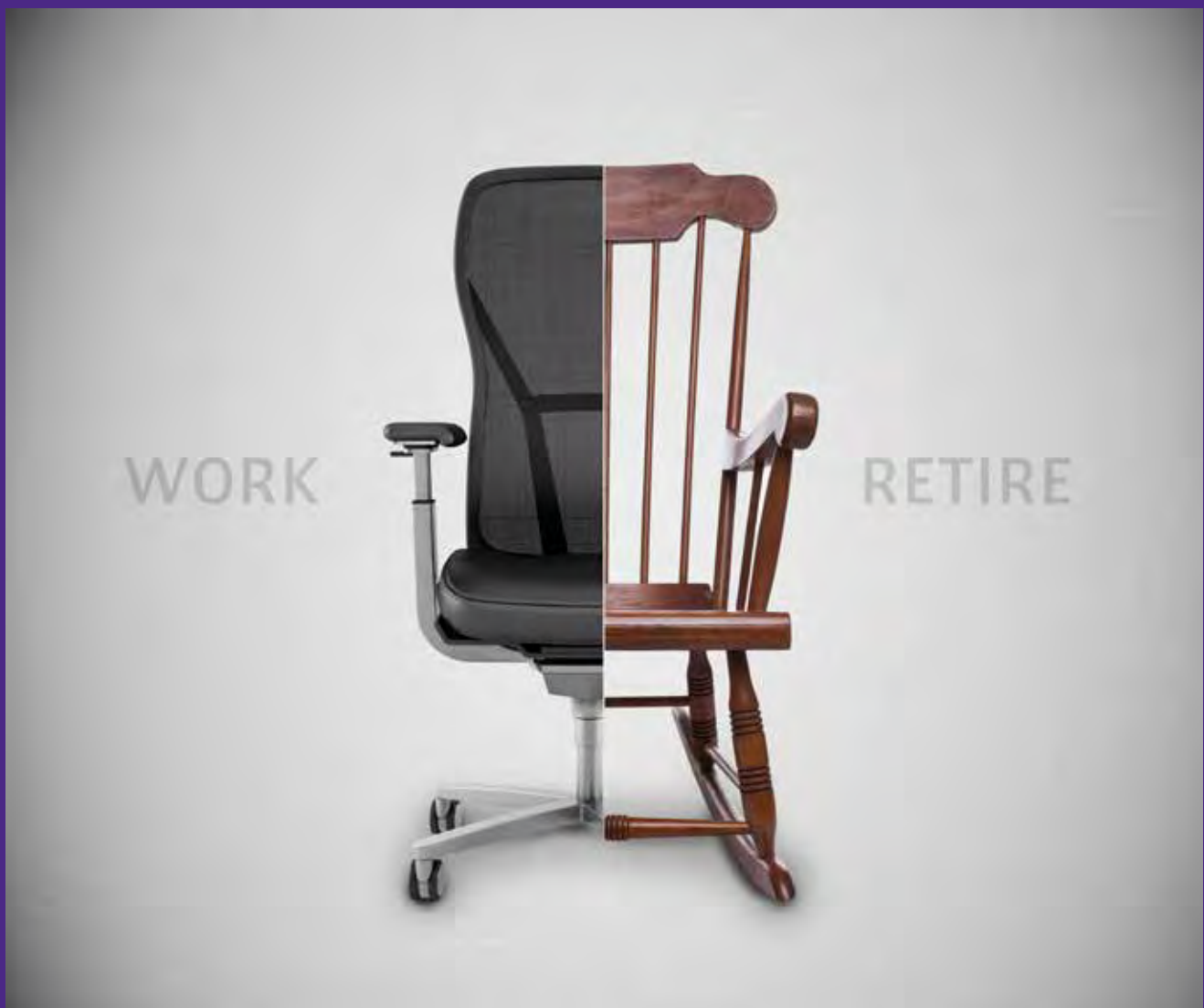




# Insight

Staying ahead of Thailand's graying society



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# Content

Executive Summary	4
Chapter 1: Thai economy needs to prepare for next big structural challenge: rapid aging	6
Chapter 2: Aging society drives new consumption trends, new business opportunities	20
Chapter 3: Below the radar: hidden opportunities and risks of the aging society	38

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# Executive Summary

**The rapid aging of Thailand's population will pose a challenge for the economy, forcing government, businesses and individuals to adapt.** The nation is among the first of today's developing countries to become an aging society. Within 20 years, the elderly are expected to comprise 20% of Thailand's total population. This issue of EIC Insight paints the big picture of this coming transformation, highlighting related economic and social changes that the public and private sectors need to prepare for. In Chapter 1, we describe the changing demographic landscape and potential economic challenges facing the Thai society. Chapter 2 identifies behavioral trends of the elderly consumers that present both opportunities and challenges for Thai businesses. These trends lead to growth strategies, outlined in Chapter 3, that will help businesses thrive as more and more Thais enter their "golden years."

**As the population ages, a decline in the number of working-age Thais will have major economic repercussions.** The labor force will start to fall from 2018 onward, dragging down the country's potential economic growth to just 3.0% per year or even lower. This estimate has already taken into account the planned public infrastructure projects that could help support growth in the long run. A growing shortage of human resources will induce businesses to employ older workers and improve productivity. To sustain the current level of GDP growth

during the next 10 years, Thailand will have to double its productivity growth to compensate for having fewer workers. The strong likelihood of slower economic growth means that Thais should start saving for retirement as early as possible. Most Thais nearing retirement age fail to recognize that their retirement savings are too low. Many are likely to become dependent on public assistance, which will add to the nation's fiscal burden and thus reduce the amount of funds available for the public investment needed to ensure economic growth.

**Yet the graying of Thai society will also bring about new business opportunities.** Older consumers will command an outsize share of purchasing power - up to a quarter of total spending. Thus understanding their specific needs is important. EIC analysis finds that businesses should focus on meeting the three major needs of elderly consumers: 1) good health, 2) social interaction and community involvement, and 3) financial security and independence. Companies need to become more aware of the particular characteristics of the generations that have not yet reached retirement age but will so do so. This group of future old people will likely be more self-reliant and more open to new technologies than their predecessors. Businesses





should prepare for the coming change in retirees' consumption patterns, while also catering to today's elderly

**These opportunities and strategies are not just for the healthcare industry. The three major needs of the elderly will spawn many new businesses.**

For example, in the United States, the increasing number of elderly who live alone and who want more social interaction led to the rise of new door-to-door transportation businesses. This service allows older people to gather and enjoy leisure activities more easily. Because older people today want to live a healthy lifestyle and are more willing to learn new technologies, new businesses have emerged to provide nutritional and diet planning services as well as food delivery via smart phone application.

**The clock is ticking. All stakeholders should prepare for the aging of Thai society sooner rather than later. This social transformation will come gradually, almost invisibly, which risks leaving many of us unprepared.**



## Thai economy needs to prepare for next big structural challenge: rapid aging

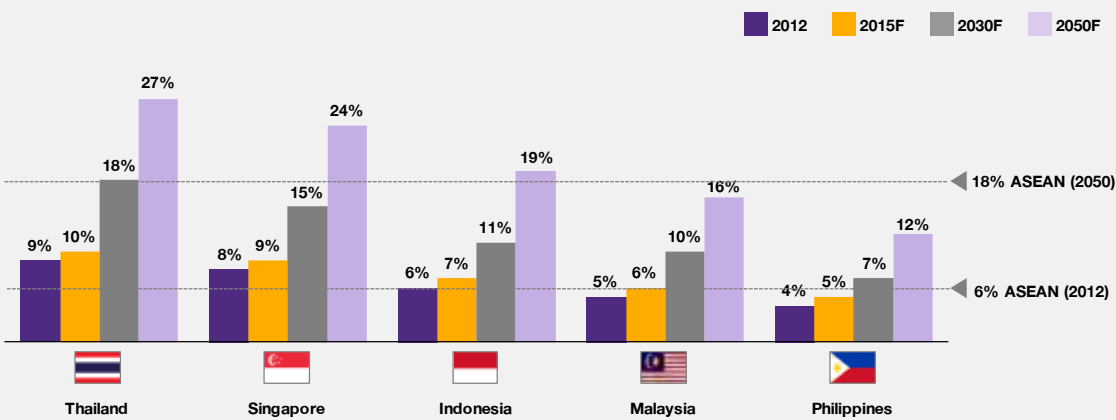
Thailand first became an "aging society" more than a decade ago. In 2003, Thailand's share of population aged 65 and over exceeded the world average for the first time. Today, 10% of the total population is aged 65 and above, or 6.5 million people. The share will double to 20% in 2035, just 20 years from now. This reality will become more apparent soon because there is a bulge in the number of Thais aged 60-65, at some 3.3 million people, most of whom have already retired from the work force. Within the ASEAN region, Thailand has the highest oldest "population profile." Although this fact has many important social, economic and business implications, awareness remains low here, unlike in more developed neighbors. The Singaporean government, for example, has been actively campaigning to increase its population growth rate and introduce immigration policies that welcome foreigners so as to increase the population, especially the number of people who are of working age.



1 Within the ASEAN region, Thailand has the highest share of population aged above 65 that is projected to double within 20 years.

Share of elderly population to total population

Unit: % of total population



Source: US Census Bureau

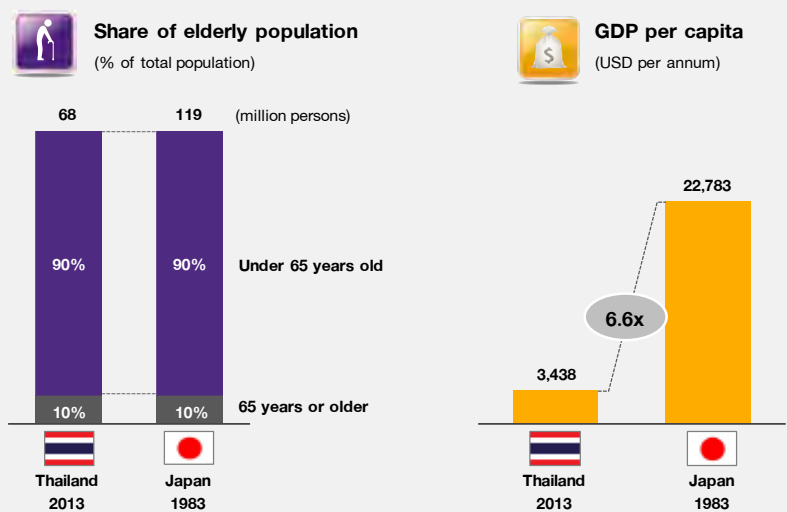
Among today's developing countries, Thailand is one of the first to have become an aging society. Although we are not yet rich, we are already getting old. Thailand's share of population that is elderly ranks the fifth highest among developing countries (excluding Europe). Developed countries became aged societies long ago. In comparison to this group, Thailand's population pyramid today is similar to that of Japan in 1983. Yet Japan's income per capita during that time was 6.6 times the level in Thailand today in constant 2005 U.S. dollar terms, or 1.5 times in terms of purchasing power parity. Because Thailand is aging before attaining a high level of income, our society will find it difficult to continue to raise standards of living, especially because healthcare costs are rising at a pace of 10% per year, much faster than growth of per-capita income.

**Why is Thailand aging so fast? One factor is a low fertility rate, which has fallen rapidly since the 1970s.**

Thailand is among the 20 countries having the lowest birth rates. The birth rate is even lower than that of China, where a one-child policy has long been in effect. Thailand's fertility rate is 1.4 children per woman on average, much lower than the level needed to sustain the current population size. This low birth rate is linked to economic growth and urbanization. From 1970 to 1990, the Thai economy boomed. During that time, the birth rate plummeted partly because economic development was almost entirely concentrated in Bangkok. Thais migrated to the city, which shrank family size because urban households tend to have fewer children than rural ones do. The lower birth rate also reflects Thailand's success in promoting condom use to combat HIV, which was much praised by the World Health Organization. Aging of the populace also reflects the fact that medical care has greatly improved, so that Thais live longer on average.

**2** Thailand's population structure is similar to that of Japan 30 years ago, but Japan's income per head back then was 6.6 times higher than the current level of Thailand's income per head.

Share of elderly population to total population and GDP per capita of Thailand (2013) and Japan (1983)



Source: EIC analysis based on data from World Bank database

**Longer life expectancy and a rising share of aged in the population will have substantial economic consequences,** including potential shortfalls of labor, lower GDP growth potential and a higher fiscal burden. These concerns are becoming more serious as the demographic change accelerates, and they will affect everyone in Thailand, not just the elderly themselves.

### 1. The thinning of Thailand's population pyramid might lead to shortages of labor.

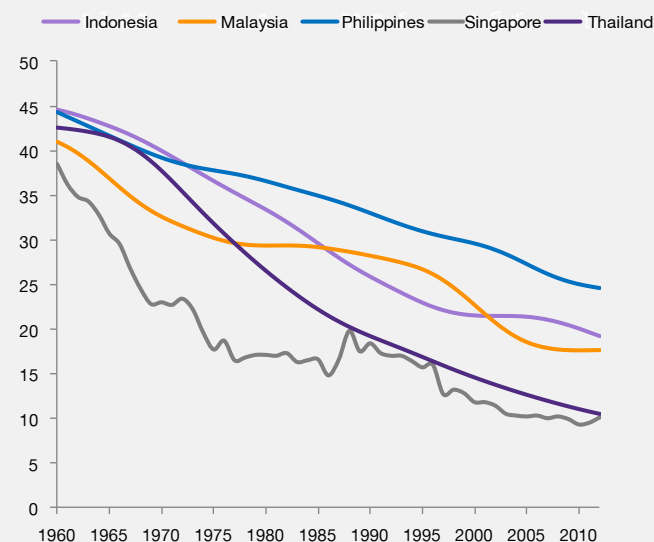
**Thailand's working-age population, i.e., people in the 15-65 year age group, will start to decline for the first time in 2018.** Neighboring Malaysia will not experience the downturn until 2047. The working-age population in Indonesia and the Philippines will continue to grow beyond 2050. Moreover, Thailand's total population will peak in 2029, at around 69.7 million, falling gradually thereafter.

**Thailand's labor shortfall has already started to emerge, as evident in an unusually low unemployment rate of below 1% and the large influx of over 3 million migrant workers.** In general, a low unemployment rate indicates strong economic conditions. Yet, some level of unemployment is considered normal and healthy. That is because at any given point in time, some workers are looking for suitable jobs, while others are relocating. Another "good" kind of unemployment comes from change in the structure of an industry, typically as it becomes more efficient, allowing an interim for workers to shift into new types of jobs. In the case of Thailand, however, the extremely low unemployment rate may indicate that not enough workers are available. EIC conducted a human resource survey in early 2014 that confirms this hypothesis. The survey found that many business owners have trouble hiring enough staff, partly because the labor force is growing too slowly (read more in EIC's Insight: Bridging Thailand's Labor Gap).










## 3 Thailand's birth rate and fertility rate declined rapidly in the 1970s. Today, Thailand is one of the top 20 countries with lowest birth rates.

### Birth rate in Thailand

Unit: number of new infants per 100 population



### Fertility rate of Thai population in 2012

		Fertility rate (number of kids per 1 female)	Global ranking
	Singapore	1.3	3
	Germany	1.4	11
	Japan	1.4	13
	Thailand	1.4	14
	China	1.7	40
	USA	1.9	61
	Malaysia	2.0	69
	Indonesia	2.4	102
	Philippines	3.1	134

Source: EIC analysis based on data from World Bank database

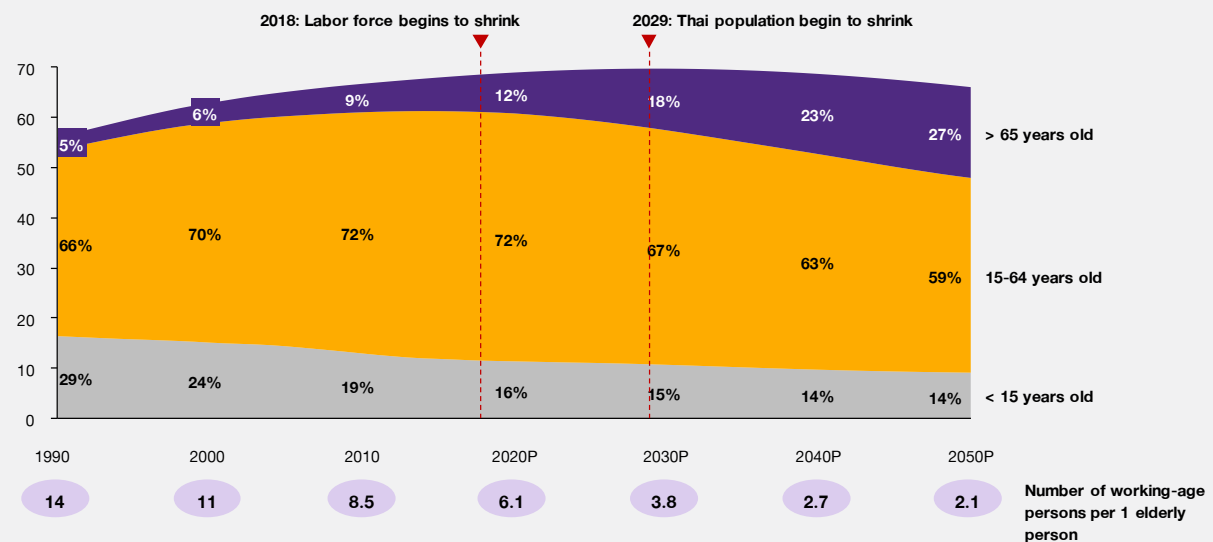


In order to sustain the nation's current level of potential GDP growth throughout the next 10 years, Thailand would have to double its productivity growth to compensate for the declining size of the labor force. Given the long fall in the birth rate, there will not be enough new workers to replace the many who are retiring. In the future, the taxpaying Thai work force will have to carry a larger burden in terms of a higher share of elderly dependents. Today, there are about eight workers for each elderly person in Thailand. That ratio will halve in 15 years.

#### 4 The working-age population will decline for the first time in 2018 due to the low birth rate.

##### Projection of Thailand population

Unit: million persons



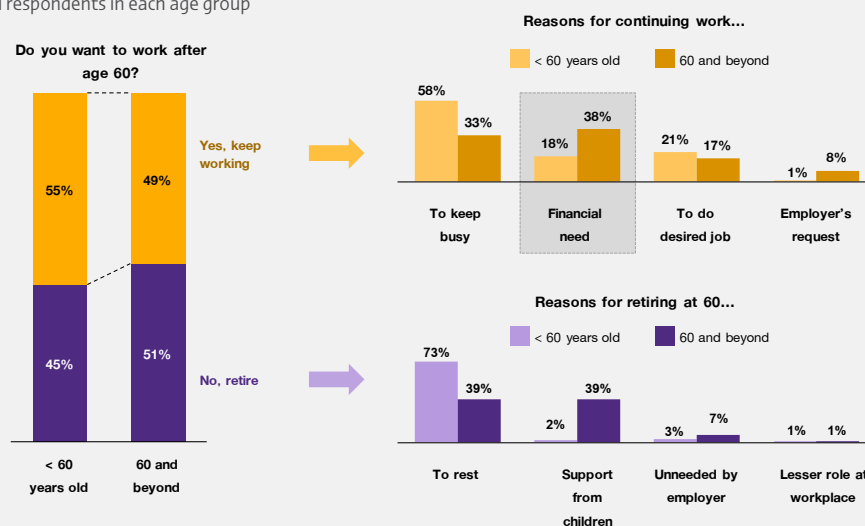
Source: EIC analysis based on data from US Census Bureau

The rising income burden will force older workers to continue to work beyond the age of 60, which is now the usual retirement age in Thailand. Since 2007, the share of people aged 60 and above who remain in the workforce has been increasing, according to the Labor Force Survey. This trend reflects a rising need for income, consistent with the results of a survey of elderly people by EIC in 2015. A large majority of the survey respondents aged 60 and above cited the need for income as the reason to keep working. On the other hand, most of those aged below 60 said that they want to continue working after the age of 60, but for a different reason – to stay busy and active. The difference between the two groups could reflect two possibilities. First, the younger people might underestimate the amount they will eventually need for retirement savings. Second, it is possible that the two generations are drastically different in terms of beliefs and saving behaviors, based on facing different economic circumstances.

## 5 Thais are increasingly delaying their retirement for extra income.

Survey responses: choosing to work after age of 60

Unit: % of total respondents in each age group



Source: EIC analysis

**As the labor shortage worsens, Thai businesses will need to employ older workers. Yet many obstacles remain.** The manufacturing industry is less likely to benefit from senior workers. We find that the retail/wholesale industry is most apt to use older employees. One widespread barrier is the mandatory retirement age imposed by many employers. Another issue is whether or not an older worker is healthy or fit enough to endure long hours. Some work places practice discrimination against the elderly. Even though today's elderly people are much healthier than before and can work well beyond the age of 60, rules and attitudes have not been adjusted accordingly.

### 2. Shrinkage of the Thai labor force will hinder potential economic growth in the future.

**Between 2008 and 2013, expansion of the labor force was one of the key factors driving the Thai economy, contributing over 20% of GDP growth.** In the two decades leading up to the Asian financial crisis in 1997, population growth contributed significantly to the explosive economic growth in Thailand and other Asian countries, a phenomenon known as the East Asian Miracle. Whereas populations in Japan and the West were shrinking, the ample supply of young workers in Asia attracted foreign direct investment that helped boost economic growth.

**The decline in the labor force that will start in 2018 will reduce Thailand's potential growth rate to just 3.0% per year.** This level is a big step down from the average growth rate of 3.5% seen since the global financial crisis in 2007. Much slower growth of the labor force explains the difference. Shrinkage of the workforce will weaken Thailand's potential economic growth to 3.2% per year in the next 5 years, assuming that the government can fully deliver the infrastructure projects as promised.<sup>1</sup> However, EIC thinks that the potential growth estimate will be as low as 3.0%, given previous records on implementation of such large public projects. Moreover, slower

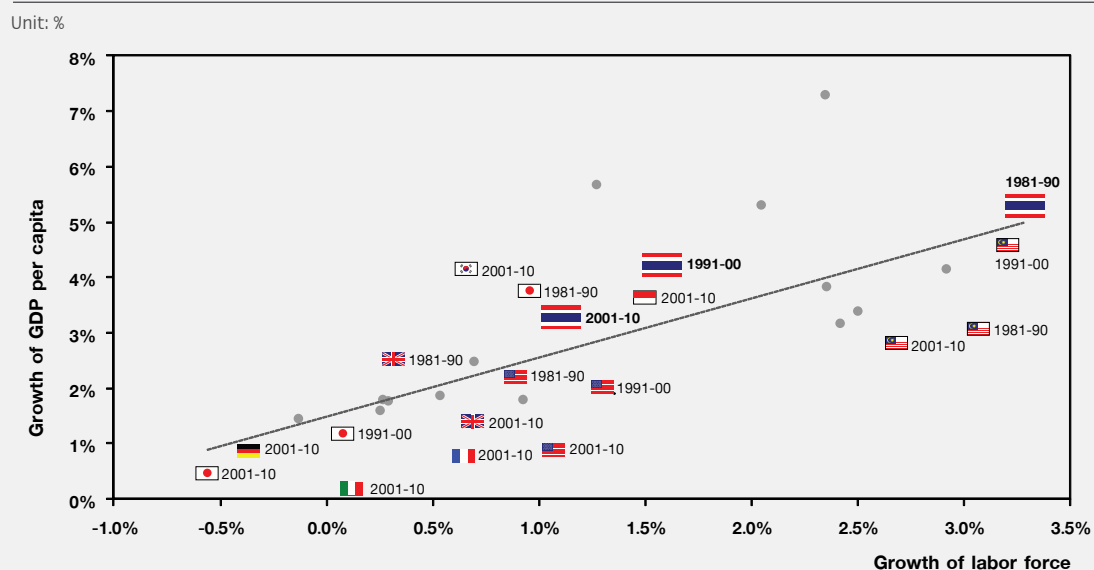
<sup>1</sup> We revised down our previous estimate of 3.5% potential GDP growth with the full implementation of the planned infrastructure projects. The estimate was released in September 2014. The new estimate incorporates data updates as well as new data sources.



population growth could depress other factors as well, leading to a potential growth rate even lower than 3.0%. Evidence from a number of countries indicates that slower growth of the working-age population coincides with slower growth in per-capita income, partly because investment in productive capital slows along with population growth.

## 6 Growth in labor force coincides with growth in income per capita.

Relationship between growth of GDP per capita and growth of workforce\*



\* 10-year simple average

Source: EIC analysis based on data from World Bank database

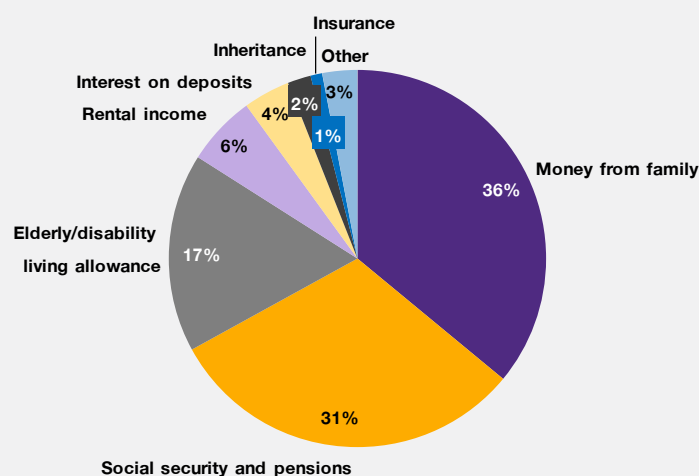
3. A flood of bank deposits from the larger numbers of old people will depress domestic interest rates.

**Retirement planning will become increasingly important and should be started earlier than ever before because of the changes in household and population structures.** In the past, Thai households were often large and multi-generational. As Thai society urbanized, families chose to have fewer children, reducing the average household size. “Elderly households” have surged in number. Households whose members are all at least 60 years old grew by 7% per year between 2009 and 2013 according to data from the National Statistics Office. By 2013, this type of household accounted for 10% of all Thai households. The same data show that elderly Thais rely on monetary support from children and grandchildren for over a third of their monthly income. But now that parents have fewer children, old people will not be able to rely on this support as much. Today's lower economic growth will also affect returns on savings and investment, making it urgent to start saving early for retirement.

## 7 Elderly Thais rely much on monetary support from their children and grandchildren.

Source of income in households with only elderly members, in 2013

Unit: %



Source: EIC analysis based on data from National Statistical Office (NSO)

As the national pool of savings grows, and the large elderly population channels their money into safe assets, interest rates will drop, reducing returns on retirement savings. Since the growing aged population has more and more households with few children, more of them will rely on their own savings, leading to a significantly higher national level of savings. This savings glut will depress interest rates and thus returns on savings. A survey by EIC found that current patterns of asset allocation will not achieve the returns expected by large numbers of people. Most savings are kept in savings accounts that provide low interest rates. IMF research shows that as people reach old age, they generally re-allocate their savings into safe assets such as government bonds. But high demand for bonds tends to push up prices and reduce yields.

### 4. Large numbers of low-income elderly will rely on assistance from the government, resulting in a high fiscal burden.

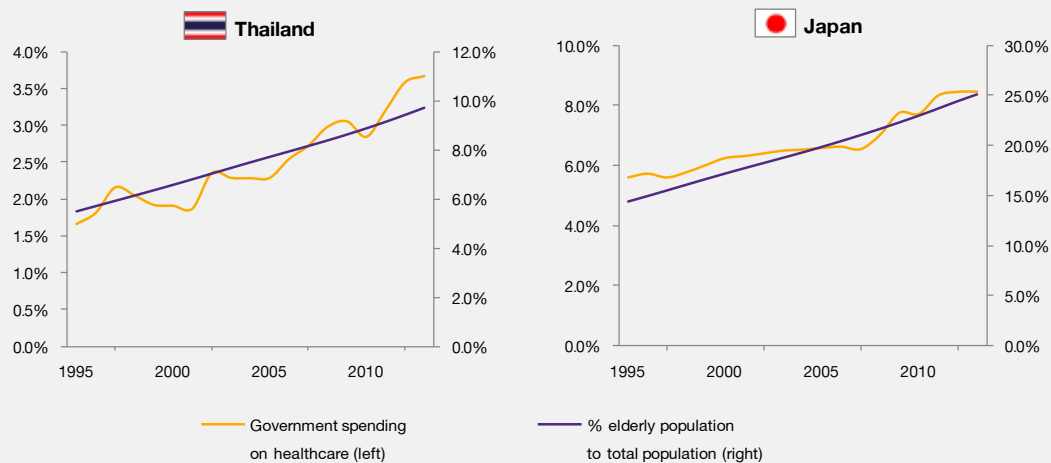
Because more people today lack children and save too little, they will eventually rely on public assistance. Currently, 17% of the income of elderly people comes from public welfare allowances, with the bulk of income provided by family members. As family size shrinks, elderly people will rely more and more on their own savings and public assistance in the future. Although the Thai government mandates employers to establish pension funds and make partial contributions to the Social Security Fund, a 2012 survey by the NSO reveals that this support is inadequate for low-income elderly people, who earn too little to save much.

**A larger fiscal burden from increasing health and welfare spending and slower tax revenue growth will crowd out the public investment budgets that are needed to drive future growth.** In Japan, the elderly share of the population has now reached 25%. The country's huge public debts forced the government to raise the sales tax in early 2014, which pushed the economy into a period of technical recession. One factor that contributed to Japan's high level of public debt was the healthcare spending that grew rapidly along with the increase in the numbers of old people. Healthcare spending now accounts for 9% of Japan's GDP. So, too, in Thailand healthcare spending has increased steadily during the past 20 years (Figure 8). The rise in this spending alone could divert resources away from public needs like infrastructure investment. Moreover, Thailand will not be able to afford budget deficits as high as those of Japan and other developed countries, whose deficits now exceed 100% of GDP. These countries have much larger economies and tax bases than Thailand does. A nation's capacity to take on debt, whether by borrowing or issuing bonds, is limited by these factors.

## 8 Fiscal burden from healthcare spending increases with the size of old-age population.

### Government spending on healthcare and elderly share of population

Unit: % of GDP (left), % of total population (right)



Source: EIC analysis based on data from World Health Organization

**To deal with the higher fiscal burden, the government should focus on developing a welfare system** that is sustainable. Most of Thailand's existing public pension systems are "defined-benefit," which specify payouts according to rules such as the number of years a retiree has worked. Better would be a "defined-contribution" system, as is prevalent in the United States and the United Kingdom. Under this approach, the amount of payments to a retiree depends on how much the individual contributes during his or her years of work. The scheme incentivizes individuals to plan ahead for retirement, and it eases the burden on government. Thailand's pension status quo is headed toward a fiscally unsustainable future. Eventually, a heavy burden will fall on the next generation of working-age Thais in the form of higher taxes.

## BOX: Aging society will strain healthcare system

The aging of Thailand's populace poses a challenge to healthcare provision. The potential problems are threefold: inadequate funding, a shortage of skilled human resources, and increasing demand for more diversified and sophisticated medical services.



Thailand's spending on healthcare will rise along with the population's rising ratio of old people. Unfortunately, the shrinking size of the labor force will strain our ability to pay the growing bill. Today, direct public spending in this category includes costs of the universal healthcare system, healthcare programs for government employees and welfare allowances for elderly persons. There are also other types of expenditure such as compensation to keep the Social Security Fund in surplus. The fund is forecast to run into deficit in 2044. Meanwhile, government revenues are projected to decline given a shrinking labor force, and thus smaller tax base, which will lead to higher budget deficits and public debts in the long run.

## Current public and private welfare schemes for retirees in Thailand

	Employees in the formal sector (excluding government employees)	Informal workers
<b>Social Security Fund</b>	Employee must contribute 5% of salary to the fund, but no more than 750 baht per month.	Optional for those who are not formally employed. An individual can contribute 100-350 baht per month. The government contributes 30-130 baht per month and provides various insurance coverage (soon to be converted into the National Savings Fund).
<ul style="list-style-type: none"> <li>Healthcare coverage</li> <li>Retirement plan</li> </ul>	<p>Provides medical treatment free of charge via participating healthcare providers.</p> <p><u>Monthly pension</u></p> <p>Pays a monthly pension equivalent to 20% of the contributor's average monthly salary measured during the last 60 months (or 15,000 baht/month), if the individual contributes for at least 180 months. The contribution exceeding the required amount earns an annual return of 1.5%.</p> <p><u>Lump sum payment</u></p> <p>Pays a lump sum amount based on contribution from self and employer along with a return specified by the Social Security plan, if the total period of contribution is less than 180 months.</p>	<p>Provides medical treatment free of charge via participating healthcare providers</p> <p><u>Monthly pension</u></p> <p>Pays a lifetime monthly pension of 600 baht, if the individual contributes for at least 420 months</p> <p><u>Lump sum payment</u></p> <p>Pays the contributed amount plus a return as specified by the Social Security fund.</p>
<b>National Health Security Office</b>	Individuals without public healthcare benefits from the Social Security Fund or the Government Pension Fund can receive medical care from any public hospital or participating private hospital, free of charge.	
<ul style="list-style-type: none"> <li>Healthcare benefits</li> </ul>	Not available	Receive health care services free of charge from registered providers.
<ul style="list-style-type: none"> <li>Retirement</li> <li>The disadvantaged and vulnerable groups</li> </ul>	<p>Not available</p> <p>Not available</p>	<p><u>Pension</u></p> <p>Receive a lifelong monthly pension of 600 baht.</p> <p>Receive a lump sum payment of amount contributed plus additional return</p>
Provident fund	Employees in the formal sector can invest 2-15% of monthly salary. Employers contribute the same amount or more.	Not available

## Current public and private welfare schemes for retirees in Thailand (continued)

	All elderly persons
<b>Public support</b>	<ul style="list-style-type: none"> <li>• 600, 700, 800 or 1,000 baht monthly pension for persons over 60 years of age</li> <li>• Legal counseling on old age-related problems (physical abuse or neglect)</li> <li>• Funds for elderly persons in need of support</li> <li>• Government subsidies for transportation such as public buses, trains, and flights</li> </ul>
<b>Social services</b> <ul style="list-style-type: none"> <li>• Healthcare</li> <li>• Education</li> <li>• Income</li> <li>• Housing</li> <li>• Recreational</li> </ul>	<ul style="list-style-type: none"> <li>• The universal healthcare scheme</li> <li>• Special elderly track for hospital services</li> <li>• Health support programs within local communities</li> <li>• Health volunteers who help neglected elderly</li> <li>• Specialized education such as vocational training at various centers</li> </ul>
<b>Support from private sector</b>	<ul style="list-style-type: none"> <li>• Welfare benefits provided by private companies</li> <li>• Volunteer groups, foundations and elderly homes sponsored by private companies</li> <li>• Welfare services by local communities</li> </ul>

The second challenge is that shrinking of the workforce will create a shortage of healthcare workers. At present, there are approximately 106 healthcare and welfare workers for every 1,000 elderly persons. This ratio has remained consistently low for some time, because workers are more attracted to other industries such as manufacturing or wholesale and retail. With declining size of the workforce, the ratio is predicted to fall to 66 workers for each elderly individual in the next 10 years, or to only 30 workers by 2050, if the trend continues.

Furthermore, the longer life expectancy and the prevalence of chronic but non-communicable diseases in old age will generate increasing demand for healthcare, both in terms of quantity and speed of service. Specifically, the rapidly rising number of patients with diabetes and hypertension calls for preventive care, such as dietary guidance. Thus, apart from providing affordable healthcare, the government should also advocate disease prevention measures that would lower the risk of developing these serious conditions.

But rather than depend solely on the government to tackle these challenges, people should actively prepare themselves for the old-age society. The less that society has to depend on governmental support, the more sustainable this support can be in the long run.





# 2

## Aging society drives new consumption trends, new business opportunities

Thailand's demographic transition will present businesses with new opportunities and challenges. Companies that want to ride the aging trend successfully need to understand the coming changes in consumer behavior.



**These changes fall into three categories: spending behavior, lifestyle and management of declining income. To successfully target the rapidly growing elderly population, businesses will have to adapt their strategies to accommodate these three types of change.**

**1. Although elderly people tend to spend less on overall consumption, they spend more on housing.**

As individuals enter retirement, their spending tends to drop by around 30% overall, although high-income consumers will likely retain their level of expenditure and quality of life. Compared to an average household, those with elderly persons spend up to 30% less on consumption, for a monthly total of around 3,617 baht per each household member. However, households with old members who earn over 100,000 a month do not spend significantly less than an average household; the difference is only 14% less, due mainly to lower spending on transportation. This evidence suggests that one important market segment will be elderly people with high incomes, because they have high purchasing power and a willingness to spend in order to maintain their standard of living.

**As people age, the patterns of their spending on goods and services also change, particularly in regard to healthcare and housing.** According to the National Statistics Organization's data on the expenditure structure of households with retirees, although these retirees spend 19% less on food than other households, food consumption still accounts for more than half of their spending. And healthcare accounts for as much as 30% of their spending.

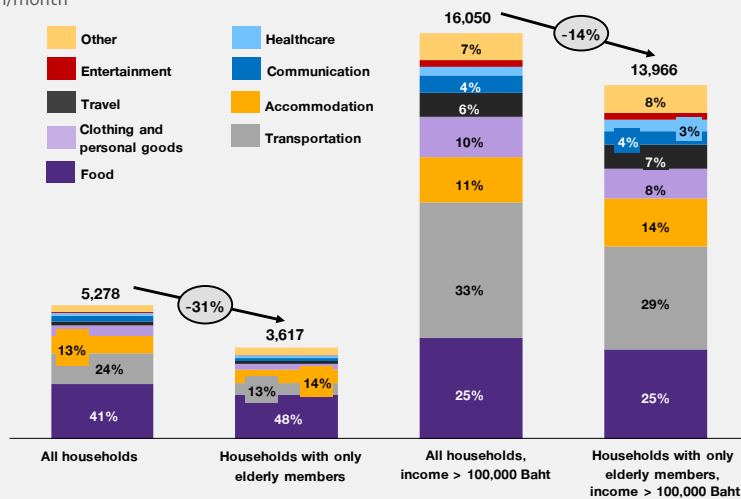
As for high-income elderly, statistics reveal that they spend 9% more than average households on home renovations, improvements and decoration. This figure matches a survey by EIC on post-retirement consumption, which found that around 80% of respondents want to renovate their homes upon retiring. Given that 90% of the elderly surveyed said they will continue to live in their existing house after retirement, renovations and improvements are wanted to equip the house with amenities suitable for old age.

**Elderly people also spend more on comfort and convenience, such as by hiring a housekeeper.** The statistics reveal that households with old persons spend around 60% more than average on housekeepers, reflecting their preference for convenience and the fact that more individuals live alone nowadays. Given that retirees want to spend on home products and services, opportunities abound in businesses such as appliances, home repair and renovation services as well as housekeeping services. The key to success is to design products and services that satisfy these increasing needs.

## 9 Elderly spend on average about 30% less, but those with high income tend to maintain their quality of life and spend more on housing.

Consumer spending classified by households with/without elderly members

Unit: Baht/person/month



Source: EIC analysis based on data from National Statistical Office (NSO)

## 2. The lifestyles of Thai elderly consumers tend to focus on health, social life and more open to new technology.

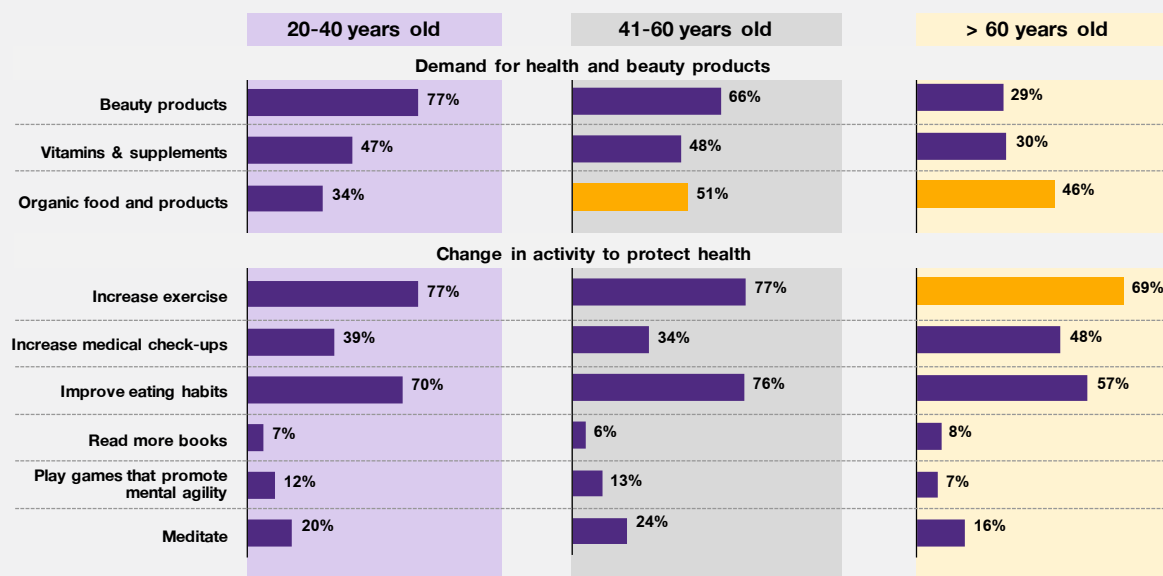
The aging of Thai society will lead to changes in lifestyle. EIC's survey reveals that retirees have distinct preferences and needs. Older people prefer to consume natural foods rather than vitamins, and tend to exercise more. EIC's survey on lifestyles of consumers of various age groups shows that around half of the elderly consume more organic products, 70% exercise more and 60% change their eating habits. And the next generation of retirees, who are now the middle-aged group of people 40-60 years old, is becoming more health conscious. Around 50% of them consume nutritional supplements and vitamins, and up to 80% have improved their eating habits.

The survey reveals a clear difference between households with only elderly members and households without. **The older households consume less meat and milk and fewer eggs, but more fruits, vegetables and seafood.** This indicates that the elderly are more health-conscious when it comes to food, but the survey also shows that they buy more processed food, which suggests that they also value convenience. This group purchases 23% more processed food than average households, for up to one third of their overall food bill. They eat out 68% less often. Changing patterns of food consumption will present new challenges for the food industry, especially for makers of processed food. One major task is to develop the right variety of products that will satisfy the aging population in terms of both nutrition and convenience. Restaurants should place greater emphasis on healthy offerings. Meal delivery service is also a promising area. Most existing delivery services are offered by fast food restaurants, which may not satisfy the health-conscious elderly population.

# 10 Older people prefer organic products to health supplements, and tend to exercise more.

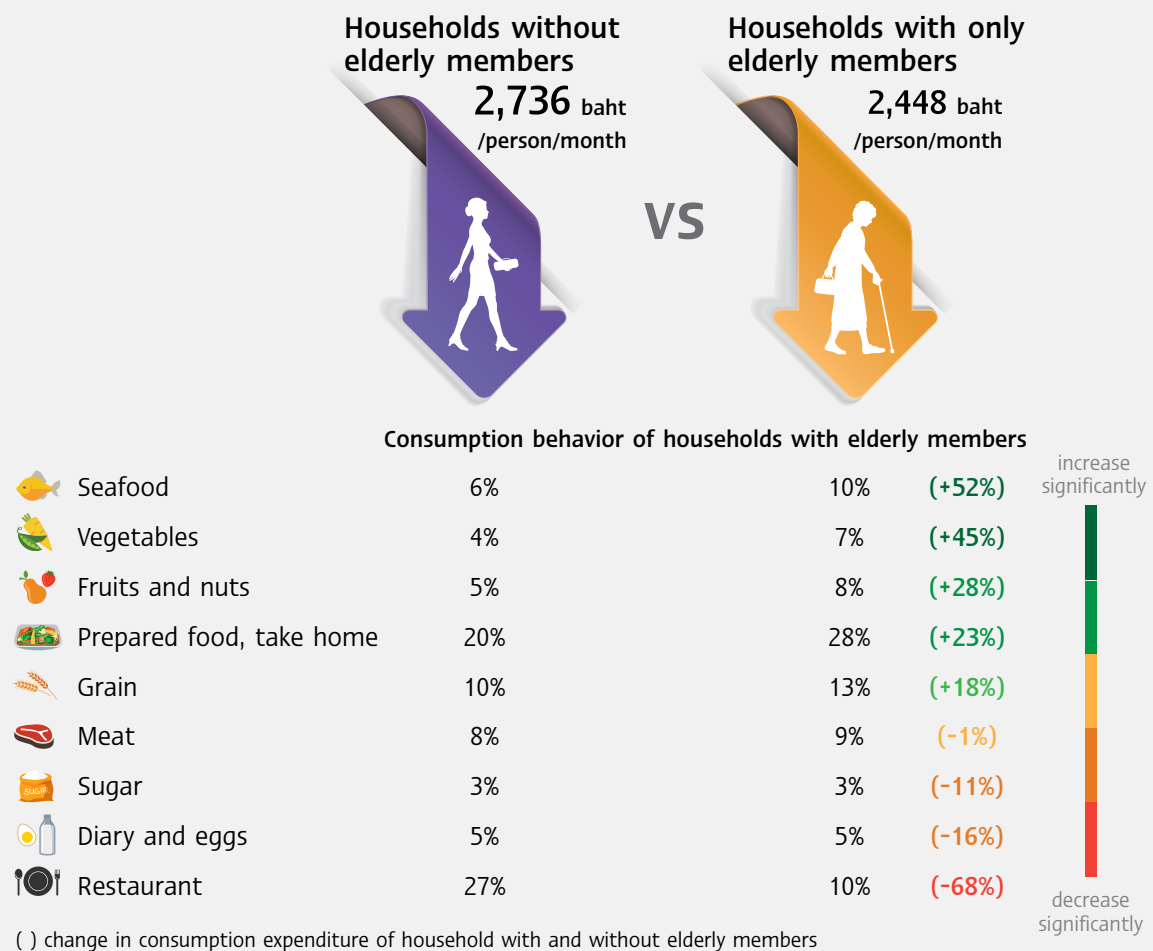
Survey on lifestyle choices to improve health

Unit: % of total respondents in each age group



Source: EIC analysis

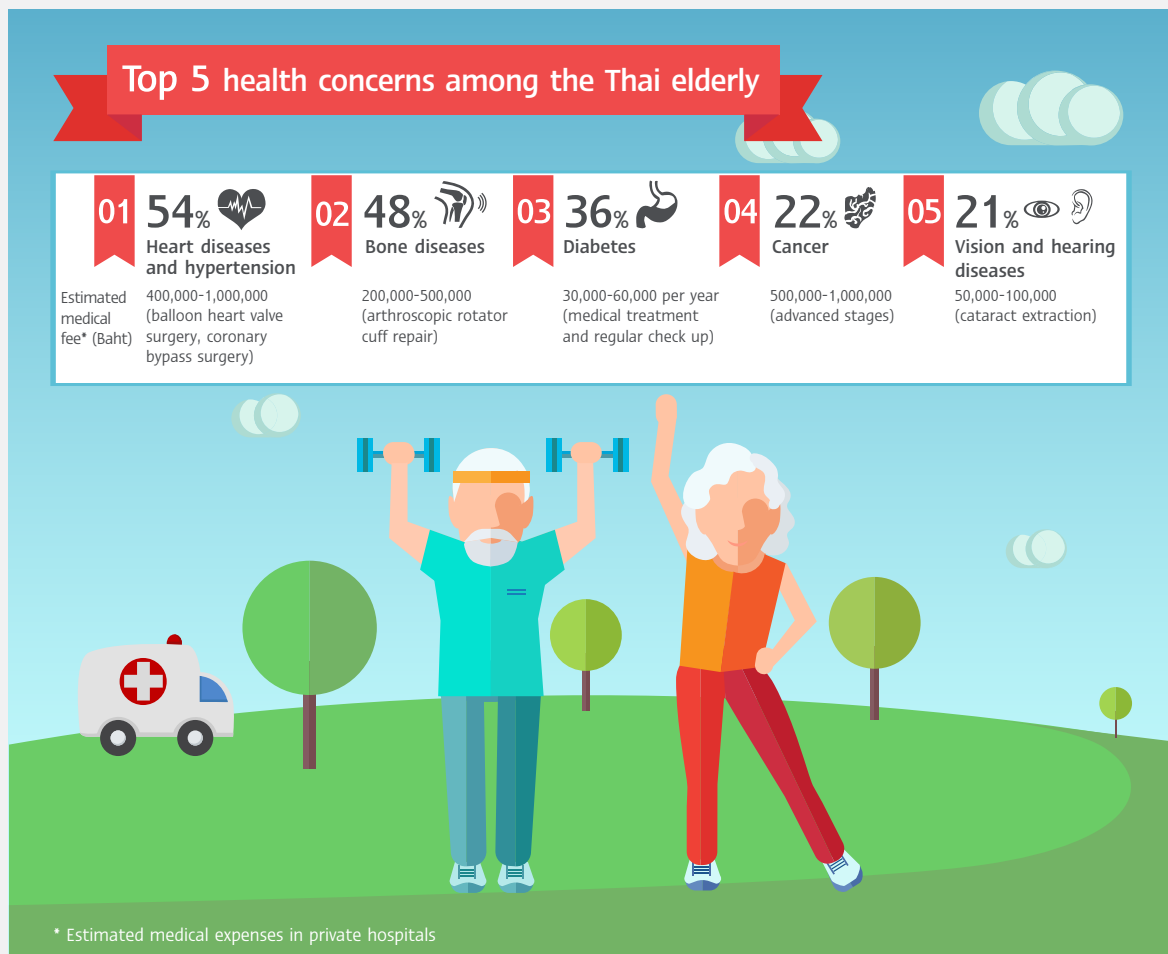
- 11** Elderly prefer to consume healthy food items such as fruits, vegetables, and seafood, but at the same time they consume more of processed food which offers convenience.



Source: EIC analysis based on data from National Statistical Office (NSO)

Thai older folks tend to get health checkups more frequently than other groups, but they do not yet rely much on home medical equipment such as diagnostic or therapeutic devices. EIC's survey found that around half of elderly people get frequent health checkups. Given this trend, hospitals should offer diverse checkup packages. The survey finds that the five diseases that elderly people are most concerned

about are heart disease and hypertension, bone diseases, diabetes, cancer and vision and hearing diseases, in that order of priority. Although the elderly are more health-conscious, only 10% of them use home medical equipment. On the other hand, among today's middle-aged Thais, 56% of the survey respondents express interest in purchasing such equipment after retirement, which indicates a future business opportunity



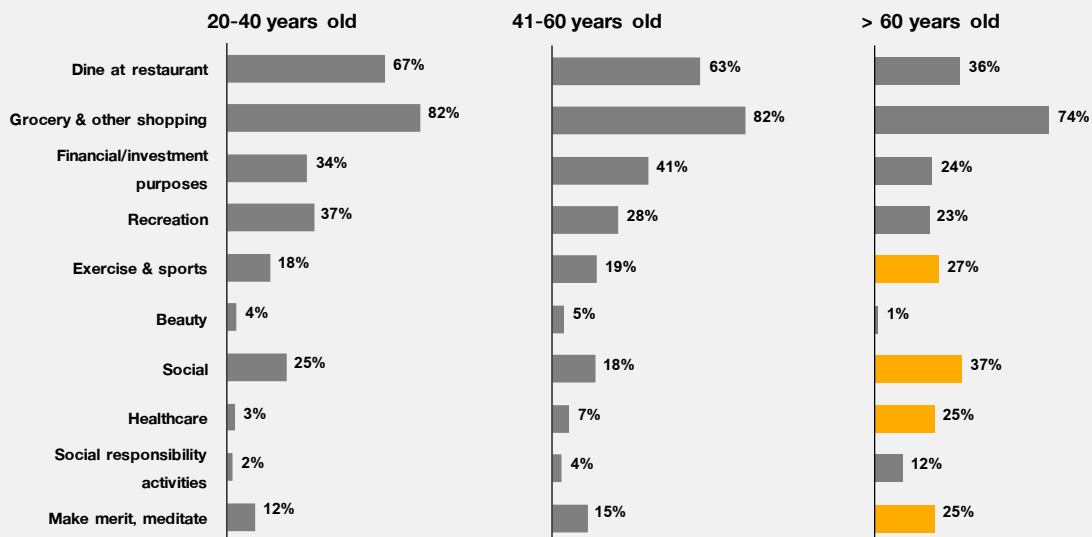
Source: EIC analysis

**Elderly people value social interaction and leisure activities.** EIC's survey on pastimes among different age groups shows that approximately 60% of elderly take part in activities outside of their homes at least once a week, mostly grocery shopping. Around 40% of the retirees say they leave home to meet friends, suggesting they value social activities. This finding is in line with the NSO's survey that showed loneliness is ranked the biggest problem for elderly who live alone, even worse than the lack of caregivers or financial support. Among the respondents who have problems living alone, around 50% of them, especially women, say that the main problem is loneliness. 27% report that a lack of caregivers is the biggest issue while just 16% cite lack of financial support. Because loneliness is such a problem for retirees, it's not surprising that old people nowadays welcome new communications technologies and social media. Furthermore, over 50% of retirees hope to travel. As such, service businesses such as shopping malls, hotels, recreational centers and tour companies should take the opportunity to develop offerings specifically designed for this growing age group. Appropriate services might include fitness centers specialized for the needs of older persons, health tourism, or small community malls in local neighborhoods where the elderly can meet up. According to the EIC survey, around 45% of retirees prefer small shopping malls to large ones.

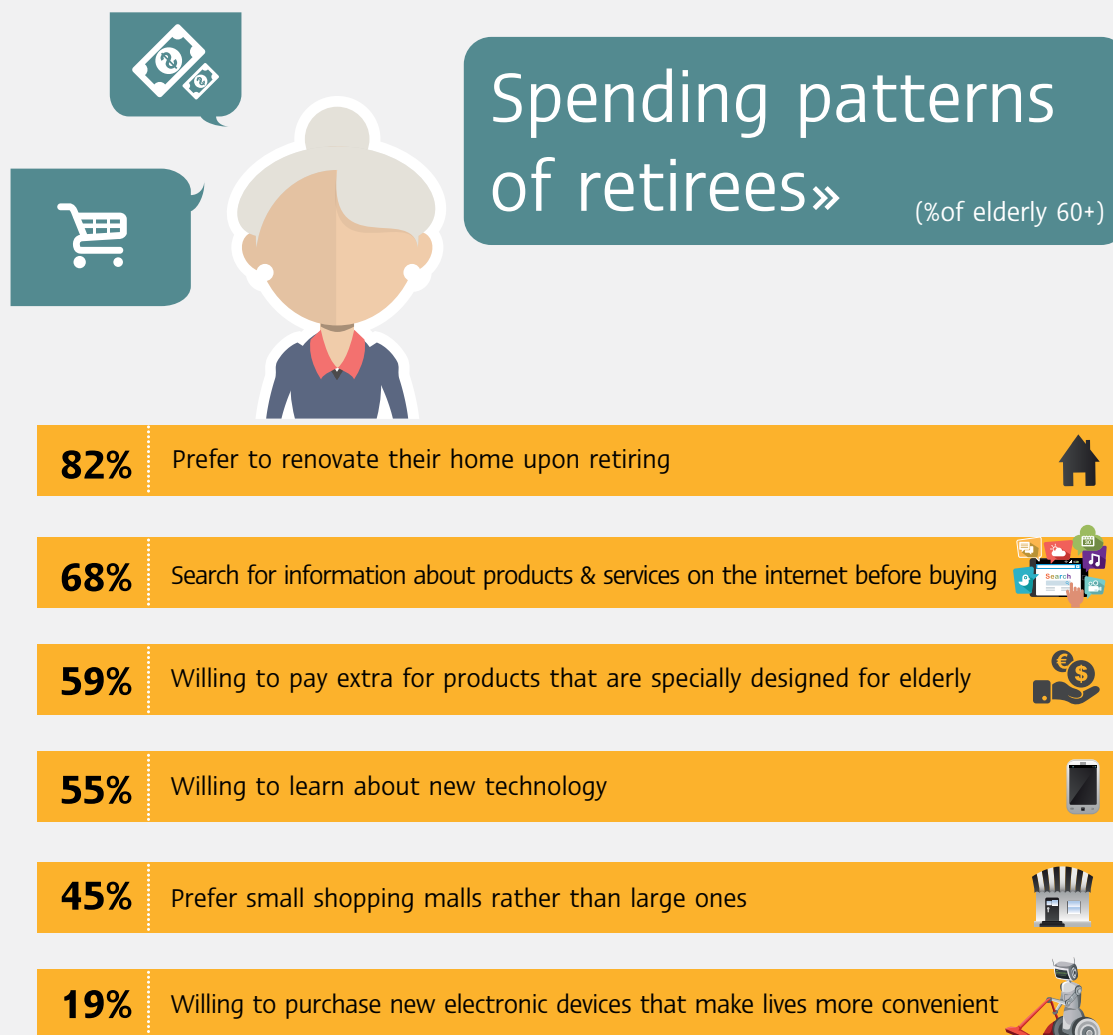
## 12 Elderly like social events, meeting friends and leisure activities.

### Out-of-home consumer activities except work

Unit: % of total respondents in each age group



Source: EIC analysis



**The internet is increasingly important in retirees' purchasing decisions**, especially among the thrift-conscious. Over the past five years, internet penetration has been on a rapid increase among Thai consumers, a trend that has reached older people as well. The number of internet users over 60 years in age rose at about 30% each year between 2009-2013, compared to a rise of around 10% in other age groups. In terms of demand for new tech products, only some 30% of today's elderly use smart phones. But the soon-to-be retirees, those currently between 40-50 years old, very commonly use smart phones and tablets,

which indicates that mobile communications and social media will play a bigger role in their everyday lives and consumption behavior. Regarding social media, one survey shows that around 30% of elderly use it regularly, which indicates that social media platforms are already an important potential channel to reach this group of consumers. Online advertising will be effective, because retirees tend to search for information about products and services on the internet before buying, although online shopping remains limited in terms of capturing the final purchase.



Although the elderly tend to consume less overall, they are willing to pay more for products and services that fit their needs and preferences, and they are open to learning new technology.

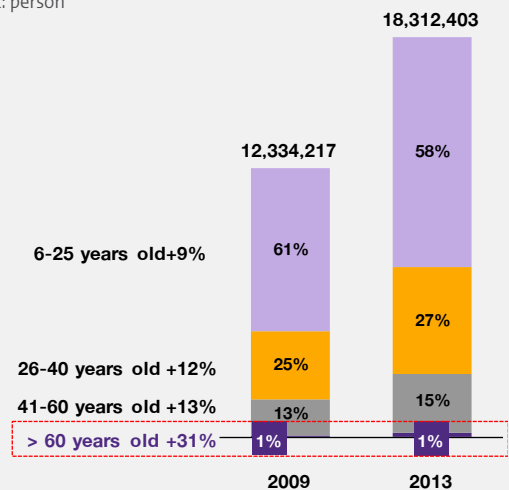
A survey on purchasing behavior among retirees finds that more than 60% of the respondents are willing to pay extra for products that are specially designed for elderly needs. Despite the conventional view that elderly are less accepting of new technology, this tendency is set to change. The same survey shows that around 55% of the retirees say they are eager to learn about new technology, while 20% are willing to purchase new electronic devices that will make lives more convenient. Thus, retirees represent an important potential market for targeting relevant innovations and products.

**Sales promotions matter less for retirees because they tend to value quality and durability more than price.** An EIC survey on purchasing decisions among different age groups reveals that the biggest share of elderly respondents, as much as 67%, care most about product quality. Next comes durability, followed by price. In comparison, the 40-60 year-old age group cares most about price. This indicates that when marketing to older consumers, it is better to emphasize product quality than to discount.

## 13 The internet is playing an increasingly important role in purchasing decisions of products and services.

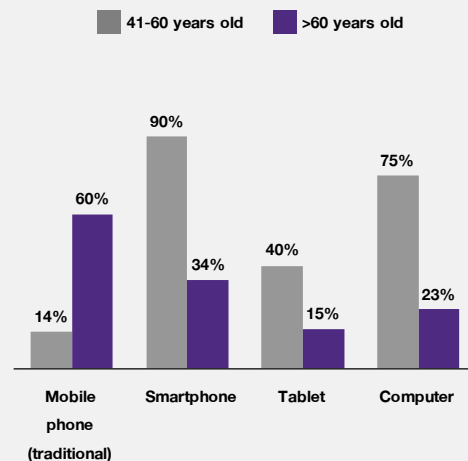
Number of internet users classified by age group

Unit: person



Platform to access internet

Unit: % of total respondents



Source: EIC analysis based on data from National Statistical Office (NSO) and EIC survey

**Old people tend to choose products and services according to the brands with which they familiar, which gives these traditional brands a competitive edge.** Brand loyalty among elderly is relatively high, with 24% of them relying on familiar brands when making purchases. For this reason, long-standing and well-known companies are at an advantage. If they can continue to develop products that serve preferences that change as consumers grow old, these firms can easily expand in an aging society.

### 3. A large fall in future retirees's incomes suggests that the elderly consumers will need to make retirement financial plans and diversify their investments to generate higher returns.

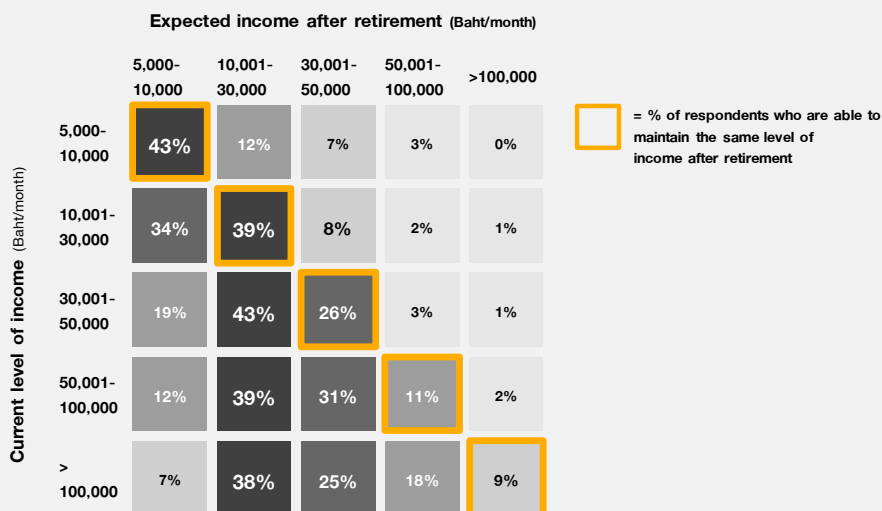
**Retirees will have to rely more on their savings.** Given the trend toward more elderly people living on their own and couples having fewer children, retirees will be less and less able to depend on financial support from their children. Confirming this likelihood, a survey on expected sources of post-retirement income shows that among consumers who are in the 40-60 year age group, only 10% of future retirees expect to rely on money from their children. But for now, some 60% of today's retirees depend on such family support.

**Future retirees' incomes will fall by half.** A survey on expected post-retirement income among consumers of 40-60 years old, who will enter retirement in the next 10-20 years, finds that most of them expect their incomes to decline by half after retirement. Specifically, those having monthly earnings of more than 30,000 baht expect their income to drop to around 10,000-30,000. Such a large fall in income suggests that retirees will need to continue working or increase their current savings so as to finance future consumption.

## 14 Income of future retirees is expected to fall in half to below 30,000 per month.

### Current level of income and expected income after retirement of working class

Unit: % of total respondents aged 40-60 years old in each income level



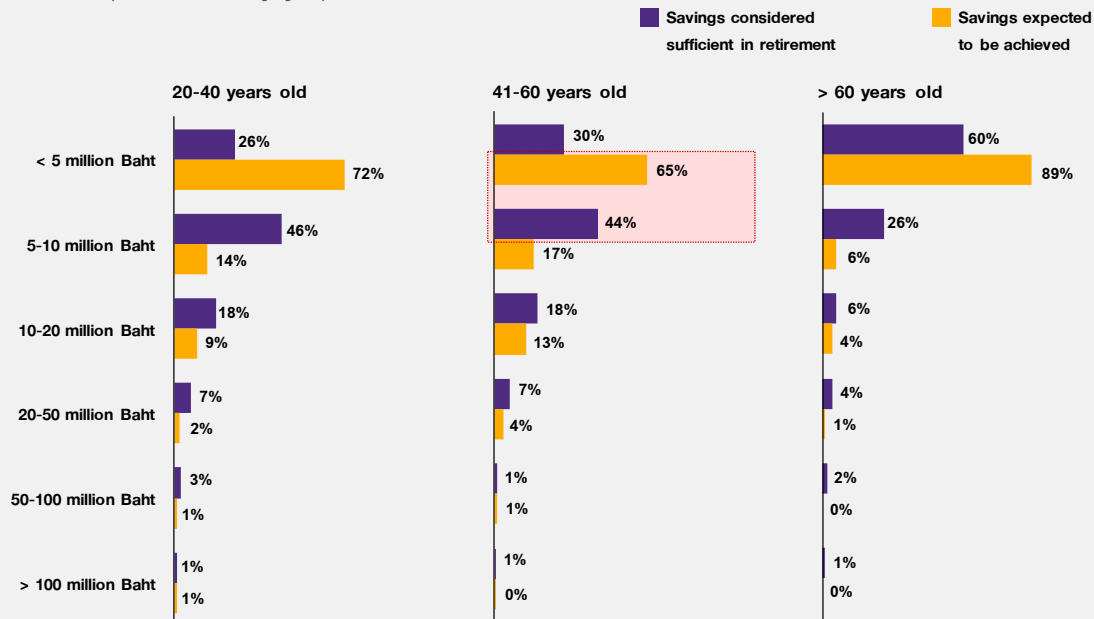
Source: EIC analysis

**Nevertheless, most future retirees are not aware that their savings are too small.** According to a survey on savings and investment habits, up to 60% of future retirees between the ages of 40 and 60 say they have saved enough for retirement. But this does not fit the facts of their actual savings and likely future spending. That is, around 40% say that they need 5-10 million baht in savings for retirement, but when asked about how much they actually expect to have saved by their time of retirement, 65% of them anticipate a level of less than 5 million baht. Around 40% say their savings will be sufficient to cover fewer than 10 years of spending after retirement. These survey findings clearly indicate that many future retirees are headed toward financial insecurity.

## 15 Most future retirees are not aware of the inadequacy of their savings for retirement and will therefore not save enough for post-retirement spending.

### Retirement savings and spending expectations

Unit: % of total respondents in each age group



Source: EIC analysis

**Even though most elderly people acknowledge that retirement savings are important, more than half of them have not made retirement financial plans.** A survey on financial planning shows that only 37% of the elderly respondents have made financial plans for retirement. On the other hand, future retirees between the ages of 40 and 60 are more likely to make financial plans. Among those who have made plans, 67% say their main reason is to remain independent. Another 60% also say they want to maintain their current level of quality of life after retiring.

**Today's elderly generation has invested little in financial assets.** As of 2014, the average Thai elderly household owned assets valued at 1.3 million baht. This is much lower than the amount of retirement savings of 5-10 million baht that is cited as ideal by most respondents. In addition, more than 80% of total assets held by Thai households are illiquid assets such as land and buildings. Some assets are in the form of automobiles, while financial assets make up just 14% of the total assets. Among the elderly households, very few invest. 36% have invested in land and buildings, but only 2% invested in financial assets such as mutual funds, stocks and bonds. Even though 70% of elderly households do have cash savings, the average amount of savings is only about 120,000 baht. If the trend of low savings and investment continues, Thailand's elderly will not be financially secure and will not have enough to support themselves in the future.

Retirement savings are likely to remain concentrated in the form of bank savings accounts, whose returns on average are the lowest of all investment vehicles. Up to 86% of persons aged 60 and over keep their cash primarily in bank savings accounts, while only 15% invest in government bonds with higher returns. Nevertheless, people today can easily access a great variety of investment types. Investments can be made in smaller amounts either directly or via asset management companies. Helping future retirees diversify their investments is a major business opportunity for providers of financial products and advisory services.

## 16 Elderly today invest very little in financial assets.

Average wealth of households with only elderly members

Unit: Baht

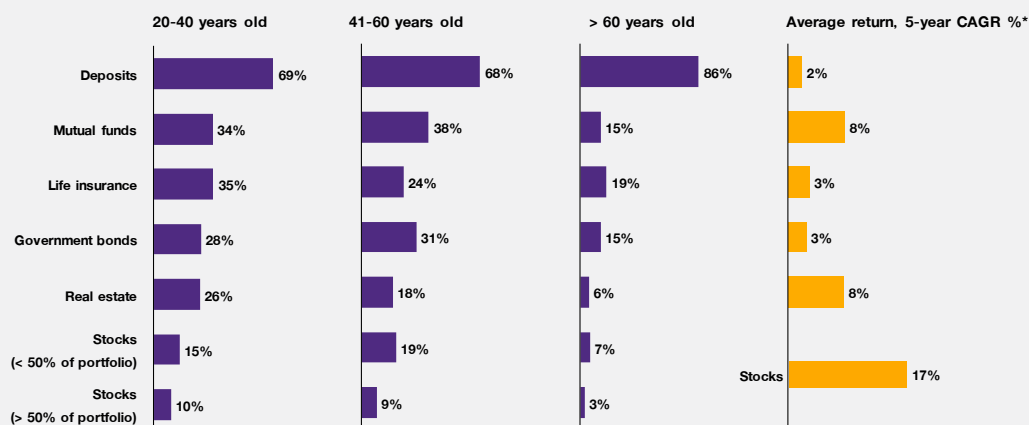


Source: EIC analysis based on data from National Statistical Office (NSO)

## 17 There is a tendency that retirement savings will primarily be kept in bank saving accounts that yield low returns compared to other investment options.

Savings and investment classified by age

Unit: % of total respondents in each age group



\* Value calculated as of end 2014

Source: EIC analysis based on data from Bloomberg, BOT, and press search

## BOX: Asset allocation: nest eggs take more than one basket



To meet financial needs during retirement, a portfolio should have a good mix of different types of assets beyond bank savings. Optimal asset allocation can maximize investment returns to better achieve financial goals. The right allocation strategy differs for each individual according to age, spending needs, occupation, income and risk appetite.

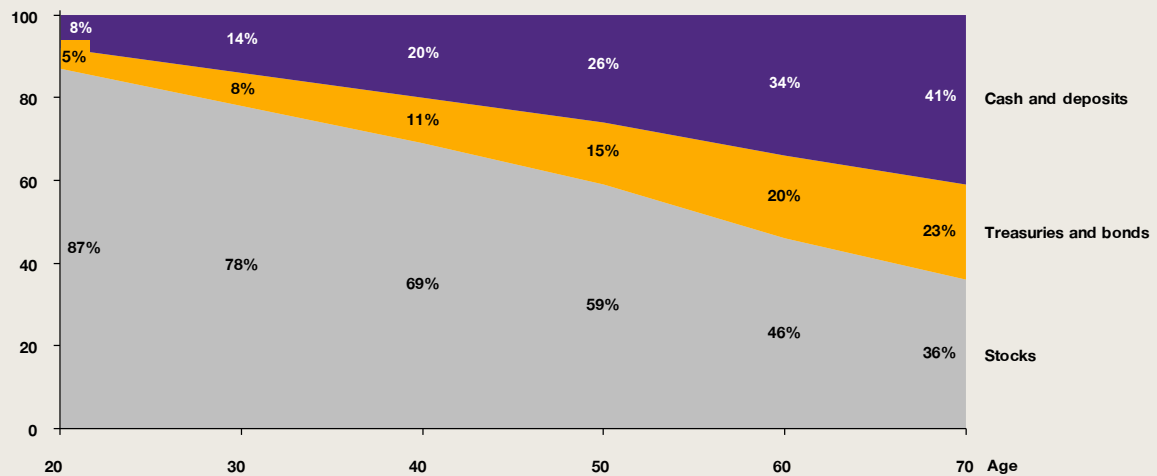
EIC observes that optimal asset allocation calls for gradually reducing the proportion of risky assets as one gets older. A good asset allocation model should differ according to age group, assuming that other factors such as savings amount and risk appetite remain constant. Young people should generally allocate a larger portion of their portfolios, or up to 80-90%, to risky assets such as stocks. This share should slowly decline as the investor gets older. After retirement, most of the portfolio should be put into cash, bonds or savings accounts, which are the least risky.

Although the recommended share of risky assets declines as one approaches retirement, investing 40-60% in stocks might nevertheless be advisable up until the time of retirement, because the cost of living will rise in future. Allocating too much to bank savings with low interest rates will not generate sufficient returns to achieve financial goals. Investors who are currently nearing retirement might need to diversify into risky assets. This will increase returns on investment and enlarge retirement funds to cover living costs that will inevitably climb in the future.

## 18 The share of risky assets in an optimal portfolio gradually decreases as one gets older.

Model asset allocations by investor age\*

Unit: % of total assets



\* The allocation above is just an example. An investor should always adjust his or her asset allocation according to expected return and risk appetite

Source: EIC analysis

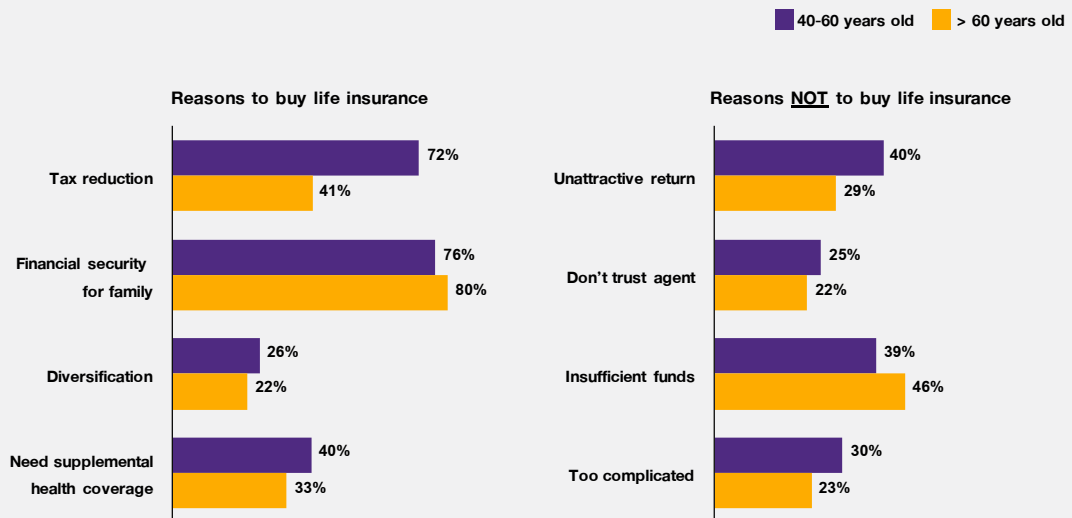
Besides traditional financial assets such as cash, bonds and stocks, there are many alternatives that can help diversify a retirement portfolio. Some of these include life insurance, health insurance, real estate and gold.

**Thai elderly tend to invest substantially in life insurance, even though their initial goal in doing so might not be portfolio diversification.** Based on a survey on life insurance purchases, only 50% of the elderly today have some kind of life insurance, compared to as much as 85% of those who will retire within 10-20 years. Interestingly, among the older people with life insurance, 80% report buying it to ensure financial security for their families, while just 22% say they buy insurance for portfolio diversification, and 33% in order to qualify to buy extended coverage. 70% of the middle-aged groups say they buy life insurance for tax benefits as well as to provide financial security for their families. As for why some elderly do not invest in life insurance, a closer look reveals that 30% of the correspondents think that the investment returns are low and that 20% view insurance products as too complicated. Therefore, in targeting this age group, it is important to design insurance products that are easy to understand, and have low premiums. It can also help to emphasize the importance of diversification of investment risks.

## 19 Currently, Thai elderly are likely to diversify their investment into life insurance

### Customer attitudes on buying life insurance

Unit: % of total respondents in each age group



Source: EIC analysis



# Capturing the rising senior market

**1** Organic food products

**2** Restaurants with healthy choices and delivery service

**Food and beverages**

**3** Nutritious ready meals with suitable portion size and clear labeling

**4** Diet and nutrition advisory services

**1** Add space for elderly to meet up and socialize

**2** Provide home delivery service

**Retail trade**

**3** Choose small community malls, as preferred by older consumers

**4** Increase sales and distribution via online channels



- 1** Housing communities designed for senior living



- 2** Shared facilities that increase social interaction



## Real estate

- 3** Security systems for elderly who live alone



Security systems for elderly who live alone



- 4** Transportation services to key destinations



- 1** Communication tools for elderly users with



larger screens and buttons, voice commands and other accessibility enhancements



## Communications and electronics

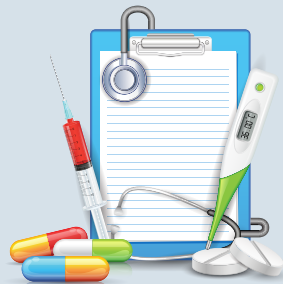
- 2** Simple, user-friendly social media



- 3** Health-related gadgets such as medical alert system



- 1** Provide new services such as adult daycare and home therapy



## Healthcare businesses

- 3** Use advanced technology such as healthcare IT that stores data electronically



- 2** Enhance service quality with well-trained staff knowledgeable about elderly care



- 4** Offer health advisory services to older patients



- 1** Offer and raise importance of financial planning services



- 2** Develop products that provide a regular stream of income, such as annuities



## Financial businesses

- 3** Improve product variety to serve many different lifestyles among older customers







# 3

## Below the radar: hidden opportunities and risks of the aging society

Aging of the population is inevitable, yet the transition might catch many people by surprise because it is slow. The private sector and government should both start preparing today in order to cope with the challenges and capture the opportunities.



The expanding older population is an attractive market given its large size and purchasing power, which derives from retirees' lifetime savings. In 2030, the older population's total spending power is expected to reach 4 trillion baht, equivalent to 25% of total consumer spending.

Businesses that wish to target older consumers should anticipate the future behavioral and lifestyle changes of this group. The key characteristics of elderly customers include a longer lifespan, lower spending, better understanding of technology and late retirement. Businesses will have to address the needs of elders in three major spheres – health, social life and community involvement, and financial security and independence. For example, health-related technologies will become more attractive because old people want to remain in good health and are more open to new technology than in the past.

### The new types of business that emerge from the ageing population

**(1) Healthcare needs will include not only medical treatment but also products and services that help maintain an active lifestyle.** Given today's higher demand for good health and long life, health-related products and services are already in increasing demand among older consumers. Examples include organic food, natural products and fitness activities. This has created new business opportunities such as nutritional planning services that design a unique dietary plan for each customer according to their physical attributes and medical histories. This business could be extended to include catering services for elderly customers. Another example is Welcyon, a fitness center that creates fitness programs exclusively for elderly and offers advice on physical and health concerns.



**The rise of the elderly market will create the most growth potential for not only healthcare providers but also other related industries.** One example is a recovery center in Sweden that functions as a kind of hotel that helps patients rest and recuperate after checking out of a hospital. The center is equipped with medical gear but is more affordable than a hospital. This type of service is thus ideal for elderly patients who want to minimize healthcare costs.

**Health-related innovations will make a big leap forward because the elderly of the future are more open to learning new technology.** For example, a company in Denmark has developed software called IntraMed's Clinical System Organizer (CSO) that helps patients to recognize symptoms and track medical information. It transmits data to a registered hospital if a symptom is detected. This constant monitoring helps reduce errors and allows for a more precise recording of information that detects potential health problems on a timelier basis.

**Other businesses can strengthen their offerings by including health products and services to attract older customers.** For example, medical tourists used to visit hospitals for treatment and then travel independently to nearby tourist destinations to rest and recover. Today, health centers are working together with hotel companies in order to provide medical services on site at hotels.



**(2) There is increasing demand for a more robust social life that can be met by both new communications technology and better venues for face-to-face meetings.** Businesses that already cater to older persons' need for more social interaction include communication tools designed for the elderly; daycare centers; and housing compounds designed specifically to serve older people by providing shared facilities, caretakers and social activities.



**Moreover, old people want to continue travelling and stay engaged in their communities.** Services and products that make travelling more convenient for older people are a great business opportunity in Thailand. In developed countries like Japan, whose share of older population is the highest in the world, legislation requires mass transit systems to install facilities providing access for elderly people. As a result, all train stations are well equipped with elevators and washroom facilities for the elderly. All buses in Japan accommodate wheelchair users.

**(3) The need for greater financial security and independence will increase because Thais nowadays have fewer children and cannot rely solely on government supports.** As such, financial planning services and financial products that address the needs of this group will become more

important. The majority of Thai elderly people are not aware of the importance of retirement planning. Only 37% of this group has planned for retirement, which is a very low share compared to peers in developed countries. For example, in the United States, over 80% of the elderly population has planned ahead for retirement.

**Thai businesses should offer a greater variety of financial products such as financial advisory and planning services to meet the increasingly sophisticated demands of today's consumers.**

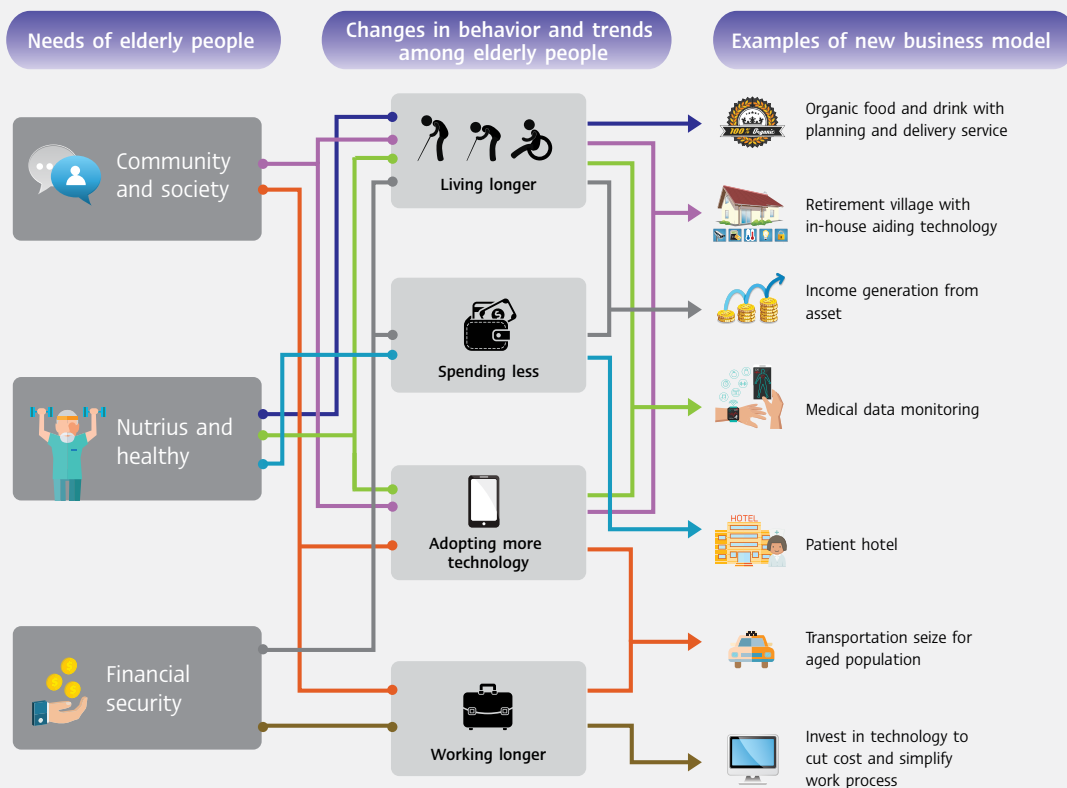
Retirement financial planners abroad offer financial advice tailored to fit a customer's desired lifestyle after retirement. For example, customers can select cities they want to live in, type of housing and car, and average meal price for their retirement. These choices are then factored into the calculation for the amount and type of retirement funds required to provide such consumption. This type of service should work well with future retirees in Thailand, who are currently between 40 and 60 years old. Of this group, 20% report wanting to retire outside of Bangkok, compared to just 5% of today's older generation.

**Financial products that create a regular stream of income for retirees will be increasingly popular because financial support from children is becoming less viable.** An example is annuities, a financial product that pays monthly installments during retirement in return for insurance premiums paid by the customer. Another product that has been successful abroad but is not yet available in Thailand is a retirement income fund (RIF), which is a mutual fund that provides monthly dividend payouts to unit

holders. It also allows the unit holders to make returns on “riskier” assets such as bonds and stocks. Because people today are retiring later and expect to live longer, they may want to continue to invest in riskier assets to obtain higher returns.

Another interesting investment product generates income from the investor's primary home or other real estate, which is generally the largest share of assets owned by elderly people. The product features a conditional loan called a “reverse mortgage.” It allows a retiree to take out a loan in the form of either a lump sum or monthly installments. The loan is repaid by selling the property after the owner moves out or passes away.

### Seizing the business opportunities that emerge from the ageing society



Source: EIC analysis

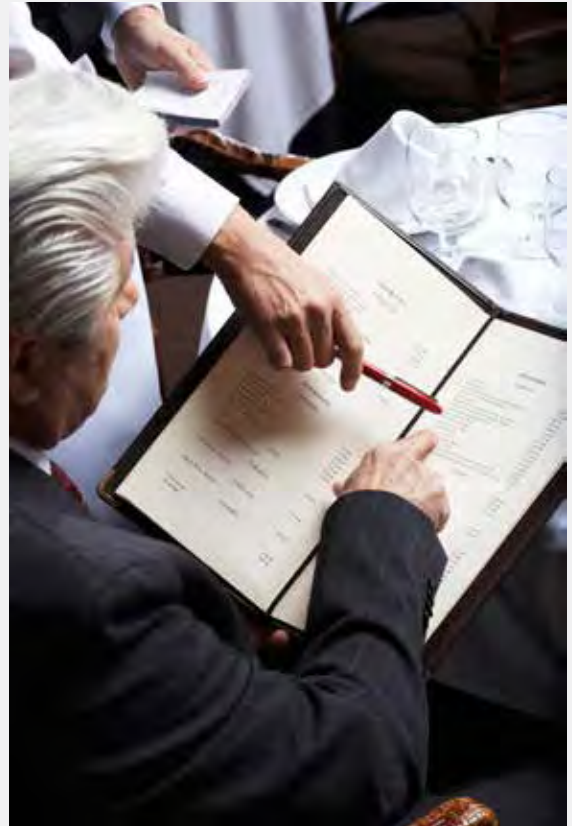
### The next move ahead towards elderly employment

**Businesses should prepare to employ older workers.** Thailand's workforce will soon shrink. Companies, especially those that do not require manual labor and those that need experienced workers, should take initiative to hire older workers and retain existing staff as they age. But businesses and government will need to make it easier, because elderly workers often find it difficult to continue working due to various obstacles such as cultural beliefs, personal attitudes, health issues and workplace rules. Singapore addressed this problem in 2012 by providing subsidies to allow workers to continue to work after the retirement age of 62, up to 65. The government later extended the benefits to the age of 67.

**The key to hiring elderly people is to create a suitable working environment and allow flexible conditions.**

For example, firms can create a nurturing environment by arranging for more collaboration between workers of different age groups. In Europe, companies such as Bayer, Leica and Opel undertake training sessions to encourage knowledge sharing between older and younger workers. They often arrange for a mixed-age team to share opinions within the group. Fedisco NV, another large corporate, allows its older staff members to work two hours fewer each day than younger workers.

**Businesses should encourage employees to become more health conscious, especially because the retirement age is likely to be raised.** GE Healthcare, an American company, started a program called HealthAhead that fosters health consciousness among employees. The program offers discounts for fitness centers, provides healthy food service and arranges for health checkups. It also functions as a forum to exchange feedback and opinions, which helps improve employees' health and wellbeing.



**The role of government to support elderly**

**Government income alone will not be enough to support every elderly person in the country. There must be alternatives.** One good way is to develop a long-term health insurance system as Japan did in 2000. Under that system, all citizens aged 40 and above have to pay insurance premiums until the age of 64. Elderly citizens, aged 65 and above, and those with Alzheimer's or heart problems, receive long-term healthcare coverage. Everyone aged 40 to 74 must receive a health checkup every year. Expenses for all these services are covered by taxes and the program's mandatory insurance premiums.

**Beyond fiscal reform, the government should promote employment of the elderly while also increasing overall labor productivity.** The government can alleviate the problem of lower potential growth by encouraging firms to hire older workers to solve the labor gap. Government can provide incentives for this. The Australian government, for example, pays out 10,000 Australian dollars per head to firms that hire workers aged 50 and above. In Thailand, it will be difficult to overcome the labor shortage. The government should aim to boost labor productivity by encouraging training, seminars and investment in technology. Seminars and knowledge transferring projects can help, as seen in the "Toyota Chum Chon Phat" project, which disseminates the automaker's extensive know-how to SMEs so as to help them upgrade productivity and establish more sustainable, efficient management methods.



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Sutapa is Chief Economist and First Executive Vice President at Siam Commercial Bank (SCB), where she leads the Economic Intelligence Center (EIC). She previously served as Head of Credit Risk Analytics Division under Risk Management Group.

Before SCB, Sutapa set up and headed the Risk Analytics and Research Group at TMB Bank during her secondment from ING Group. Prior to joining the banking industry, Sutapa was Economist (EP) at the International Monetary Fund (IMF) in Washington, DC. She had also served as Advisor to the Thai Senate Committee on the Economy, Commerce, and Industry, as well as Director of Macroeconomic Analysis Section at the Thai Ministry of Finance.

Sutapa holds an undergraduate degree in Applied Mathematics from Harvard University and a doctorate degree in Economics, Management, and Policy from Massachusetts Institute of Technology (MIT). She was a recipient of Thailand's most prestigious King's Scholarship. In 2007, Sutapa was honored by the Asia Society as Asia 21 Young Leaders Fellow, selected among a diverse group of professionals under 40 from the Asia-Pacific region.



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Teerin graduated with a Bachelor of Accountancy (First Class Honors with Gold Medal Award) in Accounting Information System from Chulalongkorn University and a Master of Business Administration from Kellogg School of Management, Northwestern University in the United States.



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