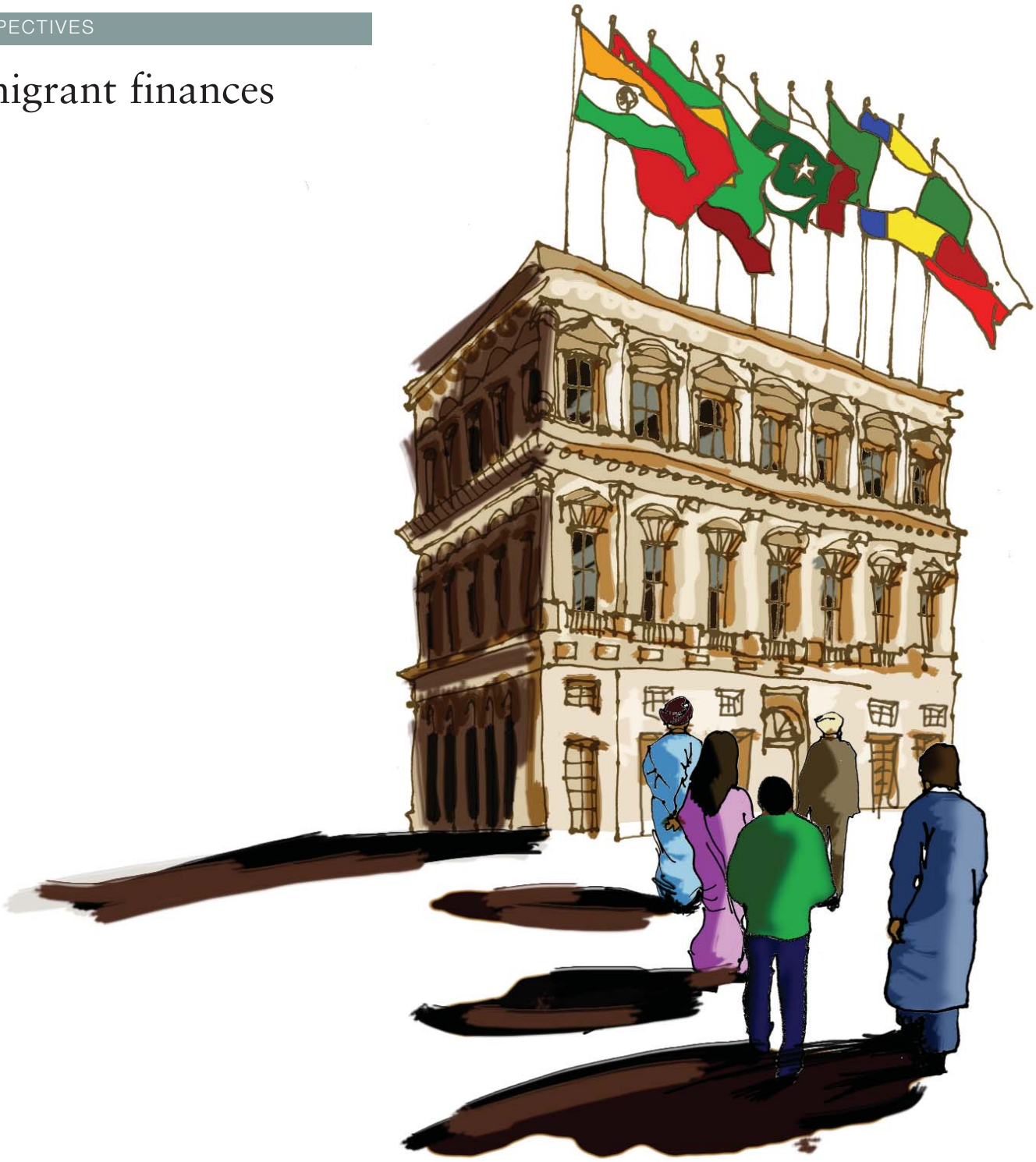
Immigrant finances



Meeting immigrants demands for financial services

The need for financial services varies across ethnic groups – Muslims, Caribbean and migrant workers in the UK. Adele Atkinson analyses what influences decisions about financial services amongst these minority groups and how those needs are being met.

Demand for financial services

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. Rather we would anticipate that variations in demand would be related to economic circumstance or social factors. 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 and religion.

Current 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 notable differences in account holding are therefore more likely to indicate lack of supply than low levels of demand.

Savings products

Unlike transaction banking, demand for formal saving products is largely a matter of personal choice, past behaviour and current circumstance. However, overall account holding also depends in part on the availability of appropriate products. Whilst there are a wide range of savings products available in the UK, these products may not exactly meet the needs of low-income savers, those who are used to a more sociable form of saving, and those with religious constraints.

Taken as a whole, black and minority ethnic households are less likely than the white British population to hold money in formal savings products. Yet, compared with 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 have not sought to move into mainstream products. 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.

The use of savings clubs is not uniform within or between minority communities. 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. Conversely, Pakistani savings and loans groups ('kommittis') tend to be used by first and subsequent generations of migrants, and particularly those with higher incomes. This is perhaps because they do not pay interest, which is an advantage to Muslims, who must not pay or receive interest (riba) under Muslim law.

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Life insurance policies have also proved to be popular forms of saving for many ethnic minority groups and low-income households in general, except in Muslim households, as insurance is forbidden under Islamic law. Ironically, life insurance policies are almost certainly poor substitutes for other savings products for low-income households and may be further indication that the demand for savings products is not being met.

Remittances

Remittances may be seen as an important alternative to saving amongst many BME households and recent immigrants. Some adults build up savings in their country of origin with the intention of returning, whilst others make regular contributions to their family's income via remittance payments.

Recent research by the Department for International Development (DFID, 2004)[1] reported that people in the UK sent a total of £2.3 billion pounds to developing countries as remittances in 2001, suggesting that demand is high, and is being met (although services are of variable quality). The research found that people who remit wanted to send money via a service provider they trusted. They also wanted their money transfers to be quick and low cost, but would trade these preferences off against increased security.

Loans

Demand for unsecured credit is partly a personal preference, and partly driven by personal economic circumstances (and arguably personal circumstances relative to others). Because personal preference is so

important we would expect that demand for loans would be lower than average amongst Muslims, since usury is forbidden under Shariah.

Many Pakistanis and Caribbeans have access to credit, albeit unregulated, through savings and loans clubs. Indeed it has been noted that some Pakistanis use such loans to fund house purchases, businesses or other large investments. But it appears that there is unmet demand for loans amongst other BME communities that do not have such clubs. For example, Herbert and Kempson (1996)[2] noted that Bangladeshi Muslims were much more likely than Pakistanis to turn to high street lenders in search of credit. Indeed, they found that when they could not access mainstream credit themselves, Bangladeshis resorted to borrowing from the same lenders through a third party – indicating that their economic needs were overriding their religious preferences.

As almost all Pakistanis in Britain are Muslim and as 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.

Mortgages

Home-ownership varies considerably by ethnicity and religion. Data for 2001 to 2004 shows that 72% of Pakistanis in England own their own homes whilst only 35% of Bangladeshi households are owner-occupiers. Census data for Great Britain indicates that Muslims are most likely to rent social housing (28%), and least likely to have a mortgage (52%). As almost all Pakistanis in Britain are Muslim and as 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 may be that some Muslims are remaining in rented properties because most 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, rates of unemployment amongst Muslims are three to four 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. Many Muslims are also recent migrants – in particularly Bangladeshi and Somali immigrants, and this in itself could explain low levels of home ownership.

There does seem to be evidence 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, suggesting that their demand for mainstream products could wane in the light of Shariah compliant alternative. 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." (MCB, 2004).

Supply-side solutions

The financial services industry is beginning to recognise the importance of reaching out to new sections of the community. The Government and regulators have also realised that they must address supply side issues that prevent certain people from accessing the products they need and in every Budget since 2003 there have been changes in legislation to accommodate Sharia compliant products and services.

Addressing language barriers

Some of the problems faced by recent migrants are made more acute by a lack of English language skills – even if they speak good English they are unlikely to be familiar with banking terminology. The breadth of languages spoken in the UK has not prevented banks from attempting to reach out to potential customers in their mother tongue.

When the British Bankers Association (2000) summarised the steps that had been taken to improve financial inclusion they noted that Barclays offered three-way telephone conversations with customers and translators, whilst Halifax identified the various languages spoken by members of staff on their name badges to aid customers who are not confident speaking English. Similarly, the Institute of Financial Services reported in their Financial World journal (2003) 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.

Shariah compliant products

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, including current accounts, that are entirely in keeping with Shariah. The Times newspaper reported that, "unlike some high street banks, such as HSBC, which offer Sharia-compliant mortgages, The Islamic Bank of Britain will be fully compliant with the Koranic stricture banning the payment or receipt of interest." There is also some belief that Shariah compliant products may suit non-Islamic customers who want a competitive, ethical product.

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 2001, a working party was convened by the Bank of England to investigate the issues faced by Islamic-mortgage providers in the United Kingdom. One problem identified was that Islamic products were more expensive because the structure of the products meant that Stamp Duty had to be paid twice - once when the financier took initial ownership of a property, and again when the property was transferred to the customer. The Government addressed this issue in 2005, and it is expected that this will help stimulate the market.

Lenders which specialise in providing Islamic mortgages include HSBC Amanah Home Finance, alburaq (ABC International in conjunction with Bristol & West, Lloyds TSB, West Bromwich Building Society and others), Ahli United Bank, United National Bank, and the Islamic Bank of Britain. Lloyds TSB, West Brom, and Bristol & West act as intermediaries, processing the applications and then passing them on to alburaq. Of these alburaq and Ahli United Bank are prepared to lend on buy to let properties as well as owner-occupied homes.

Mainstream providers are also looking at ways of meeting the demand for Shariah compliant products. HSBC first offered its own Islamic house purchase product in 2003 and in 2005 Lloyds TSB entered the Islamic market, offering both a current account and mortgage product. Even more specialist products are emerging – for example, the mutual provider Children's Mutual is now offering a Shariah compliant Child Trust Fund product.

Pre-paid cards

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 "seven 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 cash flow. 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. For Muslim consumers they also have the advantage of avoiding interest. However they are not specifically designed to be Shariah compliant.

Basic bank accounts

The most significant introduction of a product aimed specifically at encouraging engagement amongst the unbanked and underbanked (which include many BME households and migrant workers) has to be the Basic Bank Account, a generic name for a wide range of accounts available on the highstreet that allow people on low incomes or with bad credit histories access to a range of electronic transactions and banking facilities. The account is card-based (with no cheque book) and uses real-time banking so that the account cannot be overdrawn. As with prepaid cards, basic bank accounts do not earn or incur interest but they are not specifically designed to be compliant with Islamic law.

Conclusion

Demand for financial products does seem to vary by ethnicity and it is also affected by religion and recent migration. However, it is difficult to draw a firm conlcusion about these differences. It may be that they are driven by low income and more general social exclusion, or it could be that the products available fail to meet specific needs.

Financial services have sought to overcome the mismatch in demand and supply. For example the big banks are trying to reach out to recent immigrants in their own language, and there is considerable interest in meeting the needs of Muslims through designing Shariah compliant produts. Furthermore, products such as basic bank accounts and prepaid cards may well meet the particular demands of ethnic groups whilst also meeting more widespread need. ☐

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[1] Department for International Development (2004). *Sending money home? A survey of remittance products and services in the United Kingdom*. London: Department for International Development.

[2] Herbert, A and Kempson, E. (1996) *Credit Use and ethnic minorities* London: Policy Studies Institute.

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It's a generation thing

Marketers everywhere are slowly waking up to the special approaches needed in the "grey" market. Edgar Keehnen and René Teuwen, using the Netherlands as a case study, argue that the same principles can profitably be applied elsewhere – and in particular in marketing to ethnic groups