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ANALYSIS ON FINANCIAL SERVICES IN EMERGING MARKETS: IN CASE OF MONGOLIA

One of the core financial sectors is the financial services market, which performs settlement, manages risks, provides liquidity in the market, and intermediates financial problems. The planned economy of post-Soviet Union countries was transferred to market economy in early 1990s. Comparing with the highly developed market economy countries including the USA and the UK, those countries are in lower a level of economic development according to the IMF annual reports. Mongolia's, with population of 3 millions, financial market produces only 4% of its' total GDP and the comparably small market relies heavily on mineral exports. Even though, Mongolian financial service is studied by research organizations and individuals such as the IMF, NGOs, and scholars, it can be seen that the emerging market in special concern has lack of study. Furthermore, it is necessary to predict the needs of future sustainable development of financial services. This research paper analysis the structure, type, development level and the economy contribution of Mongolian financial services market and define the current issues based on statistical data.

Research question: Which fundamental measuring factors define future development of financial services market of post communist countries with emerging market economy?

Financial services helps people to manage their finance related problems in a well-organized manner, and therefore eliminating the worry of people regarding their money. Financial services in developing post soviet union countries are almost immature market because of it's development history, politics situation and regulation environment features. Mongolia has no perception, which has 25 years old market economy and needs attention to the financial services market development.

Mongolian financial services market consists of Banking and Non-banking sectors. There are totally 5 types of financial services including commercial banks, insurance companies, financial companies, securities firms/brokerages and credit unions. It can be divided in four sections by its development features; In the beginning of 1990s the main establishment of financial services market was started including the first Mongolian Stock Exchange(MSE) in 1991, following the privatization of 475 state-owned enterprises. Some 337 companies are now listed on

the MSE, with total market capitalization of MNT 1,180 billion. The size of the market is a fraction of regional markets. And first enactment of Security Market law in 1994. From 2000 to 2010 the policy of financial services market was focused more on its stability and implementation of regulations. Due to economic crisis of Mongolia, most of the credit unions bankrupted in 2006. In the years of 2010 and 2015, the law and regulation amendment enables more flexible environment, and made agreement of cooperation with London Stock Exchange in 2012 which was the new stage of development. Also 3 commercial banks were bankrupted in 2010, 2011 and 2012. In addition Mongolian commercial banks informed first time in history that their minus profit in annual report 2015.

By the size of the assets commercial banks are in significantly role of the financial sector to compare with others, however their numbers are in considerably fewer and this situation creates structure gap of the Mongolian financial environment. As of December 2014, the Mongolian financial sector is consisting of 13 commercial banks, 1 development bank, 195 small NBFIs, 159 savings & credit cooperatives, and 17 insurance companies. More than 96% percent of financial sector assets are held by the commercial banks as of 2014. According to the consolidated balance sheet of the banks of Mongolia, the total assets of the bank reached to 22,582,376.8 million tugrik's (1\$=1960 tugrik's in 2014) at the end of December 2014, which increased by 8.1% year on year level. Only 3 major banks, Trade and Development bank (TDBM), Khan bank and Golomt bank are holding around 65% of the total assets of the banking industry. There are totally 17 insurance companies are operating in Mongolia, and the total assets of these companies reached to 152,522.8 million in 2015, which increased by 40.4% from 2014 level.

Main impact factors of Mongolian financial services

Macroeconomic conditions of countries, technology, legal regulation and demand for services are still important main factors affecting the financial services provider. Financial services providers that are commercial banks, Insurance companies, Credits and Savings union, non-banking institutions and Organizations of securities and brokerages. Macroeconomic factors such as the GDP and the growth of economy influence directly the users of financial services. Technology as a key factor responsible for the rapidity and magnitude of change in the financial services market. The third factor, which influences considerably Legal regulation factors that organize environment of financial services market. The last one is the demand for service that defines the future prospects of financial services market, for example level of social financial education and knowledge. In 2010, Mongolian financial education NGO with the World Bank, voted by referendum of people. According to the results of this referendum 50.6% of the respondents knew enough about the financial market, 49.4% of the respondents had no knowledge. These results have demonstrated the fact that further study of the problem is essential.

Similarities and differences of countries after breakdown of communism

Former Soviet Republics, are the 15 independent states that emerged from the Union of Soviet Socialist Republics in its dissolution in December 1991, with Russia internationally recognized as the successor state to the Soviet Union.

The Mongolian People's Republic was a socialist state in Central Asia, which existed between 1924 and 1992. It was ruled by the Mongolian People's Revolutionary Party and maintained close links with the Soviet Union throughout its history. Comparing with other countries, whose was post soviet union and economy has began from one point, I chose that countries by features and similarities which are Kazakhstan, Poland and Ukraine. Kazakhstan is the 3rd neighbor and in the west of the Mongolia living Kazakhs. The financial system of Poland is one of the higher depending and successful system and 4th place by level of stability in Europe. Ukrainian geographical location is similar to Mongolia. Ukraine is middle of 2 giant countries, such as Russia and the European Union and Mongolia is middle of Russia and China.

According to the World bank study of financial services affecting factors by countries in 2015, the evaluations are: 1) GDP percent of the world economy by countries (macroeconomic factor) - Poland 0.88%, Kazakhstan 0.35%, Ukraine 0.21%, Mongolia 0.02%; 2) Technology factors – such as a/Used internet to pay bills or make purchase of all adults (+16) – Poland 42.7%, Ukraine 13.3%, Kazakhstan 6.9%, Mongolia 6.8%; b/ Used debit card to make payments - Poland 39.6%, Mongolia 36.6%, Ukraine 27.1%, Kazakhstan 12.7%; 3) Account owned adults (+16) in formal financial institutions (factor of demand for services - Mongolia 92%, Poland 78%, Kazakhstan 54%, Ukraine 53%. Fifty percent of adults worldwide do not have an account in a formal financial institution - banks, credit unions, co-operative, post office or microfinance organization. These 2.5 billion adults who are not covered by the banking system do not have a safe place for savings and assets as generally enjoy only limited access to credit. But without an account in a financial institution harder for people to receive salary, remittances and government payments.

Mongolia has made great strides over the last ten years in financial system intermediation so that it can provide financing to people at the bottom of the pyramid. In Mongolian situations, backward development of stock market and a low level of social financial education and knowledge are the main impact factors influence the current financial services market. Furthermore, we need to focus on financial literacy of people and implementation of the experience of other similar countries. The data can be used to track the effects of financial inclusion policies globally and develop a deeper and more nuanced understanding of how people of post Soviet Union countries save, make payments, and manage risks. By enabling policy makers to identify segments of the population excluded from the formal financial sector, the data can help them prioritize reforms accordingly and, as future rounds of the data set become available, track the success of those reforms.

Recommendations: development of mechanisms to improve outreach in rural areas through IT improvements (e.g., mobile phone banking, points of sale, Internet banking); improvement of product mix to increase customer outreach through agency arrangements (e.g., for insurance), no collateralized loan products, and savings mobilization; establishment of secondary markets for insurance, including the institutionalization of index-based livestock reinsurance, and reinvigoration of the secondary market for mortgage lending; establishment of deposit insurance;

institutionalization of microfinance training; establishing a privatized credit bureau that would balance the needs of the financial industry, consumers, policy makers, and smaller financial institutions; IT improvements to better enhance the information technology services of financial institutions (e.g., point-of-sale and mobile phone banking, especially in rural areas)

Furthermore, it is necessary to predict the needs of future sustainable development of financial services of Mongolia.

Future work

This study analyzes the Financial Services market of Mongolia, according to our main view of next future research on area of Financial Services In Emerging Markets. Furthermore, we will focus on several problems of financial services sectors, below which can be applied to the development plan of Mongolian financial services market:

Essential Requirement For The Development Of Capital Markets In Mongolia

According to the study, we will study post soviet union countries with successfully developing capital markets, detecting the financial literacy of population of Mongolia by referendum and will set the design.

Future prospects of Financial Services: Mobile financial services, Internet things

According to the study, we will define the future prospects, the trends and will find ways to implement of practices by comparing level of financial services in financial market of post soviet union countries with developed.

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ІНВЕСТИЦІЙНО-ІННОВАЦІЙНИЙ РОЗВИТОК РИНКУ ФІНАНСОВИХ ПОСЛУГ В УКРАЇНІ

Фінансова система будь-якої країни не може вважатися ефективною, якщо вона не розвивається шляхом запровадження інноваційно-інвестиційної стратегії розвитку. Досліджуючи розвиток ринку фінансових послуг, важливо усвідомлювати його специфіку по відношенню до інноваційного процесу. Адже ринок фінансових послуг, на відміну від реального сектору економіки, виступає не лише реципієнтом інновацій та інвестицій, але й механізмом реалізації фінансового забезпечення інноваційного процесу.