

RUNNYMEDE



# Financial Inclusion and Ethnicity

An Agenda for Research  
and Policy Action



A Runnymede Report by  
**Omar Khan**

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## Foreword

Friends Provident Foundation is concerned with ‘The Right Use of Money’ – namely how money and financial systems can promote social as well as economic value. This set of working principles underpins all of our work, particularly informing our programme of research and practical projects focused on financial exclusion.

Friends Provident Foundation is an independent charity that seeks to create the conditions throughout the UK for improved access to appropriate financial services for those who are currently excluded, particularly those on low incomes or who are otherwise vulnerable to market failure.

We aim to:

- encourage thinking that deals with the causes of the problem;
- transform the use of financial systems so that they offer real social as well as economic benefits, alleviating social disharmony and inequality;
- pioneer new approaches to tackling financial exclusion.

From our work to date, we know that financial exclusion keeps people out of the market, and that it results from a lack of confidence or knowledge as well as a lack of appropriate goods and services to meet the needs of primarily low income groups.

Therefore, the Foundation was delighted to support this exploratory review of Black and Minority Ethnic (BME) communities’ experiences of exclusion in a wide range of financial fields. Key themes that emerge from the review about the centrality of social justice to the debate resonate strongly with our concern with the ‘right functioning’ of financial systems and their potential to be rebalanced in favour of those who might experience disadvantage. We welcome this review as an important contribution to our wider understanding of financial exclusion within the wider social policy agenda. In particular, we hope that the 24 Research Recommendations and Policy Actions will be taken up by other researchers, policy makers and government, so that we begin to see a real improvement in the indicators of financial inclusion for BME groups in the UK.

Danielle Walker Palmour  
*Director*  
*Friends Provident Foundation*  
*July 2008*

## Executive Summary

This review finds significant indicative data that Black and minority ethnic (BME) groups' experience of disadvantage is impacting their access to financial institutions and services. Three main arguments emerge from the analysis. First, further research – both quantitative and qualitative – is required in a variety of areas to investigate in greater detail the indicative trends that BME groups are more at risk of financial exclusion. Second, existing policy should better consider the potentially disparate impact on BME and indeed other disadvantaged groups. Third, a narrow focus on financial inclusion is incapable of capturing either the empirical reality of access to financial institutions and service, or the reasons why policy should respond to inequalities in such access. Instead, financial inclusion should be more expansively conceptualized to include economic well-being, personal autonomy and citizen participation.

More generally, we should think of financial inclusion as being a necessary component of social justice. This sort of framework is more typically invoked in the context of economic disadvantage, but it applies equally to BME groups. Wherever a group of people is more likely to be disadvantaged, principles of social justice require that policy responds to those disadvantages. The link between social justice, BME disadvantage and financial exclusion is as follows. Disadvantages among BME groups indicate greater risk of financial exclusion, which in turn impacts not only access to banking or credit, but also a person's economic well-being, autonomy and participation in democratic society. It is for this reason that Muhammad Yunus (among others) has called for access to credit to be recognized as a 'right'. While this review doesn't pursue that recommendation, it is animated by the thought that BME disadvantages may make them more at risk of financial exclusion and so less able to realize the important goals of

economic well-being, personal autonomy and participation in British society.

The review is divided into three main sections that expand on the above arguments. The exposition also identifies 24 points for further research and policy action, collected at the end of the executive summary, and given separately at the end of the relevant section. The first section situates the experience of BME people, focusing on those features of their disadvantage that may impact their financial inclusion. The three key areas it considers are education, employment and housing. While BME communities experience an array of disadvantages in Britain, the first section focuses on those that may be relevant for financial exclusion.

Following a recent overview of financial inclusion, the second section divides the topic into the following five areas,<sup>i</sup> a framework that has been adopted by most commentators in the UK:

1. Banking
2. Credit
3. Insurance
4. Savings
5. Advice

In each area the review tries to distinguish poverty-related exclusion and ethnicity-related exclusion. This is a difficult task mainly because the evidence base is poor but also because poverty and ethnicity often overlap. The significance of poverty on financial exclusion is well-documented, as in 2004 Treasury findings that 68% of those financially excluded lived in the 10% most deprived areas.<sup>ii</sup> But because many BME groups are also more likely to live in deprived areas, in council accommodation, and have lower levels of educational attainment and employment, they are also more likely to be excluded.

For each of the five areas, the review further considers the various strategies for responding

to financial exclusion. This of course involves an assessment of existing government policies and pilots, but it is important to distinguish the different ways of increasing financial inclusion. These might include general economic uplift, targeted financial products, asset/equity building, changed attitudes or behaviour, perhaps including risk assessment or better financial advice.<sup>iii</sup> This research assesses government policy analytically, but doesn't simply divide them between 'access' and 'behavioural' policies because those concerns are typically interconnected. Particular characteristics of disadvantaged groups explain their behaviour, preferences and decisions but also why financial products and services may not respond to their needs in the way that they do for more advantaged groups. This explains further why targeted policies are necessary for increasing financial inclusion and may vary by ethnic group.

Although the above five-fold framework is indeed helpful, Section 3 extends the analysis in three ways. First, it considers the nature of risk. This topic has become quite fashionable in a variety of policy areas, but with regard to this review, a number of questions arise. Are some communities being indirectly discriminated against because their income or residence is considered high-risk, and so they fail to get loans, mortgages or insurance, or are offered higher rates for those financial services and products? Is credit-scoring fair? Should or can it be? Do some communities evaluate risk differently from others? Do minority ethnic communities use higher-risk informal services and products such as loan sharks either out of necessity or because they evaluate the risk of such transactions differently from white communities? Are there any ethnicity-based concerns in gambling? Does it make sense for poorer groups to take relatively large risks given that they have less to lose and more to gain from longer odds? What are the limits of joint liability models?

A second area that deserves further consideration is the question of assets. A major reason why disadvantaged groups cannot access banking, credit, insurance and savings is because of their lack of assets or collateral to demonstrate their financial standing and to cover any losses. Any discussion of assets necessarily raises the question of housing, and we

tackle this sensitive issue by considering how the right to buy and housing allocation decisions may be impacting financial inclusion. While home ownership is mentioned in some existing studies of BME communities and financial inclusion, the issue has not been fully understood or researched. Furthermore, assets are valuable not simply for financial reasons, but for their knock-on effect on personal welfare and autonomy,<sup>iv</sup> a point increasingly recognized in government policy, most notably the Child Trust Fund.

Third, the review considers whether some financial products and services are compatible with social justice. With the advent of credit-scoring and other actuarial methods, providers of financial products and services can more accurately assess the risk of extending those products and services. As the database of information on credit expands, it will be increasingly clear to financial institutions whether an individual is disadvantaged and so less likely to be able to make repayments on a loan or more likely to default on a mortgage. As a result, the disadvantaged – those in most need of financial assistance – are those who have to pay the most for many financial products. The case of the 'sub-prime' mortgage market in the US is one example, but so too was the previous practice of 'redlining' (denying financial services to a particular area, particularly those with large minority ethnic populations), whether in terms of housing, insurance or indeed credit cards.<sup>v</sup>

In the Conclusion, we emphasize that we must nevertheless recognize that markets are an effective means of distributing certain kinds of goods, and that financial institutions can't be expected to forego real efficiencies. For some products, it may simply not be viable for disadvantaged communities to afford the associated costs and companies may then decide that they can't afford to reduce those costs. This is essentially to ask whether there is always a 'business-case' for increasing the financial inclusion of disadvantaged communities; or, rather, whether markets can deliver fairness. Even if companies calculate that it is worth offering products and services to disadvantaged communities, they may do so at increased cost, as is evident in the sub-prime market. Again, this may be based on a legitimate calculation of costs and risks, and so we should think harder about whether and how we as a society make collective decisions about the distribution of costs and risks. This review's

suggested response is to link financial exclusion more explicitly to social justice, through such concepts as economic well-being, personal autonomy and citizen participation, a link already suggested in some parts of government policy.

Finally, we have identified 24 points for further research and policy action, collected at the end of the executive summary and at the end of each section. These are divided into research recommendations and points for policy action.

Together these points not only explain the relationship between BME groups and financial exclusion, and how we could understand that relationship better, but also indicate what we can do about it now. So while this is in many senses a literature review, we also see it as recommending real and important action for enhancing the financial inclusion of BME groups in Britain.

- i New Policy Institute (2007) *A Snapshot of Financial Inclusion Policy and Practice in the UK*. London: New Policy Institute.
- ii Cited in Resolution Foundation (2007) *In Brief: Financial Capability*. Available online at [www.resolutionfoundation.org](http://www.resolutionfoundation.org)
- iii Thoresen Review (2008) *Thoresen Review of Generic Financial Advice: Final Report*. London: HM Treasury.
- iv See Van Parijs (1997) *Real Freedom for All: What (If Anything) Can Justify Capitalism?* Oxford: Oxford University Press; and Khan (2003) 'Basic Income: Equality Issues Beyond the Baby Bond', *Runnymede Bulletin* 335 (September): 11-13.
- v Cohen-Cole (2008) 'Credit Card Redlining', FRB of Boston Quantitative Analysis Working Paper No. QAU08-1; Squires (2003) 'Racial Profiling, Insurance Style: Insurance Redlining and the Uneven Development of Urban Areas', *Journal of Urban Affairs* 25(4): 391-410; Thabit (2003) *How East New York Became a Ghetto*. New York, NY: NYU Press; Zenou & Boccoard (1999) 'Racial Discrimination and Redlining in Cities'. Available online at [www.core.ucl.ac.be](http://www.core.ucl.ac.be)

## Agenda for Research and Policy Action

This section summarizes the review's 24 key findings for taking forward financial inclusion policy to address the concerns of BME people in Britain today. Each finding explains what we currently know in terms of financial inclusion and ethnicity, and further emphasizes what we can do now, both in terms of research and policy action. Some findings apply more to government, some to financial services providers, and some to researchers, but they are all important for enhancing the financial inclusion of BME people. As the Treasury recognizes, Government has a vital role both in developing policy but also in leading on this issue, and our research recommendations should be pursued by Government-commissioned studies. Existing policy must also meet its legal obligations, including equality impact assessments and of course monitoring. We know that the Government takes these obligations seriously and recognize its commitment to further research and action on financial inclusion and also race equality, and anticipate other research and financial institutions being committed to these aims as well.

The 24 recommendations for research and policy action are divided in line with the section headings of the review, but they may also be divided into three broader categories. Perhaps most important are those that recommend an amended framework for understanding financial inclusion and ethnic disadvantage. Recommendations 1, 2, and 16-24 suggest a broader framework for understanding financial inclusion, and also a more refined conception of the reasons for ethnic disadvantage in the UK – both from a research point of view and in terms of policy action. These recommendations also explain why tailored policy is necessary to respond to those who are more likely to be disadvantaged – whatever their background – and so are important for understanding the other 13 recommendations.

Recommendations 3-6 indicate the relevant BME considerations in important research and policy areas (education, the labour market and housing), and highlight the need for further qualitative and quantitative research to understand how these relate to financial inclusion. Recommendations 7-15 assess current policy areas in financial inclusion, focusing on their impact on BME people. Some of these areas are more developed than others; similarly our recommendations in these five areas vary in terms of their immediacy. Together these 24 recommendations provide a better understanding of the relationship between financial inclusion and ethnicity, and also an agenda for further research and policy action for government, other researchers and indeed financial institutions.

# Research Recommendations and Policy Actions

## 1: Understanding ethnic disadvantage

It is difficult to disentangle poverty-related and ethnicity-related reasons for financial exclusion. Ethnicity-based reasons for disadvantage may have different sources or causes.

- **Research recommendation:** Analysis of BME financial exclusion (or indeed social exclusion) should distinguish more clearly the different reasons why BME groups have poorer access. The following typology is a first step:
  1. Ethnicity-based differentials ➤ low education, employment outcomes, etc ➤ financial exclusion
  2. Ethnicity-based differentials in terms of education, employment choices ➤ financial exclusion
  3. Discrimination or racism practised by financial institutions ➤ financial exclusion
- **Policy action:** Policy makers and researchers need a more refined understanding of race inequality, in particular to distinguish the different reasons for unequal outcomes for BME groups.

## 2: Tailored policy

Financial institutions tailor their services in response to demographic and other differences, from bank openings and closures to risk-scoring. Similarly, targeted policies are necessary for increasing financial inclusion and financial capability (including education), and may vary by ethnic group.

- **Research recommendation and policy action:** Further research on how to target effectively, including by ethnicity, is needed. Research and policy should try to unpick whether differences derive from preferences, opportunities, discrimination or for other reasons to target effectively to increase financial inclusion.

## 3: Education

Some BME groups have poorer educational attainment at GCSE and A-levels. Different groups are also choosing different courses.

- **Research recommendation:** Research on the impact of poorer attainment among BME people on labour market outcomes and also on how this may affect financial inclusion should be commissioned. This should also address whether A-level and university outcomes are due to different preferences or for other reasons.

## 4: Labour market

BME groups have different labour market participation rates, as well as inactivity and self-employment rates. Some groups are disproportionately represented in certain sectors of the labour market.

- **Research recommendation:** Further quantitative and qualitative research on the kinds of work in which different BME groups engage is necessary to understand the reasons for differential labour market participation. This would address why some groups make different labour market decisions, including whether particular histories shape individual preferences.

## 5: Restaurant, catering and transport industries

Some BME groups are far more likely to work in the restaurant, catering and transport industries, and they are also disproportionately likely to be self-employed in these areas. These areas are more likely to be part of the informal economy.

- **Research recommendation:** Qualitative research on the experience of workers in these areas and their potential vulnerabilities in terms of informal work should be commissioned. This would address why Pakistani, Bangladeshi and Chinese people are more likely to work in the restaurant, catering and transport industries.

## 6: Housing

Some BME groups are much more likely to be social renters, live in low-quality housing, and be homeless. Almost all BME groups are less likely to own homes. Home ownership is the greatest source of assets for the vast majority of people in the UK.

- **Research recommendation:** Further research is needed on the relationship between housing – from tenure to postcode to homelessness – and financial exclusion, particularly for BME groups.

## 7: Banking – closures and cash machines

Banks are more likely to close in deprived areas, and fee-charging cash machines are more concentrated in these areas as well. BME groups are also more likely to live in disadvantaged areas.

- **Research recommendation:** Data should be collected on whether bank closures and fee-charging cash machines are more likely in areas with higher proportions of BME residents.
- **Policy action:** Given the Government commitment to installing 543 non-charging cash machines, some of these should be targeted to areas with large BME populations.

## 8: Banking – basic bank accounts and Post Office Card Accounts (POCAs)

Two separate studies have found differential take-up of basic bank accounts and POCAs by ethnicity.

- **Research recommendation and policy action:** Research is necessary to confirm these findings, but also to understand why this may be the case, and how policy should respond.

## 9: Credit - microfinance

Microfinance has successfully provided access to affordable credit to poor people in developing countries and has been profit-making. It is also being rolled out on a small scale in the UK.

- **Research recommendation:** Research should consider whether microfinance responds to the needs of affordable credit in the UK, particularly as it initially addressed business loans (and not consumption loans). Important questions include the profitability of such loans and what sort of APR microfinance would need to charge to cover non-business loans.

## 10: Credit – evidence for discrimination?

There is evidence of discrimination in BME Small and Medium Enterprises' (SME) access to credit in the UK. There is also evidence internationally of discrimination in other forms of credit.

- **Research recommendation:** Further research should explore potential differences in other kinds of credit. In particular, mortgage rejections and repossessions, and indeed the provision of sub-prime loans, should be analysed by ethnicity.

## 11: Credit – loan sharks, ethnicity and the Social Fund

The government is cracking down on loan sharks. This worthwhile policy will nevertheless negatively impact people's capacity to access credit.

- **Research recommendation:** Further research should be undertaken on whether and why BME people use loan sharks, especially given that areas with large BME populations (Tower Hamlets and Hackney) were identified by government as two of the four areas where the policy would be applied.
- **Policy action:** The Social Fund should be extended to include those not on benefits. In particular, economically inactive women should have access to the Fund, whose extension will probably become more necessary as loan sharks are eliminated.

## 12: Insurance

Data suggest lower BME take-up of contents insurance, as well as buildings, life and health insurance.

- **Research recommendation:** Further research is required to understand why BME people are less likely to take up a variety of insurance products, including whether this is related to disadvantage or to different preferences and/or risk-aversion. Research could also investigate how government intervention in insurance would affect premiums, and whether there is a case for low-cost, low-payout insurance.

## 13: Savings

BME groups have lower rates of savings, less diverse savings, and lower amounts of savings.

- **Research recommendation:** Qualitative research is necessary for understanding why BME groups have less savings. In particular, it is important to understand why BME people are less likely to take up schemes such as premium bonds and ISAs.
- **Policy action:** The Saving Gateway Bill should publicize its race equality impact assessment, and ensure close monitoring of take-up when the policy is rolled out.

## 14: Savings (Pensions)

Some BME groups are more likely to be self-employed, and to be self-employed in particular sectors of the labour market. Self-employed people do not benefit from employer-contribution pension schemes. Historically Black Caribbean groups have been more likely to work in the public sector.

- **Research recommendation and policy action:** Qualitative (and quantitative) research should be conducted on the impact of pensions policy on the self-employed, particularly the poorer self-employed. Similar research is necessary to determine whether pension uptake among groups that have historically worked in the public sector – including Black Caribbeans – will be adversely affected as their labour market experience diversifies. Although stakeholder pensions are relatively new, research needs to tackle whether people are responding to incentives differently.

## 15: Advice

While evidence suggest that people access advice differently, we don't know how this impacts on ethnicity, though we do know that all BME groups are more willing to pay for financial advice than White groups.

- **Research recommendation:** A mapping project is necessary to determine the institutions – formal and informal – that BME individuals currently access in terms of money guidance. Qualitative and quantitative research will need to determine why different people use these services differently, or respond to the advice differently, and if there are any behavioural or generational differences (including between migrant and British-born BME people).
- **Policy action:** The findings of the above research on advice should feed into and build on the Thoresen Review, which reported on 3 March 2008.

## 16: Risk – how institutions risk-score

Risk-scoring is increasingly used in the provision of financial goods and services, and information including postcodes is often part of statistical scoring procedures. Statistical scoring has a number of benefits, but also pitfalls.

- **Research recommendation and policy action:** To the extent that postcode information is used in statistical scoring, this must not indirectly discriminate on race (or other) grounds. There may be an argument for allowing government access to scoring criteria, even if they do not publicize their results, to ensure the appropriate limits of statistical scoring.
- **Policy action:** The code of acceptable statistical scoring requires proper political debate. Government should work with financial institutions to ensure that characteristics are not directly discriminatory, and may need to consider whether some practices result in unlawful indirect discrimination. The UK needs a balanced understanding of statistical scoring's benefits and pitfalls.

## 17: Risk – how individuals assess and behave

Current research indicates differential risk-aversion by ethnicity. Furthermore, the field of behavioural economics increasingly suggests that individuals make decisions – including how they respond to risk assessments – on the basis of personal circumstances, peer groups and life histories.

- **Research recommendation and policy action:** Further research should be done to confirm these findings, and also on whether and how different groups respond to risk differently. Given the robust findings in the field of behavioural economics, there are important models for this research. To the extent that different groups evaluate risk differently, these findings will have implications for policy.

## 18: Risk – refining our understanding of behaviour

Ipsos-MORI data suggest that BME people are less risk-averse. However, US evidence suggests a difference in terms of risk-aversion for larger or smaller sums of money, but such refined data doesn't exist for the UK.

- **Research recommendation:** It would be worth studying in more detail whether and why BME groups are more or less likely to be willing to take financial risks, and to carry out similar research to the US study cited above. A general question on 'risk' is not suitably refined to capture many important behavioural differences, and so may not lead to good policy.

## 19: Assets – home ownership and ethnicity

BME groups are less likely to own homes, and less likely to have this largest source of assets in the UK. There are anecdotal claims of informal BME savings, which may impact on the assets of BME people.

- **Research recommendation:** More data is necessary on the distribution of assets for BME people. A full assessment of the value of property by different ethnic groups is necessary to indicate the real assets held by different ethnic groups, perhaps starting with postcode evaluations and demographics.

## 20: Assets – understanding the consequences of Right to Buy

The Right to Buy (RTB) dramatically reduced the amount of social housing, particularly larger flats. RTB required longer tenure for higher discounts, meaning that more long-term residents were more likely to benefit. RTB was particularly popular in the 1980s. During this period, there were less BME residents in the UK, and they were less likely to have lived here for long periods of time.

- **Research recommendation and policy action:** For all the reasons above, RTB is less likely to have been taken up by BME people. Given the increasingly common discourse that social housing policies are alienating the white working class, it is worth examining the impact of Right to Buy on social housing stock in further detail, including its uptake by ethnicity, using robust empirical research and not simply anecdotal claims. This would require data by ethnicity on Right to Buy. This would also result in more empirically grounded analysis of the relationship between housing and ethnicity, reduce community tensions, and enhance community cohesion.

## 21: Assets – a balanced welfare policy

To fulfil their economic function, assets should be fairly stable investments, with little risk of default, and perhaps not immediately fungible for cash. Home ownership doesn't always meet these requirements, and the current state of the housing market makes home ownership a more risky asset-building measure.

- **Research recommendation and policy action:** While home ownership is important, the Government needs to focus on other asset-building policies. This may require further policy on the rental housing market or more inventive policies on 'shared' equity, all of which require further research.
- **Policy action:** One possible solution is the development of particular sorts of bonds or funds, which may start at lower levels. The UK needs a balanced asset-based welfare policy, focusing on both income and assets; cash savings are not the only type of asset.

## 22: Social Justice – markets, inequality and fairness

Markets cannot respond to all kinds of unfairness. Where strategies of financial inclusion focus only on incentives or are seen as purely market-based, some level of discrimination is inevitable in a society structured with inequalities.

- **Research recommendation and policy action:** Financial inclusion should be more explicitly linked to social justice, through such concepts as economic well-being, personal autonomy and citizen participation, a link already suggested in some parts of government policy, especially the National Curriculum and (partly) in the Child Trust Fund.

## 23: Social Justice – risk-pooling, non-discrimination and cohesion

Risk-pooling may be useful for markets, but it may also undermine social cohesion, and we need to be certain that the pools aren't made in an unethical way.

- **Research recommendation and policy action:** We need to research further the extent to which justifiable financial procedures can undermine other important social and political goals, namely non-discrimination and social cohesion. Policy makers may need to decide how to strike a balance between the benefits of risk-pooling and the importance of cohesion.

## 24: Social Justice – personal autonomy and differential preferences

The value of personal autonomy means that policy cannot always restrain the choices of citizens. This is crucial to remember when designing asset-based social policy, but also for thinking about how people actually make financial decisions, and so has implications for financial advice. Not everyone will take the most highly paid job they can get, nor is everyone prudential, but financial inclusion must nevertheless protect the value of living one's own life. Even the non-financially or non-prudentially motivated should have fair access to financial goods and services.

- **Research recommendation and policy action:** In designing financial inclusion policy (especially on assets and savings), we should consider personal autonomy and well-being as well as market constraints. This again suggests that financial inclusion needs a broader social justice perspective.

## Introduction

Financial inclusion is the idea that every citizen should have access to basic financial services and institutions. This includes banking, credit, savings, insurance and advice. This latter area points to the importance of understanding somewhat difficult concepts, including the operation of markets and risk, and more technical notions such as interest rates, annual percentage rates (APRs), annuities and mortgages. Understanding money matters is vital for individuals to reach their potential and participate fully in British life, and this explains why financial inclusion is in many ways a more specific instance of the concept of ‘social inclusion’.<sup>1</sup> Although this review doesn’t discuss the latter concept at any length, the idea is that disadvantage and deprivation excludes some individuals from important social, economic and political institutions. Social justice policies are then justified – at least in part – for their contribution to ‘social inclusion’.

Policies to raise income, in particular poverty-alleviation measures, are the most prominent interventions to achieve social justice. Such policies are not only a response to deprivation, but also a way of more fairly distributing opportunities or of increasing life chances. For example, the Labour government has emphasized early intervention in programmes such as Sure Start to ensure that children of disadvantaged backgrounds have a better chance of realizing their potential and not only to combat deprivation.

Significantly, Black and minority ethnic (BME) individuals are over-represented on many indicators of deprivation and inequality and so have reduced life chances. While some groups are doing well in terms of educational attainment and employment, others continue to lag behind.<sup>2</sup> As a result, specific measures may be necessary to respond to inequality among BME groups. At the same time, BME individuals do not all have the same experiences in the labour market, education and housing and so policies won’t impact all groups in the same way. For social justice policies to be effective, they must understand the patterns and ideally the causes of disadvantage in a given society.

The idea of ‘financial inclusion’ may seem a technical concept far removed from social justice considerations, but it responds to the insight that income-based measures aren’t the only ways in which people can be disadvantaged and less able to take advantage of opportunities. Not having a bank account, being denied a loan, or having poor financial literacy can be serious obstacles to taking advantage of a variety of opportunities, including of course employment and self-employment. Financial inclusion is beneficial not simply for ensuring access to financial services and products – though it provides these important benefits – but also for strengthening economic and personal well-being more broadly.

In recognition of this fact the UK Government has developed strategies for increasing the financial capability and financial inclusion of the disadvantaged, especially by appointing a Financial Inclusion Task Force at the Treasury. This is important in its own right because financial inclusion is a basic requirement for all citizens in modern economies. But it is also crucial for increasing the mobility of disadvantaged groups and so for social justice. Data have consistently shown that many of the groups that are disadvantaged generally – including BME communities – are also more likely to be financially excluded. According to government-funded research: ‘Those most likely to be on the margins of financial services include people who are unemployed, unable to work through sickness or disability, single pensioners and lone parents. It is also much more common in African-Caribbean, Pakistani and Bangladeshi households’.<sup>3</sup>

## Method

Research on financial inclusion is in its early stages, with policy in Britain developed only in the last 5-10 years. It is therefore not surprising that research on BME communities specifically is extremely patchy. The government has produced a number of important studies and policy initiatives through its Financial Inclusion Task Force<sup>4</sup> but the best single review that focuses on BME groups is Atkinson’s literature review (2006).<sup>5</sup> We have therefore considered two different literatures: first, that addressing the experience of BME disadvantage in the UK more generally; and, second, the growing literature on financial inclusion and related concepts such as risk and market failure. While we have focused on areas of overlap, we have also canvassed more widely and included a number of international studies (see the Appendices on pp. 63-66) to compare how other countries have responded to the challenge of financial exclusion.

While the main method used in this research is a literature review, based on significant primary and secondary research, we also discussed these ideas with prominent academics, policymakers, civil servants, funders and third sector organizations working to promote financial inclusion. To supplement our desk-based review, Runnymede commissioned Ipsos-MORI to analyse its large existing dataset on Financial Services. These data pointed to significant differences between white and BME groups in terms of access to financial services and institutions, but also in terms of risk-aversion and financial capability. We have presented simplified charts from these data where relevant, and believe that further quantitative research, tailored to the questions raised in this review, would better map the particular areas where BME groups may need targeted policies to achieve financial inclusion. At the same time, we also need greater qualitative research to understand the preferences and actual financial decisions of BME people.



## Section 1: The Experience of Disadvantage among BME Communities

To understand the financial exclusion of BME communities, it is necessary to situate their disadvantaged position in Britain. Studies continue to document disadvantage for Black and minority ethnic people in education, employment, health, crime, poverty, housing, and political participation. While each of these may have an impact on financial inclusion, it is worth explaining in more detail why particular disadvantages obstruct financial inclusion. This section of the review therefore examines disadvantage not in terms of the most prominent measures, but focuses on areas that are more likely to affect financial inclusion.

There are at least two potential explanations for why BME groups might be financially excluded. One path essentially links their exclusion to their poverty or disadvantage. Here ethnicity is a causal explanation in a more indirect sense. This is because low education, employment or income ultimately explains BME financial exclusion, although ethnicity based differentials, including of course discrimination, may be the cause of that low education, employment or income. That is to say, poverty may explain financial exclusion, but race or ethnicity may explain why people are poor. This explanation is relevant because 59% of Pakistani or Bangladeshi groups and 37% of the Black population lived in low income households in 2004/05 compared to 19% of the White population.<sup>6</sup> Compare this form of disadvantage to the concept of *indirect discrimination* which – when practised by public bodies – is illegal under the Race Relations (Amendment) Act.

The second way of explaining why BME groups face financial exclusion is more direct. This is that specific features of BME experiences in education, employment or income directly lead to financial exclusion. An example that we return to throughout this analysis is the high proportion of Bangladeshi men employed as chefs or waiters, employment that is more likely to be in the informal economy. The kinds of jobs or experiences of BME groups may lead to them being at greater risk of financial exclusion independent of their poverty or deprivation. There is, in fact, a third even more direct way that ethnicity may play a role in financial exclusion above and beyond any poverty-based explanation, namely outright

discrimination or racism in the provision of financial services or products. While this is arguably less common today for both legal and business reasons, we shouldn't discount this possibility entirely. A summary of these explanations is:

1. Ethnicity-based differentials ➤ low education, employment outcomes, etc ➤ financial exclusion
2. Ethnicity-based differentials in terms of education, employment choices, etc ➤ financial exclusion
3. Discrimination or racism practised by financial institutions ➤ financial exclusion

### 1.1 Education

Education is often identified as the key source of opportunities and inequalities for a wide range of life outcomes from employment to health. But it is necessary to say something more specific to understand why educational performance might lead to financial exclusion in particular. Educational attainment influences financial inclusion in three ways. First, poor performance in maths and other quantitative subjects can leave students with poor skills in those areas and so increase their risk of financial exclusion. Second, failing to perform at school has a direct impact on employment and income prospects, and deprivation in those areas is known to increase the likelihood of financial exclusion. Finally, schools are now recommended to teach financial education as part of the National Curriculum.<sup>7</sup> Financial education is as much about getting skills and knowledge as learning about how financial products and services and indeed the economy more broadly works. While it is possible to gain these benefits without completing A-level mathematics, schools and other institutions are important because they also impart more targeted financial education to young people. Literacy is also important for financial education, especially because the language of finance is not always 'jargon' free, a point we discuss further in Section 2.

At the same time, children – especially younger children – do not often make their own financial choices and so it may seem misleading to focus on them being financially excluded. Here it is worth distinguishing financial inclusion from financial capability. According to the Treasury, education for

young people is more about enhancing financial capability, that is the ability of children to understand key financial concepts and to manage money. This explains why education is part of the Government's financial capability strategy, but it also explains the link between capability and financial exclusion: if children don't gain the skills and knowledge about personal finance, they are probably more likely to be financially excluded in the future.

### **BME groups and educational attainment**

Educational attainment figures continue to reveal significant inequalities for some BME groups. For example, whereas 44% of pupils in Britain achieve the Government standard of 5 or more A\*-C grades at GCSE (including English and Maths) and equivalent, the figures are 39% for Bangladeshi, 38% for Black African, 35% for Pakistani, 30% for Black Caribbean, 11% for Irish travellers and only 4% for Gypsy/Roma pupils. At the same time, other groups outperform the national average, especially Chinese (66%), Indian (59%) and Irish (50%) students.<sup>8</sup>

Distinguishing poverty-based and ethnicity-based explanations for low educational attainment is now a political as well as a research concern, with increasing discussion of the low attainment of white working-class boys. Eligibility for free school meals (FSMs) is the most common measure for economic disadvantage, and 2006 statistics revealed that only 16% of White British pupils eligible for FSMs met the government's GCSE standard. This was the second-lowest level of attainment, ahead only of Gypsy/Roma pupils, and some have responded by saying that educational policy should attend to class or economic disadvantage rather than ethnicity.

However, policies that respond to persistent ethnic differentials, either in terms of attainment or in terms of other school policies such as exclusion, do not preclude class-based measures, nor are they in conflict with them. Policies should always be targeted where there is a real need, and if there is an obvious requirement to raise the attainment of poorer students in Britain to make life chances fairer, there remains a strong argument that certain ethnic groups also require targeted intervention: the question is not about pursuing either type of approach, but implementing both. This is particularly so given the evidence that for some ethnic groups, attainment is worse than that of white students even if social class is controlled for statistically. As the recent DCLG report found: 'there are still some ethnic groups who make less progress at primary school than White British pupils even once prior attainment, deprivation and other factors are

taken into account'; those groups were listed as Traveller of Irish Heritage, Gypsy Roma, Mixed White/Black Caribbean (although the difference is minimal), Pakistani, Black Caribbean, Any other Black background.<sup>9</sup>

Participation in higher education presents a complicated and uneven picture. While all BME groups now attend higher education institutions in greater proportion than white groups, their results still lag behind, and they are more likely to attend less prestigious universities. There is also some difference in terms of the kinds of courses they pursue, but it is unclear if this results in greater likelihood of financial exclusion. Because of their lower scores at GCSE level, some BME groups are less likely to pursue A-levels, but there is also evidence of different A-level selection. With the exception of Chinese and Indian students, BME groups are less likely to study mathematics and sciences at university, and this may have some impact on their financial capacity, though this is somewhat speculative.

Here we can compare recent findings that while BME students are actually more likely to study chemistry at GCSE and A-level, especially compared to their relative low take-up of other science subjects, they are less likely to continue that study at university, on through to PhD level. The study accepted that socio-economic factors play some part in this differential but concluded:

[I]t is clear that ethnicity is correlated with the progress of different groups along the educational pipeline in chemistry and physics. In addressing these differences the challenge for policy makers is to recognize the diversity of influences likely to be at work and design policies which, regardless of colour, race and culture, will work to increase opportunities for under-represented minorities.<sup>10</sup>

On the other hand, a poll in 2006 found that whereas 36.1% of Chinese and 30.8% of Asian and Asian British students were studying for business-related degrees, only 14.9% of white students were pursuing similar courses.<sup>11</sup> Conversely, almost half (48.4%) of white students were studying humanities or liberal arts degrees, roughly twice the number of Chinese (23.6%) and Asian (25.5%) students, and significantly more than Black British (38%) students as well. Whether or not this increased take-up of business-related degrees results in higher levels of financial inclusion depends further on the quality of those degrees, the other skills required for employment success and other factors for which further research would be required.

## Financial education

While lower educational attainment probably results in certain BME groups being more likely to be financially excluded, there are other ways of linking education and financial inclusion, most obviously through financial education. The National Curriculum 2007 has a fairly comprehensive non-statutory programme entitled ‘Economic wellbeing and financial capability’ (part of Personal, Social, Health and Economic education).<sup>12</sup> One important question is how extensively and competently the subject is taught, and whether there are any discrepancies across Britain in terms of the quality of its provision. But the focus on ‘economic and financial capability’ clarifies an important point about issues that are not typically considered ‘financial’; the 2007 Curriculum document lists its aims as:

- Successful learners who enjoy learning, make progress and achieve;
- Confident individuals who are able to live safe, healthy and fulfilling lives;
- Responsible citizens who make a positive contribution to society.<sup>13</sup>

In the context of education, these goals may seem obviously sensible, but they are in fact a good standard for adults as well. That is to say, financial inclusion is valuable not merely for its obvious labour force or income effects, but because it can contribute to more confident and civic individuals. Financial inclusion clearly contributes to individual well-being, but it may even yield greater personal autonomy, an issue addressed in Section 3.3 on Social Justice.

Many private companies have contributed to programmes of financial education, perhaps most notably through participating in the charity, Personal Finance Education Group, or ‘pfeg’.<sup>14</sup> They have piloted a number of projects, including teaching diversity in the delivery of financial education. Given the wide business support for pfeg, it is obvious that financial education is viewed as an economic need as well as part of citizenship participation and individual well-being. Businesses in particular understand that all citizens need to have these requisite skills and that it may be necessary to tailor financial education in different schools or areas depending on demographic conditions.

## Financial capability

Before concluding this sub-section on education, it is necessary to address the question of ‘financial capability’ in more detail. Being financially capable is a basic requirement for financial inclusion.

Enhancing financial capability is also a good way of responding to those who suffer from the ill-effects of financial exclusion, and will hopefully ensure that they make better decisions about their personal finance in the future. In recognition of its importance, an FSA commissioned study focused on the level of financial capability in the UK as part of its strategy for capability.<sup>15</sup> This question is addressed further in the section on ‘advice’, but it is worth reproducing pfeg’s definition of financial capability as being split into three areas:

- *Personal*: understanding budgeting, how a bank account works, managing credit and debt, planning savings and investments, how to choose between competing offers;
- *Civic*: a basic knowledge of taxation, why we pay direct and indirect taxes, understanding basic economics and how government raises and spends money;
- *Business and enterprise*: an appreciation of the differences between employment and self-employment and wider business financial skills.<sup>16</sup>

One advantage of this distinction is its focus on *civic* as well as overtly economic aspects to financial capability. It is of course important to ensure knowledge of basic banking and credit, and to have an understanding of labour market participation, but a focus on taxation not only builds civic attitudes but also contributes to more solidarity or ‘cohesion’ in our societies.<sup>17</sup>

According to pfeg, financial capability encompasses three different aspects: attitudes, skills and knowledge. A similar list from the FSA’s baseline study included five factors, namely making ends meet, keeping track, planning ahead, choosing products and staying informed. According to the FSA data, there was no statistical significance for ethnicity on one of the five variables (planning ahead), but they didn’t explicitly report any findings for the other four features.<sup>18</sup> What all of these features share in common is a focus on the individual’s capacity to understand and choose products, rather than on the institutions and policies that can help ensure financial inclusion. That is not to say that this vision of financial capability is wrong-headed, just that it is incomplete as a way of ensuring financial inclusion.<sup>19</sup> But it does show why education is a crucial component of financial inclusion.

## 1.2 Employment

Employment is perhaps most obviously linked to financial inclusion. Unemployed people find it much

**Table 1. Male employment, inactivity and unemployment by ethnicity**

<i>Ethnic group</i>	<i>Employed (%)</i>	<i>Inactive (%)</i>	<i>Unemployed (%)</i>
White	80	16	5
Mixed	67	21	15
Indian	78	16	8
Pakistani	66	25	11
Bangladeshi	60	28	17
Black Caribbean	69	19	15
Black African	69	19	15
Chinese	63	32	*
<b>Great Britain</b>	<b>79</b>	<b>16</b>	<b>6</b>

Source: Table adapted from DCLG, 2007: 157.

\*Unemployment figures for Chinese group not shown due to small number

more difficult to open bank accounts, access credit, pay insurance, develop savings or assets, or access advice, but so too do those on low incomes. This is so not only because financial institutions expect letters of reference from employers, and because the unemployed further lack confidence in financial institutions, but also due to migration status, especially for those working in the informal sector. Among the general population, unemployment, underemployment and low-paid employment all make people more vulnerable to financial exclusion; for example, 57% of those who are over-indebted earn less than £7,500 a year.<sup>20</sup>

Compared to education, there is arguably even greater evidence of an ethnicity gap in employment.<sup>21</sup> As Runnymede put it in our pensions review: ‘minority ethnic groups continue to face labour market disadvantage, in the form of lower employment rates, lower earnings, early exits from the labour market and segmentation into particular sectors’.<sup>22</sup> We now explain these disadvantages in greater detail, and their potential effect

on financial exclusion.

Whereas the total working-age population has an employment rate of 74.6%, the figure for Black and minority ethnic people is 60.3%, a gap of over 14 percentage points. Unemployment is obviously a key indicator of financial exclusion, not simply in terms of access to credit or savings or indeed pensions, but also in terms of financial capability and literacy. As in education, there is some evidence of this gap being closed since 1996, when it was nearly 19 percentage points. However, while in education some groups, most notably Indian and Chinese pupils, outperform white groups, all BME groups have employment rates below

white groups, with Bangladeshi and Pakistani the lowest at under 45%.<sup>23</sup> That is to say, even though Indian and Chinese pupils have better education results, they currently have worse employment outcomes, suggesting that education doesn’t provide the same benefits in the labour market for BME groups as it does for white groups (though this insight doesn’t control for age).

Two important qualifications are necessary to understand these data. First is that there are significant gender disparities for some ethnic groups and second is that some groups have relatively high levels of economic inactivity, both among men and women.

Table 1 reveals the significant levels of economic inactivity among Chinese (32%), Bangladeshi (28%) and Pakistani (25%) men of working age. Some of this may be explained by 18-25 year-olds in full-time education, a factor often invoked in the case of Chinese men and women. The following sub-section offers another explanation for the relatively high levels of inactivity.

While female rates of inactivity are in general higher than male rates, this differential is remarkable among Pakistani and Bangladeshi women. Whereas 70% of women in Great Britain are employed, the same proportion (i.e. 7 in 10) of Pakistani and Bangladeshi women are economically inactive (see Table 2). Some of this is undoubtedly due to higher levels of marriage and childbirth among Pakistanis and Bangladeshis, and much lower levels of female-headed one-person households, although the explanation for that different behaviour is somewhat controversial. These figures may occlude another significant finding – Pakistani and Bangladeshi women are also much more likely to be

**Table 2. Female employment, inactivity and unemployment by ethnicity**

<i>Ethnicity</i>	<i>Employed (%)</i>	<i>Inactive (%)</i>	<i>Unemployed (%)</i>
White	72	24	4
Mixed	65	28	10
Indian	61	33	8
Pakistani	25	68	22
Bangladeshi	23	72	19
Black Caribbean	65	27	11
Black African	56	36	13
Chinese	56	39	*
<b>Great Britain</b>	<b>70</b>	<b>26</b>	<b>5</b>

Source: Table adapted from DCLG, 2007: 158.

\*Unemployment figures for Chinese group not shown due to small number

unemployed, at more than four times the national rate, with Black African and Black Caribbean women roughly three times as likely to be unemployed as white women. This may suggest discrimination in the labour market against BME women even taking into account economic inactivity.

### Low-paid work

These data are further complicated and perhaps exacerbated by women's different experiences of work over their life course. That is to say, while men typically begin employment between 16 and 24, and remain employed till retirement, women often have a more irregular labour history over the course of their lives. From young children to older parents, women are expected to meet a disproportionate amount of the caring responsibilities in families, and so are more likely to have to work part-time, in posts for which they are over-qualified, and sometimes leave the labour market entirely. And as Fawcett Society research has shown, women in every ethnic group earned lower hourly rates than their male counterparts, with most BME women having a larger pay gap than white women and lower rates of pay (Black Caribbean and Black African women appear to be doing better however).<sup>24</sup>

While low-paid work is particularly evident among women in Britain, and undoubtedly contributes to the gender pay gap, there is also strong evidence of disproportionate low-paid work amongst most BME groups. This results in higher levels of in-work poverty, notably among Bangladeshi and Pakistani households.<sup>25</sup> Given that some groups, notably Chinese and Pakistani, are more likely to be self-employed, and that full-time self-employed are over-represented among those with low incomes,<sup>26</sup> these results may not be surprising. Indeed, research has found that BME self-employed people and entrepreneurs earn substantially less than White counterparts, partly because they are more likely to be in the distribution, hotels and catering and transport sectors – those with the highest degree of failure.<sup>27</sup> Given low income, and higher levels of job uncertainty, individuals are obviously less likely to save or have a pension, and are more likely to default on mortgage payments – and so are more at risk of financial exclusion.

### Kind of work

Higher levels of unemployment and inactivity and low paid-work are not the only significant features of Black and minority ethnic groups in the labour market. Some BME groups are much more likely to be employed in particular sectors of the economy,

and there are further differentials along gender lines. For example, Black Caribbean women have relatively high employment rates (65%) compared to Black Caribbean men (69%), but over half of all Black women are employed 'in the public administration, education or health sector, and they are under-represented in management (though so too are Black men). Indian, Pakistani and Black African women were around four times more likely than White British women to be working as packers, bottlers, canners and fillers'.<sup>28</sup>

Two particular features of BME groups have clear implications for policy on financial inclusion. The first, self-employment, was raised above but is more substantially addressed in Runnymede's pensions response and further research on that topic (see also Section 2.4 below).<sup>29</sup> In that work we suggested some reform of pensions policy on the basis that the self-employed among BME groups are more likely to be poorer and because some groups have higher rates of self-employment, notably Pakistanis (23%) and Chinese (17%) in comparison to the national average of 12%.<sup>30</sup>

Just as significantly, but less discussed in the context of financial inclusion, are the specific occupations in which Bangladeshi and Pakistani men are employed. These groups are likely to have far less experience of employment in different sectors.<sup>31</sup> According to the 2001 Census, 14% of Pakistani men were taxi drivers or chauffeurs, compared with only 1% of White British men. Even more notably, 25% of Bangladeshi men were chefs, cooks or waiters, again compared with only 1% of White British men. There is also evidence of disproportionate employment among Chinese men in the catering sector.

These findings have further relevance because these sectors are more likely to be part of the informal economy, with the British Hospitality Association's internal poll suggesting that 41% believe that they are 'being undercut by black economy firms paying below the NMW' [National Minimum Wage].<sup>32</sup> The Low Pay Commission Report (2005) 'received a significant body of evidence indicating that non-payment of the minimum wage in the informal sector continues to be a problem. Such non-compliance often affects the most vulnerable groups of workers and present unfair competition to compliant employers'.<sup>33</sup>

Informal employment clearly contributes to financial exclusion, as spelled out in Section 2 in each of the five areas of financial inclusion. Research has suggested that small and medium businesses may be employing informal labour, and this seems to be prevalent among some communities who hire fellow group-members.<sup>34</sup> Family

businesses in particular may not pay wages in a regular manner and semi-skilled labourers from abroad who don't speak fluent English are at risk of exploitation.

This issue is often discussed in the context of 'gangmasters' and the overcrowding of Eastern European migrants and their employment in the food industry.<sup>35</sup> Such groups have become hate figures in parts of the press and it may seem inappropriate to discuss their financial exclusion when they are vulnerable to serious abuses and rights violations. However, such immigrants would clearly benefit from having their own financial standing, especially as many of them are forced to forego a part of their wage for accommodation they cannot choose. Lacking regular migration status, accommodation and/or income obviously prevents them from opening a bank account, and also accessing credit, insurance and savings in mainstream British institutions as they can't meet the relevant identification requirements and other paperwork. So while being financially included may not be their most pressing need, it might make them less vulnerable to exploitation and abuse.

At the same time, not all labourers are severely exploited or have irregular migration status in the informal sector. From minicab firms to family restaurants to gardeners and home repairs, people engage in informal labour without experiencing maltreatment or fears, and many are British subjects or have leave to remain. In Section 2 we explain why employment in the informal sector may impinge on financial capability and financial inclusion in each of the five policy areas, but it is important not to view those employed in the

informal sector only as victims or deep threats to British life, particularly where researchers have suggested that the informal economy is between 5-10% of the economy and may contribute to the UK's economic competitiveness.<sup>36</sup> The informal economy, though difficult to measure, is increasingly recognized as requiring further consideration by policy makers in the UK, especially since Lord Grabiner's important report in 2000.<sup>37</sup>

### Different labour market preferences?

Differential experiences in the labour market have different causes. Some may be due to qualifications gained abroad, low skills, language competence or indeed immigration status, but some may also derive from different preferences, including among British-born BME groups. For example, a survey by Universum found that whereas white students listed a good retirement plan, paid overtime and extra holiday as the three most important factors for choosing a career, Chinese and Asian students chose performance related bonuses, as did Black British students, who were also more concerned with health care benefits.<sup>38</sup>

Chinese graduates were four time more likely to rate investment banking as the ideal industry (32%), especially compared to white students (8%). Black and Asian British students were much more likely to cite racial diversity as a factor in choosing their employer, at 49% and 34% respectively, compared to only 9% for white respondents.<sup>39</sup> A list of the top 10 companies to work for revealed significant differences between groups, and may perhaps have an effect on financial inclusion (see Table 3).

**Table 3.** Top 10 companies to work for, according to a survey of university students

White	Asian	Black	Chinese
1. BBC	1. BBC	1. BBC	1. HSBC
2. Foreign & Commonwealth Office	=2. PricewaterhouseCoopers	=2. Shell	2. Morgan Stanley
3. Ministry of Defence	=2. Goldman Sachs	=2. Foreign & Commonwealth Office	3. Goldman Sachs
4. Environment Agency	4. NHS	4. Virgin	4. BBC
5. NHS	=5. GlaxoSmithKline	5. NHS	5. JPMorgan
6. Civil Service Fast Stream	=5. Microsoft	=6. Accenture	6. Citigroup
7. International Committee of the Red Cross	7. IBM	=6. Microsoft	7. PricewaterhouseCoopers
8. Cabinet Office	8. Foreign & Commonwealth Office	8. International Committee of the Red Cross	8. McKinsey & Company
9. Teach First	9. BMW	=9. PricewaterhouseCoopers	9. BMW
10. Reuters	10. JPMorgan	=9. British Airways	10. British Airways
		=9. JPMorgan	

Source: Chart reformatted from Lightfoot, 2006.

### 1.3 Housing

A third disadvantage for (some) BME groups that may influence financial exclusion is housing.<sup>40</sup> Housing in fact impacts social outcomes in a variety of ways, but in this section we focus only on tenure, i.e. the proportion owning or renting their property, including from the social sector (see Table 4).

Three groups have significantly higher proportions that rent from the social sector and correspondingly low home ownership: 55% of Bangladeshis, 47% of Black Africans and 42% of Black Caribbeans rent from the social sector compared to a national average of 19%. As documented below, those in social housing are more likely to be excluded because such residence is associated with greater risk and can lower their credit score. High street banks and other mainstream financial institutions are less likely to have branches in such areas, reducing access to basic banking services as well as to credit, savings and advice, while insurance premiums are typically higher in or near council estates.<sup>41</sup>

Home ownership is a standard component in most statistical scoring, an issue discussed further in Section 3.1.<sup>42</sup> Financial institutions typically assume that those who own a home are less risky customers and target them accordingly. Given that some BME groups, particularly Black African and Bangladeshi but also Black Caribbean and Chinese, are much less likely to own a home, they will also be less likely to benefit and so are less financially included.

A second issue that is increasingly discussed but poorly understood is the question of residential clustering by ethnicity. Many social groups – including of course the middle classes, older people, ethnic and national groups or indeed gays and lesbians – are more likely to live in close proximity to one another. This is particularly evident in London, where various areas have a higher concentration of particular nationalities and so have better access to goods and services from those countries – whether wealthy Americans in Hampstead, Australians in southwest London or Indians in Southall.

Notably, however, the phenomenon of residential clustering is termed ‘segregation’ when it comes to describing the housing patterns of BME groups. There are a number of social concerns for residential

clustering, not least its knock-on effect in other social interactions and in education and we shouldn’t minimize the potential impact of these tendencies.<sup>43</sup> But it is also important to understand the reasons why people tend to cluster, many of which are based on initial labour market participation, migration patterns, affordability, out-migration by other

**Table 4. Housing tenure by ethnicity**

<i>Ethnic group</i>	<i>Owned outright (%)</i>	<i>Owned with mortgage (%)</i>	<i>Rented from social sector (%)</i>	<i>Rented privately (%)</i>
White British	30	42	19	9
Mixed	11	39	32	18
Indian	27	53	8	12
Pakistani	24	48	13	16
Bangladeshi	9	26	55	10
Black Caribbean	13	37	42	8
Black African	2	21	47	29
Chinese	14	39	12	34
<b>All</b>	<b>29</b>	<b>42</b>	<b>19</b>	<b>10</b>

*Source: ONS, 2005.*

groups, personal security and access to particular sorts of goods and services that may not be available in other areas. To the extent that areas with high BME populations are deemed to have higher levels of risk or are further away from mainstream lending institutions, their housing profile may also make them more likely to be financially excluded.

In this context it is notable that BME people are twice as likely as white groups to live in substandard homes, as defined by general unfitness, disrepair or the need for modernization.<sup>44</sup> In many cases, this corresponds with residential clustering in areas that are more generally deprived, and that are in need of greater investment. Significantly, however, a recent CRE review on regeneration found that such strategies are not adequately considering the views and needs of BME groups and presented a number of recommendations for including them in the future. This is relevant because regeneration of housing makes it more desirable and so less risky, and gentrification may also lead to more mainstream financial institutions setting up shop in previously under-served areas.

Some BME groups are more likely to be overcrowded and to have larger household sizes compared to the average of 2.2 people per household for white groups. This is a well-observed point for groups such as Bangladeshis (4.5), Pakistanis (4.1) and Indians (3.3),<sup>45</sup> but it is increasingly discussed in the context of certain types of new migrants from Eastern Europe, where housing costs may also be a factor for why more than one family lives in single-family dwellings.<sup>46</sup>

In Section 3.2 on ‘Assets’ we discuss the issue of housing in more detail, but there is one final issue to address here, namely homelessness. According to government data, the number of homeless households more than doubled between March 1997 and March 2004, from 41,000 to 97,000. There is evidence that the BME homeless population have been growing at an even faster rate, such that whereas 7% of households in the population were headed by a BME person, 22% of homeless people were from BME groups, an overrepresentation of three times.<sup>47</sup> Homeless people are obviously even less likely to be financially included than social renters or perhaps any other group.<sup>48</sup>

## 1.4 Section Summary

This section has outlined some of the experiences of disadvantage for BME people in the UK that are relevant to financial exclusion. While it found little existing data on how inequalities in education, employment and housing might be impacting BME access to financial institutions and services, it highlighted a number of indicative trends. If we widen our analytic focus slightly, there is clearly a great deal that we do know about BME groups and financial disadvantage, but there are also significant gaps in our knowledge, gaps that must be addressed if we are to combat financial exclusion more effectively.

Existing evidence suggests that BME people may be adversely affected in their access to financial institutions by virtue of their lower attainment in education and employment and their residential

patterns, though we must of course be careful to distinguish the experiences of different groups. Furthermore, we should be aware that the different experiences or preferences in terms of educational and employment outcomes may not be based on direct discrimination, but that different choices can nevertheless result in increased risk of financial exclusion. While we have pointed out how this may be the case in terms of A-level and university choices, as well as in terms of disproportionate employment in certain sectors of the labour market, the implications may be wider than those studied in this review.

The next section turns more explicitly to financial inclusion policy, but the findings in this section are relevant for thinking about how such policy may have to adapt to the circumstances of BME and indeed other disadvantaged groups. At the same time, the discussion has pointed to how financial inclusion is affected by a variety of factors that are currently not adequately understood or researched. In the final section of this review, we argue for conceptualizing financial inclusion to include social justice, personal autonomy and well-being because of the review’s findings and also to address the major gaps in our knowledge on how BME disadvantage actually impacts financial inclusion. By framing an empirically-grounded understanding of existing disadvantage within this more expansive framework for understanding financial inclusion, we can better evaluate existing policy, as well as make relevant recommendations for how policy might better ensure BME access to financial institutions and services.

## Research Recommendations and Policy Actions – Section 1

### Understanding ethnic disadvantage

It is difficult to disentangle poverty-related and ethnicity-related reasons for financial exclusion. Ethnicity-based reasons for disadvantage may have different sources or causes.

- **Research recommendation:** Analysis of BME financial exclusion (or indeed social exclusion) should distinguish more clearly the different reasons why BME groups have poorer access. The following typology is a first step:
  1. Ethnicity-based differentials > low education, employment outcomes, etc > financial exclusion
  2. Ethnicity-based differential in terms of education, employment choices, etc > financial exclusion
  3. Discrimination or racism practised by financial institutions > financial exclusion
- **Policy action:** Policy makers and researchers need a more refined understanding of race inequality, in particular to distinguish the different reasons for unequal outcomes for BME groups.

### Tailored policy

Financial institutions tailor their services in response to demographic and other differences, from bank openings and closures to risk-scoring. Similarly, targeted policies are necessary for increasing financial inclusion and financial capability (including education), and may vary by ethnic group.

- **Research recommendation and policy action:** Further research on how to target effectively, including by ethnicity, is needed. Research and policy should try to unpick whether differences derive from preferences, opportunities, discrimination or for other reasons to target effectively to increase financial inclusion.

## Education

Some BME groups have poorer educational attainment at GCSE and A-levels. Different groups are also choosing different courses.

- **Research recommendation:** Research on the impact of poorer attainment among BME people on labour market outcomes and also on how this may affect financial inclusion should be commissioned. This should also address whether A-level and university outcomes are due to different preferences or for other reasons.

## Labour market

BME groups have different labour market participation rates, as well as inactivity and self-employment rates. Some groups are disproportionately represented in certain sectors of the labour market.

- **Research recommendation:** Further quantitative and qualitative research on the kinds of work in which different BME groups engage is necessary to understand the reasons for differential labour market participation. This would address why some groups make different labour market decisions, including whether particular histories shape individual preferences.

## Restaurant, catering and transport industries

Some BME groups are far more likely to work in the restaurant, catering and transport industries, and they are also disproportionately likely to be self-employed in these areas. These areas are more likely to be part of the informal economy.

- **Research recommendation:** Qualitative research on the experience of workers in these areas and their potential vulnerabilities in terms of informal work should be commissioned. This would address why Pakistani, Bangladeshi and Chinese people are more likely to work in the restaurant, catering and transport industries.

## Housing

Some BME groups are much more likely to be social renters, live in low-quality housing, and be homeless. Almost all BME groups are less likely to own homes. Home ownership is the greatest source of assets for the vast majority of people in the UK.

- **Research recommendation:** Further research is needed on the relationship between housing – from tenure to postcode to homelessness – and financial exclusion, particularly for BME groups.

All the Report's Research Recommendations and Policy Actions are to be found in the Executive Summary on pp. 4-10.

## Section 2: Five Areas of Financial Inclusion

The first section of this review discussed the experiences of disadvantage for BME groups in Britain today. More specifically, it identified particular disadvantages that may impact BME financial exclusion. General measures of disadvantage are often taken to impact financial inclusion, but it is important to explain more precisely how and why particular disadvantages impinge the financial inclusion of BME citizens. This section more finely calibrates that analysis, explaining why BME disadvantages might lead them to be more likely to be financially excluded in the five areas identified by researchers as encompassing the concept of financial inclusion. These areas were in fact developed as a way of thinking about financial inclusion policy, and so in each area the review examines existing policy and points to the sorts of considerations that will be relevant in the discussion in the final section on risk, assets and social justice on pages 45-61.

### 2.1 Banking

Of the five areas of financial inclusion, banking has attracted the most attention. There are a number of reasons for this. Banking is the most prominent financial service, and a basic stepping stone towards the others. Without a bank account it is more difficult to access credit, savings, gain employment and make payments. Socially, it also seems the most fundamental way that citizens recognize the financial standing of each other. That is, there is stigma attached to those who lack a bank account and other financial goods and services, and so it has a broader impact on social inclusion. Finally, and significantly, banking seems more susceptible to government intervention, and so policy is more likely to be effective as compared to areas such as insurance.<sup>49</sup> These reasons explain why the UK government has clearly developed strategies and policies in banking. For a brief comparison with other countries, primarily in Europe, see Appendix 1 on page 63.

#### Why a problem

Not having a bank account is the most obvious way that people are financially excluded. Lacking a bank account is bad for people because they are unable to achieve higher levels of economic

well-being but also because it is more difficult for them to gain employment. Regular and stable employment typically requires employees to have a bank account, and the payments system is based on current account transactions. It is increasingly uncommon for organizations to pay employees in cheques, much less cash, and many governments (such as Australia, but now also the UK) require claimants to have an account in order to access benefits via automated credit transfer (ACT). And even where employers do pay by cheques, those who are unbanked still face the difficulty of cashing or depositing their income.

Furthermore, having a bank account may be seen as a basic requirement for citizens in a modern economy. Those without an account suffer from social stigma, not only in terms of having to use high-cost informal services to access cash and credit, but also in terms of how the majority of bank-holding citizens view them. For this reason, interventions in banking are not only the easiest policy area in which a government can intervene, but also one that is most easily justified in terms of social justice and citizen participation. Even if particular individuals are very costly for a bank to offer banking services to – say because they make few transactions and don't subscribe to other financial products – it is harder for banks to exclude such individuals from basic banking because of its central importance in access to financial goods and services more generally.

#### The unbanked in the UK

Recent data suggest a UK unbanked population of roughly 3%, with 10% lacking a current account.<sup>50</sup> In April 2003, the overall number was estimated at 2.8 million without banking facilities, though this number fell considerably to about 2 million by 2005/6 (the government is due to announce further progress in 2008). Closer examination of the data, however, reveals significantly higher populations of unbanked among the poorest: two-thirds of such households had incomes under £14,500 and 60% rented from local authorities or housing associations.<sup>51</sup> So whereas only 2% of the top-fifth of earners lacked a bank account, the DWP found that nearly 25% of the bottom-fifth didn't have access to banking services.<sup>52</sup>

Data on ethnicity from the same study suggests that whereas 88% of white households have a current account, 85% of Asian and 77% of Black heads of households have one.<sup>53</sup> To explain these data, it is necessary to consider the various poverty-related and ethnicity-related reasons why people might lack a bank account.

One reason that individuals may lack a bank account is because bank and building society branches are not evenly spread in the UK. While the question of high street bank closures in rural communities has attracted some attention over the past few years, many deprived urban areas also lack high street banks and building societies for a variety of reasons. As cited in a recent Financial Inclusion Factsheet: '[b]etween 1995 and 2003, around 3,000 bank and building society branches closed in areas with high concentrations of low income households'.<sup>54</sup> This of course affects poorer areas, but it would be worth researching whether banks have been more likely to close in areas with high black and minority ethnic populations.

Somewhat related is the question of cash machine fees. Although this is most obviously a consideration for those who already have some sort of bank card or account, it may also be a relevant factor in deciding whether or not someone will open an account. In 2000 only 2% of machines in Britain charged such fees, but this has expanded vastly to 40% in 2006. And although these machines accounted for only 4% of all withdrawals, they resulted in £140 million in fees. Significantly, such machines were much more likely to be located in poor areas, perhaps not surprising given the lower likelihood of high street banks having branches in those areas. According to recent research, 1,701 areas in the most deprived quartile in Britain had no free cash machine within a kilometre.<sup>55</sup> It would be worth studying whether such machines are more concentrated in areas with larger BME populations, again implying an indirect but disparate impact by ethnicity. In 2007, the government announced plans to install 543 new non-charging cash machines, targeting up to 1.5 million low-income people,<sup>56</sup> which is a good response to this problem, but these may also need to be targeted to reach all sections of the population.

Since poorer groups require just as much access to cash and credit as others, their lack of formal banking necessarily results in them paying more for these services. One good example is direct

debit, a facility that automatically and electronically withdraws payment for a bill – say for a utility or credit card – once an account holder has provided relevant account details. As a consequence of lowered administrative costs and the guarantee of on-time payment, those who pay for direct debits typically get discounted rates; or, those who don't have such a facility are charged higher fees, as for the TV licence fee. Because they lack bank accounts, the poorest end up paying more for their heat, electricity, water, gas, TV licence and indeed council tax.<sup>57</sup>

### Ethnicity-based reasons

Straightforward racism is usually not considered a reason for denying people a bank account. This is for two reasons: first it is illegal and second it is bad for business. While organizations do not always follow to the letter of the law with regard to race equality, it seems unlikely that banks would discriminate against Black and minority ethnic people not only because of the loss of business of one particular customer, but because of the effects it would have on their reputation as a service-provider to BME groups more generally.

This, however, does not rule out the possibility of racism at the clerk level. Furthermore, racism may have been a more common explanation for why earlier immigrants did not open a bank account in Britain. Thirty or forty years ago direct or indirect discrimination was less unacceptable and there was less knowledge of the needs of black and minority ethnic groups. For some of those immigrants, an early experience of discrimination may have had a long-lasting impact on their view of banks.

Perhaps more relevant for current BME groups are the identity requirements for opening a bank account. In fact, this difficulty probably extends to other low-income groups who may not have the requisite photo card or utility bills (they will obviously not have a bank statement). Because

**Table 5. Percentage born in UK, by ethnicity (2001 Census)**

Ethnic group	% born in UK
White British	98.2
White Irish	34.2
Indian	45.9
Pakistani	55.0
Bangladeshi	46.4
Black Caribbean	57.9
Black African	33.7
Chinese	28.7

Source: ONS, 2006, pp. 26-36.

there is no national identity card, banks have adopted their own requirements in response to the law that photo documentation must be provided, and passports are the most typical document now requested. In the past some groups have been hesitant to present non-UK passports because they believed that banks were checking their immigration status for unrelated purposes. In any case, banks may take longer to confirm non-UK passports to confirm identity and so take longer to open an account, although the number of British-born BME individuals is always rising and many foreign-born individuals have become British subjects (see Table 5).

These difficulties are of course compounded where there are language difficulties. Although many researchers have focused on non-English speakers, banking and other financial products require a technical language that even conversant or mother tongue English speakers find difficult to understand. Atkinson's important study cited the example of South Asian immigrants who spoke fluent English, but still felt less confidence in discussing financial matters.<sup>58</sup> It is difficult to calculate the numbers of non-English speakers, although figures suggest that three million people were born in countries where English was not the national language.<sup>59</sup> Of course many of these – such as the hundreds of thousands of European nationals – will speak fluent English as a second language, especially those working in the financial services sector and in other highly skilled professions.

Language difficulties and migration status are not the only reasons why migrants in particular may be financially excluded. Recent evidence has shown how uptake of financial services may be correlated to an individual's experience of financial institutions in their country of birth.<sup>60</sup> So, for example, it is hardly surprising that Somali immigrants are less likely than Brazilian-born migrants to have a bank account when Somalia has been in civil war since 1991 and where financial institutions are less well-developed and of course less trusted than in Brazil. It is entirely reasonable to keep money or indeed jewellery at home or with other trusted family members or neighbours where banks are vulnerable to collapse, but such behaviour is less advisable in the UK. More settled South Asian groups are thought to maintain some of this behaviour, for example the use of jewellery for savings among women.<sup>61</sup> It is sometimes argued more generally that different cultural expectations of financial institutions may result in lower trust of those institutions, though the evidence for this assumption isn't very robust.

The above explanations for why BME groups may lack a bank account stem from poverty, immigration status, language, and perhaps cultural particularity, but they may also affect non-BME populations. Perhaps more directly, but less seriously studied, is the labour market participation in the UK by ethnicity and its effect on financial exclusion. We mentioned the high proportion of Bangladeshi and Chinese people employed as chefs and waiters, and the large number of Pakistani taxi drivers and chauffeurs, and how this may mean that they are more likely to be employed in the informal sector.

Employment in the informal sector may inhibit people from opening a bank account for a variety of reasons. First, they may find it more difficult to provide the identity and other documentation that banks require. Second, they may be unwilling to document their cash flow, particularly as it may undermine their existing employment and because some or all of their income may be untaxed. Given that the restaurant and taxi/chauffeur services are known to be more likely to be part of the informal sector, this is an area that deserves further research.

### Government response

Banking is clearly the area with the greatest government intervention – both internationally and in the UK. Countries have adopted a number of strategies to reduce the numbers of unbanked, from giving everyone the right to a bank account (France and Belgium) to requiring people to have an account to receive benefits (Australia).<sup>62</sup>

In the UK the Government worked with industry to develop the basic bank account. This policy, targeted specifically at the unbanked and underbanked, allows poorer people and those with bad credit history to access some banking and credit facilities. Basic bank accounts do not include an overdraft facility, a cheque book, nor do they pay or charge interest. Although the Treasury adopted a voluntary approach, it did impose a deadline (October 2001) for all banks to provide such an account. The ultimate aim was to reduce by half the 2.8 million people without bank accounts in April 2003 by the end of 2006, but figures cited above suggest that this will take longer to achieve. Significantly, the Treasury views basic bank accounts as an important vehicle for increasing financial inclusion, and is due to report on their uptake later in 2008.

The limited features of basic bank accounts were designed to ensure that customers would not incur high bank charges as well as providing banks with a low degree of risk. There is good

evidence that poorer individuals actually prefer accounts without an overdraft facility and are more concerned about going into debt than others. Especially given their low level of cash flow, the potential for high fees affects poorer customers more than wealthier ones. According to the British Bankers' Association, 674,000 basic accounts were opened between April 2003 and March 2007, with over 200,000 accounts 'upgraded' to other accounts.<sup>63</sup> This is substantially short of the target of reducing the unbanked by half, but basic bank accounts run by high-street banks are much less numerous than those operated by post offices.

Post Office Card Accounts (POCAs) are strictly speaking not really a fully fledged bank account, though they have been extended at the same time that basic bank accounts have been offered by high street banks. The major reason for providing these accounts was that the government followed the lead of other countries and moved to Automated Credit Transfer (ACT) as the main way of paying benefits. The POCA is limited in that only benefits and tax credits can be paid in, and not wages or any other payments; it is at best a 'stepping stone' towards financial inclusion.<sup>64</sup> POCAs have been very popular, with 3 million current accounts (as of the first quarter of 2007), 2.4 million of which were opened after April 2003, considered the start date of 'Universal Banking'.

It is not easy to evaluate the success of these measures. While it is obviously good that account numbers have increased, there are specific concerns related to POCAs. Although the Government has issued a tender to replace POCAs with a similar product post-2010, it is unlikely that this product will improve banking access for those who currently have POCAs. One reason may be that banks have not voluntarily offered to integrate POCAs into their mainstream banking services, perhaps because POCA holders are not profitable clients. The government is understandably concerned that post office access may not be a stepping stone, and some have argued that this has in fact weakened the prospect that they can be a positive contribution to financial inclusion.<sup>65</sup> The Treasury Select Committee has also expressed concern that POCAs and their likely successor will not include an option to make even limited cash deposits.<sup>66</sup>

A further concern has already been raised, namely the location and increasing closures of

many high street bank branches. Post offices are more widely spread throughout the country and exist in areas where high street banks are often missing. These are 'of course' more likely to be disadvantaged areas, but the problem of access to banking facilities is now being further exacerbated by the closures of post offices as well. If people have to travel long distances to access their bank accounts, they are less likely to use them and so obviously less likely to benefit from them.

There is currently only survey data on the number of basic bank account customers by ethnicity. According to the 2003-04 Family Resources Survey, only 3% of British households had a basic bank account (or POCA), compared to 1% among Indians, Pakistanis and Bangladeshis. However, in the 2005-06 Survey, these numbers had improved considerably, and there is now less difference in the take-up of basic bank accounts. Indeed, these figures suggest that there has also been significant progress in reducing the disparity in terms of current account holding, with all South Asian groups now approaching the figure of 90% for white groups, and Black people at 82% (see Table 6). On the other hand, 2006 New Deal for Communities (NDC) data suggested that whereas 11% of White groups in these more disadvantaged areas had basic bank accounts, only 7% of Black groups and 5% of Asian groups did.<sup>67</sup> This suggests continuing differentiation in the take-up of basic bank accounts by ethnicity, even after controlling for (NDC) area.

**Table 6. Accounts by ethnicity**

Type of account	Current account (%)	Basic bank account (%)	Any type of account (%)
White	90	6	94
Indian	89	3	93
Pakistani or Bangladeshi	86	3	91
Black or Black British	82	3	88
Other ethnic groups	84	3	89
Mixed	85	5	91

*Source: Data from DWP 2006, collected by Platt, 2007.*

### Unbanked vs. underbanked

The issue of basic bank accounts and especially POCAs raises the concern of people being underbanked rather than unbanked. Not having facilities such as overdraft payments and cheque books arguably results in basic bank holders being underbanked. Indeed, the British Bankers' Association prominently notes the number of people who are transferring their accounts every quarter, clearly

suggesting they too see basic bank accounts as only a first step towards financial inclusion. Internationally, many countries have this problem, even where they approach 100% of the population being banked.

Government policies, especially POCAs but even basic bank accounts, don't then result in full financial inclusion. Particularly if these accounts are viewed as having some stigma or less social status, or give banks less reason to attend to such customers, we should ensure that more widespread facilities are available if we really want everyone in Britain to be financially included. Basic bank accounts are a good first step, but it is also important to consider how to encourage or incentivize people to upgrade those accounts. Furthermore, because at least two separate studies have found differential take-up of basic bank accounts by ethnicity, it is important to research further whether that policy will in fact lead to increased financial inclusion for BME groups.

## Research Recommendations and Policy Actions – Banking

### Banking – closures and cash machines

Banks are more likely to close in deprived areas, and fee-charging cash machines are more concentrated in these areas as well. BME groups are also more likely to live in disadvantaged areas.

- **Research recommendation:** Data should be collected on whether bank closures and fee-charging cash machines are more likely in areas with higher proportions of BME residents.
- **Policy action:** Given the Government commitment to installing 543 non-charging cash machines, some of these should be targeted to areas with large BME populations.

### Banking – basic bank accounts and POCAs

Two separate studies have found differential take-up of basic bank accounts and POCAs by ethnicity.

- **Research recommendation and policy action:** Research is necessary to confirm these findings, but also to understand why this is the case, and how policy should respond.

All the Report's Research Recommendations and Policy Actions are to be found in the Executive Summary on pp. 4–10.

## 2.2 Credit

Access to affordable credit is now widely recognized as a key element of financial inclusion, and research and now policy is increasingly developed in many countries.<sup>68</sup> For those who are already financially included, the issue of credit is closely tied to that of banking because many of these services are accessed via high street banks or mainstream mortgage lenders. However, there is a large non-commercial and also informal credit sector. For those more at risk of being financially excluded, all the difficulties raised above in terms of banking equally apply in the case of credit, including problems of access, language and identity requirements. Credit also raises the problems of risk and social justice addressed in Section 3.

The cost of credit is generally determined by a risk evaluation by the lender. Mainstream lenders take into account income, credit history, home ownership, age, and a variety of other factors including residence, especially in cases where a loan is for property or property improvements.<sup>69</sup> Because poorer people are likely to score worse on all these measures, they find it harder to access mainstream credit lenders. And when they do get credit, they are more likely to pay much greater interest and are perhaps more likely to default on their loans. For example, a recent BBC study (reported 7 October 2007 on Radio 4) found that while 8% of all mortgages are in the 'sub-prime' market where interest rates are higher, 70% of all foreclosures are in this sector, and they further found evidence that these lenders encourage council tenants on benefits to exaggerate their earnings.<sup>70</sup>

In an important study, Collard and Kempson reviewed the question of affordable credit.<sup>71</sup> Their exhaustive research is in many ways a discouraging read, as they cite interest rates of over 100% for people who are often among the most vulnerable and in most need of short-term loans. As they explain: 'while borrowing money to supplement a low income may not be desirable, it can sometimes be unavoidable – either to buy essential household items or to make ends meet'.<sup>72</sup> Successive National Consumer Council reports revealed that 7.8 million people in the UK are unable to access mainstream credit and that low-income customers pay £129 a month – or 11% of their income – on servicing high-cost borrowing.<sup>73</sup> In sum, people on benefits borrowed £330 million, paying £140 million interest, a rate of 42%.<sup>74</sup> These figures strongly suggest that poorer people in Britain are paying far more for credit than wealthier people, even though they are more likely to require a loan to cover basic expenses and needs.

Collard and Kempson outline the following types of loans:

1. Home credit companies
2. Pawnbrokers
3. Sale and buy back
4. Payday loans
5. Social Fund
6. Credit Unions
7. Savings and Loans Schemes: Housing Associations and banks.
8. Community-based (i.e. local) loan schemes
9. Informal – family and friends
10. Informal savings and loans in BME communities in particular
11. Agency mail order
12. Rental purchase; spread cost over time.

It is worth noting that many of Collard and Kempson's examples may not seem to be obvious cases of credit. These include agency mail orders, rental purchases and similar schemes. In fact, these products are among the most widespread ways of accessing credit in Britain, particularly for lower-income households. Paying for relatively high-cost home furnishings, electronics or appliances – say a sofa, television or oven – may be beyond the reach of many people in Britain as a single lump-sum payment. Those with credit cards may stagger their payments over a number of months, but mail-order catalogues are also a significant part of this market. Although they may not charge interest, customers often end up paying more through fees, higher retail prices or other hidden costs such as 'recommended' insurance. As many as 14 million people used this service in 2002, though this was down from 21 million in 1996. One in five (20%) on low-income use this form of credit, with Littlewoods/GUS having a large 71% share.<sup>75</sup> Research by the Fawcett Society has also suggested that women are more likely to use this kind of credit.<sup>76</sup>

Rather than detail each of these forms of credit, we can summarize some basic concerns. First is that credit is vital for economic and personal well-being in modern market economies, and so the important measure is affordability, a concept that is probably best measured in terms of being in 'arrears' on credit payments rather than on how much credit people have taken on. According to Government research, 13% of the population is in arrears on home bills or consumer credit, and roughly half of these people earn less than £7,500 per year.<sup>77</sup> This raises the second point, namely that those who access informal channels may have no alternative options that don't charge high interest or fees; research suggests that doorstep

lenders charge an APR of 183%.<sup>78</sup> Even higher APRs are standard among illegal loan sharks, who also raise the possibility of property damage or indeed physical violence, but high interest rates are also prevalent among informal community-based or family-based loans.

Significantly, higher fees or rates of interest are not always viewed as unfair or exploitative, especially for doorstep lenders who often provide the only possible way to access necessary credit and who often collect payments based on the preferences of borrowers, namely regularly, in person and at their home. These features, as well as the shorter repayment periods, may mean that APR comparisons with more 'mainstream' products are less useful. But given that poorer people are more likely to report being in debt, it is extremely likely that these 'sub-prime' forms of credit are more likely to result in borrowers being in arrears. It is hard not to conclude that a significant part of this market is blatantly exploitative, especially when interest rates as large as 2,600,000% interest were reported during Christmas 2007:

The unnamed York woman, who originally borrowed only £320, found herself paying back more than £800 per month - of which almost £700 was pure interest. But credit firms insist they are not breaking the law because there is no cap on what rates can be charged. In this case, Windsor-based Early Payday Loan set an annual percentage rate of 2,639,385.9% on the £320 loan. It would potentially cost the woman £12.80 in interest each day, £92.80 each week, £400 each month or £4,809.60 over the year.<sup>79</sup>

### Why the poor pay more for credit

Various features of poorer individuals result in them paying more for credit. As Collard and Kempson argue, all loans have administrative and other set-up fees that cannot be sidestepped. For a large or even average-sized loan, these administrative costs do not add much in terms of interest charged over the course of a loan period. For example, a mortgage of £100,000 may include £500 of fees, but spread over the course of a 25-year loan period and relative to the size of the initial loan, the fees make very little contribution to the repayments. Administrative costs as low as £30 (or even £10) will, however, make a significant impact on a £100 or even £500 loan, especially where such loans are repaid over a year or less. This has a significant impact on APRs, which some experts on doorstep lending think obscures their advantages; for some borrowers, lower fees spread

out over a longer period of time will be more affordable than higher repayments, even if that results in them paying a higher APR.<sup>80</sup>

Low-income individuals are generally high-risk clients for a variety of reasons. They typically don't have collateral to protect them if they have to default and may have a history of bad credit. Furthermore, they are much less able to handle unexpected but necessary costs, such as replacing an appliance or medical fees. If low-income borrowers haven't accessed financial institutions much in the past, they will have little financial history and so a low credit score, a point taken up in Section 3.1. Finally, low-income borrowers may not fully understand technical aspects of credit, including interest rates and so may potentially underestimate the full cost of the loan. Is there anything that can be done to alleviate these administrative and risk-based costs, or do poorer individuals simply have to accept higher rates of interest, higher fees, and less flexible terms?

#### A 'fair' interest rate?

In economic theory, there is some dispute about the notion of a 'fair' interest rate for the poor.<sup>81</sup> Although this is a somewhat technical question, it highlights a key feature of markets, namely that they are presumed to deliver an efficient and fair price for goods and services. Given perfect information and genuine competition, a buyer and a seller should be able to agree a price that fairly reflects the preferences of both parties. Ideally speaking, this should more or less match the buyer's 'reservation price', namely the highest price that the buyer is willing to pay for a good (and so dependent on their income or wealth). This concept should be familiar to anyone who's watched such programmes as *Cash in the Attic*, where sellers establish a price below which they are unwilling to sell their goods in an auction.

What does this have to do with fair interest rates for the poor? The assumption is that poorer people are likely to have a higher reservation price when it comes to interest rates for capital. Neoclassical economists assume that poorer people are not only more willing to pay more for credit, and that they are more at risk of defaulting, but also that they are more likely to turn a profit on their investment. While this may seem counterintuitive, the idea is that diminishing marginal returns on capital mean that small enterprises have higher return on investment than large ones. According to the Nobel-winning economist Robert Lucas, classical economic assumptions imply that poor Indian borrowers should be willing to pay fifty to eighty times as much for capital as borrowers in US.<sup>82</sup>

These assumptions may seem dubious, especially the notion that the poor have higher marginal returns on capital than the rich.<sup>83</sup> But if the claim that Indian borrowers would be willing to pay eighty times more than American borrowers seems extreme, the evidence internationally is that most microfinance institutions in the developing world charge interest rates between 25-50%, and occasionally upwards of 70%;<sup>84</sup> the Grameen Bank,<sup>85</sup> the microfinance pioneer in Bangladesh set up by Nobel Peace Prize winner Muhammad Yunus, charges a rate of 20%, while the popular and effective website [www.kiva.org](http://www.kiva.org) reports an average rate of 22.5%, based in part on research that found large returns (from 117% to 847% annually) among small entrepreneurs.<sup>86</sup> These interest rates are of course higher than mainstream banks in the developing world, and substantially more than that charged by banks in the developed world. But they are clearly far from the 2,600,000% or even 183% APRs reported above in Britain.

In fact, the microfinance model has been extended in the UK, though admittedly only in terms of microcredit and on a relatively small scale.<sup>87</sup> In London, Quaker Social Action's 'Street Cred' programme offers loans of £500, focusing on women, and repaid at an APR of 19%, very similar to Grameen Bank's rate. It reports loaning £80,000 and 150 loans in the six-year period of 1999-2005, and notes that less than half of their clients request such loans.<sup>88</sup> In Northern Ireland, Aspire offers a similar service, with a wider range of loans from £200-£5000 pounds that can be repaid from three to eighteen months at an APR of 19.5%.<sup>89</sup> A third organization, based in Birmingham, Street UK, offers substantially higher APR of 37.96% on loans ranging from £500-£3000, though this includes a 3% fee on the first time a borrower applies for a loan.<sup>90</sup>

While we don't have full reports of the default rates for these institutions, they suggest that financial institutions can make a profit from charging APRs that are relatively reasonable, i.e. between 19-38%.<sup>91</sup> There are two caveats to using these findings as a basis to regulate the amount of interest charged on loans. First, economists are sceptical that a limit on APR – even say of 200% – would be beneficial, on the grounds that legal lenders would cluster around the maximum figure and so in fact make lending more expensive; it might also make institutions less likely to loan to riskier borrowers and make credit less available, resulting in greater use of illegal lenders and ultimately financial exclusion.<sup>92</sup> This, indeed, was the finding of the DTI in 2004, based on commis-

sioned research, after Parliament briefly debated and then rejected the notion of an interest rate ‘cap’ in March 2005.<sup>93</sup>

Second, microfinance products typically assume that the loan is being used on an entrepreneurial basis. This explains why the loans typically start at £500 in the UK, but it may also suggest the limits of the microfinance model as a way of providing affordable credit to the poor. Especially for those borrowing between £100 and £500, the reasons they require the loan are not typically because they want to start or improve a business, but rather to cover the costs of basic consumer goods or for ‘emergency’ reasons. There is increasing recognition of these sorts of costs, and Moneyline institutions have been set up around the country to respond to this need. Though Moneyline limits loans for certain purposes, these are quite wide-ranging and the APR of around 30% doesn’t seem grossly unfair.<sup>94</sup>

But whether or not there is such a thing as a ‘fair’ interest rate – and it is notable that according to Hayek, one of the most influential neoclassical thinkers, social justice is a ‘mirage’<sup>95</sup> – the important point is that efficient markets operate such that the poor have to pay more for their credit, even if banks or third-sector organizations try to keep costs as low as they can. If rates above 100% or 200% seem unjustifiable and profit-gorging (and suggest that the institution in question is probably noncompetitive), the question of a fair or effective rate for access to credit is far from settled in economic theory, much less in social welfare policy.

### **Ethnicity-based considerations**

Research has consistently noted some specific features of credit among BME people. While they seem to be more likely to take advantage of more informal channels, such loans have particular characteristics. Among Pakistanis, ‘kommitis’ were a common way of pooling resources and ensuring access to credit with low risk. Evidence of savings and loans clubs used to be more common among Black Caribbean people, in which individuals rotated in holding and using the savings of fellow club members (sometimes known as ‘pardna’ loans). Generally speaking the members of these savings and loans clubs were from similar social backgrounds and had significant levels of trust between them, but probably did not extend membership to poorer or unknown members of the community.

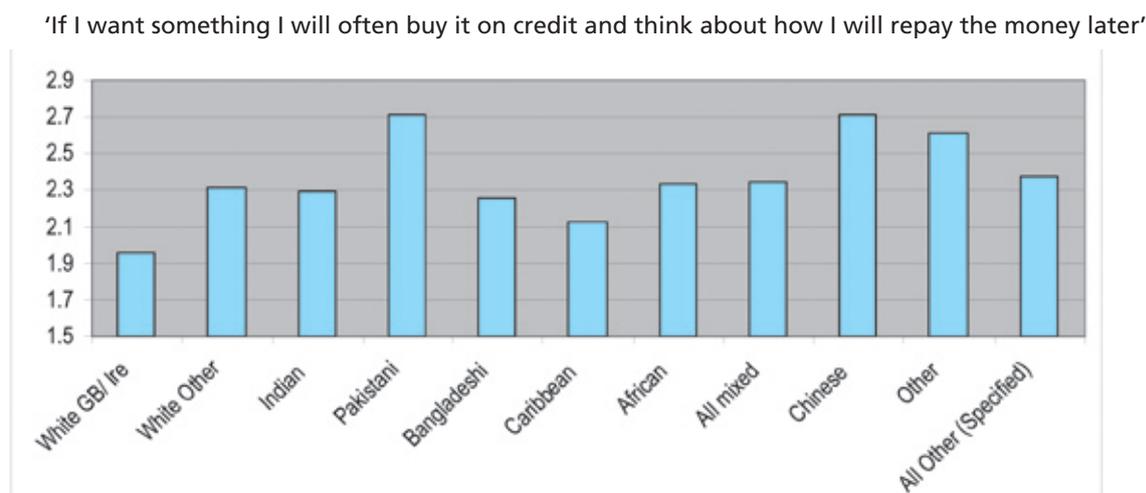
There is also some evidence of greater use of credit unions among Black people in the UK, especially among older people. In general, credit

unions have low uptake in Britain, especially compared to European neighbours, as discussed in the context of Ireland below. Together ‘kommitis’ or ‘pardna’ savings and loans clubs and indeed credit unions traditionally demonstrated a specific approach to risk, namely joint liability. The idea is that a particular area or community can ‘collectivize’ and so reduce their risk. Whereas one particular individual may be at high risk for defaulting on a payment, collectively the risk is probably lower. The susceptibility of such schemes to collapse if trust or confidence is lost is perhaps best captured in Jimmy Stewart’s famous portrayal in *It’s a Wonderful Life*, though of course in Britain credit unions in particular are well regulated and probably more protected than mainstream banks from a liquidity collapse. The consequence is that credit union participants in the UK are no longer required to take on joint liability for other customers’ loans.

Some have argued that ethnic or other local networks are better able to collectivize risk. One reason is familiarity and another is trust. Many have studied the case of Jewish diamond merchants, who transport a highly valuable but risky commodity across continents, typically between Antwerp and New York, without the support of formal financial institutions.<sup>96</sup> Joint liability may also explain some features of Islamic finance, but many of the available products seem to avoid the language of mainstream products while simply replicating the economic models underlying them, including the principle of interest. Whatever the applicability of these models, it does suggest that joint liability is not contrary to market functioning or at least that it is sustainable. We discuss the idea further in the section on insurance, but are wary of the direct application of the principle of joint liability in an ethnically limited way, though it may have wider application if suitably piloted.

The Ipsos-MORI financial services survey didn’t have a suitable question on ‘arrears’, but it did ask respondents whether they agreed with the statement: ‘If I want something I will often buy it on credit and think about how I will repay the money later’. Respondents were offered five responses, from ‘strongly disagree’ to ‘neither agree nor disagree’ to ‘strongly agree’. The findings are produced in Chart 1 below, and while all groups were more likely to disagree with the statement, all minority ethnic groups were significantly more likely to agree with the statement than White GB/Ireland respondents. That is, BME groups were all more willing to take on credit than white groups.

Chart 1. Willingness to buy on credit



In Charts 1 and 3 (see page xx), the numbers are based on the five-point Lickert Scale, ranging from 'strongly disagree' to 'strongly agree'. A score of 1 corresponds to 'strongly agree' and a 5 to 'strongly disagree'. In this case, all BME groups are in fact more likely to disagree with this statement, though less so than the White GB/Ire group, and the findings are statistically significant.

Source: Ipsos-MORI data.

As mentioned above, the reasons for exclusion in terms of banking also apply in terms of credit. So if identity requirements or language issues are a barrier to opening bank accounts for BME groups, they will also obviously be barriers to them accessing credit. But the issue of labour market participation in the informal sector is again an issue. Without evidence of secure and stable income, borrowers will be unable to access credit. Even for those who report some income, they may be able to borrow less than they would be capable of repaying if some of their income is informally gained. Given the proportion of Bangladeshis working as chefs and waiters (25%) and Pakistanis working as taxi drivers or chauffeurs (14%), and given the greater proportion of informal businesses in these sectors, their labour market participation is very likely to be impacting the capacity of these groups to access mainstream credit.

### Race discrimination and sub-prime mortgages in the United States

The sub-prime mortgage market and the credit crunch have by now become familiar topics globally. In the United States, there is a great deal of evidence from New York<sup>97</sup> to Cleveland<sup>98</sup> to Detroit<sup>99</sup> that sub-prime mortgages were explicitly applied in a discriminatory way. In 2006, for example, '58.5 percent of home loans to non-Hispanic black borrowers were high cost, compared to 15.9 percent for non-Hispanic whites. The percentage of loans to Hispanics that were high cost was 45.5.'<sup>100</sup> A comparison of two similar neighbourhoods in Detroit confirmed these findings:

[T]he working-class suburb of Plymouth, is 97 percent white with a median income of \$51,000 in 2000. To the east, a census tract in Detroit just inside Eight Mile Road has a very similar median income, \$49,000, but the population there is 97 percent black. Last year, about 70 percent of the loans made in the Detroit neighborhood carried a high interest rate — defined as 3 percentage points more than the yield on a comparable Treasury note — while in Plymouth just 17 percent did.<sup>101</sup>

In Appendix 2 we summarize further US data on discrimination in credit more generally. But although there is evidence of direct discrimination against even wealthy African-Americans – who are 1.6 times more likely to be denied a mortgage than poor white Americans and who have been much more likely to get a sub-prime mortgage – similar data for Britain may not seem evident.

### BME businesses and access to credit

However, a recent survey found evidence of barriers if not discrimination for BME firms who apply for credit and other forms of finance. As summarized on the then-DTI's website, the survey findings included:

- Ethnic minority-owned businesses pay higher bank loan charges than White-owned businesses, on average;
- The gap between the amounts of business finance sought and the amounts agreed is

- significantly greater for Black African and Pakistani-owned businesses;
- Black African and Black Caribbean-owned businesses are much more likely than Indian, Pakistani and White-owned businesses, to be rejected for loans outright;
  - Black African and Black Caribbean owned businesses are significantly more likely to feel discouraged from applying for finance than Indian, Pakistani and White-owned businesses.

Crucially,

The survey found that many of these discrepancies can be explained by standard business risk factors and financial relationships (for example, the age of businesses and how much collateral businesses can offer against a loan, as well their financial track records). However, it concludes that these do not fully explain the differences, particularly with regard to the margins paid on loans, and gaps in financing.<sup>102</sup>

In June 2007 the Government announced a taskforce to look into this issue, but it may also be worth investigating the extent to which BME groups face discrimination in other forms of credit, including mortgages and small loans.

### **Credit unions and money-lenders – evidence from Ireland and implications for the UK**

The distinction into ‘prime’ or mainstream and ‘sub-prime’ lenders is now familiar globally. In the UK the former group includes banks and building societies but not credit unions, where credit unions have less than 1% of the population as members (confirmed by our MORI analysis), and therefore are marginal, ‘sub-prime’ lenders. In contrast in Ireland, where there are over 600 credit unions in almost every town and village and with 50% of the population as members, credit unions are considered mainstream or ‘prime’ financial institutions. This may be relevant to the UK because some ethnic groups, notably (older) Black Caribbeans, are more likely to use credit unions.<sup>103</sup>

In Ireland, credit unions were established initially to lessen money-lending, but the practice persists, another possible lesson for the UK. Legal money lenders are legislated under the Consumer Credit Act 1995 and are regulated by the Irish Financial Services Regulatory Authority (IFSRA).<sup>104</sup> There are no official estimates of the number of people borrowing from money-lenders in Ireland;

in the UK estimates range from 2.3 million to 3 million.<sup>105</sup> Illegal money-lenders also operate in both countries, with Business, Enterprise and Regulatory Reform (BERR) estimating that 165,000 households are using them in the UK.<sup>106</sup> Research in a disadvantaged area of Dublin found significant borrowing from illegal money-lenders while Quinn and NiGhabhann found that this type of lending is particularly prevalent among the Traveller community in Ireland.<sup>107</sup>

Borrowing credit from money-lenders is seen as an indicator of financial exclusion.<sup>108</sup> While money-lenders offer a service that is sometimes necessary and unavoidable in cases when people cannot access credit, at the same time they act as serious barriers on the wealth resources of low-income people and communities.<sup>109</sup> Research by ACE Credit Union Services in the UK found that in three streets with a total of 40 households with an average weekly income of £230, £240,000 was being paid each year to high cost lenders.<sup>110</sup> Money-lenders don’t offer savings or insurance facilities and products.

In their survey Byrne et al. found that although the majority of the clients of money-lenders have access to other sources of credit, e.g. to credit unions, they use money-lenders because of tradition, convenience, personal relationship or for other reasons other than because they are financially excluded and have no other options for credit. Consequently they recommend policies to shift away from the narrow focus of access to banking and credit and see financial education and regulation as key in curbing money-lending. They cite Palmer and Conaty<sup>111</sup> who point out that in France and Germany a tighter focus on regulation combined with strong community banking sector has been an effective policy and that in the UK there are limited alternatives to money-lenders, ‘as the credit union system and the government-sponsored Social Fund are woefully ill-equipped to provide robust competition to sub-prime lenders’. In Ireland, by contrast, there is a credit union system and an effective debt-advice system (Money Advice and Budgeting service – MABS, sponsored by the government).

Despite its relatively low presence, the UK government has consistently expressed an interest in expanding and supporting the credit union sector. For example, it is considering allowing interest on credit union savings products, and has highlighted the importance of the third sector in lending, setting as its goal a doubling of the amount loaned by credit unions.<sup>112</sup>

### Government programmes

The UK government is well aware of the difficulties poorer people have in securing credit and its effect on their well-being and confidence. They have developed and expanded the Social Fund Budgeting Loan scheme. Collard and Kempson explain the Social Fund as follows: ‘Loans are interest-free and deducted at source from benefits. People generally apply to the scheme for essential items such as furniture, beds and bedding, and white goods’.<sup>113</sup> Applicants for the fund must be on benefits.

Demand for the Social Fund is large, with 1.25 million loans distributed in 2003-04. Expenditure was £484 million, with an average loan of £384, but nearly 25% were rejected. Increases since then seem to be outstripping inflation, with 1.3 million loans in 2006-07, a total expenditure of £590 million and an average loan of £451.<sup>114</sup>

Given that there is also evidence of people on benefits taking out another £330 million in loans, the Social Fund is clearly still not fulfilling demand. Indeed, of the 25% who are rejected, a quarter turn to loan sharks. Repayments for the Social Fund are currently quite high, at 12% of average income, whereas many suggest a level of 5-10% would be more sustainable. Finally, awareness of the fund is relatively low, and it could be better advertised to serve the needs of the poorest people in Britain.<sup>115</sup>

One final issue is perhaps noting in the context of ethnicity – the requirement of being on benefits in order to get Social Fund Budgeting Loans. As noted in the section on employment, some ethnic groups are more likely to be economically inactive rather than unemployed and so are not in receipt of benefits. They may nevertheless have low incomes and require credit to purchase important household goods, but may be more likely to turn

to informal sectors including loan sharks.

Cracking down on loan sharks was a manifesto commitment, and pilot projects ran in Scotland and the West Midlands from 2005. In January 2007 the Government announced a rollout of this policy.<sup>116</sup> It is of course crucial that individuals are not taken advantage of or threatened by loan providers who often have connections with criminal behaviour. At the same time, it will be necessary to extend loan provision to replace those loan sharks with safer and more secure sources of credit. This may require extending and possibly modifying the Social Fund scheme.

Significantly, the three areas where this scheme is being rolled out in London are Hackney, Tower Hamlets and Newham. These are areas with among the highest proportion of BME people in Britain, and they may be accessing particular sorts of loan sharks presumably at a similar rate to other groups. This offers a rare chance to get data on financial inclusion by ethnicity and we hope that the scheme monitors how and why BME groups are accessing informal forms of credit.<sup>117</sup>

Three other areas of government policy have also been developed. These are: the £42 million Growth Fund to enable third sector lenders to provide affordable loans to those who cannot get them from mainstream lenders, making 50,000 loans between July 2006 and November 2007; an increase on the ‘cap’ on the rate of interest that credit unions may charge, from 1 to 2% per month; and the Competition Commission’s remedies to strengthen competition, improve information for customers and the home credit sector. These policies have had less development and so less assessment, but it is perhaps worth thinking about whether they might have an impact by ethnicity.

## Research Recommendations and Policy Actions – Credit

### Credit - microfinance

Microfinance has successfully provided poor people in developing countries access to affordable credit, and has been profit-making. It is also being rolled out on a small scale in the UK.

- **Research recommendation:** Research should consider whether microfinance responds to the needs of affordable credit in the UK, particularly as it initially addressed business loans (and not consumption loans). Important questions include the profitability of such loans and what sort of APR microfinance would need to charge to cover non-business loans.

### Credit – evidence for discrimination?

There is evidence of discrimination in BME SME access to credit in the UK. There is also evidence internationally of discrimination in other forms of credit.

- **Research recommendation:** Further research should explore potential differences in other kinds of credit. In particular, mortgage rejections and repossessions, and indeed the provision of sub-prime loans, should be analysed by ethnicity.

## Credit – loan sharks, ethnicity and the Social Fund

The government is cracking down on loan sharks. This worthwhile policy will nevertheless negatively impact people's capacity to access credit.

- **Research recommendation:** Further research should be undertaken on whether and why BME people use loan sharks, especially given that areas with large BME populations (Tower Hamlets and Hackney) were identified by government as two of the four areas where the policy would be applied.
- **Policy action:** The Social Fund should be extended to include those not on benefits. In particular, economically inactive women should have access to the Fund, whose extension will probably become more necessary as loan sharks are eliminated.

All the Report's Research Recommendations and Policy Actions are to be found in the Executive Summary on pp. 4–10.

## 2.3 Insurance

As a recent review notes, insurance is the least developed area in terms of government policy, though the Government has now made access to insurance part of its financial inclusion strategy.<sup>118</sup> Insurance is, in fact, perhaps the most difficult to understand in terms of financial inclusion. This is because of its relationship to risk and social justice, two concepts discussed in the final section. Before explaining why this is so, consider the distribution of one of the most common forms of insurance – home insurance – in Britain.

Roughly 80% of households are insured, but this overall figure masks some important differences. Among the poorest fifth of households, only half (50%) are insured. This results in a negative correlation between the likelihood of having home insurance and being burgled: 3 million social housing households lack home contents insurance, while they are twice as likely to be burgled as people living in privately owned properties.<sup>119</sup> And according to government data, these figures have not improved over the past five years or more.

Thinking about potential government interventions in insurance as compared to other areas reveals the scope of the difficulty. Insurance premiums are determined by risk, and companies have good knowledge of the likelihood of burglary or car theft or indeed arson in a given area. The logic of insurance is that those who are more likely to make a claim pay higher premiums, while those whose insured goods or services are less likely to be claimed against pay lower premiums. And since the poorer are more vulnerable to crime, that will necessarily require them to pay higher rates for car insurance and home contents insurance. But given that poorer people have less disposable income and arguably less goods to lose, it may also be less sensible for them to pay insurance premiums.

The only possible solution to this dilemma is somehow to change the calculation of risk for poorer groups. It seems unfair for poor people to pay more for a service when they have less capacity for doing so, but markets are not driven by fairness considerations, a point we discuss at greater length in Section 3 below. One solution is for the government to take on some of the risk and so to reduce premiums for poorer households while at the same time guaranteeing to insurance companies that adequate funds will be provided to run their business. Yet any intervention by the government in insurance markets is highly likely to skew the entire market. If the government guarantees the cost of a proportion of homes, this will result in different actuarial calculations. If it turns out that insurance companies turn greater profits, other customers are unlikely to accept that they must continue to pay the same premiums as they did before the government guaranteed payouts among poorer households. That is to say, government guarantees may result in even lower payments for wealthier households, or in particular products being marketed to different households with different risk calculations and different premiums (as was the case for 'sub-prime' mortgages). It is hard to predict in advance what incentives might be created by a government intervention to make insurance fairer, but the market will surely be altered.

Alternatively, companies might design new products, perhaps with lower premiums. However, this seems unlikely, unless the lower-cost insurance also makes lower payouts (on a percentage of the value of the goods) or perhaps doesn't allow single items to be insured for over a certain sum – say £1000. This would, in effect, create a two-tiered market, similar to the 'sub-prime' mortgage phenomenon, and it's not at all obvious that this would result in higher insurance take-up nor in greater financial

inclusion. And even if a ‘sub-prime’ insurance market increased take-up and financial inclusion, this wouldn’t be obviously fair to poorer households in Britain. This raises a very tricky question, namely the idea of ‘risk-pooling’, a concept we address in Section 3.1 below.

Another way to alter the risk calculation is to use the joint liability model discussed in the section on credit above. The idea is that whereas it is too expensive for one particular individual to afford insurance, a larger group of people might be able to afford payments if the risk is more widely spread. One example might be a council estate offering insurance to every tenant, perhaps by adding it to rental payment – called ‘insurance with rent’.<sup>120</sup> This reveals both the strengths and weaknesses of joint liability. Sharing liability can create important social ties, an idea much discussed in the literature on social capital.<sup>121</sup> In fact, for the shared liability model to work, it is obvious that those actually sharing that liability must have high levels of trust and ultimately reciprocity, values that can do much to improve ‘cohesion’.

On the other hand, joint liability insurance might encourage in-group policing or even vigilantism. Those who are seen as risky may be shunned or indeed expelled from a council or housing association for the purpose of reducing insurance premiums. Furthermore, there would be significant incentives for ‘free-riding’ and in making false claims. These disadvantages to joint liability should be compared to how the model has worked in such disparate areas as savings and loans clubs, existing insurance-with-rent schemes and banks in rural Bangladesh.

### Ethnicity-based concerns

For BME groups insurance concerns generally derive from the poverty of the areas in which they are more likely to live. For example, 70% of Bangladeshi and 60% of Pakistani pupils live in the 20% most deprived postcode areas and 40% of Pakistani and 45% of Bangladeshi pupils live in the 10% most deprived areas. This, again, is an indirect way in which ethnicity can impact financial inclusion: certain ethnic groups are more likely to experience a particular sort of disadvantage which is then correlated with increased levels of financial exclusion. For an international example of direct discrimination in insurance, see Appendix 3 on page 65.

In 2006, NDC data found that whereas 37% of white groups had contents insurance,

Table 7. Contents and building insurance, by ethnicity

Ethnic group	Contents insurance (%)	Buildings insurance (%)
White GB/Ire	73	60
Indian	41	42
Pakistani	33	33
Bangladeshi	16	19
Caribbean	34	27
African	16	13
Chinese	30	22

Source: Ipsos-MORI data.

Black groups (16%) and Asian groups (19%) were only insured at half that level.<sup>122</sup> NDC areas are targeted on the basis of deprivation, thus suggesting that ethnicity may be operating independently of poverty to explain levels of insurance. In fact, our commissioned research from Ipsos-MORI confirmed a significant difference between home insurance – both in terms of contents and buildings – as well as for medical and life and insurance.

The findings in Table 7 are statistically significant and robust at a 1% confidence level. In terms of contents insurance, the findings are remarkable, with only the Indian group being even half as likely to have contents insurance as the white population. The figures for buildings insurance are also obviously discrepant, but may be partially explained by different tenure rates, an issue discussed in Section 1.3 above and in 3.2 below. Further research on insurance is clearly needed to determine why such differentials exist. This is especially important for families on low income where burglary may leave them in greater difficulties when they then have to access credit to repurchase basic amenities such as furniture or appliances.

### Exposure to financial products

Finally, insurance take-up raises a more general point, namely that understanding or take-up of one financial product or service makes it more likely for individuals to use other products and services. Take the case of university students, a group that is directly targeted by all high-street banks with particular products. Students are strongly advised to get contents insurance by their universities and parents.

This may seem an odd example where evidence suggests that 30% of students don’t have contents insurance, a high figure given the relatively high value of their possessions.<sup>123</sup> But compared to other 18 year-olds, students are clearly more

targeted and more likely to take up a range of financial products and services. This may result in them being more familiar and indeed confident in accessing financial institutions in the future as well. Since students are more likely to be middle-class, this is another way in which disadvantaged groups have less knowledge and experience of financial institutions, reinforcing inequalities that already affect younger poor people in Britain.

## Research Recommendations and Policy Actions – Insurance Insurance

Data suggest lower BME take-up of contents insurance, as well as buildings, life and health insurance.

- **Research recommendation:** Further research is required to understand why BME people are less likely to take up a variety of insurance products, including whether this is related to disadvantage or to different preferences and/or risk-aversion. Research could also investigate how government intervention in insurance would affect premiums, and whether there is a case for low-cost, low-payout insurance.

All the Report's Research Recommendations and Policy Actions are to be found in the Executive Summary on pp. 4–10.

## 2.4 Savings

*[P]eople on low incomes can, and perhaps more importantly want to, save small amounts on a regular basis. For many people the Saving Gateway replaces an existing informal form of saving (the jam jar for instance). The saving scheme offers a decent return on very small savings that people on higher incomes would benefit from through tiered interest rates and tax breaks. Why should poor people not reap as comparable rewards for saving as people on higher incomes?*<sup>124</sup>

Savings are necessary for individual economic well-being but also for the strength of a national economy. Without adequate savings individuals are unable to provide for periods where they are unemployed or need cash for goods or to plan for the future more generally. For later in life, pensions have been developed as a way of

ensuring adequate money after retirement, a topic Runnymede has addressed in a number of studies. Savings are particularly important for families, who often cannot meet the increased costs of teenage and early adult years as the costs of university education and living rises. The final section argues that savings should be seen as a kind of 'assets', which in turn explains their more wide-ranging importance for social justice.

According to 2005-06 data, over one in four (28%) British households have no savings, a figure that rises to 43% for households earning less than £300 per week and national rates of savings have dropped over the past twenty years. Similar trends are evident in other countries, and as the consequences of negative equity and national rates of savings become more widely discussed. But it is not at all obvious that there is an 'optimal' rate of savings, as Japan witnessed macroeconomic difficulties when individuals saved so much of their income that consumer spending needed greater encouragement.<sup>125</sup> This would clearly have the strongest effect in a closed economy, which the UK is not, but the point remains that low levels of savings have a macroeconomic effect that governments need to respond to.

### Savings for poorer people in Britain

In order to save, households must have some residual cash after paying for basic amenities, leisure and other costs. Although there are sometimes concerns about excessive levels of consumer spending, poorer people may be better off spending the majority of their cash flow rather than saving the small amount they might be able to save by reducing expenses. At the same time, lacking savings makes it more difficult to take advantage of opportunities to improve individual well-being, say by taking courses and expanding labour market options. This is a difficult balance to strike, as individuals may be required to forego spending on valuable goods and activities in order to increase life chances that may or may not materialize and be taken up.

### Ethnicity-based concerns

To the extent that BME households are over-represented among poorer groups, they will find it more difficult to save.<sup>126</sup> While there is anecdotal evidence that some BME groups are in fact more likely to save, particularly Indian groups, this may not always be in conventional or mainstream products. Table 8 reveals that most BME groups are far less likely to save using premium bonds, (offered by National Savings and Investment) and ISAs. The following tables don't explicitly include

**Table 8.** Forms of savings, by ethnicity (DWP data)

	White (%)	Indian (%)	Bangladeshi/ Pakistani (%)	Black/Black British (%)	Mixed (%)	Other ethnic groups (%)
ISA	34	25	7	14	21	20
TESSA	8	8	1	2	3	4
Other bank/building society account	55	42	26	36	42	38
Stock and shares/ member of a share club	23	20	7	8	14	14
PEPs	8	5	1	2	4	4
Unit Trusts	5	3	1	1	4	3
Premium bonds	24	10	2	6	11	9
National Savings bonds	4	2	1	1	1	2
Company share scheme/ profit sharing	5	4	1	2	3	3
Save as you earn	1	0	0	0	0	1

Source: DWP 2006, edited from Platt (2007). This table does not include current accounts (but see Table 6 on page 25).

‘informal’ forms of savings, which immigrant and perhaps some BME group are more likely to use.

This table does not include current accounts (but see Table 6 on page 25), which are actually used as way of savings for a surprising number of people in Britain. For example, when Northern Rock was facing prospect of a liquidity crisis, individual account holders removed up to £1 million from their current account.

Summarizing 2006 DWP data, Lucinda Platt found that:

...while the vast majority of households across ethnic groups had some sort of bank account, there was *substantial variation in those with investments or investment-style accounts*. The average portfolio of savings is clearly broadest for the White group and most limited for the Pakistani and Bangladeshi groups; although it is among the Black groups that the highest proportion without any form of account is found. Otherwise the Black groups and other groups tend to fall between the Pakistani and Bangladeshi households on the one hand and the Mixed and Indian households on the other.<sup>127</sup>

Although South Asian groups are often assumed to have greater savings, data from ONS does not bear this out (see Table 9). Those data aggregated their findings to ‘Black’ and ‘Asian’ groups, and reported that nearly twice as many of both groups (60-63%) did not have any savings compared to white groups, where roughly a third (32%) had no savings. And where those groups reported such savings, they were far less likely to report large amounts, particularly among Black groups: whereas 22% of white groups had greater than £10,000 in savings, numbers were so small for Black groups that they were not statistically measurable, and only 10% of Asian groups had savings over £10,000.

Ipsos-MORI analysis of their existing dataset by ethnicity revealed similar findings (see Table 10). In those data, however, the numbers reporting savings were lower than DWP and other data. Nevertheless, the overall trend of the data was the same, namely that BME groups had lower levels of savings across a wide range of products, with the Indian group generally reporting the strongest level of savings. In those data, the number of investment types showed the greatest variance, and the findings were significant. Whereas the Indian

**Table 9.** Savings by ethnicity

Ethnic group	No savings (%)	Less than £1,500 (%)	£1,500 to £10,000 (%)	£10,000 to £20,000 (%)	£20,000 or more (%)
White	32	21	26	9	13
Asian or Asian British	60	15	16	5	5
Black or Black British	63	18	15	..	..
Mixed	46	25	..	..	..
Other ethnic groups	50	18	19	..	..
<b>All households</b>	<b>33</b>	<b>20</b>	<b>25</b>	<b>8</b>	<b>13</b>

Source: Table modified from ONS, 2005, p 81.

**Table 10.** Savings prevalence for different products, by ethnicity

<i>Ethnic group</i>	<i>ISA (%)</i>	<i>Premium bonds (%)</i>	<i>Stocks/ shares (%)</i>	<i>Investment types (100 scaled to White GB/Ire)</i>
White GB/Ireland	26	20	18	100
Indian	8	4	12	35
Pakistani	4	3	7	20
Bangladeshi	4	1	3	12
Caribbean	6	2	7	20
African	4	2	5	15
Chinese	7	0	1	20

Source: Ipsos-MORI data.

respondents reported only one-third as many as investment types as white respondents, the figures for the other BME groups were even worse, ranging from one-fifth to only one-eighth as many savings investment types.

Based on these findings, we requested further regression analysis on the overall savings question in the Ipsos-MORI financial services poll. The point of this analysis is to try to control for other variables, such as class/income, region and age. Regression analysis of the savings data revealed significant differences for White Other, Indian, Pakistani and Bangladeshi groups. This means that for these groups ethnicity plays an independent role in explaining their lower levels of savings, even taking into account other demographic differences. It also suggests that those groups may not benefit from general policies to increase savings levels (perhaps including the Saving Gateway).

### Remittances

One reason for lowered savings rates among BME groups in official or mainstream products may be the amount of remittances sent to other countries, with estimates ranging from £2.3 billion to over £5 billion annually from the UK. Globally, the 175 million people living outside their country of birth are estimated to send over \$125 billion (as of 2004), a number that is currently increasing by over 10% a year. Whatever the true extent of the phenomenon in the UK, a recent report by the Remittances Working Group suggested that roughly 2.7 million people may be sending cash abroad despite many of them being on low wages.<sup>128</sup> Such numbers may have increased, as there is some evidence of increasing transfers by recent Eastern European migrants as well.<sup>129</sup>

The major concern for remittances is the informality of the sector, which can lead to high costs and fees and, in extreme circumstances, bankruptcy and the resultant loss of all savings for remittance. The

most notorious example was First Solution Money Transfer, which owed £1.7 billion to the public, with most of the money headed for the Sylhet region of Bangladesh. Reports have suggested that some savers lost as much as £70,000. In response, many have recommended that remittances be brought more fully under formal banking institutions and regulation. This recommendation has been endorsed by Baroness Uddin and the

Bank of Bangladesh, although the academic Roger Ballard has wondered whether the UK concern for more ‘formal’ means of remitting money was in part to blame.<sup>130</sup>

### Government policy

In response to the large number of poorer households that lack any form of savings, the government developed the ‘Saving Gateway’ (SG) pilots. The evaluation of the second ‘Saving Gateway’ pilot was published in May 2007,<sup>131</sup> and in the 2008 Budget, the chancellor, Alistair Darling, announced that the Savings Gateway will be introduced nationally with the first accounts available to savers from 2010. The pilots were launched in different areas throughout the country, with different upper limits and different government matching rates. As the Treasury spokesman noted at the review’s launch, the Savings Gateway is aimed at those on lower incomes for whom tax advantages offer less of an incentive to save. It is indeed difficult to create incentives for savings that are profitable, sustainable and in the long-term interests of disadvantaged individuals.

The results of the second Saving Gateway pilot were generally positive, with most contributing at least 16 of the 18 months the pilot project ran. There was no explicit finding on ethnicity, though the East London area had the poorest uptake and results of all the pilot areas. Roughly £15 million was saved, matched by £5 million from the government. The pilots were positive about ‘matching’ as a simple, and easily understood, incentive. At the same time, ‘matching’ has some drawbacks as a way of incentivizing people to save, as the review clearly recognized:

[M]any participants wondered if a match rate was teaching the right lessons. It was thought to be very different from, and significantly

larger than, normal interest rates, and might not provide much continuity for inexperienced savers to open other savings products after their SG accounts have closed. A common request was for more support and guidance at the end of SG to help people continue their saving in more regular savings products.<sup>132</sup>

Such analysis clearly identifies greater financial advice as a key part of providing any financial product or service. But one other finding of the review is perhaps even more discouraging. This is that there was no evidence that the SG2 pilots led to higher overall net worth (i.e. wealth or assets). The greatest reduction for poorer households was the likelihood of spending (more than £25 per month) on food outside the home, and such ‘cutbacks’ were viewed very ambivalently by the poorest participants. An interim analysis found that while the low level of assets held by BME people may have had some impact on their take-up of the Saving Gateway, these differences were no longer statistically significant once such factors were controlled for.<sup>133</sup> Here, however, it is worth noting that ‘controlling’ for assets may not be appropriate if differences in asset-holding are themselves based on different factors for different groups; that is, it is possible that BME groups may lack assets because of differential preferences or knowledge or indeed discrimination.

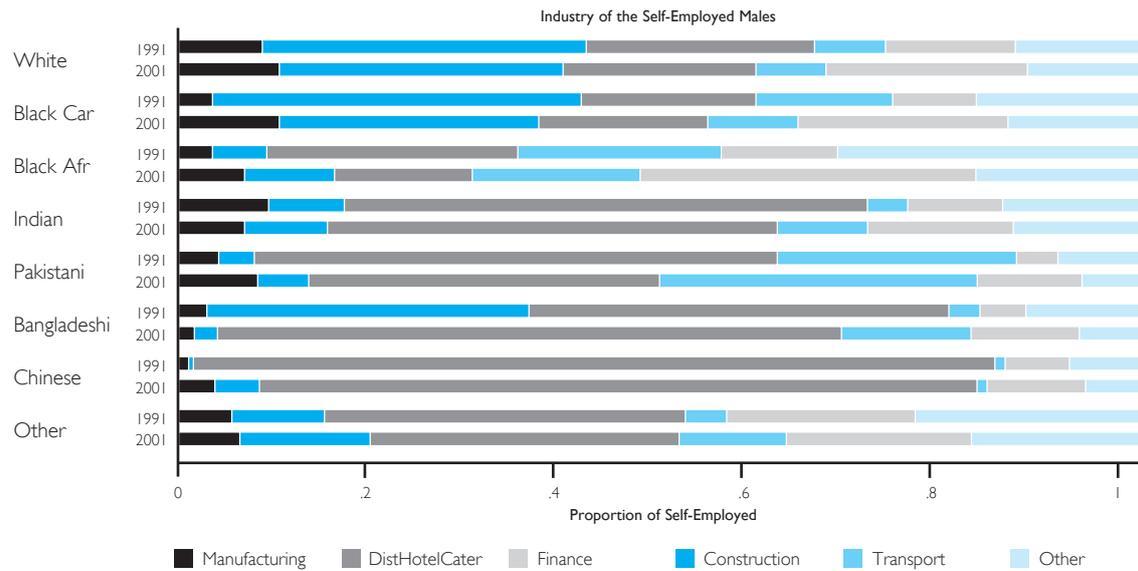
Given the costs of the project and the target group, the Saving Gateway has caused much controversy. The Institute for Fiscal Studies<sup>134</sup> questions whether people on low incomes should be encouraged to save in the first place and motivated with such high returns. Its research suggested that only one in eight of the poorest fifth of the population would benefit from the Saving Gateway in the way the Government expects, and the rest may have to borrow to save into the scheme. It has been argued that increasing income should be the priority and that the UK should have a balanced asset-based welfare policy, focusing on both income and assets; cash savings are not the only type of asset (see Section 3.2).

Nevertheless, the Saving Gateway seems a better scheme than previous policies to increase savings. The most widespread form of savings in the UK, premium bonds, was launched in Harold Macmillan’s 1956 ‘savings budget’ in order to ‘reduce inflation and to encourage thrift’.<sup>135</sup> Premium bonds are provided by National Savings and Investment (NS&I), whose remit is to raise debt to fund Government expenditure and technically speaking they do not have a wider social remit. However, premium bonds have always been

promoted and understood as a way of enhancing savings take-up for people living in Britain, as evidenced by their description on the NS&I website. Premium bonds pay no actual interest, but are advertised as having a notional interest of just over 3%. This is because premium bonds work like a lottery, with each pound saved having a chance of cash prizes drawn every month, two of which are as large as £1 million but most of which are £50 or £100. NS&I describe premium bonds as being more ‘fun’ than ordinary savings and so more likely to be taken up – and there are in fact 23 million bond-holders<sup>136</sup> – but it is worth underlining two points.

First, premium bonds do not target disadvantaged households. This is explained by NS&I’s primary principles – to raise public funds and to provide secure savings – but these are arguably not understood by many premium bond savers, nor are they stated in the section of the NS&I website that explains premium bonds. In any case, with the minimum contribution now £100, they are probably beyond the capacity of most poor people in Britain. Furthermore, while every pound has an equal chance of winning large prizes, those who have maximum savings amounts of £30,000 have an increased chance of winning overall. As NS&I put it, ‘The more you invest the better your chances of winning, so it pays to invest as much as you can’.<sup>137</sup>

Second, Tables 8 and 10 suggests that all BME groups are far less likely to take up premium bonds, even Indians, who are otherwise more likely to save. Taking DWP data from Table 8, whereas 24% of White British surveyed had premium bonds, figures were far less than half that figure for BME groups – 10% for Indians, 6% for Black or Black British groups and only 2% for Pakistanis or Bangladeshis. It is not clear why this might be the case, especially as more premium bonds have been bought in recent years. But this evidence – and similar data for ISAs – does suggest that government schemes to increase savings should do more to target disadvantaged groups, including BME people, and that premium bonds and ISAs don’t currently meet that need (partly by design). Other government schemes, such as ‘Save as you Earn’ depend on agreement between the employer and employees, and so are obviously not available to those who are unemployed or economically inactive or the self-employed and may also be less likely to be accepted by employers of low-pay workers and of course won’t be taken up by employers in the informal sector.<sup>138</sup>

**Chart 2: Industry of the self-employed (males)**

Source: Barnes, 2006.

## Pensions

Pensions are a specific form of savings, namely those that are intended to provide for the cost of living once people retire. They are also a key part of government policy, and have perhaps been an unlikely hot political issue due to the lower annuities now offered by some company schemes. Partly in response to the fallout of the near-collapse of some pension accounts, but also to respond to old-age poverty, the government has pursued significant pensions reform.

Runnymede has already produced a number

of research reports and briefing papers on how pensions and pensions reforms might affect BME people in Britain. We have particularly focused on BME experiences of employment, especially lower pay and self-employment, and have already summarized some of those concerns in Section 1.2 above. In regards to the state pension or stakeholder pension or indeed employer contributions, it is obvious that the self-employed are not as likely to benefit and more likely to suffer old-age poverty as a result. As we have noted in our previous research it is not only that BME groups are more likely to

## Research Recommendations and Policy Actions – Savings

### Savings

BME groups have lower rates of savings, less diverse savings, and lower amounts of savings.

- **Research recommendation:** Qualitative research is necessary for understanding why BME groups have less savings. In particular, it is important to understand why schemes such as premium bonds and ISAs have such low rates of take-up.
- **Policy action:** The Saving Gateway Bill should publicize its race equality impact assessment, and ensure close monitoring of take-up when the policy is rolled out.

### Savings (Pensions)

Some BME groups are more likely to be self-employed, and to be self-employed in particular sectors of the labour market. Self-employed people do not benefit from employer-contribution pension schemes. Historically Black Caribbean groups have been more likely to work in the public sector.

- **Research recommendation and policy action:** Qualitative (and quantitative) research should be conducted on the impact of pensions policy on the self-employed, particularly the poorer self-employed. Similar research is necessary to determine whether pension uptake among groups that have historically worked in the public sector – including Black Caribbeans – will be adversely affected as their labour market experience diversifies. Although stakeholder pensions are relatively new, research needs to tackle whether people are responding to incentives differently.

All the Report's Research Recommendations and Policy Actions are to be found in the Executive Summary on pp. 4–10.

**Table 11. Pensions rate**

<i>Ethnic group</i>	<i>Pension (%)</i>
White GB/Ireland	28
Indian	22
Pakistani	14
Bangladeshi	12
Caribbean	29
African	20
Chinese	13

*Source: Ipsos-MORI data.*

be self-employed, but also that BME businesses are more likely to be in distribution, catering, and transport sectors (see Chart 2), where there are higher levels of failure, more market volatility, significant reinvestment and other costs, and so less opportunity for long-term savings.

The Ipsos-MORI survey contained some questions on providing for savings for retirement. While all groups affirmed the need to put something aside for the future, they also generally agreed with the statement ‘It is difficult to know what to do for the best’. Somewhat worryingly, BME groups were more likely to assume that government would provide for them in their old age, but also less likely to trust pensions schemes. This may partly explain the data in Table 11, whereby most ethnic groups were less likely to report having a pension. Two caveats need stating: first, such data doesn’t control by age profile; and, second, more long-term communities, such as the Indian and particularly the Caribbean community have pensions rates equivalent to the White GB/Ireland group. However, given the earlier prominence of the Caribbean group in particular in public sector employment including in transport and nursing, these high figures may slip as such pensions are less secure and as the community diversifies its employment experience.

## 2.5 Advice

The final of the five areas of financial inclusion is advice. Advice can range from extremely general and informal discussions on basic financial questions to more technical and costly suggestions on mortgages, starting a business or buying stocks and shares. But advice of some sort is probably necessary in the provision of each of the previous areas reviewed in Sections 2.1 to 2.4 above: it is not possible to make a good decision about bank accounts, credit, insurance or savings without good advice, as the SG2 pilot review concluded.

In this section, we generally discuss the question of money advice rather than debt advice. Debt advice (and relief) is of course a vital requirement for some of the people most at risk of financial

exclusion, but much of that advice is necessarily responsive and remedial. Organizations such as Toynbee Hall have developed good strategies for helping such individuals try to get out of debt traps, and have further considered cultural differences in the provision of such advice. Such individuals are not necessarily financially excluded, but they have experienced difficulties in understanding financial services and products or in managing their day-to-day money matters.

Evidence continues to suggest that many of the reasons why poorer households take up loans and other credit with high fees and costs are related to misunderstanding the functioning of interest. Such difficulties are compounded by the problem of ‘hidden costs’ and by loan sharks who may change the terms of loan repayments without leaving their borrowers with any recourse to legal institutions. This suggests a clear requirement for better financial advice, especially on the meaning of important financial principles – and arguably early on in our experience of financial institutions and services.

As the government recognizes in its long-term approach on financial capability (2007), and as emphasized by pfeG, financial education and financial advice go hand in hand, and should begin at an early age. The National Curriculum’s study programme on economic well-being and financial education is commendable, and may indeed improve people’s knowledge of a range of financial goods and services, as well as how the economy more generally works. This will hopefully result in them making better decisions in the future.

## Financial capability

The concept of ‘financial capability’ responds to many of the most pressing concerns for advice.<sup>139</sup> The section on education (1.1) has already pointed out three different kinds of financial capability of that concept, namely personal, civic and business; financial advice will need to consider the differences between these to be effective and so to ensure financial inclusion.

There are different ways that advice can improve the financial decision-making of consumers:

- Attitudes – taking responsibility for financial decisions, questioning the claims made for financial products and services
- Skills – thinking ahead about financial needs, learning to plan and budget and match this to actual spending
- Knowledge – understanding financial services and products to make informed choices<sup>140</sup>

While there is some overlap in terms of the sorts of advice that may develop financial capability in these areas, different individuals may require greater assistance in terms of attitudes, skills and knowledge. To complement under-18 education, it is vital that advice is extended across adulthood so that people are financially included and capable across their lifetime, particularly as macroeconomic conditions and their own personal circumstances change.

The question of ‘attitudes’ also raises deeper questions about how individuals actually behave in market environments. The field of behavioural economics was sparked by an important paper by the Nobel-prize winning economists Kahneman and Tversky, who found that individuals don’t always behave in the way that market models assume.<sup>141</sup> Not only do people come to markets with different preferences, but those preferences are neither stable nor perfectly transitive. Furthermore, individuals don’t always behave in a rational self-maximizing way. How, then, should we conceive of actually functioning markets, and how should financial institutions – and indeed financial regulators – respond? While there may not be a perfect answer, actual human behaviour is a challenge for policy makers, especially if differently placed individuals – whether in terms of income or preferences – respond differently to incentives. But the widely-accepted findings of behavioural economics clearly suggest that further qualitative research is required to go along with Thoresen’s money guidance recommendations and the response of young people to the financial education they are now receiving, including eventually their

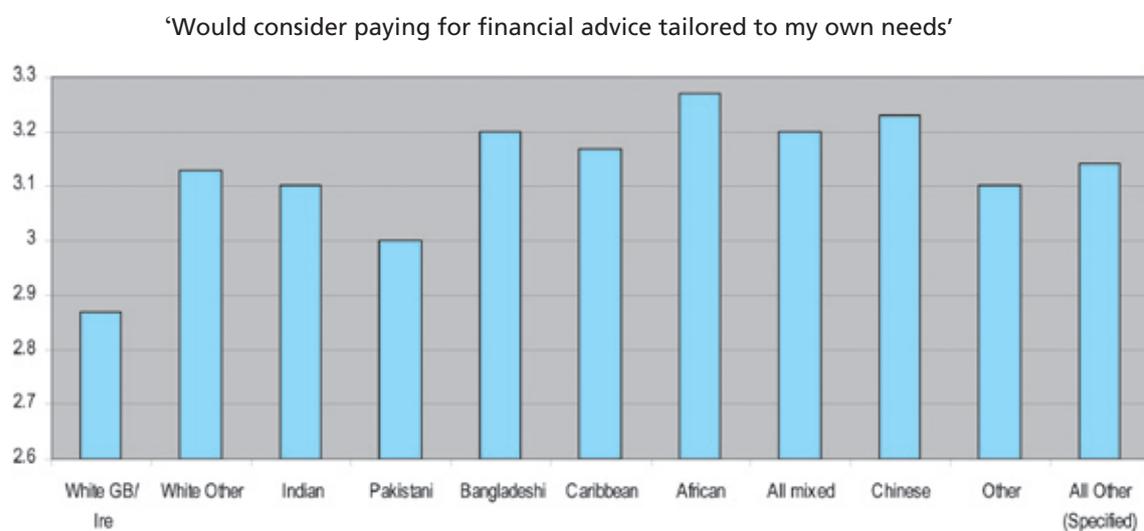
actual usage of the Child Trust Fund (discussed in Section 3).

### Survey of financial capability

In 2006 the FSA published an extensive study on financial capability with the aim of establishing a baseline that could be measured and so compared over time.<sup>142</sup> The overall findings showed that many people fail to plan ahead, that a small proportion experiences severe debt problems, that compared to other goods and services people don’t ‘shop around’ for options and finally that there is substantial inexperience in the 18-30 year-old group.

The baseline survey provided five indicators of financial capability, namely making ends meet, keeping track, planning ahead, choosing financial products and advice on/knowledge of financial matters. The survey broke the population into various groups (‘clusters’), especially by age, number of children and income. Whereas some groups (older wealthy couples) scored well on all measures, others (poorer single parents) did poorly on all five. These results are perhaps not surprising, although it is notable that poorer people are good at ‘keeping track’; that is, they are more likely to know their bank balance within £10, perhaps not surprising given their greater vulnerability to large cash-flow variations. On ethnicity, the survey found no significant correlation. Such findings were only reported in paragraph 5.8.8 of the survey and in terms of the ‘planning ahead’ factor. We discuss related findings from our Ipsos-MORI analysis below.

**Chart 3.** Willing to pay for tailored financial advice



For an explanation of these scaled numbers, see Chart 1 on page 30. In this case, all BME groups are more likely to agree than disagree with this statement, and all are more likely to agree than white groups.

Source: Ipsos-MORI data.

### Interventions to raise capability through advice

People access financial advice through different institutions. This means that government policies may not be the only or best way of considering the issue. Indeed, Runnymede is also engaged in a project to examine third-sector advice services.<sup>143</sup> Many people turn to general advice services, including Citizens Advice Bureaux but also smaller non-financial neighbourhood organizations and indeed family and friends, rather than commercial providers or indeed government. There may be differences by ethnicity in terms of the advice being received by different ethnic groups, and it is worth studying the question in further detail. But it is important to note that BME communities clearly recognize that they need such advice, as is evident by their willingness to pay for tailored advice.

Government has produced significant research on the question of advice, ranging from state provision to recommendations on non-state advice services.<sup>144</sup> The centrepiece of the Treasury's long-term approach to financial capability is a commitment to develop a national approach to providing generic financial advice, an ambition partly met with the publication in 2008 of the Thoresen review (discussed below). The Government's long-term aspirations are to ensure that:

- All adults in the UK have access to high-quality generic financial advice to help them to engage with their financial affairs and make effective decisions about their money.
- All children and young people have access to a planned and coherent programme of personal finance education, so that they leave school with the skills and confidence to manage their money well.
- A range of Government programmes is focused on improving financial capability, particularly to help those who are most vulnerable to the consequences of poor financial decisions.

The Government's aim is for informed, confident consumers to play a more active role in the financial services market, delivering significant benefits to the consumer, the financial services industry and the economy. It highlights, in particular, the close link between financial capability and pension reform, especially the introduction of personal accounts. To achieve its aspirations, it anticipates a more active role for the Government in promoting financial capability, most prominently through the Thoresen review. The

government has also appointed a ministerial group, chaired by the Economic Secretary to the Treasury, established to develop, oversee and co-ordinate a cross-cutting approach to financial capability across government, and in addition will publish an action plan shortly, following publication in January 2007 of its long term approach to financial capability, setting out how financial capability will be integrated into existing services, particularly for those most vulnerable to the consequences of poor financial skills.

Other developments in advice range from the provision of 'acute' services to help with debt, to 'generic financial advice' (personalized advice not linked to specific products). They include:

- Face to Face Debt Advice projects, delivered by partnerships involving established advice providers, to increase the number of advisers serving groups with high financial exclusion
- Money Advice Trust, funded by the corporate sector, including the further development and evaluation of National debt line, a telephone-based service
- Outreach Pilot Projects, administered by the Legal Services Commission, to provide money advice in established locations including children's centres, credit unions, housing advice and community centres and prisons
- Financial education in the provision of the Saving Gateway pilots (discussed above)

### Money guidance – Thoresen Review

While these other developments are significant, the most important milestone in government policy was the publication in March 2008 of the much-awaited Thoresen review on money advice. As Thoresen explain in his foreword: 'there is a gap in the provision of impartial information and guidance on money matters', and he reaffirms the following principles that were first articulated in the interim findings:

The service needs to be impartial and on the user's side; available to all; preventative rather than just for those in crisis; supporting and coaching in style; and delivered in an environment not linked directly to a product sale.<sup>145</sup>

Thoresen emphasizes that this advice will need to be tailored to different individuals, who have different needs. He also recognizes the difficulty people have in understanding financial concepts

and services, and so recommends calling the service ‘Money Guidance’ rather than the more awkward ‘generic financial advice’. We agree with this general point, and much of his report, particularly the notion that money guidance has to be tailored to individuals. This is important because people vary not simply in their circumstances, but also in terms of their preferences and behaviour. We therefore recommend mapping the institutions that BME individuals currently access (or fail to access) in terms of money guidance, and whether they have any particular behavioural patterns that are different from the wider population, a point we pick up below.

While Thoresen importantly moves the discussion forward, and will hopefully result in better financial advice, it doesn’t fully tackle the problem of differential behaviour, nor indeed whether and how we can determine whether a certain financial decision is a good one. That is, while Thoresen doesn’t want money guidance to lead individuals to choose any particular product, it isn’t obvious that there is always a ‘best’ decision when it comes to financial products. Brokers who take large risks may end up with huge windfalls and gain prestige and promotions in the City, but they can also lose vast sums of money and undermine large financial institutions. But even at an individual level, it isn’t obvious how a 40 year-old should invest his or her savings, or how to divide up these savings: in a very safe product with only 3% return; in a fairly stable investment with 5% return; or in a risky investment with potential returns of 7% or more.

### **Ethnicity and poverty concerns on advice**

Together these initiatives reveal a clear commitment to financial advice, but these policies haven’t generally considered the case of BME groups. There is explicit recognition that disadvantaged groups are more likely to require financial advice, and this again includes BME groups to the extent that they have lower incomes, poorer educational attainment and worse housing. As suggested in the case of university students, there is also much evidence that exposure to one sort of financial product or service positively correlates with use of other financial goods and services. In particular, the FSA baseline survey found that having a mortgage is a good indicator of financial capability partly because it makes people more likely to have other products. Homeowners are likely to have better skills, knowledge and experience and have typically already accessed high-quality financial advice when they secured their mortgage in the first place.

**Table 12. Financial awareness by ethnicity**

<i>Ethnic group</i>	<i>Financial awareness, 100 scaled to White GB/Ire</i>
White GB/Ireland	100
Indian	64
Pakistani	61
Bangladeshi	56
Caribbean	69
African	55
Chinese	56

*Source: Ipsos-MORI data.*

Perhaps the most obvious way that BME groups may need particular assistance in accessing financial advice is in terms of language. Here the question is not simply of being unable to speak English because financial advice requires a technical language that even fluent English speakers find difficult. Indeed, reviewers including Atkinson argue that the terminology of financial goods and services can be difficult even for white people in Britain to the extent that they are unfamiliar with concepts such as interest, mortgages and insurance.<sup>146</sup> Such concerns are obviously more challenging for those whose English is not perfectly fluent.

Given the large role played by friends and families and, more formally, neighbourhood advice centres, it may be worth considering whether different groups are given different sorts of advice. There are two possible reasons for why there might be differences by ethnicity: first, some groups may find certain employment or investment more familiar or prestigious, or there may be peer pressure to pursue certain goods and services. Second, for newer migrants, it may make sense to buy particular goods and products and financial advisors may have to tailor their advice accordingly. This may be complicated by differing considerations across generations: the sort of advice that is sensible for a new immigrant with low skills may be very different from that provided to his or her child who completes GCSE education with excellent results.

Our concern in this respect is not merely speculative. Findings from Ipsos-MORI strongly suggest poorer financial awareness for all BME people (see Table 12), and this was one of the most robust findings of our research. This was one of the widest discrepancies in the data, based on positively identifying different kinds of financial products, and confirms earlier findings reported by Kempson and Whyley.<sup>147</sup>

Before concluding this section, we want to point to some potential concerns with Thoresen’s Money

## Research Recommendations and Policy Actions – Advice

While evidence suggest that people access advice differently, we don't know how this impacts on ethnicity, though we do know that all BME groups are more willing to pay for financial advice than White groups.

- **Research recommendation:** A mapping project is necessary to determine the institutions – formal and informal – that BME individuals currently access in terms of money guidance. Qualitative and quantitative research will need to determine why different people use these services differently, or respond to the advice differently, and if there are any behavioural or generational differences (including between migrant and British-born BME people).
- **Policy action:** The findings of the above research on advice should feed into and build on the Thoresen Review, which reported on 3 March 2008.

**All the Report's Research Recommendations and Policy Actions are to be found in the Executive Summary on pp. 4–10.**

Guidance advice, concerns that may extend to other disadvantaged groups. Thoresen's recommendations are generally very strong, and understand the need for tailored advice for different groups, including disadvantaged groups. This guidance will be delivered in three ways – face-to-face, over the web, and by phone. We have already explained how BME and other groups may lack confidence or indeed language skills to access mainstream financial institutions, and agree with Thoresen that third-sector organizations may be well-placed to meet this need. In terms of the internet and phone, those with language difficulties may face greater barriers, but so too will those who currently don't have access to the internet. Here the evidence base is somewhat thin, but Ipsos-MORI data indicated that whereas African and Chinese groups – groups who otherwise don't do as well in terms of access to and knowledge of financial products – are more likely to access the internet, perhaps through their international connections, Bangladeshi and Pakistani groups are substantially less likely to have access to a computer or the internet.

### 2.6 Section Summary

This extended section canvassed the five current areas of financial inclusion policy, and how BME concerns may or may not be addressed. We provided recommendations in each area, some in terms of further research to fill in the gaps, and some in terms of how policy can or should be altered. With respect to banking, the major concerns related to bank and post office closures and the take-up of basic bank accounts and POCAs by ethnicity, data which is currently either unavailable or only indicative.

Turning to the question of credit, this section explained at some length how and why disadvantaged groups have greater difficulty accessing affordable credit. As with banking, language and cultural difficulties are typically raised in the

context of BME groups, but it is just as important to consider the consequences of BME participation in particular areas of the labour market, namely catering and taxis. In the area of insurance, the underlying questions are even more difficult, and relate more explicitly to much bigger questions in terms of market functioning, statistical credit-scoring and incentives. While the data on contents, buildings, life and health insurance reveals significant differences for BME people, further research is necessary to understand why this is the case.

If we don't have enough evidence with respect to how bank closures and POCAs are affecting BME people, the evidence on savings is very robust – BME groups are far less likely to save. Here we need more refined data, but also further qualitative analysis to understand why BME groups have low rates of savings. Finally, the issue of financial advice again raises the issue of unequal access, but not necessarily due to (direct) discrimination. To the extent that there are differences in the kind of institutions or individuals BME groups ask for financial advice, or in terms of their preferences for particular kinds of products, money advice will need to be tailored accordingly.

In the following section, we present an overarching framework to help better understand the various sorts of barriers to BME financial inclusion, but also how financial inclusion can be conceptualized to include wider social and political considerations that effect everyone living in the UK.

## Section 3: Risk, Assets and Social Justice

The five areas in Section 2 are all clearly important for increasing financial inclusion and each raises particular concerns for BME groups. However, there are some outstanding issues that cut across these areas and suggest that financial inclusion needs to be conceived more widely. These have already been introduced, namely risk, assets and social justice. Many of the reasons that BME and other disadvantaged groups are financially excluded stem from risk evaluations, some of which derive from their lack of assets. Policies to increase assets are not limited to savings or pensions and the government could perhaps be more creative, as they have been in promoting the important Child Trust Fund (CTF) policy.

Many of the concerns expressed under the heading of financial inclusion might be better addressed by considering them as part of larger concepts, namely economic well-being or *social justice*. The Child Trust Fund scheme provides good insight into this shift in emphasis: the aim of the CTF is to provide 18 year-olds with a level of financial capacity, but it is also hoped that the Fund will increase their life chances. An 18-year old with savings is more likely to consider training, education or other activities and not simply take the first low-pay job on offer. In this sense, the policy contributes to *personal autonomy*, a goal that financial inclusion policies should aim for more generally. If the National Curriculum aims to create ‘successful learners’, ‘confident individuals’ and ‘responsible citizens’ in its financial education and economic well-being programme, the same aims would clearly benefit all adults, not simply in economic terms but more broadly in non-material terms of individual well-being and social cohesion.

### 3.1 Risk

Risk is an increasingly studied concept, but is implicated in different ways in the context of financial inclusion. Simplifying greatly, there are two main issues. First, financial institutions use statistical scoring to determine the risk of providing goods and services to various individuals. Those who are viewed as more risky are those more likely to default or violate the terms of a product. As a result, ‘risky’

individuals – notably including the poor – are more likely to be denied financial products. Alternatively, they may be offered a product, but at an increased cost, ostensibly so that financial institutions may cover the likelihood of increased costs. So, for example, poorer people in the US and UK are offered mortgages to increase home ownership rates, but with substantially higher interest rates, a phenomenon that beginning in summer 2007 was deemed to undermine the confidence and viability of financial institutions as these ‘risky’ investments defaulted. Research cited in Section 2.2 has already indicated that African-Americans were disproportionately affected by this fallout in the sub-prime mortgage market, although it is yet to document the full extent of the credit crunch (which is, as of summer 2008, still ongoing).

The second issue is how individuals evaluate risk. Studies have found that people find it hard to assess certain forms of risk and that we are not always rational in our approach to risk, for example by taking up smoking or by being more scared of travelling by plane as compared to by automobile. More interesting for this research is the question of differential assessment of risk by income or ethnicity. Individual risk assessments (‘risk-aversion’) may differ substantially depending on one’s position in society, but also because of other personal factors.

### How financial institutions evaluate risk

In each of the five areas of this review risk has been invoked to explain how the financial products or services in question are delivered. Credit-scoring was initially developed in the United States in the context of credit cards, but has now extended globally in all financial goods and services. Such data are now easier to collect and analyse given the extension of technologies such as computers, but some of the analysis is substantially simplified compared to philosophical or scientific approaches to risk.

Consider the case of area or place of residence in credit-scoring. According to many analysts, such information is not being used in credit-scoring. However, both the FSA money advice website and the guide produced by the UK’s

major financial institutions are less than explicit if not vague:

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.<sup>148</sup>

This paragraph implies that credit grantors may permissibly include place of residence in credit-scoring. It is hard to interpret this paragraph charitably, but this may be because the credit-scoring agencies and the financial institutions who use them know that place of residence is often correlated with risk.

#### Evidence for postcode as a predictor of risk

Academic articles have stressed that postcodes in the UK (and the US and Canada) do explain higher risk in at least two areas. First, postcodes significantly explain life expectancies, even taking into account other factors such as income.<sup>149</sup> This research is concerned with the question of pensions annuities, namely the yearly amount paid to individuals once they've retired. These annuities are calculated based on general assumptions about life expectancy. So, for example, a person who retired at age 65 with a 200,000 pound pension might expect only 10-15,000 pounds a year given a life expectancy of 85 or more, but over 40,000 pounds a year if they live to 70. In practice, pensions annuities historically didn't take into account postcode information, but given the significant differences in life expectancy across postcodes, this resulted in those with earlier mortality missing out on their pensions savings as they die before the average life expectancy on which annuity payments are calculated.

However, in August 2007 Legal & General announced that it would begin including postcode information in calculating its pensions annuities. The *Guardian* reported that L & G defended their policy on the grounds that 'everyone now accepts postcodes in motor and home and contents cover'.<sup>150</sup> This suggests that the insurance industry is well aware that postcodes are in fact a good predictor of risk in a variety of areas, but also that such calculations may be applied to other insurance markets as well. Furthermore, to the extent that BME groups are clustered in particular postcodes,

**Table 13. Life assurance take-up, by ethnicity**

Ethnic group	Have life assurance (%)
White GB/Ireland	38
Indian	21
Pakistani	9
Bangladeshi	6
Caribbean	20
African	16
Chinese	14

Source: Ipsos-MORI data.

there is a possibility that postcode risk-scoring may indirectly discriminate against them.

Keeping with life insurance, our evaluation of Ipsos-MORI data suggests very noticeable differences in the uptake of life assurance by ethnicity. Part of this may be due to the younger age profile of most BME groups, but the differences in Table 13 are too stark to be explained solely in terms of such demographic variables. This could potentially impact on financial inclusion, particularly for those Bangladeshi and Pakistani households where the male is the only breadwinner and where families are often larger.

While the private health insurance market in the UK is not usually studied (partly because of the universal provision of the National Health Service), differential life expectancies would impact the expected payments and payouts for it.<sup>151</sup> Given the predictive capability of postcodes, and indeed the pattern of residential clustering of ethnicity in certain areas, this may partly explain the differential take-up of health insurance revealed in the Ipsos-MORI findings (see Table 14).

A second area in which postcodes have been found to predict financial behaviour is the question of 'financial mistakes'. This refers to the practice of missing payments even if an account-holder has adequate funds to pay for a bill. Research suggests that postcodes correlate with the propensity to make such mistakes.<sup>152</sup> That is, people in some postcodes are more likely to make financial 'mistakes' suggesting both that credit-scoring could

**Table 14. Medical insurance by ethnicity**

Ethnic group	Medical insurance (%)
White GB/Ireland	12
Indian	7
Pakistani	4
Bangladeshi	3
Caribbean	9
African	6
Chinese	4

Source: Ipsos-MORI data.

accurately take such data into account, but also that financial capability correlates with postcode. In the following sub-section on individual approaches to risk, we introduce the notions of ‘moral hazard’ and ‘adverse selection’ while in the final section on social justice, we discuss whether and why financial institutions don’t use certain information, including postcodes, and whether we ought to use – or prevent the use of – such data.

### **Understanding the limits, benefits and pitfalls of statistical scoring**

Given the evidence for the predictability of postcodes, it is probably also true that ethnicity would be an effective predictor of risk on existing scoring models. In fact, according to Schreiner: ‘Among the most predictive characteristics for scoring in microfinance are gender, marital status, age, place of residence, and ethnicity’.<sup>153</sup> If it is assumed that existing scoring doesn’t take into account ethnicity or postcode because doing so would be unjust, it is obvious that social justice considerations have implicitly trumped market operation.<sup>154</sup> The question then becomes why some evaluations are unjust enough to trump market mechanisms and statistical scoring, whether such evaluations should be extended more widely, and whether alternative models of risk-pooling could fill in this gap. For an example of how risk-scoring was used to justify ‘redlining’ in the US and Netherlands, see Appendix 4 on page 66.

There is, however a prior question about the purpose of and possibilities of risk assessment. In the first place, risk assessment is only necessary because of imperfect information, some of which is knowable but either difficult or unethical to collect, whereas some of it is simply unknowable but nevertheless relevant on idealized theories of the market. If, for example, we could accurately predict whose goods would be stolen, or at what age a person would die, or whether or not a person would actually make their credit repayments, there would simply be no need for credit scoring or indeed for insurance or interest rates above an administratively viable level.

This sort of point is obviously of limited applicability in the real world, but it is not wholly irrelevant in actual credit-scoring for the following reason. Say a person is known to be of extremely low risk for defaulting, as they have never missed a payment, nor had interest charged on a credit card nor indeed have they taken on large loans; they also have significant savings. Such a person may not, however, be a good customer for financial institutions in the sense that they are unlikely to secure a significant profit. That is, credit-scoring is

not mainly – or at least not only – about assessing risk for an objective purpose or for determining market rates, but for turning a profit for financial institutions. And if a financial institution decides that a very low risk person is also someone unlikely to generate much profit for them, they may reject them on those grounds.

Statistical scoring is not only about risk assessments, but in any case there is some concern about its efficacy or accuracy in doing so. This is because however sophisticated actuarial tables, they necessarily involve assumptions about behaviour that are tied to social profiles that can only ever partially describe all the individuals believed to be of a certain ‘type’. In fact, different agencies employ different criteria in credit-scoring, suggesting that such figures are at best rough approximations and certainly not comprehensively accurate – although they are likely to be probabilistic. More fundamentally, statistical scoring makes uncritical assumptions about the stability of preferences and behaviour over time, assumptions that may not always bear out in the real world:

‘Scoring is the use of the knowledge of the performance and characteristics of past loans to predict the performance of future loans.’<sup>155</sup>

Schreiner identifies 11 benefits of statistical scoring, but also 13 ‘pitfalls’, many of which relate to social justice considerations we discuss below, but some also derived from the necessarily probabilistic nature of scoring, however statistically rigorous. We have reproduced these in Table 15 and recommend that article for an excellent overview of this understudied area.

In sum, financial institutions make wide generalizations in their application of risk models. While the models are increasingly sophisticated, one’s credit score may be lowered if too many people in one’s risk group start to behave in financially irresponsible ways or if they simply become poorer. According to one researcher, financial institutions ‘assume that members of certain groups are, on average, less able to fulfil their financial commitments’ but he notes that their methods of quantification and credit-scoring are not invulnerable to criticism.<sup>156</sup> The key point is that in order to increase the inclusion of certain groups, risk evaluations will either need amending or the implications of being in a ‘risky’ group cannot have such bad effects that people are unable to access important financial goods and services. Where markets could potentially be made more efficient by responding crudely to group-based characteristics in a way that may be unethical – including

**Table 15.** Benefits and pitfalls of statistical scoring

<i>Benefits</i>	<i>Pitfalls</i>
Statistical scoring quantifies risk as a probability	Statistical scoring requires data on many loans
Is consistent	Requires a lot of data on each loan
Is explicit	Requires high-quality data
Accounts for a wide range of risk factors	Requires a consultant
Can be tested before use	Depends on integration with the management-information system (MIS)
Reveals trade-offs	Seems to fix what ain't broke
Reveals the links between risk and the characteristics of the borrower, the loan, and the lender	Can reject applications, but it cannot approve or modify them
Does not require changes in the current evaluation process before the credit committee	Does not approve, it can only reject
Reduces time spent in collections	Assumes that a large share of risk is linked with quantified characteristics in the data base
Affects profits, and the first-round effect can be estimated	Assumes the future will be like the past
Beats the 'automatic' grade	Works in probabilities, not certainties
	Is susceptible to abuse
	May use illegal or immoral predictors

Source: compiled from Schreiner, 2004.

of course ethnicity – we have to decide collectively how we can and should respond to those findings. Since the previous section explained how risk operates in banking, credit, insurance, savings and advice, we can now turn to the evidence of how behavioural risk assessments have sometimes enhanced the financial exclusion of certain groups.

### How individuals (consumers) evaluate risk

There are a number of reasons why individuals might evaluate risk differently. Simplifying, there may be 'external/social' and 'internal/personal' explanations, both of which apply in the case of financial inclusion. On the one hand, individuals may not have had the requisite education to understand the way risk operates, or may be in an economic position such that certain risks are more sensible for them. On the other hand, people vary in terms of individual behaviour – some are more 'risk averse' than others – and this may be explained by psychology, family upbringing or indeed cultural or related factors.

An example of why this distinction is not straightforward comes from the field of education. For both parents considering primary and secondary education for their children<sup>157</sup> and for students in higher education<sup>158</sup>, the 'ethnic mix' of an educational establishment can be a factor for why BME pupils attend particular institutions. Is this an 'internal' or 'external' reason? On the one hand, 'ethnic mix' considerations reflect the preferences of individuals, but on the other hand it is not unreasonable for BME students to prefer a school with greater numbers of BME pupils if they think

that will result in a better educational experience for them.

In fact, there are deeper problems for risk assessments, deriving from the importance of information for markets to operate effectively. Above we suggested that financial institutions only approximate the actual risk of various individuals – they assume that past performance of people similar to the borrower on whatever features are quantifiably measurable 'available and ethically acceptable' are a good proxy for predicting future behaviour. Such an approach is at best probabilistic because of imperfect information.

On the other hand, borrowers may take advantage of a financial institutions' lack of information about either their behaviour or their preferences. Say an individual is extremely risk-averse in comparison to the general population, a fact unknown to an insurer or lender. This person is unwilling to risk their property being stolen, and so might be willing to pay thousands of pounds to insure it. However, because such preferences aren't taken into account, they instead pay a standard fee, based on the more moderate risk-aversion of fellow insured customers. In fact, this problem maybe even more damaging in the case of *behaviour*, where a particular person knows they are likely to be involved in risky behaviour, and doesn't inform their insurer or creditor and thereby gets insurance or credit 'cheaper' than a functioning market would dictate. While insurers must assume that individuals will act in 'utmost good faith' the above explanation is sufficiently widespread to

have spawned a dedicated economic literature, termed ‘adverse selection’.

More familiar is the question of ‘moral hazard’. Here the idea is that the very fact of being insured makes risk-taking *more* likely. For example, a person with mobile phone insurance is less likely to take basic precautions against theft and damage, because they know they will be able to press a claim against their insurer. Moral hazards are one of the most difficult challenges to the functioning of effective markets, and while they ultimately stem from an individual’s response to risk and profit, these may appear unlikely to be correlated with ethnicity. But to the extent that different ethnic groups evaluate risk differently, they may also be more or less likely to benefit from (or be harmed by) adverse selection and moral hazard.

Take the case of taking large risks more generally. For low-income individuals, the potential losses may not seem as harmful to well-being as the potential benefit of the windfalls. However, they may also be more vulnerable to high-risk behaviour given that they are more vulnerable to changes in income to provide for basic amenities. Consider extremely rich individuals on the other hand. Someone with tens of millions of pounds in savings may be willing to risk a higher proportion of their wealth knowing they will still have significant wealth to fall back on in the case of a risk turning sour.

One example of differential approaches to risk may be gambling. While high streets throughout Britain have gambling shops, sometimes even where banks and post offices are absent, there is some concern that such institutions are more likely to have poorer customers. Examples of families losing minimal savings in dog- and horse-racing have long been tropes to describe the ‘foolish’ choices of poorer people in Britain. But given low life chances and poor opportunities for increasing

income in other ways, including through training, the relatively small sums wagered in betting shops or on lottery tickets may seem more sensible risks. Finally, there is anecdotal evidence that some ethnic groups – including the Chinese<sup>159</sup> – are more likely to gamble, and it is worth exploring this question in greater detail.

### Ipsos-MORI findings on risk and behaviour by ethnicity

When examining the Ipsos-MORI data on financial services and ethnicity, the questions relating to risk stood out quite starkly. In each instance, minority ethnic groups were more willing to take a risk in financial matters; that is, they were less likely to be risk averse. Regression of these data revealed White Other, African, Pakistani and Chinese groups as having a significantly lower level of risk aversion even once such alternative explanations as education, class, region and tenure were taken into consideration.

Ipsos-MORI’s cluster analysis (see Table 16) more clearly revealed significant differences by ethnicity in terms of risk aversion. The point of this sort of analysis is to try to identify ‘types’ of people based on shared responses to different questions. In this case, we considered nine key questions, and Ipsos-MORI examined how they impact on financial behaviour.

The data in Table 16 go beyond risk, but are certainly revealing. For the White UK/Ireland group, the most common ‘type’ or ‘cluster’ were those who were ‘financially cautious,’ at 23% of the sample. BME groups, on the other hand, were least likely to be identified as financially cautious, ranging from 0% for the Chinese (on a very low sample size), to a high of only 5% for the Indian group. Conversely, BME groups were most likely to be identified as ‘carefree spenders’, ranging from 26% for the Caribbean group to 51% for the Pakistani group and 67% for the Chinese (again on

**Table 16.** Cluster analysis of financial behaviour

	White UK/ Ireland	Indian	Pakistani	Bangladeshi	Caribbean	African	Chinese
Financially Excluded	16%	19%	17%	27%	20%	28%	7%
Carefree Spenders	13%	37%	51%	38%	26%	39%	67%
Shrewd Investors	18%	11%	7%	10%	15%	6%	7%
Jaded Borrowers	17%	12%	8%	5%	11%	9%	7%
Financially Cautious	23%	5%	4%	2%	3%	4%	0%
Uninformed Risk-avoiders	14%	16%	12%	18%	25%	15%	11%
[Total Count]	8890	143	135	60	117	141	27
[Percentage of sample]	89.1%	1.4%	1.4%	0.6%	1.2%	1.4%	0.3%

Source: Ipsos-MORI data.

a low sample). For White UK/Ireland respondents, the ‘carefree spender’ category was the least common, at only 13% of respondents. Although other findings were less notable, there were also significant difference in terms of the ‘financial excluded’ and ‘jaded borrowers’ categories. The fact that BME groups were less likely to be jaded borrowers may be because they are less likely to access credit, though of course these data can’t explain why they are less likely to do so. But the headline finding – that BME groups are generally speaking more risk-tolerant but less financially aware – is worth underlining.

### **Financial risk tolerance and race and ethnicity in US<sup>160</sup>**

In the US there has been more research on how risk tolerance relates to ethnicity. Regardless of the financial risk tolerance measurement used, the consensus of several studies<sup>161</sup> is that White households are more risk tolerant and are more likely to hold financial assets traditionally attributed to higher risks such as stocks than their otherwise similar non-White counterparts.

Darity<sup>162</sup> reports that historically ethnic minorities have less financial wealth than Whites. In 2001, the mean net worth for White households was 4.2 times that of non-White households.<sup>163</sup> Some of this inequality has been attributed to the composition of wealth, as in the long run stocks and shares have produced higher returns than other investment forms<sup>164</sup> and compared to their White counterparts Blacks and Hispanics are less likely to own stocks and shares.<sup>165</sup> This suggests that inequality in wealth distribution will continue.

Turning to ‘external’ factors, the history of lower financial wealth has led to significantly less financial information dissemination and marketing amongst members of minority ethnic groups, as financial institutions have been less interested in marketing products to the less well off, which in turn left minority groups out of mainstream financial markets. This would also result in less awareness of how risk is calculated by financial institutions.

In their study, after controlling for other factors, Yao et al. considered race and ethnicity representative of an individual’s culture and of cultural barriers and influences to access financial markets.<sup>166</sup> They cite studies suggesting that the different perceptions among Blacks and Whites might be attributed to the different choices available to them as well as the cultural belief system used to influence these choices.<sup>167</sup> The study of Burlew et al. implied that a common goal among Blacks is to achieve the same level of living standards as their White and Black peers, which

might lead to a lower emphasis on savings.<sup>168</sup> For the Hispanic culture, on the other hand, the culture of ‘strength’ might imply a greater willingness to accept risk, as avoidance of risk might be considered as a sign of weakness.<sup>169</sup> The impact of these or any other cultural characteristic probably varies, related to the extent of ‘acculturation or the changing of cultural values through exposure to a surrounding culture that an individual has experienced’.<sup>170</sup>

In addition to cultural experiences, other characteristics, such as socialization, a history of less exposure to financial products and markets, discrimination and greater instability in the labour market, demographic differences, language barriers and lower levels of health make ethnic minorities less likely to accept risk. After controlling for other likely factors including education, income and age Yao et al found, that Whites are more likely to be willing to take some risk<sup>171</sup> than Blacks and Hispanics, but that Whites are less likely to take substantial risks compared to the other two groups. Here the ‘strength’ or ‘Machismo’ culture of Hispanics and the desire of ‘catching up with Whites’ of the two groups might explain the difference with Whites; given lower assets, Hispanics and Blacks would need to take larger risks to realize their goals.<sup>172</sup>

A possible explanation for their findings that Whites are more likely to take some risk is that Whites are more exposed to financial information from financial institutions, the media and other institutions. Ethnic minorities’ low participation in financial markets and their labour instability might also explain the difference. The research further found that Blacks are more likely than Hispanics to take some risk – evidence that might be explained by different levels of acculturation. On the other hand, there is no substantial difference between Hispanics and Blacks in taking substantial risk.

The researchers conclude that the lack of consistency of the effect of race and ethnicity on the willingness to take substantial vs. some risk suggest that more culturally relevant financial education programmes might be needed. Furthermore they suggest that reductions of income inequality will not reduce wealth inequalities substantially without changes in portfolio allocations. On the other hand the finding that ethnic minorities are more likely to take substantial risks reveals that they might be more susceptible to investment scams.

These findings suggest further research for the UK. Although in the Ipsos-MORI data BME groups were generally determined to be less risk-

averse, the survey questions did not distinguish kinds or levels of risk. In line with the above US evidence, it would be worth studying in more detail whether BME groups are more or less likely to risk larger or smaller sums of money. That is, the general question on ‘risk’ is not suitably refined to capture many important behavioural differences, and so may not lead to good policy, whether in terms of credit, savings (including pensions), insurance or advice.

### Risk and financial inclusion policy

Further research on the concept of risk is necessary to develop effective policies for financial inclusion. In some areas this may be more straightforward than others. For example, in insurance it may not be possible for government to influence the differential take-up that results from more expensive payments for poorer groups. What they may be able to do is to influence the way in which citizens assess risk, especially those

who have poor financial literacy. On the other hand, some people will always be more risk-averse than others and so we must expect different financial choices even if that necessarily leads to unequal outcomes. But the problem of risk for increasing financial inclusion in all five areas is not simply about the preferences or choices of disadvantaged groups, including BME people, but also derives from actuarial methods that attach higher risk to disadvantaged groups.

### 3.2 Assets

*A balanced view needs to be taken on asset-based welfare policy: it is not a case of either income or assets, but of both income and assets. For those people who want it, there should be the opportunity of saving and reaping clear benefits. If the aim is to increase financial inclusion, the answer is not to keep people in ignorance, excluded from products*

## Research Recommendations and Policy Actions – Risk

### Risk – how institutions risk-score

Risk-scoring is increasingly used in the provision of financial goods and services, and information including postcodes is often part of statistical scoring procedures. Statistical scoring has a number of benefits, but also pitfalls.

- **Research recommendation and policy action:** To the extent that postcode information is used in statistical scoring, this must not indirectly discriminate on race (or other) grounds. There may be an argument for allowing government access to scoring criteria, even if they do not publicize their results, to ensure the appropriate limits of statistical scoring.
- **Policy action:** The code of acceptable statistical scoring requires proper political debate. Government should work with financial institutions to ensure that characteristics are not directly discriminatory, and may need to consider whether some practices result in unlawful indirect discrimination. The UK needs a balanced understanding of statistical scoring’s benefits and pitfalls.

### Risk – how individuals assess and behave

Current research indicates differential risk-aversion by ethnicity. Furthermore, the field of behavioural economics increasingly suggests that individuals make decisions – including how they respond to risk assessments – on the basis of personal circumstances, peer groups and life histories.

- **Research recommendation and policy action:** Further research should be done to confirm these findings, and also on whether and how different groups respond to risk differently. Given the robust findings in the field of behavioural economics, there are important models for this research. To the extent that different groups evaluate risk differently, these findings will have implications for policy.

### Risk – refining our understanding of behaviour

Ipsos-MORI data suggest that BME people are less risk-averse. However, US evidence suggests a difference in terms of risk-aversion for larger or smaller sums of money, but such refined data doesn’t exist for the UK.

- **Research recommendation:** It would be worth studying in more detail whether and why BME groups are more or less likely to be willing to take financial risks, and to carry out similar research to the US study cited above. A general question on ‘risk’ is not suitably refined to capture many important behavioural differences, and so may not lead to good policy.

All the Report’s Research Recommendations and Policy Actions are to be found in the Executive Summary on pp. 4–10.

*that policy makers judge unsuitable. People on low incomes have every right to make the decision for themselves. Policy, therefore, needs to be equally concerned with what informs individuals' decisions and how education can best be delivered to ensure that all people (whatever their income) are enabled to make the right decision given their circumstances.*<sup>173</sup>

A potential strategy for responding to the problem of risk is to pursue policies that increase the assets of disadvantaged citizens. One reason that disadvantaged groups are financially excluded is not only because they can't access financial goods and services but also because even when they have access to those goods and services they must pay more for them. This is essentially because they are a risky proposition for financial institutions and a major reason for that higher level of risk is because of their lack of assets, or collateral.

Assets, including savings, are good not only for the financial cushion they provide in times of economic stress. The Labour government has endorsed this view, though it perhaps has not explicitly explained those other benefits. In a 2001 document, the Treasury added 'asset-based welfare' as a fourth pillar of social welfare policy, complementing the more traditional areas of 'work and skills', 'income' and 'public services'.<sup>174</sup> While it noted the importance of assets for providing security on a 'rainy day', comfort in old age and independence in the long-term, the document also cited more 'behavioural' and 'social' benefits, benefits that are expanded in the analysis of the Child Trust Fund (CTF). Although these policy initiatives have not been as prominently addressed in some financial inclusion studies, the Treasury's 2007 Financial Inclusion strategy explicitly identified assets, in addition to the five areas of Section 2, as an area that required policy development.

Before explaining the state of assets in greater detail, it is worth pointing out that asset-based policy can potentially be distributionally regressive. This is because the wealthy clearly have greater levels of assets, as we explain below.

However, as argued by Michael Sherraden at the Center for Social Development at the University of Washington in St. Louis, asset-building can be progressive where it targets the disadvantaged, and takes into account their preferences and needs.<sup>175</sup> One example is the matched element in the Saving Gateway, but this example also suggests some non-market incentives may be necessary to increase the assets among the disadvantaged.

### Assets and wealth

In all modern economies wealth is even more inequitably distributed than income. In the UK the wealthiest 1% of citizens have over one-fifth (21% in 2003) of all the assets in the country, a number that has stayed relatively stable over 30 years (see Table 17). The bottom half of all citizens have only 7% of the country's wealth, meaning that they are significantly hampered in planning for the future, gaining training, or looking after themselves and their families in old age. This figure has also remained relatively stable over thirty years, with no significant change in the first six years of the Labour Government (i.e. 1997-2003).

As the ONS website explains:

Wealth is considerably less evenly distributed than income, and life cycle effects mean that this will almost always be so. People build up assets during the course of their working lives and then draw them down during the years of retirement, with the residue passing to others at their death.<sup>176</sup>

Politically, of course, it is a challenge to defend greater asset redistribution, particularly given the popularity of abolishing inheritance tax.<sup>177</sup> This would be perhaps the most regressive change in the taxation system, but its popularity shows why it is difficult to develop policy measure to spread wealth more evenly – people seem to have a sense of entitlement about their assets, particularly their homes.

Given the findings on savings in Section 2.4 above, we should probably expect BME groups to have low levels of assets as well. Data from

**Table 17.** Distribution of wealth in UK (%)

	1976	1986	1996	1999	2000	2001	2002	2003
Top 1%	21	18	20	23	23	22	24	21
Top 10%	50	50	52	55	56	54	57	53
Top 25%	71	73	74	75	75	72	75	72
Top 50%	92	90	93	94	95	94	94	93

Source: ONS website.

**Table 18. Wealth distribution, UK – not including housing assets (%)**

Wealthy	1976	1986	1996	1999	2001	2003
Top 1%	29	25	26	34	34	34
Top 10%	57	58	63	72	72	71
Top 50%	88	89	94	97	98	99

Source: ONS website, modified.

the United States now suggest that the median worth of White households was \$88,651, or 11 times greater than Hispanic families (\$7,932) and 14 times greater than African-American families (\$5,988).<sup>178</sup> As the author of that study explained, inter-generational mobility is hindered by this lack of wealth. Even where African-Americans successfully enter the middle-classes in terms of income, their lesser wealth, including less stocks and bonds, family inheritance and high property value, makes it more difficult to protect their children from downturns.<sup>179</sup> Whereas children of wealthy parents can make decisions about their future in a more relaxed way and even change course in their 20s and 30s, those without such safety nets are more pressurized to make labour market decisions at a young age when they may better benefit from additional training or education.

### Wealth and housing in the UK

Government policy on housing has been surprisingly underdeveloped ever since the first Labour manifesto in 1997 where it was barely addressed. Section 1.3 above already provided some links between housing and financial inclusion, but the issue of assets raises the question again. This is because for most people in Britain their home is their primary asset, particularly since the extended property boom that began in the 1990s and continued more or less unabated until the second half of 2007. One result, as seen when comparing Tables 17 and 18, is that non-housing assets are now even more unevenly distributed than at any point in the past 30 years, with the bottom 50% of society holding only 1% of all non-housing

assets. This suggests that home ownership is more or less the only source of wealth for the bottom half of British society. According to government figures, homes account for 57% of all household wealth, compared to 40% in 1977.<sup>180</sup>

### Right to buy 1980-2005

The policy that has most significantly affected housing tenure and home ownership over the last 30 years is the Right to Buy scheme advanced early on by the Thatcher government in 1980. This has been one reason for the significant increase in owner-occupied dwellings, from 58% (12 million) in 1981 to 70% (18 million) in 2003, with 2 million sales reported on the Right to Buy scheme between 1981 and 2002, and a further 900,000 transferred to housing associations or through other sales. As a consequence the total stock of local authority housing in England in March 2003 was 50% of what it had been in April 1979. Evidence for 2004 and 2005 suggests that these numbers will have dropped even further.<sup>181</sup>

These statistics also suggest that fully one-third of the total increase in home-ownership can be accounted for by the Right to Buy scheme. Compared to 1981, when almost one in three (29.2%) households were renting in the social sector, that figure has dropped to just over one in ten (10.7%) in 2005.<sup>182</sup>

It is important to keep in mind that the Right to Buy scheme was initially proposed as much for ideological reasons about the benefits of the market and Conservative opposition to the idea of the state owning housing.<sup>183</sup> Indeed, Margaret Thatcher explicitly viewed local authority housing as an example of socialism in Britain, and she was determined to undermine it. As she said in a speech to the Bow Group: 'Council housing provides low-rent accommodation at high cost to the public and does more than any

**Table 19. Housing dwelling stock, by tenure (thousands)**

	Owner-occupied	%	Rented privately	%	Rented RSL	%	Rented LA	%
1981	12,442	57.6	2,378	11.0	473	2.2	6,305	29.2
1987	14,363	62.9	2,161	9.5	574	2.5	5,738	25.1
1992	15,682	66.0	2,284	9.6	743	3.1	5,046	21.2
1997	16,675	67.5	2,478	10.0	1,147	4.6	4,421	17.9
2001	17,588	69.3	2,477	9.8	1,643	6.5	3,684	14.5
2005	18,405	70.3	2,829	10.8	2,154	8.2	2,803	10.7

Source: Statistics compiled by the annual Housing Statistics compendiums, 2002-2006.

RSL: Registered Social Landlord LA: Local Authority

other single factor to stress class divisions in the community'.<sup>184</sup> The idea of a 'property-owning democracy' may now seem out of date, but it dominated discussion in the Conservative Party especially in the 1970s and 1980s.

Labour is more cautious about propounding the Right to Buy scheme, but they haven't rejected it. Between 1997 and 2002, almost 900,000 homes were transferred from local authorities, although a slight majority were 'large scale voluntary transfers' (i.e. sold to housing associations and similar organizations) with 400,000 being right to buy sales in the period till 2002. So whereas the figures in Table 19 show a significant decrease in the numbers renting social housing since Labour came to power – from 4.4 million in 1997 to 2.8 million in 2005 – it has clearly adopted a policy of increasing Registered Social Landlord (RSL) tenure, from 1.1 million in 1997 to nearly 2.2 million in 2004.

The government has also built barely any new social housing. Since the 1970s public sector housebuilding completions have continually declined and are now less than a thousand a year: in 2003 the private sector completed 90% of the total of 190,000 new homes, with registered social landlords accounting for most of the remainder. Compare this to the peak of housebuilding in 1968 when 426,000 were completed, 53% by the private sector and 47% by the social sector.<sup>185</sup>

### **Ethnicity considerations of housing, including Right to Buy**

Given the higher proportion of Bangladeshi, Black Caribbean and Black African groups in social housing, we might expect them to be more affected by the Right to Buy policy. On the one hand, they may be more likely to buy an affordable home through their residence in such housing, thus providing them with an important asset. On the other hand, these groups may not be taking up the option of RTB at the same rate as white tenants. If true, this might explain the increased proportion of some BME groups in social housing. With the greatly reduced stock (6.3 million in 1981 and less than 2.8 million today) there is obviously increased demand for such housing. As a result, only the neediest applicants can find a place, and those with lesser employment prospects, lower educational attainment and larger families are then more likely to get a spot than those with greater skills and opportunities.

It is difficult to know how RTB has affected the particular stock of housing, but evidence suggests that larger households, in particular 3-

and 4-bedroom homes, were more likely to be bought.<sup>186</sup> This has left local authorities with a higher proportion of 1- and 2-bedroom homes, and makes them less able to accommodate families. Furthermore, the greatest take-up of Right to Buy was in the 1980s at a time when BME populations were substantially smaller and the policy was more rigorously pursued in areas that have lower proportions of BME groups. For example, whereas over 61% of housing stock was transferred in the South West and South East, roughly 40% was transferred in London and Yorkshire. Given the increasingly common discourse that social housing policies are alienating the white working class<sup>187</sup>, it is worth examining the impact of Right to Buy on social housing stock in further detail, including its uptake by ethnicity, using robust empirical research and not simply anecdotal claims. Indeed, if white groups were found to have disproportionately taken up the right to buy, that would of course result in a higher level of BME groups among social housing tenants.

Moving away from RTB policy, it is also worth examining the value of property by ethnicity. So although Pakistani ownership rates are roughly equivalent to white groups, such property may be in lower-value and less desirable areas. This might then mean that they don't garner the full advantages of home ownership as an asset. In many ways home ownership is a risky financial proposition, and in many parts of Britain they don't provide the substantial assets that they do in areas such as London or the South East, and even in those regions deprived neighbourhoods (where Pakistanis and indeed other BME groups are more likely to live) have not benefited from the property boom as much as 'established' neighbourhoods. Given the relatively lower levels of savings by BME groups, we should expect the value of their homes to be lower as well, and this has implications for housing policy, asset-based welfare policy and indeed financial inclusion.

### **Houses as assets: equity sharing**

Although there are a number of additional housing policies worth considering, particularly the idea of 'mixed' tenure, it is important to consider whether and how the Right to Buy scheme and other policies fits into a financial inclusion model. Increasing home ownership has obviously led to more people having assets. To the extent that these assets have increased the financial inclusion of previously disadvantaged groups – particularly those renting in social housing – it has had clearly beneficial effects. At the same time, very

few people (3%) list 'not wanting to be a social housing tenant' as a reason to own a home, with the biggest reason being that they could choose the location of their home (51%). The other top six reasons are asset/investment for the future (49%), something to pass on to children (29%), freedom to modify their home (26%), cheaper than renting (20%) and more control over what happens to property (19%).<sup>188</sup>

This raises an important issue however: homes are not simply assets; indeed only half of respondents gave assets as a reason for owning a home. Home-ownership is valuable, but not simply because it provides the owner with an asset. It may increase confidence and make people more likely to make improvements and have greater aspirations for themselves and their children. However, some of the more emotional ties to home-ownership may in fact run contrary to the advantages provided by assets. People are much less willing to view their home purely as an asset and that can be disadvantageous if people are to benefit from the actual value of their asset. In this sense, if a home or stocks and shares have the same pound value, the stocks and shares may be more beneficial – as assets – and so be more likely to increase financial inclusion. Perhaps we should encourage other forms of assets and allow a larger rental market if we are only interested in financial inclusion. But because people desire to own homes and indeed require a place to live, financial considerations will never be the only reason that people value their homes. Given Ipsos-MORI findings that people are more likely to agree that property will provide more than pensions for all ethnic groups, it becomes even more important to consider alternative asset-building measures.

There is one part of the market where homes can be viewed strictly as assets, namely the buy-to-let sector, an area that has grown exponentially over the past 10 years. For example, in 1999, financial institutions had 59,000 buy-to-let mortgages on their books totalling £3.6 billion. In 2006 the numbers had leaped to 850,000 with a total value of £94.8 billion.<sup>189</sup> This is partly a result of low interest rates and high yields, but may also derive from the increased view of property as an asset. The large and rapid increase has undoubtedly had an impact on house prices overall but is a relatively new phenomenon in the British mortgage and property markets and it is difficult to foresee what the long-term effects might be on house prices.

Given the rising and high cost of home ownership, further increases in the proportion

of those who own their homes may not be sustainable. Nevertheless, the Government has advanced a number of schemes to encourage a form of home-ownership, namely the idea of shared equity.<sup>190</sup> Here the idea is that tenants can buy a part of their home. This has two benefits. First, it gives people a sense of home-ownership, which is valuable in our property-owning society and may encourage them to buy a fully owned home in the future. Second, it provides people with an important asset.

Existing shared equity schemes target 'key workers' and allow them to get a significant share in their property, typically one-half but sometimes some other proportion. While this allows some people to get on the property ladder and so acquire an asset, it is not without difficulties. First is the question of risk: buying a property is relatively high-risk compared to other investments, a risk that lessened in recent years partly because of the historically low and remarkably non-volatile interest rates but in 2008 has come to the fore again. Should we really be encouraging those with limited resources and savings to spend all of it on such an investment? Second is the fact that property prices are so high that many buyers will be unable to afford even a one-third stake in a one-bedroom flat. For those not identified as 'key workers', this may mean that shared equity shares are simply non-starters. One possibility is to lower the minimal threshold for equity stakes substantially, for example allowing LA tenants to accrue a 1% stake for every year of residence. The difficulty with such models is where improvements are required: will local authorities make the repairs or pay the full costs if the tenant actually owns a part of the property and so will benefit financially from improvements? How might we determine the sharing of costs where equity is shared in highly unequal ways?

The question then arises: is home-ownership the best way to advance further asset-holding? If a potential home-buyer can only afford a small downpayment or fractional equity share, should they invest their money elsewhere? The question is not simply one of the value of home-ownership or the risks and rate of return on investment. Rather, it extends to the question of assets. To fulfil their economic function, assets should arguably be fairly stable investments, with little risk of default, and perhaps not immediately fungible for cash. Shared equity and home ownership obviously have advantages, but the government should also develop other asset-enhancing schemes, perhaps including particular sorts of bonds or funds.

### Child Trust Fund

One such policy is the Child Trust Fund. This was advanced in 2003 following much research and consultation by the Treasury.<sup>191</sup> It was the centre-piece of their asset-based prong of social welfare policy, and is meant to increase life chances, particularly for poorer groups, and to provide all 18 year-olds with a significant asset.

Two features of the policy are worth explaining in some detail: its universality and its non-fungibility. The CTF is universal because all children born after 2002 receive it, from the poorest to the richest child. However, this universality is actually modified in two ways. First, poorer children get a larger initial and matching grant from the government. This pulls the policy in a more targeted means-tested way, and has all the benefits and disadvantages of those sorts of policies. Second, parents and relatives are allowed to top

up the account tax-free. This will undoubtedly benefit middle-class and wealthy children more, as their parents and relatives will be better able to top up the fund.

Less understood is the CTF's non-fungibility; that is the inability of parents to access the fund, say by converting it to cash or using it for collateral. There are a number of issues involved, but non-fungibility seems justifiable if the point of the policy to raise the life chances of young people. But while it is important that others can't use a resource meant for a particular young person, most significant social inequalities have already affected life chances by the age of 18. If a child is disadvantaged at 18, it is unlikely that a Child Trust Fund will enable them to overcome those disadvantages, particularly if their family has been unable to top it up. Perhaps highly disadvantaged groups should at least be able

## Research Recommendations and Policy Actions – Assets

### Assets – home ownership and ethnicity

BME groups are less likely to own homes, and less likely to have this largest source of assets in the UK. There are anecdotal claims of informal BME savings, which may impact on the assets of BME people.

- **Research recommendation:** More data is necessary on the distribution of assets for BME people. A full assessment of the value of property by different ethnic groups is necessary to indicate the real assets held by different ethnic groups, perhaps starting with postcode evaluations and demographics.

### Assets – understanding the consequences of Right to Buy

The Right to Buy (RTB) dramatically reduced the amount of social housing, particularly larger flats. RTB required longer tenure for higher discounts, meaning that more long-term residents were more likely to benefit. RTB was particularly popular in the 1980s. During this period, there were less BME residents in the UK, and they were less likely to have lived here for long periods of time.

- **Research recommendation and policy action:** For all the reasons above, RTB is less likely to have been taken up by BME people. Given the increasingly common discourse that social housing policies are alienating the white working class, it is worth examining the impact of Right to Buy on social housing stock in further detail, including its uptake by ethnicity, using robust empirical research and not simply anecdotal claims. This would require data by ethnicity on Right to Buy. This would also result in more empirically grounded analysis of the relationship between housing and ethnicity, reduce community tensions, and enhance community cohesion.

### Assets – a balanced welfare policy

To fulfil their economic function, assets should be fairly stable investments, with little risk of default, and perhaps not immediately fungible for cash. Home ownership doesn't always meet these requirements, and the current state of the housing market makes home ownership a more risky asset-building measure.

- **Research recommendation and policy action:** While home ownership is important, the government needs to focus on other asset-building policies. This may require further policy on the rental housing market or more inventive policies on 'shared' equity, all of which require further research.
- **Policy action:** One possible solution is the development of particular sorts of bonds or funds, which may start at lower levels. The UK needs a balanced asset-based welfare policy, focusing on both income and assets; cash savings are not the only type of asset.

All the Report's Research Recommendations and Policy Actions are to be found in the Executive Summary on pp. 4–10.

to use the CTF as collateral, say for vocational training or educational tutoring in the ages 14-18. As the government's Sure Start and other policies recognize, earlier intervention might be a better way of improving life chances as opposed to training or even education at 18.

Yet while the CTF is non-fungible until the intended beneficiary turns 18, thereafter it can be immediately spent and so potentially 'wasted'. This raises two points, one about the nature of assets and one regarding the nature of policy. In order to function effectively, assets cannot be cashed in for money. If a bank requires me to put up my home as collateral for a business loan, I cannot then sell my home unless I provide evidence that I will be able to cover a possible default on the loan. To the extent that 18 year-olds use their CTF to buy consumer goods or for leisure activities, it won't provide the benefits of assets to all its intended beneficiaries.<sup>192</sup>

On the other hand, there are problems for a government that seeks to put limits on various sorts of human behaviour. It is paternalistic for the state to tell citizens how they should or shouldn't spend their money, and seems to imply that public institutions or officials know better. Yet as this discussion has explained, assets cannot be cashed in immediately if they are to serve their purpose as assets, and so many of the limitations on their use stem not from government intervention but from the function of assets. Selling off all one's assets is hardly a good long-term strategy for economic well-being or financial inclusion, even if it affords higher spending in the short- to medium-term.

On the other hand, the importance of individual liberty seems to require us to allow people to spend assets as they see fit. Individuals are the best judges of what is valuable to them, and it is important to respect their choices. Many people rate the maximization of financial resources as a low preference, and would rather seek happiness or relationships with others. If a person doesn't want a particular asset, they should have the right to sell it. It is important that individuals don't become destitute, but there are a wide variety of choices, including a low-consumption lifestyle that may be wholly legitimate and certainly aren't obviously wrong. Government must therefore manoeuvre a fine line between ensuring that assets function as collateral in financial inclusion and respecting the choices of individuals. And if some groups of people – perhaps including BME people – have different preferences of choice, that will undoubtedly impact asset-building and indeed other financial inclusion policies.

### 3.3 Social Justice

The above discussion on assets can be taken forward through consideration of the concept of social justice. The basic claim of this review is that economic well-being and indeed personal autonomy can be strengthened through measures that increase financial inclusion, but that this may shift our understanding of some of the issues involved. Focusing on these concepts provides a better framework for understanding the value of financial inclusion, since its benefits are not limited to having more financial goods and services or even greater levels of income. As this government has recognized, financial inclusion can result in enhanced life chances and personal well-being on top of any financial advantages.

#### Market and social justice

There is, of course, an obvious and outstanding difficulty, namely the relationship between the market and social justice. Whereas social justice requires that every individual's claim is treated fairly and impartially, markets operate on the assumption that individuals are treated differently, as the sections on risk and other areas demonstrated. Indeed, one of the reasons that banks have been slow to offer basic bank accounts is because of their supposed costs for some disadvantaged people. As the Child Poverty Action Group has pointed out, there are reasons why basic bank accounts haven't been strongly marketed:

It should not be forgotten that banks and building societies are profit-making institutions with shareholders and that the local branch is similar to any other shop – it is there to sell a product. It is estimated that if all 13 million benefits recipients decided to use standard or basic bank accounts (which is unlikely in the early years, but surely the ultimate aim for the future) then the total costs to the industry could be as high as £1 billion. Incremental costs could be £400-£650 million if each account costs £30-£50 per annum. Whilst the Government will make considerable savings by transferring benefits payments to ACT, the banking industry, without any financial incentive or government subsidy, will pay considerable costs to support the initiative.<sup>193</sup>

Such arguments are less commonly voiced today, partly because banks receive significant inflows through the payment of millions of pounds in benefits and tax credits by the government, but

also because some basic bank account holders become fully fledged customers. Furthermore, more people have taken up post office accounts, and so high-street banks have not had to offer their services to these potentially more risky customers.

Nevertheless, it is likely that many financial goods and services will not be able to be provided in a straightforward way by the market. The government seems to have recognized this in all of its policy interventions, whether in terms of POCAs, the Savings Gateway, pensions or indeed financial advice. But as long as the basic problem is conceptualized in terms of ‘financial exclusion’, financial institutions will be able to argue that there are limits to how much risk they can take on board and still remain profitable and competitive.

Where social inequalities make it uneconomic for markets to treat everyone as equals, disadvantaged groups, including BME individuals, are likely to end up even worse off. In fact, recent DWP research suggested that the ‘business case’ for diversity may be weaker than originally thought:

. . .the evidence presented in this report suggests that, on average, individual employers do not necessarily gain (nor lose) from implementing policies and practices to promote equality of opportunity. The implication is that there is likely to be a difference between the private (individual business) and public (society) costs and benefits of Equal Opportunities policies and practices. In this situation, leaving decisions to implement Equal Opportunities policies and practices entirely to individual businesses (i.e. to the free market) is liable to result in fewer policies and practices than would be best for society. Addressing this market failure might lead to an increase in economic and social well-being. Two standard measures to address market failure could be useful: regulation and changing the net costs to employers, either through subsidies or penalties.<sup>194</sup>

If regulation and incentives are the only ways to ensure fair hiring practices are profitable, it seems even more unlikely that markets will respond to the needs of disadvantaged groups in the provision of financial goods and services if those groups are unprofitable.

Here it is worth returning to the question of risk, and more specifically the notion of risk-pooling. As explained above, risk is calculated in a probabilistic way and based on trying to

identify particular characteristics of an individual that make it possible to compare them to other individuals. This raises the question of how to distinguish different kinds of people for the purpose of evaluating risk and determining market costs for financial services such as credit or insurance. Risk-pooling refers to the notion that a group of people can ‘pool’ their risk, knowing that some are more or less risky than themselves, but that the overall benefits of the pooling make insurance payouts and indeed the larger market for financial services operate efficiently.

Risk-pooling may include every individual in society or some small part of it. In general, however, the first model – pooling the risk of every individual – is considered inefficient and contrary to the market mechanism. The model for this kind of risk-pooling is the NHS, and its primary benefit is to increase social solidarity, or a sense of common belonging. The main challenge for such a system – call it ‘social insurance’ – is that some people pay higher costs even though they are low risk. If they deem the benefits of social cohesion and solidarity to be less important than the potential benefits of opting out of social insurance, they may instead turn to the private insurance market.

Market insurance instead pools people with similar levels of risk. But as Anthony Giddens has pointed out, this can lead to risk-pools that are divided along class lines: wealthy and middle-class people increasingly ‘opt out’ of social insurance models (including, say, in state education or housing), because the perceived costs of such insurance are too high compared to the putative benefits. In any market insurance model, there are clear incentives to exclude those with higher degrees of risk, as they will reduce the payouts to claimants and so increase the premiums for the insured. Where other customers – and not just the market – have access to knowledge about the risk of different individuals in society, the risk of exclusion – and its impact on social cohesion – heightens. We cannot rule out the possibility that self-selected risk-pools will discriminate on the basis of ethnicity or for other unacceptable reasons.

The government is of course cognizant of some of these dangers, as is evident in its claim that ‘to a certain extent, the exclusion of a significant minority from financial services can be attributed to market failures’:<sup>195</sup>

*information asymmetry* – both on the part of providers (who cannot accurately assess

potential profitability) and of the financially excluded (who may assume they will be refused access to mainstream financial services without applying – in some cases this assumption may be correct but not for all);

*externalities* – occur when the wider social costs or benefits of particular actions are different to the private costs and benefits. In the context of financial exclusion, examples are the negative impact of exclusion on employment prospects or the detrimental effect on regeneration initiatives;

*distributional concerns* – intervention may be justified by the delivery of social and equity objectives. It may be considered unacceptable for a significant and increasingly marginalised minority to have unmet financial needs or pay more than is necessary because they are excluded from mainstream financial services.<sup>196</sup>

Focusing on this last issue, there are two seemingly related responses to the distributional unfairness that markets can create through competition. One is the concept of ‘corporate social responsibility’ and the other is ‘social justice’. These might seem related because they both reference the obligations that derive from social interaction. However, the form of that social interaction is somewhat different. While it is obviously true that financial institutions benefit from social institutions and networks which they have no responsibility for creating, they nevertheless don’t have to respond to their customers as governments do. And if a particular group of citizens isn’t accessing those institutions, it isn’t obvious that financial institutions will or should develop outreach programmes.

Social justice, on the other hand, is a requisite for legitimate government in terms of the treatment of citizens and democratic consent. The essential difference is that between human beings as consumers and as citizens. This is not to say that corporate social responsibility has no role to play, and indeed we may want to expand the application of fair procedures, but we must also remember that our standing as citizens implies certain rights and forms of treatment that may not extend fully in the private sphere.

### **Assets, social justice and personal autonomy**

Although the government has made significant statements on the importance of social justice, it has not been clear or consistent enough on its value, especially for citizenship standing and

participation. The inadequate emphasis on social justice explains why the government is vulnerable to criticism on its model of asset-based welfare, including the deployment of the Child Trust Fund.

As emphasized in this review and indeed in government policies, asset-based welfare policies including the Child Trust Fund are beneficial for individuals not only because of their obvious financial effects, but for larger social and ‘behavioural’ reasons. However, the Treasury’s explanation of these benefits is arguably too narrow when it argues that asset-based measures are beneficial because ‘the very act of saving encouraged greater self-reliance, forward-planning and an increased willingness to make personal investments’.<sup>197</sup>

On this view, citizens become increasingly defined by their relationship to markets and financial products, and savings and personal investments become good in themselves. This emphasis partially explains certain criticism of Labour’s social welfare policy. For critics, the government has divided the citizenry into two sorts of citizens: those who work and those who receive benefits. Targeted policies to enhance savings support this division but also conceive of all citizens as consumers who should be prudent and responsible. As Martin Hewitt put it,

[T]he good citizen is someone who works for a living (thereby making few or no claims on social security), saves a portion of their earnings, and sees their savings contribute substantially to their own and their family’s future welfare...the practice of savings is being elevated from a private aspiration of the prudent individual to a core duty of the good citizen supported by government.<sup>198</sup>

This implied definition of a prudent and financially aspirant good citizen requires the government to endorse certain forms of behaviour rather than others. Of course governments always create incentives, including through the tax system, but for citizens who don’t want to define their participation or life choices in terms of financial standing, incentives such as the Child Trust Fund won’t be conceived in the way government requires.

Instead of this sort of emphasis on financial responsibility, the Child Trust Fund is better justified in terms of social justice considerations such as equal life chances, individual well-being and personal autonomy. So while the Treasury is right that asset-based welfare has many social and

behavioural benefits, its identification of those benefits is still too narrowly financial. Young people who take the first low-pay job offered to them have reduced life chances which might instead be advanced by training and education. However, assets such as the CTF may also open up other options – some of which may not be prudential – but which may still be good and worthwhile for those individuals.

It is better for individuals to make their own choices in life, even if those choices backfire or lead to poor outcomes. While this cannot justify deprivation, the idea that it is important to respect the choices and preferences of individuals (as long as they don't harm others) is basic to liberal political morality. Furthermore, the components of individual well-being vary, and many people may not pursue particular sorts of employment even if they yield higher incomes or even better job security, and these preferences may in turn vary from group to group or region to region. Can we really be certain that labour market decisions are wrong if they are

'imprudent'? Indeed, for many people job satisfaction is not the most important way of evaluating the quality of their life.

Asset-based welfare draws a great deal of ethical power for its contribution to personal autonomy. This is because if people have the ability to use financial assets to support them, they will be able to make the choices they want in life. In the short-term, this may have an adverse effect on the labour market as people refuse low-skill low-pay jobs, but in the long-term it will lead to greater efficiency if people pursue their preferred sorts of activities in which they are best able to succeed. As the philosopher Philippe Van Parijs has put it, asset-based welfare can provide 'real freedom for all'.<sup>199</sup> To be fully realized, such an ideal may require much greater investment in programmes such as the baby bond, but the idea that individuals should live their own lives on the basis of choices they affirm is widely shared.

This also allows us to respond better to the key conclusions of the important literature on behavioural economics. As we now know, individuals

## Research Recommendations and Policy Actions – Social Justice

### Social Justice – markets, inequality and fairness

Markets cannot respond to all kinds of unfairness. Where strategies of financial inclusion focus only on incentives or are seen as purely market-based, some level of discrimination is inevitable in a society structured with inequalities.

- **Research recommendation and policy action:** Financial exclusion should be more explicitly linked to social justice, through such concepts as economic well-being, personal autonomy and citizen participation, a link already suggested in some parts of government policy, especially the National Curriculum and (partly) in the Child Trust Fund.

### Social Justice – risk-pooling, non-discrimination and cohesion

Risk-pooling may be useful for markets, but it may also undermine social cohesion, and we need to be certain that the pools aren't made in an unethical way.

- **Research recommendation and policy action:** We need to research further the extent to which justifiable financial procedures can undermine other important social and political goals, namely non-discrimination and social cohesion. Policy-makers may need to decide how to strike a balance between the benefits of risk-pooling and the importance of cohesion.

### Social Justice – personal autonomy and differential preferences

The value of personal autonomy means that policy cannot always restrain the choices of citizens. This is crucial to remember when designing asset-based social policy, but also for thinking about how people actually make financial decisions, and so has implications for financial advice. Not everyone will take the most highly paid job they can get, nor is everyone prudential, but financial inclusion must nevertheless protect the value of living one's own life. Even the non-financially or non-prudentially motivated should have fair access to financial goods and services.

- **Research recommendation and policy action:** In designing financial inclusion policy (especially on assets and savings), we should consider personal autonomy and well-being as well as market constraints. This again suggests that financial inclusion needs a broader social justice perspective.

All the Report's Research Recommendations and Policy Actions are to be found in the Executive Summary on pp. 4–10.

don't always behave in rationally self-maximizing ways nor are their preferences always stable and transitively ordered. What this means for policy makers is that neoclassical models don't always track individual behaviour. Significantly, this may mean that individuals are willing to act more 'altruistically', a tendency we can reinforce by offering appropriate products or indeed greater incentives in the direction of social justice. More ambitiously, we might emphasize the real benefits in terms of solidarity and cohesion that derive from social insurance models, even as we also understand that they will be inappropriate and inefficient in many circumstances.

Thinking about social justice explains why policies to enhance financial inclusion provide a wide range of benefits. While the Treasury rightly notes the social and behavioural effects of asset-based welfare, it should also more explicitly endorse goals such as increased life-chances, greater economic well-being and personal autonomy. If we don't conceptualize financial inclusion more broadly to include goals of social justice, we won't have the resources to respond to market-based discrimination in such areas as risk. Where strategies of financial inclusion focus only on incentives or are seen as purely market-based, some level of discrimination is inevitable in a society structured with inequalities.

### 3.4 Section Summary

This last point links the discussion on social justice to the ostensible topic of this report, namely financial inclusion and BME people in the UK. Social justice is a wide concept that responds to unjustifiable disadvantages, and race inequality is obviously only one such disadvantage. In this

sense, a social justice approach to financial inclusion would benefit all disadvantaged groups in the UK today.

Nevertheless, there are specific concerns for BME people and financial inclusion. In addition to the evidence of inequality in education, employment and housing in Section 1, as well as in terms of savings and insurance in Section 2, this section pointed to specific concerns in terms of risk and assets. If financial exclusion is to be tackled only by existing market mechanisms, and taking existing behaviour as given, we have serious concerns that that approach will disadvantage BME groups among others. This is not because markets are 'unfair' but rather because they respond to existing preferences and cost-benefit analyses that may legitimately make it more costly – or indeed too costly – to offer services to particular groups. At the very least, further research is needed to understand how BME groups are likely to respond to policies of financial inclusion.

Conceiving of financial inclusion in terms of personal well-being, autonomy and of course social justice therefore has two clear advantages. First, it makes it more likely that financial inclusion policies will take into account the concerns of BME groups, many of whom continue to experience significant disadvantages. Second, it builds a common platform for all disadvantaged groups, and provides a framework for why market-driven responses may prove inadequate. It may prove impossible to include all citizens in every existing financial institution and service, but we must then ensure that exclusion doesn't have a disproportionate impact on their capacity to participate as an equal citizen and pursue the sort of life they would like to live.

## Section 4: Conclusion

This review has canvassed widely in addressing the question of financial inclusion and Black and minority ethnic groups in Britain. The first section reviewed the situation of BME groups in Britain, specifying those particular disadvantages that may be relevant for financial exclusion. In the second section these findings were applied to the five areas that are typically examined in the context of financial inclusion, namely banking, credit, insurance, savings and advice. The Government has commissioned research and/or developed policy in each of these areas, though to varying degrees, and we have further analysed their potential implications for BME groups.

The final section examined the concepts of risk, assets and social justice. The question of risk guides actuarial considerations and necessarily results in differential credit scores and risk assessments for more disadvantaged groups. We should not then be surprised if those groups most vulnerable to financial exclusion are also those more likely to be disadvantaged on other measures. Further consideration of risk is perhaps overdue in the context of financial exclusion.

We have also argued that assets should be conceived more broadly, namely in terms of the benefits they provide for enhancing life chances and personal autonomy. These are admittedly ambitious goals, but are closely aligned to the concept of social justice. If we think of the problem of BME access to bank accounts, credit, insurance, savings and advice in terms of ensuring well-being and personal autonomy rather than simply financial inclusion, we can avoid some of the necessary difficulties regarding bringing fairness considerations into financial institutions. That is, financial institutions may successfully reject fairer access on the grounds of market calculations about the risk of certain clients if the justification for those policies is conceived solely in terms of *financial* inclusion.

If, on the other hand, policies of financial inclusion are justified with reference to social justice, economic well-being and personal autonomy, they can more successfully introduce fairness considerations into the provision of financial goods and services. For BME groups, this is vital to ensure that their existing disad-

vantages don't translate into greater financial exclusion. At the same time, we must have a nuanced understanding for why BME groups may not be accessing financial institutions and services, and why they may not benefit from well-meaning policy. There may be differences in terms of the preferences, behaviour and choices of different groups in the UK that are not directly related to discrimination, but that may nevertheless disadvantage certain groups in a market economy. By insisting that access to financial goods and services is part of achieving social justice we can respond to potential differences in BME uptake whether those derive from direct or indirect discrimination, or indeed from different choices and experiences.

As our report clarifies, we have good evidence of how the particular experiences of different BME groups are currently impinging their financial inclusion. At the same time, there is a good deal more research that is required, and we have made recommendations for particular quantitative and qualitative data for giving us a better understanding of how BME experiences relate to their access to financial goods and services. Finally, we have suggested how what we already know should be feeding into existing policy, and why future research is important in its own right, but also to make financial inclusion policy better in the future.

In conclusion, we can repeat the National Curriculum's goals for the programme of study on economic wellbeing and financial capability:

- Successful learners who enjoy learning, make progress and achieve
- Confident individuals who are able to live safe, healthy and fulfilling lives
- Responsible citizens who make a positive contribution to society

These are also worthy goals for all adults living in Britain. If some groups have more difficulty realizing them because they are financially excluded, we have compelling justice-based reasons to ensure their greater participation – in financial services and more broadly.

## Appendix 1: International Banking Comparisons

Offering basic bank accounts as a means of tackling financial exclusion is a common feature of European policy.<sup>200</sup> The widespread deregulation and liberalization of financial services and the subsequent intensification of competition in the banking sector has led to greater choice in financial services and products for some groups and to greater exclusion for others. In general, policy responses across Europe seem to respond to the specific country needs and remain somewhat ad hoc. Governments took up the role of the mediator with the financial sector playing the main role in tackling financial exclusion in some countries, while in others governments have chosen to legislate and initiate policies and actions. Although there seems to be heterogeneity of financial exclusion across Europe,<sup>201</sup> Pollin and Riva report on similar socio-economic characteristics of those excluded: women, the elderly and young people, the less educated and less well off members of society, the unemployed and ethnic minorities.<sup>202</sup>

As opposed to the UK, where banking and regulatory thinking resulted in a mix of government mediation, self-regulation and public/private and private/private arrangements, social responsibility is more apparent in many European banking and regulatory approaches and in the ideologies and constitutional constraints like 'solidarity' (France), 'mutuality' (Italy), and the role of the 'social state' (Germany).<sup>203</sup>

Belgium: 1997 Charter by the Belgian Banking Association specifying the right of every individual living in Belgium to open a savings account irrespective of the amount and frequency of income and allowing for three basic transactions: payment (no overdraft facilities), receiving deposits and withdrawals.

France: The 1984 Banking Act made access to a bank account a legal right in France; people refused can apply to the Bank of France, which will nominate an institution to provide the bank account. In addition, in 1992, French banks signed a charter committing them to offering bank accounts at an affordable cost with related payment facilities. Basic bank services include: ATM card, long-distance payment, cheques (and so are less 'basic' than in the UK). The anti-exclusion law of 1998 gives any person residing in France the right to open a deposit account.

Germany: Voluntary self regulation by the banking sector.<sup>204</sup> The joint recommendation of the industry of 1995 'Current Accounts for Everyone' (Girokonto für Jedermann) provides current accounts on demand. In 1996 and 2000 two further reports were endorsed. The Federal Government

hasn't made any legislative proposals in this area and doubts have been raised about its effectiveness in bringing in the financially excluded.<sup>205</sup>

Portugal: bank compliance with the decree of basic bank services is voluntary, but around 90% of banks were participating by 2001. Under this ruling basic bank services are to be available for all regardless of receipt of social benefits or levels of income. Banks have only limited discretion on fees. Basic services include: current account, debit card with ATM facilities, cash transactions at branches and biannual statements.

Sweden: Banking Business Act 1987 required banks to open accounts, but they are not required to provide means of payment. Banks have the right to refuse payment services and the issuing of cash cards.

Spain, Greece, Ireland and Italy have not addressed financial exclusion in a direct way. Vulnerable groups generally have low use of banking services and there is a lack of financial products designed specifically for them, although Ireland and Italy have begun to develop initiatives. In Spain financial exclusion is being tackled via private market means. Financial inclusion is not high on the political agenda, but some financial institutions (like saving bank foundations) stated their interest in reducing financial exclusion and offer products designed for vulnerable groups.

In Canada, 2003 legislation entitled 'Access to Basic Banking Services Regulations' ensured that all Canadians could obtain personal bank accounts without difficulty. Financial institutions are required to open personal bank accounts as well as cash most government cheques at no charge (even to non-customers) for any individual that meets basic requirements. The Federal Government also introduced legislation requiring banks to offer a standard low cost bank account with a basket of services. Memoranda of Understanding were signed between the Federal Government and eight financial institutions to ensure that all Canadians have access to affordable banking services.

In Appendix 4, we discuss the example of the United States and its creative use of affirmative action to increase financial inclusion of disadvantaged groups. Nevertheless, the US has fairly poor results in banking, with between 9.5 and 20 per cent of US households lacking a bank account. Twenty-two per cent of low-income families (over 8.4 million families earning under \$25,000 per year) do not have either a current or savings account, although some states place an obligation on banks to provide accounts to all citizens (for example, New York).

## Appendix 2: Credit in the United States

Alternatives to the formal banking sector for accessing credit have rarely been considered and regulated for via legislation in the US. Bond and Townsend looked at the actual and potential role of banks in informal financing in South Lawndale, an ethnic (principally Hispanic) neighbourhood of Chicago.<sup>206</sup> They concluded that there is a widespread use of credit by both households and businesses, and that most of the credit is provided for by informal sources, namely relatives and friends – with the important exception of house-buying. These informal networks tend to be ethnically homogeneous.

The lack of formal financial mediation might be due to the high costs of lending to poor or marginalized individuals at standard interest rates, credit rationing and moral hazard problems leading to higher interest rates for poor individuals or even cutting them out of the loan market completely. Other explanations suggest that individuals or groups outside the formal sector may have cheaper access to relevant information about a borrower; hence they may find more attractive loan schemes outside the formal market and reject lending from banks. Explicit group lending schemes entering the community through a small group of individuals, who recycle the money through informal and semi-informal networks may also be more attractive to community members than formal bank schemes. This suggests that the small role of the banking sector is in part attributable to a lack of interest from the community.

Research findings support these assumptions. Survey results indicate that at household level there is widespread use of credit to reduce drops in consumption in periods of financial hardship, but obtaining a bank loan is mostly a hypothetical option; in practice, when faced with actual financial difficulties, bank loans are rarely used compared to other products and even existing savings and assets. Nonetheless, mortgages from banks and formal sector institutions play a very significant role in financing house-buying, though even here informal loans and personal savings are used to a greater extent than expected.

Generally, however, evidence suggests a lack of financial instruments in the community. Large numbers of households are unable to respond to financial shocks other than by reducing consumption and increasing labour, which is partly due to inflexible formal sector instruments and insufficient informal sector instruments to meet needs. Importantly, however, Bond and Townsend point out that as opposed to formal sector negligence, the small role played by the formal financial sector stems, at least in part, from community disinterest. They suggest that improvements of bank services

could be achieved by using or replicating informal community networks.

### **Why might intermediaries have difficulty serving some communities?**

If loan production requires resources other than the opportunity cost of capital, it might simply be too costly to lend to poor or marginalized individuals at standard interest rates. If such individuals are geographically clustered, this will translate into little lending activity within certain communities. However, it is not clear that loan production involves costs that are not proportional to loan value, nor is it clear that a lender could not recover such costs by charging higher interest rates for small loans or ‘costly’ borrowers.

Some theories of intermediation predict credit rationing, in the sense that some individuals are denied loans even though other individuals with identical qualifications are granted loans, or that individuals would like to borrow more at posted interest rates. If such rationing exists, it might take place along community lines, perhaps to economize on acquiring specific knowledge of different communities. Credit rationing may greatly exaggerate what would otherwise be marginal variables in the loan-application process — that is, if some essentially identical individuals must be rejected, tiny differences in the cost of loan provision could produce huge differences in outcomes.

Aghion and Bolton (1992), Lehnert, Ligon and Townsend (1996), and Piketty (1994), have exhibited models in which moral hazard problems may be more acute at low wealth levels and, consequently, poor individuals may face higher interest rates or even be cut out of the loan market completely. Finally, consideration must be given to the view that some lenders are closed-minded or racist and, hence, simply do not like to lend to minority segments of society.

We would note that no theory of bank unwillingness to lend can be supported or refuted by a simple count of bank rejections. If the application process is costly and people understand the process by which banks operate, applicants likely to be rejected will not apply. Theoretically, given the extensive self-selection and prescreening of actual bank applicants, only ‘information surprises’ in the loan process should lead to rejections. In this sense, the emphasis on minority rejection ratios as reported in Home Mortgage Disclosure Act (HMDA) data, in the Federal Reserve Bank of Boston study (1992), and in matched-pairs regulatory analysis seems a little misplaced. Greater consideration must be given to who is actually applying for bank loans, an issue that is tightly connected with the existence of financing alternatives.

## Appendix 3: Race Discrimination in the US Insurance Market

Internationally, there is some evidence of more direct discrimination in insurance. The United States was fairly advanced in developed credit-scoring and more sophisticated actuarial measures, in such areas as car, home and indeed health insurance. Some banks engaged in the practice of 'redlining', meaning that they simply wouldn't take on customers from a particular area. This sort of behaviour was made illegal but it seems to have been prevalent in insurance and in the mortgage market. For example, recent research found the following race-based differentials in terms of barriers to insurance in US cities:

- the willingness to provide a policy for white but denying or referring minority applicants elsewhere;
- not returning calls from minority testers while promptly responding to white;

- offering policies with different terms and conditions (e.g., full replacement cost policies for white, market value policies for non-whites);
- charging different prices for the same policy;
- requiring inspections in non-white but not white areas;
- requiring non-white to supply social security numbers (so credit checks could be run) but not soliciting such information from whites.<sup>203</sup>

Research has found that redlining may also exist in the Netherlands mortgage market, including by UK companies operating there. We discuss this topic in the section 3.1 on risk and in Appendix 4, but to determine whether UK-based companies are in fact redlining would require access to the actuarial models that determine why individuals are charged particular premiums, and so suggests that regulation of some financial services – including insurance – may be infeasible.

## Appendix 4: Risk and Redlining – US and Netherlands

In the United States, the long history of discrimination of African-Americans led to their financial exclusion. In response, the government developed fairly strong affirmative action in financial services via the Community Re-investment Act 1977. This piece of legislation along with the Home Mortgage Disclosure Act requires banks to disclose details of people and groups to whom they are currently offering services. Originally introduced as a strong affirmative action response to banks ‘redlining’ areas (geographical areas identified by banks in which they would not lend), which led to apparent discrimination and consequently to financial exclusion, the Acts ensure that deposit services and credit services serve the convenience and needs of the communities in which financial institutions are chartered to do business. Legislation also requires periodical evaluation of each bank’s record (‘CRA rating’) in helping to meet the credit needs of its entire community. This is a key part of ensuring that banks meet their social objectives and serves to enhance access to banking services. In addition, the legislation had the effect of changing other aspects of commercial behaviour. For example, banks often give money to community development funds in order to ensure positive scoring when lending is disclosed under these two legislative instruments.

European observers might doubt the applicability of US models to the extent that African-American experiences seem different from migrant experiences here. However, there is evidence of redlining, including by ethnicity, in the Netherlands. Aalbers examined

mortgage applications and rejections in Arnhem, the Hague and Rotterdam and concluded that both place-based and race-based exclusion operates in loan (i.e. mortgage) applications:

The neighbourhoods considered as high-risk by lenders all have a relatively large share of ethnic minorities. In fact, in all three cities the neighbourhoods with the highest shares of ethnic minorities suffer from exclusion and all excluded neighbourhoods have large shares of ethnic minorities. This observation does not necessarily imply that place is used as a proxy for race in exclusion policies, but it does imply that ethnic minority groups are hit twice: through place-based and through race-based exclusion. In other words, place-based disparate treatment results in race-based disparate impact.<sup>208</sup>

This is fairly precise explanation of redlining and explains how and why loans are distributed in that way. In his conclusion, Aalbers intimates that such practices may be more widespread in Europe, including in the UK, because British (and Belgian) mortgage companies operate in the Dutch mortgage market and follow practices of *indirect* discrimination. It would therefore be worth studying the sub-prime mortgage market in the UK, to determine if there are any ethnicity-based concerns or indeed to examine mortgage rejections to see if particular areas are more likely to be excluded from loans.

# Endnotes

- 1 The Financial Inclusion Task Force derived in part from Policy Action Team 14 of the Social Exclusion Unit. For more information, see their website: [http://www.cabinetoffice.gov.uk/social\\_exclusion\\_task\\_force/context.aspx](http://www.cabinetoffice.gov.uk/social_exclusion_task_force/context.aspx)
- 2 See Berthoud, 2002 for an analysis of the specific economic disadvantages faced by different minority ethnic groups in the UK.
- 3 Kempson et al., 2000.
- 4 See particularly HM Treasury, 2004, 2007a and 2007b; also Treasury Committee, 2006.
- 5 Atkinson, 2006.
- 6 Department for Communities and Local Government (DCLG), 2007, p. 152. There has been improvement: the rate in 1994/97 for Pakistani/Bangladeshi was 73%.
- 7 See [http://www.dcsf.gov.uk/pns/displaypn.cgi?pn\\_id=2007\\_0127](http://www.dcsf.gov.uk/pns/displaypn.cgi?pn_id=2007_0127).
- 8 DCSF data 2005-06, available online. See also DCLG, 2007.
- 9 DCLG, 2007, p. 142.
- 10 Elias et al., 2006.
- 11 These findings are based on a Unversum poll, reported in Demopoulos, 2006.
- 12 QCA, 2007, pp. 227-41.
- 13 QCA, 2007, p. 227.
- 14 See [www.pfeg.org.uk](http://www.pfeg.org.uk)
- 15 FSA, 2006a.
- 16 See pfeg website.
- 17 Compare the Commission on Integration and Cohesion, 2007 and the review in Khan, 2007.
- 18 FSA, 2006a, p. 83 for the explanation of the 'planning ahead' findings.
- 19 The Government recognizes this point in a different way. On their view, financial capability is complimentary to financial inclusion. Whereas financial capability focuses on the 'demand' side – ensuring that people have the skills and confidence to engage with the financial services industry – financial inclusion focuses on the 'supply' side by ensuring that people have access to (basic) financial products.
- 20 Resolution Foundation, 2007.
- 21 For an overview, see Clark and Drinkwater, 2005.
- 22 Barnes, 2006, p. 5.
- 23 Data from DCLG, 2007. See also DWP, 2006, which found that 'the biggest barrier to employment for the two groups relates to the low levels of human capital they possessed' citing 'low levels of education and qualifications, low levels of confidence, limited experience of different types of jobs, and limited networks of contacts in different sectors' (pp 7-8). This research also found that the New Deal for Communities was not effective for these communities.
- 24 Fawcett Society, 2005.
- 25 Modood et al., 1997; Platt, 2007.
- 26 See Meadows and Rogger, 2005.
- 27 Clark et al., 1998. See also Clark and Drinkwater, 2006.
- 28 <http://www.statistics.gov.uk/cci/nugget.asp?id=463>
- 29 See especially, Runnymede Trust, 2007.
- 30 DCLG, 2007, p. 161.
- 31 See DWP, 2006.
- 32 Low Pay Commission Report, 2005; Wright, 2006 on the restaurant industry and also Ram et al., 2004.
- 33 Low Pay Commission Report, 2005.
- 34 Jones et al., 2006.
- 35 The case of Chinese cockle pickers in Morecambe Bay is the most tragic case, but see, among many others, Lawrence, 2005, for coverage of the labour conditions of Polish workers in a company sub-contracted by Sainsbury's.
- 36 Anderson and Rogaly, 2005; see also Llanes and Barbour, 2007. While the ONS estimates a figure of only 1.5%, the EU estimates the informal economy at between 7%-16% of the European economy in the 1990s, though the UK is considered to be at the lower end of that scale (see Williams and Windebank, 2001).
- 37 Grabiner, 2000.
- 38 As reported in Lightfoot, 2006.
- 39 Demopoulos, 2006.
- 40 For a good review, see ODPM, 2002.
- 41 This author found this out to his detriment when he was required to install a burglar alarm in his rented accommodation because of the threat of crime in the area. When pressed, the insurance company claimed that no premium could meet the risk unless the alarm was installed, even a hypothetical charge of £500 per month, a strangely uneconomic and irrational decision.
- 42 See [www.moneymadeclear.fsa.gov.uk](http://www.moneymadeclear.fsa.gov.uk) and also the Guide to Credit Scoring on the BBA website (and discussed below in section 3.1).
- 43 For a robust and insightful analysis of residential clustering by ethnicity in the UK, based on a quantitative comparison of 1991 and 2001 Census, see the work of Ludi Simpson and his colleagues at the University of Manchester.
- 44 See Platt, 2007.
- 45 Based on 2001 Census data: see [www.statistics.gov.uk](http://www.statistics.gov.uk)
- 46 In September 2007 Cambridgeshire's chief constable claimed that immigrants were responsible for rising crime, a view that was rebutted by the Association of Chief Police Officers (ACPO) in a report published in April 2008. For coverage, see the BBC news website.
- 47 ONS, 2005, p. 140; see also BBC coverage.
- 48 For a comprehensive literature review of this topic, see Wallace and Quilgars, 2005.
- 49 One interviewee also suggested that the possibility of further regulation made the banks more willing to implement basic bank accounts: faced with the choice of further regulation or providing basic bank accounts, they chose the latter option on cost grounds.
- 50 DWP, 2007.
- 51 HM Treasury, 2004.
- 52 DWP, 2004.
- 53 Cited in Atkinson, 2006.
- 54 Resolution Foundation, 2007, citing a University of Nottingham study from 2006.
- 55 Resolution Foundation, 2007.
- 56 HM Treasury, 2007d.
- 57 Collard and Kempson, 2005; See also National Consumer Council, 2004; Save the Children, 2008; and Marcus, 2008.
- 58 Atkinson, 2006, p. 14.
- 59 Figure from National Centre for Languages: [www.cilt.org.uk](http://www.cilt.org.uk)
- 60 Datta, 2007.
- 61 Fawcett Society, 2007.
- 62 Kempson et al., 2004.
- 63 British Bankers' Association (BBA) website.
- 64 See Atkinson, 2006.

- 65 See Atkinson, 2006.
- 66 Treasury Select Committee, 2007, p. 5.
- 67 NDC data.
- 68 Kempson et al., 2000.
- 69 For discussion of the use of residence in credit scoring, see 3.1 in this report.
- 70 This was reported on BBC's Panorama in early October 2007. For coverage, see Chapman, 2007.
- 71 Collard and Kempson, 2005.
- 72 Collard and Kempson, 2005, p. 5.
- 73 National Consumer Council 2005, 2006; cited in Resolution Foundation, 2007.
- 74 National Consumer Council, 2005.
- 75 Collard and Kempson, 2005. See also Save the Children, 2008.
- 76 Fawcett Society, 2007.
- 77 DTI and DWP, 2004.
- 78 Competition Commission, 2006. For confirmation of this figure, see [www.providentpersonalcredit.com](http://www.providentpersonalcredit.com)
- 79 The woman also had another £225 loan on which 16,000% interest was being charged. See [www.thisismoney.co.uk](http://www.thisismoney.co.uk) coverage.
- 80 For a strong defence of doorstep lenders, see Consumer Credit Association, 2005.
- 81 This and the following paragraphs are indebted to Hudon, 2007.
- 82 Lucas, 1990.
- 83 Armendariz de Aghion and Morduch, 2005.
- 84 Fernando, 2006.
- 85 For an economic evaluation of these banks, see, for example, Rai and Sjostrom, 2004.
- 86 See [www.kiva.org](http://www.kiva.org), especially their explanation of the 'Average Interest Rate Borrower Pays To Kiva Field Partner'. The return rate of 117%-847% is based on World Bank data from India, Kenya and the Philippines.
- 87 A good resource on loans throughout the UK is the Community Development Finance Association homepage at: [www.cdfa.org.uk](http://www.cdfa.org.uk). The possibility of extending microcredit to the developed world has also been taken up by Muhammad Yunus, who recently opened a branch of the Grameen Bank in New York City. See Pimlott, 2008.
- 88 Quaker Social Action, 2005.
- 89 See [www.aspire-loans.com](http://www.aspire-loans.com)
- 90 See [www.street-uk.com](http://www.street-uk.com)
- 91 However, according to Esmée Fairbairn, 2006, the Aspire project did not meet the costs of running the loans, in part because demand was only about 30% of that anticipated.
- 92 This is claimed at: [http://www.providentfinancial.com/plc/Home/FAQ/Would\\_a\\_legally\\_imposed\\_maximum\\_interest\\_rate\\_help\\_home\\_credit\\_customers.aspx](http://www.providentfinancial.com/plc/Home/FAQ/Would_a_legally_imposed_maximum_interest_rate_help_home_credit_customers.aspx)
- 93 The Sunday Mirror campaigned for an interest cap: see Gilfeather, 2005. For coverage, see BBC news website and coverage of the debate in Parliament at [www.theyworkforyou.com](http://www.theyworkforyou.com)
- 94 Based on public information available from the South Coast and Manchester Moneyline websites.
- 95 Hayek, 1978. Right-leaning libertarians would probably say that the agreed price of a loan simply is the fair price.
- 96 Richman, 2006.
- 97 Fernandez, 2007.
- 98 Schifferes, 2007.
- 99 Bajaj and Fessenden, 2007.
- 100 Fernandez, 2007. In New York, data suggests that 62% of African Americans earning between \$150,000 and \$250,000 – hardly poor or working-class – had been given sub-prime mortgages, compared to 20% of white Americans in that income bracket.
- 101 Bajaj and Fessenden, 2007.
- 102 Department of Trade and Industry, 2007. This survey follows earlier indicative work, on a smaller sample size, reported in Fraser, 2005.
- 103 However, like Olatundun, 2003 and Atkinson, 2006, NDC and Ipsos-MORI MFS data suggests that Black Caribbean groups are now no more likely to be members of credit unions.
- 104 According to IFSRA records of 2005 there are 52 regulated money-lenders in Ireland charging an average APR of 126.29%. The highest interest rate charged is 196.5%, the lowest 29.8%.
- 105 Collard and Kempson, 2005.
- 106 Department of Trade and Industry (2006) *Illegal Trading in the UK*. London; DTI. See <http://www.berr.gov.uk/files/files35171.pdf>
- 107 Daly and Walsh, 1988; Quinn and NiGhabhann, 2004.
- 108 Byrne et al., 2007.
- 109 Whyley and Brooker, 2004.
- 110 Byrne et al., 2007.
- 111 Palmer and Conaty, 2002.
- 112 HM Treasury, 2007a.
- 113 Collard and Kempson, 2005, p. 3.
- 114 DWP, 2007.
- 115 These points are taken from the conclusions in Collard and Kempson, 2005.
- 116 For coverage, see BBC news website.
- 117 We have been unable to contact the relevant person in Business, Enterprise and Regulatory Reform but are following this up.
- 118 Kempson et al., 2000.
- 119 DEMOS, 2005.
- 120 For an analysis of insurance with rent, see DEMOS, 2005.
- 121 On the concept of 'social capital' see Berkeley, 2005 and World Bank website.
- 122 NDC data.
- 123 This was research done by Abbey, which found that 95% of students had a computer and an average value of belongings over £3,000. [http://www.w3debtsolutions.co.uk/Students-dont-have-insurance\\$18302276.html](http://www.w3debtsolutions.co.uk/Students-dont-have-insurance$18302276.html)
- 124 Reynolds, 2003.
- 125 For an interesting comparison of the history of savings in the US and Japan, see Suto and James, 1999.
- 126 For an overview, see Kempson and Whyley, 1998.
- 127 Platt, 2007: chapter on Assets and Savings.
- 128 UK Remittance Working Group, 2006.
- 129 The *Independent* reported £4.3 billion in total remittances to Poland for 2006, though it is not able to determine how much is remitted from the UK in particular. See Castle, 2007.
- 130 See the coverage from 13 July in the *East London Advertiser*.
- 131 Harvey et al., 2007.
- 132 Harvey et al., 2007, p. 5.
- 133 Institute for Fiscal Studies (IFS) and Ipsos MORI, 2006, p. 47.
- 134 Emmerson and Wakefield, 2002.
- 135 <http://www.nsandi.com/products/pb/premiumbondstory.jsp>.
- 136 The NS&I and thisismoney websites report that 23 million people, or 40% of the population, have premium bonds, with an average of holding of £1,131: [http://www.thisismoney.co.uk/saving-and-banking/article.html?in\\_article\\_id=413799&in\\_page\\_id=7](http://www.thisismoney.co.uk/saving-and-banking/article.html?in_article_id=413799&in_page_id=7). However, Table 8 above (based on DWP survey data) suggests a much lower figure of only 24%, a discrepancy that is hard to explain.
- 137 <http://www.nsandi.com/products/pb/howitworks.jsp>
- 138 For this scheme see Save as you earn: <http://www.businesslink.gov.uk/bdotg/action/detail?type=RESOURCES&itemId=1074486477>
- 139 The FSA has focused primarily on financial capability in thinking about financial inclusion, as in FSA, 2005. See also Treasury Committee Report, 2006 and HM Treasury, 2007c.

- 140 This distinction is common in the literature; this formulation comes from pfege's website: [www.pfege.org](http://www.pfege.org)
- 141 Kahneman, D. and Tversky, A., 1979. We are indebted to Claudia Wood for alerting us to the relevance of this literature.
- 142 FSA, 2006a.
- 143 Runnymede has developed a proposal to study the market on advice.
- 144 See especially HM Treasury, 2007a, 2007b and 2007c.
- 145 Thoresen Review, 2008, p. 1.
- 146 Atkinson, 2006 and cites therein.
- 147 Kempson and Whyley, 1998.
- 148 BBA website Guide to Credit Scoring, paragraph 5.3.
- 149 Finkelstein & Poterba, 2002; Finkelstein & Poterba, 2006.
- 150 Levene, 2007.
- 151 Worries about the private health insurance industry taking into account genetic diseases in the United States led to a Bill in Congress outlawing its possibility, and was passed nearly unanimously (95-0 in the Senate and 414-1 in the House of Representatives).
- 152 See Scholnick et al., 2007; also Finkelstein & Poterba, 2006.
- 153 Schreiner 2004, referencing his earlier research in Schreiner, 2000b.
- 154 This point is made differently by Finkelstein, who terms it a 'political economy' consideration; i.e. that political considerations militate against a straightforward application of market principles.
- 155 Schreiner, 2004, p. 64.
- 156 Aalbers, 2005.
- 157 Weekes-Bernard, 2007.
- 158 Ball et al., 2002. This study found that class differences were more apparent than minority ethnic similarities.
- 159 Claire Loussouarn and Rebecca Cassidy at Goldsmith's College are pursuing research in this area.
- 160 Yao et al., 2005.
- 161 For a long list of references see Yao et al., 2005, p. 52.
- 162 Darity, 1999.
- 163 Aizcorbe et al., 2003.
- 164 Keister, 2000.
- 165 Bertaut and Starr-McCluer, 2000.
- 166 Yao et al., 2005.
- 167 Nobles, 1978 and Sudarkasa, 1997.
- 168 Burlew et al., 1992.
- 169 Casa et al., 1994.
- 170 Ogden et al., 2004.
- 171 Categories used in the study: high risk includes substantial and above average Survey of Consumer Finance (SCF) financial risk tolerance; some risk includes the substantial, above average, and average SCF financial risk tolerance. Financial risk tolerance is defined as the willingness to take financial risk.
- 172 'White respondents are significantly more likely to be willing to take some risk (59%) than are Blacks (43%), who are significantly more likely to be willing to take some risk than Hispanics (36%). However, the pattern is reversed for willingness to take substantial risk, with only 4% of Whites but 5% of Blacks and 6% of Hispanics willing to take substantial risk'. Yao et al., 2005, p. 56. The effect of race and ethnicity on financial risk tolerance did not change over the survey years.
- 173 Reynolds, 2003.
- 174 See HM Treasury, 2001.
- 175 See the many publications at the Center for Social Development's website, and especially Sherraden, 2000.
- 176 <http://www.statistics.gov.uk/CCI/nugget.asp?ID=2&Pos=6&ColRank=1&Rank=160>
- 177 See the claims that the Conservative 'bounce' in October 2007 stemmed from their proposal to raise the inheritance tax during their annual Party Conference.
- 178 From an analysis of 2000 US census data by the Pew Hispanic Centre, see Goldenberg, 2004.
- 179 See Berry, 2006.
- 180 HM Treasury and DCLG, 2006.
- 181 DCLG, 2003-2008.
- 182 <http://www.communities.gov.uk/archived/publications/housing/housingstatistics3> for 2002-2007.
- 183 The Conservative view on housing was perhaps first advanced by Horace Cutler, the of the Greater London Council in the 1970s, who thought that local authorities shouldn't own housing. His 1970 publication *Rent – Chaos or Commonsense* is often cited in this context.
- 184 Thatcher, 1978.
- 185 ONS, 2005.
- 186 In 1998 JRF was already reporting these findings, and recommending no sale of council flats. It also found that 'the sector which remains has a narrower social base with a higher proportion of low-income household and those dependent on welfare benefits. It has become more strikingly a tenure of younger households and older people. The traditional role of council housing in housing families with children has become less evident' JRF, 1998, p. 3.
- 187 The election of 12 BNP councillors in Barking and Dagenham is often referenced in this context, but see also Barkham, 2008.
- 188 DCLG 2003-2008.
- 189 Data from [cml.org.uk](http://cml.org.uk)
- 190 ODPM, 2003; HM Treasury and DCLG, 2006.
- 191 See HM Treasury, 2001, HM Treasury, 2003. For a critical evaluation, see Maxwell & Sodha, 2005 and White et al., 2006. For the philosophical background, see note 192.
- 192 See the concern for 'Stakeblowing' in Dowding et al., 2003 in response to the Ackerman and Alstott, 1999 proposals. See also Van Parijs, 1997, Reeve & Williams, 2003 and White, 2003.
- 193 Reynolds, 2003.
- 194 DWP, 2008, p. 4.
- 195 Market failure: the term used when the market, left to itself, would lead to an inefficient outcome. Many then think that public action may be needed to correct such inefficiencies.
- 196 HM Treasury, 2004.
- 197 HM Treasury, 2001, p. 1.
- 198 Hewitt, 2002, p. 189. A recurring and related criticism is that Labour is 'deflecting attention from the goal of achieving greater redistribution and equality to the less tangible outcomes of greater 'social inclusion'. Hewitt, 2002, p. 191, also citing Levitas, 1998 and Lister, 1998.
- 199 Van Parijs, 1997. See also references in note 192.
- 200 Carbo et al., 2007.
- 201 Pollin and Riva suggest the following figures: Italy (22.4%), Greece (17.9%), Ireland (16.8%), Portugal (16.7%), Austria (13.5%) and UK (10.6%).
- 202 Pollin and Riva, 2001.
- 203 Carbo et al., 2007.
- 204 HM Treasury, 2004.
- 205 Pollin and Riva, 2001.
- 206 Bond & Townsend, 1996. The household section of the survey included 73% of the households in the sample, who were overwhelmingly (92.3%) Hispanic. In addition to households, approximately one-third of all businesses in the neighbourhood were interviewed. In total 327 interviews were completed in the household section and 204 in the business section of the survey.
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# About Runnymede

The Runnymede Trust is an independent policy research organization focusing on equality and justice through the promotion of a successful multi-ethnic society. Founded as a Charitable Educational Trust, Runnymede has a long track record in policy research, working in close collaboration with eminent thinkers and policy makers in the public, private and voluntary sectors. We believe that the way ahead lies in building effective partnerships, and we are continually developing these with the voluntary sector, the government, local authorities and companies in the UK and Europe. We stimulate debate and suggest forward-looking strategies in areas of public policy such as education, the criminal justice system, employment and citizenship.

Since 1968, the date of Runnymede's foundation, we have worked to establish and maintain a positive image of what it means to live affirmatively within a society that is both multi-ethnic and culturally diverse. Runnymede continues to speak with a thoughtful and independent public voice on these issues today.



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