Cities of Migration
A Maytree idea

GOOD IDEAS ON ECONOMIC INCLUSION

Access to Banking

What is financial inclusion and why is it an important issue for immigrants? In our new report, Omar Khan, Runnymede Trust, U.K., offers expert commentary and context for a selection of good practices that illustrate some of the multiple and overlapping strategies being developed by innovative city leaders, civil servants, business and community organizations in cities across Canada, the U.S. and Europe.

Good Ideas on Economic Inclusion: Access to Banking is the first report in a series that examines issues and good practices related to the economic integration and inclusion of immigrants in the neighbourhoods, highstreets and workplaces of today's cities.

What Is Financial Inclusion?

Omar Khan, The Runnymede Trust

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Across cultures, ancient parables explain the importance of saving when times are good and borrowing when times are bad to minimize our individual and collective suffering. Of course, some people were better able to build up savings or to see their debts honoured. Today, financial products have become both more necessary and more complex. And yet, the situation for lower income groups and migrants is similar – they are no more likely to be financially included than their ancient counterparts. In modern societies, however, the importance of financial products and services means that people who cannot access them are also excluded from participating fully in economic and social institutions.

THE COST OF FINANCIAL EXCLUSION

Financial exclusion is here defined as poor access to affordable financial products and services, most notably banking, savings, credit, insurance and advice. This exclusion affects many aspects of an individual's life. For example, people who don't have a bank account might have difficulty accessing basic services such as heating, water and other utilities. Workers who are paid in cash are vulnerable to unscrupulous employers and to criminals who target these "walking ATMs." Further, the "unbanked" might be forced to rely on other parties – such as "payday" or predatory lenders that charge extortionate rates to cash cheques and provide other day-to-day financial services. Building credit ratings and savings become essentially unattainable goals.

Two possible reasons explain financial exclusion. First, some groups are either more risky or less profitable for financial institutions; in other words, institutions believe it is more "costly" to design products for these people. Second, existing financial institutions are unable or unwilling to design new products and services for groups that don't fit into their existing practices.

This, then, suggests two strategies for responding to financial exclusion. The first is to accept or slightly adapt existing practices; the second is to design new institutions or ways of doing things so that everyone is financially included.

TOWARDS FINANCIAL INCLUSION

Real world interventions to ensure migrants are financially included now typically adopt both perspectives: working with existing institutions and practices and reforming them to include migrants, and at the same time developing new policies and practices. At the policy level, strategies include improving employment opportunities by adopting wide ranging or targeted education, and labour market policies that address for example, equality, discrimination or precarious work. Other interventions include ensuring access to affordable housing and healthcare.

In terms of practice, a common way of adapting is to provide financial education or financial literacy through which participants better understand ideas and concepts such as interest rates, insurance, mortgages and basic accounting. This is particularly common in development contexts, and for people who may have less experience of financial institutions and practices.[1] Successful practices, such as microloans, are being adopted from these contexts and used in developed nations.

Basic Banking – Three examples of financial education are Durham's Latino Community Credit Union, Offenbach's Fit for Finance, and Capital Area Asset Builders (CAAB) in Washington, D.C. In each of these cases, the financial institution or intermediary organization provides further education and literacy on financial issues, with the expectation that more informed consumers will take up more affordable financial products, be less likely to get into debt, and be better able to plan for the future.

Significantly, in each case migrants are provided more than information on how to navigate finance: in Durham, local residents can open a bank account in a credit union without immigration documents; in Offenbach, Germany, migrant participants (mainly Turkish and Russian) can access a mentor for financial advice; and in Washington, D.C., CAAB offers a matched savings scheme as well as money management and financial coaching services.

Other good practices focus on existing products, and particularly on basic banking (see Scotiabank's StartRight Program, Bank on San Francisco, and the U.K.'s basic bank account). Access to banking may be likened to a utility or even a "right" given the need for a transactional account to participate in any kind of economic activity. And because migrants may not have the official identity documents demanded by many

1. See www.povertyactionlab.org/evaluation/financial-education-indian-migrant-workers-qatar and www.ilo.org/asia/whatwedo/publications/WCMS_171658

banks, practices that focus on access to banking can have a great impact.

Matched savings – Individual development accounts (IDAs) and microfinance are arguably the two most prominent alternative products to improve financial inclusion. Matched savings deviate from mainstream savings products by offering a "match" for each dollar saved (say 1:1 or 4:1) rather than an interest rate. This idea was first promoted by Michael Sherraden (in *Assets and the Poor,* 1991) and piloted in the "*American Dream Demonstration*" in 1997 to enable "low-wealth families to save and enter the financial mainstream...build assets and reach life goals.... These savings can be used to buy a home, pay for post-secondary education, or start a small business." Individual Development Accounts

Internationally, such matched savings schemes have been adopted in countries including the U.S. (see the CAAB), Uganda, China, Israel, Japan, Singapore, Kenya, Hungary and the United Kingdom. Typically, such schemes do not focus exclusively on immigrants, though some U.S. programs focus on groups experiencing significant wealth and savings gaps: Native Americans (see Washington University Native Assets project), Latinos and African Americans (see Closing the Racial Wealth Gap; also New America Foundation).

Home ownership – One of the major aims of IDAs is to build up savings for a deposit for home ownership. Those who build up savings, seek home ownership, and invest in their children through education and other skills are thereby choosing to settle in their country of residence; for migrants, savings and wealth accumulation may be viewed as an indicator of successful economic integration.

An example of how policy both adapts existing practice (in this case mortgages) but also invents new ideas is the development of services since the 1990s for those Muslims who interpret the Islamic prohibition on interest as rejecting the interest rates underpinning mainstream mortgages. U.S. financial institutions have since developed a variety of services in response; for example the Chicago Reserve Bank offers interest-free "loans" in the form of joint-owner partnerships or by charging lease fees instead of interest.

Access to credit – Microfinance was originally piloted in developing countries as an alternative to modern forms of credit that are rarely available outside major cities. In countries including the U.K. (Fair Finance), Canada (Immigrant Access Fund) and Germany (Evers and Jung) microfinance has targeted migrants as well, who may either be excluded from mainstream sources of credit or face extortionate interest rates (often above 200% annual percentage rate (APR) in the U.K.) due to their lack of credit history. Fair Finance is a good example of the approach: the organization is locally based in a part of London with a large number of migrants, and hires a significant number of people from the local area. This local intelligence ensures that Fair Finance understands why particular clients need money, and any support they need to repay the loan or grow their business. Wherever it's developed, microfinance is typically based on more face-to-face interactions between the microfinance institution and the debtor to ensure a lower interest rate than those calculated by statistical risk-scoring. Fair Finance founder Faisel Rahman says, "We are returning to old style banking – relationship lending – and putting humanity back in the lending process."

The Immigrant Access Fund (IAF) in Calgary takes a similar approach to loans that aim to prepare immigrants for employment. The IAF takes a holistic view of both the borrower and "employability." As a result, loans are used for a variety of expenses – from tuition and exam fees to transportation to general living expenses. Loans are based on trust and good character, with an eye towards the borrower's potential. According to Dianne Fehr, executive director of the program, "We lend to people not based on where they are today, but where we believe they will be in the future."

A BROADER VISION OF FINANCIAL INCLUSION

We need to distinguish strategies that more or less accept or adapt existing financial institutions and practices from those that seek more wholesale reform or even new institutions and practices. Given the dominance of mainstream finance, the importance of banking for those seeking work beyond the limited opportunities in the cash economy, the need for everyone to build up savings and wealth to realize their life goals, and the wider social participatory effects of financial inclusion, practices must seek to engage mainstream institutions to do more for migrants and other disadvantaged groups.

On the other hand, if we frame these questions solely in terms of *financial* inclusion, we are vulnerable to existing institutions and practices declaring some customers or clients are too risky or costly to receive their services. As we have put it elsewhere "financial inclusion should be more expansively conceptualized to include economic well-being, personal autonomy and citizen participation." (Financial Inclusion and Ethnicity, 2008)

Banking on Affordable Credit

LONDON, UNITED KINGDOM

FAIR FINANCE

Fair finance means affordable credit for everyone, whatever your gender, race or postal code.

For the full story, contact information and related resources, see the Good Idea profile at Cities of Migration.

Between 10-15% of the adult population in the U.K. do not have access to a bank account. Being "unbanked" means being financially excluded and is among the most common ways that anyone, but especially immigrants and newcomers, can become marginalized and, when pressed for cash, vulnerable to predatory lenders and the extortionary practices of cheque-cashing shops. Financial exclusion can also result in limited access to such essential services as jobs, housing, education or health care.

Located in the multicultural streets of London, Fair Finance is a social enterprise that offers a range of loan products to the unbanked in the city's East End. Although their outreach is specifically targeted to immigrants, more than 60% of the personal loans and 83% of the business loans that Fair Finance provides are to people of minority backgrounds. By providing affordable loans, including emergency credit, and money advice to low-income families and minority communities, Fair Finance is helping to prevent the financially vulnerable from further exploitation.

In its first three years, Fair Finance helped more than 3,000 unbanked Londoners access bank accounts and saved clients nearly £1m in interest. They also provided debt advice representing £12m in managed debt to more than 1,500 people. Noteworthy is the bad debt rate of only 6% on £1.1m in personal loans – substantially lower than mainstream credit card companies.

Bank On San Francisco

SAN FRANCISCO, UNITED STATES

CITY OF SAN FRANCISCO, OFFICE OF FINANCIAL EMPOWERMENT

A local government partnership provides banking services to the financially excluded

For the full story, contact information and related resources, see the Good Idea profile at Cities of Migration.

In 2005, San Francisco city leaders learned that 20% of the adult population, and half of the city's Blacks and Latinos, did not have bank accounts. Many paid steep fees to predatory lenders and cheque-cashing services, or became victims of crime because of the large amount of cash they carried or kept at home. For some immigrants, mistrust of institutions or fear of being identified could be driving low membership. For others, it's a matter of basic consumer education.

Recognizing that a bank account is a critical part of financial empowerment, the city launched Bank On San Francisco in 2006 to increase access to mainstream financial services. Participating banks and credit unions allow individuals with no or poor banking history to start low-fee accounts, and gain access to financial counselling, college savings accounts and responsible payday loans. Mexican Matricula and Guatemalan Consular ID cards are accepted as primary identification.

The city's Office of Financial Empowerment aimed to reach 10,000 unbanked families. Today, more than 70,000 accounts are active. The program's success has attracted national attention. To help other cities launch similar programs, the city partnered with the National League of Cities and the James Irvine Foundation to create "Bank On Cities." More than 100 U.S. cities have launched, or plan to implement a Bank On program.

Financing Immigrant Futures

DURHAM, UNITED STATES

THE LATINO COMMUNITY CREDIT UNION, DURHAM, UNITED STATES

Credit union targets the unbanked with education and support

For the full story, contact information and related resources, see the Good Idea profile at Cities of Migration.

The Latino Community Credit Union (LCCU) was founded in 2000 to address the financial needs of North Carolina's growing immigrant community. North Carolina has more than 500,000 immigrants of Latino origin and the fastest growing Latino immigrant population in the United States. More than half of this community speaks English poorly and more than three-quarters do not have bank accounts.

As part of a broader strategy to introduce banking services to this financially excluded population, many of whom may never have held bank accounts, the LCCU does not inquire about immigration status. When processing new account holders, it accepts all official government-issued photo identification, including temporary U.S. visas and the consular identification cards (*matricula consular*) issued by governments of home countries like Mexico and Guatemala. All of the LCCU's employees are bilingual in English and Spanish, and are trained to help first-time banking customers navigate the system and its requirements.

To improve the financial literacy of its members, the LCCU developed a financial education program with free classes in Spanish and essential course topics such as account management, taxes, saving, budgeting, and building credit. Approximately 2,000 people now attend the classes each year. LCCU now has 45,000 members with assets of $35 million. 95% of its members are low-income earners and 75% are first-time banking users.

Investing in Character

CALGARY, CANADA

IMMIGRANT ACCESS FUND

A microloan program prepares newcomers for employment and invests in their long-term success

For the full story, contact information and related resources, see the Good Idea profile at Cities of Migration.

The Immigrant Access Fund (IAF) Loan Program provides internationally trained newcomers, regardless of occupation or training, with loans of up to $10,000. While most loans cover training, professional fees, exam expenses, assessments and books, an IAF loan is for whatever will lead to employment success.

IAF invests in people with potential, taking a long view of its investments in immigrant success. The key question that IAF asks is, what will help get this person fully employed in their chosen profession? A flexible and community-focused lending program is what makes IAF successful. As a "lender of last resort" for newcomers, IAF partners with community agencies and community volunteers who work closely with IAF staff to make loan decisions and build relationships with the people they loan to.

These local connections have helped IAF establish a trusted network of advisors that reduces risk and ensures low write-off rates. At the same time, newcomers build their credit rating in Canada, essential for future loans, mortgages and financial confidence. Dianne Fehr, IAF Canada Executive Director: "We're not a bank; we don't want to just lend money. We want to add value to those interactions."

IAF continues to grow. In 2013, IAF will launch an e-loan model to reach newcomers in cities without local micro-loan options. The micro-loan model confirms that investing in the incredible wealth of human capital arriving in Canada each year reaps huge dividends. IAF's success is limited only by the amount of money they have to loan.

StartRight Program for Newcomers

TORONTO, CANADA

SCOTIABANK STARTRIGHT

Pre-arrival banking services give newcomers confidence and institutional connection from day one

For the full story, contact information and related resources, see the Good Idea profile at Cities of Migration.

Imagine being able to set up a bank account, build a credit history, obtain a credit card and organize a mortgage – all before you leave your country of origin. That's the idea behind Scotiabank's StartRight Program for Newcomers. The program adapts existing financial services and introduces new services that are specifically designed for newcomers.

Scotiabank is a Canadian bank with a presence in more than 50 countries and a strong commitment to serving multicultural communities. In cities such as Toronto, Vancouver and Calgary, customer contact centres serve customers in Punjabi, Spanish, Mandarin, Cantonese, French and English. The "We speak your language" program posts signs to advise customers of the languages spoken by branch staff. In Calgary, bank employees speak a total of 42 languages.

StartRight pre-arrival programs are offered through Scotiabank branches and partners in India, China and Mexico so that immigrants can establish banking relationships in Canada prior to leaving home. For those en route or planning to come to Canada, or for those already arrived, the StartRight website provides essential resources in eight languages.

It's a win-win situation for all parties. Starting a new life with a sense of confidence and institutional connection helps StartRight clients accelerate the settlement and integration process. At the same time, Scotiabank is connecting with an entirely new customer base whose loyalty will likely continue as these new Canadians settle into work, pay taxes, buy properties, create businesses and invest in their new lives.

(f)in-fit - Fit for Finance

OFFENBACH, GERMANY

KREIS OFFENBACH, FACHDIENST INTEGRATIONSBÜRO

Promoting financial literacy and labour market success via intercultural mediators

With research reporting that the average German was less financially-savvy than the country's robust economy might suggest, local authorities in Offenbach seized a unique opportunity to host an innovative financial literacy project called (f)in-fit - Fit for Finance. The aim of (f)in-fit is to recruit and train motivated Germans with migrant backgrounds as intercultural mediators who can help educate their fellow citizens in financial matters and improve their chances on the labor market.

Led by EVERS & JUNG, a Hamburg based research group and community-based Ethno-Medical Centre Hanover with funding from the Levi Strauss Foundation (San Francisco), the (f)in-fit project was launched as a pilot in 2006 with a unique approach grounded in local experience.

Offenbach is one of the most diverse cities in Germany's industrial heartland (20% with migrant background). Because migrants are often over-represented in the low income or low education groups most vulnerable to financial exclusion, city leaders embraced (f)in-fit knowing the region's future prosperity could ill afford the social and

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economic cost of leaving this group behind.

Because many financial literacy projects fail to reach the groups most vulnerable to financial exclusion, {f}infit reached out to Ethno-Medical Centre Hanover for help adapting its award-winning MiMi ("With Migrants for Migrants") model. Developed to promote prevention and education in health care via a mediator approach, MiMi had already spread to over 20 German major cities and regions (XX today).

The (f)in-fit pilot provides 50 hour training to cultural mediators with high skilled professionals from the partner region and covered topics such as banking, savings, credit, insurance and pensions. A handbook on personal finance for migrants was developed and translated into Turkish and Russian.

Cities of Migration is a Maytree idea

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