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Accessing bank accounts and credit for business start up

A Briefing Paper issued by the Refugee Council

The Refugee Council is the largest charity working with asylum seekers and refugees across the UK. We campaign for their rights and help them to rebuild their lives in safety.



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Other Refugee Council publications are available at www.refugeecouncil.org.uk

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Introduction

Refugees have a long history of starting successful businesses in the UK.¹ However, many still face barriers when trying to access bank accounts and credit. Some of the reasons for this are shared by other financially excluded groups,² but there are distinctive barriers that exclude refugees and asylum seekers.

This paper starts by giving clear information about the professional guidelines for opening a bank account and accessing credit. This will be useful for asylum seekers and refugees, advisers and providers of financial services. Although the focus is on enterprise, the information is relevant to personal banking and credit.

In the second section, we respond to some of the key areas that financially exclude refugees, particularly entrepreneurs, and recommend a number changes that need to be made to support refugees in setting up businesses.

Further information about starting up your own business, providing advice and guidance can be found at <http://www.refugeesintobusiness.org.uk/>

Getting a bank account

Personal Identity Documents

The Joint Money Laundering Steering Group's (JMLSG)³ Guidelines state that the standard evidence for verifying personal identity will typically be issued by a government department⁴ and will contain the person's:

- full name
- photograph
- date of birth or residential address⁵

The standard evidence for verifying personal identification is a national passport, photocard driving licence, or national identity card. However, the guidelines make clear that *bespoke* tokens may be accepted for refugees and asylum seekers.⁶ These are⁷

Asylum seekers

IND Application Registration Card (ARC)

Refugees⁸

Immigration Status Document (ISD), with Residence Permit or IND travel documents⁹

¹ Well known examples include Marks & Spencers, Burtons, maxitech.biz

² See <http://www.jrf.org.uk/knowledge/findings/socialpolicy/369.asp>, last searched 1 December 2006

³ The Financial Services Authority (FSA) refers to the JMLSG's Guidelines in its role as regulator of the financial services industry. See Appendix A for the JMLSG and FSA's roles.

⁴ The guidelines make clear that, for personal identification, documents issued by a government department or agency, or by a court will provide a higher level of confidence. Part I, p59-60

http://www.jmlsg.org.uk/content/1/c4/68/86/Final_Part_I_030306.pdf, last searched 1 December 2006.

⁵ Note that for personal accounts, proof of residential address will need to be shown; for business accounts, proof of trading address. Evidence includes utility bill, council tax or could be bespoke tokens such as solicitor's letter, tenancy agreement.

⁶ See Part II, p6 http://www.jmlsg.org.uk/content/1/c4/68/87/Final_Part_II_030306.pdf, last searched 1 December 2006

⁷ As outlined in Part II Annex 1-I p13

⁸ Including refugee status, humanitarian protection and discretionary leave to remain.

⁹ Blue (refugee status), red (stateless person), or brown (humanitarian protection, exceptional, discretionary and indefinite leave to remain) travel documents must be applied and paid for separately

The guidelines note that refugees are unlikely to have their national passports and will have been issued with Home Office documents confirming their status. This is the ISD which a refugee will receive without charge from the Home Office when granted status.

Accessing Credit

Credit scoring is used when you want to borrow money, whether as a loan, overdraft, credit card, or any other form of credit. The lender (ie bank or building society) will score applications using a range of information which may include referring to an external credit agency.¹⁰

Credit scoring is used to try and assess the level of risk involved in allowing you to borrow up to a certain limit. The lender can reject an application if it feels the risk is too high, but may decide to lend a smaller amount, or charge a higher rate of interest.

If your application is refused based on your credit score, you can ask for it to be reconsidered and can appeal against the decision. This may mean that you have to provide further information. You can also ask for more details about how the score has been calculated. If you are still concerned that your application has not been fairly dealt with, you can make a formal complaint.¹¹

You can also request a copy of your credit report from a credit agency. This is the information that a credit agency holds about you that a bank or other provider may use in the decision making process. There are three national credit agencies.¹² You can ask them to include a note on your file if particular details need further explanation (one example, might be if you cannot register on the electoral roll but have leave to remain in the UK.¹³)

If you have an account already, the bank may use a 'behavioural score' in deciding whether to provide credit. This takes into account your account history, including how long you have been a customer and whether you have kept up with any regular payments.

Securing Loans

Lenders may ask for security before agreeing to make a business loan. This means that they will be guaranteed some repayment if the loan cannot be repaid. Home ownership is a common form of security but it can also include assets of the business.

The Department for Trade and Industry has established the Small Firms Loan Guarantee Scheme (SFLGS) which can guarantee 75% of the loan. The SFLGS is for banks to use when they have agreed to the loan in principle (ie they believe a business plan is viable) but there is a lack of security.¹⁴ The bank processes the application internally using an online portal which has streamlined the process.¹⁵

¹⁰ Under the Banking Code, banks have to provide certain standard information to customers. This information includes telling a customer about the checks a bank may make with credit reference agencies when an application is made and when these details may be passed to a credit reference agency. Financial institutions must also get consent from a customer before it passes on information about you to a credit agency. See <http://www.bba.org.uk/bba/jsp/polopoly.jsp?d=259&a=3544>, last searched 11 December 2006

¹¹ The British Banker's Association has produced guidelines on how to complain to a bank and contact details of credit agencies. See <http://www.jmlsg.org.uk/bba/jsp/polopoly.jsp?d=262&a=390>, last searched 12 December 2006

¹² See <http://www.jmlsg.org.uk/bba/jsp/polopoly.jsp?d=262&a=390>, for contact details.

¹³ For further details, see <http://www.bba.org.uk/bba/jsp/polopoly.jsp?d=259&a=3544>, last searched 12 December 2006

¹⁴ Further information on security for loans and the SFLGS can be found at <http://www.businesslink.gov.uk/bdotg/action/layer?r.l3=1073868460&r.l2=1074453326&r.t=RESOURCES&r.i=1076334008&r.l1=1073858790&r.s=m&topicId=1073868460>, last searched 12 December 2006

¹⁵ Previously, banks had to complete separate forms for each application which were sent to the DTI for assessment

Community Development Finance Institutions

Community Development Finance Institutions (CDFIs) invest in communities and underserved markets that struggle to access mainstream finance. CDFIs have the joint aim to generate social and financial returns. They are involved in personal and enterprise lending.

CDFI finance is a new but growing area. Some will have an enterprise and community development focus. As a result, business plans that highlight the social and community benefits can be persuasive. There may also be greater flexibility assessing the risk a particular loan represents and the security needed. CDFIs do not have a set credit or behavioural scoring system. Rather they focus on the willingness and ability of someone to repay.¹⁶

The Community Development Finance Association (CDFA) is the Trade Association for CDFIs in the UK and has an online directory of members. The directory allows you to search for the type of finance you want and provides details of CDFIs nationally or in specific areas.¹⁷

Barriers to access

Bank accounts

The Refugee Council welcomes both the FSA's and JMLSG's commitment to widening access to financial services. Opening a bank account is important to getting a job. It is also key to starting and growing a business.

The JMLSG's Guidelines recognise that refugees will have difficulty producing standard evidence for ID purposes. Refugees will not have valid passports¹⁸ or identity cards from the country of their nationality. Additionally, applying for a driving licence is not straightforward and costs money.

The Refugee Council believes that in most cases it is unreasonable to ask refugees to produce other documents in addition to the Immigration Status Document (ISD). Some refugees may well have the travel documents recommended as alternatives by the JMLSG. However, these are not issued free of charge, take time to process¹⁹ and do not provide any additional identity assurances to the ISD.

We also support greater flexibility around evidence of residential address. Financial service providers should recognise the difficulty refugees will have in providing proof of previous address during their asylum claim or before coming to the UK. We would also encourage providers to show greater flexibility in weighing the importance of residential address confirmation given the strength of the ISD outlined above.²⁰ This is also relevant when applying for credit.

¹⁶ Discussion with Sarah McGeehan, Deputy Chief Executive, CDFA

¹⁷ For further details, see <http://www.cdfa.org.uk/cmframe.php?prmid=4000>, last searched 13 December

¹⁸ Unless you have applied successfully for British citizenship after a few years residence in the UK

¹⁹ This is particularly the case for Brown travel documents. The application procedure requires a letter from the national embassy stating that they will not or cannot issue a passport. There are clearly difficulties in expecting people who have claimed asylum in the UK, and may settle here longer term as British citizens, to initiate contact with their national embassy

²⁰ More generally, given the JMLSG guidelines, greater flexibility around providing confirmation of residential address has been highlighted by Philip Robinson, Financial Crime Sector Leader, FSA in a speech to the JMLSG Guidance Conference, 2 May 2006. See http://www.fsa.gov.uk/pages/Library/Communication/Speeches/2006/0502_pr.shtml, last searched 10 December 2006

Access to credit

The Refugee Council is concerned that the credit scoring disadvantages refugees and asylum seekers. In one debt advice agency's opinion, the six key issues that damage a person's credit score are: not being on the electoral roll, a bad credit history, a current address less than three years old, a new job, no or new bank account, and too many credit applications.²¹

Unless they have become UK citizens, refugees will not be registered on the Electoral Roll, a key part of any credit check. The experience of being forced to leave your country makes it unlikely that refugees will be able to access previous financial or employment records.

It is likely that refugees will have had a number of addresses since arriving in the UK. The period claiming asylum can involve detention²² or dispersal to accommodation around the country at short notice and without choice of location. When granted leave to remain, finding housing is a priority. The British Social Housing Foundation (BSHF) has recognised the problem of accessing settled housing for refugees.

The immediate issues relating to housing for refugees are preventing homelessness, improving access to housing, helping refugees sustain tenancies and improving community safety.²³

Refugee Status and leave to remain

The Refugee Council is concerned that the new policy of granting only five years leave to remain for refugees will impact significantly on refugee entrepreneurs.²⁴ There are a number of ways the change makes it more difficult for refugees to start their own businesses.

- Refugee entrepreneurs may not consider it worthwhile investing time and money into business start up if their long term future is not assured.
- Some financial service providers/schemes will not lend to people without indefinite leave to remain.
- The first three years of a business are the most risky. Therefore, the ability to look longer term is critical in making the enterprise profitable and attractive to potential investors.
- Banks want to build longer term relationship with customers and business banking is competitive. They often offer incentives for customers to open accounts with them, and consequently will only start to make money on the account after about 3 years. This makes refugee entrepreneurs with limited leave a risky investment.

²¹ http://www.debtadvicebureau.org.uk/explained/credit_score_killers.html, last searched 12 December 2006

²² The Home Office is increasingly using using detention as part of its New Asylum Model. See <http://www.ind.homeoffice.gov.uk/applying/asylum/asylumfactsheet/efficiencyofasylumprocess>, last searched 12 December 2006

²³ BSHF (2006) Building on Diversity: Providing Homes for Refugees and Strengthening Communities, p.24

²⁴ From 30 August 2005, asylum seekers granted refugee status are given five years Leave to Enter/Remain in the first instance. Previous to this date, Indefinite Leave to Remain was given. Refugees and people with humanitarian protection may apply for ILR before their limited leave ends. For a fuller discussion, see the London Refugee Economic Action's policy paper http://www.loreca.org.uk/downloads/LORECA_Policy_Briefing_1.doc, last searched 12 December 2006

Refugee Council Recommendations

1. The Home Office should grant indefinite leave to remain to asylum seekers granted refugee status or humanitarian protection, recognising the impact the 5 year rule has on increasing financial exclusion and restricting refugee entrepreneurship
2. The Government should recognise the role refugee enterprise plays in wider regeneration and community cohesion strategies and should provide the security for a national refugee enterprise fund with a mainstream financial institution.
3. The Home Office should establish self employment and enterprise as part of the national Refugee Integration Services, in particular SUNRISE and refugee professionals.
4. The Government should increase funding allocated to JobCentre Plus' New Deal for Self Employment to provide greater consistency of provision around the country
5. Regional Development Agencies (RDAs) should:
 - a. actively engage with CDFIs to increase access to enterprise funding for refugees
 - b. include refugees as a distinct part of their Ethnic Minority Business Forum and strategy
 - c. promote its business advice services to refugee community organisations and agencies
 - d. continue to provide refugee awareness training for its business advisers
6. Trade associations should ensure that their members are aware of the JMLSG guidelines on documentation and list the ISD as an acceptable document for personal identity verification
7. Financial institutions providing credit and behavioural scoring, along with credit agencies, should take into active consideration the distinctive circumstances of forced migration. In particular, that a refugee's credit score should not be prejudiced by
 - a. being unable to register on the electoral roll
 - b. the effects of forced migration, in particular not being able to access previous financial records

Appendix A

The Financial Services Authority (FSA)

The FSA is regulator of the financial services industry in the UK. It is not a government body but it is accountable to the Treasury, and through them to Parliament. The FSA has four key aims. These are to

1. maintain confidence in the financial system
2. promote public understanding of the financial system
3. secure the appropriate degree of protection for consumers, and
4. reduce the potential for a business to be used for a purpose connected with financial crime.

Part of the FSA's work has been to promote access to basic bank accounts. These were introduced as part of a wider Government drive to tackle financial exclusion so that more people could have access to banking services. The basic account allows you to withdraw money, but does not provide any credit facilities (ie overdraft, cheque book, etc.).²⁵

The FSA Rules adopt a broad view of financial exclusion, in terms of ensuring that, where people cannot reasonably be expected to produce standard evidence of identity, they are not denied access to financial services.

The FSA's aim to combat financial crime relates to money laundering and use of finance for terrorist activities. This impacts on the types of documents required to prove personal identity when opening a bank account or applying for credit. In deciding whether a bank has followed the rules on systems and controls against money laundering, the FSA will refer to guidance issued by the Joint Money Laundering Steering Group (JMLSG).²⁶

The Joint Money Laundering Steering Group (JMLSG)

The JMLSG is made up of the leading UK Trade Associations in the financial services industry, including the British Bankers Association (BBA) and the Building Societies Association (BSA).²⁷

The JMLSG published its latest Guidelines in January 2006. Although not mandatory they do provide an indication of what is expected of financial sector firms and, as stated above, will be referred to by the FSA.

²⁵ For further information on basic bank accounts, see http://www.moneymadeclear.fsa.gov.uk/pdfs/bank_accounts.pdf, last searched 21 December 2006

²⁶ See Senior Management Arrangements, Systems and Controls (Markets in Financial Instruments and Capital Requirements Directives) Instrument 2006 6.3.4 http://fsahandbook.info/FSA/handbook/LI/2006/2006_50.pdf, last searched 1 December 2006

²⁷ For further details on the JMLSG, see <http://www.jmlsg.org.uk>, last searched 4 December 2006