



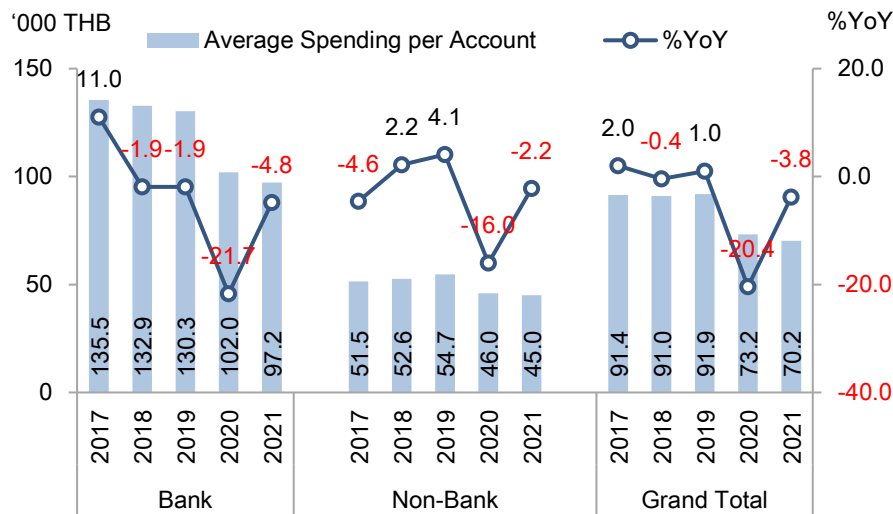
CREDIT CARDS IN THAILAND

Business Research
4 April 2022

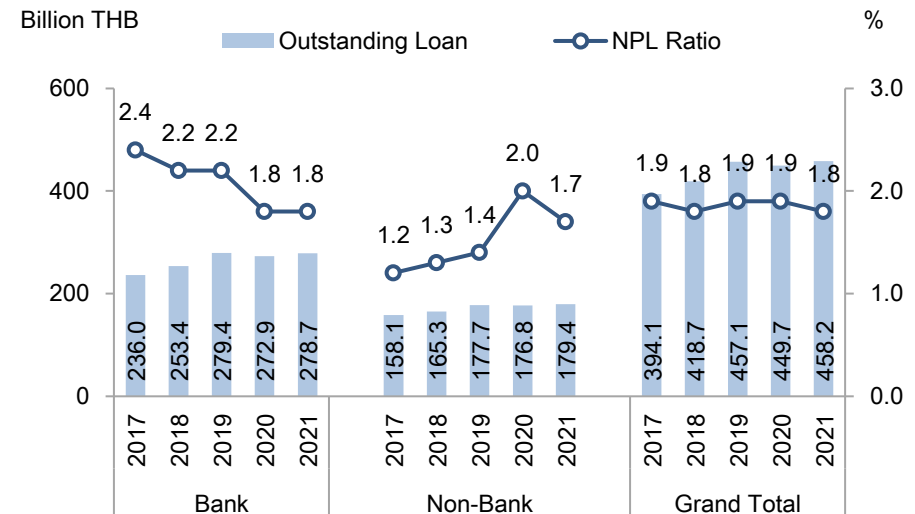
Overview: The Effect of Covid-19 Pandemic on Credit Card Business

- The credit card business over the past two years faced hardship to deal with the unprecedented decline in consumer spending caused by restrictions on all economic activities, including the tourism and hospitality sectors (major sources of payment by credit card), to curb the spread of Covid-19.
- Even though the government eased containment measures and the country reopened from pandemic lockdowns during the fourth quarter of 2021, people were worried about the country's unfavorable economic prospects, increased political instability, and their future incomes. Amid rising cost of living against uncertainty in household incomes, they were cautious with their finances and shunned big purchases, resulting in the continual decline in spending on credit cards issued by both banks and non-banks.
- In terms of loan quality in the credit card segment, although the prolonged pandemic dampened customers' capability to service their debt liabilities, there were many debt relief measures helping NPL to not be at the high risk level. As a result, the NPL ratio at year-end 2021 did not change much from last year's level.

Credit Card Spending per Account Classified by Issuer Type



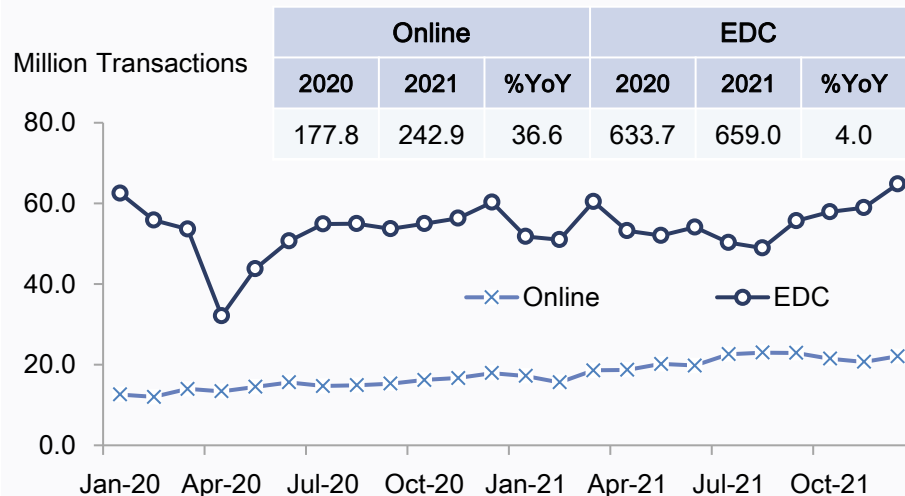
NPL Ratio Classified by Issuer Type



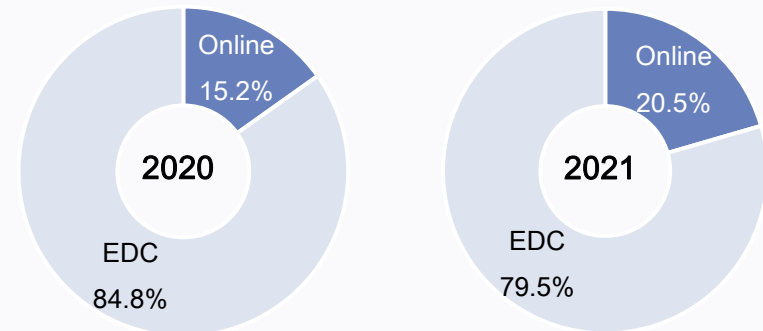
Changes in Payment Behavior

- The pandemic has increased consumer interest in contactless payments to avoid touching common surfaces and meet new social distancing protocols. In 2021, credit card usage via online surged with double-digit growth rate of 36.6%YoY to 242.9 million transactions, while credit card usage via Electronic Data Capture (EDC) increased slightly by 4.0%YoY to 659.0 million transactions. In value terms, the proportion of online payment continued expanding at an accelerating pace of 20.5% in 2021 from 15.2% in 2020, noting that online payment services play a crucial role in adapting marketing strategies among credit card issuers.
- Building long-lasting connections with business partners, especially in the e-commerce shopping platform, food delivery, healthcare, and insurance categories, is applied as a well-established marketing approach for credit card issuers in the digital era amid the ongoing pandemic. Some issuers are stepping up to these challenges by trying to push themselves ahead of rivals not only through partnership marketing but also gaining new customers including Gen Z, the digital natives who are setting future financial trends, into their portfolio.

Credit Card Transactions via Online and EDC



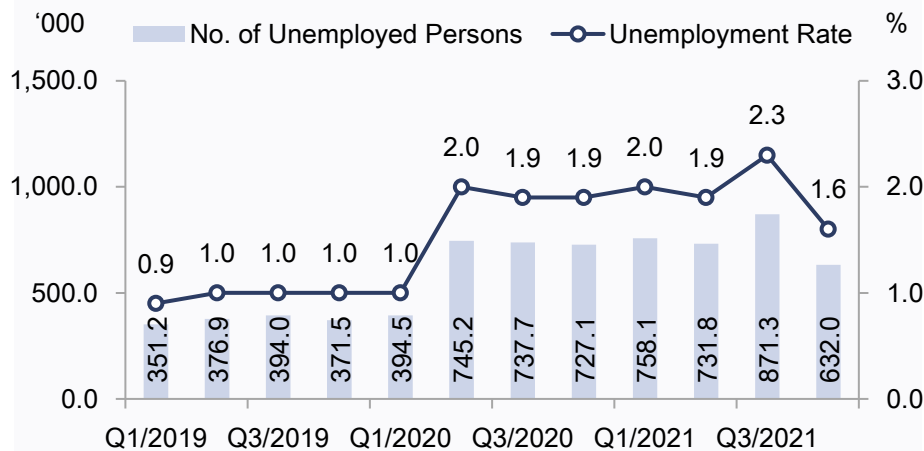
Online Payment Gaining Popularity



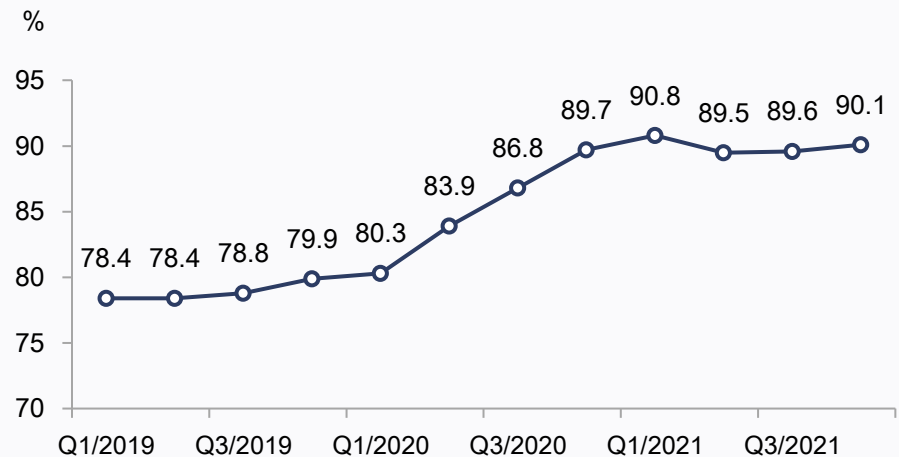
Unemployment and Household Debt Problems Remain Worrisome

- With two years of experience of living with Covid-19, Thai people have learned to live with the virus. However, it is inevitable that the prolonged pandemic has had devastating effects on employment and household income. In the fourth quarter of 2021, the unemployment rate soared to 1.6%, representing 632 thousand persons. Of the total, around 250 thousand persons were those who have never worked before, and the rest were those who had previously worked, particularly in the accommodation, food service, trade, and manufacturing fields.
- Given the longer period of unemployment, Thai households faced liquidity crunches due to lower incomes and they needed more funds for daily spending, reflecting that Thailand's household debt reached over 80% of GDP during the pandemic. Since the Thai economy has not fully recovered yet and is likely to be headed for more troubles caused by the Omicron variant, rising unemployment rate and household debt are expected to be the top issues, continuously deteriorating loan quality, chiefly in the unsecured categories including credit cards in the near future.

Number of Unemployed Persons and Unemployment Rate

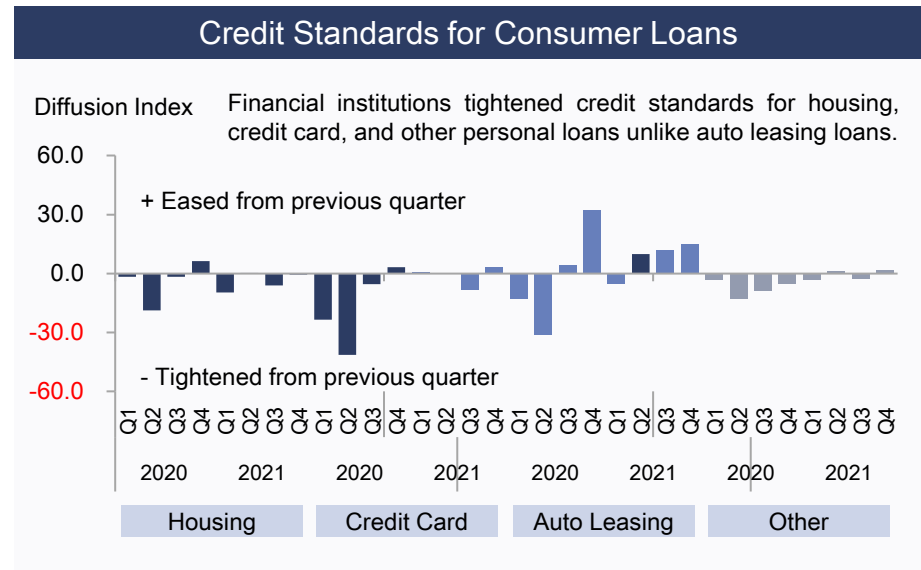
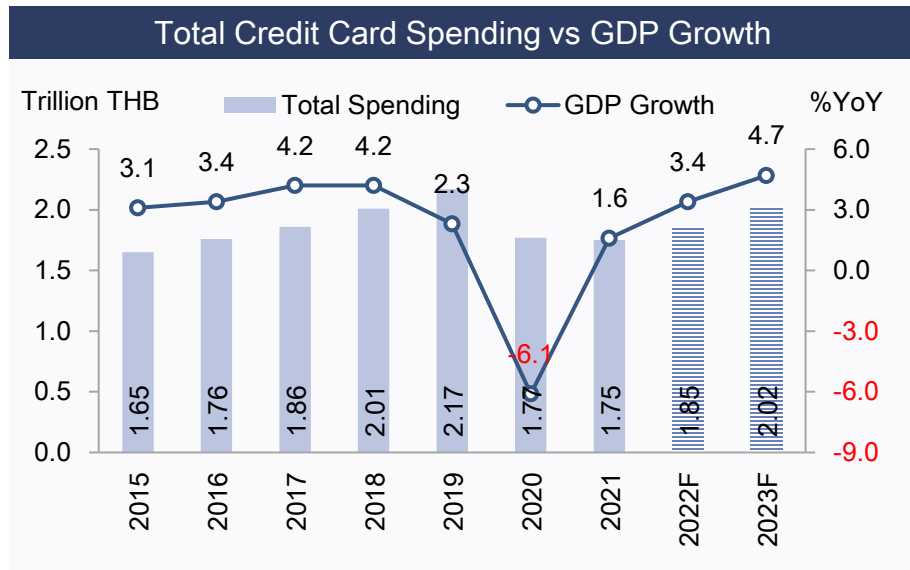


Household Debt to GDP



Credit Card Trends

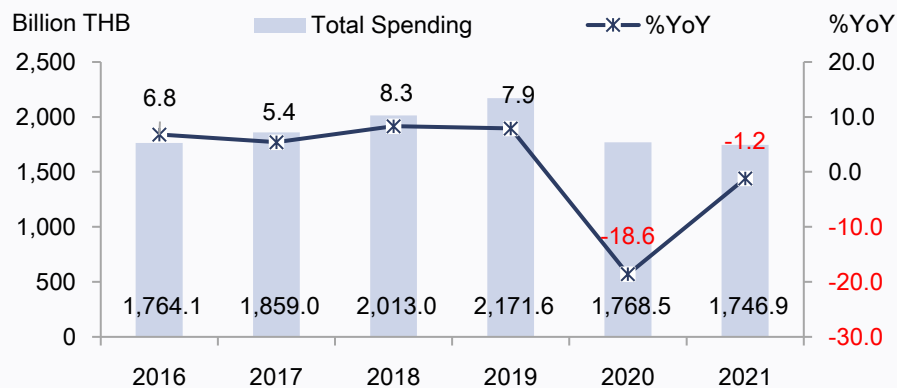
- The growth prospects for local credit card issuers are far less healthy than they once were as the credit card business is not expected to see the same gains experienced in the pre-pandemic years. Although consumer spending tends to fare better than that in the previous year with life almost returning to normality, thanks to the easing of containment measures, the country's vaccination progress, and the recovery in business activities, the impact of multiple pandemic waves pulling down household income challenges the market's attempts to move towards recovery. Furthermore, consumers increasingly worry about a slowing economy, a higher cost of living, rising domestic oil prices, and political instability. Given this, the revival in credit card spending for 2022 may be uneven, contributing to some existing credit card issuers opting for expanding their business portfolio into secured loans that are likely to see a promising outlook as the risks could be managed more effectively than unsecured loans.
- Regarding payment trends, credit card transactions via online are expected to be crucial for shaping the future of credit cards as trends toward digitalization would provide new opportunities for revenue and growth in the long term. As a result, the competition in the credit card market by focusing on digital technologies through new platforms will be more intense from now on.



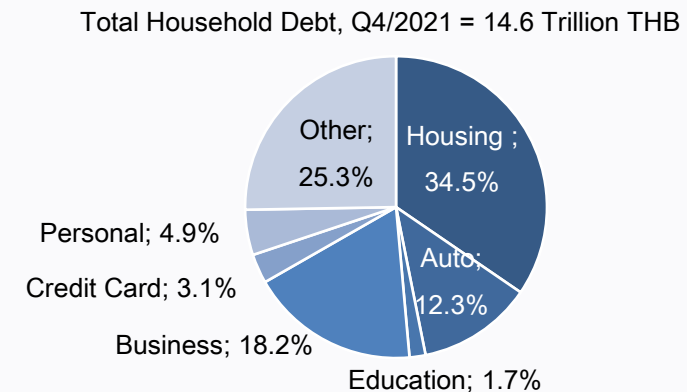
Conclusion

- The credit card business in Thailand, once considered very robust, has been struggling with the aftermath of the Covid-19 pandemic since 2020, with the shifts in cardholders' spending behavior.
- 2022 is expected to see signs of recovery for the credit card business, thanks to the easing of containment measures, higher vaccination rates, as well as benefits from the gradual rebound in various business sectors in line with economic activities. However, there has been mounting concern about the fast-spreading Omicron variant taking toll on total credit card spending and squeezing credit card companies' profit margins. In addition, high household debt and unemployment rate will continue to obstruct the business growth.
- The credit card market, nowadays, is highly competitive. Several existing players continue to put more efforts to survive in the tough market through M&As, launching new platforms/products, cooperating with new partners in various business fields to boost card holders' spending as they have realized that their revenue growth from credit card would never be the same after the Bank of Thailand reduced the interest rate ceiling for credit cards from 18% to 16%, effective from Aug 1, 2020.
- Most importantly, credit card loans are considered as a part of personal consumption loans or so-called unsecured loans, which are likely to face more debt defaults than secured loans like auto leasing loans. Regarding the mentioned issues, it is rather challenging for newcomers who are interested in entering the credit card market and making the leap from unknowns to market players in the coming months and years.

Total Spending on Credit Cards



Household Debt Composition Classified by Purpose



End of Presentation

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