

NAVIGATING BUSINESS OPPORTUNITIES IN THAILAND



THE COUNTRY'S STRONG ECONOMIC PERFORMANCE AND REGIONAL PARTNERSHIPS HAVE ATTRACTED MANY FOREIGN BUSINESSES. UNDERSTANDING THE REGULATORY LANDSCAPE AND SECTOR-SPECIFIC POLICIES IS ESSENTIAL FOR THESE COMPANIES VENTURING FORWARD



DIGITAL ECONOMY



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Thailand's digital economy has been growing exponentially in recent years, as the country embraces new technological innovations and creates opportunities for startups and investors. The government has been actively promoting development of the digital economy with various policy and infrastructure initiatives, resulting in an increasing number of digital businesses and startups, along with a growing online consumer base.

This article assesses the latest developments in Thailand's digital economy ecosystem, including fintech, the internet of things, blockchain and cybersecurity.

Fintech move

Marking a significant step for the fintech market, the Bank of Thailand last year released a consultation paper on the country's financial landscape titled Repositioning Thailand's Financial Sector for a Sustainable Digital Economy. It frames the central bank's way forward in three strategic directions, introducing upcoming policies on technology and data leverage, environment and household finance sustainability, and resilient supervisory approaches.

Aiming to promote financial innovation and competition in the depositary institution market, the central bank plans to permit new commercial banking players in the form of virtual banks. Based on the Virtual Bank Licensing Framework, which was issued for public hearing in January 2023, the virtual banks will be allowed to provide the same scope of services as traditional commercial banks, but the operation must be performed via digital channels without any physical or electronic branches.

During the restricted phase of the first three to five years of operations, virtual banks will be closely monitored by the central bank. To progress to a fully functioning phase, virtual banks must pass evaluation criteria such as the ability to provide financial services that serve retail consumers, and small and medium-sized enterprises, which are underserved under the non-digital financial landscape, with limited available access and outreach.

The framework will be finalised into legislation around the second quarter of 2023, and the first application cycle for up to

three virtual bank licences will open for six months from then. A list of first-generation virtual banks will be announced around the second quarter of 2024, and will operate by the second quarter of 2025.

On open banking, in collaboration with the Thai Bankers' Association and the Government Financial Institutions Association, the central bank also launched the "dStatement" project in January 2022, under which commercial banks exchange digital statement data to support a digital loan application. Implementation of open banking using dStatement was declared a pioneering project.

Additionally, the Directional Paper on Sustainable Solutions to Thailand's Structural Debt Overhang Problems, released by the central bank in February 2023, noted that more details on initiatives regarding data leverage will be available by the first half of 2023. Scope of data exchange will extend to financial operators other than commercial banks, and operators in other sectors such as utilities and insurance companies. The central bank plans to double the rate of decline in cash usage by three years, and reduce paper cheque usage by 50% within five years.

During the transitional phase where cash usage continues to diminish, cash distribution will be done through banking agents and white-label smart machines, which are the unbranded ATMs that accept cards issued by all banks, to reduce resources for cash management.

Internet of things

Thailand has seen growing receptiveness to the internet of things (IoT) by both the government and private sector. Back in early 2019, the National Broadcasting and Telecommunications Commission established a 5G artificial intelligence (AI) and IoT innovation centre in collaboration with Chulalongkorn University to test 5G that would bring about smoother and more efficient IoT experiences. Meanwhile, rules regarding the 5G auction were announced in December 2019, and the auction was successfully closed in February 2020.

The National Economic and Social Development Plan No.13 (2023-2027), announced on 24 October 2022, also promotes the use

of 5G and the internet in general in various contexts – highlighting its importance along with next steps regarding internet access in the country.

In the private sector, manufacturing factories have the highest 2022 forecast value of IoT expenditure, of THB2.37 billion (USD69 million), followed by city management systems, transportation and logistics, retailing, vehicles, household management systems, public health systems, construction and worksites, and office management systems.

Utilising blockchain

To facilitate electronic know-your-customer (eKYC), the National Digital ID (NDID) has been established through collaboration between government sectors and the private sector. This digital identity verification system was developed under the regulatory sandbox of the Bank of Thailand and is designed with a decentralised concept, utilising blockchain technology to encrypt information with public key infrastructure and store it in a decentralised manner.

The system operates under the principle of “data security and privacy by design” to ensure electronic transactions are efficient, transparent and safe in accordance with international standards. The establishment of NDID aligns with the Thai government’s policies on creating a digital economy. The NDID platform is an ecosystem designed to facilitate secure and trusted communication between members for the purposes of authentication and information exchange. The platform connects three key parties:

- (1) The relying party, which is a service provider that interacts directly with its customers and seeks to use the eKYC service of an identity provider, such as a securities or insurance company, that wants to verify a customer’s identity;
- (2) The identity provider, which provides identity proofing and issues authenticators to its customers upon request by a relying party via the NDID platform – for example, a bank; and
- (3) The authoritative source, which provides trusted information and authorises the release of customer data to a relying partner only on successful authentication by the identity provider – for instance, the

National Credit Bureau or other national registry that maintains official records.

This mechanism ensures that personal information is transmitted solely between the two parties using public key infrastructure outside of the NDID platform, enhancing privacy and security.

Digital currency bridge

Following the success of Project Inthanon, a collaborative partnership led by the Bank of Thailand has commenced to explore distributed ledger technology, a next step, which has been renamed the Multiple Central Bank Digital Currency Bridge (project mBridge).

Project mBridge is a cross-border payments platform that uses distributed ledger technology and wholesale central bank digital currencies (CBDCs) to facilitate efficient and low-cost international trade flows. Designed by central banks for central banks, the platform focuses on modular functionality, scalability and compliance, with jurisdiction-specific policy and legal requirements. During a six-week pilot, 20 commercial banks from Hong Kong, mainland China, the UAE and Thailand conducted real-value transactions using CBDCs issued on the mBridge platform totalling more than USD22 million. The pilot highlights policy, legal and regulatory considerations, and will continue to develop towards a minimum viable product – and eventually a production-ready system.

The pilot explores transaction types commonly used in international trade and enabling cross-border settlements in local currency, including:

- 1) Issuance and redemption of CBDCs between central banks and their domestic commercial banks;

- 2) Cross-border payments between commercial banks in local CBDCs, such as a UAE company paying a mainland Chinese company in e-CNY through their participating commercial banks on the platform; and
- 3) Cross-border payment versus payment foreign exchange between commercial banks in local CBDCs, such as a Thai bank exchanging e-THB for e-HKD with a Hong Kong bank on the platform.

Cybersecurity oversight

The Cybersecurity Act, 2019, now in effect, aims to oversee cybersecurity activities and set out mechanisms for combating cyber threats. In recent developments, the National Cyber Security Committee issued the Policy and Action Plan (2022-2027) in late 2022 to set out a cybersecurity framework under the Cybersecurity Act, which will draw on more regulations and initiatives regarding cybersecurity in the coming years.

Given the surge in fintech and digitisation of business processes, the Bank of Thailand, alongside the lead cybersecurity regulator, also pays keen attention to cyber threats within the financial market. Thailand has faced serious e-banking scams in recent years, so in addition to existing stringent cybersecurity measures imposed on financial operators, the Bank of Thailand rolled out new anti-fraud measures on 9 March 2023.

These include prohibition on putting links in SMS or emails sent from banks, and a requirement for each bank to set up a separate 24-hour hotline for scams and fraud. The legislative body is also considering the draft Emergency Decree on the Prevention and Suppression of Cybercrime, which will provide a more systematic approach to tackling cybersecurity threats.

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