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MEFIN Network

Financial Literacy and Inclusive Insurance Awareness in Mongolia: Work in Progress

Study Report
October 2018

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ACRONYMS

APEC	Asia-Pacific Economic Cooperation
BoM	Bank of Mongolia
FDI	Foreign Direct Investment
FRC	Financial Regulatory Commission
GDP	Gross Domestic Product
GIZ	Deutsche Gesselschaft für Internationale Zusammenarbeit GmbH
GOSWS	General Office of Social Welfare Services
IBLI	Index-based Livestock Insurance
ICT	Information, Communication and Technology
ILO	International Labour Organization
LMIC	Lower Middle-income Country
MECSS	Ministry of Education, Culture, Science and Sports
MEFIN	Mutual Exchange Forum on Inclusive insurance
MIA	Mongolian Insurance Association
MoF	Ministry of Finance
MPDSP	Ministry of Population Development and Social Protection
MSMEs	Micro, Small and Medium-sized Enterprises
NBFIs	Non-bank Financial Institutions
NFIS	National Financial Inclusion Strategy
NLLEC	National Long Life Education Centre
NSO	National Statistics office
RFPI	Regulatory Framework Promotion of Pro-Poor Insurance Markets in Asia
RIA	Regulatory Impact Assessment
SCCs	Savings and Credit Cooperatives
SMEs	Small and Medium-sized Enterprise
SMS	Short Message Service
ToT	Training of Trainers
UBCI	Ulaanbaatar City Insurance
UNDP	United Nations Development Programme

1. Introduction

Financial inclusion – the access of individuals and businesses to formal financial services – has been defined as one of the most important potential contributors to sustainable and inclusive economic development. Inclusive finances are becoming a priority for policymakers, regulators and development agencies globally. The 2017 APEC Financial Inclusion Summit held in Vietnam has committed itself to improve financial inclusion in Asia- Pacific. Additionally, financial inclusion was the first development topic to be integrated into the G20 multi-year action plan on development. This was achieved through the formation of the Global Partnership for Financial Inclusion as a platform for international standard-setting bodies to support financial inclusion.

Financial inclusion has made a substantial progress in Asia and the Pacific region. New technologies, new products and services, creative public–private partnerships, innovative business models as well as better knowledge of client needs are contributing to the transformation of Asia's financial inclusion landscape. Yet, more than 1 billion people in the region do not have access to formal financial services. Barriers to financial inclusion include lack of knowledge of financial products and services, low financial literacy, and lack of trust. Education, especially financial literacy, is a particular need. Various studies have shown that there is a significant correlation between financial inclusion and financial education.[1] However, many Asian countries do not have a formal national strategy for financial education or have assessed the financial literacy of its population.

Consumer protection and financial literacy is key to increasing responsible access to financial services. Strong consumer protection ensures that households have access to clear and transparent information about costs, risks and rewards of financial products. Financial literacy equips consumers with the tools needed to make complex financial decisions. Together consumer protection and financial literacy build public confidence in financial institutions, thus encouraging savings and long-term financial investments that promote depth in the financial system. Progress will rely on a comprehensive approach of financial services providers, government, regulators, technology, and communications services to adapt and respond to market needs. All players need to find creative solutions to tackle challenges and harness opportunities for a better enabling financial inclusion in a digital age in Asia and the Pacific.

Digital finance has introduced new challenges and opportunities for financial inclusion in the region. As in other parts of the world, financial services are increasingly being provided through digital channels, including money transfers

[1] OECD and the World Bank (2012, 2013 and 2014).

through mobile phones and the Internet. Digital finance provides new ways of reaching excluded groups and bringing them into the formal financial market, but at the same time opens new challenges in terms of regulation and financial consumer protection. A number of potential users of digital financial services lack both financial literacy and expertise to use new technologies. Thus, financial literacy training in the areas of e-money, digital wallets, mobile payments, and consumers is becoming essential.

2. Mongolia: the Big Picture

Situated strategically between Russia and China, Mongolia has emerged as an important player in the geopolitical landscape. With a population of over three million, it has the lowest population density in the world – two inhabitants per square kilometre. Over 60 per cent of the population lives in urban areas, approximately 40 per cent of which, in the capital city of Ulaanbaatar. The remaining rural population is scattered over wide distances, with significant challenges in transportation, communication and service deliver. More than half of Mongolia's population now lives in or near urban centres.

Ethnic Mongols account for near 85 per cent of the population. Minority groups, especially Kazakhs, Buryats, and Chinese are occasionally marginalized in terms of both economic and political opportunities, but the risk of ethnic conflict is low. The nation has a high level of gender equality, with more women in the university system than men. The country's parliamentary republic democratic system has consolidated and matured over the past years. Since 1990, Mongolia has transitioned from a socialist state to a constitutional democracy and a free market economy. In more than two decades, Mongolia has transformed itself into a vibrant country, with three times the level of GDP per capita and increasing school enrolments, and dramatic declines in maternal and child mortality. Nevertheless, Mongolia's economic dependence on the extraction and the export of raw materials has made the country experienced economic boom and bust cycles. In recent years (2014-2016), with the fall in commodity prices on the world market, the decline in private consumption and diminished foreign direct investment (FDI), economic growth has fallen sharply.[2] However, Mongolian economy has recovered in 2017: real GDP grew by 5.1 per

[2] While real GDP growth in 2012 and 2013 was 12.3 per cent and 11.6 per cent respectively due to mineral price increase in the market, economic growth had decreased since then: 2.4 per cent in 2015 and 1.2 per cent in 2016.

cent, driven by increased coal exports and a recovery of FDI after the approval of the International Monetary Fund's reform package in May, which has helped restore business confidence. For 2018 and beyond, the growth prospects are positive; however, structural challenges and limited export diversification still make the economy vulnerable to commodity price or other shocks.[3]

Mining [4] and agriculture are the main economic sectors of Mongolia: 20.5 and 12 per cent of GDP in 2016, respectively. In the same year, mining companies accounted for 56 per cent of aggregate FDI, followed by companies in banking, textiles, beverages, telecommunications, and tourism. Nomadic lifestyle is a particular feature of the country and livestock is still a major sector contributing about 16.2 per cent of GDP in 2015. The country has 21 provinces (aimags) with around 160,000 herder families living across them. They herd animals including sheep, horses, camels, goats, and cows. The number of livestock has been increasing during the last years reaching 61.5 million in 2016.[5]

The development in Ulaanbaatar and the Mongolian provinces shows great socio-economic disparities. The impact of poverty – 29.6 per cent in 2016 [6] – is stronger felt in rural areas[7] To ensure sustainable and inclusive growth and reducing poverty, Mongolia needs to strengthen governance; build institutional capacity to manage public revenues efficiently; allocate its resources effectively amongst spending, investing, and saving; while ensuring equal opportunities to all its citizens, protecting the environment, with intergenerational equity and a gender approach.

3. Financial Sector Landscape

Governments in Mongolia continue to show commitment to reforms. A number of plans and strategies have been released to achieve economic growth, boost skills and technology, create new jobs, and develop a private sector based on both exports and domestic markets. The *National Development Strategy, 2008–2021*, calls for strengthening the banking and financial system consistent with practices found in highly developed countries. Key activities include (i) strengthening the

[3] About 80 per cent of total amounts of foreign direct investment between 1993 and 2012 were development projects related to mining and only 1 per cent was manufacturing projects. In order to strengthening not only mining sector but also the manufacturing industry in the non-mining sector, the government has passed parliament resolutions and new laws since 2015 in order to support the export-oriented and import-substituted companies.

[4] Mongolia has vast mineral resources, primarily copper, gold, and coal, but other minerals such as fluorspar and tungsten.

[5] According to the National Statistic Office (NSO) data.

[6] According to NSO, it was 36, 1 per cent in 2008

[7] NSO and The World Bank.

nonbanking financial system and operations, (ii) developing the securities and capital market, and (iii) strengthening risk management in banking and financial institutions. In addition, the strategy aims to achieve intensive economic growth, boost skills and technology, create new jobs, and develop a private sector based on both exports and domestic markets.

For its part, *Mongolia's Sustainable Development Vision 2030* also aims to establish sound development finance and a financial market that would promote stable economic growth, increase the role of non-bank financial institutions, and stabilize the soundness of financial institutions. The strategy also includes Mongolia's aspiration to be amongst leading middle-income countries based on per capita income. It hopes to be a multi-sector stable economy, and a society dominated by middle and upper-middle income classes, which would preserve ecological balance, and have stable and democratic governance.

Additionally, the *National Programme to Develop Mongolia's Financial Market up to 2025*, specifically states as a mid-term strategy the need of financial literacy and the launch of a National Programme on the subject.

The Mongolian financial sector is made of 14 commercial banks, 18 insurance companies, 518 registered non-bank financial institutions (NBFIs), and about 280 savings and credit cooperatives (SCCs).[8]The insurance industry in Mongolia is currently small and is still at its development stage. Total asset of the insurance industry is 0.7 per cent of GDP. Banking sector dominates the financial sector holding 96 per cent share of the GDP. NBFIs including SCCs are about 3.2 per cent of GDP.[9]

The Ministry of Finance (MoF) is in charge of overall financial sector policy. The banking sector went through several crises in the 1990s after which, the Government implemented several measures such as: restructuration of ailing banks, privatization of major banks, enhancing the Bank of Mongolia's (BoM) to enforce compliance with prudential regulations, and strengthening market discipline and incentives for sound bank management. Supervision of banks is under the BoM while the Financial Regulatory Commission (FRC)[10] is the supervisory body of other financial institutions including insurance companies, security companies, SCCs and NBFIs.

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[8] The law on NBFIs operation was enacted in 2002. Regarding Cooperatives, the original Law on Cooperatives was adopted in 1998 and did not distinguish between the financial intermediation activities of SCCs and cooperatives created to provide non-financial services to their members. After subsequent revisions and improvements in 2011 the Parliament enacted a law on Savings and Cooperatives that stipulates the legal and regulatory framework that governs SCCs and its operations in Mongolia. Both entities are not allowed to sell insurance.

[9] BOM, FRC & MOF, 2017.

[10] The FRC was established under the Parliament of Mongolia in 2006. The Commission is comprised of Chairman and six members appointed for the term of five years.

Microfinance sector has achieved considerable success since the 2000's. The Government has boosted microfinance development through a number of actions such as the *Microfinance Development Plan* 2012-2016; the Credit Guarantee Law (2012) – which has established the Credit Guarantee Fund with the aim of issuing guarantee for SMEs that lack collaterals. The fund provides guarantee up to 60 per cent of total loan amount. The FRC supervises the fund by providing regulations regarding its activities. Currently, microfinance providers in Mongolia are NBFIs and SCCs. However, the largest microfinance providers are commercial banks in Mongolia, including Khan Bank and Xac Bank.

3.1 Insurance in Mongolia

With regards to Mongolia's insurance industry, it accounts for only 0.94 per cent of the GDP. Since 1934, a state insurance company has been the sole insurance provider until 1997, when it was privatized and became the Mongol Insurance Company – which still is Mongolia's largest insurance company. The industry has slowly been expanded in particular since the new insurance law in 2004 came into force providing the framework for the regulatory and policy environment of the insurance industry. The FRC has been established as the regulatory authority.

The country's insurance industry comprises the life and non-life insurance companies, agents, and brokers. As of mid 2018, total of 15 non-life insurance companies, one life insurance, two reinsurance companies, 46 brokers, 31 loss adjusters, and 242 insurance company branches, 10 agent companies, 208 branches of brokers, 50 branches of loss adjuster companies, and two agents of loss adjusters have been operating in the market.[11] All entities providing insurance products and services are required to secure a license to operate from the FRC. Insurance penetration and density are still underdeveloped compared to other countries. Mongolia's total insurance premium in 2017 was only 0.59 per cent of its GDP, well below the average for emerging markets of 3.3 per cent and the world average around 6.13 per cent.

[11] FRC, First half 2018.

3.1.1 Inclusive Insurance[12]

Most low-income people face a number of risks events like illnesses, accidents, disability, deaths and natural disasters. Due to the immediate and/or long-term financial stress such risks create, they push people to deplete savings, household or income generating assets and borrow from a variety of sources. These are all problematic coping mechanisms due to low-income people having fewer assets that can be sold to cover emergency spending, to diversify their sources of income or to offer as security for a loan.

Inclusive insurance can play a role in providing social and financial protection against such losses by ensuring financial shock absorbency of low-income households to both predictable and unpredictable risks and to maintain wellbeing. Specific inclusive insurance products that address specific life cycle or environmental risks can offer low-income people tools to control the negative effects of various risk events in their lives.

3.1.2 Inclusive Insurance Milestones

- **2005** - The Index-based Livestock Insurance (IBLI) pilot, implemented by the World Bank and the Government of Mongolia. The pilot phase lasted for three years, and has since been extended. The product is also available to high-income herders, but reaches a segment of the population vulnerable to financial risks, and provides lessons on the development and distribution of inclusive insurance in the country.
- **2009** - United Nations Development Programme (UNDP) and the FRC launched a 3-year project to develop inclusive insurance capacity in Mongolia. The health insurance product was introduced in July 2010, with the first policies issued in January 2011.
- **2009** - Tenger Insurance (formerly Prime General Insurance, a private commercial company) launched a second inclusive insurance initiative supported by a grant from the Micro-insurance Innovation Facility of the International Labour Organization (ILO). The product, Happy Citizen, combined personal accident insurance with a hospital cash benefit, and was launched in December 2010.

[12] Mongolia is a country using the term "inclusive insurance" rather than microinsurance.

- **2015-16** Monre Daatagal launched Amar/EASY, a product covering fire and flood for Ger, Houses and Fences.
- **2015** Ulaanbaatar City Insurance (UBCI) developed the Child Accidental Insurance product.
- **2015** Ulaanbaatar City Insurance (UBCI) launched Household Accident Insurance and Ger, House and Fence Insurance products
- **2017** Khaan Daatgal launched a Complete Coverage Condominium Owners product.
- **2018** Mongol Daatgal has developed two products: Personal Accident Insurance and Ger, House and Fence Insurance.

3.1.3 Regulatory Framework for Inclusive Insurance

As already mentioned above, the Financial Regulatory Commission (FRC) of Mongolia[13] is the supervisory body of financial institutions including insurance companies, security companies, SCCs and NBFIs. In order to provide insurance for the low-income population, the FRC of Mongolia promotes inclusive insurance products that are characterized by low premiums and simple policy terms. In 2014, the FRC issued the Resolution 303, which was later included into Regulation 407 released in 2015. In both documents, the FRC defines inclusive insurance as "products of voluntary insurance, which are intended to provide insurance coverage for every individual. An insurance contract's wordings, terms and conditions should be easily understandable for individuals and the insurance premium should be affordable." The regulation allows only up to five (5) exclusions and determines the claims payment to take place within ten (10) working days.

3.1.4 Information Communication Technology (ICT) Development

The government of Mongolia has been encouraging ICT development [14] in the country. An ICT development policy 2017-2025 has been released in early 2017, with the aim to increase the types and outreach of the services based on advanced technology. The law regulating the situation of introducing technology based financial services is the Law on Electronic Signature, enacted in September 2014. The law allows using e-signature

[13] The FRC was established under the Parliament of Mongolia in 2006. The Commission is comprised of Chairman and six members appointed for the term of five years.

[14] This development is directly related to the improvement of mobile communications at national level and the broadcast of 3G networks, throughout the capital city and over 340 *suoms* in the rural areas.

as traditional one. According to FRC interviewees, e-signature is included in the regulation, "Rule of Criteria for Insurers" approved by resolution No 8. It states that insurers can sell their insurance product using Internet, registering their products as well as its distribution channels at the FRC. However, e-signature law is not fully implemented because Civil Law states that insurer should deliver signed insurance agreement to the insured people.[15]

Within the financial sector, banks are the most advanced with regards to introducing new technologies in Mongolia. They have been offering services based on advanced technologies such as mobile bank, Internet bank, and message bank, which allow its customers to make wires and payment. Worthy to mention that 95 per cent of Mongolian population is covered by mobile telecom network; 2.3 million users (69.1 per cent) have smartphones; 2.66 million of Internet users, out of which 2.4 million do it through mobile phones.

Although InsurTech[16] has not yet been fully embraced by the industry players, a number of insurance companies have begun to use digital platforms to reach their end-users (Internet, Facebook, smartphones), among others UBCI and Mongol Daatgal.

Good practice in inclusive insurance demonstrates that the provision of insurance products and services to the low-income sector requires a strong partnership between the government and the private sector, providing policy and regulatory environment and underwriting and distribution of the insurance products and services tailor-fitted to the peculiar demand of the low-income sector, respectively.

Since 2013, RFPI Asia Programme has closely worked with different stakeholders, in particular FRC, in order to introduce inclusive insurance to the private sector, intending to solicit relevant issues and concerns with regard to the provision of insurance products and services to the low-income sector. Many achievements have been reached so far; and digital finance has introduced both challenges and opportunities for inclusive insurance that will certainly boost new developments. Today, in the framework of the MEFIN Network both regulators and representatives of the insurance industry have been closely working. Peer to peer learning and sharing good practices from each other and from peer countries members of the network is contributing to the promote the introduction of new technologies in the inclusive insurance arena. A video developed by UBCI company shows this fruitful collaboration.

[15] While many interviewees from the insurance industry have stated that uncertainty regarding e-signature usage is restraining them to take further actions regarding the application of new technologies, the FRC officials have informed about upcoming legal developments with regards to e-signature.

[16] Financial technology (FinTech) applied to the insurance industry.

4. Financial Inclusion in Mongolia

Poverty and income inequality remain a challenge in Asia and the Pacific despite the region's rapid economic expansion in previous decades, which lifted millions out of poverty. Financial inclusion is often considered as a critical element that makes growth inclusive as access to finance can enable economic agents to make longer-term consumption and investment decisions, participate in productive activities, and cope with unexpected short-term shocks. In particular, financial services are not the end goal but instead are means to ends such as education, improving health, growing enterprises and helping farmers survive extreme weather.

According to Global Findex database 2017, 515 million adults worldwide opened an account at a financial institution or through a mobile money provider between 2014-2017. This means that 69 per cent of adults now have an account, up from 62 per cent in 2014. In high-income economies 94 per cent of adults have an account while in developing economies the figure is 63 per cent. Yet barriers to financial inclusion remain and to broaden such services in emerging markets both financial service providers and potential customers need to train and learn to develop the skills to effectively offer and use financial products, respectively.

Mongolia, as both an emerging market and lower middle-income country (LMIC)[17], is a particular case: 93.8 per cent of adult population (15 years +) hold a bank account [18], while the average for the East Asia and the Pacific region is 70.6 per cent and for LMIC, 50.8 per cent.[19] Around the half of all bank account holders cite receiving government payments as the most common use for a bank account.[20] In addition, the share of adults with a mobile money account has reached 21,9 per cent of the population (from 5 per cent in 2014). Regarding financial inclusion Mongolia has performed 14 in a ranking of 82 countries worldwide, a higher position than developed countries such as Sweden, Ireland or Austria. However, lower amounts of savings, high-cost financial resources and lack of knowledge in savings and insurance among individuals need to be addressed for financial service delivery.
This high level of financial inclusion may be due in large part to universal cash hand-outs from the government's Human Development Fund [21] as well as pensions, health insurance and student tuition payments. Mongolia is amongst the

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[17] Mongolian GDP per capita in 2017 was US$ 3,590.
[18] The number of adults (15+) amongst the total population reaches 2,1 million.
[19] LDB FinInclusion 2018 https://openknowledge.worldbank.org/bitstream/handle/10986/29654/LDB-FinInclusion2018.pdf
[20] The share of account holders for women is 90.8 and the whole rural population, 93.9. LDB FinInclusion 2018.
[21] In 2008 Mongolia's Parliament [Great Khural] passed a National Development Strategy and created a Human Development Fund (HD Fund) with the ambitious goal of bringing Mongolia's human development status to the same level as that of the developed countries by 2020. This Fund made it legally possible for every citizen of Mongolia to be equally eligible to own a share of the nation's mineral wealth. The Alaska Permanent Fund, Norway's sovereign wealth fund, and Chile's use of its copper resources to help drive growth were studied as models to be followed.

few countries in the East Asia and Pacific region that spend relatively generous amounts on social welfare programs. In 2013, the Government spent 2.78 per cent of its GDP on welfare transfe.[22] Through the Ministry of Population Development and Social Protection (MPDSP) and the General Office of Social Welfare Services (GOSWS), 71 social welfare programs are implemented. While some programs are needs oriented, others are merit oriented. Mongolia's government has developed effective cash delivery mechanisms and maintained an updated poverty-targeting method that has registered approximately 90 per cent of all households in the country.[23]

Despite all, challenges remain. The still lower amounts of savings, high-cost financial services and lack of knowledge in savings and insurance amongst individuals need to be addressed for financial service delivery; and Mongolia has not yet a National Financial Inclusion Strategy (NFIS). Designing and developing a NFIS is key for a country to successfully implement envisioned reforms, as it provides a roadmap to achieve their financial inclusion goals. The extension of financial services to those unserved or underserved should help households to better cope with consumption, savings and cash shortages. With more access to finance, micro, small and medium-sized enterprises (MSMEs) would gain a potential source of investment to facilitate competitiveness, productivity, and integration into trade networks, including at international level. Currently, the FRC has been appointed as the lead governmental agency to design a Financial Inclusion Strategy for Mongolia.

[22] For purpose of comparison, the average expenditure by developing and emerging countries is 1.6 per cent of GDP.
[23] Programs vary from social pensions for the elderly and the disabled to reimbursements for healthcare and other services. There is a lifetime Mother Hero Program for mothers who gave birth to four or more children, and a generous monthly transfer program to veterans and those accorded state honours. In addition, half of all benefits amounts are distributed through the Child Money Program, a near-universal monthly cash transfer program for all children 15 years and younger, aimed at re-distributing the country's expected mineral wealth to the younger generation. See: Onishi, Junko; Chuluun, Tungalag. 2015. *Review of program design and beneficiary profiles of social welfare programs in Mongolia (English)*. Washington, D.C.: World Bank Group.
http://documents.worldbank.org/curated/en/599141468185351818/Review-of-program-design-and-beneficiary-profiles-of-social-welfare-programs-in-Mongolia

Inclusive insurance needs to be placed within the general context of inclusive financial services. Thus, it is important to have a national policy on making financial services accessible to all, including insurance services. Most low-income people face a number of risks events like illnesses, accidents, disability, deaths and natural disasters. Due to the immediate and/or long-term financial stress such risks create, they push people to deplete savings, household or income generating assets and borrow from a variety of sources. These are all problematic coping mechanisms due to low-income people having fewer assets that can be sold to cover emergency spending, to diversify their sources of income or to offer as security for a loan.

Another important challenge to be overcome is the low level of financial literacy and the misconceptions regarding insurance in general, as well as the lack of awareness on inclusive insurance in particular. The insurance industry also face cultural barriers such as the quite common belief that the purchase of insurance is a bad omen or that by helping the "lamas" they will be protected of unfortunate events. This perception has been reinforced for generations and is likely to continue for many years to come.

5. Financial Literacy and Insurance Awareness in Mongolia

There is a growing awareness about the importance of financial education in Mongolia. In 2012 a survey on financial literacy [24] using the World Bank methodology was conducted in the country. In addition, a 2014 UNDP project report stated: "there is an increased awareness among the donor community and the government ministries on the importance of developing a more comprehensive strategy on financial inclusion which should include developing financial literacy in Mongolia". With regard to insurance, participants of Focus Groups Discussions (carried out among SMEs in Erdenet City) conducted by GIZ in 2016 indicated a lack of understanding of insurance, insurance products and how to make claims.

For its part, insurance companies have made efforts to educate clients through advertisements, web sites and direct communications by agents. Clients indicate that in some cases agents do not explain products and options well enough. According to a recent survey conducted in the Ger districts of UB city by a private insurance company, almost 60 per cent of interviewed people stated that they have never heard about insurance. On the other hand, the introduction of mandatory

[24] The MoF requested the World Bank's assistance with assessing the current legal, regulatory and institutional framework for consumer protection in financial services as well as financial education programs in order to further deepen the financial sector reform and enhance transparency as well as market access for individual

products has increased the focus on insurance. But many potential clients assimilate insurance as a tax. It is clear that insurers have to better understand how their message is being received and recalibrate how it is delivered to improve consumer understanding.

According to the RIA Inclusive Insurance in Mongolia, although there are no specific financial literacy activities regarding inclusive insurance, the regulators have a good understanding of its need. A National Financial Literacy Programme has been launched in October 2015 under the lead of the Bank of Mongolia (BoM), the Ministry of Education, the Ministry of Finance, the Ministry of Education, Culture, Science and Sports (through its National Long Life Education Centre (NLLEC) and FRC. The program is being implemented since 2016 and will last until 2021. A number of manuals have been designed including household budgeting, savings strategies and insurance, etc.

The program aims to provide financial education specific topics including insurance, life insurance, and social insurance. FRC cooperates with training of trainers (ToT) in these matters. Target groups are school children, youth, rural area, website (www.financialliteracy.mn) and mass media. It has already trained trainers – 1040 teachers across *aimags* and *suoms*; and 305 teachers using the 70 branches of the BoM in the rural area. Additionally, a business subject has been introduced in the national curriculum of secondary school and at vocational training schools as well. At university level a course on Personal Finances (3 credits) has been introduced as well. The BoM is also developing an app regarding budgeting and has trained 250 students to become trainers in their communities in a voluntary basis. The national programme has also being approached by international donors such as the *Sparkasse Stiftung* to help with dual vocational training for bank officers and other activities aimed to increase financial literacy amongst the population.[25] The first assessment of the programme will be conducted by mid 2019, ideally by a third party.

[25] "Gamification" is already in place through the development of a saving board game and other microfinance games (still in pilot phase).

The FRC conducts a number of financial literacy activities includingtraining for agents and brokers who request licenses; providing information using Twitter, Facebook, website, and other mass media; enhancing financial knowledge for Customs Authority, Police Department, Intelligence Agency and Anticorruption Agency. In addition, FRC and Mongolia Insurance Association (MIA) have signed a MoU to carry out financial literacy activities.

So far, no specific inclusive insurance awareness activities led by the government have been conducted in Mongolia. People do not know how inclusive insurance differs from traditional insurance. Insurance providers market their products and this is a main information reach to the market. They usually use mass media such as TVs and radios.

A campaign to boost financial literacy and awareness on the purpose, functions and benefits of insurance, as well as inform clients about their rights and responsibilities, and how to protect themselves from fraudulent schemes in the country is needed. This will contribute to the creation of insurance culture amongst the Mongolian people and help the low-income people and those working in the informal sector to protect their assets and effectively manage their resources for risk and social protection. Additionally, key stakeholders also need to increase their knowledge and improve their skills to contribute to the promotion and provision of inclusive insurance.

These initiatives should customise financial education to the specific group needs taking into account differences regarding gender, age, geographic location, and economic activities. In addition, they should allow to continuation and comprehensiveness, including basic and advanced content. The aim is to achieve behavioural and attitudes changes resulting in higher uptake and better utilisation of insurance products. The FRC would need to design a financial literacy strategy for inclusive insurance and implement specific measures in line with the strategy.

Mongolia can draw on the experiences of other countries in Asia, i.e. the Philippines, which have developed and implemented campaigns of this nature. These campaigns have been focused on educating and advocacy - convincing - instead of marketing and selling. They were broadly targeted at low-income groups working in the informal sector and/or rural areas. Additionally, the campaigns used multiple channels - the mass media (print, radio, television and the web), and community media and ICT (cell-phones), testing options to maximise impact and evaluating that impact. Including these features in Mongolian's insurance awareness campaign would be an advantage. A key element is that stakeholders should be involved in the campaign, from its inception through to planning and implementation.

Building on the experience of the Philippines in particular, a MEFIN peer country in which the regulatory authorities on inclusive insurance – in partnership with other relevant stakeholders, including the insurance industry – have contributed to the implementation of a successful financial literacy campaign on inclusive insurance, this proposal aims to extrapolate best practices and lessons learnt. The recently released MEFIN - Financial Literacy Campaign (FLiCK)[26] is used in the following session. In addition, the experience of other countries is also taken into account.

5.1 Objectives and Design

The objectives of a financial literacy and awareness campaign with a focus on inclusive insurance are:

- Help the low income sector protect their financial assets and manage their resources for risk and social protection;
- Focus on addressing the knowledge gaps about insurance and inclusive insurance;
- Build capacities of stakeholders to become proactive in the provision and promotion of inclusive insurance.

To promote financial literacy on inclusive insurance, three key concerns shall be addressed:

- Whose behaviour shall be influenced in favour of inclusive insurance? (Stakeholders);
- What shall be communicated to the various stakeholder groups? (Messages);
- How could the messages be conveyed most effectively to the stakeholders? (Approaches)

[26] MEFIN Financial Literacy Campaign Kit (FLiCK) is ready-reference material that provides the basis, in terms of principles, elements, and actual best practices, for developing regulations and policies that are responsive for the promotion of inclusive insurance.

5.2 Stakeholder Approach

A stakeholder approach will require a consultation and coordination process with various stakeholders from the insurance industry and the Government, reaching out to consumers in selected locations. **At macro level**, the identified stakeholders are: 1) the government regulatory agencies (FRC), which shall issue rules, regulations and guidelines for, among others, mainstreaming of inclusive insurance, setting of standards, promoting of transparency and good governance, and protecting the consumers.

At meso level, the identified stakeholders are the private insurers, intermediaries, support institutions and development partners. Private sector shall venture into inclusive insurance. These products should be simple, affordable, innovative, and tailor fitted to the needs of the low-income sector. Intermediaries (brokers and agents) shall facilitate the provision of inclusive insurance products and services to clients through effective information dissemination, educational activities, and reliable services, including claims. Support Institutions shall provide assistance in promoting financial literacy on inclusive insurance through capacity building for stakeholders. Donors and other development partners shall provide technical assistance to both government and private entities in policy and regulatory frameworks formulation, capability building, products development, and promotional activities, including financial literacy.

At micro level, the clients. They shall buy and advocate for inclusive insurance. Existing and potential clients/consumers, who belong to the low-income sector, shall constitute the critical mass of advocates for inclusive insurance.

5.3 The Messages

Inclusive insurance provides risk protection and affordable insurance to the low-income sector. This is the message that should be conveyed to all stakeholders so that they can then at the most fundamental level disseminate it as part of their respective roles and responsibilities.

Key messages shall focus on the following general themes to reach out to the various stakeholders: the existence of an appropriate and regulatory environment for inclusive insurance; the roles and responsibilities of providers; appropriate risk protection; and rights of and benefits to clients.

1) With regard to appropriate policy and regulatory environment for inclusive insurance, messages shall focus on:

- An enabling regulatory environment.
- Laws and regulations that encourage the private sector to serve the low-income sector at national and local levels.
- Laws and regulations that support the development of innovative and affordable insurance products tailored to the needs of the low-income sector.

- Incentives for inclusive insurance products and services should be considered.
- Local policies and structures are necessary to institutionalize financial literacy for inclusive insurance.

2) In relation to roles and responsibilities of providers, messages shall focus on:

- Existence of an untapped market for inclusive insurance products that could be potentially profitable to the insurance industry.
- Inclusive insurance should cover both life and non-life products and services (death, accident and illness, fire; catastrophic events, etc.).
- Investment is required to support inclusive insurance training and research and development.
- Fostering public trust and confidence in inclusive insurance and its providers through education and training.

3) Regarding appropriate risk protection, messages shall focus on:

- Inclusive insurance is a sustainable approach to risk management for the low-income sector.
- Inclusive insurance offers protection against a number of risks: death, accident and illness; fire; catastrophic events, etc.
- Inclusive insurance offers a means to meet the needs of the low-income sector for risk protection and relief in the face of various types of misfortune. Surveys should be conducted to measure insurance awareness levels among the general population in target locations. In addition to gathering socio-economic and demographic data, the survey should measure people's knowledge of attitudes to insurance and risk management behaviour.
- Buying inclusive insurance products from licensed providers avail clients with safe products.

4) With regards to the rights and responsibilities of clients.

- Clients should be motivated to buy inclusive insurance products: ***'insurance may be good for you'*** and ***'insurance may be affordable for you'***.
- Clients should clearly understand their rights for redress and be aware of the responsibilities of the providers.
- Clients should be aware of their responsibilities.
- Clients should cooperate with government and providers on activities that promote financial literacy on inclusive insurance.

The development of a wide range of tools and training of the advocates who could use these tools for conducting their own activities in future will be an advantage. These tools include:

1. A neutral awareness campaign that is targeted at the market of inclusive insurance to clarify the concept of insurance and inclusive insurance, inform clients about their rights and responsibilities, options for lodging grievances and how to protect themselves from fraudulent schemes.

2. To ensure protection of rights of clients and increase understanding of insurance within the target clientele, insurance providers and their counterpart intermediary will have to work together. While the insurance provider understands what information needs to be delivered to the client, they do not have the necessary presence on ground to deliver the message. On the other hand, intermediaries feel it should be the insurance provider's responsibility to get the information across, as it is their product.

   It is clear that the messages and information need to be deliveredand the intermediaries will have to be the client's interface and runs into a reputation risk itself if there is misunderstanding on part of the client (as the client often does not recognize the insurance provider and relates the intermediary directly to the product).

5.4 Strategies and/or Approaches

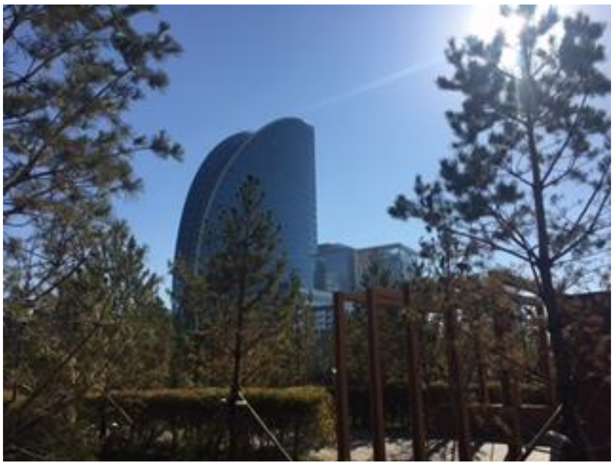
To implement (major) financial literacy strategies the following shall be pursued:

➢ **Using the mass media (print, radio, television and the web), and community media and ICT (cell-phones, Facebook, etc.)**

- Development, production and dissemination of communication materials that will create awareness and appeal.

- Local languages should be used.
- Taking into account the low level of literacy among the target consumers, three main channels can be used: radio (drama and jingles), road shows and community advocates.
- Visual and tangible materials should be privileged: posters, comics, T-shirts, caps, bookmarks, ball-pens, etc.
- Appropriate materials for posting on the web: Facebook, Twitter, blogs
- Airing of testimonials of inclusive insurance champions in popular national and local programmes/shows.
- Creation of inclusive insurance events, i.e. month of inclusive insurance; insurance consciousness month/week, anniversaries of insurance providers; amongst others.
- Highlighting inclusive insurance during important events related to insurance in general.
- Usage of cellular phone tools: SMS and Whatsapp ads.

➢ **Capacity building of key stakeholders through seminars, conferences, training and workshops**



- Conduct capability-building activities/trainings and refresher courses for the different groups of stakeholders (macro, meso, and micro levels).
- Organise and encourage participation in conferences to keep stakeholders abreast of developments in the inclusive insurance industry, including new policies, success stories, and other experiences.
- Advocate to management of government and private institutions, particularly business establishments, for the organization of informative seminars on inclusive insurance for employees in their respective organisations.

➢ **Institutionalization of activities on financial literacy**

- Inclusion of financial literacy in the school curricula. Contacts and advocacy with authorities in the field of education should be developed.

- Encourage government and private institutions (in particular business establishments) to help organise informative seminars on inclusive insurance for employees in their respective organisations.

➢ **Establishment of networks and linkages between support institutions engaged in the financial literacy campaign**

- Web based platform.
- Use of ICT for networking, mentoring, and monitoring and evaluation.

➢ **Advocacy on financial literacy in both the government and the private sector**

- Identify and train individuals who will be the core-committed champions of inclusive insurance.
- Community-based organizations could be focal points for promoting inclusive insurance (NBIs; SCCs; etc.).

6. Challenges and Opportunities

The detailed roadmap described above arises from the GIZ-RFPI Asia experience in the Philippines after two years of work developing a major financial literacy campaign across the country. It gathers the lessons learnt and the best practices experienced during the project.

Financial literacy campaigns are evolving strategies and can be replicated in any country adapting them to the country's context. The development of a roadmap to financial literacy on inclusive insurance in Mongolia should count on the involvement of a group of stakeholders that engage in promoting and/or benefiting from financial literacy work supported by development partners. Their engagement from inception and design through to implementation is crucial. A stakeholder-tailored approach supports financial inclusion in design and content delivery, educating each distinct stakeholder group about their role and opportunities in promoting inclusive insurance.

Financial sector regulators are well placed to coordinate policies in financial literacy and can bring on board financial providers, educators, and researchers to work together and scale-up solutions at a national level. Banks and other financial institutions have both in-depth knowledge of clients, financial, and technical resources (in marketing and communications), and a desire to develop a robust market. They can be very effective and important partners and, as indicated above, they are already engaged on this topic in Mongolia.

Financial literacy is not just about education, but also about behaviour and attitudes. Given their great outreach Bank of Mongolia and the MECSS through the NLLEC could play an essential role in improving financial literacy. According to the World Bank diagnostic, there are several ways to strengthen Mongolia's financial literacy in the future: this will require a sustained commitment from the public and private sectors as well as civil society, academia, and media.

With regard to the messages, these should be conveyed in a clear and tailored way for the various stakeholders. Positive values in the pitch for inclusive insurance would contribute to understanding, acceptance and advocacy of such messages.

In addition, capacity building is crucial for sustainability of the financial literacy program on inclusive insurance. The constitution of a group of credible communicators to serve as 'champions' who will be advocates for inclusive insurance on a regular basis is needed. Although awareness campaigns can help improve perceptions and stimulate demand, the greatest driver of awareness would be the value that the insured persons find through the product they have purchased.

Satisfied clients serve as ambassadors for the product they use and word of mouth is a key marketing mechanism in this target market. Technology can also be used to create awareness through use of SMS, or using call centres to ensure that the right messages are reaching the clients. On the other hand, an unsatisfied client creates the opposite effect. Thus the industry will have to focus on ensuring transparency, creating value in the product and good service quality.

7. Potential Scenarios for a Financial Literacy Campaign in Mongolia

1) ***A multi-stakeholder approach*** could be a critical success factor. In the long term, a wide consultation process and the establishment of a coordination body whose members include a wide range of public, private sector and non-profit stakeholders would be needed. This is important for consensus building and so that issues of national concern, resources and appropriate national priorities are properly identified. In Mongolia, a preliminary mapping of the relevant stakeholders will include:

At macro level,

- Key regulators and supervisors for financial consumer protection of low-income clients are:

- **Financial Regulatory Commission** **(FRC)** as the supervisory body of financial institutions including insurance companies, security companies, SCCs and NBFIs
- **Ministry of Finance**
- **Ministry of Education, Culture, Science and Sports and National Long Life Education Centre**
- **Bank of Mongolia**

At meso level,

- **Life (1) and non-life (15) insurers**, currently not all of them active in inclusive insurance;
- **Brokers**, there are 46 insurance broker companies operating in the country;
- **Reinsurance companies,** there are two (2) reinsurance companies
- **Mongolian microfinance institutions**
- **Mongolian Insurance Association**, representing and protecting the rights of Mongolian insurers, reinsurers, and brokerage firms.
- Donors and development institutions, and sector representatives, amongst other stakeholders.

At micro level,

Clients, they should understand and appreciate the concept of risk protection. They should also know the options and make informed decisions to avail themselves of inclusive insurance products and services, while being mindful of their rights and responsibilities. They shall convince others to buy inclusive insurance because they themselves are convinced of its value. A satisfied client and word of mouth will contribute hugely to increase demand for inclusive insurance products.

8. Recommendations

Campaign efforts should focus on areas where insurance products are available and agents are in place. In Mongolia the financial literacy campaign with a focus on insurance should be conducted utilising the existing network of Bank of Mongolia and the NLLEC throughout the country. As a first step, a pilot should be conducted in order to test the financial literacy campaign at a *suom*, or *aimag* level.

Additionally, a ***survey*** to explore and know what is the low-income people´s demand with regard to insurance will be useful. This will contribute to the design of tailor made products and further development of inclusive insurance in Mongolia.

In addition, the campaign should be linked to consumer action: at the end of each outreach activity provide information on where, when and how they can obtain additional information or sign up for inclusive insurance in their communities. Finally, monitoring and evaluation mechanisms should be developed to determine the effectiveness of the campaign.

As it has been mentioned in this document, the National Financial Literacy Programme already in place would be instrumental to raising the capacity and knowledge of Mongolian population regarding inclusive insurance. Its structure and operations across the country provides with an extensive network that will enable to integrate the insurance awareness campaign into existing systems and promote awareness at different levels through advocacy and schooling.

In the short term to ***developing pilot programs for raising awareness*** and strengthening financial capability using mass media and innovative delivery channels would be required. Innovative delivery channels for financial capability, including online tools and ICT, and mass entertainment media such as television or radio soap operas (Mongolian families get together to watch TV), may be especially effective ways to communicate and strengthen financial skills and behaviours.

Conducting a survey would be crucial to measure insurance awareness levels amongst Mongolian population in target locations. In addition to gathering socio-economic and demographic data, the survey should measure people's knowledge of attitudes to insurance and risk management behaviour, as well as actual needs of products. The survey will be an instrumental tool for the design of an insurance awareness campaign.

Against this background, the design and implementation of an awareness and financial literacy campaign intending to shed light on the existence of and need for insurance as well as to improve understanding of the purpose, usefulness, advantages and procedures associated with insurance products will further contribute to the work of FRC. And it will also be an important milestone in the framework of activities, which are being jointly developed with GIZ-RFPI Asia and the MEFIN network in the last years.

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