

CAP Summary:

The exclusion of minority ethnic communities from financial services



CHURCH ACTION
ON POVERTY

জাতিগত সংখ্যালঘু সম্প্রদায়গুলোর
অর্থনৈতিক সেবাগুলোর বাইরে থাকা
نسلی اقلیتی لوگوں کی مالی خدمات سے محرومیت

Pakistani and Bangladeshi people are more likely to experience financial exclusion as well as poverty. The financial and emotional costs are considerable but difficult to quantify. This survey in Newcastle upon Tyne shows different coping strategies that people use in the face of considerable cost.

Main findings:

- ◆ A third of the people in our survey regularly find it difficult to pay for food, and young people find it very difficult.
- ◆ Many Pakistani and Bangladeshi people have difficulty paying bills like gas, electricity, water, and the telephone. Parents with caring responsibilities are particularly likely to have difficulty.
- ◆ When difficulty occurs paying regular expenses, people often seek to pay in instalments or borrow from family or friends.
- ◆ The third of our survey who do not have a current bank account are also likely to be excluded from other financial services. They are more likely to turn to informal sources such as friends and family when financial difficulty occurs. A significant factor is self-exclusion, partly based on previous rejection by financial service providers.
- ◆ A visit to their country of origin was the most common exceptional expense that the people we questioned had difficulty paying for.
- ◆ Debt is significantly affecting the health of individuals and their family relationships.
- ◆ Minority ethnic communities need greater help to maximise their incomes.
- ◆ People from Minority ethnic communities need more support and information to be able to make informed decisions about accessing financial services.
- ◆ Financial service providers should do more to overcome the many barriers faced by people from low-income minority ethnic communities.
- ◆ Credit unions need greater support to be able to actively serve minority ethnic communities.
- ◆ The minimum wage and benefits need to be based on people's need for an adequate income.

This document is available in English, Bengali and Urdu from www.church-poverty.org.uk/debt_&_credit.htm

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CHURCH ACTION
ON POVERTY

Church Action on Poverty, Central Buildings, Oldham Street, Manchester M1 1JT.

Tel: 0161 236 9321 Fax: 0161 237 5359 Email: info@church-poverty.org.uk

www.church-poverty.org.uk

Introduction

Debt and exclusion from financial services are part of modern life, so much so that participation in the culture of credit and debt is now for practical purposes, an index of participation in society. The burden of debt and the expense of exclusion weigh particularly heavily on people in poverty. In Britain, minority ethnic communities are more likely to be impoverished (Platt 2003). Analysis of the Family Resources Survey, Warren's (2001), indicates that 82% of Bangladeshi and 63% of Pakistani households are "income poor/asset poor", compared to 30% of white households. Some previous research exists (Mahtani 1992, Herbert 2001, Goodwin 1999) but we want to focus on the experience of Pakistani and Bangladeshi people in West Newcastle, and their perceptions of debt and financial services. We hope our findings will help inform decision makers and minority ethnic communities about the reality of financial exclusion.

About the research

As part of Church Action on Poverty's debt and financial exclusion project, we had three focus group sessions with different groups of Pakistani and Bangladeshi people in 2000, to complement our work in an urban community, in a rural community and with a group of young people. These were the ethnic communities who we knew had experienced poverty and to whom we had some access. The discussions were facilitated by local project workers, who also acted as translators. These discussions helped provide a focus for a meeting with some community workers who drew up a questionnaire. The questionnaire was piloted in 2000 and 176 surveys were completed, in appropriate languages, in 2001. The respondents mainly lived in the West of Newcastle and most were either Pakistani (61%) or Bangladeshi. They were very mixed in terms of age, gender, housing and employment. Not all of the questions worked at eliciting responses, and some questions did not have sufficient options available. Nevertheless, the results and the analysis of the surveys and focus groups here do give an indication of the extent of the problems of debt and financial exclusion.

Regular difficulties

About two thirds of the respondents to our survey consistently have difficulty with household bills. This is particularly acute for parents (77% have difficulty with fuel bills) and those living in rented accommodation (77%). Council Tax is also a worry for just over a half (56%). This is similar to the 41% of non-white households that Goodwin (1999) analysed as seriously behind with payment of bills (13% for white households).

Lower down the list of everyday goods and services people find difficulty paying for are toys and clothes for children, credit cards and jewellery.

Amongst this list is the result that 36% regularly find it difficult to pay for food. This might be because food shopping is a frequent reminder that you do not have enough money to afford food. For some reason this is particularly true of people without a bank account (52%) and those under 25 years of age (57%). These are disturbing indications of absolute poverty in a wealthy country.

Young people had fewer difficulties with household bills - only a third said they had difficulty. But they did say they had big problems finding money for clothes and phone bills – as one might expect of young people. It fits the assumption that students, in particular, identify clothes as the number one thing they have difficulty paying for. The second priority was food. Of the 18 students in our survey 72% indicated that they regularly have difficulty paying for food. Clearly the debt required to study is having an impact on what Bangladeshi and Pakistani students are eating.

The 35 unemployed people in our survey indicated that they had problems with many regular expenses. More than two-thirds had difficulty with paying for the following: Council Tax; electric; gas; water; phone; food; clothes. This points to significant material poverty, which is unsurprising given the inadequacies of Job Seekers Allowance. Unemployed people may also have had financial commitments from when they were employed, making them more indebted.

Overall, the reasons for borrowing do not differ greatly from white low-income households.

How people cope with regular money shortages

Recent academic research (ESRC 2002, NCC 2003) confirms that debt is inevitable for those experiencing poverty. It is obvious that if you don't have enough to meet your basic needs you will have to cope in some way and borrowing is very likely. Bangladeshi and Pakistani people are less likely to have the income available to cope with regular expenses. The analysis of the Family Resources Survey by Warren (2001) shows that 90% of Bangladeshi and 78% of Pakistani households are "income poor" (less than £260 per week), compared to 40% of white households.

Mainstream financial services – bank/building society loan, credit card or finance company – were hardly used at all by any of the people we surveyed. The most common management strategies for money shortages are to try to pay in instalments (48%), to borrow from family (54%) or to borrow from friends (43%). For Muslims this may well be from Bond Committees. The family was an especially popular credit source for young people (78%), those without bank accounts (64%) and women (64%).

This reliance on the social circle may reflect exclusion from financial services, either imposed or self-imposed. Part of this is informed by Islamic teaching, which forbids interest-bearing credit, considering it usurious.

Our focus group sessions show this to be caused by a mixture of exclusion by the financial service providers and self-exclusion of not wasting their time applying in the first place. Indeed a quarter of respondents said they had been refused a bank loan (and 40% of those unemployed in our survey), so this self-exclusion seems partly justified.

Those without a bank account were very likely (63%) to ask friends, as were women (64%) and young people (61%). Very few people we questioned used bank loans, credit cards, finance companies or door-to-door lenders – ie less than 20%. This proportion is lower than in the other groups in UK society. Our survey failed to include suggestions of coping by using the Social Fund or using credit unions, but in our focus groups these were used marginally.

Exceptional expenses

We have distinguished between regular and exceptional expenses because we expected the frequency and size of the expense to necessitate different coping strategies.

By far the most common exceptional expense was a visit to the country of origin. Just under two-thirds of those surveyed indicated that this was an expense that they would have difficulty paying for. Again, borrowing from family was the most common form of credit (58%), followed by borrowing from friends (46%). A quarter of those wanting to visit their home country said they would use bank loans. Only one in eleven of those without a current account said they would get a bank loan for exceptional expenses. Less than 1 in 5 said they sold gold jewellery and people only rarely (less than 1 in 10) used property or jewellery as a pledge to borrow money. Likewise common credit providers like door-to-door lenders or finance companies seem to be hardly used (less than 4%).

When we looked at the gender differences among those paying for exceptional expenses, we found that men and women had similar patterns. For young people and students, the main exceptional expense was buying a car. For young people the preferred option was almost exclusively to borrow from the family. (81%). The Bangladeshi people surveyed did not borrow from friends for exceptional expenses, but they are very likely (71%) to use unspecified, other ways of coping. Other exceptional expenses that just under a half of respondents had difficulty paying for were weddings, buying a house or buying a car.

Minority ethnic communities are less likely to

have the assets or income available to cope with regular expenses. Warren's (2001) analysis reveals that 91% of Bangladeshi and 77% of Pakistani households are "asset poor" (less than £55,000), compared to 59% of white households. Furthermore, 64% of non-white households have no savings (Goodwin 1999), compared to only 34% of white households.

The account-less

Bank accounts are important because they make a range of other financial services cheaper and more accessible, for example bank loans and cheaper fuel bills. Over a third (38%) of those surveyed did not have current account, compared with a fifth of UK population. Women were even less likely to have an account (4 in 10) and those who are unemployed even less (6 in 10). There may also be a generational difference – a half of the students and young people surveyed had accounts. Of course those without bank accounts are less likely to be able to access bank loans and are less likely to be confident in using formal financial services. The exclusion from financial services experienced by those without a bank account was also reflected in their having to use friends (63%) or family (67%) or to pay by instalments (42%) for exceptional expenses. About a quarter of all those questioned said they had been refused hire purchase or a bank loan. However, many will not have applied because they perceived that they would be refused. It is also difficult to distinguish people's justifiable expectation of credit refusal from unjustified suspicion. Goodwin's (1999) analysis shows that people from minority ethnic communities are three times more likely to be financially excluded than other parts of UK society.

Effects of debt

The impact of debt on the respondents to this survey is extraordinary. Two-thirds say it has led to them losing sleep. Similarly, a half said it led them to suffer depression. The extent of these statistics may not be wholly accurate, but they do give an indication of the deep impact debt has on people. The results are more sizeable than those of Church Action on Poverty's work with white rural, urban and young people. The effect on family life is reflected in the 47% who said that debt has led to family conflict/breakdown. A worrying side of debt is that it has forced more than a third of those surveyed into eating less. Whilst women, parents and the different ethnic groups had a similar experience, those without a current account were very likely to be effected by debt in several ways.

A quarter third of those surveyed said they had been threatened with court. This is not uncommonly high, but of more concern is that one in five people had actually experienced court orders or bailiffs. It is an indicator of poverty and social exclusion - lack

of money and support - that proceedings have gone this far. This is further reflected in the experience of the women and those with bank accounts who were even more likely to have been threatened.

What needs to change

1. Minority ethnic communities need greater help to maximise their incomes. The emotional, physical and mental health consequences of debt and financial exclusion are not just felt by people themselves but by their families, friends, communities and the state. It is therefore imperative that people receive help to maximise their income from benefits and other sources. Given the link between health and debt, it is wholly appropriate to place money and benefits advice in health clinics and surgeries.

2. People from minority ethnic communities need more support and information to be able to make informed decisions about accessing financial services. The Financial Services Authority provides some useful literature, for example on the availability of basic bank accounts, but they have very rarely been asked to provide it in Asian languages (which they are happy to do). There is an obvious need actively to provide more accessible information and advice for minority ethnic communities. The recent development of the website www.multikulti.org.uk is a step in the right direction.

3. Financial service providers should do more to overcome the many barriers faced by people from low-income minority ethnic communities. We agree with Goodwin (1999) that it "is difficult to avoid the conclusion that institutional racism among banks, insurance companies and the major utilities must be playing at least a part in the disproportionate levels of financial exclusion found among Black, Asian and other ethnic minority households".

4. Credit unions need greater support to be able actively serve minority ethnic communities. The people we worked with expressed a desire for greater access to affordable credit and credit unions as obvious providers of affordable and accessible loans and savings. This might be able to be compatible with traditional Islamic teaching.

5. The Minimum Wage and Benefits need to be based on people's need for an adequate income. Debt is inevitable for those on low incomes, but the associated emotional and financial costs are intolerable. The Government has never carried out a study of what people need to live on, and should conduct a scientific study to establish the level of income necessary to avoid poverty. This is especially important for ethnic minority communities who have less access to financial services and who significantly rely on other households to cope with financial difficulties.

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Acknowledgements

This report was written by Alan Thornton for Church Action on Poverty North East. This report would not have been possible without the contributions of Pat Devlin, Shubh Ghai, Shanaz Raman, Zakia Chowdhury, Jo Forster, and the financial support of the Northern Rock Foundation.

Further information about the research is available from Alan Thornton, tel 0191 261 1026, alant@church-poverty.org.uk

Church Action on Poverty works with church and community groups across the United Kingdom to make poverty a priority. Our work involves: educating churches about poverty in the UK; working with people in poverty to communicate to decision makers; working for policies to eradicate poverty in the UK; promoting reflection and action for social justice.

Church Action on Poverty, Central Buildings, Oldham Street, Manchester M1 1 JT.

Tel: 0161 236 9321 Fax: 0161 237 5359 Email: info@church-poverty.org.uk

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