Migrants and Financial Services: A review of the situation in the United Kingdom

A research report from the Personal Finance Research Centre,University of Bristol.

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Introduction

This report focuses on access to financial services amongst migrant workers in the UK. We describe the main groups of ethnic minorities and the proportions of people of different faiths. We then consider the financial services market from the perspective of migrants and ethnic minority consumers. We discuss various ways in which access to financial services might be limited for ethnic minorities and current policies and practices that seek to overcome different forms of financial exclusion.

We use a wide definition of migrants, to include immigrants of foreign nationality, and individuals who have at least one parent or grandparent who was not born in the United Kingdom (UK). We consider the specific needs of those individuals whose culture, circumstances or religion make them very likely to face particular problems accessing financial services. We pay particular attention to the needs of the Muslim community, and the provision of Shariah compliant products.

Where data are available we report information relevant to the whole of the United Kingdom (Great Britain and Northern Ireland), but it is necessary and relevant to give some information in terms of Britain (England, Wales and Scotland), or by individual countries.

Immigrants and ethnic minorities in the UK

The United Kingdom has a long history of immigration. Despite this, recent Census data indicates that over 92 per cent of the population of the United Kingdom is white (Office of National Statistics, 2001). This varies by country: The population of England is over 90 per cent white – just under three per cent of these are neither British nor Irish. People of Indian heritage make up the second largest group, at just over two per cent, followed by Pakistani (1.4 per cent) and Caribbean (1.1 per cent). No other ethnic group makes up more than one per cent of the English population. In Wales, the population is almost 98 per cent white, and no individual ethnic group makes up more than 0.3 of a per cent of the population. Scotland also has a minority ethnic population of two per cent, whilst Northern Ireland's ethnic population makes up less than one per cent of the 1.7 million residents (General Register office for Scotland; Northern Ireland Statistics and Research Agency).

There are large regional variations in the percentage of residents from various ethnic groups. Almost half (45 per cent) of the minority ethnic population of the United Kingdom lives in or near London. Taken together they comprise 29 per cent of all residents in the London area. Ethnic communities are not limited to the South East of England: over ten per cent of the population of Blackburn with Darwen unitary authority (in the North West of England) is Indian; a further nine per cent is Pakistani, for example.

Immigration and Citizenship

Immigration law primarily separates people into those who have 'right of abode' in the UK (they can live, work and move in and out of the country as they wish), and those who require permission in order to enter or remain. There are further groups who do not need permission to enter and remain even though they do not have full 'right of abode'. Among these are citizens of the European Union (EU), who all have the right of free movement both within the UK and within other European member states.

Non-EU immigrants who wish to work in the UK must have a work permit. This is applied for by the potential employer, who must usually demonstrate that there is no suitably qualified person inside the EU that could take the position. If there are no suitable applicants the employer can recruit someone from outside the EU. Employers do not need to advertise if they wish to apply for 'shortage occupation' permits or for applications under the Seasonal Agricultural Workers and Sector-based schemes (for which quotas are set by the government). Permit holders can apply for 'Indefinite Leave to Remain' after working in the UK for four years.

As in other countries, there are significant incentives for firms and agencies to flout the work permit laws in the United Kingdom. Some firms within the sectors of the economy that pay only low wages, such as cleaning services and agriculture, employ both legal and illegal migrant workers, often through unscrupulous agencies that make false promises of good pay and conditions (see for example CAB, 2004).

The United Kingdom's Government Home Office states that it has two aims in relation to immigration and minorities: 1) to regulate entry to and settlement in the United Kingdom effectively, in the interests of sustainable growth and social inclusion, and 2) to support strong and active communities in which people of all races and backgrounds are valued and participate on equal terms. The Home Office monitors the number of applications for refugee status and for citizenship. It also awards contracts to third parties for the support and resettlement of refugees (Woollacott, 2005).

It should not be assumed that all migrants intend to remain in the UK, or take British Citizenship. There are large numbers of temporary residents in the United Kingdom, including those travelling for work, and a great many students. Just to look at the example of students, eight per cent of Oxford University's student population comes from non EU countries (Education Guardian, 2005) and this pattern is repeated in other universities.

The Home Office has recently reported that approximately 59 per cent of residents who were born overseas, but have lived in the UK for six years or more, are now British Citizens. In 2004 over 140,000 individuals were granted citizenship – most on the basis of length of residence (46 per cent), but 29 per cent were granted to persons married to a British Citizen. Of those 140,000 new citizens ten per cent were from Pakistan, ten per cent from India and eight per cent from Somalia. The majority (54 per cent) were aged between 25 and 44 years old (Woollacott, 2005).

Asylum seekers

The United Kingdom has signed the 1951 UN Convention Relating to the Status of Refugees. This treaty obliges countries to offer protection to anyone who fits within the definition of a refugee. The Human Rights Act also offers protection to asylum seekers as it forbids the Government from breaching a person's fundamental human rights.

It is not clear how many asylum seekers are either waiting for the results of their application or remaining in the UK illegally. However, Brangwyn (2004) reported that the London Boroughs (local government authorities) were supporting 34,818 destitute asylum seekers at the time of his report. He also claimed that the Boroughs were providing services to an additional 25,000 asylum seekers supported by the National Asylum Support Service and 2,565 homeless, asylum-seeking households. Unable to earn a living, the vast majority of asylum seekers are forced to live at subsistence levels; they receive just 70 per cent of the normal state benefit for people under retirement age who are out of work (Refugee Council, 2005).

Religion

The 2001 Census asks residents of Great Britain an additional, voluntary question about their religion. This allows us to look at the variation in religion by ethnic background. It indicates that 40 million (almost seven out of ten) people in Britain describe themselves as White Christians. The next largest ethnic faith groups are Pakistani Muslims (686,000) and Indian Hindus (471,000).

In all it is estimated that there are around 340,000 Muslim *households* in Britain, mostly made up of individuals of Asian ethnicity. Overall, 74 per cent of individuals who describe themselves as Muslim are of Asian heritage, whilst four per cent are of White British origin. Seven per cent are from another White background, including Turkish, Cypriot, Arab and Eastern European. Six per cent of Muslims in Great Britain are of Black African origin (Census 2001, available from ONS).

Almost all Pakistani and Bangladeshi people in Britain are Muslim (92 per cent), whilst amongst those of Indian heritage 13 per cent are Muslim, 29 per cent are Sikh, and 45 per cent are Hindu. Some 8.5 per cent of the population of London describe themselves as Muslim (Census 2001, available from ONS).

Income, Employment and Housing

The Office for National Statistics reports that unemployment rates amongst Bangladeshi men in Great Britain were at 18 per cent in 2002/2003. Black African men (15 per cent), Pakistani men (14 per cent) and Black Caribbean men (13 per cent) also had high levels of unemployment compared with White British men (five per cent). Pakistani women were far more likely to be unemployed than White British women (17 per cent and 4 per cent respectively). Black Caribbean, and Black African women were also three times more likely to be unemployed than White British women.

It is perhaps not surprising given the relatively high levels of unemployment amongst immigrants and minorities that they are also more likely to live in low income households. The Office of National Statistics reports that people from all minority ethnic groups are more likely than white people in Britain to live in a low income[1] household. In 2001, 68 per cent of Pakistanis and Bangladeshis lived in low income households after housing costs were taken into consideration (60 per cent before considering housing costs). This compares with 21 per cent of the White population living in low income households (taking into account housing costs). The measure takes into account family size and composition.

Home-ownership varies considerably by ethnicity in England, according to data from the Survey of English Housing. Combined data for 2001 to 2004, shows that 72 per cent of Pakistanis in England own their own homes, either outright or with a mortgage, whilst only 35 per cent of Bangladeshi households are owner occupiers. Amongst all households in England 71 per cent are owner occupiers and 19 per cent rent social housing. Bangladeshis are most likely to rent social housing (55 per cent) followed by Black Africans (47 per cent) (Social trends 35, 2005 edition). Bangladeshi and Pakistani households are also more likely to include several generations of a family than other households in the UK and have a well above average level of overcrowding (Kempson, 1999).

[1] Low income is defined as households with below 60 per cent of median income in Great Britain

Levels of home-ownership and average household sizes also vary by religion. Census data for Great Britain indicates that Muslims are twice as likely as other households to live rent free (4 per cent), most likely to rent social housing (28 per cent), and least likely to have a mortgage (52 per cent). As almost all Pakistanis in Britain are Muslim and Pakistanis have a high level of home ownership it is clear that the other Muslim ethnic groups must be very unlikely to own their own home. It is also worth noting that Muslim, Sikh and Hindu households are considerably larger (average size of 3.8, 3.6, 3.2 respectively) than Christian and Jewish households are, on average (2.3) (Census 2001, available from ONS).

The market for financial services

Supply of financial products in the UK is regulated, and governed by voluntary codes of conduct. It is extremely unlikely that anybody would be refused a product because of their ethnicity, nationality or religion (it would also be illegal to do so). However, it is also very unlikely that people with low incomes will be targeted as potential customers by high street banks, as they are not seen as a low risk, profitable proposition. In general, it is the interaction between ethnicity and other personal characteristics that creates perceived differences in supply across ethnic groups. We therefore concentrate on the demand for products in this section, before looking at access issues in the following section.

Demand for particular financial services can depend both on external factors such as the predominant methods of payments and on personal factors such as a preference for informal saving methods or a disapproval of borrowing. When demand is primarily based on needs caused by external factors we would expect to see little variation by ethnic groups, nationality or religion. Conversely, where demand is a combination of need and personal preference it is much more likely that patterns will emerge that are related to personal characteristics, including ethnicity or religious factors.

Impact of immigration phase

It may take time for new immigrants to become accustomed to the well regulated banking sector in the UK and make the decision to use the services on offer. The Department for International Development (2004) reported that banks in developing countries do not necessarily have the same good reputation for security that UK banks have. Furthermore, in some countries banks charge very high fees, some are very slow to make transactions, and customer service is not always good. It is very likely that people accustomed to poor service from financial companies in their country of origin may be less willing to engage with companies on arriving in the UK.

Migrants who have positive experiences of banking in their own country may look for equivalent services soon after arriving in the UK. We have been told in personal communications with individuals who have worked in the banking sector that recent migrants often look for a bank whose name they recognise from their country of origin. Other research has also indicated that migrants look for names they can trust:

'I want to deal with famous name companies' (Indian man aged 60+, quoted in Kempson and Whyley, 1998).

This can put particular strain on individual branches in areas where refugees are concentrated, or in areas with low cost housing. Where existing migrant communities support new arrivals they are very likely to introduce them to the same bank, and thus increase the customer base but also the burden on small branches. Unfortunately for branch staff, the kind of account that can be opened by low income individuals without a credit history does not earn them any commission. We have been told by two groups working with impoverished communities in England that this can cause frustrations and lead to staff not taking the necessary time to explain the products available. This is made more acute if the customers do not speak or understand much English. These communications are reminiscent of the findings of mystery shopping exercises by the Financial Services Consumer Panel (2002) which showed that branch staff were not making customers aware of basic bank accounts.

For second and subsequent generations of migrants the demand for financial services is partly related to overall levels of integration. Kempson and Whyley (1998), for example, found that second generation migrants were more likely to have formal savings account than those who had themselves immigrated to Britain. Related to this, second generation immigrants were also found to be less likely to use informal savings and loans schemes if they moved away from their ethnic community. This indicates that cultural barriers diminish with time, and that future generations are likely to become financially integrated, thus reducing the levels of exclusion.

Transaction accounts

On the whole, demand for transaction banking is related to the way transactions are normally undertaken within a country rather than an individual's status or ethnicity. It may be that certain people will be more resistant to the need for a bank account, but ultimately they will find it difficult to conduct day-to-day affairs in the UK without a current account. Particularly at household level, this is true whether families receive earned income or benefits, since both are now normally paid into bank accounts.

The Family Resource Survey (DWP, 2003) describes bank account holding amongst heads of British households, by broad ethnic groups. It indicates that 85 per cent of Asian and 77 per cent of Black heads of households have a current account. This compares with 88 per cent of white heads of households.

Just six per cent of all British households, and six per cent of Pakistani and Bangladeshis households have no bank or building society account or saving product. However, households with a Black head are almost twice as likely to be without such an account (11 per cent do not hold any account). This is also the case for ethnic minority households not counted under the headings Black, Pakistani, Bangladeshi, Indian or mixed race (12 per cent of 'other' ethnic households have no account) (DWP, 2003).

A report considering the situation of migrant workers in the East of England provides recent evidence that the demand for transaction accounts might be a function of employer behaviour rather than employee choice. The report notes that the majority of migrant employers pay wages monthly, and prefer to make payments directly into bank accounts or by cheque (as do other employers in the UK). Employees need access to a bank account to receive payments in either of those ways without incurring considerable costs (McKay and Winkelmann-Gleed, 2005).

Savings products

Unlike transaction banking, demand for formal saving products is largely a matter of personal choice, past behaviour and current circumstance (pensions are an obvious exception to this generalisation). However, it also depends in part on the availability of appropriate products. Whilst there are a wide range of savings products available in the UK, from very simple building society accounts, to National Savings bonds, equity based products and limited-access bank accounts, these products may not exactly meet the needs of low income savers, or those who are used to a more sociable form of saving.

Taken as a whole, ethnic minorities are less likely than the white British population to hold money in *formal* savings products. Yet, compared to people on similarly low incomes they typically save larger amounts. This is, in part, because several of the larger minority groups have a history of investing in informal savings and loans clubs and credit unions, and have not sought to move into mainstream products. Others were refused a bank account many years ago, and have continued to use local informal savings methods instead (Kempson, 1998).

Informal savings and loans clubs can offer a social function, and can help to hold a community together. Access to these kinds of groups or associations is only possible where a community of like minded people forms – supply is localised and difficult to replicate in a controlled way. They are, however, common amongst many immigrant groups in the UK, except Bangladeshis.

Savings and loans clubs are built on trust, since they can only work if every member saves the agreed amount every time they meet. They do not rely on anyone banking the money collected, or keeping it safe, because each time the group meets to pay in their own money one member takes the entire collection for their own personal use. Each person will have the opportunity to take the money at some point, and some groups will consider special requests from members who would like to take their turn as soon as possible. Amongst the Caribbean community, these clubs, or 'pardners', mostly cater for low-income women who cannot access high street credit. Higher earners, and second generation immigrants tend to use banks to save larger sums, perhaps because pardners do not pay interest or because of the risk that they may not get their money.

Pakistani savings and loans groups ('kommittis') do not pay interest. This is seen as an advantage to Muslims, who must not pay or receive interest (riba) under Muslim law. Unlike pardners, kommittis tend to be used by first and subsequent generations of migrants, and particularly those with higher incomes (Kempson, 1998).

It should be remembered that informal savings and loans associations are not regulated, formal methods of savings, and there is considerable risk involved in being a member, both in terms of not getting back an investment and personal safety when walking to the meeting with large sums of money to deposit. Demand for this relatively insecure form of saving may naturally reduce if mainstream providers can offer satisfactory alternatives, combining the positive aspects of the associations with the security of saving with a regulated company.

Credit unions are the obvious middle ground between informal associations and formal banking; they are mutual organisations offering savings and loans at a community level with membership depending on a 'common bond', and, since July 2002 they have been regulated by the Financial Services Authority. They also have a history of providing savings and loan facilities to those excluded from mainstream services. Currently, credit unions are not widely used in Great Britain[2], although membership is growing. However, credit unions are popular in the Caribbean and are subsequently more likely to be seen as a means of saving amongst first generation Caribbean immigrants. Figures for 1998 indicated that whilst just one per cent of Britain's adults invested in a credit union; amongst Caribbean adults in Britain the figure was 38 per cent (Kempson and Whyley, 1998).

[2] Membership in Northern Ireland is much higher, particularly amongst the Catholic community.

Recent research indicates that proportions of Caribbean credit union account holders may be falling. Olatundun (2003) discovered that there was a very low level of participation in credit unions amongst the sizeable Black and Minority Ethnic population of the West Midlands. It appears that this may be a result of second and subsequent generations moving away from traditional forms of saving; Olatundun states:

'The poor uptake of credit union membership by the present generation of African-Caribbeans appears to have its roots in the changing orientation of the younger generation which has moved away from community and church halls. Added to this, the strong family bonds that ensure collective responsibility and bargaining are fast disappearing if not completely gone'.

Kempson (1998) also commented that second generation Black Caribbeans were far more likely to be financially integrated than their parents. She noted that the demand for conventional savings products was higher amongst those that moved away from close-knit ethnic communities.

Life insurance policies are also a popular alternative to other forms of saving for many ethnic minority groups and low income households in general (Kempson and Whyley 1998). The main exception to this is Muslim households, as insurance is forbidden under Islamic law. It is unfortunate that life insurance policies are necessarily the most appropriate products for such households, since the risks are relatively high for those consumers with uncertain, or fluctuating demands on their finances: if people find they need to take money out of their policy before it matures they typically receive less than the amount they paid in.

Saving for old age is an important area for consideration when investigating the needs of ethnic minorities and immigrants, but unfortunately a detailed discussion of pensions in the UK is beyond the scope of this report. It is nevertheless interesting to note that in 1998 Kempson and Whyley found that low incomes and lack of occupational schemes were not in themselves sufficient to explain why only one in five Pakistani and Bangladeshi households have any private pension provision. They concluded that additional reasons included mistrust due to widespread media coverage of mis-selling, and language difficulties which made them wary of complex contracts.

Borrowing

There is clearly demand for both secured and unsecured loans amongst immigrant households, just as there is amongst the majority of households in the UK. However, whilst acknowledging the demand, there is also a concern that high levels of borrowing may lead to additional difficulties and that these may in turn reduce supply. The Government's task force on over-indebtedness (DTI, 2005) reports that whilst ethnic minorities are less likely to have consumer credit than individuals who classify themselves as British, they are more likely to be in arrears with such credit. Thornton (2003) also reports that two thirds of the respondents to his survey amongst Pakistani and Bangladeshi adults had lost sleep because of concerns about their debt[3]. Half claimed that debt had led to depression and a third said they were eating less.

These findings clearly indicate a demand for tailored *affordable* credit that can be accessed by those without a proven credit history and those with very low incomes, and Thornton argues that credit unions might offer a solution to this problem given sufficient support. However the same

[3] The author does not identify whether the debt referred to is actually credit that is being repaid, or unmet repayments.

findings also indicate that the financial services need to exercise caution in their lending decisions, in order to prevent escalating problems of overborrowing and bad debts.

It is particularly difficult to identify whether the lower proportions of ethnic minorities accessing mainstream credit is due to lower demand (caused by a range of factors including religious concerns and the support of families), a lack of supply, or a preference for using alternative provision. For example, Herbert and Kempson (1996) noted that demand for credit amongst Muslims varied by ethnicity; Bangladeshis were much *more* likely than Pakistanis to turn to high street lenders. The researchers commented that one might expect Bangladeshis to have low levels of borrowing from these kinds of lenders as they typically had a low level of knowledge about financial services, fairly low income, a poor understanding of English and a religion that frowned upon the payment and receipt of interest. They concluded that the higher level of demand amongst the Bangladeshis for mainstream products was probably due to a lack of suitable alternatives (such as the informal kommittis) and the very high rates charged by unlicensed lenders. Indeed, they found that when they could not access mainstream credit themselves, Bangladeshis resorted to borrowing from the same lenders through a third party.

Shanmuganthan *et al* (2003) suggest that one of the reasons that the African Caribbean communities in Britain still show problems engaging with the banking sector and lenders in particular is that they mostly came from 'working class backgrounds' in the Caribbean. The authors do not expand on this point but it is hard to accept that such a long established community would not have become more accustomed to and accepted by the financial sector in Britain. Perhaps the reason for the difficulty in accessing loans that the authors mention is actually due to a lack of supply of suitable products to all people in their circumstances. African Caribbean adults are much more likely to be unemployed than the British population as a whole, and, on average, African Caribbean children do less well than their white peers in English schools (Data available from ONS). These factors would make them high risk customers and they would be unlikely to have easy access to high street credit.

Mortgages

Most families in Britain will need a mortgage if they decide to buy their own home. As the pool of social housing diminishes and the housing market remains buoyant, many people consider property to be a wise investment both in the short term and to provide equity in the longer term.

As noted above there are variations in house-ownership across ethnic and religious groups. Statistics from the 2001 Census indicate that whilst Sikh, Jewish and Hindu households in Great Britain are most likely to own their own homes, Muslim householders are least likely to be homeowners (82 per cent, 77 per cent, 74 per cent and 52 per cent respectively). Conversely Muslims are most likely to live in social housing (rented from the council or a housing association).

It may be that Muslims are remaining in rented properties because high street mortgages are not compliant with Muslim law (Shariah), but demand is quite plausibly related to other factors, such as irregular or low incomes, rather than religious objections. For instance, unemployment rates for Muslim men and women are higher than for people from any other religion (rates of unemployment amongst Muslims are 3-4 times that of Christian men and women). Furthermore, Muslim adults have higher levels of economic inactivity, largely due to ill health amongst men and child rearing amongst women (LFS 2004, available from ONS). Many Muslims are also recent arrivals – in particularly Bangladeshi and Somali immigrants, and this in itself could explain low levels of home ownership.

Unsecured and informal borrowing

Many people in the UK find themselves unable to survive on a low income without borrowing money to cover either day-to-day or unexpected expenses. Parents with young families, and young adults living independently are particularly likely to seek some form of credit (Herbert and Kempson, 1996). Migrant groups and many of the ethnic minority communities in the UK have a much higher proportion of young people than the population as a whole and are therefore very likely to need access to credit of some kind. Indeed Herbert and Kempson (1996) reported that of the 51 Pakistani, Bangladeshi and Caribbean adults they interviewed all but one were either currently repaying money they had borrowed or had repaid borrowed funds in the recent past. As a comparison, in 2002 half of all households had a credit commitment that they owed money on (Kempson, 2002).

Recent research by the Department for Trade and Industry (2005) indicates that minority households are less likely to have *formal* credit products than other households. However, research in 1996 found that ethnic minority households had similar levels of borrowing to other low income households. The most noticeable difference was the source of credit (Herbert, 1996), indicting an increased reliance on informal lenders, savings and loans clubs and friends and family.

Many Pakistanis and Caribbeans make use of savings and loans clubs when they need to borrow. These clubs offer the advantage of not charging interest, but they require a regular, long term saving commitment from participants and it will not always be possible to access funds on demand. However, Pakistanis with reasonably high incomes save large sums of money in kommittis and it has been noted that some use their loans to fund house purchases, businesses or other large purchases (Kempson and Whyley, 1998). Bangladeshis do not have a tradition of savings and loans clubs in their homelands and consequently they do not appear to have created anything similar in communities in the UK (Herbert and Kempson, 1996).

Remittances

Many migrants and ethnic minorities want to send money to family in their country of origin; indeed this is often the main reason for seeking work in the UK. Recent research by the Department for International Development (DFID, 2004) reported that people in the UK sent a total of £2.3 billion pounds to developing countries as remittances in 2001. They found that people who remit want to send money via a service provider they trust. They also want their money transfers to be quick and low cost, but will trade these preferences off against increased security. The report notes that migrants find it difficult to get good information about remittance products in order to make informed choices.

Remittances services are available through a wide range of providers in the UK, including high street banks. It is possible to remit money via country-specific banks with a presence in the UK such as Sonali Bank UK (incorporated in Bangladesh), and the Bank of India. Individuals may also send payments via Money Transfer Organisations such as Western Union or Travelex Money Transfer. Further services are available through informal channels that are unregulated and consequently more risky. These include local foreign exchange agents, and finding someone who is prepared to travel with the cash and deliver it personally. It is certainly possible for migrants without a bank account to make payments to their home country, although the formal channels still have identification requirements. Some options, such as the foreign exchange agents also offer credit, so that people can continue to meet their obligations to support family even when they face a shortfall in the UK. This may involve risk but appears to be welcomed amongst the Pakistani respondents interviewed by Herbert and Kempson (1996).

McKay and Winkelmann-Gleed (2005) find several indications of the demand for information and access to good quality remittance services. They describe how key informants told them of migrants travelling back to their home country with money sewn into their clothes, risking their own safety. They were also told by a post office worker that migrant workers were posting remittances to family abroad. This method is far from secure, and indicates the lengths people will go to in order to try and support the family they have left behind.

Unfortunately, mystery shopping exercises for the Department for International Development found that all payees receiving money via country-specific banks faced some difficulty in accessing their money. Conversely, *relatively* few of those receiving money from British banks faced any difficulty (just 14 per cent) indicating that the migrants who do not have access to bank accounts in the UK may face additional inconvenience over and above operating a cash budget (DFID, 2004).

Specialist Products

The UK has a strongly competitive financial sector that has created a wide range of products to meet the demands of the majority of the population. However, it has been slower to investigate 'niche' markets, and has only recently started to supply specialist products that meet the more complex demands of religious groups or the less profitable needs of low income consumers.

Specialist products to meet the needs of Muslim consumers who wish to live within the laws of Islam (known as Shariah[4]) have been introduced in the UK relatively recently. The first Shariah compliant mortgage type product was introduced to the UK in 1997 by the United Bank of Kuwait (now Ahli United Bank). However reports suggest that the mortgage had low take up, because the bank had a low presence in the UK, and because of the charges and structure (Salaam, 2002). In 2003, the HSBC offered its own Islamic house purchase product. The Sunday Times newspaper reported in April 2005 that Lloyds TSB was the most recent mainstream bank to enter the Islamic market, offering both a current account and mortgage product that are Shariah compliant. The newspaper quotes a representative from Lloyds TSB who claims that the bank's own research indicates that three quarters of British Muslims want banking products that meet the requirements of their religion.

There is also one Islamic bank operating in Britain. The Islamic Bank of Britain offers mortgages, current accounts, loans and savings accounts to its customers. The Sunday Times (April, 2005) claims that the savings accounts may well be of interest to non-Islamic investors who want a competitive, ethical product, indicating the possibility of a considerably larger market than simply the 340,000 British Muslim households.

Islamic mortgages tend to follow one of two principles: Ijara[5], and Murabaha. Ijara mortgages are based on the principle of leasing – the financial institution buys the property and rents it to the individual for a contractual period, selling it to them at the end of that period. The Murabaha method is also based on an initial purchase by the financial institution, but the house is then sold

[4] The word Shariah is spelled in various ways in academic literature and news media including Sharia, Shariah and Shar'ia.

[5] Strictly speaking, Ijara does not include a transfer of ownership at the end of the contract, this is known as Ijara-wa-iktana. See http://www.islamic-bank.com for a useful glossary of terms.

straight on to the individual at an increased price, with the payments being made in monthly instalments.

As a result of a Bank of England working party report into Islamic finance, it is expected that Islamic Ijara mortgages will soon be regulated by the Financial Services Authority (Murabaha mortgages are already regulated). The 'Financial Services (land transactions) Bill', a draft law which will enable this improvement, is currently in progress. It is anticipated that increased regulation will encourage more mainstream lenders to enter the market as consumer confidence in the regulated products grows (Datamonitor, reported on BBC Online).

Other specialist products are beginning to emerge in response to a combination of public demand and government initiatives. For example, the UK Government has recently introduced a new, long term asset building scheme for all newborn babies, known as the 'Child Trust Fund' (CTF)[6]. The Government gives the parents of each newborn child an investment voucher for at least £250, with the promise of further payments in the future (expected to be when the child reaches seven, and again at 11 years of age). The money must be invested in a specific CTF account, until the child reaches 18 years of age, and can only be withdrawn by the child. Further payments can be made into the savings product up to a limit of £1200 per year.

There are currently over 30 institutions offering CTF products. Parents are free to choose the provider and type of account (cash accounts, investment accounts or stakeholder accounts), but if they do not invest the voucher within 12 months the Government will open a stakeholder account for them. It is intended to be easy for people to open a CTF account, even if they do not already have a bank account.

Parents are encouraged to think about the type of account that is most suitable and to think carefully about their requirements. The CTF website suggests that they consider whether they have any ethical or religious requirements and ask for specific information about the range of products on offer. At the time of writing the mutual provider Children's Mutual is offering the only Shariah compliant CTF product. Children's Mutual promises that the product will be monitored for ongoing Shariah compliance by a board of scholars.

America has seen pre-paid credit cards grow into a multi-billion dollar financial service. The large companies have been slow to replicate this in Britain, but Mastercard Europe, in partnership with Advanced Payment Solutions (APS) launched its own pre-paid card here in 2005. According to recent news reports around the time of the launch this card will target the *'7 million, migrants, who often do not meet the requirements to set up a bank account. The card will offer them a secure payment facility'.* (Rich Wagner, CEO of APS, quoted in Marketing Week, 11/08/05).

Pre-paid cards allow people to make purchases electronically and withdraw cash from cashpoints, but they have important differences from bank accounts. They cannot be overdrawn and so they do not offer the benefit of short term credit to smooth cashflow. Furthermore, unlike bank accounts in the UK there may be a charge for buying or operating a card. Consumers may even face fees for periods of inactivity. However one of their major benefits to migrants, people without identification and those who do not live near a bank is the ease with which they can be purchased from local stores in the same way as mobile phone credit is currently sold (Finance Times, London Edition 3, 6/11/05). For Muslim consumers they also have the advantage of

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[6] See www.childtrustfund.gov.uk for further information

avoiding interest. However they are not designed to be Shariah compliant and some of the money may be invested in inappropriate industries.

Access

It is very difficult to disentangle the demand or need for products and the supply of products without considering the extent to which a number of barriers prevent individuals from meeting their own needs.

It is important to consider the extent to which access to financial services differs across ethnicity or religion. It has been noted by Thornton, for example, that a large proportion of the 176 Pakistani and Bangladeshi adults interviewed for a survey faced financial exclusion – in some cases due to self exclusion either because of Islamic teaching, or because they *assumed* they would be refused services (Thornton, 2003). The Financial Resources Survey (FRS, 2005) shows that of the 751 Pakistanis and Bangladeshi heads of households surveyed in 2004-2005, 86 per cent had a current account, whilst nine per cent had no bank account at all. The same survey reports that 90 per cent of white household heads held a current account, and just six per cent had no account at all.

Some issues with access are not related to ethnicity *per se* but are related to characteristics that are common amongst certain ethnic and migrant communities. For example, experts advising the researchers exploring financial capability measurement tools indicated that refugees, Pakistanis and Bangladeshis often receive at least some of their income from informal work (PFRC, 2005). This could prevent them from full engagement with financial services, both because the income will not be paid through bank accounts, and because it will not be recorded in a way that enables individuals to borrow money on the basis of their ability to repay.

Physical access

There is considerable evidence that bank branch provision is poorest in low-income communities, including those where ethnic minority communities flourish. Although lack of a nearby branch does not seem to play a direct part in people's decisions not to have a bank account, it may well fuel their belief that banks are not for them. There is little doubt that the types of people who are especially at risk of financial exclusion – including lone parents, and possibly those unfamiliar with the language and geography of their new country, are also the ones who face most difficulties getting to a distant branch (Kempson and Whyley, 2001; Kempson *et al*, 2004, Pilley, 2004).

Language barriers

Language barriers take three main forms, as described below.

- Some people come to the UK unable to speak or understand any English. They have difficulty communicating with and understanding bank staff.
- Many people find that they are not properly understood in the UK because of their accent or dialect. This applies to those who speak a kind of pidgin-English as well as those who have English as a second language.

- Many adults in Britain, including those who are British born, have literacy problems. This makes it difficult for them to understand written communications, including advertising and terms and conditions.

It is estimated that three million residents of the UK were born in countries where English is not the national language (Research Brief, quoted on CILT[7] website). Migrants from non-English speaking countries can face difficulties accessing banking services if they arrive unable to speak, read or write English. A recent report on migrant workers in the East of England finds evidence that migrant workers face '*difficulties in communicating their requirements to bank staff*'. Furthermore, they claim that the banks make '*no real efforts to assist them in overcoming these communication difficulties'.* They found no evidence of banks that sought to help migrants facing language barriers (McKay and Winkelmann-Gleed, 2005).

Many older immigrants from South Asia still do not have the language skills necessary to conduct their business in English, despite spending many years in the UK. The DFID research found that older customers needed staff at their local bank branch to be fluent in their own language, so that they felt confident that they were making themselves clear.

'Some people find the accent tricky. They could make a mistake'. (DFID, 2005).

This was one of the reasons that some people chose to make remittance payments via country specific banks rather than UK based ones. It is interesting that the overwhelming message in relation to the language barrier was that people needed to **be understood**, rather than to **understand** and that even when people speak good English they are concerned about their accent[8]. It should be noted that in the UK it is not uncommon for different regional accents to cause confusion and misunderstanding, but it is perhaps felt more acutely amongst those who are relatively new to the country.

Focus groups convened for research into remittance payments indicated that banks could do more to improve language skills amongst staff. Alongside this, participants believed that staff needed to know more about the countries to which customers sent remittances, in order to reduce the possibility that place-names were spelled incorrectly (DfID, 2005).

Whilst this section has mostly focused difficulties with general levels of language and pronunciation, it has also been brought to our attention that the technical language of banks and other financial services can bring its own problems. It is very unlikely that migrants with modest levels of language skills will have been taught the vocabulary necessary to discuss cashpoint cards or overdraft facilities. This is a problem even for people growing up in the UK, as illustrated by at least two comments at a Financial Capability event in March 2006 hosted by the FSA in London.

'Learn to speak the language of your creditors' . (David Robson, Roehampton University Money Doctor, describing one of the skills provided to students under the Money Doctor scheme, one of the FSA Young Adult Financial Capability pilots).

[7] CILT is at the National Centre for Languages. It's website can be found at www.cilt.org.uk

[8] However, it must be remembered that it is much more difficult to include non-English speakers in surveys, and so their particular difficulties will almost certainly be under-reported.

Financial capability and information gaps

Kempson and Whyley (1998) noted that many of the people interviewed for their research into saving amongst ethnic minorities had low levels of financial knowledge relative to the breadth of financial provision in the UK. It is clear that there are some difficulties with financial skills that are specific to recent immigrants and not necessarily related to language or education levels. For example, migrant workers arrive in Britain from very different circumstances, and some come from very poor countries, with little or no banking or financial services infrastructure. These newcomers will not have been exposed to financial services. Their knowledge will be low because of the lack of opportunity to experience anything like the services available in the UK. They may have operated entirely in cash in their country of origin without difficulty or hardship. It will take time for them to begin to learn about the products on offer, understand how to access them, and be confident about the terms and conditions associated with such products.

Many young people learn their financial skills from their parents, so it is interesting that Olatundun (2003) found that the younger generation of African-Caribbeans were less likely to understand credit unions than their elders and unlikely to take up membership. It is not uncommon for young people to be largely unaware of credit unions (Atkinson, 2005), but this particular finding is interesting in that it indicates that knowledge and confidence in this method of saving and borrowing is not being handed down through second and subsequent generations, since credit union membership is high on many Caribbean islands and relatively high amongst some Caribbean communities in the UK.

A recent paper exploring ways of developing the 'ethnic banking market' in the UK observes that the younger members of the Asian communities tend to be better educated than their elders and more accustomed to UK culture, and therefore tend to give financial advice to less knowledgeable parents. The authors suggest that 'this means that marketers may need to target the younger generation, to influence the older generation' (Shanmuganthan *et al*, 2003). This is in stark contrast to the findings of other reports that indicate that most young people in the UK look to their parents for help and advice (see for example Hutton and Seavers, 2001, Thomas, 2004 and Samson *et al*, 2004) and is important in the context of financial capability since it suggests that older migrants may need more help with their financial skills than others in their age group.

It should also be noted that the general education levels of young British Asians varies considerably – Indian children in English state schools perform better than average in national examinations at age 16 but Pakistani and Bangladeshi children perform less well. In 2003, for example, only 36 per cent of boys of Pakistani heritage in England achieved sufficient qualifications at age 16 to enable them to move on to further, formal, academic study compared with 60 per cent of Indian boys (DfES, 2005, data also available from ONS). Again, this suggests that it may be necessary to pay specific attention to the financial capability needs of some ethnic minority households if education reflects capability.

Religious barriers

'We have also been concerned about the financial exclusion of those who wish to practice their religion and who find themselves, for that reason, without access to the financial products and services which would meet their needs.' (Speech by Callum McCarthy, Chairman, Financial Services Authority, The London Chamber of Commerce & Industry 27 June 2005)

Research conducted for Church Action on Poverty suggests that one of the reasons that some Muslims did not have a bank account was that they did not want a product that was interest bearing (Thornton, 2003). Interest is forbidden under Islamic Law. As far as we are aware there are no statistics available in Britain relating to the number of Muslim consumers who actively seek out financial products that comply with Islamic law.

It appears that many Muslims have until recently been forced to go against the teachings of their religion in order to purchase a house in the UK. The Muslim Council of Britain (MCB) claims on its website that:

'Although purchasing a property through a standard interest-based mortgage is contrary to Islamic teaching, the practice is nonetheless common because of circumstantial considerations. This is a dilemma that the British Muslims have been facing for years. The high prices of property in Britain make it difficult for buyers to own a property by paying the price upfront. Opting for a mortgage, hence, is a common practice.' (MCB, 2004).

This quote suggests that the MCB is talking primarily of Pakistani Muslims since the statistics quoted above indicate that in fact, many Muslim householders are not buying their own home.

It is not clear how much the religious preferences are actually contributing to financial exclusion. It very much depends on the extent to which individuals understand and live by the teachings of Islam and the priority given to these teachings over other important decisions, as well as the supply and choice of products available. Teaching notes produced for Basic Skills teachers by the Financial Services Authority comment that the *'interpretation of Shariah law varies amongst Muslims, from those taking a very literal interpretation to those who will work around it'*.

Researchers have also identified a relationship between religious belief and the ways in which people provide for their own retirement. Katbamna *et al* found that *'for ethical, cultural or religious reasons, many Bangladeshi participants were put off from investing in banks, building societies and insurances schemes'* (Katbamna *et al*, 2004). Kempson (1998) also interviewed an individual who would not join a Pakistani death kommittis because he felt that the tradition of flying the body back to Pakistan for burial was against Islamic Law, indicating how individuals can perceive the rules differently.

Financial institutions that offer Shariah compliant products set up a board of scholars to debate and monitor each investment. It is valuable to consider the complexity of the rules and beliefs that guide scholars who assess financial products, in addition to questioning whether individual consumers fully understand or worry about what they can, and cannot, do. It has been noted that *'Sharia law is open to interpretation and Sharia boards often have divergent views on key Sharia issues'* (Freshfields, 2004). This has several implications. On the supply side, there is the potential for providers to deceive or mislead consumers. Equally they could offer compliant products that do not meet the financial needs of the consumers they are looking to serve. On the demand side, some people may avoid all financial institutions either from fear that they do not fully understand what they can and can not do, or in the belief that no bank will offer suitable products. Consumers may also be wary that such an involved process will result in significantly higher costs, and may prefer to take a mainstream product that only meets some of their spiritual and economic considerations.

Discrimination

Racism and discrimination is clearly against UK law[9], but may, nevertheless, exist in certain areas. We do not know of reports that have focused on the possibility of discrimination and racism within mainstream financial services providers, but several researchers have commented that individuals have identified behaviour amongst bank staff that they felt was prejudiced or racist.

[9] It is also contrary to the Banking Code

The 2004 report on remittances for the Department for International Development commented that most of the people they spoke to believed that banks were trustworthy and helpful, but that some individuals reported staff who appeared to show *'prejudice based on their colour'*.

A more recent report on Migrant workers (McKay and Winkelmann-Gleed, 2005) commented that 'most' migrant workers who were only given limited access to banking services assumed *'that racism was playing a part in the bank's decisions'.* The quote used by the authors to highlight the suggestion of racism indicates the problem with identifying the perception of racism over discriminative or risk based assessment – the respondent tells how the bank said *'No, you are not English. You are a foreigner'*. It could be that the reason for turning down this individual's credit application was associated with his or her migrant status, and not because of racial prejudices.

Researchers have noted that credit scoring appears to discriminate against ethnic minorities indirectly because many have circumstances that are considered to be high risk. These include low levels of household income and lack of home ownership. It is difficult for ethnic minority customers to distinguish between credit scoring behaviour and racist attitudes, particularly when they have been repeatedly turned down for credit (Herbert and Kempson, 1996).

Perhaps the most important lesson to be learnt in relation to perceived racism is that individuals who feel as though they are excluded in some way may be very likely to deny themselves access to services if they feel intimidated by them, or discriminated against, whether or not their feelings are justified. Some people will be understandably reluctant to make subsequent visits to banks if they suffered discrimination many years ago. If their first experience of the financial services industry in the UK was not good they may remain unbanked. Hardeep Tamana, a financial advisor and a Sikh is reported to say *'Many Sikhs …when first coming to this country, felt they were looked on with suspicion by banking staff. We were often faced with a traditional British male and it was difficult if you did not speak impeccable English.'* (Financial World, 2003).

Research into the experiences of ethnic minority businesses has concluded that some difficulties faced by African Caribbeans in particular '*cannot be explained in terms of lower educational or management qualifications'*. This research went on to admit that *'whilst we are unable to prove that discrimination exists, there is clear evidence of disadvantage for [African Caribbean Businesses], which cannot be satisfactorily explained in terms of other characteristics of the businesses or their owners.'* (Ram et al, 2002).

Identification requirements

Residents of the UK do not currently have a national identification (ID) card, although the current Government is making plans to introduce one in the future. Without a single, universally acceptable card, organisations must look to other ways of checking ID. As part of the drive to prevent money laundering, banks require specific forms of identification before customers can open an account. The most common items used for proving identity are passports and driving licences. It can be difficult for recent immigrants (and indeed for some indigenous people) to produce the necessary documentation. They may not have any kind of photographic identification – particularly if they have arrived as asylum seekers or they have been forced to hand over their documentation to employment agencies - and they will not have a permanent address (see McKay and Winkelmann-Gleed, 2005).

Migrant workers can find it difficult to obtain proof of address even when they find more permanent accommodation. Many migrant workers rent rooms in multiple occupancy houses where the rental cost includes utilities, or they may be provided with nothing more than a bed to sleep on as part of their employment. They will be very unlikely to have their names on the tenancy agreement or have anything that proves where they live (McKay and Winkelmann-Gleed, 2005).

Kempson and Whyley (1998) found that many ethnic minority people (wrongly) believed that the requirement to show their passport as photographic identification was to check that they had a right to remain in the country, which made them feel uncomfortable. McKay and Winkelmann-Gleed (2005) indicate that some banks are now asking for proof of '*income tax and National Insurance'* payments; creating even more barriers for individuals without documentation and those who feel discriminated against for being foreign.

Credit worthiness

Access to transaction accounts and credit is severely restricted for people without proof of income, or a credit history. This can be a particular problem for recent immigrants. It is also an issue for some people from ethnic minority communities. For example, it is not unusual for people from South Asian and Chinese communities to work in family businesses, earning small, variable amounts of money that may be pooled for the benefit of the extended family (PFRC, 2005). In these circumstances it is very difficult to obtain formal personal financial services such as credit despite the need for such a facility, as there is no easy way to prove income.

Gender

Some ethnic minority groups in UK have a strong tradition of dividing task and responsibilities according to gender. In particular, South Asian women are very unlikely to access financial services independent of their partners, and few of them will have any financial products in their own names or even jointly with their husband. This may become an issue if they need their own products at a later date, particularly if they separate from their partner and need to access credit or find work. Indeed research for the British Bankers Association found that Pakisani and Bangadeshi women were four to five times less likely to have a bank account that white women (Kempson and Whyley, 1998, see also PFRC, 2005).

Issues related to remittances

As remittances play an important role in the financial lives of many immigrants and ethnic minorities, it is valuable to consider the findings of a recent piece of research into these payments. The research, by DFID (2004), identified several barriers preventing migrants from accessing or choosing remittance services. Some of these points reiterate the problems discussed above that hinder access to other financial services.

- Banks require that the sender and receiver each has a bank account.
- High street banks and building societies charge high rates for small transfers.
- Banks and building societies have 'onerous' identification requirements.
- Remittances can take a long time to be transferred.
- Collection points in home countries may not be convenient.
- Some providers do not offer local currency transfers.

It is clear that some migrants will find it difficult to open a bank account in order to make payments to family in their home country. The DFID report also claims that *'UK banks generally pitch their remittance services at higher value customers who hold accounts with them'*. If this is the case, it is very likely that many new immigrants (the vast majority of whom will have low incomes) will not be aware of the remittance services provided by banks.

Some immigrants told the researchers working on the DFID report that they had joint accounts with family or business partners in their home country. Others had opened accounts with the same bank in each country and were dismayed to discover that they could not simply make automatic transfers between these accounts. This suggests that the banking sector could do more to provide appropriate information and suitable products for recent migrants and those with responsibilities in more than one country.

Political measures and other initiatives

In addition to the move by UK banks to develop Islamic banking services as mentioned above, there have been a range of other political decisions and industry innovations that have had some effect, directly or indirectly, on access to finance for migrants and ethnic minorities. These include attempts to increase the skills of consumers and to improve the range of products available from suppliers. Other initiatives aimed at improving the overall economic situation of new arrivals to the UK may also have an important impact in facilitating integration and financial inclusion.

The Financial Services Authority (FSA) is the single regulator of the whole of the UK financial services sector and is at the forefront of many of the initiatives described below. The wide ranging objectives of the FSA include the promotion of financial understanding amongst individuals, consumer protection and a reduction in money laundering and financial crime. All of these have some relevance for financial inclusion across ethnic minority and migrant households.

Supporting refugees and migrants

The British Government has recently published two new refugee strategies, with the intention of improving integration. 'Working to Rebuild Lives' is focused primarily on employment and sets out measures to ensure that refugees move quickly into their first job. 'Integration Matters' has a wider scope, and includes the introduction of caseworkers to support migrants. Support will include advice about financial assistance available and access to transaction banking. As part of the strategy the Government plans to introduce a new Refugee Integration Loan, initially planned for Autumn 2005, funded by the abolition of back dated benefits payments to those granted refugee status. The loan will only be for the purchase of training or essential items that facilitate integration. It cannot be spent on items or services that are provided freely by other agencies or service providers. Additionally it will *only* be available to individuals who are granted refugee status (Home Office, 2005).

Improving financial capability

There has been considerable interest in the ability of consumers to make decisions about financial products and conduct their own financial affairs appropriately. The financial services regulator in the UK, the Financial Services Authority (FSA), has been given the statutory responsibility to promote public understanding of the financial system in the UK. From the outset, the FSA has played an active role in the area of financial capability. It issued a consultation paper on how it should undertake this role soon after it was set up, and followed this with a large body of research in order to develop a framework for adult financial capability (PFRC, 2005).

In 2003, the FSA launched a new initiative to develop and implement a national strategy for financial capability (FSA, 2003). This included the establishment of a Financial Capability Steering Group, which identified seven priorities: schools, young adults, families, work, retirement, borrowing and advice (FSA, 2004a). Whilst there is no specific stream for ethnic minorities it is hopeful that all individuals will benefit from one or more of the priority areas, and research done on behalf of the Financial Services Authority has recognised the need to be aware of cultural and religious differences in assessing levels financial capability (PFRC, 2005).

Encouraging engagement

Basic bank account
The most significant introduction of a product aimed specifically at encouraging engagement amongst the unbanked and underbanked in the UK has to be the basic bank account. This account allows people on low incomes or with bad credit histories access to a range of electronic transactions and banking facilities. A basic bank account cannot be overdrawn, and is neither interest bearing nor interest paying.

The basic bank account is a card-based account, with no cheque book, and uses real-time banking so that the account cannot be overdrawn. Such accounts were designed following research to explore the reasons why people were unbanked (Kempson and Whyley 1998; Kempson and Whyley 1999) and promoted by the HM Treasury *Policy Action Team 14 on Access to Financial Services* (HM Treasury 1999). For the most part, banks developed these new accounts voluntarily, although the Chancellor of the Exchequer imposed a deadline of October 2001 by which all banks should provide such an account for their customers. All banks met the deadline and many building societies now also offer basic bank accounts.

As basic bank accounts do not earn or incur interest they could be particularly suitable for Muslims, since their religion forbids them from paying or receiving interest. However, it should be noted that the accounts are not necessarily strictly compliant with Islamic law (Shariah), because the money paid into a basic account **could** be invested in areas that are forbidden, such as alcohol or tobacco production.

There has been considerable evidence that banks were not always making potential customers aware of basic bank accounts despite provisions in the Banking Code to this effect (Banking Code Standards Board (BCSB), 2002; Financial Services Consumer Panel, 2002; National Association of Citizens Advice Bureaux 2002). However, more recent initiatives which may help to promote the basic accounts and increase the level of demand for them are discussed in the following paragraphs. Certainly a more recent report by the BCSB (2004) indicates that things are improving.

Automated credit transfers
In May 1999 the Government made the decision to move to Automated Credit Transfer (ACT) as the normal way of making benefits payments. However, it also guaranteed that benefit recipients would be able to continue to draw their cash at post offices if they wished, so weakening the potential benefit of the policy in relation to encouraging financial inclusion.

By the end of 2000 it was agreed that the best way to combine ACT with the guaranteed post office access was to ensure that all post offices offered ‘universal banking services’. These services include access to banks' own-brand basic bank accounts, and the Post Office Card Account (POCA). The POCA is intended to be a stepping stone to banking inclusion. It is a very simple account, exclusively for benefit recipients who are either unable or unwilling to open a basic bank account, allowing access to benefits in cash at post offices via a Post Office card instead of a giro. It does not provide any of the other facilities generally associated with a card account, such as debit card payments.

The transfer to automated credit transfer began in 2003 and was completed in April, 2005. Thus, direct payment into bank accounts (or POCAs) is now the normal, expected way to receive benefits and tax credits. The Banking Code has also strengthened the process by ensuring that basic bank accounts are offered to everyone for whom they are suitable, and the BCSB is monitoring this closely.

The combination of ACT and universal banking has potentially improved both demand for, and physical access to banking for households in receipt of benefits. All high street banks offer a basic bank account, and most (but not all) of these accounts can be accessed via the post office.

The table below shows the number of basic bank accounts opened since the move to direct payment. The count covers all basic accounts, whether or not they can be accessed through post offices; it is however net of accounts that have been closed in the same period.

Table 1 Numbers of basic accounts opened (net of closures)

Quarters	Number of accounts
Apr-Jun 03	132,568
Jul-Sep 03	177,848
Oct-Dec 03	182,177
Jan-Mar 04	178,350
Apr-Jun 04	162,835
Jul-Sep 04	190,465
Oct Dec 04	160,279
Jan-Mar 05	101,867

Source: British Banker's Association[10] (BBA) (4/7/05)

Unfortunately there is no equivalent data on basic bank accounts by ethnicity. However, the most recent Family Resources Survey (2003-2004) showed that only three per cent of British households surveyed had a basic bank account or POCA in 2003, and this dropped to one per cent of Indian, Pakistani and Bangladeshi households. Potentially more reassuring were the levels of current account holding amongst these households, which were increasing; perhaps suggesting that people in these communities are opting for a more complex account[11], or switching at a later date. Indeed, the BBA reported this year that 122,000 basic bank accounts have been upgraded to regular current accounts since the beginning of Universal Banking in 2003.

The BBA also now produces a leaflet[12] encouraging international students to open a basic bank account, and advising them *'If you have any difficulties providing the necessary* [ID] *documents, ask bank staff if you can speak to the person in the bank who is authorised to decide in exceptional cases'.* It is clear from this that they intend Universal Banking to include new and temporary residents, and that they do not want identification requirements to prevent people from

[10] The BBA is the leading trade association for Banks and financial services firms operating in the UK
[11] It may be that individuals wishing to open an account have not been offered a basic bank account.
[12] http://www.bba.org.uk/content/1/c4/59/54/Int_students_leaflet_2005.pdf

accessing banking facilities. We discuss other methods of overcoming the issue of suitable ID next.

Identification requirements – a balancing act

Financial exclusion is not the inevitable outcome of an increased focus on the prevention of money laundering and the financing of terrorism. It is, however, recognised that the perceived emphasis on identification (ID) requirements as one way of reducing the occurrence of such activities can impact certain groups, including immigrants, disproportionately. The Financial Services Authority (FSA) issued mandatory rules in relation to money laundering and proof of ID in 2001. Failure to comply with the FSA's rules has resulted in three banks facing fines, the largest of these fines was for over two million pounds.

Guidance on issues around money laundering, including identification requirements, is provided by a steering committee of trade associations within the financial industry since 1990. This committee (known as the Joint Money Laundering Steering Group, or JMLSG) writes the guidance notes for those responsible for ensuring compliance with the EC Money Laundering Directive and the supplementary Money Laundering Regulations 1993 (which took effect on 1st April, 1994).

The Financial Services Authority (FSA) has recognised that the issue of ID requirements is a complex one, and has commissioned research into appropriate levels of ID and the consumer perception of ID checks. On the one hand ID requests require careful management to ensure that customers know why the requirements are in place, whilst on the other hand the industry and the FSA needs to recognise the distinction between guidance notes and rules (FSA, 2004b; FSA, 2005; Walker and Goldsmith, 2005). The 2004 report by the FSA states that a significant proportion of individuals who will not be able to verify their identity are likely to be '*poor,…asylum seekers and refugees*.' It claims that the JMLSG Guidance Notes provide '*significant flexibility for these groups. For example, in the case of basic bank account the Guidance Notes provide for ID to be satisfied by the personalised letter issued to the customer by the relevant Benefits Agency, together with the customers existing order book or girocheque'*. However, it recognises that this approach can cause problems for both the consumer and the provider (but does not state what these problems might be).

In 2005, the FSA reported that the JMLSG recommended that '*ID procedures should be simplified, particularly in respect of international students, refugees and persons coming to work in the UK'*. This recommendation was made alongside the suggestion that customers who cannot be expected to provide standard ID applying for low risk products can provide proof of entitlement to benefits, which '*will provide reasonable evidence of the customer's identity'*. This will not lead to immediate changes, and the FSA recognises that one of the challenges ahead is to dispel the fear amongst financial service providers who are concerned that they risk regulatory fine or censure for accepting potentially inadequate ID (FSA, 2005).

Some individuals are finding their own ways of overcoming the identification barrier. McKay and Winkelmann-Gleed (2005) note that some migrant workers had found it easier to open building society accounts, because the *'requirements for proof of residency were less formal'*. It seems likely that these accounts offered few of the transaction facilities that they would have liked access to, but this was not explored in detail in the report. The authors also report that several employers were helping migrant workers to access bank accounts but providing a letter in lieu of formal identification requirements. One of the key recommendations they draw from their research is that employer's organisations and the East of England Development Agency should ‘*encourage employers to support and assist migrant workers in setting up bank or building society accounts’.*

Addressing the language barrier

It is clear that language can be a barrier to accessing financial services for some ethnic minorities. However, with migrants coming into the UK from a wide range of countries, it would be very difficult to provide services and information in more than a small number of their languages. As an example of the diversity of the languages spoken, the last UK population Census was translated into 24 languages, 12 of which were also available on multilingual help-lines.

The breadth of languages spoken in the UK has not prevented banks from attempting to reach out to potential customers in their mother tongue. In 2003 the Institute of Financial Services reported in their Financial World journal that the HSBC had started advertising in Punjabi, Hindi and Chinese in specific areas of London to target large populations of Indian and Chinese residents. The report also claimed that banks are trying to recruit branch staff to reflect the ethnic makeup of the neighbourhood. Unfortunately the authors do no not indicate whether this employment strategy has been successful. It is clearly a vital link in the chain – advertising may bring potential customers through the door, but if the approach was in their own language they will expect to be able to communicate in their mother tongue when they enter their local branch.

The British Bankers Association (2000) also looked at steps that have been taken to improve financial inclusion, and noted that, for example, Barclays offer three way telephone conversations with customers and translators, whilst Halifax identifies the various languages spoken by members of staff on their name badges to aid customers who are not confident speaking English.

Overcoming religious barriers

In 2001, a working party was convened by the Bank of England to investigate the issues faced by of Islamic-mortgage providers in the United Kingdom. This group included representatives from the Muslim community as well as from the Treasury, the Financial Services Authority and several banks. When the Governor of the Bank of England addressed the Islamic Home Finance seminar in 2003 he described the four obstacles identified by the working party that needed to be overcome in order to encourage Islamic-mortgages. The first problem identified was that tax payable on house purchase (known as stamp duty) was being paid twice because the Islamic financier took initial ownership of a property. Second, the regulatory capital charges on Ijara mortgages (one type of Islamic mortgage) – at a rate of 100 per cent, were twice that of conventional mortgages and Murahaba mortgages (another type of Islamic mortgage). This means that banks offering Ijara mortgages had to carry twice the level of capital.

The third difficulty identified by the working party related to people living in social housing who wanted to exercise their ‘right to buy’ their home. The right to buy only extends to the residents of the house and therefore excludes sales via Islamic financiers.

The final obstacle identified related to the state benefit system. Where calculations for benefit entitlement take into account housing costs, such costs are taken to be related to the interest payment on a conventional mortgage. The most likely manifestation of this problem will occur if home buyers are out of work for more than nine months and become eligible for assistance with the interest payments on their mortgage. This assistance is not designed to take into account Islamic financing, and those with a Shariah compliant mortgage would not qualify for help.

The Government has addressed the first issue, related to stamp duty. In 2005 it announced measures to prevent the double payment. It has also changed taxation laws to allow low income Muslims to avoid paying tax on profit sharing from savings, to bring this in line with the treatment of interest for low income individuals with conventional accounts.

The Financial Services Authority granted its first licence to an Islamic bank in 2004 (as opposed to a high street bank offering Islamic products), enabling Muslims to choose a range of products that are entirely in keeping with Shariah. It is thought that this may encourage devout Muslims, who were perhaps concerned that other banks did not entirely comply with Islamic law, to interact with financial services. The Times newspaper reported that *'Unlike some high street banks, such as HSBC, which offer Sharia-compliant mortgages, Islamic Bank of Britain will be fully compliant with the Koranic stricture banning the payment or receipt of interest'* (Mortished, 2004).

Improving access to finance at the community level

The supply of products that meet the needs of consumers may not be a sufficient incentive to overcome some of the other access issues. Some issues can best be dealt with at a local level, and in the UK there are many community groups and charities doing exactly that. Rather than list these, we focus here on the work of one well established and much heralded charity, Toynbee Hall,[13] as an example of the practical steps that can be taken to improve financial inclusion and financial capability within a community.

Toynbee Hall works with people living in the London Borough of Tower Hamlets, an impoverished area which has the largest concentration of Bangladeshi residents in the UK. It has developed a project dedicated to providing practical services to increase financial capability and promote financial inclusion, known as SAFE (Services Against Financial Exclusion). SAFE works in a variety of ways to meet its goals with a budget of £140,000 per annum. For example it:

- Runs workshops and seminars on money matters
- Works with a local college to embed financial literacy into English classes for speakers of other languages
- Helps women over the age of 60 to access pension entitlements
- Supports people with debt problems
- Offers one-to-one support to fill in bank account application forms and explain how the account works
- Educates residents on the use of a cash machine and the Direct Payment of benefits

SAFE works with all parts of the community. In addition to the support for individuals listed above it also:

- Provides training to bank branch staff around financial inclusion
- Provides 'queue management' to bank branches to reduce the pressure that staff are under to meet targets- SAFE checks the forms and identification of people in the queues to avoid delays
- Works with the community banking departments of high street banks to widen the types of identification that can be used

[13] For background information about Toynbee Hall, visit: http://www.toynbeehall.org.uk/history.htm

- Works with partner organisations to promote a range of ideas from energy efficiency to business start ups
- Works with the Government to pilot incentives savings schemes (where savers deposits are matched by Government payments).

Toynbee Hall addresses other issues that will impact on financial capability and access to finance, that are relevant to the ethnic minorities who live in Tower Hamlets. For example, it works with young Bangladeshi women who have recently arrived in the UK, who do not speak English and do not wish (or feel able) to leave their close knit community. Women provide training and support to other women to help them become less isolated and more able to take an active role in the life of their family and children.

Work to improve access on a local level is not limited to community organisations. Banks are also working within communities to provide appropriate services to ethnic minorities. For example, Chaudhry and Crick (2004) report findings from an extensive interview with the head of HSBC's South Asian Business Unit in the UK. They note that by 1997 the HSBC had ten teams with specific responsibility for the banking needs of Asian (business) communities across England. They also now have a Group Islamic Finance, responsible for creating and monitoring Shariah compliant products. Approximately half of the members of staff working in these teams are Asian. Chaudhry and Crick explain that the strategy utilised to penetrate this community based Asian market is described internally as 'community delivery'. It is based on mutual involvement between the banker and the customer, with the expectation that the bankers *'attend weddings, funerals and support a customer who has a sick relative in hospital'*. It appears that the bank is attempting to reflect the spirit of the community it wants to serve, in order to win their respect and engender confidence.

Updating credit unions

Credit unions are community based – whether the community in question is based on geography, or made up of people with similar beliefs or occupations. It is not surprising that researchers have concluded that they are well placed to help in the drive to overcome financial exclusion. Thornton (2003), for example, recommends that credit unions are given more support to serve ethnic minority communities. He argues that they could potentially be compatible with Islamic teachings, that they can provide affordable loans and also offer accessible savings products. Encouraged by the umbrella organisation ABCUL[14], some credit unions have taken on board suggestions made by researchers and consumer groups, and are changing the way they work in order to appeal to a wider membership.

Some credit unions have relaxed the usual requirement of becoming a saver before accessing credit. Instead they have introduced capacity based lending. The Portsmouth Savers Credit Union ltd has estimated that it has potentially saved its local community £610,000 a year by reducing their reliance on door step lenders. This strategy is not aimed specifically at migrants or ethnic minorities, but clearly begins to address the need for low cost credit amongst people who find it difficult to save. The Portsmouth Savers Credit Union has also recognised that with an increased reliance on electronic benefits payments, customers need to be able to receive and access money via their credit union account. They have therefore introduced instant access accounts so that people without a bank account are not forced to rely on cheque cashing outlets (ODPM, 2004).

[14] The Association of British Credit Unions Ltd.

Research on the credit union membership of Black and Minority Ethnic (BME) people suggests that credit unions become more involved in remittances, as these are particularly important to BME communities. The author indicates two ways of doing this 1) by developing an internet based remittance service and 2) by entering into partnership with existing service providers (Olatundun, 2003).

Supporting small business

It has been noted that immigrants and ethnic minorities may face particular problems in trying to finance new business enterprises if they do not have good access to financial services. Furthermore, some have been working informally in family businesses and have little proof of earnings from this time. It is also interesting that whilst immigrants are very likely to turn to friends and family to borrow money, Fraser (2004) reports that there appears to be no discernible difference in the propensity to ask friends or family to finance business ventures by ethnicity[15].

The Department of Trade and Industry (DTI) has set up the Ethnic Minority Business Forum (EMBF) to represent the interests of ethnic minorities and advise the Government of their needs in relation to enterprise and innovation (Small Business Service, 2005). Through its agency the Small Business Service (SBS), the DTI has created initiatives to include refugees in enterprise schemes. It is also collecting data on the financing of ethnic minority firms to look at variations between businesses headed by Black African, Black Caribbean, Indian, Pakistani and Bangladeshi owners.

In 2000-2001 the SBS awarded funding to 96 enterprise projects in England under the Phoenix Development Fund. All of these projects were completed in 2004. The SBS indicates that 39 of these projects reported that they gave particular emphasis to ethnic minorities (SBS, 2005; see also Bank of England, 2000).

Whilst credit unions (discussed above) are primarily formed to provide financial services to individuals some also finance small business, either by design, or through lending to members who then use the money to invest in a business venture (Bank of England, 2000). The Bank of England reported that most credit unions find the risk of lending to businesses unacceptably high, both because of the size of loan involved relative to the funds available to the credit union, and the inherent risk of setting up a new venture. The report profiles one of the exceptions, the North London Chamber and Enterprise Credit Union[16], founded in 1994. In 2000 this credit union had 518 members and had made loans totalling over £400,000. The report indicates that 'a significant proportion' of lending was to firms headed by ethnic minority owner-managers.

Banks have also started to recognise the needs of ethnic minority businesses, and have taken steps to recruit and train staff from ethnic minorities, as discussed in relation to the language barrier (Bank of England, 1999). They have also started to target marketing and service delivery mechanisms to the perceived needs of these businesses. The Bank of England (1999) report states that 'on the whole, the approach of the banks appears to have been noted positively by their ethnic minority business customers'. It seems very likely that some of these steps will also have positive benefits for personal banking customers, as the community begins to accept and become familiar with the support of the financial services and the banks grow more understanding of the needs of the community as a whole.

[15] He acknowledges however that the number of observations is small, and so the conclusion is not robust.
[16] http://www.enterprisecreditunion.co.uk/

Conclusions

High levels of unemployment, overcrowded housing and poor levels of education make migrants and ethnic groups in the UK particularly vulnerable to financial exclusion. Exclusion is heightened in some cases by factors specific to their past experiences, their expectations and their needs.

Early waves of immigrants have brought with them informal methods of operating their finances, including savings and loans clubs. These informal operations still provide vital services to many first generation communities but cannot be expected to keep pace with the changes in mainstream financial services. It is no longer possible to manage one's money efficiently and cost effectively in the UK without either a bank account or access to other financial services. Minority ethnic people who are most likely to be on the margins of financial services are primarily from the African Caribbean, Pakistani and Bangladeshi communities and recent refugees and asylum seekers.

There are several barriers to financial inclusion in the UK, some of which are felt particularly strongly amongst ethnic minorities and migrant workers. These include poor physical access to banks, problems with identification requirements, language and literacy problems. Some people face additional barriers due to religious beliefs, gender or discrimination. Many of these issues are currently being addressed.

Whilst physical access to banks is a problem in some communities, the recent initiatives to offer bank accounts through the post office may help to alleviate this problem for some. It seems very likely that the recent increase in current account holding is largely due to the combination of increased access to banking services within post offices and the move to paying benefits electronically.

Identification requirements cause real difficulties for some adults who want to open a bank account, particularly new arrivals to the UK who have neither photographic identification nor a permanent address. This issue has become much worse since the events of September 11th, 2001, as a result of concerns about the possible funding of terrorism. The industry is reluctant to be too flexible because they face heavy penalties for non-compliance with the rules set by the Financial Services Authority (FSA). The FSA is trying to address the issue, but it remains to be seen whether banks will be comfortable accepting a wider range of identification in the case of migrants. Indeed, in the short term the pre-paid credit card may offer a faster option for migrants looking for access to electronic payments, although it will not necessarily give them full access to the range of financial services they need and could cost more to maintain than a basic bank account.

Language barriers are most noticeable amongst migrant workers and older, first generation immigrants. Some banks are trying to address this issue, but it is complicated by the large number of different languages spoken by UK immigrants and the difficulties hiring people with the necessary skills. There may be a need for the financial services regulator (Financial Services Authority) to consider ways of facilitating language training as a first step towards financial capability, and make provisions for speakers of other languages in their financial capability framework.

For some, religion can be a barrier to accessing services because of the lack of suitable products available from high street providers. In the UK this is most apparent amongst the Muslim community. However, the needs of Muslims are being addressed both by the high street banks, the Financial Services Authority and the Government, and it seems likely that the current solutions will alleviate many of the problems faced. In particular the tax treatment of Shariah compliant mortgages will make them more affordable, and comparable to high street products. This should work to encourage strict Muslims to consider home ownership, and to persuade more entrants into the market.

Some solutions to financial exclusion are being targeted at specific communities, whilst others are national approaches; sometimes national strategies are implemented at community level. As the adult financial literacy advisory group (AdFLAG) stated: *'The best way to address financial education within disadvantaged communities is to work through respected and trusted local groups'* (AdFLAG, 2000). We would suggest that this is also true when working with other aspects of financial inclusion. For example, it makes sense to address gender issues at community level, as many of the young women who move to the UK to marry often do not have access to national media and information, and would be hard to reach outside of their close-knit community. They are often sheltered from society, they are unlikely to speak English and traditionally they look to their husband to make their decisions.

Problems with identification can be addressed both at the community level and nationally. Communities can work together to support banks when individuals need to open an account, as Toynbee Hall has shown. Employers too can support their workers when they seek to access financial services. National strategies, such as the introduction of an identification card, and continued monitoring of the banks response to the identification requirements by the FSA may also help reduce this barrier.

In summary, many of the UK's more long-standing migrants have become integrated into the use of financial services, especially if they are second or subsequent generations. But levels of financial exclusion remain high for more recent migrants, especially those who have arrived as refugees and asylum seekers. The Muslims among them are perhaps the least integrated. The problems of financial exclusion have been a particular focus of successive Governments since 1997 and there has been a number of initiatives to tackle them both generally and among the Muslim population in particular. These seem to be having some success in achieving higher levels of integration.

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