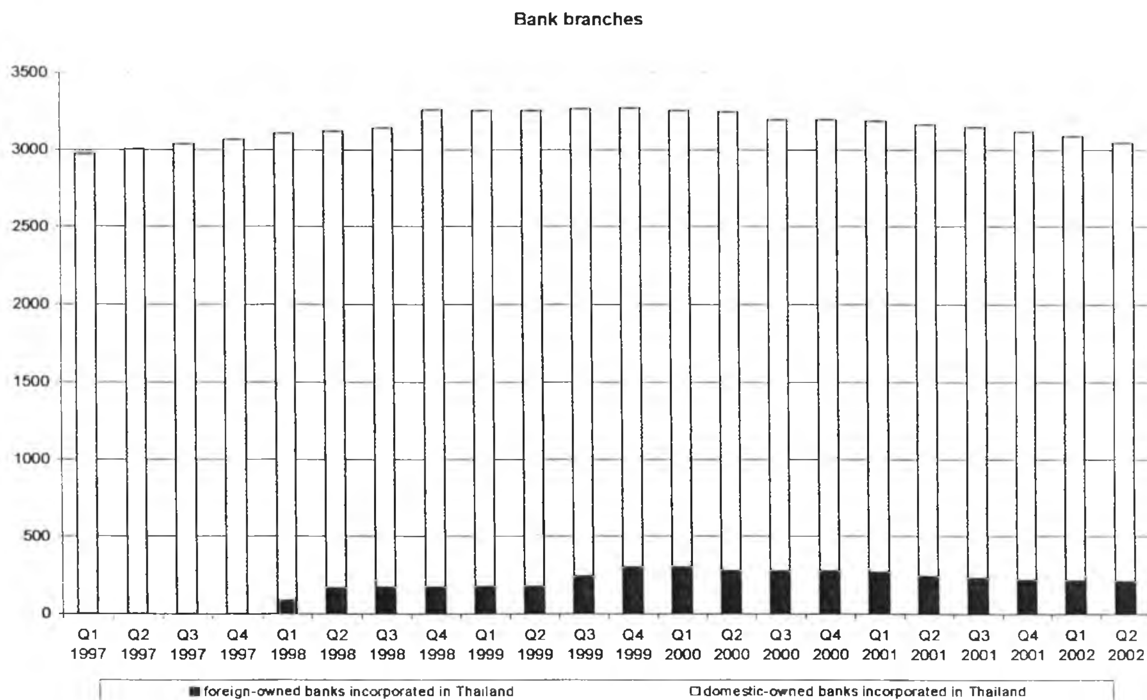
Comparing staff productivity in terms of assets per employee shows that BT leads its peers with THB 106 mln per employee as of 31 December 2001, followed by TFB with THB 74 mln per employee. Although staff productivity in terms of assets per employee is only a rough indicator, the data in Table 13 may nevertheless suggest that staff performance is increasing.

Branch networks

In a further move to reduce expenses, domestic-owned banks incorporated in Thailand followed their foreign-owned counterparts and rationalized their branch networks. Thailand has a relatively high bank-branch density due to government initiatives to ensure that banking facilities are available in rural

areas.[31] Although 75 percent of total deposits are held by only 651,000 accounts, owned by 1.5 percent of the total population, about 69 percent of all branches are located outside Bangkok.[32] This indicates that the country is currently overbranched, but also that there is scope to expand retail banking activities by targeting the masses, which so far have been more or less treated as "unbankable", keeping in mind that physical proximity is still a key determinant of branch profitability. Thus, social-oriented policies with respect to rural areas could still be maintained, if treated as a niche market especially by large domestic-owned banks incorporated in Thailand.

Figure 12 Branches of banks incorporated in Thailand (excluding sub-branches)[33]



The total number of commercial bank branches, excluding sub-branches and branches of banks incorporated abroad, declined from a peak of 3267 branches in December 1999 to 3043 branches in June 2002. Foreign-owned

banks incorporated in Thailand have rigorously moved ahead, reducing the size of their branch networks by one third on average to reduce overhead costs. However, new mini-branches have been set up in strategic locations. In 2001 only, UOBR closed or merged 26 branches on the basis of location, business potential, and expected profitability, decreasing the number of branches from 63 to 37 (including sub-branches).[34] Also, SCNB closed 28 branches, rotated 2, and opened 5 new ones in 2001, thus deceasing the number of branches to 45 (including sub-branches).[35] Other banks have followed suit. TFB, for example, launched a repositioning programme for all its branches with the aim of building market share through added services and benefits by differentiating bank branches by transaction types and location.[36]

Following the establishment of new mini-branches in strategic locations, investment in and usage of ATMs increased, with the total number of machines in the financial sector reaching 6,385 in 2001.

Table 14 Number of ATM cards and machines[37]

Year	Number of cards (in tsd)	Number of machines	Volume of transactions (in tsd)	Value of transactions (in THB mln)
1997	17823	4835	323719	780814
1998	15698	5188	370830	818562
1999	17466	5322	*333585	*938150
2000	20682	5901	383599	1286850
****2001**	23685	6385	456602	1827270

* estimated figures due to incomplete report for the first half of 1999

** first six months of 2001

Aided by an improved environment, efforts to reduce expenses seem to pay off as most banks experienced falling cost-to-income ratios in 2001.

Table 15 Cost-to-income ratios of banks incorporated in Thailand[38]

(The cost-to-income ratio is calculated as follows: non-interest expenses as a percentage of the sum of net interest income and non-interest income.)

	Cost-to-income ratio (in percent)												
	BAY	BBL	SCB	TFB	TMB	BMB	BT	KTB	SCIB	BOA	DTDB	SCNB	UOBR
1997	50	40	47	48	55	77	130	43	56	73	54	62	183
1998	153	105	133	90	145	-40	-536	84	-198	218	178	251	-59
1999	181	76	67	126	160	-1339	-205	156	2246	125	280	320	-171
2000	130	61	62	88	136	1656	594	105	4391	87	97	202	995
2001	117	68	58	85	89	185	86	79	312	90	78	103	149

Investment policies

Banks also divested non-core subsidiaries and affiliates in an effort to further streamline operations. SCB, for example, reduced the number of subsidiaries included in the bank's consolidated balance sheet from 31 companies in 1998 to 20 companies in 1999, and now focuses on investments in companies with either a potential for high returns or importance to its core business (e.g. The Book Club Finance pcl, Chatuchak AMC).[39]

Operational processes and organizational structures

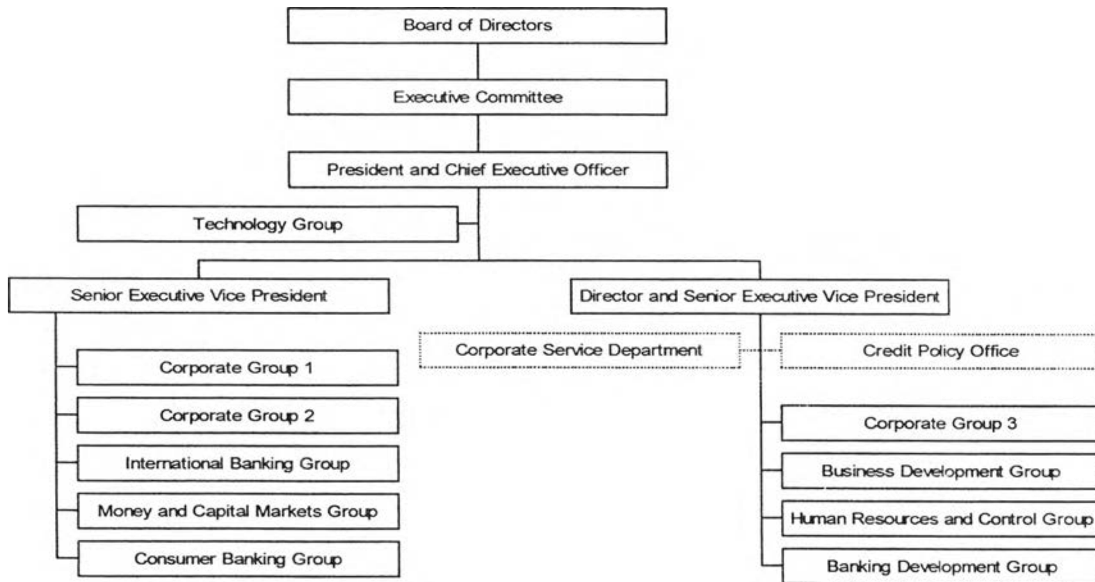
Operational processes and organizational structures have been redesigned in an effort to further cut expenses and to enhance efficiency by drawing clear lines of responsibility and accountability. Although SCB has undertaken

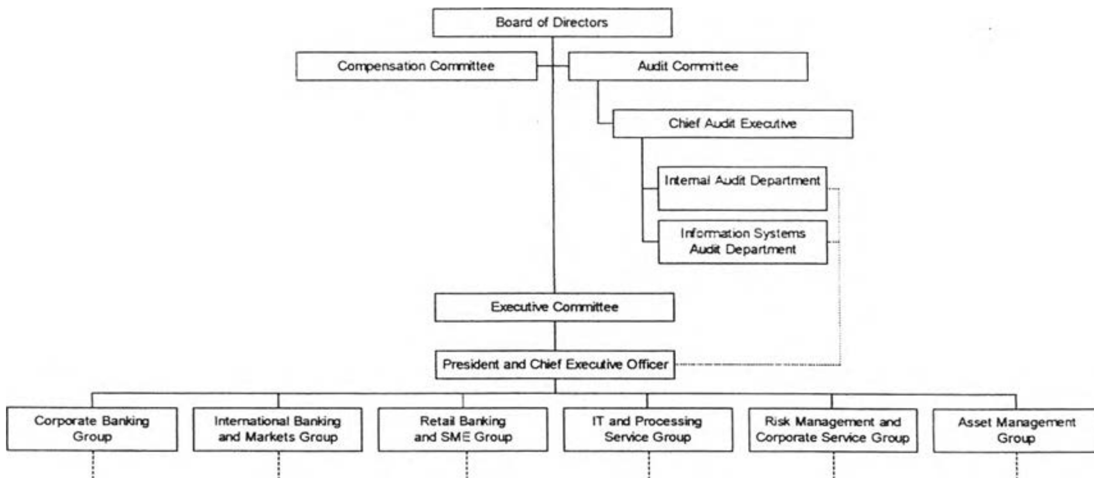
reorganizations and increased technology development since the early 1990s[40], a major restructuring process was only completed in 1999, when:

- operations were reorganized into 6 business groups on the basis of customer focus and function to merge work units serving each customer group and to combine operational units into centralized processing centres to enable more efficient use of resources (e.g. lessening the workload of branches to enhance their role as "sale and service" channels)[41],
- the Risk Management Office was established to coordinate and manage overall risk[42],
- credit approval authority was changed from individual to credit committee authority[43],
- a compensation committee was set up to determine the structure of remuneration and benefits for members of the board, the executive committee, the audit committee, advisors, and senior executives of the bank and its subsidiaries to enhance transparency, and an audit committee was established[44].

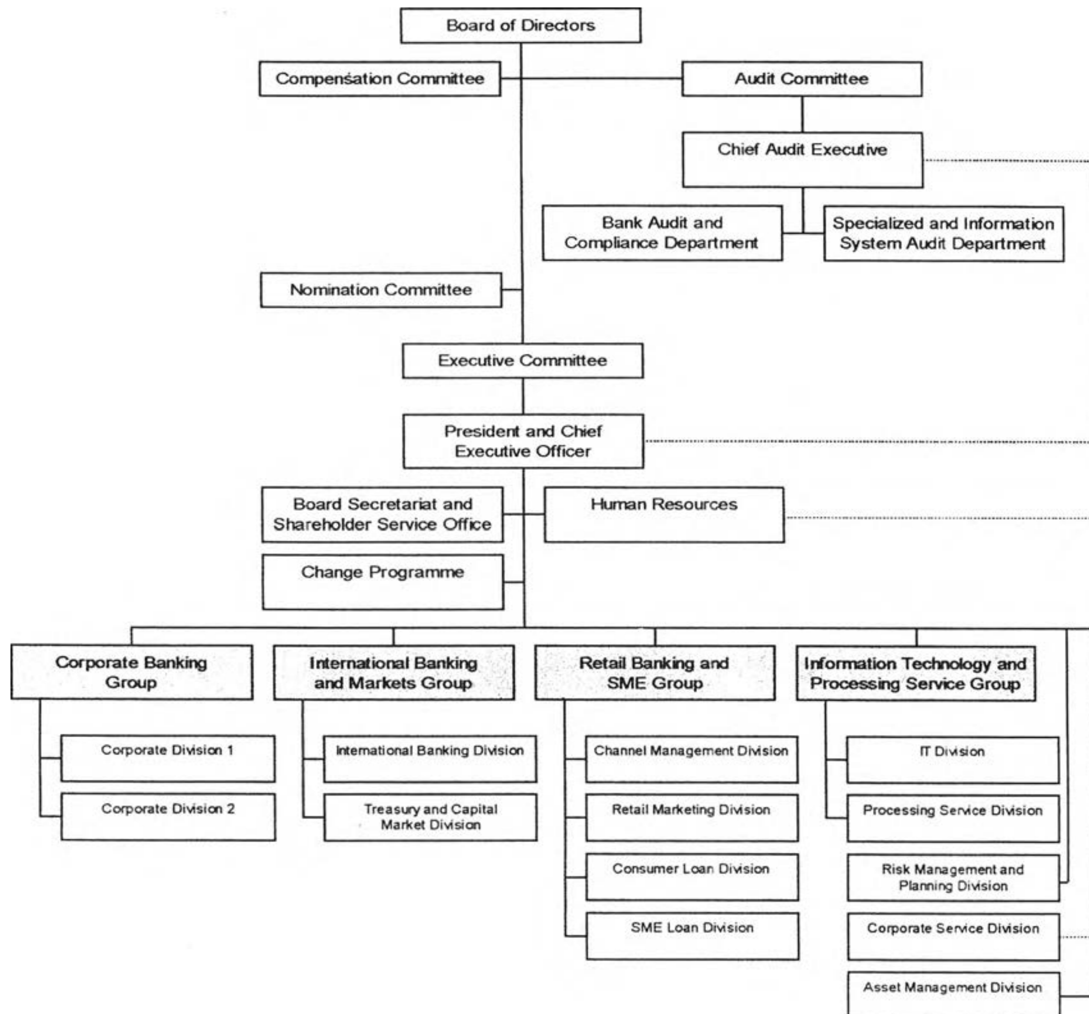
The restructuring clearly indicates a trend to set up committees that function independently from other departments and report directly to the bank's board, with responsibility to screen substantial transactions, as can be seen from Figure 13. This might reflect the fact that the BOT has generally encouraged the establishment of committees (such as audit, compensation, nominating, executive, risk management, and governance committees).[45] Moreover, three independent foreign board directors were appointed in 2000 to reflect the new shareholder structure.[46] Further changes were implemented in 2000, with a new e-business department being set up to exploit new delivery channels and the establishment of a complete customer database being initiated.[47] In 2001, SCB underwent yet another organizational restructuring, primarily aimed at strengthening the bank's internal audit and controls as can be seen from Figure 13.[48]

Figure 13 SCB: Organizational charts as of 1 March 1998, 2 April 2001, and 1 March 2002[49]





SCB: organizational chart as of 1 March 2002



A continuation of the restructuring process has been announced for 2002, with McKinsey acting as advisor, which includes another review of operations and IT systems. Planned changes are aimed at increasing linkages between different products and cutting down overlapping functions, with departments ultimately being structured by function rather than by customer or product group. [50]

Similarly, TFB divided business lines into eight groups (wholesale business, retail business, credit management, systems, finance and control, compliance and internal audit, human resources group, and corporate secretariat) to improve the allocation of resources.[51] Two foreigners with a solid reputation in international markets were invited to sit on TFB's board[52], and an expatriate retail banking executive was recruited directly from BOA early 2001[53], indicating that professional managers increasingly replace family-connected members and that competition for high-caliber staff intensifies. Further drawing on foreign expertise, TFB's AMCs are wholly or partially managed by GE Capital and Goldman Sachs respectively.[54] Also, state-owned KTB restructured its operations around five independent profit centres and two support units (namely retail banking, business banking, corporate banking, asset management, business development, subsidiaries and investments, and corporate service) and contracted foreign consultants to recommend ways to improve efficiency as the new structure still exhibits overlaps in areas such as IT services and administration.[55] BBL's comprehensive restructuring plan, which had been scheduled for completion in 1997, but was postponed due to the financial crisis, has been revived in 2000 and focuses on new IT systems aimed at retail and small business services, with Baker & McKenzie serving as advisor.[56] Also, BBL has set up divisions/committees that function independently from other departments and report directly to the bank's board (e.g. loan recovery division, audit committee).

In-market consolidation

After having tried in vain to privatise BMB and SCIB, the authorities decided in March 2002 to merge BMB into the larger SCIB, thus creating the country's fifth largest bank in terms of assets.[57] The strategic move was justified by the argument that a larger bank would be stronger and thus better able to survive in the changed environment. Although decreasing the number of commercial banks in the system, the merger is aimed at increasing competition as the uncertain future of the two banks and the resulting imposition of lending

restrictions has stalled activities.[58] Although the intention is to eventually privatise the merged entity, it first needs to be restructured and turned into a competitive bank, which remains a vast challenge for the government.[59] Following the integration of BMB and SCIB, the MOF is currently reviewing the proposal to merge BT and KTB, as the authorities expect the move to strengthen KTB's competitiveness, especially since BT was formed to serve as a wholesale bank.[60] Both mergers entail or would entail huge costs due to the need to integrate and restructure IT systems, branch operations and work processes.

Shareholder structure

Due to recapitalization needs during the crisis and the limited availability of funds in Thailand, domestic-owned banks incorporated in Thailand also turned to foreign investors to raise capital as discussed in section 3.1, but with internal guidelines set by existing shareholders to prevent the dilution of management control. As foreign investors now hold up to 49 percent of some domestic-owned banks incorporated in Thailand, they could contribute to improving corporate governance by exercising shareholders' rights, especially in the area of quality and availability of information disclosure. The exclusive relationship between the business and political elite will thus be further eroded, giving way to more open and skill-based competition.

Social norms

Restructuring efforts are not sufficient on their own, but need to be accompanied by fundamental changes of social norms to prevent the gains to be short-lived and efforts to be wasted. As poignantly pointed out by Amaret Sila-On[61], four social evils, namely cronyism (e.g. connected party lending), collusion (e.g. between financial institutions and the government), corruption (e.g. leading to engagement in highly speculative projects), and complacency

(e.g. generated by decades of strong economic growth), have spread to all levels of the economy, thus undermining an already weak financial sector. Although the foundation of any change of social norms lies without doubt in the educational and judical systems, foreign bank entry can also contribute to the process by creating environments that make it difficult for cronyism, collusion, corruption, and complacency to flourish. The introduction and enforcement of formal codes of conduct to minimize conflicts of interest, management information systems, internal control systems, and performance-based evaluation of management and staff are important tools in this respect.

5.3 Structural changes in the non-bank sector

Not only did competition increase in the commercial banking sector, but foreign bank entry also occurred in other sectors of the financial system, thus directly and indirectly exerting pressures, especially since the Thai commercial banking sector seems to be moving towards universal banking.

Insurance companies

Foreign investors are allowed to hold up to 25 percent in local insurance companies, and foreign equity in services auxiliary to insurance is limited to 49 percent.[62] However, in some cases foreign shareholdings, through nominees, are higher than the legal limit.[63]

Table 16 Chronology of foreign entry into local life insurance business[64]

1997
Krungthai AXA Life Insurance, a joint-venture between KTB and AXA Asia, obtains operating license.
Union Assurance Society of Scotland forms joint-venture with Ch. Karnchang plc. (Thai Union Life Assurance is renamed CGU Life Assurance in 1998.)
1998
Aetna purchases 25 percent of Osotspa Life Insurance. (In 2000, ING Group acquires Aetna International. Local insurer is renamed ING Aetna Osotspa Life Assurance.)
2000
MLC, which belongs to National Australia Bank, acquires 25 percent stake in Advance Life Assurance.
National Globe Holdings acquires 25 percent in Thai Prasit Life Insurance and in 2002 it acquires the majority stake of the Chansrichawla family.
New York Life International acquires 70 percent share of Siam Commercial Life Assurance.
Allianz enters joint venture with CP Life Assurance.
Zürich buys 25 percent in National Life Insurance.
ACE Asia Pacific acquires stake in defunct Wall Street Life Assurance and renames it ACE Life Assurance.
2001
Allianz buys 47.14 percent holding in Ayudhya Life Assurance and renames it Ayudhya Allianz CP Life Assurance.
Millea takes 25 percent in Thai Charoen Assurance.
2002
Thai Life Insurance Group (TLG) announced to join forces with Cardif, the insurance arm of

BNP Paribas, to buy CGU Life Assurance.

As can be seen from Table 16, international bancassurance groups, such as ING, are also among the foreign entrants. Whereas in 1994, there were 11 local and 1 foreign life insurers, and 77 local and 5 foreign non-life insurers[65], there are now 15 foreign-Thai joint-ventures and 11 local life insurers, and 27 out of 78 non-life insurers have part of their equity held by foreign investors[66]. American International Assurance, which has been established in the market for more than 50 years, holds a market share of more than 50 percent in life insurance.[67]

Given the low returns on bank deposits (1.48 to 2.34 percent after tax compared to 6 percent offered on life insurance policies[68]), life insurance companies directly compete with commercial banks for funds, launching new products such as one-time deposits offering annual interest income plus life coverage.[69]

Securities companies

Since 1999 foreign investors are allowed to jointly hold up to 100 percent of a securities company.[70] Leading international universal banks such as the ABN Amro Bank are among the foreign entrants having acquired substantial stakes in local brokerages, thus not only competing in commercial banking, but also in the securities business. Half of the brokerage industry (i.e. 20 out of 40 securities companies) is now controlled by foreign financial companies. Foreign-controlled securities companies are: ABN Amro Asia Securities Trading, Barclays Capital Securities (Thailand), BFIT Securities, BNP Paribas Peregrine Securities (Thailand), Capital Nomura Securities, Citicorp Securities (Thailand), CLSA Securities (Thailand), Crédit Suisse First Boston Securities (Thailand), DBS Vickers Securities, Global Thai Securities, HSBC Securities (Thailand), ING Baring Securities, Kim Eng Securities, J.P. Morgan Securities

(Thailand), Merrill Lynch Phatra Securities (Thailand), Philip Securities (Thailand), SG Asia Credit Securities, UBS Warburg Securities, UOB Kay Hian Securities (Thailand), Yuanta Securities (Thailand).[71]

Other non-bank financial institutions

Lower barriers to entry led foreign non-bank financial institutions such as GE Capital, Lehman Brothers, and Mercedes-Benz Leasing to enter or expand their position in the Thai market. These institutions now offer a vast range of financial services. GE Capital (Thailand), for example, successfully launched its web-site www.thailifestyle.com in 2000, where customers can obtain credit on-line (processing of credit applications is said to take just one hour), purchase goods, and access news.[72] The company was the first to introduce on-line credit approvals. To develop e-commerce, GE Capital (Thailand) teamed up with leading companies, such as the Central Group, Compaq, BMW, and Nissan.[73] Apart from on-line financial services, GE Capital strengthened its position in the hire-purchase segment by acquiring a controlling stake in Asia Finance.[74] GE Capital also bought assets (e.g. hire-purchase) of the 56 closed financial companies auctioned by the Financial Sector Restructuring Authority.[75]

The increasing acceptance of e-banking, will lower barriers to entry (especially for financial institutions incorporated abroad) and attract further foreign entry.

5.4 Development of ancillary institutions

The arrival of some of the world's largest banking corporations in Thailand and the resulting urgent need of commercial banks to upgrade their technological infrastructure offers opportunities for local and foreign businesses and has attracted leading technology providers. In 1999, the leading ATM machine supplier, Diebold, established an office in Thailand in order to offer sales and services, especially support services, on the spot. Diebold not only introduces new ATM technology, but also security solutions for bank branches, campus card systems, and smart card technology.[76] Also in 1999, Stream IT Consulting, established at the end of 1998, was appointed as local value-added reseller by the software developer FICS (Financial Industry Computer Systems, Inc.) to introduce portal solutions to the Thai financial sector.[77] These portal services allow banks to offer financial news and content as well as to provide a range of electronic transactions. Misys International Banking Systems (formerly Midas-Kapiti International), one of the largest providers of information technology solutions to the financial services industry (e.g. MIDAS), followed and opened an office in Thailand in 2000 to provide direct IT support to financial institutions.[78]

Although the origins of establishing a credit bureau in Thailand date back to 1995, the first credit bureau (Thai Credit Bureau) was only set up in September 1999[79]. Owned by the Processing Centre (51 percent) and the GHB (49 percent)[80], the Thai Credit Bureau was established to build up a credit information database on both natural and juristic persons. Since the end of 2000 membership is open to foreign banks.[81] In December 1999, the Central Credit Information Services (CCIS), Thailand's second credit bureau, was launched, to establish a database on personal and commercial credit information.[82] CCIS has two strategic partners, namely Trans Union International, a US credit bureau, and Business Online, a local information provider, each holding a 25 percent stake, with the remaining shares split among local banks.[83] Membership is open to foreign banks.[84] The credit bureaus receive information on retail and corporate borrowers regarding identity and credit history and in return members are offered access to the

central database, subject to the consent of debtors.[85] Thus, these institutions could contribute to improving lending processes in the financial sector and to upgrade them to international standards by decreasing loan losses and bankruptcies, reducing risk assessment costs, increasing privacy protection, and reducing fraud, provided: privacy concerns are properly addressed, files do not simply represent blacklists, and the credit bureaus establish a reputation for impeccable integrity.[86] A Credit Bureau Act regulating the operation of credit bureaus in Thailand is currently screened by parliament.[87] Both credit bureaus now have to compete in developing a broad scope of service deliveries.

In an attempt to assist the development of Thailand's financial infrastructure, the International Finance Corporation (IFC), the private sector arm of the World Bank, initiated the establishment of a second rating agency in Thailand and Fitch (Thailand) Ratings was set up as a Thai affiliate of Fitch Ratings in 2000.[88] Created by the merger of US-based Fitch Investors' Service and Europe's IBCA group, Fitch Ratings is one of the three largest rating agencies in the world, alongside with Standard & Poor's and Moody's Investors' Service. Fitch (Thailand) Ratings now directly competes with the country's other rating agency, Thai Rating Information Services (TRIS). Fitch (Thailand) Ratings, provides a full range of rating services, such as ratings of securities issues and issuer ratings. Fitch Ratings holds a 39 percent stake in its Thai affiliate, the remainder being held by the Central Pension Fund, Thai Farmers Asset Management, TISCO Asset Management, Thai Life Insurance, Muang Thai Life Insurance, and IFC.[89]

The presence of two credit bureaus and a high-profile international rating agency promotes the flow of information in the system (eventually reducing transaction costs) and enhances the standing and credibility of the commercial banking sector.