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## COMMENTARY

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## Regulation of domestic debit card transactions in Thailand

BY DAVID DUNCAN

Back in 2012, Thailand's Electronic Transactions Commission issued regulations that mandated domestic processing of domestic debit card transactions with debit cards issued in Thailand. It granted a grace period of one year for service providers to meet the new requirements.

This was a policy goal that had been discussed and pursued for some time, with policymakers highlighting the cost savings that would be yielded by domestic processing, rather than offshore processing.

New regulations were issued in March 2016, which were published in the **Government Gazette** in April. The changes in those regulations in relation to processing domestic debit card transactions mainly provided greater specificity and rules around outsourcing and requests for temporary exemptions from parts of the regulations.

More recently, in July, amendments were made to the regulations, and these were published in the **Government Gazette** in August. Among other things, the new regulations refer to a chip card standard for debit cards, and they state that the standard is to be issued and imposed by the Bank of Thailand through discussions with the Thai Bankers' Association, the Association of International Banks in Thailand, and the Council of State-Owned Financial Institutions.

Financial institutions that issue debit cards will be required to issue cards meeting this chip card standard, and the cards must be issued to use debit card networks in Thailand, unless an issuer utilises its own system for processing the transactions.

The regulations also affect consumer protection, in that they require issuers to provide users with information and details about the costs of each type of debit card that is sufficient, clear, and correct so that users can use the service properly for their own purposes.

Where an issuer issues a card that is accepted on more than one network, at least one of those networks must be a domestic debit card network. In working with multiple networks, regulations require an issuer to observe its agreements and take account of the principle of equality.

The regulations also impose new obligations on acquirers. Specifically, they are required to have equipment and systems to accept debit cards that meet the aforementioned chip card standard and that utilise local debit card networks.

Importantly, acquirers are prohibited from restricting the rights of merchants to use any debit card networks. They are also required to provide merchants with clear and accurate information on fees and services. In addition, where multi-network cards are processed, an acquirer must not charge any additional fees other than those for the network that is actually used.

Aside from issuers and acquirers, the regulations also set out additional requirements for service providers that provide switching service, clearing service, and settlement service. These service providers are required to arrange their systems to support debit cards on all debit card networks or to connect their systems with those of other service providers that provide switching, clearing, and settlement.

In relation to cards that can be accepted on multiple networks, a service provider must not interfere with a merchant's right to select a debit card network.

The new requirements are to be enforced from February next year. Consistent with earlier regulations, if an issuer or acquirer is unable to meet the new requirements, it can apply to the Bank of Thailand for additional time to come into compliance—up to an additional 180 days.

Also, for those cards issued prior to enforcement of the new requirements, they can continue to be used, but the issuer will eventually need to replace them with cards meeting the chip card standard by December 31, 2019.

These regulations follow an earlier announcement by the Bank of Thailand in May of this year that commercial banks in Thailand would, from May 16 onward, issue cards in conformity with the "Thai Bank Chip Card Standard," which was established by the Thai Bankers' Association.

Last year, China UnionPay issued press releases about entering into a Chip Card Standard License Agreement with the Thai Bankers' Association, which contemplated the adoption of China UnionPay's chip card standard as "the standard of Thailand's banking industry."

China UnionPay became a member of EMVCo in 2013, thus joining Visa, MasterCard, American Express, JCB, and Discover in the consortium that manages EMV standards (the technical standard for such chips). However, much has also been written about the compatibility problems between China UnionPay's version of EMV, and the versions of EMV used by other card schemes such as MasterCard and Visa.

In referring to the chip card standard, the new regulations do not make specific reference to the China UnionPay standard, or any particular standard, for that matter. Moreover, in referring to the development of the chip card standard, the regulations make reference not only to discussions with the Thai Bankers' Association, but also to the Association of International Banks in Thailand and the Council of State-Owned Financial Institutions, which is quite broad consultation.

China UnionPay is a major shareholder in Thailand Payment Network Co., Ltd. (TPN), established in 2014, which is one of the small number of companies that have been granted licenses necessary for providing switching and clearing services for domestic debit card transactions in Thailand.

One can now see some debit cards issued by Bangkok Bank—the other major shareholder in TPN—that bear TPN branding, together with China UnionPay branding. In essence, TPN will compete with National ITMX Co., Ltd., which is owned by ten major banks in Thailand and has been providing local debit card switching services for some years.

As it now stands, most banks in Thailand issue Visa and MasterCard debit cards, each with EMV chips. It remains to be seen whether TPN and China UnionPay will become popular.

Customers like Visa and MasterCard because of their ease of acceptance, particularly when traveling overseas. In contrast, TPN has positioned itself as a low-cost provider for local transactions, which it says should enable merchants to accept TPN branded-cards for small transactions.

Ultimately, more competition in the processing of domestic debit card transactions is good for merchants. Indeed, this has already prompted several banks to reduce their fees for debit card transactions. Thailand's electronic payments landscape continues to excite.

***The views expressed in this column are the author's own and do not necessarily reflect this publication's view, and this article is not edited by Asian Banking & Finance. The author was not remunerated for this article.***

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