Ethnicity and financial exclusion

Research summary

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Financial inclusion means that the modern mainstream financial system is fit-for-purpose for everyone; this means financial services that are accessible, easy to use, and meet people's needs over their lifetime. It also means people having the skills and motivation to both use and benefit from financial services in a meaningful way.[1]

Financial exclusion in the UK remains a significant challenge. A large number of people lack access to the services essential to modern life, or do not have the skills and ability to use and benefit from these services. Without this access, the effects are not only financial, but they are felt in education, employment, health, housing and overall well-being.[2] Financial inclusion is crucial for increasing the social mobility of the most disadvantaged people in society.[3]

It is essential to understand the experience of Black, Asian and Minority Ethnic (BAME) communities in their access to financial services. In 2011 an article was published by Dr Omar Khan, director of policy research at The Runnymede Trust. In this he states that:

"The UK's Department of Work and Pensions has found that 60 percent of Black and Asian households have no savings at all, compared to 33 percent of White households. The UK's first Wealth and Assets Survey in 2009 reported that while the average White household had £221,000 in assets, Black Caribbean households had £76,000, Bangladeshi households £21,000 and Black African households £15,000."[4]

Despite this, available research on the financial experiences of BAME groups is extremely sparse. This review aims to bring together some of the existing research in an attempt to gain an understanding of the current situation. Significant primary research must be conducted to put together a more complete picture and enable precise policy recommendations.

One of the most comprehensive and recent research papers on financial exclusion and ethnicity is the 2008 Runnymede Trust report authored by Dr Omar Khan. This report provides a detailed exploration of BAME communities' experiences of exclusion in a wide range of financial fields, with 24 research recommendations and policy actions. It finds significant indicative data that BAME groups' experience of disadvantage is impacting their access to financial institutions and services. The report is available here.

The Community Reinvestment Act in the US

The Community Reinvestment Act (CRA) in the US was passed in order to force deposit taking institutions to periodically publish records showing the extent to which they are meeting the needs of the communities in which they operate. It came about in response to concerns that banks were redlining individuals. They were seen to be persistently refusing to make, or increasing the costs of, loans to qualified applicants in minority and lower-income central city neighbourhoods.

The purpose of the data is to ensure lenders are serving all communities, to enforce fair lending laws and to provide information on gaps in the market. CRA examinations include an institution's provision of loans, financial services, investments and grants to low and moderate income markets.

The Community Investment Coalition campaigns for legislation to ensure all financial services providers, above a specified size and geography, release lending data to enable policy makers and potential entrants to see which markets lack access to an appropriate range of affordable financial products and services. As with the CRA in the US, the disclosure of such information would then encourage providers to support the markets they are not currently serving. This would be done either directly, or by working in partnership with providers better placed to provide services to those typically excluded from mainstream finance.

The populations of some ethnic groups are more highly concentrated in particular regions of the UK.[5] Awareness of where these communities are located throughout the UK and whether they have access to appropriate finance is important for understanding the magnitude of disparities.

It is essential that banks, payday loans companies and other lenders release granulated postcode-level lending data to enable a full picture to be built up of patterns of financial exclusion across the UK, and where necessary allow for precise policy interventions to bring fair and affordable finance to all communities across the UK.

This short review lightly touches on some of the existing research surrounding BAME access to financial services.

BAME groups and personal finance

Lower-income households usually experience difficulty in saving. Due to the over-representation of BAME households among poorer groups, they will most likely have lower levels of savings. Analysis has shown that BAME groups have lower levels of savings across a wide range of products. For example, 33% of White people have no savings, compared to 60% of Asian or Asian British people and 63% of Black or Black British people.[6] Discrimination in the labour market is likely to have an impact on earnings, therefore playing a key role in the financial exclusion of BAME groups. A recent pay audit found that London's Black and Minority Ethnic public employees were paid up to 37% less on average than their White counterparts.[7]

A review of the savings of low-income households found that people of Asian or Asian British origin were less likely to have a formal savings account. The review suggested that this could in part be explained by the tendency of these groups to remit money abroad a preference for alternative forms of financial provision, such as investing in property. [8]

Low levels of savings will have a direct effect on people from BAME communities when they are older, as they are more likely to live in pensioner poverty and have less wealth. Research from the Runnymede Trust found that in 2010, 16% of white pensioners were living in poverty, rising to 46% of Bangladeshi and Pakistani pensioners, and 25% of Black Caribbean pensioners.[9]

A survey conducted by Church Action Poverty on Pakistani and Bangladeshi people in Newcastle Upon Tyne found that those surveyed reported significant levels of financial exclusion, with debt significantly affecting the health of individuals and their family relationships. It found that two thirds of respondents said debt has led to them losing sleep, and has forced them into eating less.[10]

Research has shown that some individuals in BAME communities 'mistrust commercial providers, who they believe are neither interested in nor understand their needs'.[11] A severe lack of faith in the banking sector appears across several strands of research. Evidence also shows people from ethnic minorities sometimes avoid mainstream banks in order to try and get a better deal, and people are increasingly turning to credit unions.[12]This has contributed to communities developing their own initiatives, such as the "Pardna" in the African Caribbean community and the "Ayuto" in the Somali community.[13]

Postcodes in the UK are predicators of risk as they significantly explain life expectancies. Because BAME groups often live in particular postcodes, postcode risk-scoring has the potential to discriminate against them.[14]

The Runnymede Trust report looked at the British Banker's Association's (now UK Finance) guidance on credit scoring, which states:

'Credit grantors will not refuse credit solely on the grounds of place or area of residence. The area of residence may be included in a credit scorecard when it is properly weighted. However, credit grantors do have the right to refuse credit in areas where they are not represented, or if they have reasonable grounds to believe that servicing that account would place the safety of their property, agents and or employees at risk.'[15]

This guidance is decidedly vague and implies that creditors may be able to include place of residence in scoring. Those who are deemed more risky are those who are more likely to default or violate the terms of a product. This means that they will either be denied products or offered them but at higher costs.[16]

There appears to be a clear disparity between White and BAME communities when it comes to insurance. 2006 NDC data showed that 37% of White groups have contents insurance, whilst 16% of Black groups and 19% of Asian groups have insurance at half the level of their White counterparts. Similar figures exist for life assurance, showing 38% of those with White ethnicity have life assurance, compared with 21% of the Indian community, 16% of the African community, 9% of the Pakistani community and 6% of the Bangladeshi community.[17]

A study carried out to compare the probability of obtaining a mortgage for White and Non-White households found that on average the outlook is similar for these groups. However, it found that Black households with low incomes are less likely to have mortgages compared to White households with similar income levels. Asian households, in contrast, do not appear to have a lower probability of having a mortgage. There was also no observable difference between Black and White households at higher income levels.[18] The fact that minority communities are more likely to be disadvantaged is itself evidence of discrimination and exclusion based on race.[19] There appears to be a vicious circle surrounding low income, low savings, and a person's ability to access finance.

A Bangor University Business School article *Access to Consumer Credit in the UK* investigates household access to consumer credit between 2001 and 2009. The study takes information from 58,642 households and finds that non-White households are less likely to have financing than White households, despite controlling for income levels and other demographics.[20]

BAME communities and business finance

Whilst the process of raising capital is problematic for many small firms, the issue is more acute in the case of Ethnic Minorities Businesses (EMBs)[1].[21] EMBs are estimated to contribute between £25 to £32 billion to the UK economy per year, however they are under-represented as entrepreneurs and have lower levels of business performance.[22] Research has shown that EMBs are significantly more likely to exhibit discouragement in applying for finance. Reasons for discouragement include: avoiding additional risk; fear of rejection; perceived high cost of finance; length of time and amount of hassle to obtain finance.[23]

In 2013 the Department for Communities and Local Government released a report on Ethnic Minority Businesses and Access to Finance in response to Nick Clegg's call for an inquiry into racism in banking. In this it states 'evidence suggests that people from these ethnic minority groups are more likely to have their loan applications rejected than Indian and White businesses.'[24] However, it goes on to assert that there is no indication this is due to racial discrimination, and that the findings can be accounted for by other business characteristics.

The inaccessibility of the banking environment is perceived as a significant hurdle for minority ethnic groups. One paper looks at a 2005 London Development Agency survey, which found that over a quarter of African Caribbean people experience problems accessing business funding, compared to 10 per cent of White people.[25] According to the paper, these comparative difficulties cannot be explained in terms of differing educational or management qualifications.[26]

The need for further research

Mechanisms of inequality and discrimination may adapt over time but their effect on BAME people has remained similar for decades. Outright racism is now more unacceptable, yet systemic racial inequalities in banking and access to finance persist.

Research is needed to ascertain the persistence of ethnic inequality in financial services. It is also important to carry out an up to date assessment on what has been done with the previous evidence of inequality in access to financial services, and whether there has been any tangible impact or what the barriers to change have been.

It also is essential for the release of granulated lending data at the postcode level to enable a full picture to be built up of patterns of financial exclusion across the UK, and where necessary allow for precise policy interventions.

We are hugely grateful to BRAP for their input into this report.

[1] It is important to be cautious about the use of the term 'ethnic minority business' to describe enterprises owned and led by ethnic minorities. Ethnicity should not be taken as the defining characteristic of such businesses, and many EMBs do not wish to be so defined.

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