

## Credit Card Business in Thailand

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*Credit card business in Thailand is expected to grow at 7.5% over the next few years<sup>1</sup> due to several factors including the rise of consumer awareness, the national agenda of going cashless, and the move of the private sector. For this business, there are several related parties before the actual money go to a merchant. These parties who handle the transactions profit from certain fees they collect along the way. The top 3 credit card companies based on spending and the number of cards issued are K Bank, BAY, and KTC, totaling about half of the Thai credit card market. With changing competition landscape, players are facing tougher competition; thus, have to move beyond just providing convenience by competing on added benefits and rewards.*



Photo credit: Spectator Money, 2018

Credit card companies provide *credit* or pre-approved funds to consumers to let them purchase goods and services up to a certain limit, usually based upon credit cardholder income and previous buying behavior. In essence, credit cardholders can use their cards instead of cash to make transaction or to withdraw advanced cash with interest. Other benefits may also be offered that will complement consumers' lifestyle.

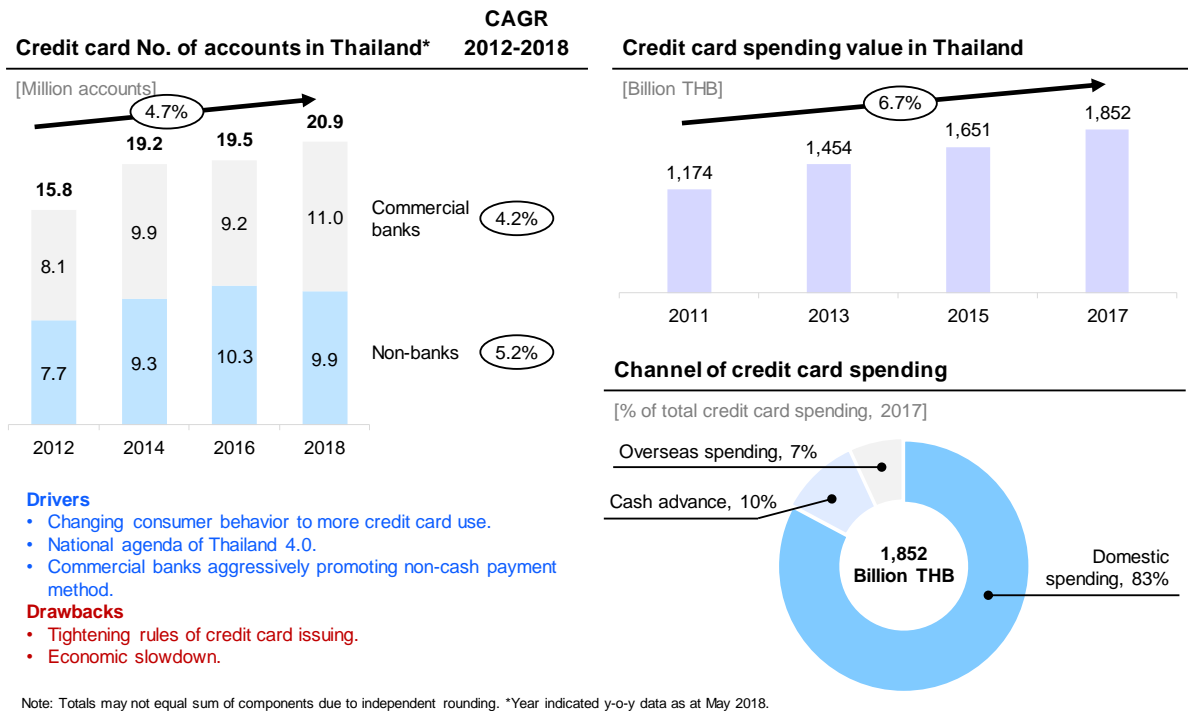
In Thailand, **credit card business is expected to experience growth** through the years 2017 to 2019 thanks to the changing consumer behaviors of becoming more accepting of credit cards, the national agenda of Thailand 4.0 of digitization and going cashless, and the aggressive move by commercial banks to reduce consumer cash spending.<sup>2</sup> Figure 1 shows a rising number of credit card accounts from 2012-2018, observing a growth of CAGR 4.7%, in addition to the rising spending amount of CAGR 6.7% during the same period. The total spending in Thailand by all credit cards is 1,852 billion THB in 2017 with the main place of spending being domestically in Thailand at 83%.<sup>3</sup> In addition, other forms of financial products also gain popularity, e.g. transfer of funds through mobile and internet banking expanded by 32.7% year-on-year. This growth also makes it increasingly convenient to use credit cards.

<sup>1</sup> Krunsri Research

<sup>2</sup> SCB Economic Intelligence Center

<sup>3</sup> Bank of Thailand and CEIC database

Figure 1: Overview of credit card business in Thailand



Source: SMC analysis based on Bank of Thailand and CEIC database

Even though consumers make purchase every day, they may not be aware of what is going on behind the payment process, and this is actually quite complicated. **Every time a consumer makes a purchase on a credit card, the transaction will involve many separate parties, from approving credit to accepting payments.** Approving is almost instant (t+0) when the cardholder makes a transaction. This creates a seamless payment experience for both the cardholders and the merchants. However, what is going on behind the scene is more complicated-the process of clearing and settlement-and usually takes place a few days after the transaction date (t+n). After that, the cardholder have about 45 days of interest free period to make full payment before the interest is charged.<sup>4</sup>

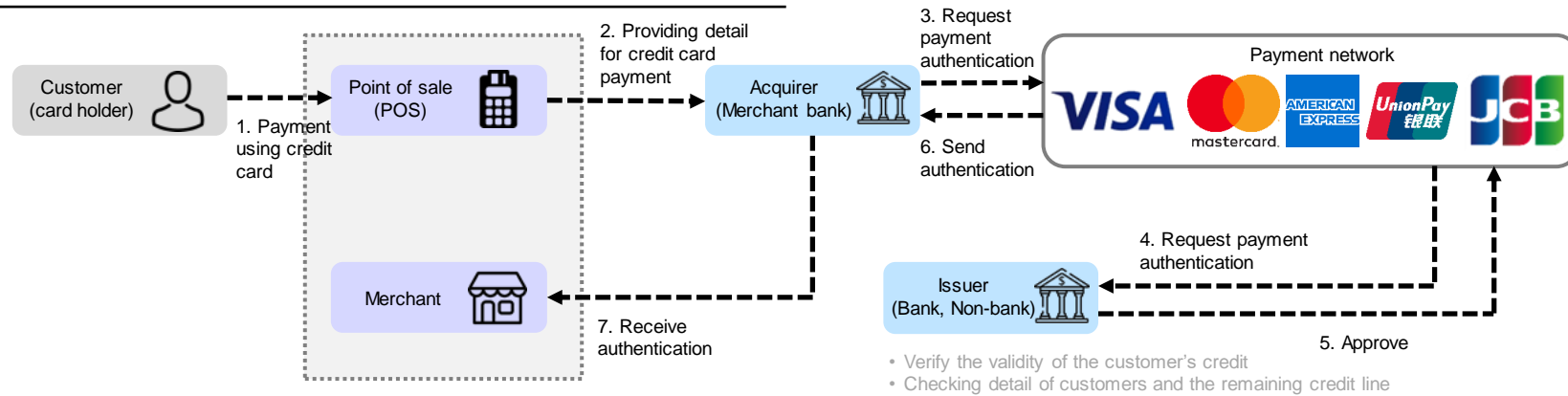
Three parties are involved in the system. Usually when the payment occurs, as shown in Figure 2, the bank who provides the settlement to the merchant (acquirer) collects a small amount of fee (called “markup”) when the process goes through. Afterwards, Visa, MasterCard, or JCB-this is what we called the payment network provider-collects another set of fee (called “assessment fee”) for facilitating between all parties. Lastly, the credit card issuer charges a fee (called “interchange fee”) on approving the payment and transferring the fund through to the merchants. This total process charges a fee of around 1-3% on the total amount of transaction. For example, a merchant sells a good of 1,000 THB by accepting credit card; but, when the actual money arrives back, the merchant will receive about 970 THB deducts the fee mentioned. This may be one of the reasons why credit card payment is not popular among Thai small and medium businesses.<sup>5</sup>

<sup>4</sup> Krungsri Research

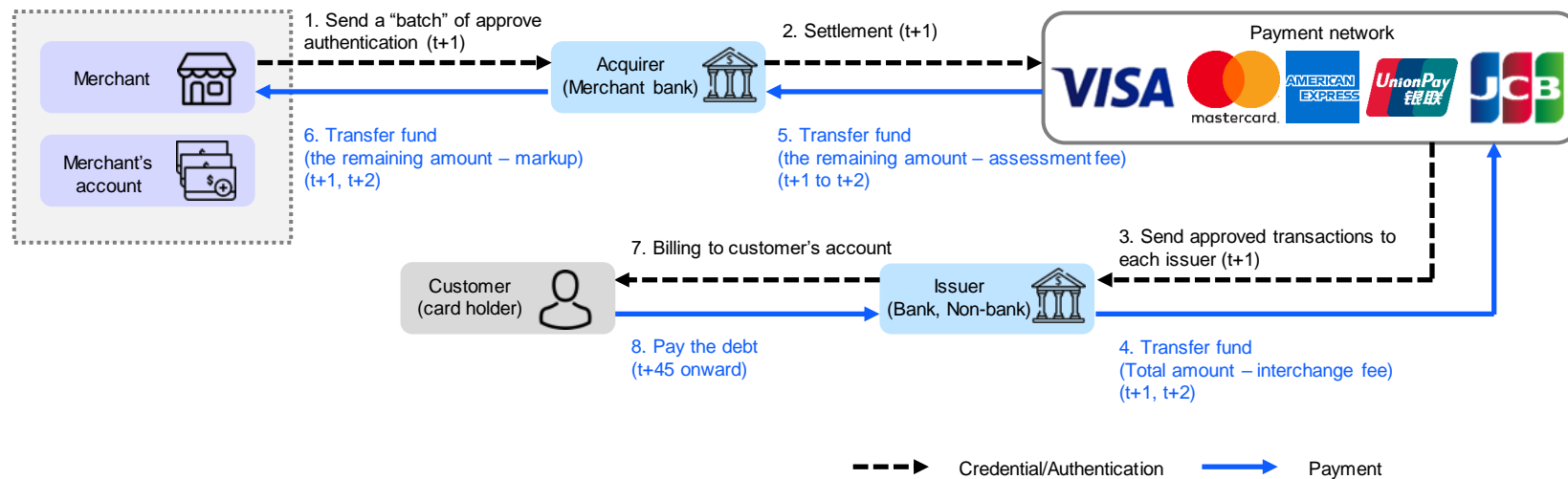
<sup>5</sup> BangkokPost and Rabbit Finance

Figure 2: Credit card process

### Credit approval (t+0)



### Payment (t+n)

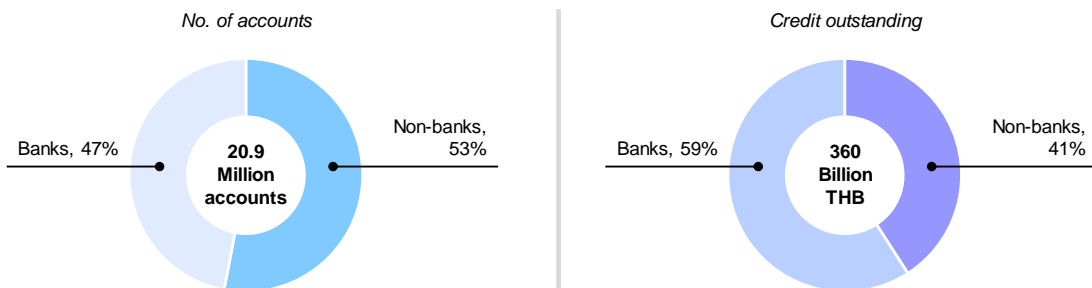
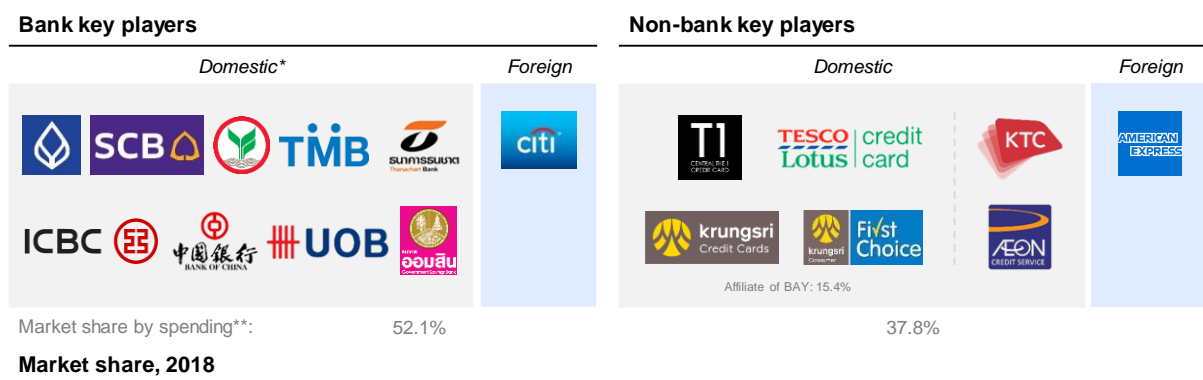


Source: Krungsri Research

**In Thailand, there are several major bank and non-bank credit card players** (shown on Figure 3). For commercial banks, there are nine key players including eight domestic banks: Bangkok Bank, Siam Commercial Bank, Kasikorn Bank, TMB, Thanachart Bank, ICBC (Thailand), Bank of China (Thailand), UOB (Thailand), and the Government Savings Bank and one foreign bank: Citibank.<sup>6</sup>

On the other hand, in the non-bank categories, there are four main players: Krungsri Bank (BAY), KTC, Aeon, and American Express. BAY issues credit card through four subsidiaries and companies: Krungsri Ayudhaya Card and Ayudhaya Capital Leasing; and in conjunction with retailers such as General Card Services Limited and Tesco Card Services Limited. Moreover, Krungthai Cards, part of the Krungthai Bank, offers the KTC credit card; and AEON offers its own credit services. The only foreign non-bank player is American Express

Figure 3: Thailand's key credit card players and market share



Note: Totals may not equal sum of components due to independent rounding. \*Standard Chartered Bank used to be one of the player in the credit card industry. However, TISCO has sold its retail banking business to Tisco and All-Ways, which again will be transferred Citibank on March 30, 2018. Note: Figures and numbers shown above have not reflected these changes due the acquisition has not been completed.\*\*Not including the 10.1% others.

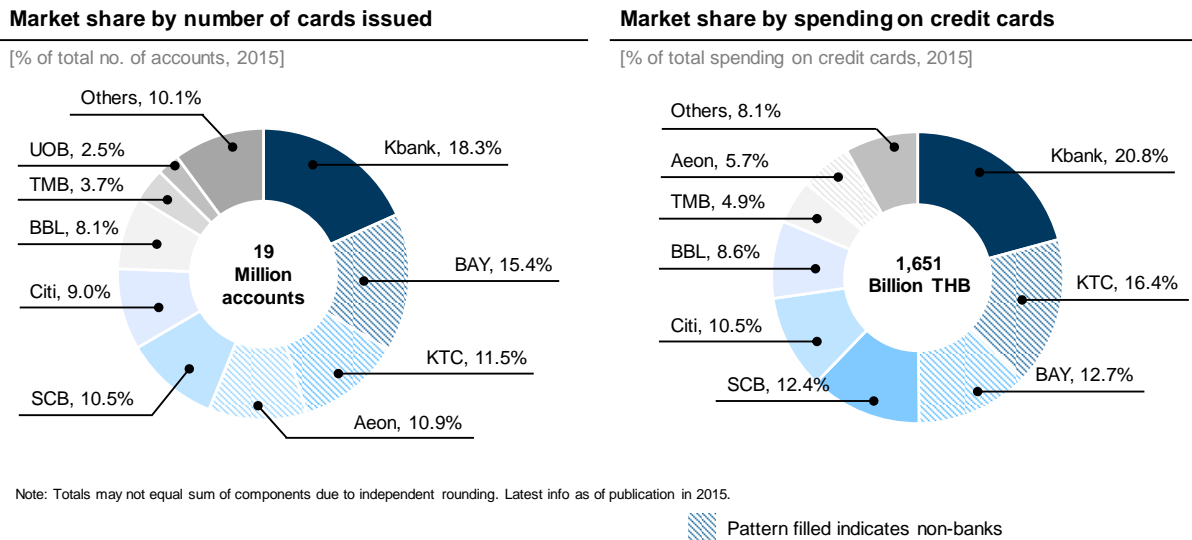
Source: SMC analysis based on Bank of Thailand, Euromonitor, and Krungsri Research

**Major credit card players include Kbank, BAY, and KTC.** They control about 50% of total spending and 45% of the total number of cards issued in Thailand. Moreover, from the perspective of banks and non-banks, non-banks score higher on the number of cards issued than on card spending, e.g. Aeon is ranked 4<sup>th</sup> in terms of the number of cards but 7<sup>th</sup> in terms of card spending, shown on Figure 4. This is because non-banks tend to build their customer base among low-income groups and make less stringent demands on accessing credit, as well as imposing lower fees on cardholders.<sup>7</sup>

<sup>6</sup> Standard Chartered Bank (SCBT) used to be one of the players in the credit card industry. However, SCBT has sold its retail banking business to Tisco and All-Ways, which again will be transferred Citibank within 2018. Note: Figures and numbers shown above have not reflected these changes due the acquisition process has not been completed.

<sup>7</sup> Krungsri Research

Figure 4: Market share of credit card issuers



Source: SMC analysis based on Euromonitor and Krungsri Research

Even though the credit card business has been doing well, **a recently announced stringent regulation by the Bank of Thailand may slow down credit card issuing to a certain degree.**<sup>8</sup> Only a person with monthly income not less than 15,000 THB can apply for a credit card. In addition, from September 1, 2017, onwards, new credit card applicants with a monthly salary below 30,000 THB can have a credit line of up to only 1.5 times their income, and those with less than 50,000 THB monthly income will get up to 3 times. Only those earning at least 50,000 THB a month can get a maximum spending limit of 5 times their monthly salary.<sup>9</sup> Moreover, a limit of 18% interest charge has been applied instead of the previous 20%. The objective of this scheme is to battle high household debt.

On the other hand, **major credit card issuers have to offer added benefits to attract consumers and increase their spending.**<sup>10</sup> Discount promotions with retailers and merchants and cashback rewards also offer incentives for customers to use their credit cards. In addition, some premium credit cards provide lounge access, priority parking, and exclusive services to its high-value customers (i.e. those with assets under management more than 2-5 million THB). In order to develop these strategies, the players usually use big data analysis to understand consumer behaviors and how consumers respond to the incentives and how to engage them effectively.

Finally, **in terms of a future outlook, card issuers have begun offering new advanced technology** to consumers in the hope that business will grow more dramatically. Examples of those technology are near-field technology and contactless payment services (e.g. Visa payWave and MasterCard Paypass allow users to just tap the card at the EDC reader to facilitate payment<sup>11</sup>), QR code integration and payment with credit card (e.g. SCB M-a partnership between SCB and The Mall Group-enables cardholder to pay with their credit cards through a mobile app<sup>12</sup>), and even biometric solution (e.g. Citi card verification through

<sup>8</sup> Bank of Thailand

<sup>9</sup> Reuters

<sup>10</sup> Krungsri Research

<sup>11</sup> Visa and MasterCard

<sup>12</sup> SCB and The Mall Group

voice recognition<sup>13</sup> or opening of SCB bank accounts through facial scanning<sup>14</sup>). These payment methods and banking technology will make consumers life easier in banking and facilitate credit card payment even further. We might even see a day where a user does not have to carry an actual card, but pay through hand or retina scanning.

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## About the author

**Mr. Chinnawut Jedsadayanmeta** is currently a consultant at Sasin Management Consulting (SMC) of Sasin School of Management (SSM), Chulalongkorn University. His consulting experience covers a wide range of corporate strategy and policy formulation, operational recommendations, and tourism, marketing, and human resources planning. For his background, he received an MBA (Dean's List) and a BBA (First-class Honors) from Mahidol University International College, Thailand.

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<sup>13</sup> Brand Inside

<sup>14</sup> SCB E-KYC (Electronic Know Your Customer)