The Global Financial Inclusion Index 2022

Financial inclusion as a powerful indicator of next generation capital and wealth markets across the globe

By KAMAL BHATIA
Chief Operating Officer of Principal Asset Management℠

Download the Global Financial Inclusion Index report, explore an interactive map of the findings, view market-specific fact sheets, and see additional insights at principal.com/financial-inclusion.

As global economies manage through growth and recession, understanding the role and impact of the three pillars underpinning financial inclusion offers valuable insights. It can help indicate the economic resilience of different markets, or offer clues into which markets may be set to experience more rapid development into mature capital and wealth markets.

The scores in the Global Financial Inclusion Index suggest there are three phases to the evolution of financial inclusion within a market, which correspond to its economic maturity and the way in which it engages with institutions and citizens.

This evolution can only begin once the rule of law has been established and governments have helped develop the basic safety net programs to support citizens' most fundamental needs. It's then we see businesses step in, serving as the primary source of financial guidance and support for employees. At this first stage, many governments essentially lack the resources and infrastructure to provide this comprehensively at a state level.

The second phase begins when the business environment in the market matures and starts fueling a stronger economy, giving the government greater firepower and resources to introduce measures which promote financial inclusion. These measures lay the foundation for the third phase where supportive employers and governments help drive progress and are complemented by a more developed financial ecosystem. This allows for more sustainable and equitable participation across society.

The three phases ultimately create a virtuous circle. A well-evolved financial system becomes an enabler of business growth and confidence which, in turn, allows businesses to support their workforces more generously and meaningfully—triggering a new cycle.

The financial inclusion scores of a number of developing economies show this virtuous circle in action. Developing markets tend to rank lower within the Index compared to developed markets and, in general, are primarily reliant on the employer support pillar. However, the higher ranked developing markets have greater balance across the three pillars in Index scoring.

The benefits of this balance come to life in the United Arab Emirates (UAE), Thailand, and Malaysia, ranked 18th, 19th, and 20th respectively—all in the top half of the table. These markets rank well compared to other emerging economies for employer support. Although they slip down the rankings for government and financial system support, they still feature in, or only just outside, the top half of the table in each pillar. Compare this to other markets, such as Indonesia and Vietnam, which rank highly for employer support but far lower across the government and the financial system.

Let's consider how the three-phase cycle of financial inclusion has played out in Thailand, Malaysia, and the UAE, and how their scores across the three pillars could suggest that they're set for rapid economic opportunity and greater output of wealth creation for its participants. Their Index results indicate a stage of development where economic growth, based on the right conditions at a government level, can be accelerated rapidly by the private financial sector.

Thailand, Malaysia, and the UAE are all ranked in the top 10 as enablers of SME business growth and the UAE and Thailand rank in the top 10 for enablers of general business confidence (Malaysia ranks just outside at 11th). They also rank highly on access to credit—the UAE ranks sixth, Malaysia 16th, and Thailand 18th.

These strong scores indicate that markets have reached a point in their development where businesses can borrow with confidence to invest for the future. Global financial partners entering the system can participate in exponential upside if they remain committed to enabling the cycle by helping strengthen the pillars in phase three. Elsewhere in this report we highlight how financially-inclusive economies tend to be more productive ones; this is simply one illustration of that relationship in action. This builds resilience into the macroeconomic cycles with internal support that is deeply attractive to financial institutions.

To reach the stage where their financial systems become more financially inclusive and more effective at promoting economic growth, Thailand, Malaysia, and the UAE have undergone significant reforms at a state level. The establishment of the National Pension Fund in Thailand has been in the works for more than a decade. Although it has not yet been formally launched, its development has prompted some employers to attempt to get ahead of its introduction and created better awareness among employees about the importance of a long-term savings culture that encourages credit creation.

In Malaysia, as a wealthy middle class grows, there's been a push to create a retail investment culture by reducing state-owned stakes in government linked companies and promoting equity purchases across the population that encourages intelligent risk taking.

The UAE has undergone a number of reforms in its pension system and its financial regulatory framework in recent years. It's a reflection of the region's social and economic ambition that it has a Ministry of Possibilities and a Minister for Happiness that help to build wealth.

Of course, for the virtuous circle to continue, the employer, government, and financial system all need to keep evolving as their economy—and, with it, their society—develops. If a fracture emerges in one pillar, it will inevitably impact the others and risk breaking the cycle.

The macroeconomic challenges facing economies globally will no doubt put some stress on these markets but, on a long-term view, we remain generally positive on their investment prospects. Within our global asset management business, we are largely bullish about the long-term growth prospects for Malaysia, reflected by our equity investments in local companies and significant human capital commitment in the country. We continue to accelerate our wealth management relationships across the UAE while actively participating in real estate strategies with marquee institutions in the region. This study is informing our renewed interest and increased capital commitment to Thailand, with a focus on the savings culture outside of the banking system.

Better financial inclusion is not the only, or even the main, cause of better productivity, just as greater productivity is not the main cause of greater financial inclusion. Both are contributors to and characteristics of a healthy economy. Markets which evolve through the financial inclusion cycle—particularly those that demonstrate strong scores in enabling business growth and confidence—are well positioned to trigger a leap forward in their maturity as a capital market. We are going to be long-term partners and contributors to this journey. Financial inclusion is part of our mission.

Important Information

The Global Financial Inclusion Index data is based upon survey results specifically prepared by Centre for Economics and Business Research (Cebr) and commissioned by the Principal Financial Group®.

The Centre for Economics and Business Research (Cebr) is not affiliated with Principal® or any if it's member companies. The Index is a proprietary model output based upon certain assumptions that may change, are not guaranteed and should not be relied upon as a significant basis for an investment decision.

Investing involves risk, including possible loss of principal. Expressions of opinion and predictions are accurate as of the date of this communication and are subject to change without notice.

Principal Asset Management℠ is a trade name of Principal Global Investors, LLC.