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# ***National Observatory for the Financial Inclusion of Migrants in Italy***

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## ***Fourth Report - 2015 Abstract***

Implemented by

**CeSPI**

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Edited by

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*The National Observatory for the Financial Inclusion of Migrants is a long-term project. The first of its kind in Italy and in Europe, the Observatory aims to become a hub for the ongoing structured analysis and monitoring of financial inclusion process for immigrants in Italy, which is key to their full integration. The Forum will provide various entities and institutions with tools to encourage knowledge-sharing and cooperation, and this in turn will help identify and define integrated strategies for strengthening and furthering the development of the financial inclusion concept.*

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The migration issue in Italy is strongly influenced by the historical moment we are living, as a landing point and hub of migration linked to situations of instability and conflict involving much of the area overlooking the Mediterranean. It is a contingent situation, and unique in the history of our country and of Europe, that raises humanitarian, managerial and urgent policy issues, but that is likely to distract attention from a wider overall migration phenomenon which has involved our territory over the past decade.

In Italy today more than 5 million foreign nationals reside regularly, 8.4% of the population and, according to ISTAT estimates, this will reach 11 million by 2040. It is mostly young people (individuals and families), with levels mobility, entrepreneurship, propensity to save and the more transnational, although still characterized by a lower earning capacity and integration processes which proceed at different speeds and degrees, depending on a variety of factors. Alongside the new arrivals, connected to work related residence permits or family reunion, there is a wide range of foreign nationals who are still living the central stages of the integration process, while in recent years, a third component is emerging, related to those who have permanently chosen our country and start to show important indicators of stability and integration, contributing actively to support the social and business fabric of our country. A heterogeneity and overlay that highlights the vitality and complexity of the migration phenomenon and that poses new challenges that require careful, not superficial, reading.

In economics the concept of opportunity cost is often used as a measure of the potential cost arising from the lack of exploitation of opportunities associated with a phenomenon or economic behaviour. Applied to migration it can be an important indicator of the opportunity to increase the value of the assets associated with economic and social integration of the new Italian citizens, a process that cannot be taken as automatic. A theme to which there are two interconnected principles directly connected: those of political and economic citizenship. It is in respect of the theme of economic citizenship that the National Observatory for Financial Inclusion of Migrants tried to give an innovative and important contribution in these four years of activity.

Active participation in the economic system constitutes an important aspect of the broader process of social inclusion, creating opportunities for relationships, acquisition of a complex system of rules and conventions including social and especially in terms of participation in the creation of a common good. A process that does not take place in an automatic way, but that requires it to be properly governed and accompanied and of which financial inclusion<sup>1</sup> constitutes a crucial block. In recent decades, in Western economies, access to financial services and their proper use have gradually become a pre-condition for participation in economic life: the current expenditure, access to goods and services, and in many cases even to instruments of social welfare (social card, public funds in support of unemployment), until you enter the job market. In this sense the process of financial inclusion is designed as a complex and multidimensional phenomenon, involving the economic sphere, regulatory, the access and the functioning of markets, the cultural and religious sphere, transparency and consumer protection, education and public policy.

The migrant, from a financial point of view, is a subject without a financial, credit or asset history, has a lower than average income capacity and a lower recognition and enhancement of skills. These are all elements that expose the migrant to a higher level of economic and financial instability and a greater risk of social exclusion. Access to services and financial products is an essential resource in the integration process, the exclusion of which therefore involves much higher social costs for the migrant than the local citizen. It reduces their vulnerability, both with respect to their ability to save and less reliance on informal channels, and with respect to their ability to deal with emergency situations, and increases their ability to fit into a social (human resource development, investments in education and vocational training) and production (labour, business start-up, and investment opportunities) fabric. Not least, financial inclusion is an important means of mobility in the labour market within Europe.

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<sup>1</sup> Understood as the set of activities developed to facilitate access to and efficient use of banking services by individuals and organizations not yet fully integrated into the ordinary financial system. These services include financial services of credit, savings, insurance, payment, with the transfer of funds and remittances, financial education programs and access to a branch, as well as for the start-up of small businesses. Frigeri D. (2013), edited by, Good Practices of financial inclusion. A European look, National Observatory for Financial Inclusion of Migrants, CeSPI [www.migrantiefinanza.it](http://www.migrantiefinanza.it).

There is therefore a structural link between the process of integration, active participation in the economic system and financial inclusion that, if properly groomed and maintained, can generate virtuous processes and allow collecting and valuing the potential related to the migration process, reducing aspects of vulnerability. A challenge that on the one hand requires suitable analysis and monitoring tools and on the other responses and system initiatives that connect public and private stakeholders.

The National Observatory for Financial Inclusion of Migrants was born from this awareness, shared by the Ministry of Interior and the Italian Banking association through a memorandum of understanding with the aim of better understanding the phenomenon and to provide operators and policy makers appropriate and updated tools to develop effective and shared policies and strategies. In these last four years the Observatory has done this through a large and complex system of analysis and monitoring, through the involvement of financial operators (banks, the Italian Post Office, consumer credit companies, insurance companies, money transfer operators), institutions of category (Abi<sup>2</sup>, Assofin<sup>3</sup>, Ania<sup>4</sup>, Unioncamere), specialized institutions (CRIF) -from the side of the offers- and migrants -from the side of the requests- and developing interaction tools (Expert Group<sup>5</sup>), information and training aimed at a diversified public (third sector organizations, financial organizations and migrants).

In recent years the process of financial inclusion of immigrants in our country has proceeded at a rapid pace: if in 2010 only 61% of resident adult immigrants were the holder of a bank account, in 2013 the percentage rises to 74%, with more than 2.4 million current accounts at Italian banks and BancoPosta (in addition to nearly 110,000 small business current accounts), while the cards with IBAN reach nearly 1.2 million immigrants. A bankarisation that has changed significantly: while in the past it was driven by the access to the labour market, in recent years it has become a much more conscious process for the immigrants, as a required instrument of integration, and in which the financial system, from initial viewer, has become the main actor. Even from a financial point of view a triple profile of immigrant citizen is emerging: on one side one who is still financially excluded (or it is more vulnerable because of their recent arrival) or who is in the early stages of the process of banking services, on the other, the central component, for which financial inclusion is an accelerator of the integration process and finally, of recent emergence and with high growth rates, the most stable component and "elderly" of migration that, even from a financial point of view, shows the most advanced integration features. At the same time, over the years the perception of the bank has changed: if in 2009 it was primarily a safe place to put savings and obtain credit, by 2012 it became a consultant and advisor for their needs, and financial backer for their own financial needs. In 2014, the perception further changes and in first place is the size of the savings, followed by the realization that the bank is a necessary interlocutor in its integration process ("an obligatory choice to live in Italy"). A process of "maturation" of a perception linked to the most basic functions of financial intermediaries (savings and credit) to a greater awareness of their role in the face of a centrality of the relational and consulting aspects, starting from saving management. Alongside the profiles the financial needs are changed, becoming larger and more complex. The perception of risk has changed: if in the early stages of integration a strong appetite for risk prevails, closely linked to the decision to emigrate, to establishment and to the presence of a reunited family or incorporated in Italy, instead now the will to protect the accumulated savings and the future of their children prevails.

The flow of money that reaches the countries of origin every year in the form of remittances is another important aspect in financial terms: more than 5 million euro in 2014. Even the remittance must be placed fully in the process of savings allocation, following complex logic, but that, in the more advanced phase of the process of economic and financial integration, covers also the investment component. The financial institution therefore becomes a privileged representative in respect to the double dimension that structurally characterizes the immigrant citizen, also in financial terms: the country of origin and the country in which he has chosen to live.

Entrepreneurship is finally an area closely linked to issues of access and proper use of financial products and the same is perhaps one of the most striking aspects of the migration phenomenon in our country. Immigrant entrepreneurs represent 8.6% of Italian companies as of December 2014 and they are responsible for a positive balance

<sup>2</sup>Italian banking association.

<sup>3</sup>Italian Association for Consumer Credit and Real Estate.

<sup>4</sup>National Association of Insurance Companies.

<sup>5</sup>The Group of Experts is a permanent organ of the Observatory made up of representatives of high profile expertise of key stakeholders involved in the process of financial inclusion of migrants.

Between businesses opened and businesses closed. A not insignificant data given that, in its diversity, it has important consequences in terms of contribution to the Italian system (in terms of GDP, relief in areas abandoned by the Italians, also linked to the districts of Made in Italy, of "biodiversity" in managerial and cultural reference models). For these reasons immigrant entrepreneurship has, in recent years, been a focus of the Centre in which they were dedicated for specific studies in order to highlight its potential, in the middle of its breadth and heterogeneity (female entrepreneurship, evolved enterprise, business community). The subject of this report is an experimental study, conducted in collaboration with ISTAT and ICE on the role of migrant entrepreneurs in the interchange between the Italian production system with foreign countries, with encouraging results, as well as a preliminary estimate of the contribution of migrant shadow economy in our country.

These are different aspects of a complex and rapidly evolving phenomenon, but it shows the potential and important challenges to the financial system and more generally to the economic and institutional systems. The economic and financial inclusion is a dynamic process, in which the financiers and economic institutions in general can play a decisive role to grasp and fully exploit the opportunities that migration can bring and where we showed only the main aspects, linked to the financial profile. A process that requires adequate tools for analysis and monitoring, in order to grasp in time the different phenomena and their evolution and thus be able to support them and accelerate them, avoiding regressive processes and resolving the main problems.

Similarly the development of migration profiles in place in our country, with a growing component of subjects characterized by a migration now stable and "dated" and an increasingly marginal of new arrivals or those still financially excluded, poses new challenges. The need to bancarize the new Italian citizens is gradually losing relevance and sustainability especially in terms of products and services for financial inclusion, moving naturally towards more advanced financial profiles more and more similar to those of the average customer. The prolongation of a deep and intense economic crisis further contributed to accelerate the phenomenon. The risk is to lose that heritage of experiences and tools of financial inclusion and bankarization that, over the years, have been developed by the financial system and that enabled us to achieve the results shown in terms of the index of bankarization. A major challenge, which applies to new immigration flows and those areas of the immigrant population still financially excluded for a variety of reasons, mainly related to increased vulnerability and insecurity. A challenge that again requires the search for system solutions which integrate and create synergies between the various programs, and the different existing public and private institutions.

## **Key findings**

### *The reference context*

The foreigners resident in Italy as of 1<sup>st</sup> January 2015 is 5,014,437, representing 8.4% of the population; since 2008 the foreign population in Italy increased by 47.3%, from 3.4 to over 5 million today. After 2009 when growth rates had a slight slowdown, the growth rate has started to increase, returning between 2013 and 2014 at the rates of double-digit growth (+ 12.2%) experienced in the first decade of the two thousand. Also long-term or indefinite permits are increasing, rising from 1,896,223 in 2012 to 2,045,662 in 2013. To date they represent 54.3% of the regular foreign presence.

The presence of the leading members of the family in Italy indicates a long-term migration prospective, once the allocation in Italy. In addition, both from the data relating to the granting of new permits and those relating to the acquisition of citizenship, a growing balance of gender distribution emerges. Even on a prospective basis, the design of future migration patterns, there is a substantial desire to settle by the majority of respondents. In a minor extent, there is sometimes a schedule of return, however, to those who organized their family life and have accumulated a wealth in Italy the incentives for return are almost absent.

Despite the better performance in the activity rate of foreigners than natives, the crisis has severely hit the migrants on the job front: the unemployment rate rose from 6% from 6.7% in 2008, to 12.7% in 2014 and for the seventh consecutive year there was a decline in the rate of employment of foreign workers.

The analysis of income and savings, however, shows a varied picture: the reduction of earning capacity between 2012 and 2014, although it is present, is distributed unevenly between the types of contracts and areas of settlement, and indeed in general, the sample of 2014 shows that it has reached the higher income levels (which generally accompanies

the later stages of the process of economic and social integration). In addition, the percentage of migrants who allocate a portion of their income to savings has increased between the two editions.

The empirical data clearly shows the relationship between permanence in Italy and greater job security and housing, as well as a more disposable income at personal and family levels. As much as there is much more room for improvement in terms of financial inclusion and integration per se, we note that the migrants in Italy have the opportunity to follow a virtuous path that leads over time to entering the labour market, to finding less precarious housing situations and to increase the personal income and that of his family.

The process of financial inclusion

Since 2010 the Observatory has measured the rate of bankarization of immigrants, referred to 21 nationalities from non-OECD countries and Poland. The index measures the percentage of adults who hold a current account with banks and BancoPosta, providing an overall picture of the evolution of the process of bankarization of immigrants in Italy.

*National Observatory for Financial Inclusion of Migrants summary years 2010 - 2014*

	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>
Number of current accounts held by migrants	1,782,426	1,921,899	2,440,325	2,433,068	2,427,239
Consumer section (Num. c/a)	1,709,370	1,837,945	2,338,473	2,328,272	2,318,175
Small business section (Num. c/a)	74,237	83,954	101,852	104,797	109,065
<b>Bankarization index</b>	<b>61.2%</b>	<b>72.4%</b>	<b>75.4%</b>	<b>74.3%</b>	<b>n.a.</b>
Percentage of migrant current accounts of more than 5 years	21.9%	35.4%	38.9%	35.3%	35.6%
Number of cards with IBAN (banks + BancoPosta)	n.a.	706,671	884,716	1,087,756	1,226,261

Some summary indicators of the process of financial inclusion of migrants:

- i. **The bankarization rate** (percentage of adults who hold a current account): the index tends to be connected to high levels, revealing that the banking system over the years has honed the tools and channels to reach this new customer segment and confirming the central role of the current account as gateway to the financial system and as a necessary component for the integration process in our country.

After three years of steady growth in the indicator, 2013 seems to register a slight slowdown that should be read within on-going processes:

- The evolution of the composition of migration flows in our country in recent years was mainly due to family reunification
- Financial innovation connected to payment instruments and in particular the introduction and dissemination, especially in the immigrant segment, of rechargeable cards and cards with IBAN (substitutes the current account)
- The net balance of current accounts open and closed accounts that continues to show positive values

A significant percentage of immigrants who do not have a bank account (26%) remains, although partly offset the possible possession of a card with IBAN.

- ii. **The rate of seniority** of the relationship between the bank and immigrant client, measured by the percentage of current accounts with more than 5 years is particularly significant (36%) both as an indication of a certain degree of loyalty and stability of the ratio and because it translates in more financial information of the customer and therefore more access to the most advanced products and services.
- iii. **The number of holders of cards with IBAN** (issued by banks and BancoPosta), which are not simultaneously holders of a current account with the same institution. It is a product that, due to its characteristics and the fact that gives full access to the payment system, is likely to be a tool of first access to

the financial system and therefore to financial inclusion. The numbers show a steady increase in its spread over the years, with an average annual growth rate of 20% in the 2011-2014 period and an increase of 13% last year. With 1,226,226 active cards, the incidence of card with IBAN on adult immigrant population has reached 35% in 2013

- iv. **Access to credit.** The integration process requires a significant and growing volume of resources to acquire the necessary tools. For those, especially the immigrants, that do not have personal or family wealth accumulated and cannot have a solid parental-friendship network from a financial and economic point of view, access to credit is a strategic resource. For this reason, financial inclusion from the first moments of the migration process, as well as the stability of the relationship with a banking institution, is a valuable resource to reduce the information asymmetry between financial operator and customer and increase access to credit.

The ratio of the number of outstanding loans at banks and BancoPosta to the number of current accounts held by immigrants in 2014 was around 26%.

The deterioration of the economic and employment conditions of foreign nationals, linked to the context (reduced earning capacity, increased job insecurity, unemployment), have influenced the credit both on the demand side (the decision to postpone or forego projects or expenses) and on that supply (higher risk). However, looking at the trend of the stock of loans for house purchases, from 2010 to 2014, the growth rates mentioned always positive (even if decreasing), indicating a growing desire for stabilization and a positive response from the banking system .

- v. **Consumer Credit.** Subject of a specific analysis by the Observatory in collaboration with Assofin, consumer credit confirms its role in supporting the integration process of immigrants on our territory. The impact of cash paid on the resident population remains constant, around 4.6%, for all four years from 2010 to 2014. Even in this case, the general context has influenced by changing the habits and consumption choices and thus on demand for credit, but the various forms appear to meet the needs of this new customer segment, characterized by greater financial fragility constituent. Consumer credit is confirmed to be, for its flexibility, accessibility and speed, an important tool for financial inclusion and approach to credit, where aspects of financial education and information is an essential component for their used efficiently and correctly.
- vi. **Use of banking products.** The ownership of the various financial products in respect to existing current accounts, for the period 2011-2014, shows there was a growth in the incidence of all categories of financial products (savings, credit, investment and payment services), indicating an immigrant customer in fast evolution towards more advanced financial profiles. Payment services show a particularly significant incidence, at around 70%, together with the deposit book, but overall the incidence of internet banking and non-obligatory insurance product is especially growing.

Insurance, in various technical forms, can play a key role in reducing the risks associated with unforeseen events, that can have a significant impact for those who are in a more precarious financial situation, and can promote and protect forms of savings accumulation. The migrant, especially in the early stages of the migration process, is characterized by a very low risk aversion, closely linked to the very choice to emigrate. The data and qualitative surveys carried out in recent years, however, have shown that, with the progress of the integration process and stabilization in our country and in particular with the creation or the reunification of a family, the attitude towards risk changes greatly. *"Everything we have done is for our children, we cannot afford to lose it"* is the recurring phrase that migrants of different nationalities have reported during the training sessions and focus groups dedicated to the subject of insurance. The focus on insurance products thus seems to involve the migrant segment mainly at an advanced stage of the stabilization process. If we test the hypothesis of a positive correlation between the existence of a family in Italy and the incidence of insurance products, it shows how effectively the presence in Italy of a spouse or one or more children, constitutes a significant variable that brings the incidence of insurance products to high percentages (46%), well above the average of the sample (35%). It does not seem that the presence of family members like parents and brothers who share the risk associated with migration has any relevance.

vii. **Remittances** continue to play an important role in the spectrum of economic behavior of migrants. If, in terms of definition, they are transfers of money between private entities, through intermediaries that provide a transport service / transfer of money from one country to another, from a microeconomic point of view remittances can be seen as that part of the immigrants perceived income that is sent to their families in their country of origin in any form, regulated or not (so-called informal channels). Excluding remittances to China, that contain a commercial component, the remittances from abroad rose 9% in the last two years, reaching 4.5 billion Euros. The final destination of remittances is directed to diverse and evolving purposes during the life of the migrant, with diverse targets and determinants, not exclusively linked to the consumer aspects. In light of this approach, the remittance assumes a much broader meaning, which cannot be separated from the concept of saving. The sending of remittances are configured within a more complex process and joined to the allocation of savings of the migrant situated in the two dimensions of time (during the evolution of the migration project) and spatial (between country of arrival and origin). A process in which diverse factors influence, partly controlled by the migrant and partly from a real negotiation between the migrants and their families at home, but still struggling to find adequate financing instruments.

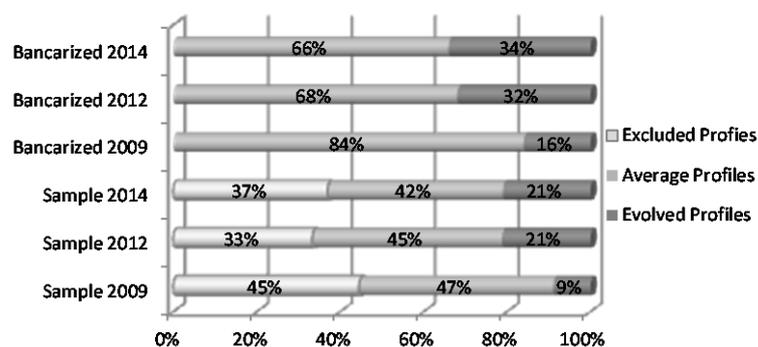
As for the non-bancarized individuals, namely those who are still excluded from a stable relationship with a banking institution, the analysis of the reasons for not opening a current account showed, with the exception of 15% of those using a single account for the whole family, precise routes of intervention aimed at financial inclusion, primarily attributable to increased financial education and the availability of products and services designed for people on low incomes, typical of microfinance. In evolutionary terms there has been a significant increase, compared to 2012, in the motivation linked to a perception of insufficient income ("I do not earn enough") which rose from 37% to nearly 41% in 2014, evidence of greater economic insecurity. At the same time, both the motivation linked to a perception of no-need and due to high costs, have reduced, both interpreted as positive signs. On one hand, it reveals a greater awareness of the role of financial inclusion in the integration process and on the other it confirms the reduction of the actual costs, which has characterized the financial system in recent years, partly due to the new regulations. Among those who do not have a bank account, 40% declare their intention to open one in the next two years, as a further confirmation of the existence of a bancarization requirement still unfulfilled and a segment of potential customers still to be intercepted by the banking system.

### The evolution of the financial profile

An important aspect is the evolution of the financial profile of immigrants residing in Italy, how has it changed and how is it changing the relationship with the bank? Historically, in Italy, the first factor of financial inclusion of immigrants was work: the current account was a necessary condition for access to the labour market. Over time, the financial system has gradually equipped itself to the new challenges and opportunities represented by a new target customers: from being only a spectator of a bancarization process that it was involved with, it has become an actor. Over the years there have been so many initiatives of "*migrant banking*" and "*welcome banking*" and an entire productive sector has developed, *money transfer operators*, related to the transfer of remittances to the countries of origin, becoming an important sector. The process of economic and financial inclusion, however, has shown over the years a complexity and evolution that require innovation and adaptation in a systems approach capable of integrating the strategies of operators with appropriate policy and regulatory instruments.

An early indication of how the bank-immigrant relationship has changed is an analysis of the reasons behind the choice of their reference bank. Word of mouth is the main driver of choice (38% of cases), while the collection of information and assessment of the various options available in the market is a determining factor in 17% of cases. The role of the employer appears much more reduced than in the past. This is important data that show that the migrant is a subject that is increasingly oriented in their choices, including financial, on the basis of a careful analysis of the various opportunities and that moves with some confidence on the market. The progress of the integration process improves familiarity with Italian institutions, with reflections also in the relationship with the banks. A shift of the needs to aspects more related to a relationship of trust is verified, based on information and consulting content that are best suited to the new needs, related to the integration proceeds.

The evolution of the financial profile of immigrants over time provides important information to better understand the directions in which the process of financial inclusion of immigrants is developing. The picture that emerges shows an increase in the weight of the evolved profile passing from 16% of current accounts in 2009 to 34% in 2014. In five years, that is, the number of account holders which are characterized by an evolved profile in the relationship with the bank and for the use of a plurality of financial products and services, more than doubles. The



immigrant client confirms, on the one hand, elements of rapid growth, which from the microeconomic point of view match increasing levels of profitability, on the other hand shows profiles of financial inclusion, and thus economic and social growing. A process that continued even in a context strongly marked by the economic crisis (the evolved profile, in fact, passes from 32% of current account in 2012 to 34% in 2014), confirming the presence of a segment consolidated in the wider universe of the immigrant population present on our territory. A second element that emerges from the data, on a prospective basis, regards the weight of people excluded that, after the significant contraction recorded in 2012, it undergoes a slight increase in 2014, rising from 33% to 37% in the sample of 2014. A fact that emphasizes the need to maintain a high level of attention on the issues of financial inclusion and the risk of creating forms of exclusion that can result in "chronic" forms if not properly supported by appropriate initiatives and actions that increasingly, given the modified context in which the relationship between immigrants and economic-financial system develops, requires system actions.

The profile of migrants working illegally

Subject of specific investigation through the use of descriptive analysis and econometric models - *probit* and *logit* models - to identify the determinants of the level of bankarization by international migrants residing legally in Italy suggests some considerations with policy implications.

Illegal work is neither a residual component nor due to a single segment of the labour market, affecting various sectors and profiles of migrants. However it was possible to draw a profile of migrants working illegally, that is, to identify some characteristics of those who, on average, have a greater chance of work illegally, combining individual characteristics, contextual (relating to the country of origin and area of residence ) and relative to the stage of the migration project. Sample data allow some information to be obtained about the consequences that illegal work has on the economic-financial field, quantifying and comparing propensity and orders of magnitude of the economic-financial variables, in terms of attitudes. The multivariate econometric methods of analysis help analyze the effects illegal work has on income and attitudes in the economic-financial field, and to analyze the overall degree of bankarization or 'GdB'; of those who work illegally.

The results of the analysis lead to say that the probability of being bankarized and, even more, to be so at average or evolved levels, is lower when the migrant works illegally. As many as 44.4% of those who say they work illegally are not bankarized, compared to a much lower proportions in the case of workers with permanent contracts (8.2%) or fixed term contracts (9.1%) or independent workers with VAT number (6%). In fact, more than half of all migrants who are completely excluded from bankarization fall into the category of illegal workers.

Moreover, taking into account the amount of limited disposable income, and the high proportion of that that goes to consumption in Italy, analysis of the distribution of the residual income shows that, net of "incompressible" expenses in Italy, there is a strong control in the share of income saved by illegal workers. Basically, the propensity of an

individual to save depends on its economic conditions. The peculiarity of international migrants is that, often, an incompressible share of the income, as well as essential expenses, consists of the remittances. This explanation provides a plausible interpretation of economic and financial behaviour of migrants working illegally: the percentage of illegal workers who allocate a higher share of income to remittances is high. On the contrary, the illegal workers are the group that recorded the highest proportion of those who do not allocate anything to save. Beyond the significant economic and structural contribution to the economy of the country, especially in some industries and business models, which translates into an economic value in the absolute sense of the undeniable contribution of the submerged ‘illegal’ economy, it notes, however, a very clear marginalization in terms of inclusion banking. This implies a net loss compared to the potential.

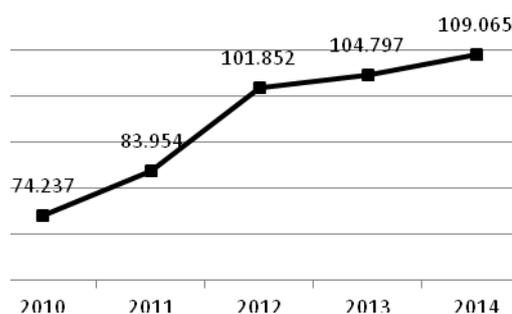
Immigrant Entrepreneurship and the immigrant contribution to commercial foreign trade

Foreign owner entrepreneurship in Italy seems to be less affected by the crisis, it needs only to be remembered that since 2011, when there were 454,029 businesses, to 31 December 2014, where there were 524,674 recorded, the balance increased by more than 70,000 units while the locals have lost 140,000. Migrant businesses are numerous, accounting for 8.7% of all enterprises in total, but remain quite fragile, in most cases it comes to personal businesses, self-employed, craftsman, with a low level of capitalization and a high mortality rate, which stood at 10.9% of the total in 2014.

As for the contribution of enterprises run by immigrants to trade between Italy and the countries of origin, the empirical evidence presented in this report, albeit on the basis of a still experimental methodology, seems to indicate an still modest weight of the immigrant entrepreneurship phenomenon in respect to the total monetary value of exchanges between Italy and the countries of origin of the entrepreneurs. However, there are already some elements of significant potential, highlighted by some foreign nations, the number of firms that contribute to the interchange between Italy and their country of origin or by the relative weight of interchanges in specific sectors. Immigrant owned businesses can be an important tool of internationalization of the production system and the *Made in Italy*, both as an "ambassador" of our products in their country of origin and is as a provider of high quality raw materials in the productive chain.

In the relationship with financial institutions immigrant clients who have a small business current account as of December 31, 2014, with Italian banks and BancoPosta, amount to 109,065, accounting for 5.2% of the total number of immigrant depositors. In view of the evolution in immigrant entrepreneurs also the *small business* segment follows a path of rapid growth, with an average annual growth rate of 10% between 2010 and 2014 and the impact of the crisis can only be detected in the reduction of growth rates of the number of current accounts on an annual basis of less than 5%, but always in largely positive territory. In the four years covered, at aggregate level, the area of immigrant *small business* (referring to the 21 nationalities surveyed by the Observatory) is growing in absolute terms by 47%.

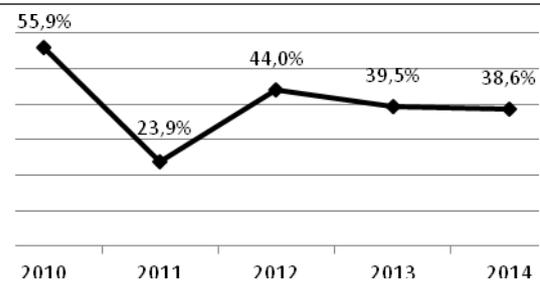
*Number of small business current accounts – System data*



In terms of percentage by type in the small business segment for the geographic macro-region of our country it is possible to say that entrepreneurship in the South finds an important engine of development in women (44% of small business compared to the national average of 31%). Ukraine, Poland and the Philippines represent communities whose female component appears more vibrant. To note also a significant presence of Chinese entrepreneurs.

The evolution of credit extended by the financial system to the immigrant small business segment (expressed as a percentage of loans outstanding to total accounts segment) is in line with the effects of the current crisis. After a significant decline between 2010 and 2011, the most critical point in terms of system liquidity, there was a gradual stabilization. Despite this fact, the number of loans to the *small-business* component, recorded an increase of 2.5% between 2013 and 2014. A growth driven by the short-term component, compared with a contraction in the number of medium-long term (-4%).

*Credit Incidence (% total small business current accounts), comparing 2010 to 2014*



The experience of Territorial Laboratories

The territorial variable captures a number of material factors underlying the life of the migrant, in particular work, income, housing that define the process of bankarization and financial profiles. For these reasons the Observatory has initiated an experiment on a territorial basis, which involved the metropolitan areas of Rome and Milan. The comparison between the two laboratories revealed a strong heterogeneity between the two contexts that express two different maturity and experience active in respect of the issue of financial inclusion of migrants. In part, these differences are related to the composition and history of the local fabric, as well as all intensity of previous experience of integration which can engage financial inclusion actions. The analysis highlights together with a concentration of initiatives developed in the macro-area of promoting migrant entrepreneurship, followed by financial inclusion, including those relating to the economically vulnerable, both immigrants and Italians, at risk of socio-financial exclusion. These areas are confirmed as the most important for future actions of intervention or enhancement. Altogether we can highlight the need for suitable tools for the territory, primarily aimed at strengthening the sensitivity and dialogue on the issue of financial inclusion among local *stakeholders*.

Policy Indications

The continuation and strengthening of the process of financial inclusion of migrants, on the basis of the findings from the data and analysis of the Observatory, goes through some specific indications that define the future agenda.

**Evidence of a migration that is evolving, showing diversified profiles**

The profile of immigrants on our territory is evolving rapidly. Financial, economic and sociological indicators show a picture that is characterized by the co-presence of three different profiles: alongside the new arrivals there is a component that has high levels of economic integration. An intermediate profile is instead represented by those who are going through the phase of integration itself. The steps between the various phases are continuous and may require a different number of years, as a function of a multiplicity of variables, repeatedly investigated and described by the Observatory. Awareness and knowledge of context of these three profiles is the basis for the definition of policies and effective strategies.

**Opportunity to enter the economic and financial inclusion of migrants in the integration agenda.**

Financial inclusion is a basic pillar in the process of social and economic integration, which appears as a *win-win* solution. It is from the participation in economic life that they can start the virtuous processes of social and economic inclusion, giving centrality to the relationship between migration and development, but also promotion and opening up of the Italian system abroad as part of a approach both strategic and long term for the theme of migration. Access to services and financial products is an essential resource, the exclusion of which involve much higher social costs for the migrant than the local citizen. And the European Council, in its conclusions of 26 and 27 June 2014, fixed in the

agenda of priorities supporting initiatives of Member States aimed at "*pursuing active policies of integration that promote social cohesion and economic dynamism.*"

### **Greater focus on saving**

The emergence of a more and more significant segment of the stable immigrant population recalls the need to pay more attention, financially, to the process of accumulation and protection of savings, in order to consolidate and strengthen the achievements. There are ample opportunities for satisfaction of needs in terms of access, security and asset management. Growing spaces compared to the evolution of the integration process, which require more attention and reflection and on which we should focus more synergistic efforts of all involved and in terms of information and financial education, and in terms of consulting and of institution financial-client relationship.

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### **Effects of the crisis - risk exclusion**

The crisis has had a significant impact on immigrants also from a financial point of view, increasing their fragility. The reduced earning capacity and in general the aspects of the economic crisis and its continuing, risk excluding those most vulnerable previously included in the financial system and in the process of integration, interrupting an ongoing process, with very high social costs.

### **The process of bankarization proceeds under diverse profiles, but remains a financially excluded component**

The financial system seems to confirm a key role in the process of financial inclusion of immigrants. Despite the crisis the process of financial inclusion has continued, however, it is revealed there are still financially excluded components and areas for improvement and further strengthening of the ongoing process. In particular they point out areas of intervention diversified on two fronts:

- a first action, rather than financial inclusion of marginal subjects, which we believe needs attention joint public-private action
- a second action of support and acceleration of the process of inclusion already in act, which goes to strengthen some processes and resolve any remaining nodes

In this sense, microfinance, as with technological innovation applied to the payment systems may be an opportunity to give an adequate response to a segment of the population still excluded from or on the margin of the financial system.

### **Language factor still relevant, but less sustainable**

Despite increasingly become apparent, between foreign nationals, increasing integration situations, in the relationship with the financial institutions the language factor remains an element to be addressed from three specific profiles:

- there are still some problems of understanding the more technical aspects related to contracts (familiarity with more technical terms belonging to Financial language)
- for individual nationalities, with a lower degree of social integration, there remain language difficulties to access the financial system,
- the linguistic component remains a major difficulty for those arriving Italy during the early stages of integration.

### **Towards system initiatives**

The evolution of the phenomena and in particular the demand component, the reduced availability of resources related to the effects of the crisis and the evident areas of financial exclusion, when more and more business aspects are intertwined with aspects of corporate social responsibility (think of microfinance, financial education, the inclusion of the most vulnerable and financially marginalized), highlights the need to think and start system initiatives capable of

being sustainable, involving operators and institutions and, where possible, the third sector, also of migrants present in the area.

### **Territorial Component**

In the territories the real game of integration is played, the territorial component is the main variable that determines the financial profile of the customer immigrant. On the issue of financial inclusion, the two pilot schemes launched by the Observatory in the territories of Milan and Rome have shown that, at the local level, there needs to be a drive towards a culture of financial inclusion and networks capable of playing an active role around these issues. Similarly, the territorial dimension is a great place to start testing that can involve several subjects on different levels, institutions, financial operators, intermediary organizations that work daily with migrants, while maintaining a system context.

### **Financial education and training**

If the component of banking and financial literacy and education aimed at migrants is crucial to facilitate access to financial products and services and in particular their effective use, the training component paid to financiers and the third sector takes on as much significance. Just as awareness of the importance of financial inclusion among the most relevant of integration is a key element to encourage those working in direct contact with the migrant outside issues closely interconnected with the financial operators.

### **Information**

Closely related to the previous point appears the role of information that is as transparent and accessible as possible. Also in this case, the technology, and in particular the familiarity of foreign nationals with mobile systems and via web, can provide an opportunity to convey information, even in innovative ways. As well as initiatives to encourage a more uniform system of information to protect users themselves, avoiding the risk of a proliferation of agencies and sources of information, not always complete and accurate.

### **Relational and consulting dimension**

Major financial needs associated with the progress of the integration process (especially in terms of management and protection of savings), to evolve the financial profile to advanced components and business dynamism, fuelling a growing need for a financial intermediary capable of supporting the immigrant citizen financially in this process. While the features are becoming more like those of the Italian customer and the migrant is characterized by a particular propensity for multi-channel (especially related to the use of the home-banking services), on the other hand, the relational component and consulting the report seems to be intensifying.

### **Entrepreneurship**

In addition to the social value related to self-employment and social mobility, compared to the process of integration, it is also important in terms of contribution to the economic system itself and openness to new or emerging markets. The support to its development, in financial terms, but not only, therefore seems relevant. In Italy there is a clear need to set up the system of the efforts that , fragmented, become dispersed into a thousand micro initiatives.

The relational dimension appears central, especially with respect to the bank-company relationship, the fiduciary relationship, based on mutual understanding takes on a strategic value, but may become an instrument of knowledge of new needs and research of new financial instruments that can support them, as well as an access point to the new financial and economic systems.

The enterprises run by immigrants can play an important role in the production and promotion of *Made in Italy*. It appears necessary to foster growth, internationalization to enhance their propensity to exchanges with foreign

countries through the activation of investment funds and guarantees; providing more information and assistance in relation to already existing instruments and by encouraging their participation in national plans and initiatives.

Trade associations can play an important role in supporting immigrant entrepreneurs not only in the *start-up*, but also in the growth and expansion stages. The accompaniment following the start-up is a strategic step for the success of a business venture and especially for an immigrant entrepreneur who has yet to orientate themselves in a economic environment that is not always known adequately.

### **Microcredit - the link between entrepreneur and financial system**

Microcredit can be a tool of first bankarization and above all of access to credit especially for subjects not immediately bancarizzable, both for starting micro-businesses, micro-credit for the component production, and for the social microcredit component. The legal provision that provides for the mandatory follow through accessory services even after loan disbursement is yet another step forward because this tool expresses their full potential in terms of financial inclusion. The additional challenge, which could make this tool fully effective, covers the provision of mechanisms and pathways linking the microcredit and the ordinary credit, enabling and accelerating the full integration and the evolution of the financial profile of the company and the individual that accesses this tool.

### **Accompaniment services**

The evolution of the business and financial profile of the immigrant citizen is accompanied by a growing demand for a financial partner capable of putting them in communication and connection with the economic and financial system of their country of origin. The mutated economic conditions in certain migrants countries of origin, the import-export activities to their country of origin, the growing component of investment linked to remittances, require an Italian financial system's ability to make contact with financial systems and non-traditional operators for our system. It is a new challenge and opportunity, increasingly felt by an increasing proportion of migrants who have chosen our country as their final destination, but keeping a privileged look towards their country of origin.

With respect to the relationship between remittances and inclusion of these flows of money into the financial system, the relationship between the sending channel and immediate use for consumption clearly shows that the formal channels - in particular the banking channel - is associated with a more limited share of remittance spent quickly. It confirms the great attention given in the course of the work of the theme of distance Saving Control (remittance): for migrants financial instruments that enable the management of money across borders, distance, changing the paradigm of reference from cash to cash to account to account are fundamental.

The data also shows the potential of policies that promote the role of female leadership: in addition to the known propensity to allocate money to expenses related to the education and health of children, this is associated with higher percentages of use of banking channels as a means to send money.

### **The opportunity to give continuity and expand the experience of the Observatory**

Italy, with the National Observatory for Financial Inclusion of Migrants, is the bearer of good practice recognized at European level on issues of financial inclusion. An instrument that in recent years has provided a thorough understanding and monitoring of the phenomenon on a multi-annual basis, filling an important gap in terms of information, analysis and comparison crucial to identify and then evaluate in terms of impact, support policies for 'financial inclusion. The "*basic principles for an innovative financial inclusion*", drawn up in the G20<sup>6</sup>, identified some key factors for effective action in the field of financial inclusion including: the commitment of Governments (*leadership*), market-based approaches to policy and competitiveness (*diversity*), the creation of institutional infrastructure to support

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<sup>1</sup> G20 Summit Toronto June 2010.

the processes (*cooperation*) and knowledge of the phenomenon to define policies based on evidence and monitor progress (*knowledge*). Giving continuity to the Observatory, spread this experience at an international level and provide the European Union with a tool similar to start from the Italian experience, could represent a relevant initiative due to the need for greater understanding of the phenomenon in order to address the definition of effective and measurable policy. If it's true that in Europe a universalistic approach regarding inclusion policies has spread, the available data and insights developed by the Observatory, also at European level, show that immigrants are the category most affected by financial exclusion in all countries.

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