

Newsletter

DIGITAL PERSONAL LOANS NOW PERMITTED IN THAILAND

The Bank of Thailand (the "BOT") recently issued a circular for the issuance of digital personal loans that feature the mandatory adoption of digital technology and usage of alternative data in the credit provision process. Digital personal loans are an important tool to enhance financial access for consumers without regular income streams, proof of income or assets that can be used as security. Digital personal loans can also reduce operator costs and further develop financial systems' digital footprints. This briefing provides an overview of the newly issued circular.

On 15 September 2020, the BOT issued its Circular No. BOT.FhorGorSor. (01) Wor. 977/2563 Re: Criteria, Procedures and Conditions on Digital Personal Loan Business Operations (the "**BOT Circular**"). The BOT Circular was followed by the issuance of a public manual (for financial institutions and existing supervised personal loan operators) that outlines steps to be taken in order to conduct digital personal loan services (the "**Public Manual**").

Digital personal loans are based on supervised personal loans that are now regulated under the Notification of the Ministry of Finance Re Businesses Subject to Approval under Clause 5 of the Notification of the Revolutionary Council No. 58 (Re: Supervised Personal Loan) dated 30 July 2020 and the Notification of the BOT No. SorNorSor. 12/2563 Re: Criteria, Procedures and Conditions on Supervised Personal Loan Business Operations (the "**BOT Notification**").

As with supervised personal loans, digital personal loans are applicable to both financial institutions and non-financial institutions.

Key aspects of the BOT Circular and Public Manual on digital personal loans

The key takeaways from the BOT Circular and the Public Manual are summarized as follows:

a) What is a digital personal loan as compared to a supervised personal loan?

A supervised personal loan is defined under the BOT Notification as follows:

Supervised personal loan means a personal loan not secured by assets or property and, for the benefit of the notification, shall include the following:

1. credit originated from the hire purchase and leasing of goods that an operator does not distribute in the ordinary course of business except vehicles, machinery and other assets as announced by the BOT; and
2. credit collateralized by car registration certificates.

Supervised personal loans exclude education loans, loans for working abroad, medical loans, employee benefit loans, loans collateralized by land entitlement documents or entitlements over land, construction or other assets or property and loans granted to natural persons outside of Thailand.

The BOT Circular defines a digital personal loan as follows:

Digital personal loan means a supervised personal loan under which an operator applies technology and alternative data to credit provision processes for evaluation of ability or willingness to repay; loan disbursements and debt services; and disclosure of data in relation to the services.

Digital personal loans specified in the first paragraph shall include only supervised personal loans other than credit collateralized by car registration certificates in accordance with the BOT Notification.

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b) What are the licensing requirements?

- An existing, licensed, supervised personal loan operator that wishes conduct digital personal loan business activities must submit a notification to the BOT 30-days in advance of conducting such activities, and be able to deliver a minimum viable product which reflects the form of service.
- New operators must file an application form for a supervised personal loan license and indicate in the form that it wishes to conduct the digital personal loans.

c) Adoption of digital technology and usage of alternative data

• **Evaluation on the ability or willingness to repay**

An operator must use alternative data of an applicant for a digital personal loan to determine the ability or willingness to repay for the purpose of creating a customized risk profile, and consumer's benefits in terms of, for example, line of credit, interest rates or other conditions.

Alternative data must be from reliable sources and the use of such data must be based on reasonable assumptions. The operator may refer to information-based lending guidelines specified in the BOT Notification.

• **Loan disbursement and debt services**

The operator must set up and use a digital channel as the main mode for loan disbursement and debt services. Examples of such digital channels are money transfers, automatic debit from bank accounts and electronic money.

• **Disclosure of information**

Information regarding interest, fines, penalties, charges, fees and any expenses in relation to a digital personal loan as well as repayment schedules, in accordance with the BOT Notification, must be disclosed via digital channels through which the consumer is able to retrieve such data in a quick and convenient manner.

d) Other features of digital personal loans

Other features outlined in the BOT Circular on digital personal loans are summarized as follows:

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|-----------------------------|--------------------------|
| Limits on purpose of credit | Not specified |
| Maximum lines of credit | THB 20,000 per consumer |
| Maximum credit term | Six months per agreement |
| Maximum effective rate | 25% per annum |

e) Relaxation on rules and conditions for supervised personal loan operators

Given the mandatory requirement that digital personal loan operators use digital technology and alternative data, relaxations on certain rules and conditions for supervised personal loan operators have been issued if such supervised personal loan operator enters the digital personal loan landscape. These relaxations include the following:

- In cases of applicants for non-business purpose loans, the operator is no longer required to:
 - consider the financial status of the consumer based on income or cash flow in the consumer's deposit account;
 - comply with rules regarding setting of lines of credit in proportion to income or cash inflows in the consumer's deposit account;
 - calculate lines of credit of the digital personal loans in combination with lines of credit with respect to other loans as set forth in the BOT Circular; and
 - the operator is no longer required to use information from centralized information sources and establish an information center.

The addition of digital personal loans to Thailand's financing landscape marks a significant step forward in providing access to such services to a much broader group of consumers.

If you have any questions in relation to the issues raised in this briefing, please contact the authors listed in the right-hand column.