

ADB Regional Workshop on FinTech Development in the CAREC Region

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Financial Technology for Regional Cooperation in Central Asia Regional Economic Cooperation Countries: Mongolia



Mongolia

- Introduction
 - Fintech overview in Mongolia
- Fintech indicator system
 - Institutional arrangement and regulatory frameworks
 - Newly approved regulation in practice
- Fintech role to capital market development
- Mongolia's Fintech development in CAREC region
- Legal issues and further consideration
- Conclusion



INTRODUCTION

	Mongolia
Land area	1,564,100 km²
Population	3.4 million
Population density	2.07 persons per km² (194rd)
Urban population	60%
Capital city	Ulaanbaatar

Cellular usage and TV channel consumption in Mongolia

Smart phone users	3405916	Satellite channel	336844
4G	2365121	IPTV	260890
3G	3294303	MMDS	115232
Data consumption	262102 TB	Cable TV	34831

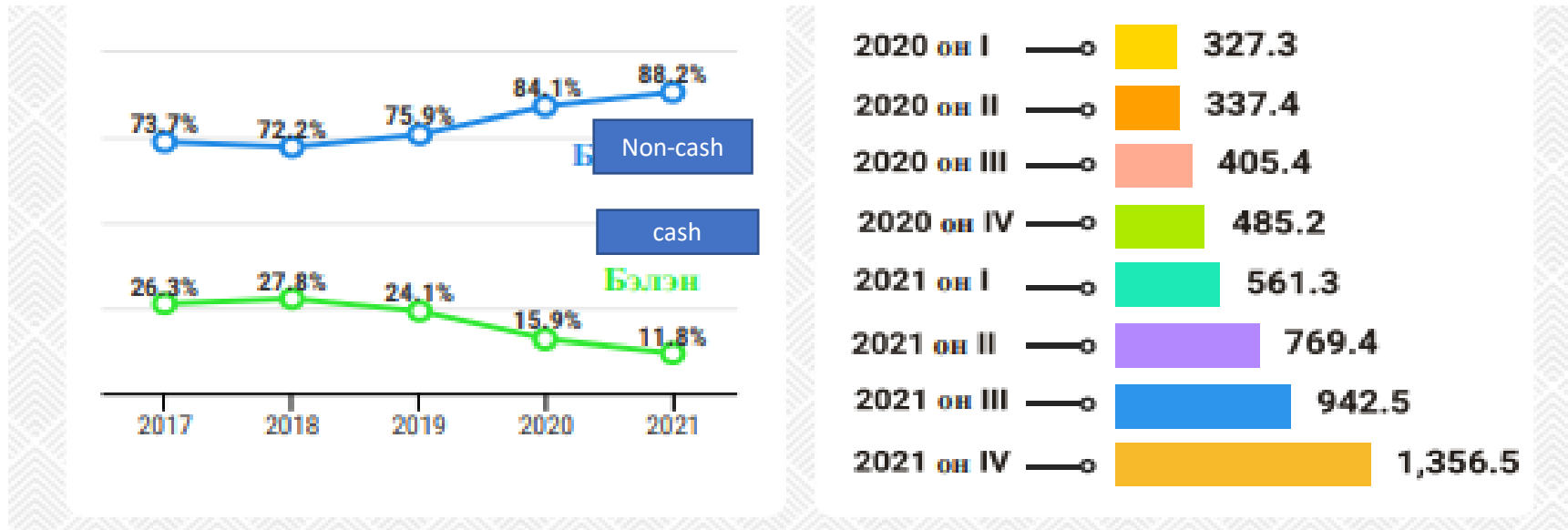
Source: Ministry of Digital Development and Communication

Mongolian Gross Domestic Production 2018-2021

	2018 (billion MNT)	2019	2020	2021	2020/2019 (percent)	2021/2020
GDP	32582.6	37839.2	37453.3	43018.6	99	114.9
Agriculture	3723.5	4373.6	4856.1	5674.7	111	116.9
Mining	8370.8	9590.1	8722.1	10447.8	90.9	119.8
Industry, Construction	4002.7	4823.9	5154.2	5472.1	106.8	106.2
Services	12967.1	15037.5	15165	17017.7	100.8	112.2
Net taxes on products	3518.5	4014.1	3559.9	4406.2	88.6	123.9

FINTECH DEVELOPMENT OVERVIEW IN MONGOLIA

Transaction trend (%) and card payment on online (in thousand)

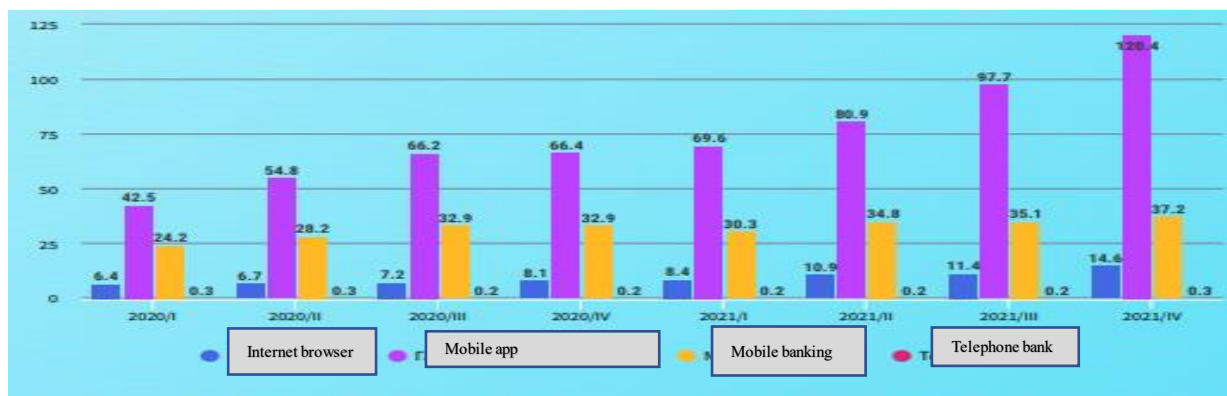


Source: www.mongolbank.mn

Lend.mn case

- Founded in 2018, “Lend.mn NBFi” JSC
- Introduced first time the Fintech business model to the Mongolian market.
- Registered customers are 900,000 people.
- Saved a total of 93,081 customers' indirect borrowing costs, or MNT 1.5 billion, and saved 279,000 hours or 31.8 years of borrowing time by end of 2020.

FINTECH DEVELOPMENT OVERVIEW IN MONGOLIA /in million unit/



	Total loans		Borrowers		Average loan amount (MNT, thousands)
	Amount (MNT. Billions)	%	Number	%	
Fintech	308.0	15.3	1349116	80.4	228.3
Traditional	1704.2	84.7	329023	19.6	5179.4
Total	2012.2	100.0	1678139	100	1199.1

In 2021, 94.4 % of outstanding loans of NBFIs (using technological advances in financial services) were normal loans, 1.9% were overdue loans, and 3.7% were non-performing loans.

Most (92.1%) of all customers in the sector were those NBFIs, and they had access to technology-based credit services. Most (80.4%) of all borrowers received loans through their mobile phones.

INSTITUTIONAL ARRANGEMENT AND REGULATORY FRAMEWORKS

Regulatory Institutions	Implementing Institutions	Market standard developers
<ul style="list-style-type: none">• Central Bank• Financial Regulatory Commission• Ministry of Digital Development and Communication	<ul style="list-style-type: none">• Commercial banks• Non Banking Financial institutions• Insurance companies• Broker companies• Fintech companies	<ul style="list-style-type: none">• Fintech association• Mongolian Banking association• Securities and Dealer associations• Mongolian Stock Exchange

Fintech's macro policies include: **Fintech's law and regulations include:**

- Vision 2050
- Digital Nation Medium-Term Program
- Fiscal Stability Law
- Government monetary policy

- Cyber Security Act
- Law on protection of personal information
- Public Information Transparency Act
- Law on electronic signatures
- Law on National Payment System
- Electronic money regulations
- Virtual Asset Providers Act
- Operating Procedures for Virtual Asset Providers
- Sandbox regulation
- Non-banking financial institutions lending regulation
- Virtual asset laws



SANDBOX

Approved March 1, 2021. The process of testing new innovative products and services that are about to be implemented in accordance with the law and regulations before issuing licenses and licenses to new businesses, and introducing them to the market after a well-developed business model. It is unique in that it empowers, prevents the risk of being squeezed out of competition, and provides full access to industry information.

DIGITAL MONEY

Approved in 2018 and 7 organizations received permission. It is a form of non-cash payment issued by the central bank with a value equal to the national currency. The amount is stored electronically, secured by cash, and freely convertible into cash accepted by the issuer and its customers from third parties.

Year	The total amount of electronic money issued by licensed organizations
2019 Q4	4,400,897,184
2020 Q4	7,586,151,087
2021 Q4	11,520,886,291
Growth/Decline (2020-2021)	51.87%

Sandbox regulation

- Submission from 12 organizations
- 6 requests were returned to on-site inspection of the systems
- 4 organizations was conducted
- there will be a need to create a legal environment suitable for the specifics of the products

The Law on Virtual Asset Service Providers

FRC started accepting applications from companies providing virtual asset services from June 26, 2022, and those who provided virtual asset services before the law came into effect will be subject to transitional regulations starting from June 26, 2022. It is stipulated in the law that it is mandatory to register with the Commission as a virtual asset service provider within 3 months. Currently, 8 companies have submitted applications for registration, and they are working to determine whether they meet the requirements of the law and regulations.

Fraud by card payment type in million MNT /2021.01-2021.12/

Year	Category	Pos	ATM/CRM/CDM	Online shopping	Other	Total
2018/IV	Number of	22	50	21	18	111
	Amount	1.53	16.1	3	14	34.63
2019/IV	Number of	71	60	38	0	169
	Amount	48.67	15.54	5.96	0	68.36
2020/IV	Number of	17	23	114	0	154
	Amount	1.71	5.68	24.5	0	31.86
2021/IV	Number of	29	30	260	0	319
	Amount	4.31	5.61	23.43	0	33.42
Increase/Decrease	Number of	70,59%	30.43%	128.07%		107.1%
	Amount	156.52%	-0.91%	-4.35%		4.88%

Fraud and theft transactions /2021.01-2021.12/

Type	Internet				Mobile		Total	
	Browser		Mobile app		Number	Amount	Number	Amount
	Number	Amount	Number	Amount				
Fraudulent transaction	44	42422800	162	58055112	16	726800	222	101204712
Theft transaction			81	99733145	1	120000	117	284012145
								10

FINTECH'S ROLE TO CAPITAL MARKET DEVELOPMENT

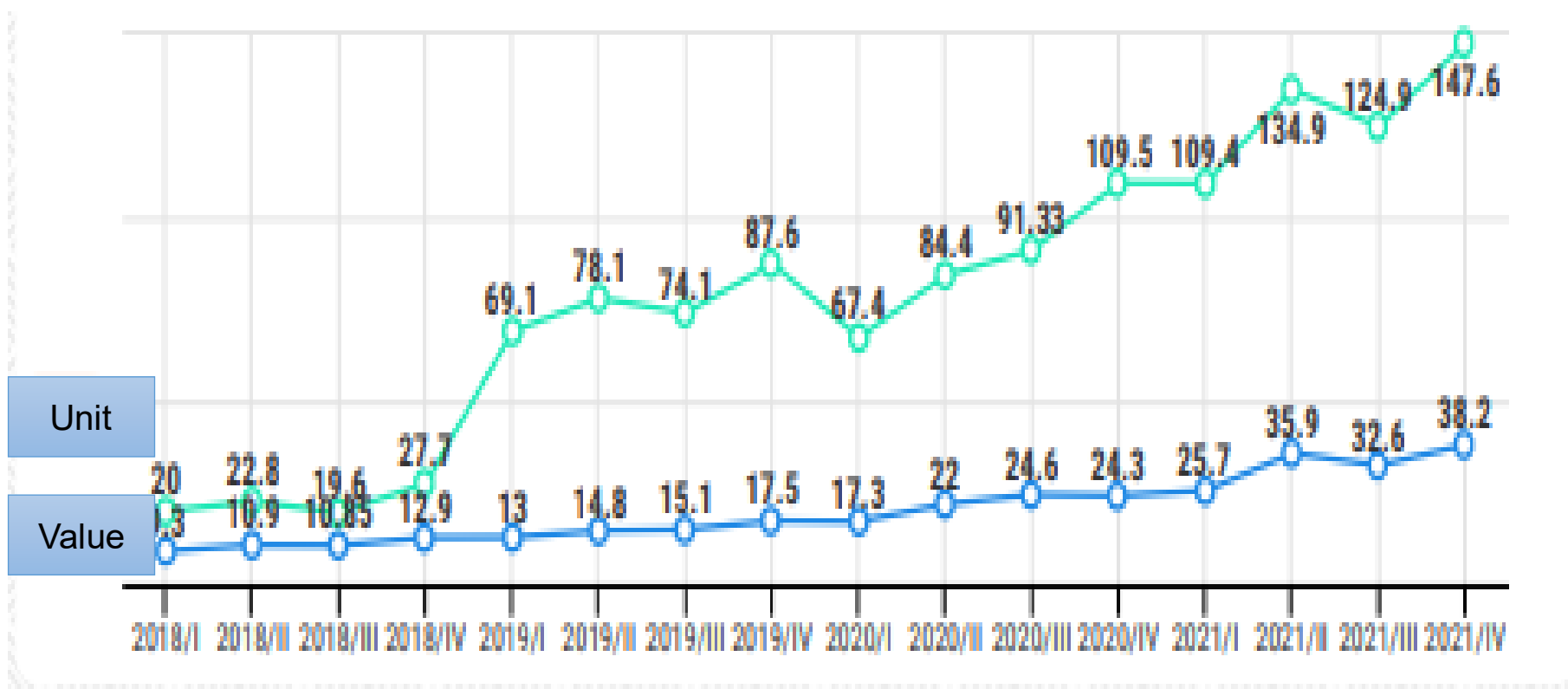
Capital market overview

There were 610 regulated entities and JSCs operating in the securities market

Stock exchanges 3	Central deposit and securities trading payments 1	Accounts Payable Asset Portfolio Controller 1
IMCs 37	Settlements 2 /1 duplicate/	Custodian banks 3
Underwriting banks 2	Asset management 8	JSCs 322
Securities firms* 52	Agricultural commodity exchanges 1	Agricultural commodity brokers 10
Auditing firms 48 /6 duplicate/	Securities valuation firms 24 /duplicate/	Legal consultancies 41
Asset-backed securities issuer 56 /T3K/	Mutual investment fund 5	Self regulatory 2 /1 duplicate/
Mining products exchange organization 1 /duplicate/	Financial rating agency 1	

- In the third quarter of 2023, securities trading amounted to a total of MNT 654.6 billion, marking a substantial two-fold increase compared to the corresponding period of the previous year and a noteworthy 5.9-fold increase from the same period in 2019.
- 71.4% of all trades were shares, 7.0 % were investment fund units, 14.8 % were corporate bonds, and 6.8 % were asset-backed securities.

Transactions between payment system participants /million units, trillion MNT/



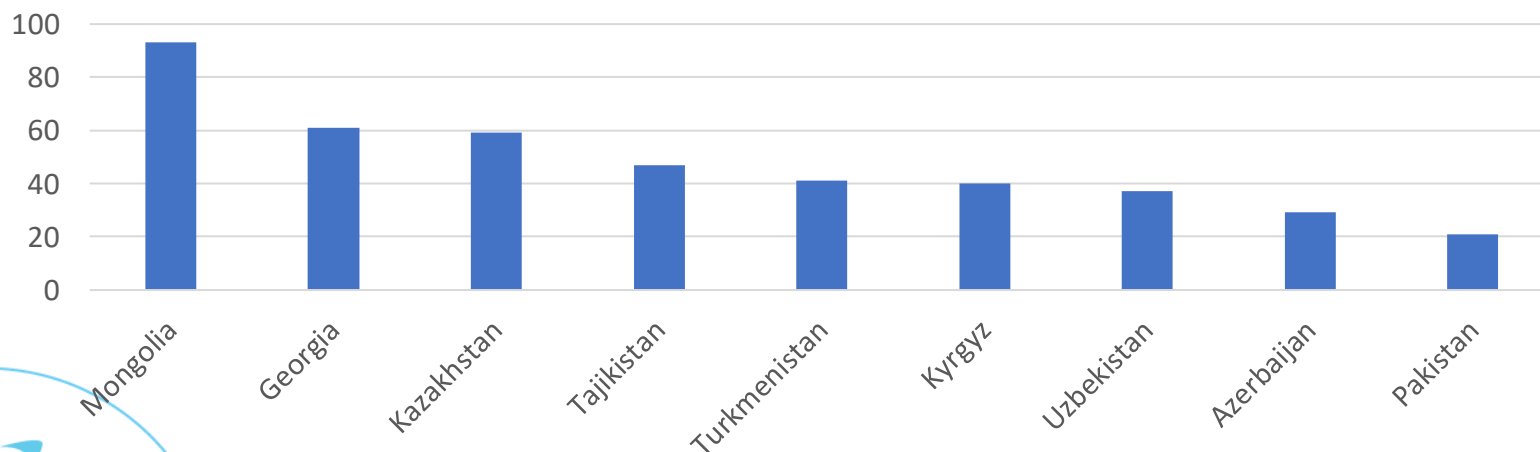


Mongolia's Fintech development in CAREC region

CAREC country's economy and population

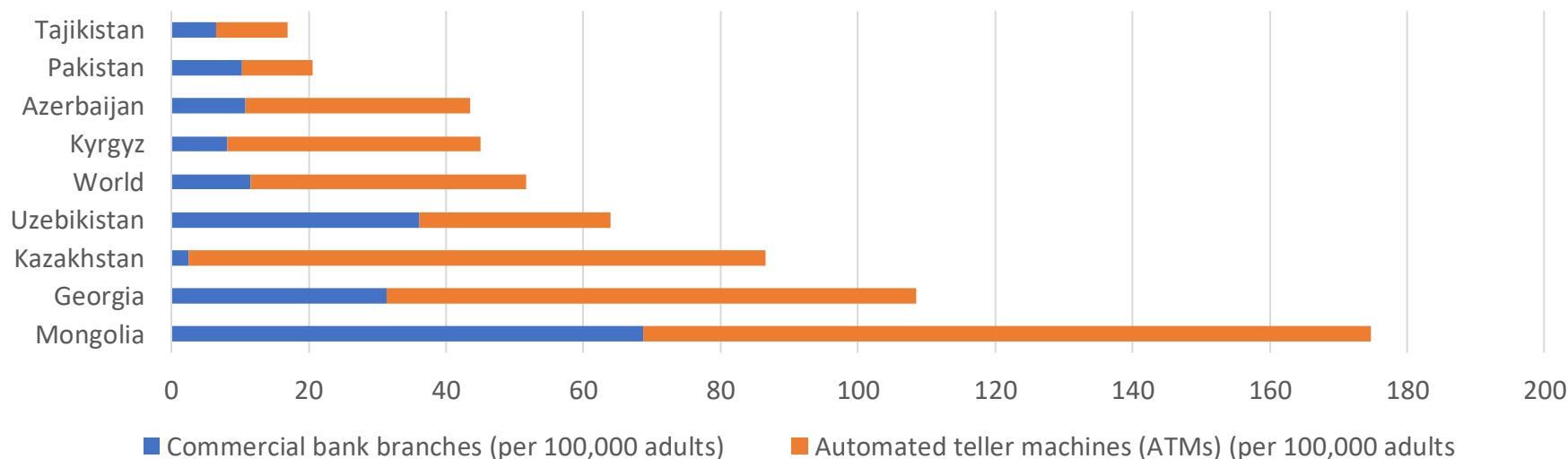
INDICATORS	PAK	AZE	GEO	KAZ	KRZ	MON	TAJ	TKM	UZK
GDP growth rate (annual %)	0.989	2.219	5.137	4.5	4.507	5.099	7.011	6.2	5.6
GDP, total (current US\$) (in millions)	278,222	48,048	17,743	180,162	8,455	13,853	8,117	40,761	57,921
Population, total (in millions)	217	10	4	19	6	3	9	6	34
Population ages 0-14 (% of total population)	35	23	20	29	33	31	37	31	29
Population ages 15-64 (% of total population)	61	70	65	63	63	65	60	65	67

Account ownership by percent

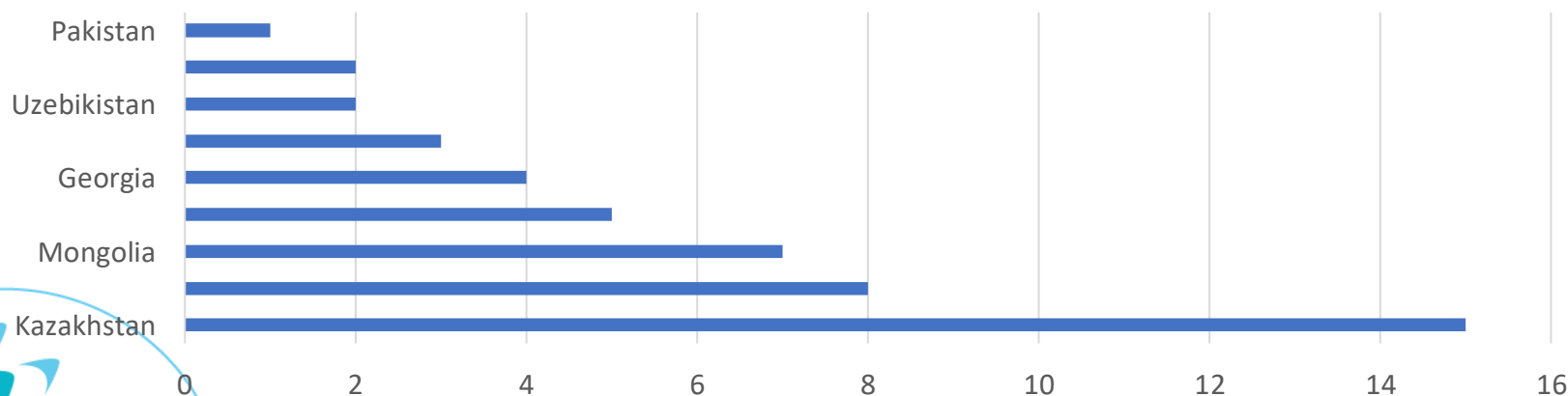


Mongolia's Fintech development in CAREC region

Commercial Bank Branches and ATM's in the CAREC region



Individuals leveraging the internet for Online Purchases in 2017 by percent



Challenges including:

- New to the financial sector
- Cybersecurity / Privacy and Security
- Outdated legal regulations
- Monitoring and reporting
- New legal regulations



CONCLUSION

- Encourage fair competitiveness
- Regulate companies in a sensible way
- Open banking will be vital for the development of fintech in Mongolia
- A solid partnership between regulators, the banking sector, and fintech organizations is more than capable and will boost the current financial sector of Mongolia.
- Improving the legal environment to protect financial consumers
- Information security standards and the legal environment to ensure them refine
- Improve public financial education in this area

