Squeezed out or opting out?

Understanding ethnic differences in use of financial products and services

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SMF Social Market Foundation

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EXECUTIVE SUMMARY

Usage of financial products and services is generally high, but lower among ethnic minorities

- Previous research has found lower take up of financial products and services among ethnic minority groups:
  - While auto-enrolment has helped to improve pension participation among ethnic minorities, it remains below average.
  - Other savings products such as savings accounts and ISAs also see lower take up among ethnic minorities.
  - Accessing affordable credit is often harder for ethnic minority populations, with higher rates of loan refusal.
  - Insurance rates are lower among ethnic minority populations across a range of products.
- However, we know less about variation between ethnic minority groups, and why these differences occur.

We analysed existing datasets and conducted new research to better understand these ethnic differences

- To investigate the drivers of lower financial product take up, we have analysed data from the Financial Lives Survey.
- We also conducted a nationally-representative survey of 1,000 people with an added ethnic minority booster of 500 people.
- In addition, we interviewed 21 ethnic minority consumers, and 11 stakeholders from expert and representative groups.

Age and income are the largest drivers of the gap, but they cannot fully explain it

- Our primary research suggests that the gap in financial product usage between White and ethnic minority consumers is in many cases more modest than previous estimates:
  - We find little difference in investments and personal credit, though we do see lower savings and pensions.
  - We also find that this gap largely disappears after accounting for age and income: ethnic minority populations tend to be younger and poorer, both of which are associated with lower use of financial products.
- However, for certain products and certain ethnic groups the gap remains:
  - Ethnic minorities are less likely to hold certain insurance products – in particular, home insurance and contents insurance.
  - There also appears to be a substantial gap in pension savings.
  - Low-income Asians are especially likely to be unbanked.
- There is at least some evidence, then, to suggest that factors more directly related to ethnicity affect usage of financial products:

    - Ethnic minorities can end up paying area-based and poverty premiums when accessing insurance and credit products.
    - Language barriers and awareness and are believed to reduce engagement with financial products and services, though the extent of their impact is unclear.
    - Ethnic minorities' reasons for not using financial products tend to be somewhat different from the general population – more often a matter of choice and judgement than capacity to pay.
- We have found a number of factors which might account for these choices:
    - Lower self-perceived awareness, understanding of and confidence in financial products and services.
    - Some perceptions of discrimination or poorer service for minorities.

Three products warrant closer attention: current accounts, pensions and insurance

- While 89% of the general population in our survey had current accounts, a slightly lower portion of ethnic minorities did, at 85%.
    - Pakistani (23%) and Bangladeshi (29%) consumers are particularly likely to be unbanked.
- Only 25% of ethnic minorities had a private or workplace pension, compared to 38% of the general population.
    - Ethnic minorities are also less likely to have ISAs, though not savings accounts in general.
- Ethnic minorities are much less likely to have home, contents, and buildings insurance than the general population (37% and 28%, compared to 62% and 48%, respectively) and twice as likely to not have any insurance.

Are ethnic minorities being squeezed out, or are they opting out?

Ethnic minorities tend to have more diverse retirement plans, though there are some grounds for concern over whether they are over-confident and adequately informed

- Despite having lower savings and smaller pension pots, ethnic minorities are more confident in their retirement plans: 63% expect to have enough to live on, compared to 56% of the general population.
- To some extent, this may be explained by non-pension sources of retirement support: a significant proportion plan on using other savings, investing in property or retiring outside of the UK. However, there may be issues around awareness: ethnic minorities are more likely to believe that the state pension is adequate, and to say they do not know how to set up a personal pension.
- Ethnic minorities are slightly less likely to cite a lack of spare money as a reason for not saving: 35% say as much, compared to 43% of the general population.
- Ethnic minorities may prefer to invest rather than save: 9% stated that they were not interested in saving, and 12% said they were investing in property or business instead.

- Ethnic minorities may therefore face greater risks in old age, as the state pension and their savings may turn out to be insufficient for their needs, and plans to work for longer may be thwarted by health issues.

Lower insurance take up is not all about income

- While affordability plays a part, not having contents or buildings insurance is largely a matter of choice. Many feel it is not necessary, and that it does not provide good value for money. Many opt instead to "self-insure".
- Even among those who have insurance, it is often an supplementary product or that has been rolled in as part of a mortgage or accessed through work, rather than consciously purchased. Poor awareness and understanding of insurance may influence this.
- It is unclear how far this is of detriment to ethnic minority consumers, but it is at least plausible that they may be less financially resilient to shocks as a result of under-insurance.

Why ethnic minorities are less likely to have current accounts is unclear

- Access to current accounts is often necessary for full participation in society and the economy, for example to find work and be paid for it.
- Yet many of those without a current account simply do not want one.
  - Some of those who are unbanked used to have a current account, but no longer feel the need for one.
  - Ethnic minorities are more likely to delegate financial responsibility to another member of the household, and in doing so, are less likely to have a current account themselves.
- Low awareness of simpler products such as basic bank accounts may also be an obstacle to access to banking.

What comes next?

- Government and industry should invest in awareness building campaigns that improve trust in financial services.
- Government and industry should develop peer-led support hubs which are centred in ethnic minority communities and can provide an open and friendly environment to learn more about financial products and services.
- The threshold for auto-enrolment should be lowered to £0, with employer contributions starting from the first pound earned and employee contributions starting from the threshold at which national insurance is paid.
- Targeted support should be offered to new migrants to help integrate them more quickly into the financial system.
- Data collection should be improved to help us develop a clearer picture of ethnic minorities use of financial services and the barriers to accessing them.

CHAPTER ONE – INTRODUCTION

Access to financial products and services has been the subject of policy concern since the 1990s.[1] In the subsequent years, governments have developed policies which have succeeded in widening access to financial products, such as pensions auto-enrolment, and an entitlement to free banking. While effective, these policies have not benefitted all groups equally. Previous research has identified noticeable gaps in take up of financial products between ethnic minorities and White people, and that while these gaps seem to be narrowing, they continue to persist.

The COVID-19 pandemic emphasised the importance of this policy agenda. As regular incomes were disrupted, there was a surge in demand for credit as more households were pushed into financial precarity. The pandemic also highlighted how ethnic minority groups have different experiences of, and approaches to, financial services.[2] Throughout the pandemic ethnic minority consumers have been more likely to cash in investments, and more likely to have dipped into their savings to cover day-to-day expenses.[3] Differences in attitudes towards financial products could help to explain some of the gap in take up, but there is considerably less research which addresses such attitudinal and behavioural issues, particularly from a consumer perspective.

Understanding *why* there are such differences in product take up is crucial for developing policies which are responsive to consumer needs and concerns. In this report, we aim not only to understand the scale of the difference, but also to provide robust evidence on what drives these differences, as well as making suggestions to government and industry for improving the financial inclusion and resilience of ethnic minority consumers.

Methods

To understand the scale and drivers of ethnic differences in the take up of different financial products and services, we combined a literature review with collection and analysis of primary and secondary data. In terms of existing datasets, we utilised the Financial Conduct Authority's Financial Lives Survey (FLS), the Wealth and Assets Survey, and Understanding Society. Together, this gave us a good understanding of the scale of take up of financial products and services across the UK. To explore *why* some groups had lower take up across some products and services, we simultaneously conducted a nationally representative online survey of 1,000 people, distributed via the polling company Opinium, investigating product take up, service use, and perceptions of financial products and services. We added a 500 person booster sample, exclusively of ethnic minority respondents, in order to improve the robustness of our findings, so the total sample of the survey was 1,500. The survey was in the field in July 2022.

The ethnicity breakdown of the booster survey included 65% Asian respondents, 28% Black respondents, 13% respondents of a mixed ethnicity, and 2% respondents of an Arab or any Other ethnicity. Nearly half (49%) of respondents were aged 18-35 and 39% were based in London. 23% of respondents had a household income of under £20,000, while 30% had a household income between £20,001 and £40,000. All our survey results have been appropriately weighted to ensure they are nationally representative. Owing to the very small sample of Arab and Other respondents in our sample, we have decided to not report numbers for those groups in the report.

To build a deeper and richer picture of ethnic minorities, we conducted 21 in-depth online qualitative interviews with ethnic minority consumers. Of these, 11 were participants in the online survey, who had volunteered to be followed up and interviewed. The remaining 10 were recruited through Indiefield, a qualitative research agency that specialises in sourcing research participants. Based on our three key areas of interest, we specifically targeted participants without one or more of the following: a current account, a savings account, a private or workplace pensions or key insurance products. We also sought to have a mix of ethnicities, and the final sample included 11 people of Asian ethnicity, 7 people of Black ethnicity, 2 people of a mixed ethnicity and 1 person of an Arab or Other ethnicity. We also spoke to a number of stakeholders working across the financial services industry, including academics, policy researchers, charities, regulators, and trade bodies to a get a broader understanding of historical product take up and the policy landscape.

We note that our own data does not always match the data of the Financial Lives Survey and can show different levels of penetration of financial products and services, both for the general population and for ethnic minority groups. To some extent this shows the natural variation of different studies conducted under different circumstances with different samples. There are also differences in question wording which could have influenced the results. For example, where the Financial Lives Survey detailed several options in each product category (i.e. savings account with a bank, building society or NS&I, Credit Union Savings Account, e-money alternative account), we asked about the products more generally (i.e. savings account). This may have caused survey participants to respond to our survey questions differently.

As a result, we have tended to focus our attention on the most robust findings that are broadly consistent across both our primary research and the existing literature – for example, that ethnic minorities are more likely to be unbanked, or that they are less likely to have a pension.

Outline of the report

The remainder of the report is structured as follows:

- **Chapter Two – The state of play** explores where existing literature has found the biggest gaps in product take up, and outlines existing theories to explain the gap.
- **Chapter Three – Squeezed out or opting out?** summarises the findings of our primary research into ethnic differences in use of financial products and services, identifying three main areas of concern – banking, pensions and savings, and insurance.
- **Chapter Four – Pensions and savings** seeks to understand why ethnic minorities are more likely to lack pensions and savings.
- **Chapter Five – Insurance** does the same for insurance.
- **Chapter Six – Banking** does the same for current accounts.
- **Chapter Seven – What comes next?** concludes by suggesting some steps that policy makers and the financial services industry can take to improve take up and understanding of available financial products and services.

CHAPTER TWO – THE STATE OF PLAY

There is substantial research that has been done on financial product take up in the UK, and as a result we have a good understanding of the penetration of different products, as well as of gaps in coverage. A subset of studies focuses specifically on ethnic minority groups. Though the picture is mixed, this literature finds consistently lower usage of savings products, loans, and insurance among ethnic minorities. However, previous research tends to be more speculative regarding the causes of this discrepancy between ethnic minorities and White consumers.

Ethnic minorities are less likely to use a range of financial products

The most prominent dataset on financial product holdings in the UK is the Financial Lives Survey, carried out by the Financial Conduct Authority (FCA), which is our main source of evidence on financial inclusion of ethnic minorities. It shows that while the vast majority of people have a current account, ethnic minorities are disproportionately likely to be without one: in the survey, 4% of the ethnic minority population remains unbanked, compared to 2% of the White population.[4]

This is a major source of financial exclusion. In many cases, current accounts are a prerequisite to finding work and receiving wages or paying bills. Moreover, they are often a gateway for accessing more advanced financial products and useful for managing day-to-day finances.[5] The scale of the unbanked population has declined following initiatives such as basic bank accounts, created in the early 2000s, but over one million UK adults remain unbanked.[6]

The Financial Lives Survey, as well as the Office for National Statistics' (ONS) Wealth and Assets Survey, shows that private pension participation among ethnic minority groups is also lower than among the White British population.[7] Moreover, there is a substantial gap in the value of the pension pots themselves. The People's Pension has found that overall disparity is a little over 24%, with the average ethnic minority pensioner retiring on a pension pot that is an estimated £3,350 smaller. The extent of the difference varies between ethnic groups. Compared to White groups, consumers who are categorised as "other ethnic group" actually earn 6% more from their pensions. All other minority ethnicities, however, fare worse than their White counterparts. Asians experience a pension gap of 30%, closely followed by Black people at 27%, Mixed ethnicity groups have a much lower gap at almost 13%. The pensions gap is even greater when we account for gender. When the pots of ethnic minority women are compared to those of White men, the pension gap rises to 51%.[8]

Take up of other formal savings and investment products also appears to be lower in ethnic minority populations, although this is changing. Research by the Runnymede Trust in the early 2000s found that 33% of White consumers and 60% of ethnic minority consumers did not have *any* savings.[9] The 2020 Financial Lives Survey, by contrast, found that 67% of ethnic minority consumers report having at least one savings product[i] compared to 79% of White consumers.[10] Overall, ownership of investment products is lower in ethnic minority groups, with 27% owning an investment product compared to 35% of White consumers. However, there may be a generational shift in progress: 23% of ethnic minority consumers aged 18-34 own an investment product, compared to 17% of the White population of the same age.[11]

Insurance is often regarded as a cornerstone of financial resilience, but Fair by Design has found that ethnic minority consumers are considerably less likely to have insurance or protection products.[12] Where 90% of White population will have at least one insurance product, only 77% of the ethnic minority population do.[13] When this is broken down by individual insurance products, the differences vary widely. Home contents insurance has drastically lower take up among ethnic minority consumers (39% compared to 71%), whereas phone insurance was much similar take up rate (16% vs 17%).[14]

The FCA has also found that ethnic minorities are also less likely have regulated credit, including credit cards.[15] It is more difficult for ethnic minority consumers to secure consumer credit on both a personal and business level, with some ethnic minorities groups being four times more likely to be rejected for a loan.[16] Ethnic minority households are also less likely to be approved for a mortgage, even compared to White households with similar characteristics.[17]

There are a number of reasons why ethnic minorities may be less likely to use financial products and services: primarily age and income

There are a number of plausible explanations as to what drives these ethnic differences in the penetration of financial products and services. The two leading candidates are age and income: ethnic minorities tend to be younger and poorer than the general population. 46% of ethnic minority consumers are under 35, compared to 27% of White people.[18] 54% of Asian households and 57% of Black households earn under £20,500 a year, compared to 38% of the White population.[19] Indeed, some analyses (including our own below) suggest that these factors are better predictors of the use of financial products and services than ethnicity itself.[20]

However, there are other reasons why financial products and services may be less accessible to ethnic minorities: in particular, language, cultural difference, and financial awareness. Moreover, in some cases we may see ‘self-exclusion’: minorities may be more likely to make an active choice not to engage with financial products or services.

[i] Respondents were prompted with the following savings products: savings account with a bank, building society or NS&I, Cash ISA, Help to buy ISA, Lifetime ISA, Credit Union Savings Account, Premium bonds, NS&I bonds, and e-money alternative accounts.

Pensions

As well as having lower incomes, ethnic minorities are more likely to live in urban areas with a higher cost of living, reducing the disposable income they can set aside to save for retirement.[21] The Pensions Policy Institute shows that ethnic minorities are have benefitted less from auto-enrolment, which has been very effective at driving up pension coverage in the general population.[22] Greater prevalence of part-time and insecure work means ethnic minorities often do not trigger the auto-enrolment earnings threshold for a workplace pension scheme.[23] Younger populations also may be more likely work part-time and earn less, and only those over 22 are eligible for auto-enrolment.[24] Where they are eligible, ethnic minorities are no less likely than White employees to invest into an employer pension.[25] There is also a higher rate of self-employment among ethnic minority groups, and self-employed people are not covered by auto-enrolment, and often choose to invest in their own business in preference to in a pension.[26] Some have argued that some ethnic minorities have a cultural preference to invest in property rather than pensions, seeing the former as a more secure bet.[27] It has also been suggested that ethnic minorities are more likely to 'invest' in their children, for example spending money on their education and development, in the hope or expectation that they will be able to rely on family to support them throughout their retirement.[28]

Savings

The story with savings is similar. Lower incomes, combined with high living costs, may make it harder for ethnic minorities to save, especially among younger generations.[29] The Personal Finance Research Centre has found that that saving is not always done through formal savings accounts but through current accounts, in cash, or through alternative community savings schemes such as Pardners or Komittees, which may not be reflected in official statistics.[30] Some of these have historically been set up by migrant populations in order to emulate the financial system they have migrated from or were established due to historical financial exclusion when migrants first arrived in the UK.[31] Second generation migrants tend to be more integrated with mainstream financial services, and as such less likely to use such alternative savings schemes.[32] Another factor in low savings rates may be religious restrictions on benefitting from interest-bearing products, primarily among Muslims.[33]

Insurance

According to the FCA, across the population households with higher incomes are more likely to have insurance products.[34] However, it is not just a matter of income, but cost. In research commissioned by the Association of British Insurers, affordability is one of the most significant barriers to people taking out insurance, where budgets cannot stretch enough to cover the price of insurance.[35] Insurance has been shown to be subject to area-based premiums, which can disproportionately affect ethnic minority groups.[36] Those on lower incomes may also be subject to a 'poverty premium', where they cannot afford what may be a lower overall upfront cost, and instead pay in more expensive monthly increments.[37]

Credit

Research by Fair by Design finds that the poverty premium faced by ethnic minorities may also extend to credit products.[38] This means ethnic minorities may be more likely to turn to subprime or unregulated credit. NatWest has found that ethnic minorities have higher levels of discouragement when it comes to applying for loans: past rejections and expectations of rejection are higher among ethnic minority populations.[39] Another barrier ethnic minorities may face is their credit score: sometimes because it is too low, but also because they lack sufficient credit history, a particular issue for recent migrants and younger people. As with savings, it is also possible that ethnic minorities may borrow through more informal channels: through the loan clubs mentioned previously, as well as through friends and family.[40]

Awareness and financial literacy

In order to use a financial product, a person needs to be aware of it. Awareness of basic bank accounts is low: 52% of those who are unbanked are unaware that the largest banks offer a basic bank account.[41] It has also been suggested by the Financial Inclusion Task Force that unbanked people are not made sufficiently aware of basic bank accounts, as they are not profitable, and there is a limit to the additional financial products can be offered alongside them.[42]

Previous research has shown that awareness of employer pensions is lower among some ethnic minority groups.[43] In general, people do not have a good understanding of changes to the state pension age, but this problem is more acute among ethnic minority groups.[44] Poor awareness of financial products and services extends into financial advice and guidance. OpenMoney found that approximately 15.4 million people in the UK are not aware of where they can go to get advice, others are not aware that free services exist, and that these issues have gotten worse since 2015.[45] Unfortunately this data is not broken down by ethnicity, so it is hard to tell whether ethnic minorities are disproportionately affected by the advice gap. Use of financial advice and guidance can help in building financial literacy. Poor financial literacy and capability is a problem for the whole country ,[46] but it is particularly acute among ethnic minority communities. Research by the Financial Times found 35% of ethnic minority respondents are classed as financially illiterate, compared to 16% of White respondents.[47]

Language

It has been suggested that language may influence product take up in ethnic minority groups. While 90% of the UK's population record English as their main language, those that do not are overwhelmingly ethnic minorities.[48] Even among those that speak reasonably good English, those with stronger accents or non-standard dialects may find it harder to communicate with financial service providers and to be understood.[49] Providing banking documents in a variety of locally spoken languages and employing bank staff who speak these languages can go some way to helping access to initial banking products. However, this does not resolve the language issue across other financial areas.[50]

COVID-19 pandemic

The pandemic has disproportionately affected the financial circumstances of ethnic minority groups. While employment levels between ethnic minorities and the White population were roughly the same at the start of the pandemic, ethnic minority workers made up a higher share of workers in heavily hit sectors, were more likely to experience job loss, and less likely to experience furlough.[51] Earnings of ethnic minority workers fell by 14%, compared to the 5% drop experienced by White counterparts.[52] We might expect this to affect uptake of financial products and services, though there has been little robust evidence yet on this question. For example, ethnic minority groups were more likely to have used their savings to cover expenses than White counterparts and 23% of ethnic minorities cashed in investments.[53] More recently the cost of living crisis and its effects on personal and household finances could also be affecting decisions to drop or take up products and services.

One thing that stands out across the literature is the tendency to speak of and treat the ethnic minority population as a homogeneous unit. As the ethnic minority population of the UK is relatively small, gathering robust data on particular ethnic sub-populations can be tricky. Even in this research, we have often had to take ethnic minorities all together. That offers some insights, but it should not blind us to the fact that different groups may have quite different experiences and require different interventions, as indeed our more disaggregated analyses seem to suggest.

What does this mean?

It is apparent from the literature that there is a notable gap in take up of financial products and services between ethnic minority groups and the wider population. While age and income are clearly important factors, what is less clear is what other drivers may be and how significant a role they play in influencing product take up. Past research indicates that these could be language, product awareness, and cultural proclivities. As well as testing these theories, the report seeks to answer four questions:

1. Which products and services see the largest gap when it comes to ethnic minority take up?
2. What drives the gap, and how does this vary between ethnic groups?
3. To what extent are ethnic minorities worse off for being less likely to use financial products and services?
4. What can industry and policymakers do to address the ethnicity gap?

CHAPTER THREE – SQUEEZED OUT OR OPTING OUT?

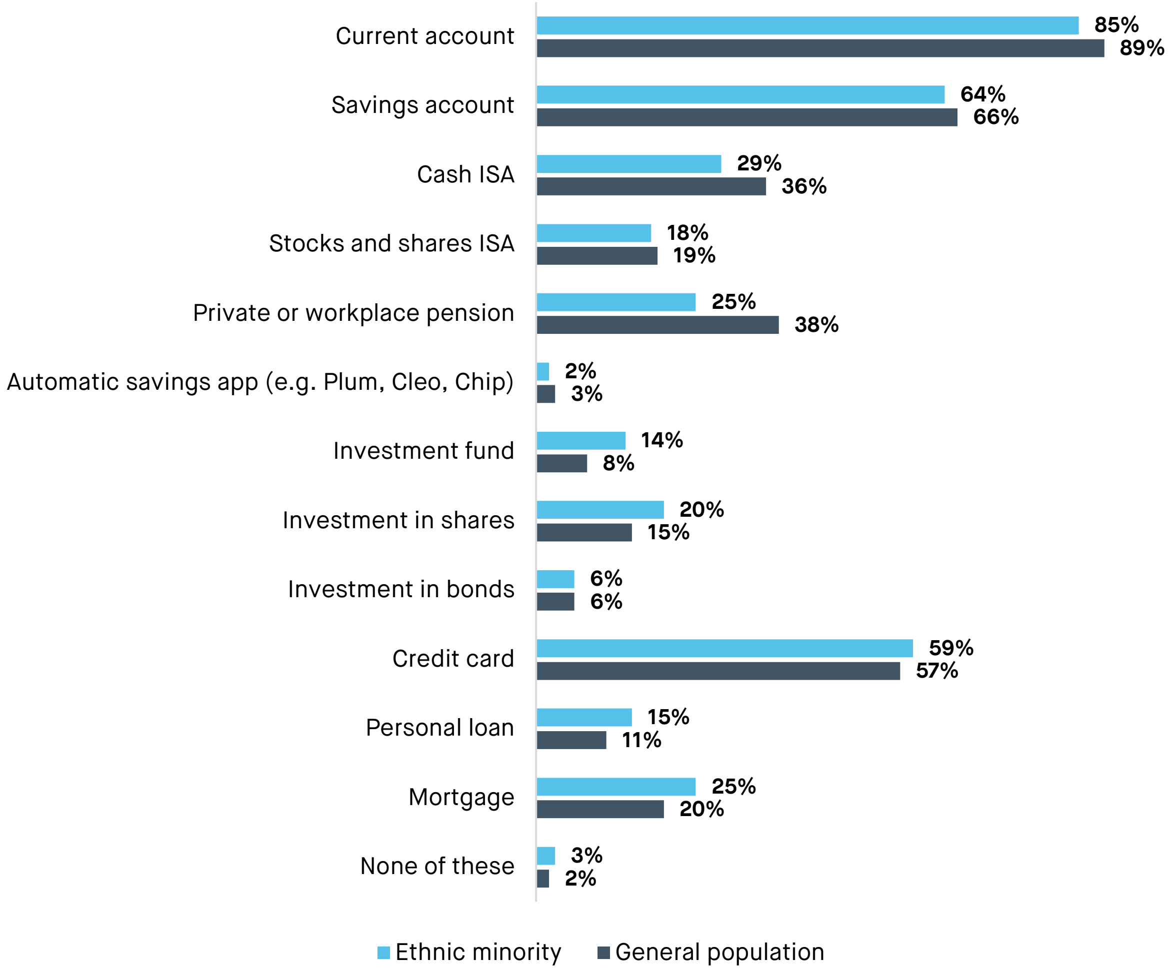
Our research finds more modest differences in financial product uptake, though penetration still appears to be lower among ethnic minorities

Whereas the literature paints a fairly consistent picture of lower penetration of financial products and services among ethnic minorities, the story in our data analysis is somewhat more mixed. Figure 1 compares the proportion of ethnic minorities in our survey that hold particular financial products with their prevalence in the general population. It shows that for many products, the gap is fairly modest. For example, ethnic minorities are close to the national average in terms of their likelihood of holding savings accounts (though not cash ISAs). In our survey, they were in fact more likely to hold a range of credit products, including credit cards, personal loans, and mortgages. They were also more likely to hold investments.

It is unclear exactly why our findings do not match up with the literature. It may be due to differences in the particular sample, though we have endeavoured to use a nationally representative sample in our analysis.

There are two areas, however, where we do find the expected discrepancy, with quite large or significant differences. First, we find ethnic minorities are less likely to hold current accounts: 15% of ethnic minority respondents said they do not have a current account, compared to 11% across the general population. This is notably higher than the proportion of people who are unbanked in the Financial Lives Survey, which is 4% and 2%, respectively. Again, it is not entirely clear what drives this difference. One possibility is that our survey is picking up people who do not personally have a current account, but who may have access to one through a partner or relative, or may use other forms of bank accounts. The other striking discrepancy is in pension participation. We find that 25% of ethnic minority respondents have a private or workplace pension, compared to 38% of the general population.

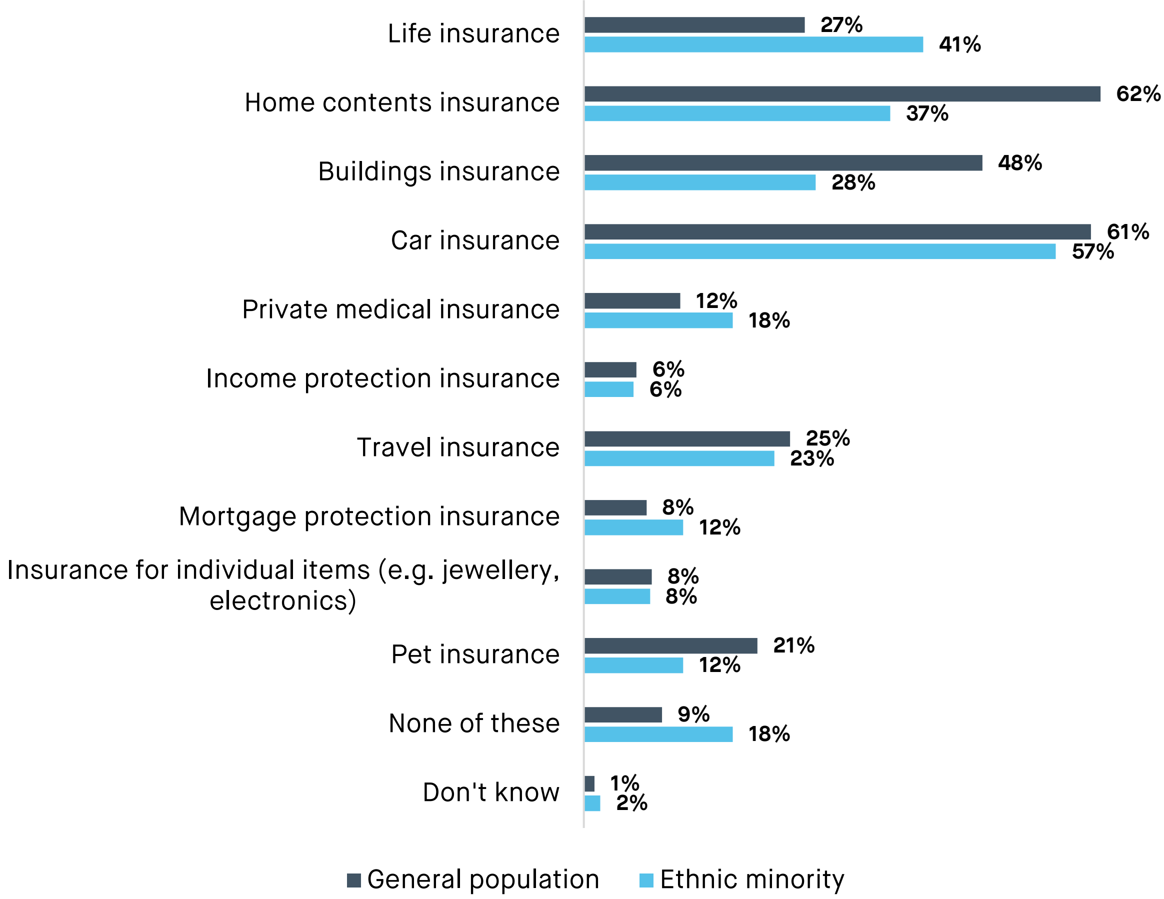
Figure 1: Financial products held



Source: SMF Opinium Survey July 2022

As Figure 2 shows, ethnic minorities are also less likely to hold a range of insurance products in the survey. The gap is greatest for home contents insurance: 37% of ethnic minority respondents said they had it, compared to 62% overall. Ethnic minorities are also a lot less likely to have buildings insurance, held by 28% of ethnic minority participants and 48% of the general population. Moreover, ethnic minorities were twice as likely to say they have no insurance products, with 18% uninsured compared to 9% in the rest of the survey. At the same time, minorities were more likely to report using life insurance, and similarly likely to say they have car insurance or travel insurance.

Figure 2: Insurance products held



Source: SMF Opinium Survey July 2022

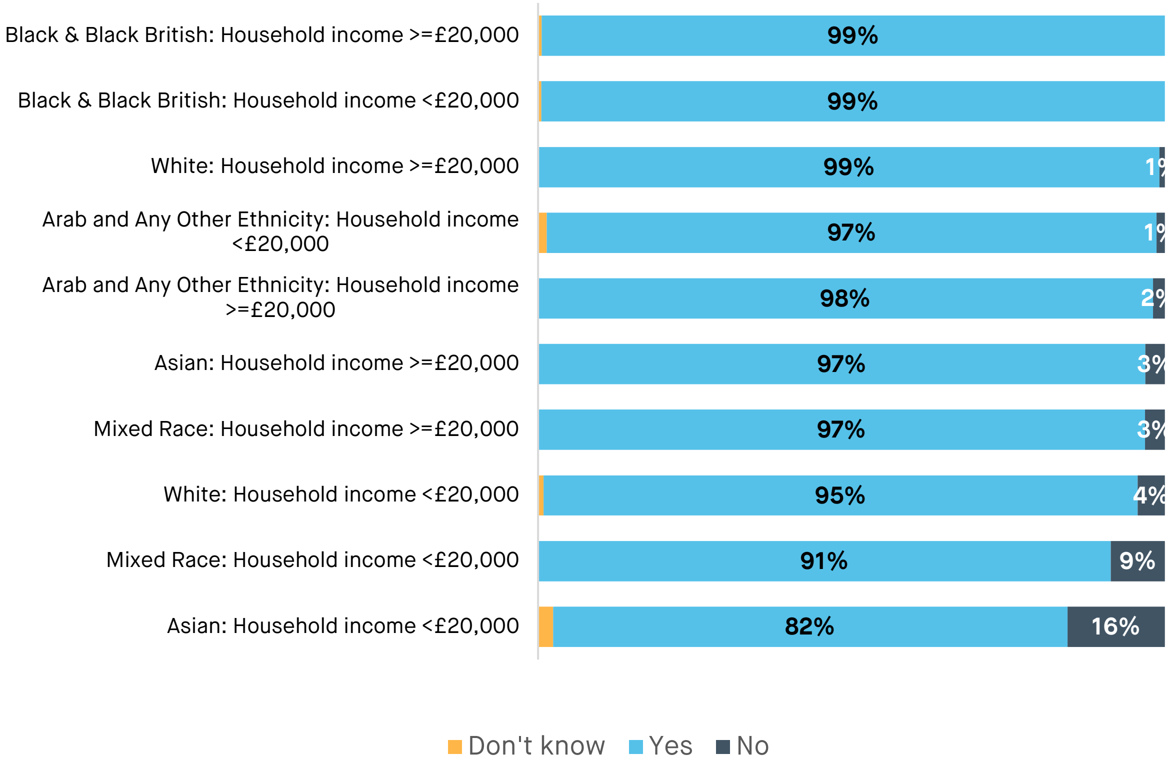
Age and income are the largest drivers of the gap in financial product uptake, but they cannot fully explain it

As detailed in the literature review, many of these differences between ethnic groups can be attributed to age and income. Poorer households are likely to find financial products and services less affordable. Younger people (as well as having less wealth), may find them less relevant to their life stage – for example, because they do not yet own their homes or are not yet making plans for retirement. As ethnic minorities are, on average, younger and poorer, we may expect them to have lower usage of financial products and service for reasons that have nothing to do with their ethnicity. In this section, therefore, we explore how far age and income can explain the ethnic gap in take up, taking each of the three areas where we have found a clear gap in turn: banking, pensions and savings, and then insurance.

Banking

To try and disaggregate the impact of income from ethnicity on a person's access to banking, we analysed the Financial Lives Survey. Figure 3 shows a mixed picture. In general, poorer individuals are less likely to have access to a current account. White people with a household income under £20,000 are more likely to be unbanked than most of ethnic minority groups. Conversely, some ethnic minorities, particularly Black people, are less likely to be unbanked than the general population. However, two groups have particularly high rates of unbanked. 16% of poor Asian people in the FLS do not have a bank account, and 9% of poor people of a mixed ethnicity are unbanked.

Figure 3: Whether individual has joint or personal current account



Source: SMF Analysis of Financial Lives Survey 2021

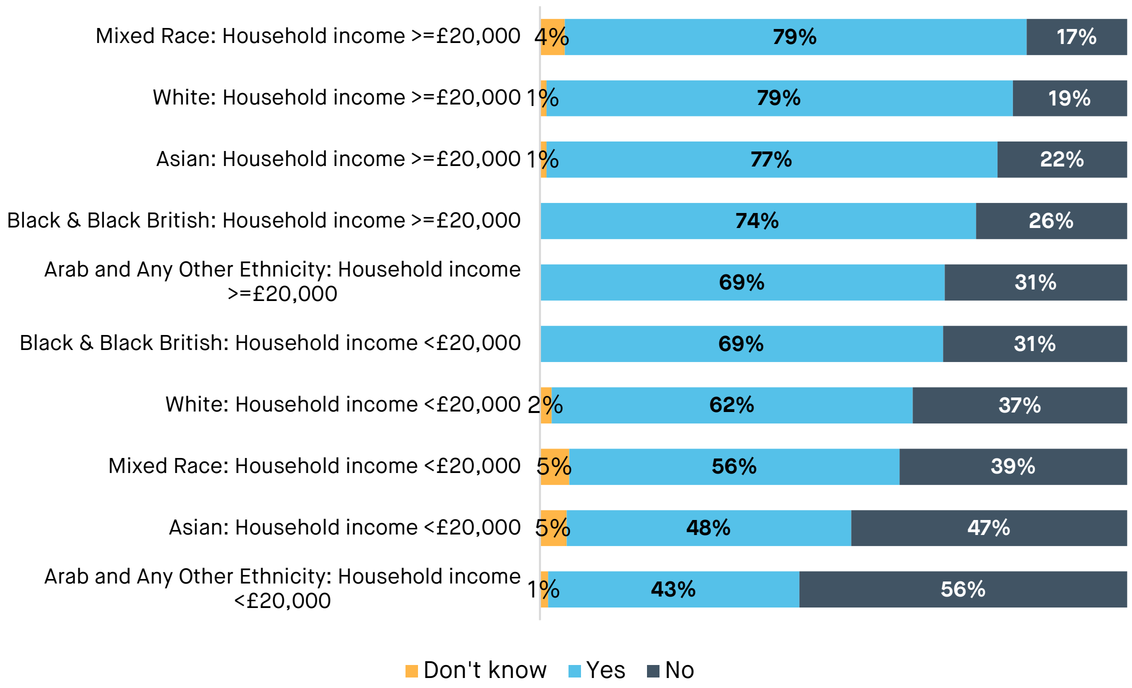
We carried out a logistic regression to see if ethnicity has any impact on the odds of having a current account, even controlling for age and income. We found, as expected, that poorer and younger people are less likely to have a current account. But the analysis confirms that Asians are more likely to be unbanked than other people of the same age and income. We found no significant relationship with other ethnicities.

Pensions and savings

Our survey found only a relatively small difference between ethnic minorities and the rest of the population in terms of their likelihood of having a savings account. The Financial Lives Survey finds a bigger overall gap, though, again, it is mediated by income and age, and varies between different ethnic minorities. Figure 4 shows the proportion of people in each ethnic and income group that holds a savings account. Again, low income Asians (along with the 'Arab and other' ethnic group) are least likely to have one. Around half of Asians with a household income under £20,000 do not have a savings account. Conversely, Black people more likely to have a savings account than others of a comparable level of income.

However, logistic regression, controlling for income sex and age, finds no significant effect of ethnicity on the probability of a person having a savings account or an ISA. That implies that any ethnic gap is fully accounted for by these other factors.

Figure 4: Whether individual has a savings account

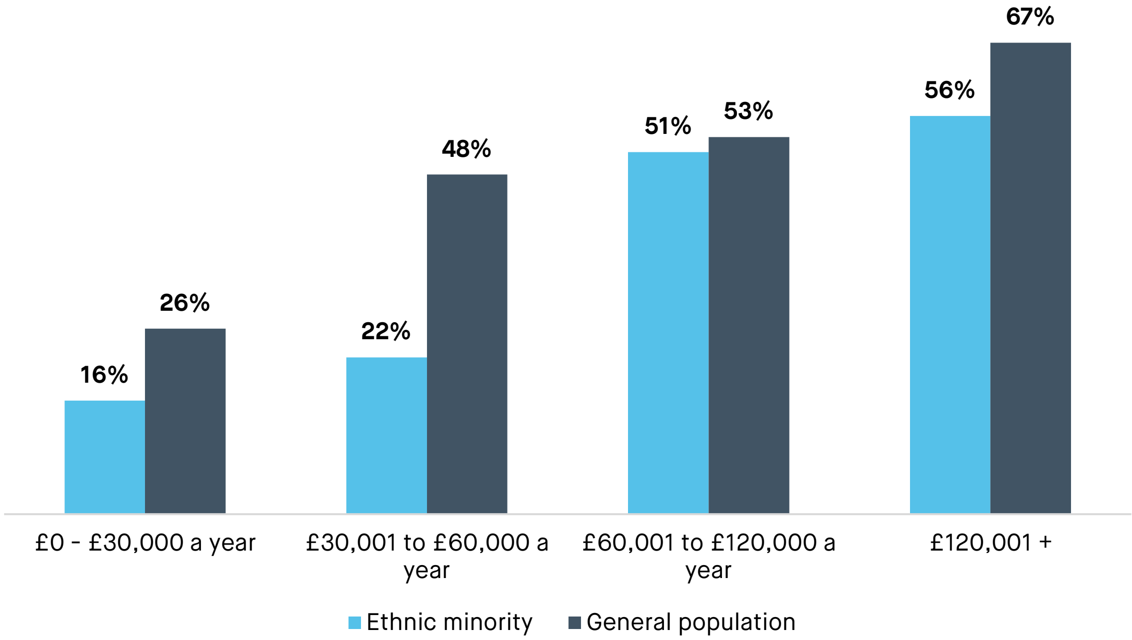


Source: SMF Analysis of Financial Lives Survey 2021

Our own survey shows the effect of household income on savings accounts. 52% of ethnic minorities in households earning under £30,000 had a savings account, compared to 71% for households earning £30-60,000 and 84% for those earning £60-120,000. Penetration of cash and stocks and shares ISAs also rises with income.

We see a similar pattern with pension participation. 16% of ethnic minority consumers whose household earned under £30,000 a year contribute to a pension, compared to 52% of those whose households earned £60,00-120,000 a year. This positive correlation between income and savings/pensions is consistent across general population as well, although the jump in savings accounts is greater for ethnic minorities.

Figure 5: private pension ownership by income band

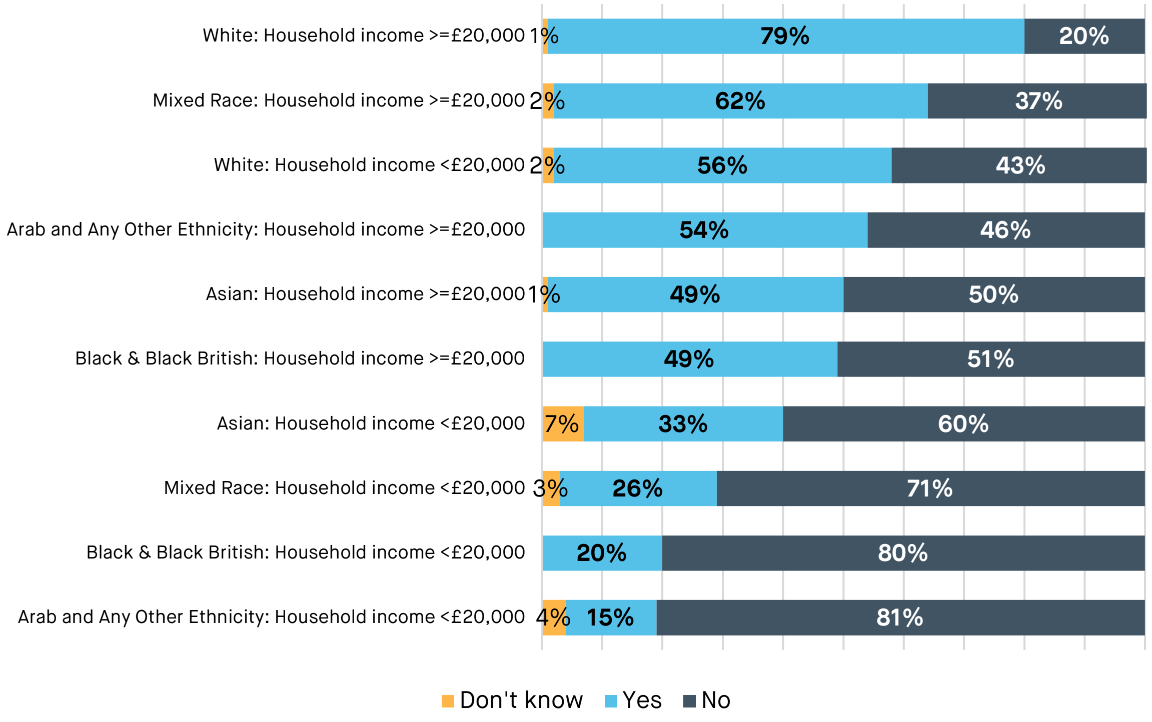


Source: SMF Analysis of Financial Lives Survey 2021

Insurance

In line with our survey, the Financial Lives Survey finds that ethnic minorities are less likely to have certain insurance products – in particular, home and contents insurance. In this case, ethnicity appears to have a stronger effect than income. Poorer White people however are still more likely to have home contents insurance than most richer ethnic minority households, as Figure 6 shows.

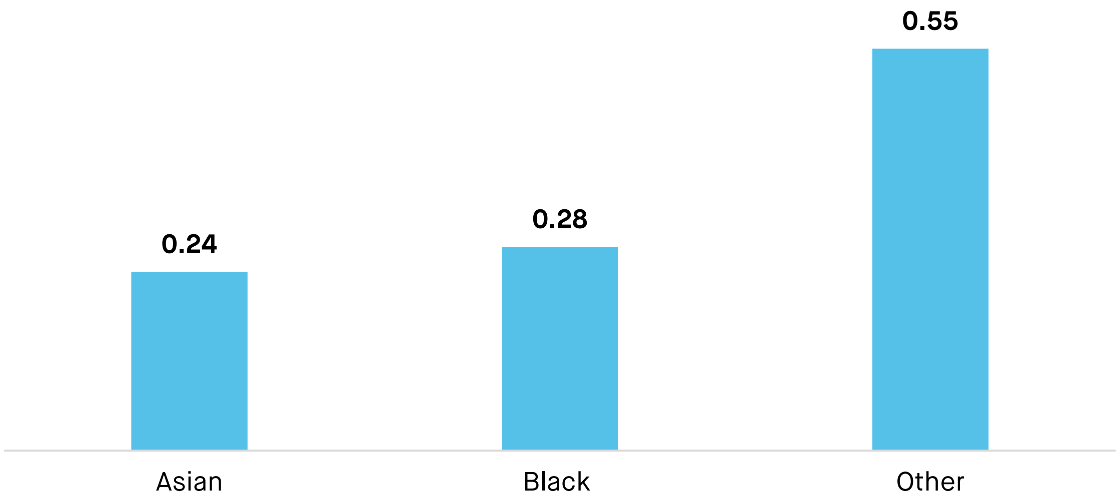
Figure 6: Whether individual has home contents insurance



Source: SMF Analysis of Financial Lives Survey 2021

The difference in take up persists when controlling for income, age, and housing tenure. Figure 7 charts the results of a logistic regression. It shows that Asian and Black survey respondents are considerably less likely to be insured than White people of comparable background and life circumstances.

Figure 7: Odds ratio for having home contents insurance, relative to reference group (White males, aged over 40, with household income above £20,000), controlling for income, age, sex and housing tenure. Odds ratio below one implies less like to be insured than reference group



Source: SMF Analysis of Financial Lives Survey 2021

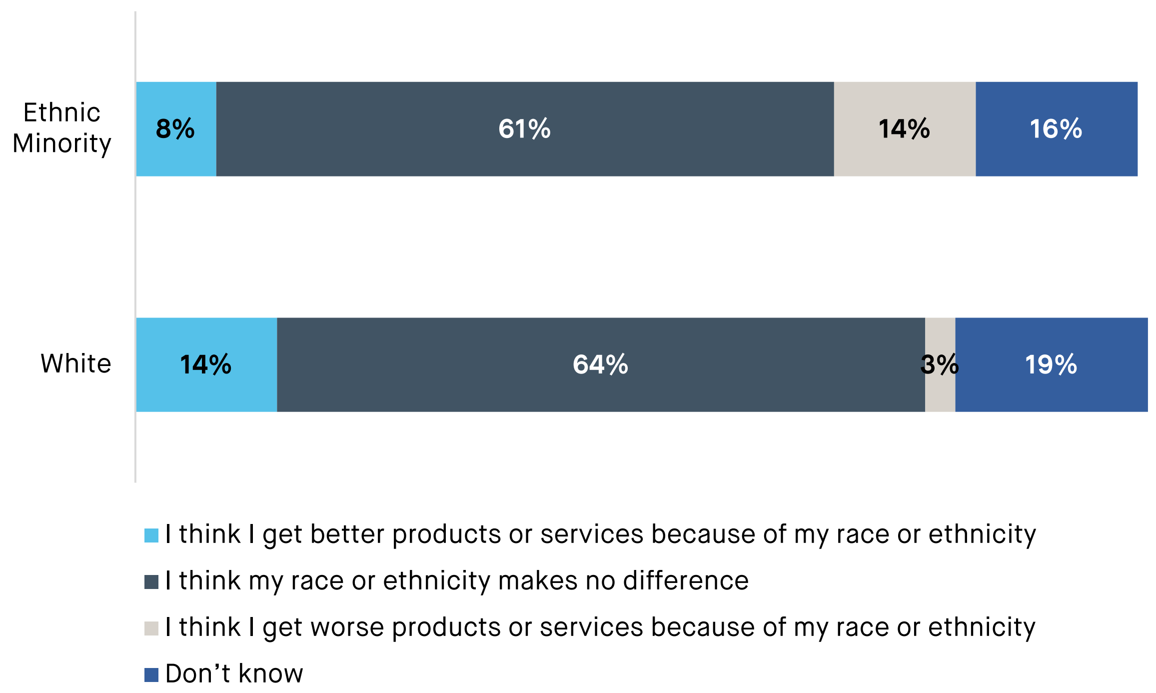
Awareness, understanding, discrimination, language and accessibility could all contribute to lower uptake among ethnic minorities

Put together, these findings suggest that levels of uptake are comparable between ethnic minorities and White consumers for a range of products. However, ethnic minorities are less likely to use certain key products: current accounts, some savings products, pensions and insurance. We have seen that this is largely – but not entirely – a function of age and income. Once we account for the fact that ethnic minorities are younger and poorer, the difference in uptake of savings products, for example, disappears. Yet age and income are not sufficient to explain the ethnicity gap. In particular, even richer ethnic minorities are less likely to use home insurance. Low income Asians are particularly likely to be unbanked.

What other factors, then, might account for the lower penetration of these financial products and services among ethnic minorities? We considered some possible explanations in the previous chapter: financial awareness and literacy, language barriers, area-based premiums. We will look at these three factors, as well as the distinctive motivations and approaches ethnic minorities take to banking, saving, retirement and insurance, in the three chapters that follow.

Here, though, we consider another more general possibility: that ethnic minorities are more likely to experience perceived discrimination or less effective service. In our survey we asked respondents about any financial advice they had received and how reliable they thought it was. We found a small but significant proportion of ethnic minority respondents – 14% - who believe they receive worse financial products or services because of their ethnicity (Figure 8).

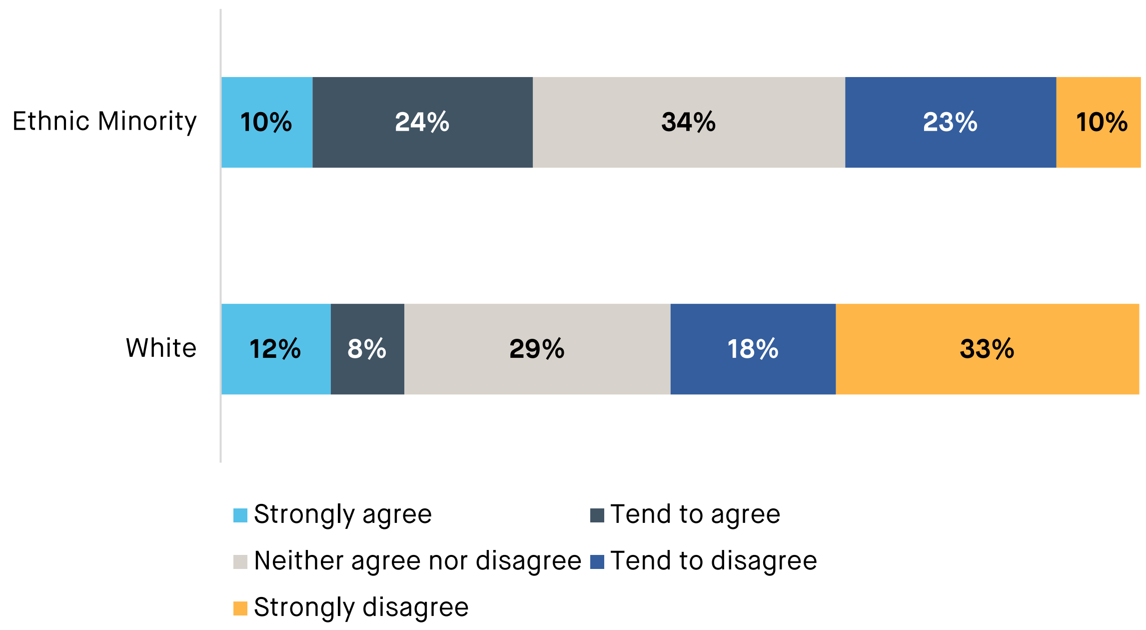
Figure 8: Perceptions of financial products and services



Source: SMF Opinium Survey July 2022

Ethnic minority survey participants were even more negative about the quality of the experience of getting financial products and services. Figure 9 shows that one in three ethnic minority consumers believe they have received worse customer service because of their ethnicity. Putting Figure 8 and Figure 9 together we see that the process of getting financial products can be negative for a substantial proportion of ethnic minorities, and that in some - though not most – cases this is perceived to lead to worse outcomes. This may, therefore, offer part of the explanation as to why minorities are less engaged with financial products and services.

Figure 9: "I have received poorer customer service for financial products or services because of my ethnicity"



Source: SMF Opinium Survey July 2022

In the chapters that follow, we investigate some of the other possible reasons. We take in turn banking, pensions and savings, and insurance, to see why ethnic minorities are less willing to use them, and whether they are worse off as a result.

CHAPTER FOUR – PENSIONS AND SAVINGS

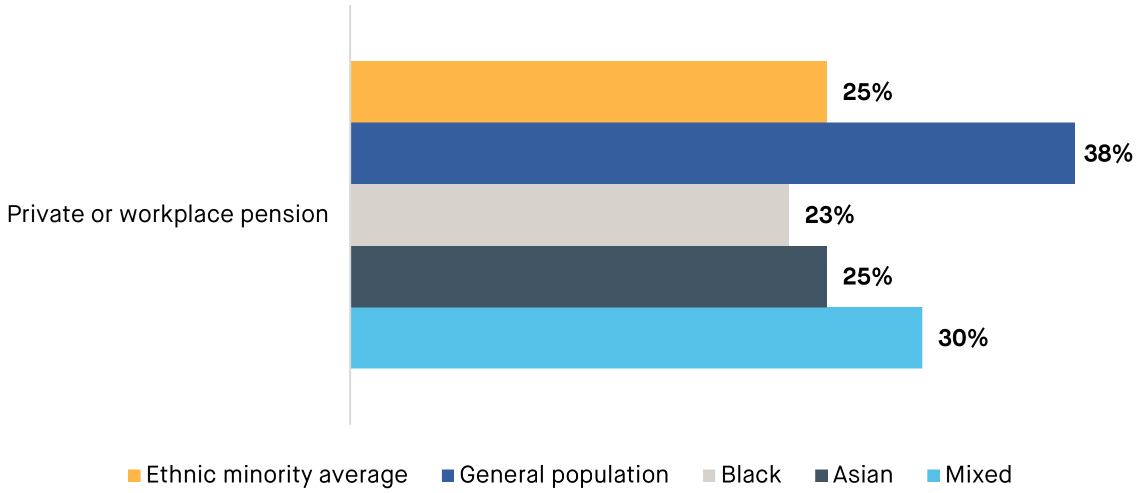
Ethnic minorities have lower pension and savings participation

Over recent decades there has been an increased emphasis on personal and private retirement planning and saving, with responsibility for funding retirement gradually passed on to individuals from the state. The number of people without a private pension continues to fall, following the rollout of auto-enrolment. Despite these developments, a significant portion of the working age population remain un-pensioned. As ethnic minorities tend to be younger, work in lower paid roles, are more likely to work part-time and are more likely to be self-employed, they can often fail to meet the qualifying criteria for auto-enrolment.[54] These factors can also contribute to ethnic minorities having less disposable income for other savings products such as savings accounts and ISAs. Yet our survey suggests that the ethnicity gap in pension participation is not just a function of age and income. In particular, ethnic minorities have often quite different attitudes and motivations when it comes to retirement and saving.

Despite lower use of private pensions, ethnic minorities are more confident in their retirement funding

The lower uptake of pensions among ethnic minority consumers is well documented and is reflected in our research: 25% of ethnic minority respondents to our survey had a private or workplace pension, compared to 38% of the general population. When this is examined across broad ethnicity groups, the rate of take up appears fairly constant, with the proportion of pensioned Asian and Black respondents ranging from 23-25%. As with current accounts, there is a more striking difference within populations. Within the Asian population, Indian and Chinese people are closer to the national average at 31% and 42% respectively, whereas Pakistanis and Bangladeshis have very low pension participation, at 8% and 7% respectively.

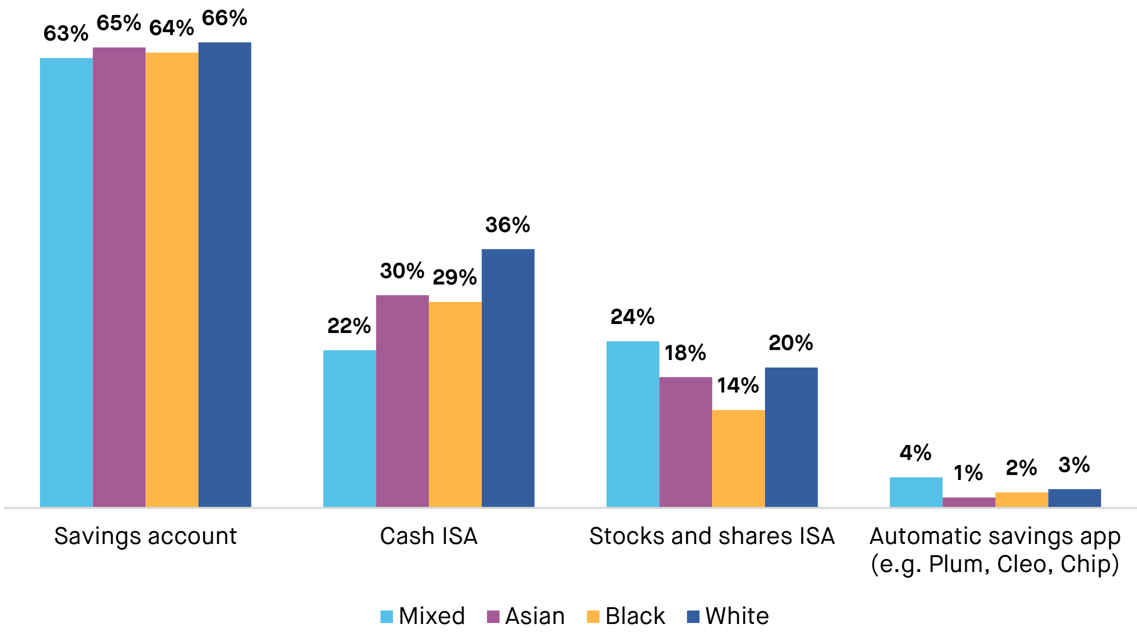
Figure 10: Whether uses a private or workplace pension (broad ethnic groups)



Source: SMF Opinium Survey July 2022

Usage of savings products also varies between different ethnic minority groups. Whereas the penetration of savings accounts is fairly consistent, other more long-term savings such as a Cash ISA and a Stocks and Shares ISA see greater variation. These products also see a greater difference in take up compared to the White population; 36% of White respondents hold a Cash ISA, and 20% of White respondents hold a stocks and shares ISA.

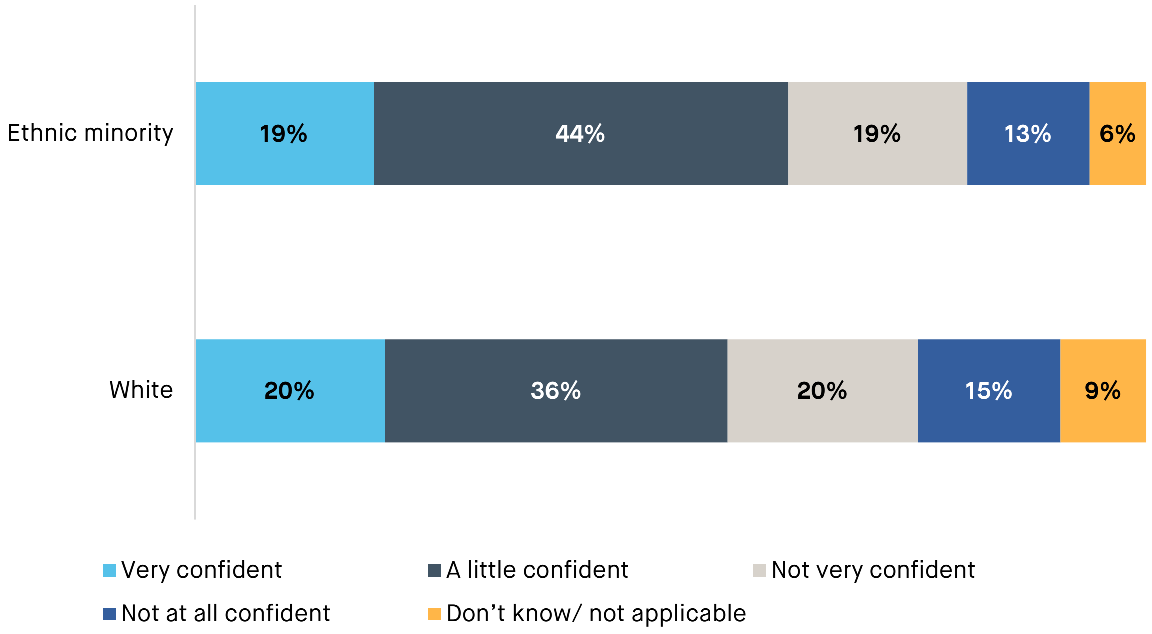
Figure 11: Ownership of savings products (broad ethnic groups)



Source: SMF Opinium Survey July 2022

Despite the lower take up of pension and savings products, ethnic minorities are slightly more confident of how they plan to fund their retirement, with 63% describing themselves as being confident of having enough money to live on in retirement, compared to 56% of the White population. The confidence in retirement planning may seem paradoxical when compared to the numbers who have a private pension, but this may be explained by some of the factors that contribute to this lower take up.

Figure 12: "How confident if at all are you in the following statement: 'I think I'll have enough money to live on when I retire'?"



Source: SMF Opinium Survey July 2022

Lower participation is driven by more than disposable income

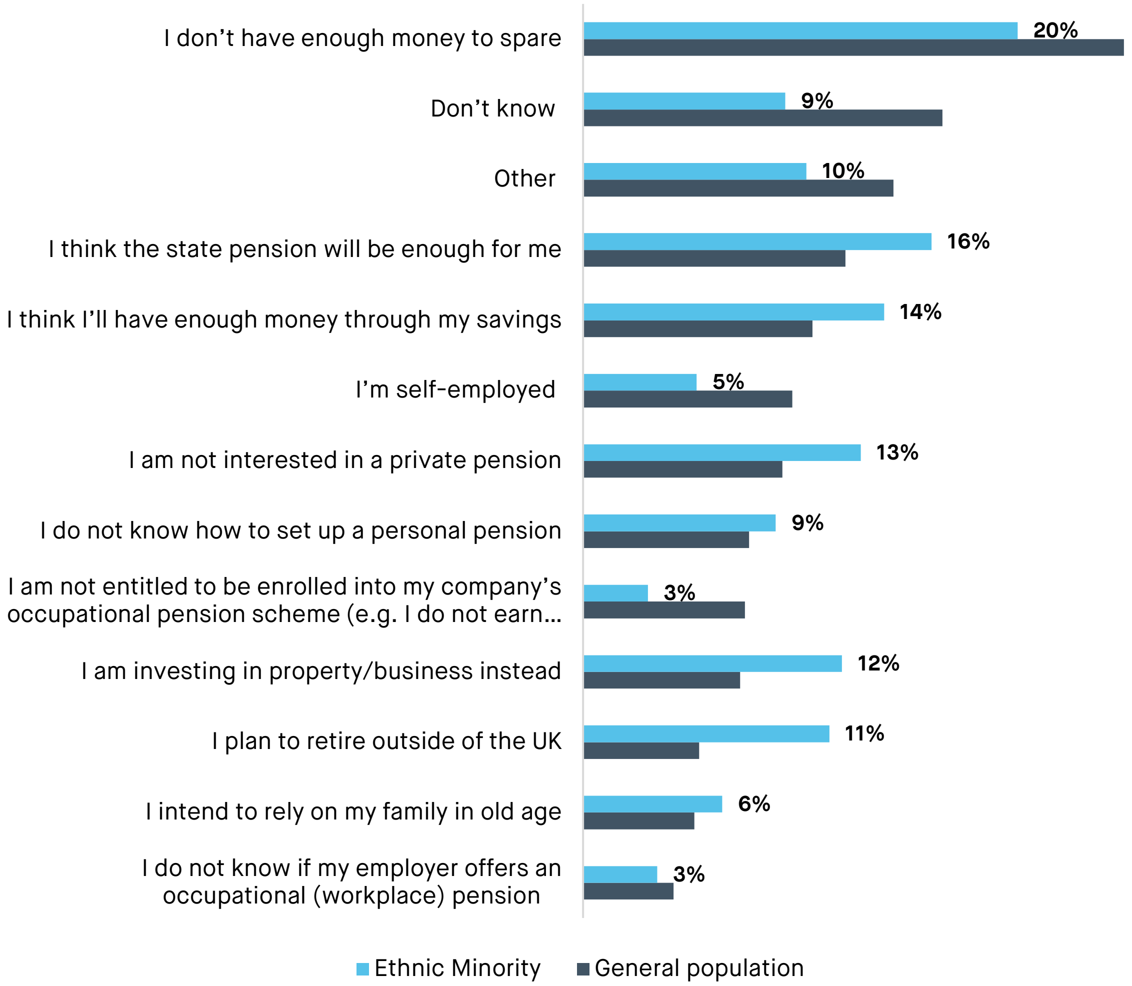
As detailed in Chapter Three, most of the difference in pensions and savings participation can be attributed to age and income. Indeed, this is reflected in the reasons survey respondents give for not having a pension: the most common reason cited is not having enough money. However, ethnic minorities are less likely to say their pension saving behaviour is driven by cash flow: whereas 25% of people that do not have a private pension say it is because they do not have enough money to spare, that figure is 20% for ethnic minorities.

Despite additional costs faced by many in the pandemic, by and large consumers we spoke to did not stop contributing to pensions and savings as a result, although some did reduce their contributions. In some cases, the reverse occurred and those who had not previously saved began to do so, understanding the value in having a financial security blanket. The current cost of living crisis, however, *is* causing people to question whether their current savings practices can continue, as the here and now becomes more and more expensive:

> *"I was tempted to change it but... what would be the like benefit of me changing because at the end of the day, and I'm the one actually benefiting from it. Changing it would be like reducing or going back on my future or gain" (man, Black, 20s)*

> *"So, [the] pandemic made me like realise that, in case of an emergency that I had to like, have something that I could go back to in my savings account, so that gave me an edge to like save more" (man, Mixed ethnicity, 20s)*

Figure 13: Reasons for not having a pension



Source: SMF Opinium Survey July 2022

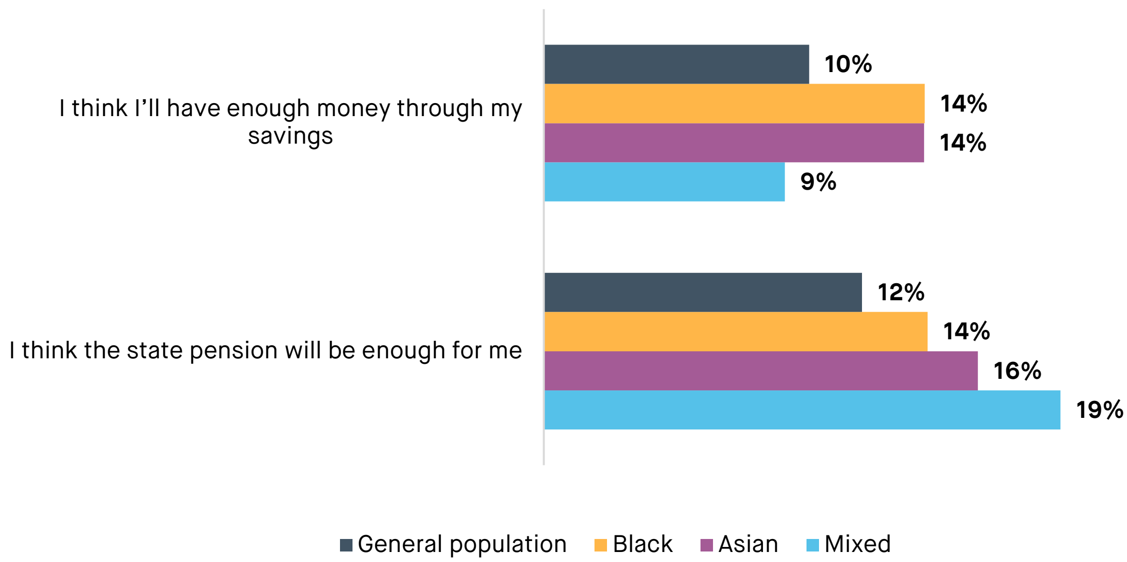
Ethnic minorities are more willing to rely on the state pension and personal savings in retirement

Non-participation in pensions does not mean a person is not saving or planning for retirement. It may instead indicate that they have a more diversified funding plan to support them in their later years. The second most common reason people in our survey gave for not having a private pension is the belief that the state pension will be sufficient: 16% of the ethnic minority believe this, compared to 12% of the general population. Similarly, where 14% of ethnic minorities think that their savings will be enough to cover their retirement costs, 10% of general population do. As shown in Figure 14, faith in the state pension is most common among those of a Mixed ethnicity, while reliance on personal savings is equally common among people of Black and Asian backgrounds. Confidence in personal ability to save was cited by a number of consumers we interviewed as to why they did not have a private or workplace pension; they felt they did not need the nudge from an employer in order to save consistently:

> *"think I'm quite good at saving anyway, I just didn't feel the need to save into a pension or anything." (woman, Asian, 30s)*

This reliance on savings may seem surprising, given that ethnic minorities are less likely to have savings accounts, and tend to have lower overall household wealth. Yet that is not how ethnic minorities themselves tend to see it. 43% of the general population say that insufficient funds stops them from saving, whereas 35% of ethnic minorities do. The main reason among ethnic minority respondents for not having any dedicated savings products is a preference for keeping savings in a current account and less prominent reasons include saving in cash. These are important factors to note; the absence of formal savings products does not automatically mean lacking savings altogether.

Figure 14: Plans to rely on state pension and savings during retirement



Source: SMF Opinium Survey July 2022

Investing in business or property is a common alternative to pension saving

Ethnic minority survey respondents were more likely to say that they plan to or are investing in a business or property instead of a private pension. 12% of ethnic minorities without a pension said they were using this strategy, compared to 6% of White people. For some of the people we spoke to, paying off a mortgage and having somewhere to live throughout retirement was a greater priority than contributing to their pension, at least in the immediate and near future. Entrepreneurialism was another major theme in consumer interviews, with some participants planning on using future business ventures to help fund retirement. In these cases, interviewees often planned on working at least part-time in their old age, rather than using profits from their business to allow them a full retirement:

> *"maybe I decide to retire and stop working permanently at the age of maybe 68/69... then I can decide to have to be to have my own profession, my own job of my own. So I will not have to rely on the pension, the pension might not come" (man, Black, 30s)*

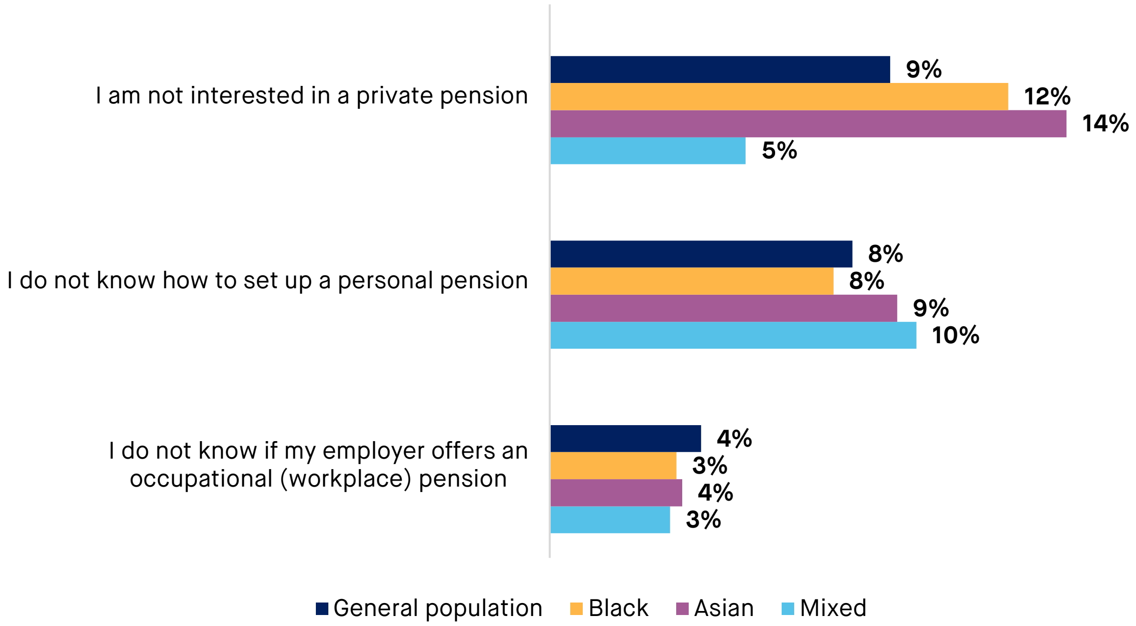
"working here was the first time where really, I could invest in a pension. And I did leave it late because I was in my 40s, then, by the time I invested, but then the reality is I have a house" (woman, Asian, 50s)

"[during] retirement, its best to work a little bit on the side...I have a few entrepreneurial plans" (woman, Black, 30s)

Many believe pensions are not the best way to save

Among un-pensioned ethic minorities in our survey, 13% say they are not interested in having one, compared to 9% of the general population (Figure 17). Some consumers we spoke to expressed concerns over the value of pension schemes, both because they had doubts over whether they ever actually would retire and because they were uncertain over whether a pension is indeed the best way to save for retirement. As mentioned previously, some consumers actively decided not to invest in pensions as they feel their own saving capacity is sufficient and their own investments provide them with a better return than a formal pension scheme would.

Figure 15: Awareness and interest in private pensions



Source: SMF Opinium Survey July 2022

The issue of savings elicits similar attitudes: 9% of ethnic minority consumers say they are not interested in saving, compared to 7% of White consumers. Some expressed the view that the persistently low interest rates of recent years have meant that keeping savings in a savings account has felt like a poor choice. By contrast, investing that same money is seen as providing a better return. Recall from Figure 2 that our survey indicates that ethnic minorities are more likely to hold investment products than the general population.

"I may convert the lifetime ISA into one [a pension]. But I'm not decided yet." (man, Asian, 30s)

> *"If I change jobs, and they had a very good pension scheme, then I would, I would probably go for it. But I guess I'm sort of a little bit undecided on what would be the best sort of pension scheme for me at the moment" (man, Asian, 30s)*

For others, the main issue is time. We spoke to a number of people who had not given much consideration to retirement planning, often because they believed they are too young. Even among those who do have a pension, several had opted in or been enrolled onto their workplace pension relatively recently, previously having been ineligible or having opted out.

Awareness and, more importantly, poor understanding of pensions may be influencing this doubt and uncertainty. Figure 17 shows that a marginally higher proportion of ethnic minority consumers than the general population are unaware of how to set up a personal pension. Several interviewees said that they do not understand pensions, what their contributions are, and whether they are making adequate provision. For some interviewees, trying to understand pensions was made harder due to difficulties with the language used. In most cases, this is not sufficient to put people off investing in a pension altogether, but it can make understanding documents such as account statements more difficult.

> *"I don't understand it that great to be honest. And they'll you pay in and your employer will also match it or pay a certain amount. Aside from that, it's definitely not something I fully understand" (man, Black, 50s)*

> *"I don't quite understand how it [pensions] works…It's a while away. So I've not really considered it" (woman, Asian, 50s)*

Whether or not they were investing in a private pension, many interviewees did not have a set figure in mind of what they wished the retirement income to be. A portion of those who do not currently have a private or workplace pension did mention that they may have had some from previous jobs, but are no longer actively contributing to any of them. Many intended to include these accumulated pots in their retirement but were unaware of how many pots they had or what the total value of all pots would be.

It is unclear whether these issues are substantially greater among ethnic minority groups than the general population. However, the greater confidence that ethnic minorities expressed in their retirement plans, the lower awareness and understanding that they themselves admit they have, and the objective facts of their lower wealth and smaller pension pots, all offer some cause for concern.

Ethnic minorities may be worse off as a result of their retirement plans

There are general issues that affect those who do not adequately plan for retirement or have sufficient savings set aside. Under-pensioned households can struggle to cover basic necessities such as household bills, and rent, and risk falling into poverty. Beyond the economic impact, adapting to a lower standard of living can require significant psychological adjustment, and limit opportunities for social interaction. These are not issues exclusive to ethnic minority consumers, but the evidence we have presented here suggests that they may be at greater risk of certain harms.

The state pension and personal savings are not always enough to last through retirement

From our survey, ethnic minority consumers are more likely to say they will rely on the state pension or their own savings in retirement. However, research by Age UK has found that ethnic minority pensioners are less likely to have a state pension than White pensioner households.[55] Our expert interviews suggest that often there is poor understanding of the requirements people need to meet in order to receive a full state pension. Moreover, those that are entitled to a state pension may well receive less than they expect.

At the time of writing, to be eligible for the full amount of the new state pension, a person needs to have 35 years or more of national insurance contributions.[56] Ethnic minority consumers are more likely to work part-time and face spells of unemployment across their working lives.[57] Family and caring responsibilities – more likely to be an issue for those with larger families – may mean more time spent outside of the workforce. People who migrate to the UK later in life have a narrower window of opportunity to build up the contributions needed to meet the full state pension requirements.

Though many participants in our survey or research expected to fall back on savings in their retirement, previous research has shown that ethnic minorities often have amass less wealth from the savings they do have. This situation has been exacerbated by the pandemic: the FCA has found that ethnic minorities are more likely to have used existing savings to help cover their needs over the course of the pandemic.[58] The increase in the cost of living may continue to eat at the savings people have, as well as preventing them from building reserves back up to pre-pandemic levels. All of this places ethnic minorities in a precarious position. Savings products are not protected from inflation and as a result their value can erode over time. This is a particular issue in the current economic climate and at the moment relying on savings to fund retirement may be a particularly risky strategy.

Alternative retirement plans may not work out

A greater preference for funding retirement through alternative means such as investing in property or business may also put ethnic minority consumers at risk of inadequate retirement funds. Embarking upon a new entrepreneurial endeavour to fund retirement is not necessarily a bad idea, but using it as the only source of retirement income can be a very risky option. There is no guarantee a business venture will take off or how much money it will generate. Interview participants may be excessively sanguine about working past retirement age. Older people are at greater risk of ill health or developing a disability, which could make continuing to work more difficult.[59] Not having a pension as a backup or supplementary retirement option could increase vulnerability. Like savings, investing in property is not protected from inflation, and the value of a property may go up as well as down. Selling a property may not provide as much of a return as expected, and using the proceeds of a sale to fund retirement could result in a smaller pot than expected. That said, for those only investing in one property, where they plan to spend the rest of their life, not having to cover the costs of rent or a mortgage while in retirement is significant advantage.

Some ethnic minorities may be overconfident regarding their retirement situation

Some stakeholders we spoke to indicated that the confidence in retirement funding may be misplaced. Many people underestimate how much retirement will cost, and as indicated above, there can often be a gap between people's expectations, and the reality they face. Not only do many people misunderstand their entitlement to the state pension, they may not understand that the state pension means living on minimum wage. While for those on low incomes this would not be a change in circumstance, for those on a higher income who believe they could maintain their current standard of living on a state pension, the change in circumstance could be quite drastic.

CHAPTER FIVE – INSURANCE

Ethnic minorities are underinsured in some areas, but not all

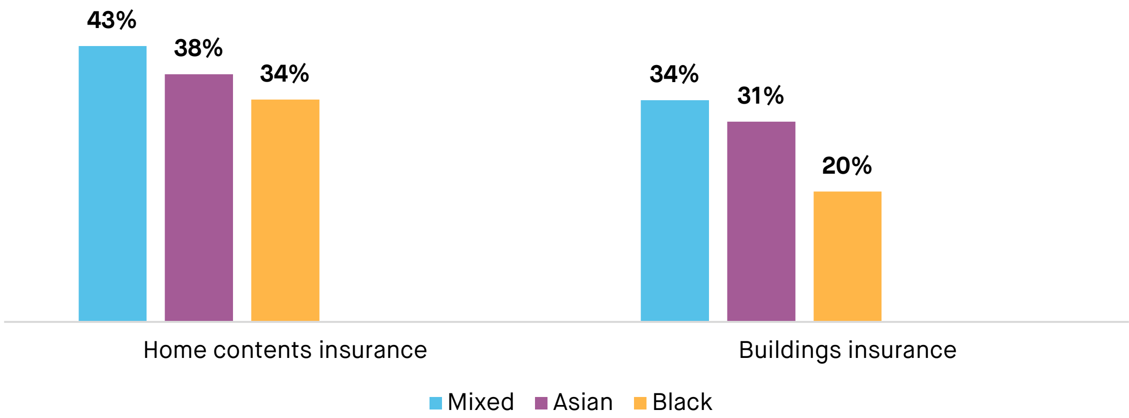
Insurance is an important product in helping to build financial resilience, and protect against unexpected, potentially quite expensive, events. Take up of insurance products is lower among ethnic minority consumers when compared to the general population and is much lower than average for some ethnic groups. Yet it is not immediately obvious how significant an issue this is – whether minority groups are tangibly and materially disadvantaged as a consequence of being apparently underinsured. Indeed, we ought to take seriously the possibility that the White population may be *over*insured.

As we saw in Chapter Three, the ethnicity gap in insurance coverage varies substantially by product. To some extent, this is unsurprising. Some insurance by its nature is exclusionary; for instance you are unlikely to have pet insurance if you do not have a pet, and are unlikely to have mortgage protection insurance if you do not have a mortgage. There are however “key” insurance products (home contents insurance and buildings insurance) which are relevant to more people, and arguably more important. In both cases, there are fairly large differences between the general population and ethnic minority samples in our survey.

From our survey (Figure 2) we see that the difference in insurance take up is particularly notable when looking at home contents insurance and buildings insurance. Whereas 62% of the general population have home contents insurance, the take up rate among the ethnic minority population is a little over half of that, at 37%. Whilst 48% of the general population has buildings insurance, only 28% of the ethnic minority population does. When examined more closely, differences between minority groups (and then individual ethnicities) becomes more stark. Black consumers are considerably less likely to have buildings insurance, with 20% take up.

By contrast, one important insurance product where ethnic minorities have greater product take up is life insurance: 41% of ethnic minority consumers have it, compared to 27% of the general population. Penetration is even higher among Black consumers (45%).

Figure 16: Breakdown of home contents and buildings insurance by broad ethnic group



Source: SMF Opinium Survey July 2022

Not having insurance is largely a matter of choice

As detailed in Chapter Three, insurance coverage is closely related to income, but is also affected by other factors. As with other financial products, ethnic minority consumers often have different motivations and priorities when it comes to insurance compared to the rest of the population.

Insurance is not always affordable, but cost isn't everything

Previous research has found that insurance is often subject to a poverty premium, which may disproportionately affect ethnic minority consumers.[60] Ethnicity cannot be used directly to calculate insurance quotes, but ethnic minorities can end up with higher quotes due to other factors such as the place they love. Several consumers we spoke to did mention that cost was a deterrent to them having insurance product, and that they would be more likely to consider insurance if it was cheaper.

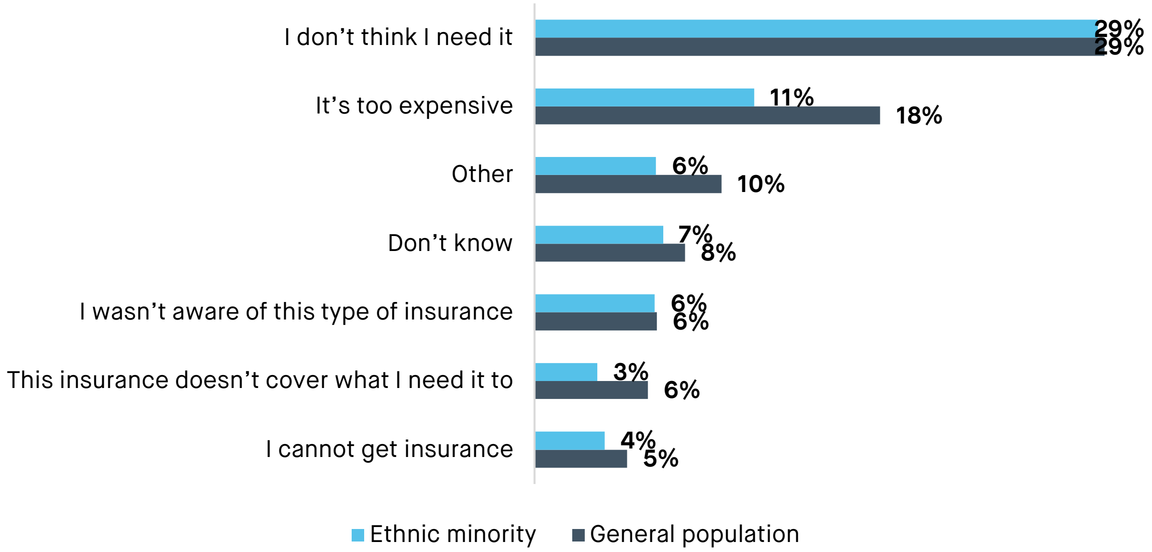
> *"Basically it's affordability... there are more important financial commitments to look to... if things get better, then I would like to, I would consider picking them up." (woman, Asian, 50s)*
>
> *"I suppose if I could afford it, some of those areas I might have it, might have taken out insurance." (man, Black, 50s)*
>
> *"It is the cost, but also, I just don't feel it's worth it with what I've got anyway... because I'd rather use my money on other things that I feel are more important." (woman, Asian, 30s)*

Perhaps surprisingly, no one we spoke to mentioned that they had decided to give up their insurance products due to the pandemic, even where incomes had fallen. However, the cost of living crisis is likely to put even greater pressure on finances and willingness to take out or maintain insurance.

Insurance is seen as an unnecessary expense

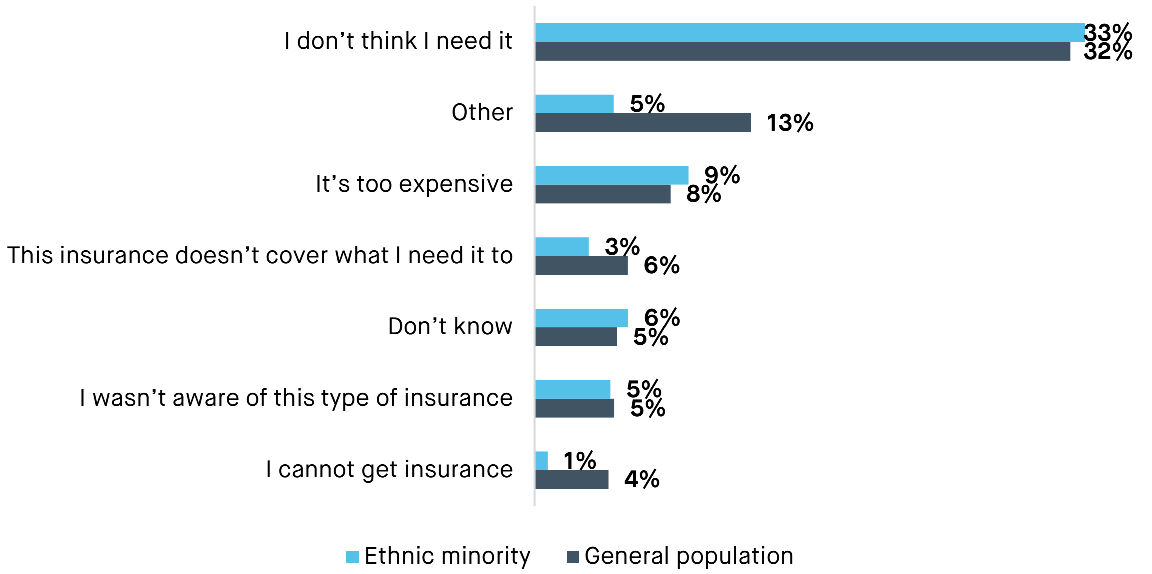
While there is an issue around the affordability of insurance, cost was not in fact the most common reason cited by survey participants for not owning insurance products. 11% ethnic minority say they do not have home contents insurance because it is too expensive, but by far the top reason given (29%), is that respondents do not think they need it. While the same percentage of the general population felt home contents insurance was not necessary for them, they were much more likely to say (18%) that it is too expensive. The pattern is similar for buildings insurance, which 9% of ethnic minority respondents said is too expensive, and 33% say they don't need.

Figure 17: reasons for not having home insurance



Source: SMF Opinium Survey July 2022

Figure 18: Reasons for not having buildings insurance



Source: SMF Opinium Survey July 2022

For many of the ethnic minority consumers we spoke to, insurance was unattractive because it is seen as unnecessary or of poor value. Several said they do not need insurance, for example because they are not sure of the value of items in their home and whether insuring them was worth the money. In case of loss or damage, a number of interviewees suggested that replacing items would be more cost effective for them than taking out an insurance policy. Others believe they would receive support from their family or community if such a circumstance arose. Some felt that the potential risk of damage or loss was not great enough to warrant insurance, and paying for it would be a waste of money.

> *"a lot of the stuff I have, I don't think it's worth paying ...I can just replace it... I can save it and replace it." (woman, Black, 30s)*

> *"I just don't deem the risks as enough for warranting that outflow of cash" (man, Asian, 20s)*

Some interviewees had previously held insurance products, but have given up on them, deciding that the cost was not worth it, as they had never been used. According to an expert we spoke to, insurance can be a rather intangible product, especially for those who have never seen the benefits of policy, having never made a claim. As a result often consumers will view insurance as a "grudge purchase" and something they have to have, rather than a product they are actively interested in. By contrast, people are more likely to value insurance if they or somebody they know have had to make use of it. Some of those we interviewed reported having contents insurance because it is the 'done thing'. Others have experienced damage or loss in the past and have then proceeded to seek an insurance policy:

> *"the contents I probably feel I would need. I couldn't cope with everything just going. Yeah, I know someone whose house just burned down... and he literally just lost everything." (woman, any other ethnicity, 50s)*

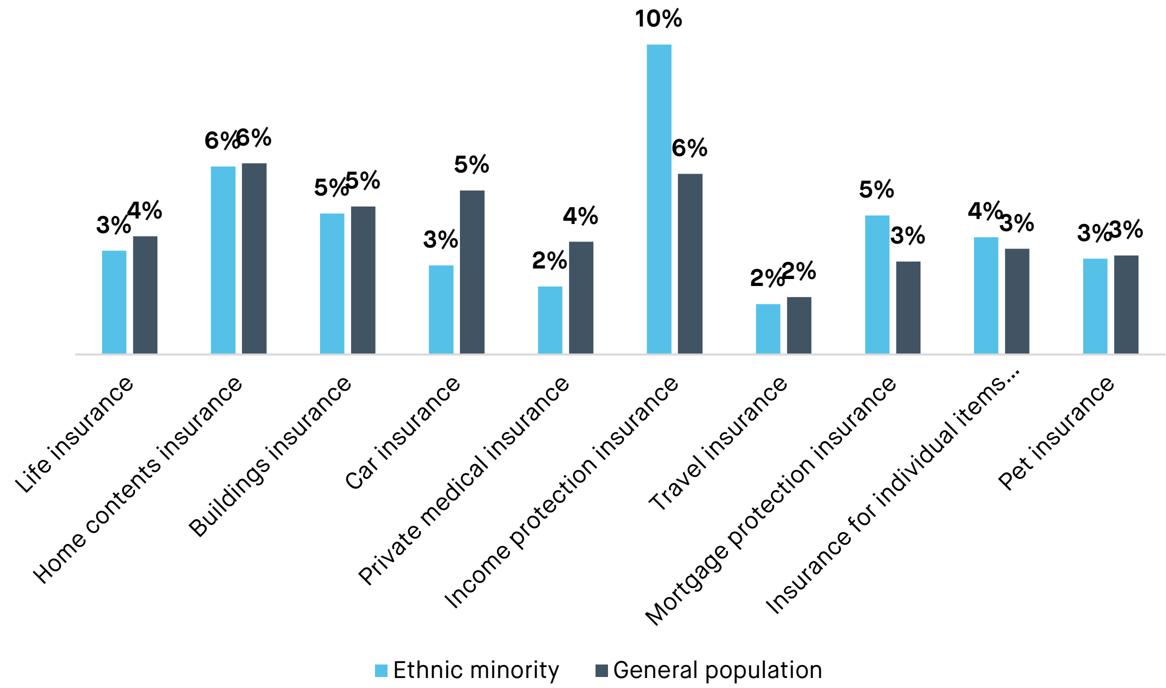
It is not only home and buildings insurance that our interviewees doubted the necessity of. Despite the relatively high penetration of life insurance among ethnic minorities, some of those we spoke to said that it is not the right time for them or relevant to their life. Some interviewees plan on taking out such a policy in future when they have a family or someone else to benefit from it. For others, life insurance would be a waste of money as they do not have dependents who would benefit from it.

> *"I don't have any of this at the moment because I don't see the need for it. Now. I just want to be settled. As I'm still pursuing looking for a full time job. Once I have all this, then definitely I will consider [insurance]" (man, Black, 30s)*

Awareness of insurance is lower than it appears

Awareness is cited by relatively few people as a reason for not taking up insurance, and is equally likely to be referenced as an issue by ethnic minority and White consumers (Figure 21).

Figure 19: "I wasn't aware of this type of insurance" as a reason for not having particular insurance



Source: SMF Opinium Survey July 2022

Yet while people are generally aware of the existence of most products, they often tend to be hazy over the practicalities and details of how they work. Some participants, for example, mentioned being unfamiliar with the insurance market, and not being sure of what to look for, ultimately deferring to others to make decisions on which insurance policies to take out.

> *"now my daughter does it all because it's too much for me. I don't understand all that." (woman, Asian, 60s)*

Of those that *do* have insurance products, many had not independently sought the insurance product, and were covered instead by insurance wrapped into some other purchase or agreement. Private medical insurance was often provided by workplaces, insurance for individual items such as phones was covered in a monthly bank account fee or a contract, home contents and buildings insurance could be part of a mortgage, or included in a property service fee.

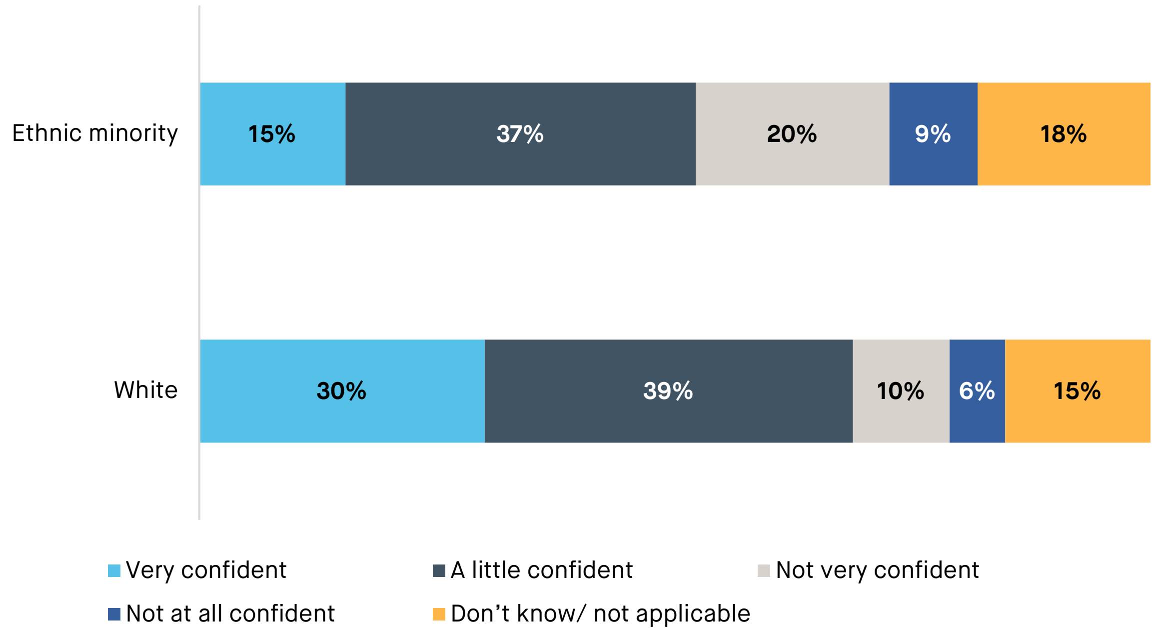
> *"my phone* [insurance] *is provided the company I bought my phone from" (man, Mixed ethnicity, 20s)*

> *"we bought a council house. So it comes with the council…the building insurance and the other [contents] insurance are through them, basically." (woman, Asian, 40s)*

While it is unfair to say that these consumers are entirely disengaged with the insurance market, their product choices may not be appropriate to their specific needs. While they may be insured, they may not know what it is they are insured for and how far coverage may stretch.

Indeed, ethnic minorities are less likely than the general population to be confident that they have the right insurance products for their needs, as Figure 22 shows. 51% of ethnic minority consumers were confident in having the right insurance products compared to 68% of the general population.

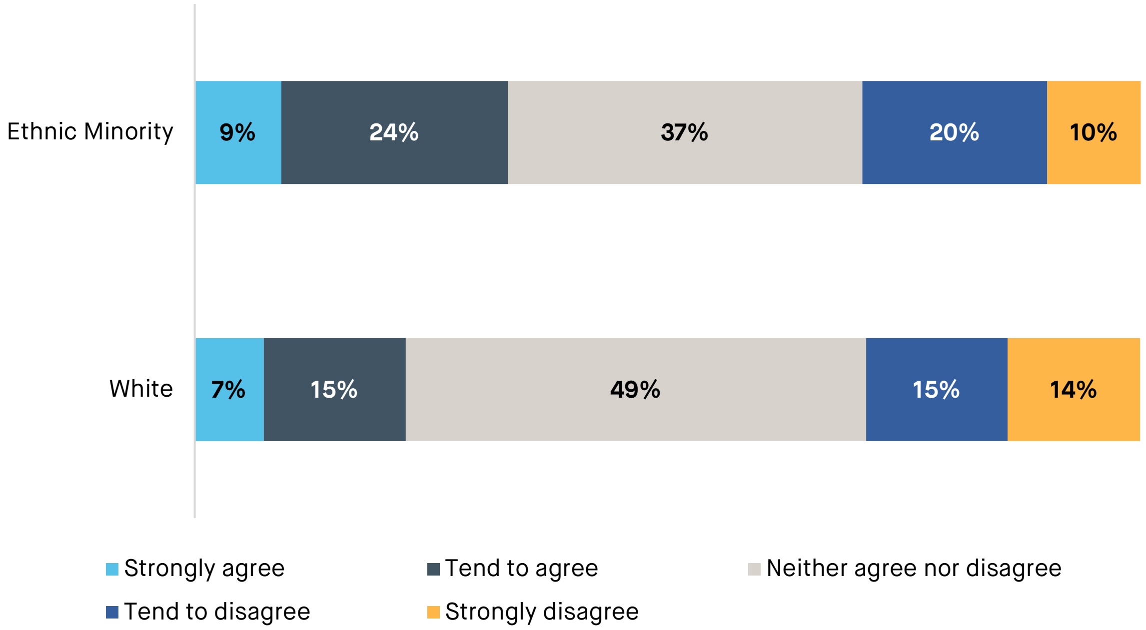
Figure 20: "How confident, if at all, are you about the following statement: 'I currently have the right insurance products for me'?"



Source: SMF Opinium Survey July 2022

A third of ethnic minority respondents also feel that it is harder to get suitable insurance product as an ethnic minority. Ethnicity may not legally be used to determine an insurance quote, but some ethnic minorities feel that they can be subject to discriminatory pricing. A recent report by Citizens Advice found that ethnic minorities pay a premium for car insurance. One of the stakeholders we spoke to also indicated that this may reflect gaps in the insurance market. That is, there may be insurance products that ethnic minority groups want but that currently do not widely exist, or are difficult to find.

Figure 21: "It is harder to get suitable insurance as an ethnic minority"



Source: SMF Opinium Survey July 2022

Are ethnic minorities worse off for being uninsured?

It is difficult to assess what harms come from not having insurance products. Insurance helps to counteract against shocks and unexpected events and as a result it is regarded as being important for building financial resilience. However, it is not usually regarded as necessary for financial inclusion or social inclusion in the way a bank account is, and with the exception of car insurance, it is not mandatory. It is also hard to say whether underinsurance would harm ethnic minorities more, or differently than it would the general population.

Self-insurance is a risky strategy

If you are uninsured, and do encounter a shock such as flooding or burglary, the expenses to repair or replace items needs to be covered out of pocket, and the costs can be high and need to be covered quickly. In cases of unexpected job or family loss, there can be a dramatic change in household income, practically overnight. These shocks can have quite sudden and, in some instances, long-lasting financial ramifications. This could be especially damaging for those who opt to "self-insure". It can also be difficult for people to conceive of a risk when they have had no experience of it, and it feels unlikely to occur. As with retirement, people can overestimate their own ability to cover the costs, and underestimate how expensive a situation can be. Planning on covering any costs with savings also has the potential to be more expensive than an insurance policy itself would be, and doing so risks wiping out what savings a person has, removing a key pillar of financial security and resilience. Underestimating the expense could mean a loan is necessary to cover the costs. As ethnic minorities face greater difficulties in accessing affordable credit, the final bill could end up being very high.

Automatic insurance could lead to false confidence or overcharging

Bundled insurance packages may be risky. Those who are covered by their bank, mortgage provider or phone contract may not be aware of exactly what their policy covers, and as a result may not have the level of coverage they expect, leaving them in the lurch when they do need to claim. Alternatively, they may be over-insured, and paying a higher premium than necessary. Speaking to stakeholders and consumers, insurance can be chosen on the basis of cost and convenience. This means that individuals and households risk taking out and paying for an insurance policy that does not best suit their needs or circumstances.

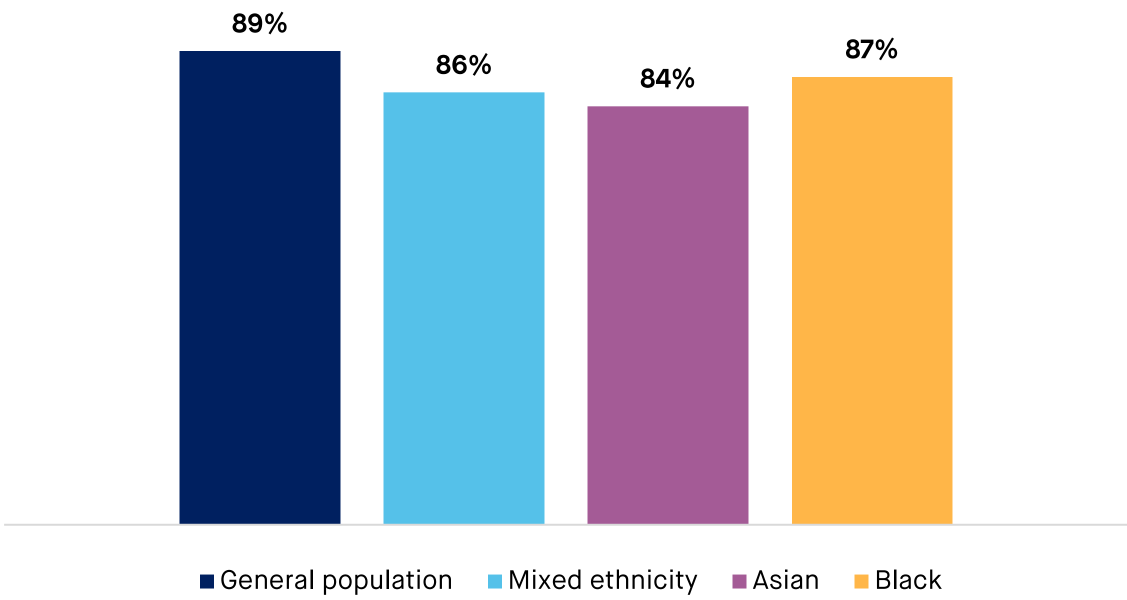
Is insurance really that important?

While important to examine the harms that could come about from lower insurance uptake, it is also worth questioning if lower insurance uptake is indeed a bad thing. It may be that rather than asking whether ethnic minorities are underinsured, we should actually ask whether the White population is perhaps over insured? Very few people we spoke to had previously made a claim on their insurance policies, and as stated earlier, some had given them up, having not seen any benefit over the course of owning them. It is possible that rather than ethnic minorities underestimating the risks they face, the rest of the population overestimated its risks and takes out more insurance than is necessary.

CHAPTER SIX – BANKING

Over recent years, the number of unbanked individuals in the UK has fallen. The creation of basic bank accounts in 2014 opened the door to fee-free banking, helping to ensure that all consumers who want a bank account can access one. Since 2017 however, the number of those who are unbanked has changed very little, remaining stubbornly at 2.3% of the total population.[61] The improvement in current account take up has occurred primarily among White groups, with ethnic minorities remaining twice as likely to be unbanked.[62]

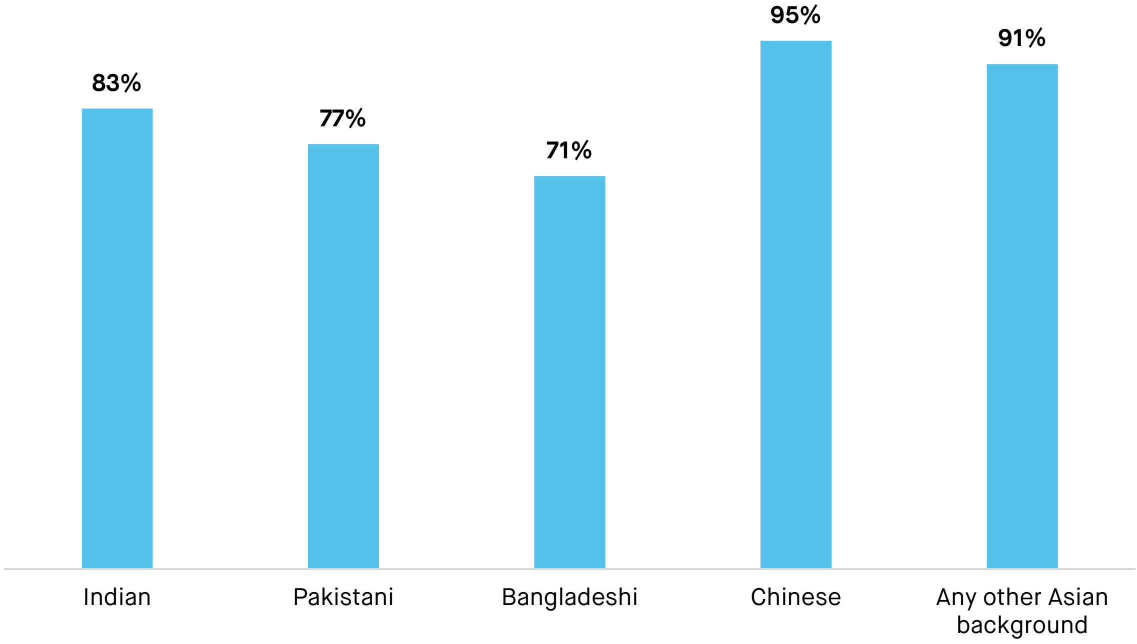
Figure 22: whether individual has a current account (broad ethnic groups)



Source: SMF Opinium Survey July 2022

As detailed in Chapter Three, our analysis of the Financial Lives Survey found that there is a notable gap between the number of unbanked ethnic minorities and the general population, particularly among poorer Asian households. The differences in our survey were less stark, though we still found Asians to be less likely to have a current account. *Within* the Asian ethnic groups, we found significant variation (with the caveat that we are relying on small survey samples) Indian and Chinese respondents have current accounts at or above the ethnic minority average. Penetration is lower among Pakistanis (77%) and Bangladeshis (71%) however.

Figure 23: whether respondents of an Asian ethnicity hold a current account



Source: SMF Opinium Survey July 2022

The causes of being unbanked are multi-layered

As detailed in Chapter Three, even controlling for income, Asians are less likely to have a current account. Assessing what other factors account for the gap in bank account penetration is tricky. This is not something covered in our survey, and the unbanked population is relatively small. Fortunately past research does give some indication as to what else may be driving the gap, and may help us to draw further insights from our own data.

Not everyone wants a current account

While we view having a bank account as important for economic and social inclusion, many unbanked individuals do not seem to feel they are missing out. In a 2020 FCA survey, 22% of unbanked adults reported a desire for a current account, compared to 57% who specifically reported not wanting one. In the same survey, 30% of those who were unbanked had previously held a bank account and just over a third of them say that they no longer wanted or needed a current account. A small portion (3%) say they now use someone else's current account, which will typically belong to a partner or a spouse.

People often give up having a current account when they give responsibility for their finances to somebody else. In our survey, 16% of ethnic minority participants were not responsible for their household finances, compared to 10% of the overall survey population. Moreover, minorities that do not take responsibility for their household finances are particularly likely to be unbanked. Where someone else was responsible, minorities were nearly three times more likely to be unbanked than White individuals (45% vs 15%).

Ethnic minorities are more likely to have applications refused

From the FCA's data, 9% of those who do not have a current account had previously tried to open one and had been refused. They key reasons cited for refusal were not being creditworthy and not being able to provide suitable or adequate proof of identity. Previous studies have suggested that new migrants may be particularly vulnerable to these issues. Creditworthiness can take some time to establish, and newer migrants may not be able to provide sufficient verification documentation due to factors like living in multiple occupancy households and in the case of refugees, having fled without documents such as passports.[63] Research from the FCA has also indicated that bank staff may not be aware that unusual sources of ID are acceptable.[64] Of the ethnic minorities we surveyed who were not born in the UK, those that have been here longer are more likely to have a current account.

Bank staff's poor awareness is not limited to accepted documentation. Mystery shopping exercises have found that, in many cases, bank staff provide little or no information on basic bank accounts, even where the customer is eligible.[65] As the nine major banks are now obliged to provide basic bank accounts, this lack of awareness among staff is concerning. Moreover, consumer awareness of basic bank accounts is low, and has fallen since 2017, making the awareness of bank staff all the more important.[66]

Lack of awareness of his options certainly seems to have prevented one of our interviewees from accessing a bank account. Without a regular income, he believed he was not eligible for a current account.

> *"I don't use a current account, because for you to have a current [account] the bank asked me for two things... am I full time worker, am I receiving income on a regular basis?.... people using current accounts, that is the kind of people that have full time work day they receive monthly salary" (man, Black, 30s)*

It is possible that language can also play a role here, creating misunderstanding and confusion. Almost all consumers we spoke to rated their level of English highly, however several commented that financial jargon could be confusing even to a fluent English speaker. For those with little English, or those who are still learning, navigating even the first stage of the financial system can be difficult without someone to help translate.

> *"it's a mixture of the two really [jargon and plain English], this you know, obviously, everything is, you know, various different acronyms and what and what have you. But when you've been around the products, you generally understand and know what they are." (man, Black, 40s)*

> *"I'm fluent speaking English, but there are people in my community or who have just moved here... it's really hard for them... it's not that they don't understand but, if somebody of their kind [of language] was explaining, it might be different" (woman, Asian, 60s)*

Why having a bank account matters

Bank accounts are important for financial and social inclusion

Bank accounts give people financial autonomy, and can be important for social as well as economic inclusion.

Without a bank account it can difficult to find a job and be paid for your work, to rent private accommodation and to access further financial products such as mortgages.[67] As a result, bank accounts can be an essential requirement for economic advancement and improving one's life. Conversely, being unbanked greatly constrains an individual's financial autonomy. As most employers require employees to have an account in their own name, the ability to receive wages outside of unregulated cash payments becomes more difficult.[68] Paying bills can be more awkward, obstructing access to phones, broadband, utilities, and property. With the closure of Post Office current accounts, bank accounts are increasingly important for those being paid a pension or social benefits, or who will be receiving them in future.[69] Reliance on cash is also increasingly a factor in financial exclusion, highlighted by organisations like Which?.[70] Over the course of the pandemic more and more retailers moved away from accepting cash payments for their products.[71] The unbanked populations face price premiums.

As well as greater difficulty in paying bills, some products can end up being more expensive for the unbanked, as better rates are often given to those paying by direct debit.[72] Not having a current account also makes it harder to access further financial products, such as an overdraft facility which can help to build a good credit score. Basic bank accounts themselves do not have an overdraft facility, but they create the possibility to become eligible for one as after a certain period they are migrated to current accounts. This in turn can make accessing affordable credit more difficult, forcing unbanked populations to turn to high cost or unregulated lenders in order to get a loan.

CHAPTER SEVEN – WHAT COMES NEXT?

We began this report with the observation that ethnic minorities tend to have lower take up of financial products and services. What we have found, over the course of our research, is a more complicated picture. Across and within minority groups, take up can vary widely, as can what drives the difference. The biggest drivers – income and age – are fairly consistent. But the extent to which they can explain differences in financial product usage varies.

This causes us to question to what degree ethnic minority groups are being squeezed out, or are opting out of financial products of their own volition, and whether they are worse off as a result. We have therefore investigated the harms that may be caused to ethnic minority populations by not having particular financial products. The harms are not specific to ethnic minorities. However, owing to the ethnicity gap in product take up they are disproportionately likely to bear them.

Being unbanked creates significant impediments to participating as a full member in contemporary British society, for example creating barriers to finding work and getting paid for it. Relying on the state pension or savings, expecting to work into old age or investing in one's business are risky forms of old age provision, liable to cause significant problems in the face of health issues or economic shocks. Underinsurance, too, can be risky – and ethnic minorities may be less resilient to adverse outcomes as a result.

It is worth noting that broadening access to financial products is not a new area of policy, but has been an objective for many years. Yet there may be benefits to exploring policies that focus on the specific barriers faced by ethnic minorities, which may in turn help us make progress towards that overarching goal.

Specifically, we think policymakers and industry should do the following;

- Invest in campaigns to promote awareness and trust in financial services
- Facilitate peer-to-peer support hubs
- Reduce the threshold at which employers contribute to pensions
- Create targeted support for new migrants
- Improve data collection, and conduct further research to continue to develop our understanding of barriers to financial inclusion

Create awareness and trust building campaigns

Ethnic differences in take-up of financial products are not primarily driven by low awareness. Yet in our research we have found that there is a significant group of people that are not familiar with the range of products and services that might benefit them. Even where a person might have heard of a particular product, their understanding of the product can be weak. Our own survey for this report suggests that across pensions, savings, and financial advice, as well as some insurance products, this may be a greater issue for ethnic minorities, who are more likely than the general population to cite lack of awareness as a reason for not taking out a particular financial product.

Part of the responsibility for addressing this situation should lie with government, but it is also incumbent on financial firms to their bit as well. In particular, the FCA's new Consumer Duty, the principle requiring firms to act to deliver good outcomes for their customers, should act as a spur to do more to improve awareness and trust.[73] The Duty imposes rules requiring firms to "enable and support retail customers to pursue their financial objectives", and addressing the ethnic gap in understanding of and take-up of financial services should be part of discharging that obligation.

Awareness around retirement funding

As detailed in a previous SMF report, the government needs to recognise and address the need for more and better information advice and guidance on pensions. More people need to understand the limitations of relying on the state pension in retirement, and the risks of saving too little to supplement it.[74] We endorse that overarching recommendation.

In those efforts to improve advice and guidance, our research indicates that it is important for the government to recognise that there is a portion of the population who are not interested in private pensions and plan to support their retirement through alternative routes. An information campaign on alternative retirement funds should run concurrently, exploring the risks that come with retirement planning through methods not protected from inflation. The campaign should also contain information on where and how to access advice and guidance that focuses on planning for retirement through alternative routes. Given that ethnic minority groups are more likely to say they plan on funding retirement through alternative means, it is important for such a campaign to be targeted towards those who would most benefit from it. Some lessons can be learned from targeted public health messaging during the pandemic. As well as information being available in multiple languages, it should be disseminated through trusted community members, this may include faith groups and community leaders.[75] Peer-to-peer support groups, discussed below, could also be a useful means of communicating this information to those that would best benefit from it.

Insurance awareness and nudges

The government's most recent Financial Inclusion report included an aim to improve access to insurance for low income households to ensure they are not priced out.[76] As part of this the Treasury is considering recommendations put forth by the subgroup of the Financial Inclusion Policy forum on making contents insurance more accessible particularly for low-income renters, although the specific details of these recommendations remains to be seen. It also cites work that is being done by the DWP Behavioural Science team exploring ways to use behavioural science to influence consumer demand for insurance.[77]

As ethnic minorities are disproportionately represented among low income groups, such measures should hopefully improve their access to insurance. Yet, as detailed in Chapter Six, many people do not believe insurance products are necessary, with many opting to "self-insure" through savings. Government, consumer groups, and industry should work together to ensure that people make such judgements based on the necessary and accurate information. An awareness campaign on the benefits and value of insurance should be considered. An industry trade association such as the Association of British Insurers (ABI) may be best placed to create such a campaign, owing to their knowledge of, and position in, the insurance market. The ABI could draw on their vast membership of insurers to help build a campaign which highlights the benefits they can offer to currently marginalised consumers.

We would also hope that having a trade association lead the campaign would help to focus the message on value of insurance and protection products in general, rather than inadvertently create and advertisement for a particular company.

One way for the insurance industry to fulfil the Consumer Duty could be to develop an insurance calculation tool to help consumers to accurately determine whether an insurance policy would suit them, or if their policy of “self-insurance” would in fact suit better. This would make it easier for consumers to know whether they are achieving their financial goals.

At the same time, it is important to note that awareness campaigns do not necessarily lead to greater engagement with financial products or a change in behaviour. Nor should behaviour change necessarily be taken as the measure of success for such a campaign. Rather, the goal should be to ensure that consumers make the best decisions for themselves, with adequate awareness of the costs, the benefits and the risks.

Facilitate peer-to-peer support hubs

In 2018, the government launched the “Help to Save” scheme, which aims to help those who are on low incomes to create a habit of saving in order to build financial resilience. Over the course of four years, participants can save between £1 and £50 a month and receive a 50% bonus over the savings period. Take up of the scheme is good, although not everyone who is eligible for the scheme is currently using it.[78] In order to encourage more eligible consumers to use "Help to Save", the Government has recommended engaging with those who may be able to promote the scheme, such as large employers.[79] However in looking at both sources of information for the Help to Save scheme and where people currently seek information and advice on financial products, this approach could miss out significant sources of influence.[80] As came through in the survey and the interviews, friends and family are an important and trusted source of information and guidance across financial matters. This is not only a function of the intimacy of those relationships, but also due to the shared backgrounds, cultural attitudes and experiences of friends and family, which lend greater perceived relevance to their judgements. They can also provide a strong connection to initial access and an important touchpoint for financial inclusion. The Financial Wellbeing Strategy has also found that peer-led support can be important for improving financial wellbeing especially among younger age groups.[81]

The Government should use existing infrastructure to facilitate in the development of peer-to-peer support hubs through the Money and Pensions Service's regional partnerships network, which could encourage community knowledge-sharing on financial products and services. Existing community hubs would be a good place to start building such groups, as they generally have an existing client base around them, as well as a physical space where activities can occur. Where formal community hubs do not exist, other publicly accessible and well-known community locations such as local libraries could be used. We envisage such support groups to take the form of small group sessions, where members of the local community can come together to talk about their individual experiences with financial services, and raise concerns or questions they have about particular financial products with each other.[82]

The peer-to-peer model of advice is well-established in mental health support, which could offer a template for how financial support hubs would run.[83] Peer support groups exist within the NHS and at local chapters of national mental health charities, as well as developing through existing community groups in response to local needs. Peer support already exists in the financial sector, but not as widely. Social enterprise Money A+E provides a good model of how peer services work in the context of financial advice. Such a model could be replicated across the country, supporting communities to navigate the financial products and services they are most interested in and possibly least familiar with.

Money A+E

Money A+E is a social enterprise based in London, which focuses on financial education, budgeting, and debt advice among ethnic minority and disadvantaged communities across the capital.

The charity runs a number of programmes that provide money advice and education, helping people to develop money management skills. As well as running individual workshops and providing business support, it trains:

- “Community Mentors” who can support members of their community with financial issues and build community economic resilience
- “Money Champions" to provide tips and signpost support
- “Money Coaches” who offer personalised one to one support

As a community-led initiative, the charity successfully builds relationships across ethnic minority groups and disadvantaged communities which can otherwise be hard to reach. Crucially, it also trains and recruits those who have benefitted from the help of Money A+E in the past. Its model has proven successful at both raising confidence and financial capability in the communities it serves.

Lower the threshold at which employers contribute to pensions

Each stage of auto-enrolment has expanded and improved pension participation, particularly for ethnic minority groups. However, as has been detailed in previous chapters, current eligibility requirements prevent all employees from being enrolled. The fact that ethnic minorities earn less overall, combined with differences in attitudes towards pensions saving, means that there is a greater need to expand savings provision and ensure that that ethnic minority groups have sufficient resources in retirement.

The government's 2017 review of auto-enrolment was entitled 'Maintaining the Momentum', yet there is a sense that progress has stalled, or at least slowed considerably.[84] That review recommended lowering the age of eligibility for auto-enrolment from 22 to 18, and for the elimination of 'lower level of qualifying earnings', which currently means that no contribution is made on the first £6,240 of earnings. While the Government says it intends to introduce these changes, which would make a positive difference to the nest eggs of minorities on low incomes, the changes are not set to come into force until the mid-2020s.[85]

Reform of auto-enrolment should also look at the earnings threshold for eligibility. Currently, automatic enrolment is triggered when an individual is earning over £10,000 a year[ii], although it has previously been suggested that the threshold could be lowered to the level where national insurance contributions begin.[86] As things stand, that threshold is £1,048 a month, or £242 a week.[87] A further proposal is lowering the threshold to £0; effectively allowing all employees to be enrolled and start contributing immediately.[88] We back this proposal, but would like see it go a step further, with employers contributing from the first pound, without needing the employee to contribute simultaneously. Not requiring employees to contribute initially could help to build the pension pots of even the lowest earners, without any change to their monthly disposable income. Employee contributions could then kick in once an employee starts earning over a certain amount, such as the point of national insurance contribution. It is likely that these measures would result in greater pension participation among ethnic minority consumers, particularly ethnic minority women who have the lowest pension contribution rates but have also benefited greatly from auto-enrolment up to this point.

A similar measure has recently come into force In Australia, where a minimum earnings limit has been removed. As a result, every employer In Australia must pay "super guarantee" of 10% of an employee's earnings, irrespective of how much they earn.[89]

[ii] Earnings threshold also given by 1 week (£192), 1 fortnight (£384), 4 weeks (£768), 1 month (£833), 1 quarter (£2,499) and bi-annual (£4,998)

Create targeted support for new migrants

Migration has not been a central focus of this project, but previous research has indicated that newer migrants can take time to adapt and integrate into the financial system.[90] Our survey data also shows that of those not born in the UK, the longer someone is in the UK the more likely they are to engage with financial services. Product ownership increases across almost all areas for longer term migrants, as does insurance take up. Exactly why this may be the case is not clear. Documentation can play a part, as we have seen in previous research with regards to difficulties in opening bank accounts. However, exposure to financial products (or lack thereof) could play a part. The development of the previously recommended peer-to-peer support may be a starting point for creating such targeted support, training those who may have a had a similar experience in how to support new migrants upon their arrival to the UK in order to help them settle in and ensure they can access the financial system from the start.

Improve data collection and conduct further research

We have made some progress over the course of this project in better understanding the differences in usage of financial products and services between ethnic groups. Yet there are still questions that remain unanswered. We are aware that research is currently underway, with a focus on the experiences of ethnic minority groups across all areas of financial inclusion. A joint project between Fair4All Finance, NatWest and StepChange, for example, is looking at issues including access to credit, use of informal financial products, and product design.[91] We welcome this and hope to see sustained focus on addressing the disparities that remain and the detriment they cause. It is particularly important in future research to avoid treating ethnicity as a monolith, and to recognise differences within what are very broad ethnic groups. Wherever possible, ethnicity should be disaggregated to better reflect the diversity of experiences faced by different minority groups, although we recognise that this can be methodologically challenging given the size of some populations. The practical reality of this difficulty is evident in our own research. In this report, we have not always been able to sufficiently disaggregate our data to the broad ethnic group level and draw concrete conclusions beyond the general "ethnic minority" grouping.

As well as other dedicated research on the experiences of ethnic minorities, it is important to include ethnicity in general data capture. Providers of financial products and services such as banks, insurers, and financial advisors should also be encouraged to monitor and disclose information on product take up by ethnic group. This should ideally be done *after* a product has been bought or service accessed. For example, when a loan is approved or rejected, customers could be invited to complete a survey which asks about key demographic factors such as age, ethnicity, and household income. We understand that including ethnicity in this way carries with it a certain degree of risk and safeguards should be put in place to mitigate the risk of data being used in a discriminatory manner. However, to understand the needs of a firm’s customer base, it is necessary to understand who that customer base is. Gathering this data will also help to highlight gaps in service provision and identify potentially discriminatory practices, whether or not they are intentional.

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