

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

Mongolia (third draft)

February-2023

Mongolia

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INTRODUCTION

	Mongolia
Land area	1,564,100 km ²
Population	3.4 million
Population density	2.07 persons per km ² (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/in million MNT/

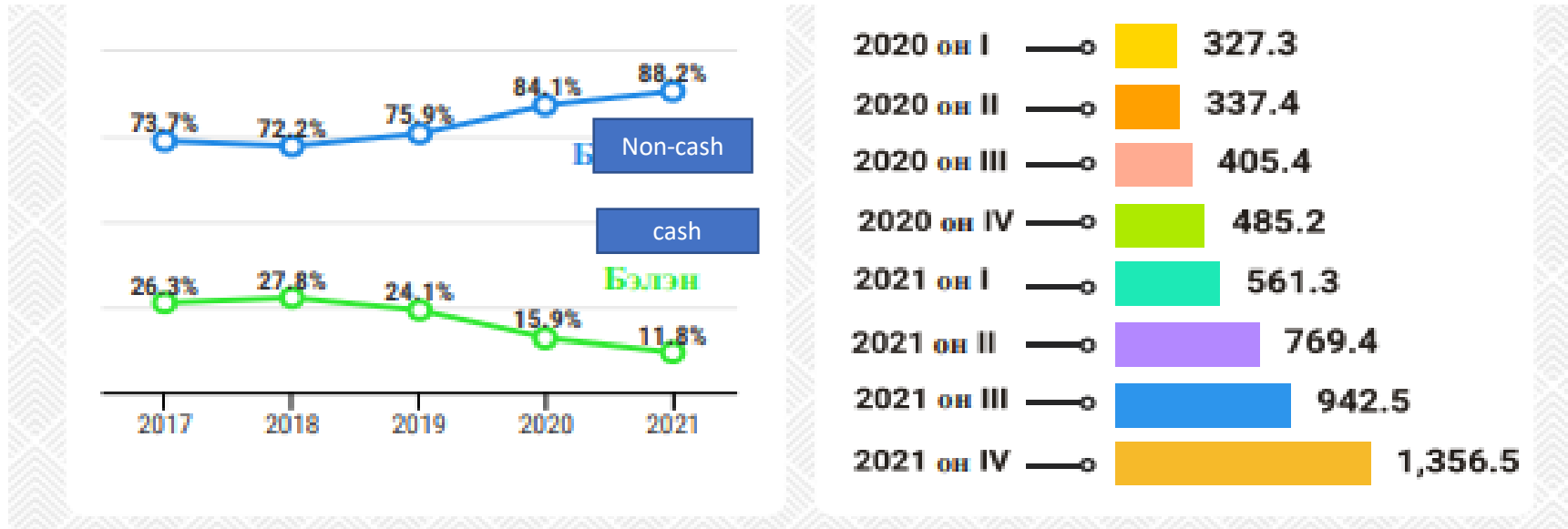
	2018	2019	2020 ¹	2021*	$\frac{2020^1}{2019}$	$\frac{2021^*}{2020^1}$
	billion togrogs				percent	
GDP	32 582.6	37 839.2	37 453.3	43 018.6	99.0	114.9
Agriculture	3 723.5	4 373.6	4 856.1	5 674.7	111.0	116.9
Mining and quarrying	8 370.8	9 590.1	8 722.1	10 447.8	90.9	119.8
Industry, construction	4 002.7	4 823.9	5 154.2	5 472.1	106.8	106.2
Services	12 967.1	15 037.5	15 165.0	17 017.7	100.8	112.2
Net taxes on products	3 518.5	4 014.1	3 555.9	4 406.2	88.6	123.9

Source: www.1212.mn



FINTECH DEVELOPMENT OVERVIEW IN MONGOLIA

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

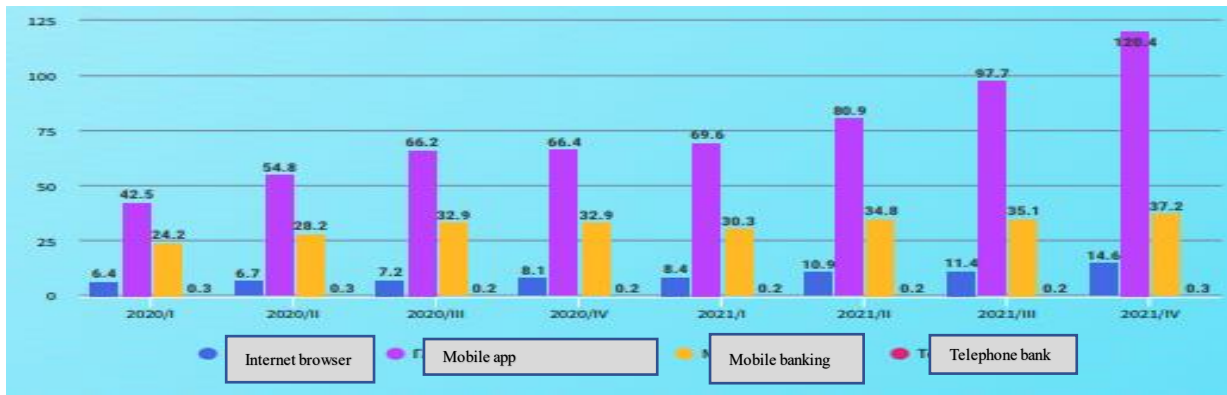


Source: www.mongolbank.mn

Lend.mn case

- Founded in 2018, “Lend.mn NBF1” 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/



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

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.

92.1%



Loan balance

7.8%

Issued balance

20.2%

Paid loan

22.9%



94.4% normal
1.9% overdue loans
3.7% poor quality

Although it had a small share in the total loan balance of the sector – in terms of the share of loans issued and repaid – the loans from these NBFIs were on good terms.

	Total loans		Borrowers		Average loan amount per borrower (MNT, thousands)
	Amount (MNT, billions)	%	Number	%	
Fintech	308.0	15.3%	1,349,116	80.4%	228.3
Traditional	1,704.2	84.7%	329,023	19.6%	5,179.4
TOTAL	2,012.2	100.0%	1,678,139	100.0%	1,199.1

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:

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

Fintech's law and regulations include:

- 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

The Law on Virtual Asset Service Providers

- 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

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

FINTECH'S ROLE TO CAPITAL MARKET DEVELOPMENT

Capital market overview



There were 579 regulated entities and JSCs operating in the securities market.

Stock exchanges 2	Central deposit and securities trading payments 1	Collateral securities portfolio registration controllers 1
IMCs 31	Settlements 2 (duplicate)	Custodian banks 3
Underwriting banks 2	Trustees 7	JCCs 314
Securities firms* 55	Agricultural commodity exchanges 1	Agricultural and commodity broker 10
Auditing firms 49	Securities valuation firms 22	Legal consultancies 39
Mutual investment fund 2	Issuers of asset-backed securities 38	

*Securities firms include brokers and dealers, underwriters, and investment consultancy firms.



Securities Trading

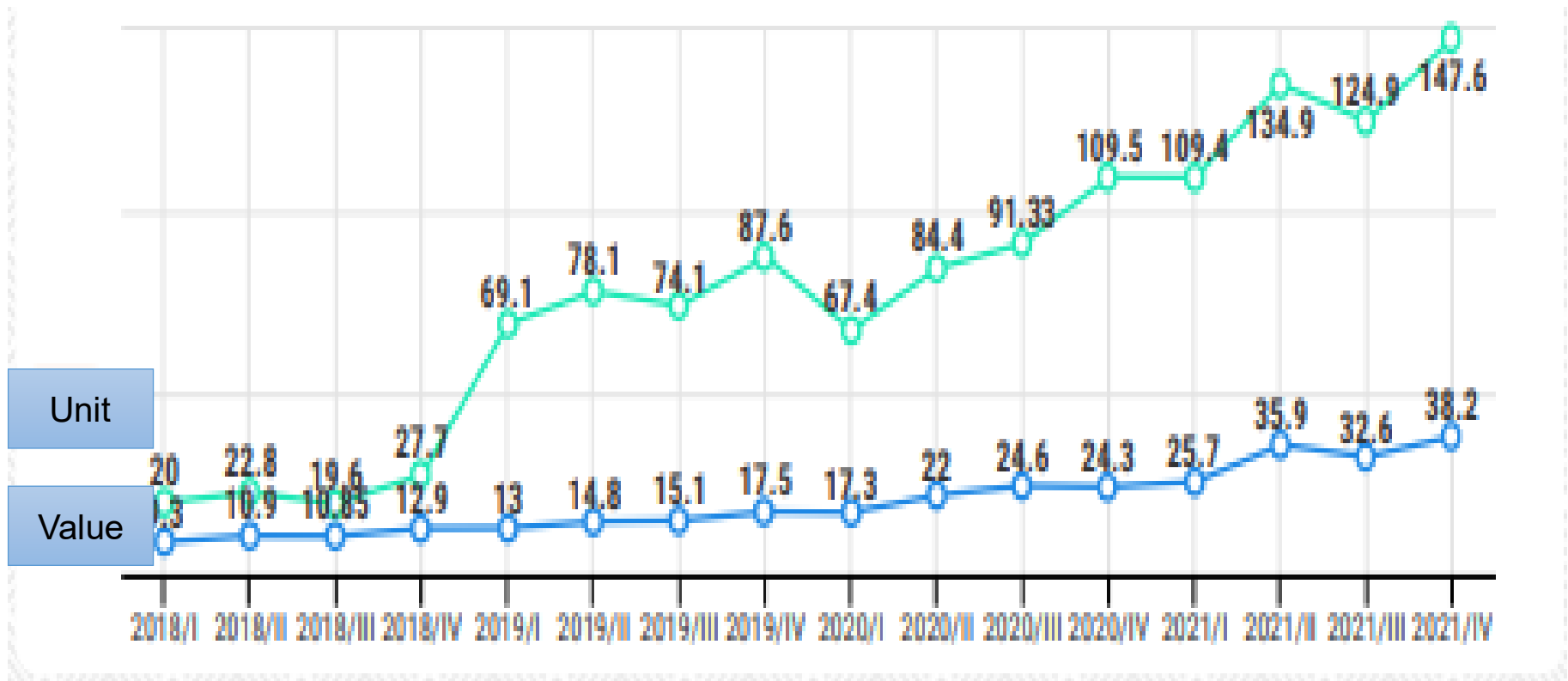
- o In 2021, MNT1.4 trillion worth of securities were traded; a 21.6-fold increase from 2020, and 64.3% from 2017.
- o Most (74.1%) of all trades were corporate bonds, 4.0% were investment fund units, 0.3% were asset-backed securities and 21.6 % were shares.

Market liquidity

- o Market capitalization increased by 97.5% to MNT6.0 trillion compared to 2020, while liquidity increased by 3.3 percentage points to 5.1%.
- o The increase in liquidity was due mainly to a 5.7-fold (MNT251.0 billion) increase in stock trading.



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

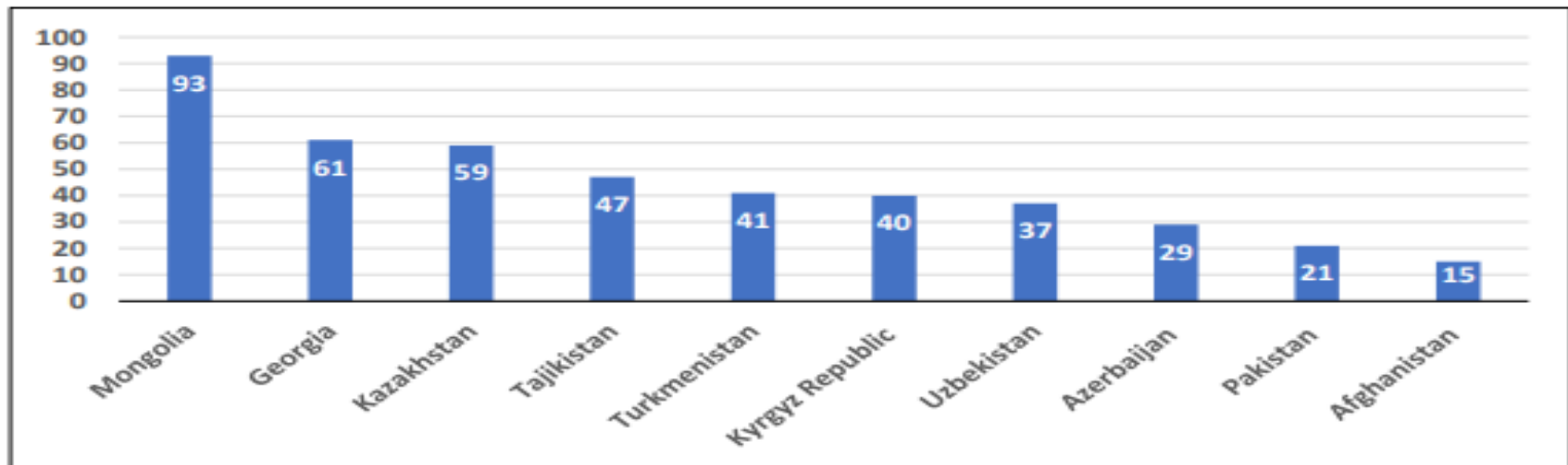


Mongolia's Fintech development in CAREC region

CAREC country's economy and population

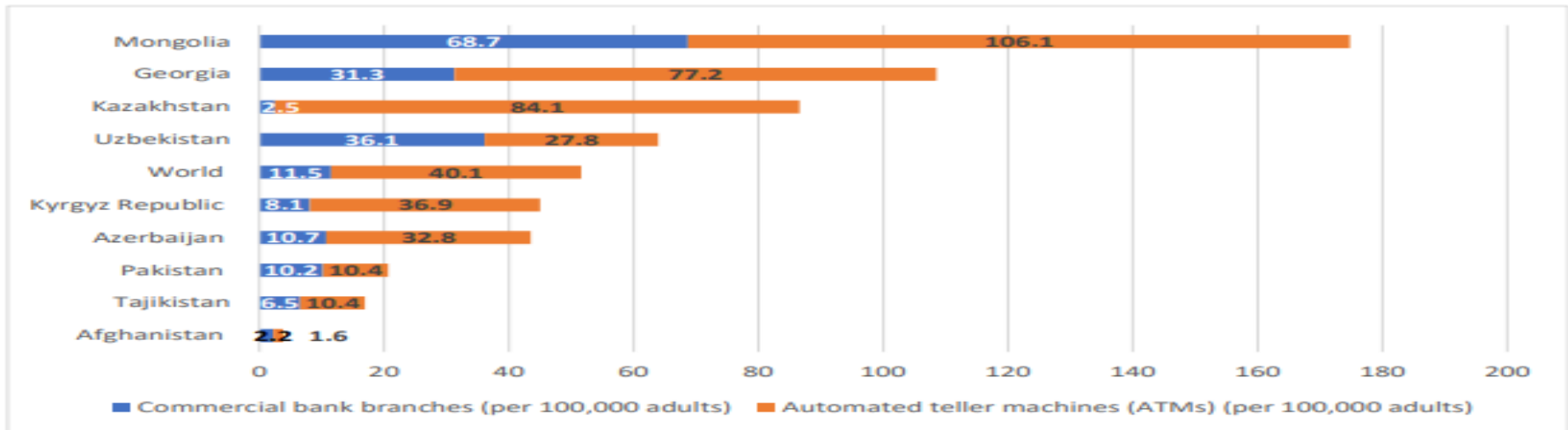
INDICATORS	AFG	PAK	AZE	GEO	KAZ	KRZ	MON	TAJ	TKM	UZK
GDP growth rate (annual %)	2.901	0.989	2.219	5.137	4.5	4.507	5.099	7.011	6.2	5.6
GDP, total (current US\$) (in millions)	19,101	278,222	48,048	17,743	180,162	8,455	13,853	8,117	40,761	57,921
Population, total (in millions)	38	217	10	4	19	6	3	9	6	34
Population ages 0-14 (% of total population)	42	35	23	20	29	33	31	37	31	29
Population ages 15-64 (% of total population)	55	61	70	65	63	63	65	60	65	67

Account ownership by percent



Mongolia's Fintech development in CAREC region

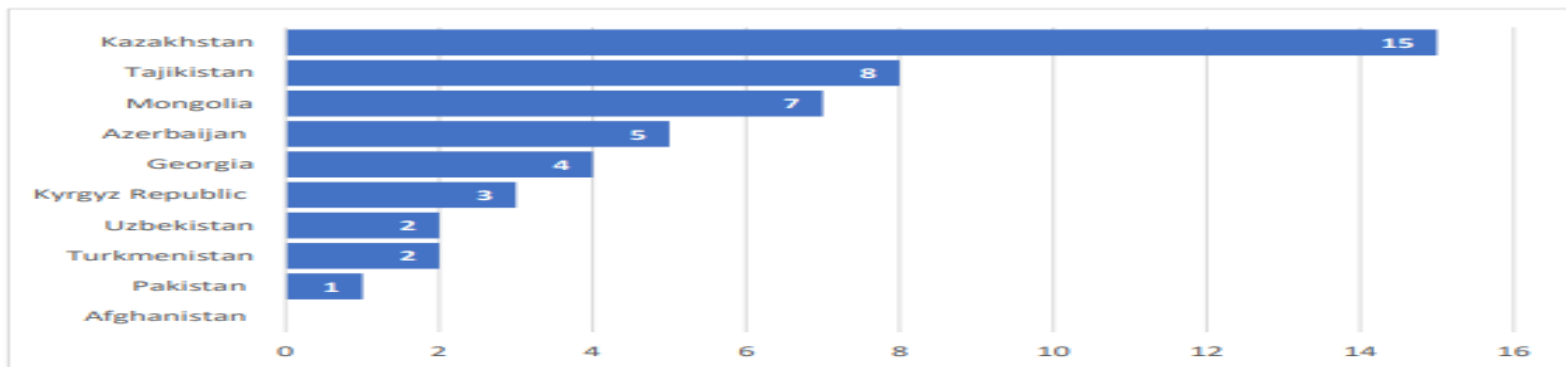
Commercial Bank Branches and ATM's in the CAREC region



Source: Author's calculations using the data of WDI (2018)

Note: The data for Turkmenistan is not available. Data for Commercial bank branches (per 100,000 adults) in Azerbaijan is for the year 2015, while for the rest of all the above-displayed countries, data for 2018 is presented. Also, data for ATMs (per 100,000 adults) in Tajikistan is for 2013, whereas 2018's data is presented for the rest of the countries. The commercial bank branches refer to those retail locations of resident commercial banks which are physically detached from the main office but not legally organized as separated subsidiaries.

Individuals leveraging the internet for Online Purchases in 2017 by percent



LEGAL ISSUE

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 / *If you hold a bird tightly it will die. If you hold it loosely, it will fly/*
- 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

