FINANSIA
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Thailand Banks

Digital Horizons: The Future of Virtual Banking

Key takeaways from two sessions

Session 1: Our first session on March 25th was graced by the esteemed presence of Mr. Pochara Arayakarnkul, CEO of Bluebik Group PCL.

- The speaker provided a comprehensive overview of Thailand's digitalization paradigm, highlighting the potential and readiness for virtual banking transformation among domestic commercial banks.
- One of the most promising aspects of virtual banking, as highlighted by the speaker, is its potential to serve underserved segments of customers. The unique data they can access, such as consistency of subscription payment and spending patterns, could revolutionize traditional credit scoring methods. This could lead to higher accuracy, efficiency, and lag time in lending approval for virtual banks, potentially allowing them to reach segments that traditional banks currently underserve.
- Although businesses with existing customer segments with digital-intensive operations and lesser reliance on physical branches of VBs should serve as a cost-reduction format of banking service in Thailand, tapping into the uncharted territory of underserved segments may require a different format where digitalization leads to a viable business operation but not necessarily lower cost-to-income ratio compared with conventional banks, leading the speaker to expect an average VB to operate at a similar cost-to-income ratio of 45-50%.
- As virtual banks' operating edge should adhere to cost reduction and expansion of customer base, the trend should lead traditional banks to focus on retaining their recurring customers and continue on IT investment and implementing new digital services to remain competitive.

Session 2: Our second session on March 27th was honored by Mr. Thanawat Lertwattanarak, CEO of J Ventures Co., Ltd., who gave us insights into the Virtual banking business from the perspective of a potential applicant for BoT's VB license. The session can be broken down into three major parts, including 1) the BoT's objective from the perspective of JMART, 2) JMART's take on virtual banking, and 3) determining factors of a successful virtual bank.

- **Part 1.** On the BoT's aim to expand access to financial services among the unserved/underserved, the speaker sees only an insignificant amount of the unserved population given Thailand's current foundation of the financial industry. Meanwhile, the underserved segment should be the primary objective of Thailand's VBs due to a lack of income and credit quality footprint of freelancers, merchants/vendors, and agricultural workers.
- **Part 2.** JMART is gearing towards incorporating commerce-tech and fin-tech, leading the prospect of JMART to be a marketplace-based business. The firm is currently in possession of c10m unique customers, of which c4.8m fall within the underserved individual and c850k are underserved SMEs where the speaker claims to represent the largest pool of underserved customers among listed corporates. JMART sees notable success in incorporating commerce-tech and fin-tech into a fully digitalized business model, which revolves around migrating customers from physical touchpoints to the company's digital platform. JMART has been implementing this via offerings of a loyalty system, leading the firm to have gathered around 2.6m digital-first customers.
- **Part 3.** The final section of the session was about key profitability factors for VB in Thailand. The speaker views the path to a profitable VB as different from their traditional counterparts. Examples of continuous loss-making VBs in foreign economies stem from the customer base's lack of rapid scaling ability. Moreover, a sufficiently large base of operators' existing customers is another critical success for the industry, as customer acquisition is costly in the face of the highly competitive landscape between tech giants nowadays.

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Session 1

Our first session on March 25th was graced by the esteemed presence of Mr. Pochara Arayakarnkul, CEO of Bluebik Group PCL, whose insights on Thailand's banking digitalization paradigm were invaluable.

The speaker provided a comprehensive overview of Thailand's digitalization paradigm, highlighting the potential and readiness for virtual banking transformation among domestic commercial banks. This transformation, he emphasized, could lead to significant benefits such as increased consumer penetration and adoption and potentially lower costs and frictions for customers.

One of the most promising aspects of virtual banking, as highlighted by the speaker, is its potential to serve underserved segments of customers. The unique data they can access, such as consistency of subscription payment and spending patterns, could revolutionize traditional credit scoring methods. This could lead to higher accuracy, efficiency, and lag time in lending approval for virtual banks, potentially allowing them to reach segments that traditional banks currently underserve.

While it's true that virtual banks may operate with a lower degree of customer credit quality and NPL ratio compared to traditional banks, the speaker emphasized the importance of risk-based pricing strategies. These strategies, he believes, can help virtual banks offset the higher delinquency rates that may be prevalent among the underserved group, which should be the primary target of virtual banks' customer base enlargement.

Although businesses with existing customer segments with digital-intensive operations and lesser reliance on physical branches of VBs should serve as a cost-reduction format of banking service in Thailand, tapping into the uncharted territory of underserved segments may require a different format where digitalization leads to a viable business operation but not necessarily lower cost-to-income ratio compared with conventional banks, leading the speaker to expect an average VB to operate at a similar cost-to-income ratio compared to the current average of conventional banks of 45-50%.

Despite virtual banks' fully digitalized nature, the speaker underscored the importance of cybersecurity. He sees it as a vital factor for both traditional and virtual banks, as both offer services via digital channels and are regulated to meet certain standards. This emphasis on cybersecurity should make the audience aware of the potential risks and the need for stringent security measures in the banking sector.

As virtual banks' operating edge should adhere to cost reduction and expansion of customer base, the trend should lead traditional banks to focus on retaining their recurring customers and continue on IT investment and implementing new digital services to remain competitive. Meanwhile, the speaker sees the possibility of a partnership between traditional banks and non-financial institutions and increases the utilization of physical branches as a route for competitiveness and new product offerings despite lacking VB licenses.

Session 2

Our second session on March 27th was honored by Mr. Thanawat Lertwattanarak, CEO of J Ventures Co., Ltd., who gave us insights into the Virtual banking business from the perspective of a potential applicant for BoT's VB license. The session can be broken down into three major parts.

Part 1: BoT's objective from the perspective of JMART

On the BoT's aim to expand access to financial services among the unserved/underserved, the speaker sees only an insignificant amount of the unserved population (individuals with no bank accounts) given Thailand's current IT infrastructure and solid foundation of the financial services industry.

Meanwhile, the underserved segment (individuals with no access to financial products) should be the primary objective of Thailand's VBs due to a lack of income and credit quality footprint of freelancers, merchants/vendors, and agricultural workers, representing a significant portion of the population.

The speakers then raised examples of expected applicants of VB license, including two bank-related partnerships (1. KTB-GULF-OR-AIS and 2. SCB-KAKAO-WEBANK), while the other two are non-banks (1. CP Group and 2. JMART group). Meanwhile, according to Mr.Thanawat's definition, the proper meaning of VBs should be banks that are eager to tap into commerce businesses or vice versa, leading to an expectation that at least one non-bank applicant would be granted a VB license.

Part 2: JMART's take on virtual banking

JMART is gearing towards incorporating commerce-tech and fin-tech, leading the prospect of JMART to be a marketplace-based business. The firm is currently in possession of c10m unique customers, of which c4.8m fall within the underserved individual and c850k are underserved SMEs where the speaker claims to represent the largest pool of underserved customers among listed corporates, i.e., SINGER customers are budget conscious and have no access to credit cards.

JMART sees notable success in incorporating commerce-tech and fin-tech into a fully digitalized business model, which revolves around migrating customers from physical touchpoints to the company's digital platform. JMART has been implementing this via offerings of a loyalty system (J Points) and digital wallet (J wallet), leading the firm to have successfully gathered around 2.6m digital-first customers.

With the scheme, the speaker expects JMART to be able to circulate users between the group's business segments and further attain different aspects of customer data and spending patterns, resulting in an outlook of stronger KYC. Therefore, offering financial products to underserved customers would lead to a manageable credit quality and a viable business model.

Part 3: Determining Factors of a Successful Virtual Bank

The final section of the session was about key profitability factors for VB in Thailand. The speaker views the path to a profitable VB as different from their traditional counterparts. Examples of continuous loss-making VBs in foreign economies stem from the customer base's lack of rapid scaling ability. Moreover, a sufficiently large base of operators' existing customers is another critical success for the industry, as customer acquisition is costly in the face of the highly competitive landscape between tech giants nowadays.

JMART did not disclose an official VB partnership and shared that it is currently in the stage of exploring the possibilities of best fits. Meanwhile, if the firm does not receive VB license approval, JMART retains confidence in its corporate strategy of commerce and fin-tech. Despite losing an opportunity to raise deposits under the scenario, the firm would steer toward a buy-now-pay-later model, following many multinational tech giants, e.g., Shopee and Lazada, which do not require a VB license to operate.

Disclaimer for ESG scoring

ESG score	Methodology	Rating
The Dow Jones Sustainability Indices (DJSI) By S&P Global	The DJSI World applies a transparent, rules-based component selection process based on the companies' Total Sustainability Scores resulting from the annual S&P Global Corporate Sustainability Assessment (CSA). Only the top-ranked companies within each industry are selected for inclusion.	Be a member and invited to the annual S&P Global Corporate Sustainability Assessment (CSA) for DJSI. Companies with an S&P Global ESG Score of less than 45% of the S&P Global ESG Score of the highest scoring company are disqualified. The constituents of the DJSI indices are selected from the Eligible Universe.
Sustainability Investment List (THSI) by The Stock Exchange of Thailand (SET)	THSI quantifies responsibility in Environmental and Social issues by managing business with transparency in Governance, updated annually. Candidates must pass the preemptive criteria, with two crucial conditions: 1) no irregular trading of the board members and executives; and 2) free float of >150 shareholders, and combined holding must be >15% of paid-up capital. Some key disqualifying criteria include: 1) CG score of below 70%; 2) independent directors and free float violation; 3) executives' wrongdoing related to CG, social & environmental impacts; 4) equity in negative territory; and 5) earnings in red for > 3 years in the last 5 years.	To be eligible for **THSI inclusion**, verified data must be scored at a minimum of 50% for each indicator, unless the company is a part of DJSI during the assessment year. The scoring will be fairly weighted against the nature of the relevant industry and materiality. **SETTHSI Index** is extended from the THSI companies whose 1) market capitalization > THB5b (~USD150b); 2) free float >20%; and 3) liquidity >0.5% of paid-up capital for at least 9 out of 12 months. The SETTHSI Index is a market capitalisation-weighted index, cap 5% quarterly weight at maximum, and no cap for number of stocks.
CG Score by Thai Institute of Directors Association (Thai IOD)	An indicator of CG strength in sustainable development, measured annually by the Thai IOD, with support from the Stock Exchange of Thailand (SET). The results are from the perspective of a third party, not an evaluation of operations.	Scores are rated in six categories: 5 for Excellent (90-100), 4 for Very Good (80-89), 3 for Good (70-79), 2 for Fair (60-69), 1 for Pass (60-69), and not rated for scores below 50. Weightings include: 1) the rights; 2) and equitable treatment of shareholders (weight 25% combined); 3) the role of stakeholders (25%); 4) disclosure & transparency (15%); and 5) board responsibilities (35%).
AGM level By Thai Investors Association (TIA) with support from the SEC	It quantifies the extent to which shareholders' rights and equitable treatment are incorporated into business operations and information is transparent and sufficiently disclosed. All form important elements of two out of five the CG components to be evaluated annually. The assessment criteria cover AGM procedures before the meeting (45%), at the meeting date (45%), and after the meeting (10%). (*The first assesses 1) advance circulation of sufficient information for voting; and 2) facilitating how voting rights can be exercised. The second assesses 1) the ease of attending meetings; 2) transparency and verifiability; and 3) openness for Q&A. The third involves the meeting minutes that should contain discussion issues, resolutions and voting results.)*	The scores are classified into four categories: 5 for Excellent (100), 4 for Very Good (90-99), 3 for Fair (80-89), and not rated for scores below 79.
Thai CAC By Thai Private Sector Collective Action Against Corruption (CAC)	The core elements of the Checklist include corruption risk assessment, establishment of key controls, and the monitoring and developing of policies. The Certification is good for three years. *(Companies deciding to become a CAC certified member start by submitting a Declaration of Intent to kick off an 18-month deadline to submit the CAC Checklist for Certification, including risk assessment, in place of policy and control, training of managers and employees, establishment of whistleblowing channels, and communication of policies to all stakeholders.)*	The document will be reviewed by a committee of nine professionals. A passed Checklist will move for granting certification by the CAC Council approvals whose members are twelve highly respected individuals in professionalism and ethical achievements.
Morningstar Sustainalytics	The Sustainalytics' ESG risk rating provides an overall company score based on an assessment of how much of a company's exposure to ESG risk is unmanaged. *Sources to be reviewed include corporate publications and regulatory filings, news and other media, NGO reports/websites, multi-sector information, company feedback, ESG controversies, issuer feedback on draft ESG reports, and quality & peer reviews.*	A company's ESG risk rating score is the sum of unmanaged risk. The more risk is unmanaged, the higher ESG risk is scored. **NEGL** 0-10 · **Low** 10-20 · **Medium** 20-30 · **High** 30-40 · **Severe** 40+
ESG Book	The ESG score identifies sustainable companies that are better positioned to outperform over the long term. The methodology considers the principle of financial materiality including information that significantly helps explain future risk-adjusted performance. Materiality is applied by over-weighting features with higher materiality and rebalancing these weights on a rolling quarterly basis.	The total ESG score is calculated as a weighted sum of the features scores using materiality-based weights. The score is scaled between 0 and 100 with higher scores indicating better performance.
MSCI	MSCI ESG ratings aim to measure a company's management of financially relevant ESG risks and opportunities. It uses a rules-based methodology to identify industry leaders and laggards according to their exposure to ESG risks and how well they manage those risks relative to peers.	
Moody's ESG solutions	Moody's assesses the degree to which companies take into account ESG objectives in the definition and implementation of their strategy policies. It believes that a company integrating ESG factors into its business model and relatively outperforming its peers is better positioned to mitigate risks and create sustainable value for shareholders over the medium to long term.	
Refinitiv ESG rating	Designed to transparently and objectively measure a company's relative ESG performance, commitment and effectiveness across 10 main themes, based on publicly available and auditable data. The score ranges from 0 to 100 on relative ESG performance and insufficient degree of transparency in reporting material ESG data publicly. *(Score ratings are 0 to 25 = poor; >25 to 50 = satisfactory; >50 to 75 = good; and >75 to 100 = excellent.)*	
S&P Global	The S&P Global ESG Score is a relative score measuring a company's performance on and management of ESG risks, opportunities, and impacts compared to its peers within the same industry classification. The score ranges from 0 to 100.	
Bloomberg	ESG Score	Bloomberg score evaluating the company's aggregated Environmental, Social and Governance (ESG) performance. The score is based on Bloomberg's view of ESG financial materiality. The score is a weighted generalized mean (power mean) of Pillar Scores, where the weights are determined by the pillar priority ranking. Values range from 0 to 10; 10 is the best.
Bloomberg	ESG Disclosure Score	Disclosure of a company's ESG used for Bloomberg ESG score. The score ranges from 0 for none to 100 for disclosure of every data point, measuring the amount of ESG data reported publicly, and not the performance on any data point.

MSCI rating scale:

AAA	8.571-10.000	Leader:	leading its industry in managing the most significant ESG risks and opportunities
AA	7.143-8.570		
A	5.714-7.142	Average:	a mixed or unexceptional track record of managing the most significant ESG risks and opportunities relative to industry peers
BBB	4.286-5.713		
BB	2.857-4.285		
B	1.429-2.856	Laggard:	lagging its industry based on its high exposure and failure to manage significant ESG risks
CCC	0.000-1.428		

Rating regarding the sustainable development of Thai listed companies, both on the SET and MAI, are publicly available on the website of the Securities and Exchange Commission of Thailand (SEC). Currently, ratings available are 1) "**CG Score**"; 2) "**AGM Level**"; 3) "**Thai CAC**"; and 4) **THSI**. The ratings are updated on an annual basis. FSSIA does not confirm nor certify the accuracy of such ratings.

Source: FSSIA's compilation

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All share prices are as at market close on unless otherwise stated.

RECOMMENDATION STRUCTURE

Stock ratings

Stock ratings are based on absolute upside or downside, which we define as (target price* - current price) / current price.

BUY (B). The upside is 10% or more.
HOLD (H). The upside or downside is less than 10%.
REDUCE (R). The downside is 10% or more.
Unless otherwise specified, these recommendations are set with a 12-month horizon. Thus, it is possible that future price volatility may cause a temporary mismatch between upside/downside for a stock based on market price and the formal recommendation.

* In most cases, the target price will equal the analyst's assessment of the current fair value of the stock. However, if the analyst doesn't think the market will reassess the stock over the specified time horizon due to a lack of events or catalysts, then the target price may differ from fair value. In most cases, therefore, our recommendation is an assessment of the mismatch between current market price and our assessment of current fair value.

Industry Recommendations

Overweight. The analyst expects the fundamental conditions of the sector to be positive over the next 12 months.
Neutral. The analyst expects the fundamental conditions of the sector to be maintained over the next 12 months.
Underweight. The analyst expects the fundamental conditions of the sector to be negative over the next 12 months.

Country (Strategy) Recommendations

Overweight (O). Over the next 12 months, the analyst expects the market to score positively on two or more of the criteria used to determine market recommendations: index returns relative to the regional benchmark, index sharpe ratio relative to the regional benchmark and index returns relative to the market cost of equity.

Neutral (N). Over the next 12 months, the analyst expects the market to score positively on one of the criteria used to determine market recommendations: index returns relative to the regional benchmark, index sharpe ratio relative to the regional benchmark and index returns relative to the market cost of equity.

Underweight (U). Over the next 12 months, the analyst does not expect the market to score positively on any of the criteria used to determine market recommendations: index returns relative to the regional benchmark, index sharpe ratio relative to the regional benchmark and index returns relative to the market cost of equity.