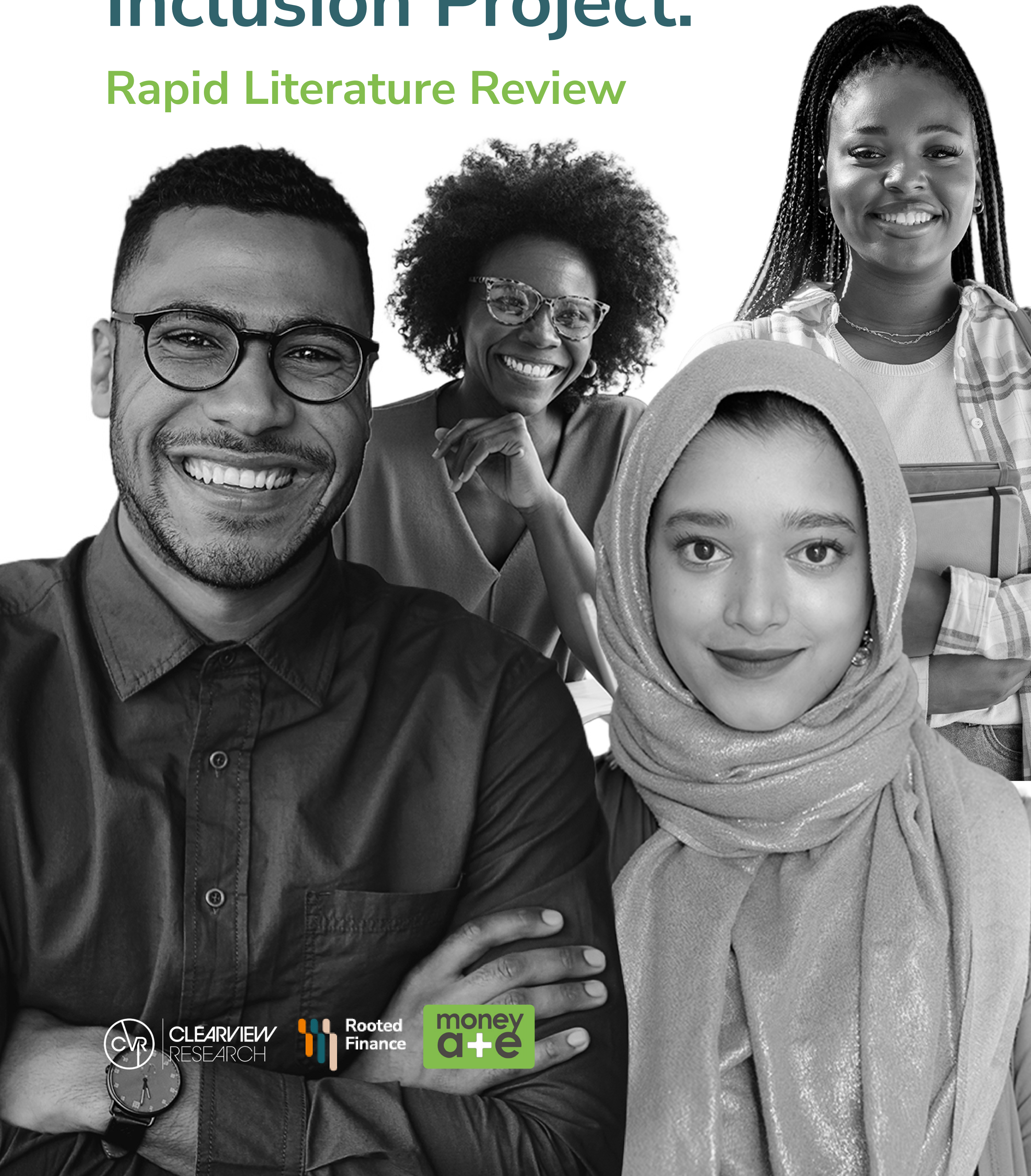
Systemic Barriers to Financial Inclusion Project:

Rapid Literature Review



CLEARVIEW RESEARCH

Rooted Finance

money a+e

Contents

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About Us

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Rooted Finance is a pioneering Black-female-led debt advice and financial inclusion charity with a vision of a fair, equitable financial landscape, where all individuals can thrive, not just survive. Working across the UK, its quality-assured advice team reflects the communities they serve, ensuring culturally appropriate services and expert-by-experience values underpin their holistic approach to strengthening financial wellbeing.

Money A+E Are a multi-award-winning, lived experience-led social enterprise, committed to tackling systemic racial and economic injustice through lived experience policy & campaigning for structural change and delivery of accessible, independent, and effective money advice and education. Our work is centred around lived experience and designed to empower disadvantaged communities, dismantle systemic financial barriers, and build long-term financial resilience..

Glossary

- **Regulators (FCA, PRA, HM Treasury):** Organisations that set the rules and watch over banks, lenders, and financial services to make sure they are fair.
- **Credit score/history:** A record of how well someone pays back money, usually used by banks to decide if they can get loans.
- **Community saving systems (Pardna, Susu, Hagbad):** Informal group saving schemes used by many migrant and ethnic minority communities.
- **Quota:** A target number or percentage that must be met (e.g., how many leaders should come from diverse backgrounds).
- **Disaggregated data:** Breaking down information into smaller groups (e.g., by ethnicity or gender) to see if some groups are treated unfairly.
- **Algorithm:** A set of computer rules used to make decisions, like who gets a loan.
- **Audit:** An independent check to see if rules are being followed.
- **Anchor institutions:** Large local organisations, like hospitals or universities, that can support their communities through funding or partnerships.
- **DECs:** Diverse ethnic communities
- **Ethnicity Premium:** The additional costs for goods and services and the barriers to equal economic participation experienced by people from DECs.

Executive Summary

This review delivers an unflinching assessment of the systemic, structural, and cultural barriers that continue to block equitable access to financial products and services for diverse ethnic communities (DECs) in the UK. It exposes how these inequities are not incidental but embedded in the roots of the financial system itself. Central to this reality is the "ethnicity premium", a structural penalty whereby these communities consistently pay more for credit, insurance, and mortgages than their White counterparts, even when financial profiles are equivalent.

The evidence reveals a deep system of exclusion: discriminatory lending practices, postcode profiling that replicates the logic of historic redlining, biased algorithmic decision-making, chronic underrepresentation of DECs in financial leadership, and diversity policies stripped of intersectional insight. Together, these factors integrate intergenerational disadvantage, diminish wealth-building opportunities, and erode trust in financial institutions. This is not a story of marginal gaps, but of an institutional order that consistently undervalues minority consumers.

The Ethnicity Premium: A Hidden, Racialised Tax

The terms ethnic penalty, ethnic premium, poverty premium and ethnicity premium have been used in academic research and papers before this study. They have been used, for example, in migration studies to describe education and skills gaps, as well as the additional costs for financial services products and services. Underpinning all the different uses of these terms are the disparities in access, experiences and additional costs for DECs regarding social and financial outcomes.

In this literature review and a wider financial services context, Money A+E and Rooted Finance have assigned the term ethnicity premium to mean the following: the additional costs for goods and services and the barriers to equal economic participation experienced by people from DECs. This term distinctly describes the structural penalty that these communities consistently pay more for credit, insurance, and mortgages than their White counterparts, even when financial profiles are equivalent.

Our focus for this project is the barriers to access in the areas of financial exclusion and economic participation. Ethnic minority households face materially higher costs for basic financial products. The Runnymede Trust (2020) and Financial Fairness Trust (2024) show that debt collection actions affect 33% of Black, Mixed, and Other ethnic groups within six months, nearly triple the White rate, even after adjusting for income and creditworthiness. This is evidence of systemic bias masquerading as neutral risk assessment.

Migrants are hit particularly hard. The UK's credit-scoring framework treats them as inherently risky, excluding rental payment histories, remittance records, and community savings participation data that would otherwise demonstrate reliability. The result is a double bind: exclusion from affordable mainstream credit forces' reliance on high-cost lenders, which, in turn, reinforces the "risk" narrative that justified their exclusion.

Spatial Financial Exclusion: Postcode Profiling and Modern Redlining

The spatial dimension of the ethnicity premium is acute. Postcode profiling, often automated through algorithmic risk models, disproportionately denies fair lending to residents in ethnically dense or low-income neighbourhoods. This practice mirrors historic redlining in the US, translating geography into a proxy for race.

Evidence from UK government, regulatory, parliamentary, and academic sources demonstrates that the withdrawal of mainstream banking services, through sustained bank branch closures and constrained access to regulated credit , has produced financial deserts in many urban and deprived areas. These spatial patterns of financial exclusion increase reliance on high-cost and alternative lenders and contribute to ongoing cycles of financial instability.

Intersectional Disadvantage: Race, Gender, Class, and Care

Using critical race theory, Black feminist thought, and spatial theory as analytical lenses, the review exposes how overlapping identities compound exclusion. Black and minoritised women, particularly those balancing low-income employment with caregiving, are doubly disadvantaged. Discriminatory assumptions about risk and capability lead to higher loan rejection rates, reduced access to mortgages, and minimal venture capital support, even with comparable business potential. (Bhutta et al., 2024; Bartlett et al., 2019; Zhang, 2020).

Colonial legacies also weigh heavily. For many South Asian and African diaspora communities, historical exploitation by financial institutions has embedded deep distrust. This distrust is not irrational; it is continually reinforced by exclusionary policy design and dismissive customer experiences.

Algorithmic Bias and the Digital Divide

Fintech and digital banking are often hailed as democratising forces, yet in practice, they risk embedding discrimination at scale. AI-driven lending models inherit the bias of the historical datasets on which they are trained. Moro-Visconti (2023) and the Financial Conduct Authority (FCA) findings confirm that minority applicants are more likely to be rejected for loans despite equivalent credit metrics.

Opacity is a core problem. Fintech companies routinely refuse to disclose how algorithms function, citing proprietary technology. Without explainability, there is no route for redress. Explainable AI (XAI) could enable scrutiny, but unless implemented with cultural competence and anti-racist principles, it risks being a reputational shield rather than a transformative tool.

Migrants: Structural Exclusion in Practice

Fifty-one percent of migrants report being denied banking services outright. Arbitrary documentation requirements and rigid eligibility criteria leave them unable to build formal credit histories, locking them out of housing markets and certain forms of employment. This systemic bias persists even in the face of evidence, such as RefuAid's 98.6% repayment rate, that directly contradicts risk-based exclusion narratives.

Housing precarity is a major consequence. Landlords, relying on biased credit checks, exclude financially capable migrants from secure rental markets, forcing them into overcrowded or short-term housing arrangements. In turn, this instability impacts employment opportunities, creating a reinforcing cycle of exclusion.

Leadership Representation: The Power Gap

DECs remain dramatically underrepresented in senior decision-making roles across financial institutions. This leadership gap perpetuates blind spots in product design, risk assessment, and customer engagement. While some institutions have piloted inclusive products, such as Sharia-compliant banking or microloans for migrant entrepreneurs, these remain exceptions.

Diversity initiatives often fail because they fixate on quotas without addressing the underlying structural culture change. Without embedding cultural competence, diverse hires are positioned in frameworks that continue to perpetuate the very exclusions they are meant to disrupt.

Weak Policy Enforcement and Accountability Deficits

Regulatory bodies such as the FCA and Prudential Regulation Authority (PRA) have introduced initiatives like the Consumer Duty legislation to promote customer-centricity, but enforcement is inconsistent. Most financial institutions do not publish ethnicity-disaggregated data, making it impossible to track disparities or hold leadership accountable.

Anti-discrimination audits, algorithmic fairness assessments, and public transparency in lending outcomes remain rare. This lack of enforcement enables superficial diversity commitments to substitute for meaningful reform.

Community Resilience: Lessons from Informal Finance

Despite systemic exclusion, DECs sustain powerful informal financial systems: rotating credit associations, faith-based lending, and collective savings schemes. These models reflect deep cultural values of trust, reciprocity, and mutual aid. Yet mainstream finance tre ats them as irrelevant rather than recognising them as evidence of reliability and capability.

Integrating these models into formal credit assessments could expand access, reduce reliance on predatory lending, and strengthen financial resilience.

Theoretical Lens: Naming the System

This review applies three interlocking frameworks:

- Critical race theory exposes the racialised construction of "risk" in finance.
- Intersectionality reveals how overlapping identities amplify exclusion.
- Spatial theory connects geographic exclusion to structural racism in lending.

Together, these dismantle the myth of a neutral market and make visible the deliberate architecture of exclusion.

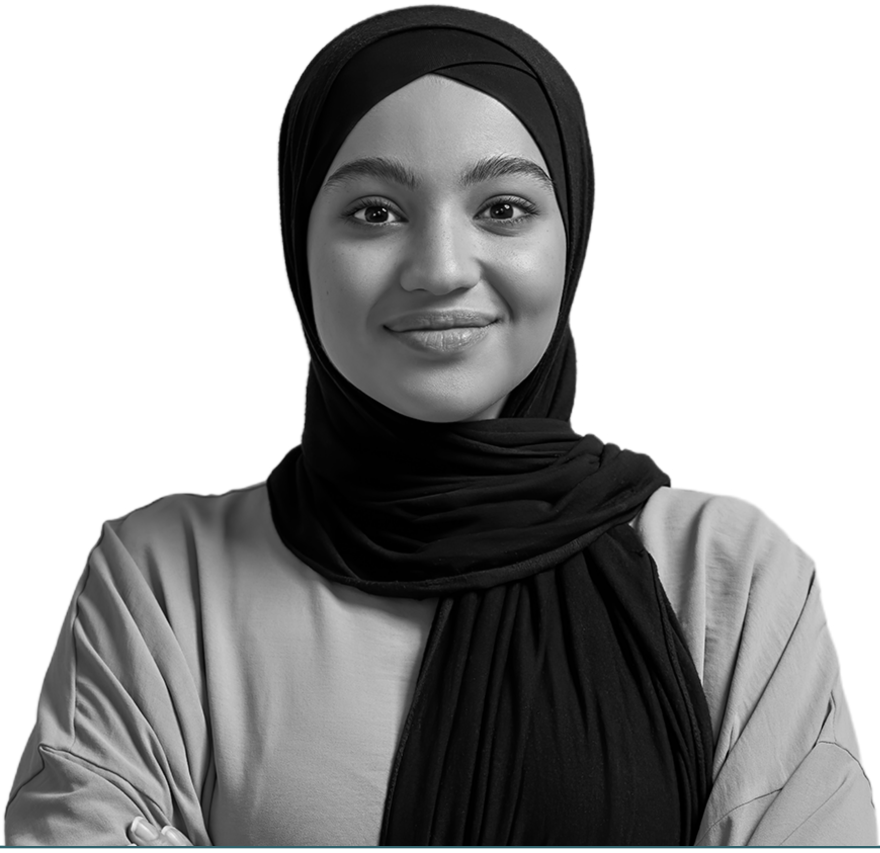
Key Recommendations

1. Mandate Transparency and Fairness

Financial institutions must be legally required to collect and publish ethnicity-disaggregated data across lending, credit, insurance, and debt recovery. Independent fairness audits of AI tools should be enforced, with senior leaders held personally accountable when discriminatory outcomes occur.

2. Reform Credit Risk Assessment

Creditworthiness must move beyond narrow credit files. Legislation should mandate the inclusion of alternative financial histories (e.g., rent, utilities, community savings practices) into assessments. Lenders and credit reference agencies must run pilots, publish disaggregated outcomes, and embed inclusion into law to break cycles of exclusion.



3. Enforce Representation and Accountability

Voluntary diversity efforts have failed. Binding quotas, mandatory reporting, and lived-experience recruitment must be introduced across all levels of financial institutions. Independent audits should monitor real outcomes, ensuring decision-makers reflect the communities they serve and embedding equity into governance.

4. Embed Cultural Relevance in Education and Debt Recovery

Generic financial literacy campaigns and punitive debt recovery practices disproportionately harm Black and minoritised communities. Co-designed, culturally tailored education programmes delivered through trusted community hubs are essential. Debt recovery policies must be reformed to prevent disproportionate impacts, with institutions funding and partnering on grassroots initiatives.

5. Supporting diverse ethnic community businesses to start and scale enterprises

Access to finance for start-up and growth remains one of the biggest barriers for entrepreneurs from DECs, who often face an ethnicity premium whereby they pay more for credit, insurance, and finance despite having the same financial profiles as others. To change this, the financial ecosystem must take a more inclusive approach: local councils, combined authorities, and UK Shared Prosperity Fund (UKSPF) managers should direct funding and business support to these communities, using fairer measures of reliability, such as rent or utility payments. Community lenders like CDFIs and credit unions can build trust by co-designing culturally relevant loan products, while trusts, foundations, and impact investors should partner with ethnic minority-led organisations to provide not just capital but mentoring and peer support. Banks, major investors, and wholesalers, such as the British Business Bank, Pathway Fund and Fair4All Finance, must lead by piloting tailored products and publishing transparent data on outcomes. Above all, all stakeholders should recognise the resilience already shown in informal savings and support systems, and build finance models that work with these strengths to create fairer, more inclusive pathways for diverse businesses to thrive.

Introduction

The UK's financial services sector plays a critical role in shaping economic opportunities; however, significant disparities persist for DECs. These communities continue to face systemic, cultural, and structural barriers that prevent equitable access to financial products and services. These barriers manifest in discriminatory lending practices, postcode profiling, digital exclusion, and the presence of an ethnicity premium, a term describing the additional financial costs that DECs disproportionately bear when accessing financial products such as credit, insurance, and mortgages. These challenges not only worsen existing wealth gaps but also hinder social mobility and economic stability.

This literature review aims to provide an in-depth analysis of the financial inequities faced by DECs in the UK. It seeks to identify and evaluate key barriers to financial inclusion while offering recommendations for addressing these systemic challenges. This research focuses on identifying gaps in the existing literature related to the ethnicity premium in financial goods and services, systemic and cultural barriers to financial inclusion, and the effectiveness of policies aimed at improving cultural representation in financial institutions. In addition, the review critically examines the strengths and weaknesses of diversity policies in financial institutions, evaluating their capacity to foster equitable access to financial services at all organisational levels. Another key objective of this research is to assess the impact of financial product design on employability and housing opportunities for DECs, with a particular focus on how exclusionary practices influence economic participation and long-term financial resilience.

The literature review is structured to explore the extent and impact of the ethnicity premium, examining the degree to which financial products and services disproportionately burden DECs with higher costs and limited accessibility. It further delves into systemic, cultural, and structural barriers that prevent equitable access to financial products, analysing how deep-seated biases and exclusionary practices in financial institutions prolong disparities. Our research also investigates best practices for achieving equitable pricing and access to financial services, highlighting successful models of financial inclusion and potential policy interventions that could be implemented in the UK context. Additionally, the review explores how cultural representation in financial institutions affects decision-making processes and customer experiences, demonstrating the role of diverse leadership in addressing biases in product design and service delivery.

By addressing all these areas, this review will contribute to an evidence-based discussion on financial inclusion and provide actionable recommendations to promote equitable economic opportunities for DECs in the UK.

Key Findings

1. The ethnicity premium: a structural disadvantage

- DECs face higher financial costs when seeking credit, insurance, and mortgages.
- Discriminatory financial practices lead to higher interest rates and increased debt collection activity.
- Postcode profiling disproportionately limits access to fair financial services.

2. Systemic, cultural, and structural barriers

- Discriminatory lending practices reinforce barriers to wealth accumulation.
- Migrant communities experience financial gatekeeping, leading to credit inaccessibility.
- Limited financial education initiatives tailored to DECs' deepening exclusion.

3. Algorithmic bias and digital financial exclusion

- AI-driven lending models disproportionately reject minority applicants, even when income and creditworthiness are comparable.
- Opaque credit-scoring algorithms reinforce systemic discrimination in lending and insurance products.
- Financial institutions lack transparency and accountability in digital lending policies.

4. Leadership representation and financial policy failures

- Senior leadership in financial institutions still lacks diversity.
- Superficial diversity initiatives have failed to dismantle systemic barriers.
- Regulatory bodies have weak enforcement mechanisms, allowing discrimination to persist unchecked.

5. Alternative financial models and future directions

- Community-based lending schemes provide more equitable financial access.
- Non-traditional credit assessments (e.g., rental payments, community savings participation) should be incorporated into people's financial histories.
- Policy reforms must introduce anti-discrimination audits and greater accountability measures.

Framing the Problem: Ethnicity Premium and Spatial Financial Exclusion

This work is focused on the barriers to access areas of financial exclusion and economic participation.

Access to financial services is foundational to economic stability and mobility. Yet, the literature consistently shows that DECs in the UK are systematically excluded from fair and equitable participation in the financial system.[1] At the heart of this exclusion lies the phenomenon of the ethnicity premium, a term that captures the disproportionate financial costs endured by these communities across a range of essential services, including credit, insurance, and mortgages.[2] These premiums are not merely economic irregularities; they represent the structural penalties of systemic racism embedded in financial institutions.

The ethnicity premium materialises in tangible ways: higher interest rates, more frequent debt collection activities, and reduced access to financial products. Reports such as the Runnymede Trust's The Colour of Money (2020)[3] and the Financial Fairness Trust (2024)[4] document these patterns in stark terms. For instance, Black, Mixed, or Other ethnic groups are nearly three times as likely as their White counterparts to have experienced debt collection actions in six months (33% vs. 11%). Crucially, these disparities cannot be attributed to income or creditworthiness alone; they are the result of deep-rooted institutional biases.[5] This raises a critical question: ***If creditworthiness is neutral, why do ethnic minority applicants with similar financial profiles face systematically worse outcomes?***

Spatial Financial Exclusion: Postcode Profiling and the Legacy of Redlining

To understand the persistence of ethnicity premiums, the spatial dimensions of financial exclusion cannot be ignored, notably the continued influence of redlining practices and postcode-based profiling. While redlining is most commonly associated with the racially segregated lending practices in mid-1900s America, recent studies show that its thinking and impacts still influence finance in the UK. [6] The legacy of redlining, the deliberate denial of financial services to residents in racially minoritised or low-income areas, may no longer be explicit policy, but it is actively reproduced through postcode profiling and algorithmic decision-making.[7]

Similarly, the Resolution Foundation found that discriminatory lending practices, compounded by postcode profiling and limited access to intergenerational financial capital,

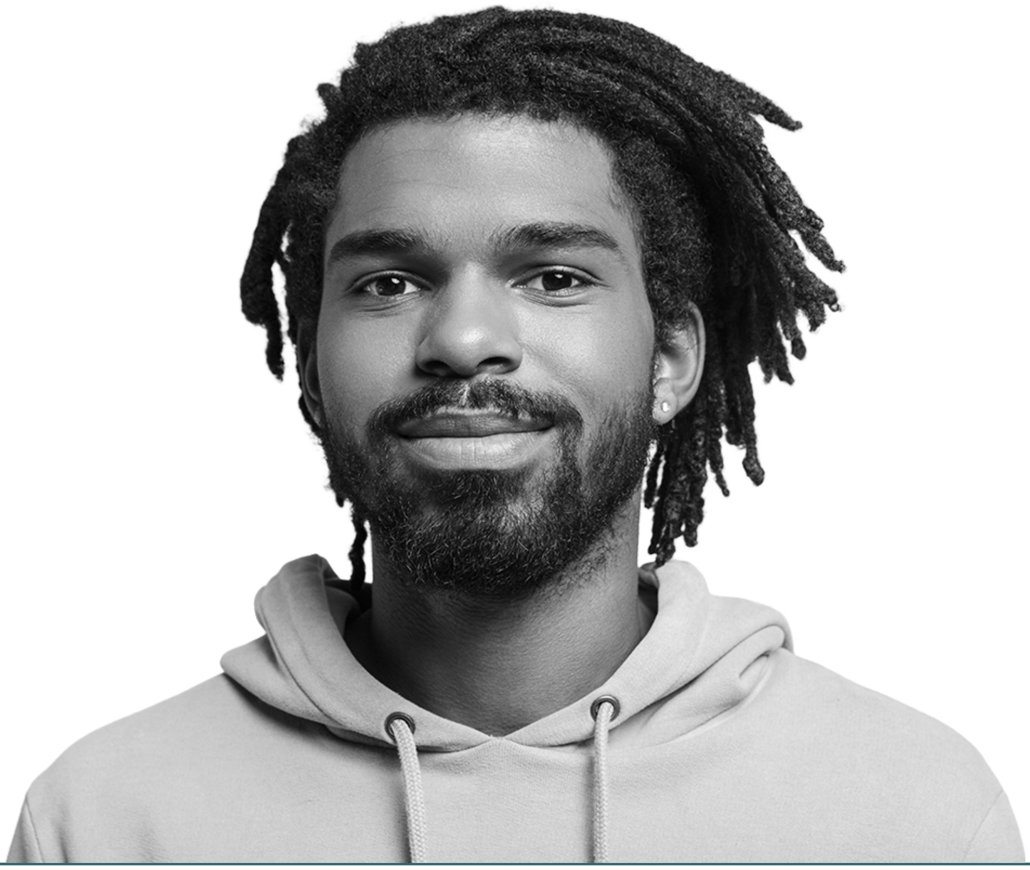
1 Demirguc-Kunt et al., 2018; Byrne & McCarthy, 202
2 Kempson & Collard, 2012
3 The Colour of Money(2020)
4 The Financial Fairness Trust (2024)
5 (Kiviat, 2019)
6 (Traynor, 2020; Hudson et al., 2021)
7 (Traynor, 2020)

continue to marginalise Black, South Asian, and migrant communities.[8] These groups are disproportionately denied fair mortgage terms and affordable credit, reinforcing cycles of financial insecurity.

Data from the Levelling the Playing Field report (Fair4All Finance, 2024) highlights that people from minority ethnic groups in the UK hold fewer resilience-building financial products, face more life events that strain their finances, and are less likely to have positive interactions with banks, with many experiencing discrimination due to race, a structural exclusion reflective of “financial desert” conditions. Additionally, data from Demos (2024) underscores that bank branch closures disproportionately impact deprived areas, eroding physical banking access and leaving communities vulnerable to reliance on high-cost credit alternatives.[9] This structural withdrawal by financial institutions not only increases the cost of borrowing for residents but also reinforces spatial and racial inequalities in wealth accumulation.[10]

This prompts a critical reflection: ***In a society committed to fairness, why are whole neighbourhoods, often those with high concentrations of DECs, deemed too “risky” for equitable financial services?*** Practices like postcode profiling do not only reflect present-day market assessments but are direct continuations of historical logics that once explicitly excluded racialised communities from wealth-building opportunities.

8 Resolution Foundation (2023)
9 (Fair4All Finance (2024), (Demos 2024)
10 (Leyshon et al., 2020)



Intergenerational Impact: Wealth, Debt, and Opportunity

The compounded effect of ethnicity premiums and spatial exclusion is profound. These mechanisms create intergenerational cycles of financial disenfranchisement. Families denied fair mortgage rates or subject to inflated insurance costs find their ability to save, invest, and transfer wealth across generations severely constrained. Even when controlling for financial qualifications, Black applicants continue to face significantly higher denial rates for mortgage financing, underscoring systemic disparities in access to one of the most important mechanisms for intergenerational wealth-building in the UK and internationally (Bhutta et al., 2024; Deku et al., 2022).[11]

These patterns reveal a broader structural question: ***To what extent are the algorithms and risk frameworks used by financial institutions reproducing and legitimising historical forms of racialised exclusion?*** Until these questions are answered with both honesty and accountability, the ethnicity premium will remain a silent tax on Black and minoritised lives.

Theoretical Lenses: Intersectionality, Critical Race Theory, and Spatial Analysis

To critically interrogate the structural underpinnings of financial exclusion in the UK, this review draws on critical race theory (CRT), Black feminist thought (BFT), and spatial theory as interlocking analytical frameworks. These approaches collectively reveal how race, gender, and spatial location interact to shape unequal access to financial services and wealth accumulation. In doing so, they highlight the mechanisms by which the ethnicity premium, already defined, becomes embedded and normalised in the financial system.

Crenshaw's articulation of intersectionality (1991) is particularly instructive here. It reveals how Black and minoritised women, especially those balancing caregiving duties and low-income work, face compounded barriers in accessing financial products. Despite having similar credit profiles to other groups, these women are disproportionately denied mortgages, business loans, and other wealth-building tools. This systemic oversight is not merely an error in underwriting; it is an institutional manifestation of intersecting oppressions rooted in racial and gendered assumptions about risk, capability, and economic value.

[12]In light of this, a fundamental question arises: ***How can financial products be radically redesigned to reflect the lived realities of diverse ethnic women, without defaulting to deficit-based logics that further entrench exclusion?*** To address this requires not just product innovation, but a wholesale cultural and values shift in financial institutions.

Spatial analysis further extends this critique by illustrating how geography operates as a proxy for race in lending and service provision. While redlining is often discussed as a product of American racial capitalism, its logic persists in the UK through postcode

11 (Bhutta et al., 2024; Deku et al., 2022)
12 (McArdle et al., 2024)

profiling and discriminatory risk models. Research has demonstrated that ethnically dense areas across London, Birmingham, and Manchester are routinely underbanked. These "financial deserts" emerge not due to objective risk but because of structural withdrawal by mainstream banks, leading to increased reliance on predatory lenders. This spatialised form of economic abandonment compounds the ethnicity premium through inflated borrowing costs and diminished access to secure, regulated credit for DECs (Sullivan and Burns, 2022; Clark et al., 2023).

These exclusions are not only material but psychological. Generations of those denied access to financial security have produced a form of financial trauma, manifesting as institutional distrust, mental stress, and avoidance behaviours. The Joseph Rowntree Foundation (2021) underscores how this trauma is both the result and the reinforcer of exclusionary financial systems.[13] The trauma is not only generational but strategic: it weakens civic trust, inhibits economic participation, and stifles potential. This raises a deeper question: ***What ethical and reparative obligations do financial institutions have in addressing the psychological harm their practices have caused?***

Yet, even facing this adversity, DECs have demonstrated powerful resilience. From informal rotating credit associations to culturally embedded savings practices, these communities have innovated using their own traditional practices outside exclusionary financial infrastructures. Scholars such as Sherraden (2013) argue that financial capability and creditworthiness must be expanded to include these culturally relevant systems of mutual aid, collective responsibility, and long-term planning.[14] These practices are not deficits to be corrected but assets to be recognised and integrated into mainstream financial models.

Nonetheless, while interventions such as basic bank accounts and financial literacy campaigns have attempted to expand access, they remain inadequate in confronting the root causes of discrimination. These efforts often fail to engage with the intersectional barriers facing excluded groups. Furthermore, digital financial platforms, often flaunted as equalising forces, risk worsening disparities through algorithmic bias and inaccessibility.[15] If unchecked, the shift toward AI-driven financial decision-making will not eliminate structural bias; it will codify it.

To move beyond performative inclusion, financial institutions and regulators must embrace an intersectional, trauma-informed, and community-rooted approach. This means reimagining not only who financial products are designed for, but also how they are developed, evaluated, and governed. All of this raises the urgent question: ***What does it mean to build a financial system that does not merely mitigate harm, but actively redresses historical injustice?*** Without such a transformation, the ethnicity premium will persist, not as an anomaly, but as an accepted cost of participation for Black and diverse ethnic communities.

13 Sullivan and Burns, 2022; Clark et al., 2023).
14 Joseph Rowntree Foundation (2021)
15 (Benjamin, 2019; Eubanks, 2017)

Cultural and Systemic Barriers: Structural Exclusion in Plain Sight

Financial exclusion in the UK is not merely a by-product of individual financial behaviours or market forces; it is the outcome of longstanding structural, cultural, and institutional inequities. Evidence from the FCA (2019) reveals that vulnerable communities, including those from, are consistently subjected to disproportionately high borrowing costs, particularly through excessive unarranged overdraft fees, which can amount to nearly double the charges faced by other consumers. These outcomes are not incidental. They reflect a system in which risk assessments, product eligibility, and customer profiling are entangled with race and class, often in the guise of objectivity (FCA, 2019).[16]

Policy shifts, such as austerity measures and post-Brexit financial restructuring, have only deepened this exclusion. According to UK Finance (2022), ethnic minority entrepreneurs in the UK face systemic exclusion from essential financial tools, such as start-up loans or business credit, not due to capacity or intent, but because of structural gatekeeping mechanisms in the financial system. While they apply for funding at similar rates as their peers, only 48% receive offers compared to 78% overall, reflecting entrenched disparities in access and trust[17]. Crucially, the effects of financial exclusion have intensified in the digital age. While fintech solutions are often celebrated as democratising access to finance, digital exclusion and algorithmic bias persistently undermine these claims. DECs are disproportionately affected by the digital divide, which is shaped by disparities in digital literacy, broadband access, and trust in institutions.[18] More critically, these groups face exclusion from online financial tools due to credit-scoring algorithms trained on biased data, which replicate and amplify pre-existing patterns of discrimination.[19] While certain financial institutions have acknowledged the digital divide, their interventions remain superficial and culturally untailored, failing to address the deeper trust deficits experienced by excluded communities. This raises a critical question: ***If the infrastructure of financial technology is replicating the very exclusions it was designed to overcome, then what ethical responsibility do fintech companies bear in redesigning systems that serve all?*** Until cultural tailoring and algorithmic fairness become non-negotiable standards, technological solutions will remain complicit in the broader architecture of financial exclusion.

Algorithmic Bias in Credit and Lending

Digital financial systems, while often marketed as neutral and efficient, increasingly reproduce and automate longstanding racial disparities. In the UK, algorithmic underwriting and the use of AI to determine creditworthiness have been shown to disproportionately disadvantage Black and diverse ethnic communities. More critically, these groups face exclusion from online financial tools due to credit-scoring algorithms trained on biased data, which replicate and amplify pre-existing patterns of discrimination.[20]

16 Financial Conduct Authority (2019)
17 UK Finance (2022)
18 Financial Conduct Authority (2024)
19 Bond (2024)
20 Deckker, D. and Sumanasekara, S. (2025)

The FCA has acknowledged systemic biases in data-driven decision-making frameworks, but it is Fair4All Finance (2023) that provides clear evidence: individuals from minority ethnic groups not only experience disproportionately discriminatory outcomes but also face lower success in securing financial products despite comparable qualifications. Their findings include higher reported discrimination (22%) and markedly fewer positive customer interactions (29% vs. 45% of White customers), reflecting real and entrenched barriers to access rooted in profiling, algorithmic or otherwise.[21] These disparities are not anomalies; they are structural outcomes of data-driven systems that fail to account for racialised and intersectional contexts. The central question remains: ***How can AI be considered "objective" when it is trained on biased inputs and shaped by profit-driven institutional cultures?***

Fintech Resistance to Transparency

Despite these findings, many fintech companies resist meaningful transparency, often citing concerns over proprietary models and competitive advantage. The opacity of "black box" algorithmic systems, where proprietary secrecy blocks scrutiny, prevents consumers and regulators from assessing fairness or appealing decisions. This opacity not only erodes public trust but also enables disproportionate outcomes for DECs to persist unchallenged.[22]

However, a growing number of challenger banks and ethical fintech initiatives are attempting to shift this pattern. Companies such as Monzo and Starling Bank have begun trialling alternative credit-scoring models that incorporate non-traditional financial behaviours, like rent payments, mobile phone bills, and community savings activity, as a way of better capturing the financial reliability of individuals traditionally excluded from mainstream systems.

Yet, these efforts remain marginal in a sector dominated by risk-averse thinking. If these pilot initiatives remain under-supported, the question becomes: ***What mechanisms will hold fintech accountable to communities they consistently underserve, and what role should regulators play in setting enforceable transparency standards?***

Explainable AI (XAI): A Tool for Fairness or a Branding Strategy?

Among growing criticism, explainable AI (XAI) has emerged as a proposed solution to enhance accountability in algorithmic decision-making. In principle, XAI transforms opaque black box models into interpretable systems that human auditors and applicants can interrogate. Research by Quinn (2023) demonstrates that XAI methodologies, like Shapley values, boost trust in AI systems and encourage more responsible decision-making in finance.[23]

21 Fair4All Finance (2023)
22 Rovatsos, M. (2020)
23 Quinn, B. (2023)

Despite its promise, XAI remains unevenly implemented across UK financial services, with only about half of firms fully understanding the AI technologies they are using, largely due to outsourced or third-party models.[24] This gap hinders the standardisation of interpretability practices, limiting accountability and transparency. Furthermore, without cultural competence and intersectional insights, XAI risks becoming a superficial fix, another performance of ethics that fails to shift institutional structures. This provokes a deeper question: ***Can XAI be a truly transformative tool without being embedded in intersectional, anti-racist, and community-led design frameworks?***

Ethical Imperatives and Emerging Solutions

The ethical obligations of financial institutions extend well beyond regulatory compliance. In the UK, policymakers have begun to challenge the notion that the protection of intellectual property should eclipse equity, particularly in domains where new technologies replicate historical harm. As the UK Parliament's Culture, Media and Sport Committee (2024) observed in its inquiry into AI and copyright, diluting creators' rights in favour of proprietary advantage undermines public equity and perpetuates structural injustice.[25] Ethical AI frameworks now emphasise moving from "fairness as an add-on" to fairness-by-design, embedding equity at every stage of model development, deployment, and evaluation. In the UK, the Responsible AI UK initiative champions this approach through its concept of "equality-by-design, deliberation, and oversight", which insists that social justice and fairness must be foundational, not retrofitted, throughout the AI lifecycle.[26]

Promising innovations like Differential Privacy, which allows institutions to increase transparency without exposing proprietary algorithms, show that ethical accountability and competitiveness are not mutually exclusive. As fintech evolves, so too must its moral compass, driven not just by market share but by social justice.

Toward a More Just Digital Finance Ecosystem

If financial technologies are to serve as tools of inclusion rather than exclusion, then regulatory reform, community oversight, and ethical innovation must become foundational, not optional. The failure to address algorithmic bias risks not only perpetuating the ethnicity premium but also deepening it through automation. Ultimately, digital systems must be judged not by their efficiency, but by their equity: ***Who do they serve, who do they exclude, and who decides?***

Migrants, Credit, and the Ethnicity Premium: Systemic Financial Exclusion in the UK

Migrants in the UK navigate a financial landscape rife with contradictions. While economic participation is encouraged, systemic barriers severely restrict access to credit, banking

24 Bank of England and Financial Conduct Authority (2024)
25 House of Commons Culture, Media and Sport Committee (2024)
26 Responsible AI UK (n.d.)

services, and essential financial products. The Migrants and Credit: Transforming Futures report highlights the extent of this exclusion, revealing that 51% of migrants have been refused banking services, often based on arbitrary requirements and opaque decision-making processes.[27] These restrictions are not incidental but are deeply embedded in financial institutions' risk-assessment frameworks, which disproportionately penalise Black and diverse ethnic migrants. The ethnicity premium, a structural reality where DECs are subjected to higher financial costs for credit, insurance, and mortgages, serves as a mechanism of economic gatekeeping.[28]

Despite financial institutions' professed commitments to inclusion, why do they persist in exclusionary practices that disproportionately disadvantage ethnic minority migrants? The answer lies in both historical and algorithmic biases embedded in the financial sector's credit-scoring models and risk assessments. Studies confirm that financial algorithms frequently replicate racialised patterns of exclusion, reinforcing higher interest rates, stricter lending criteria, and increased financial surveillance for Black and ethnic minority consumers.[29] In addition, the UK's credit-scoring system remains highly exclusionary, failing to consider alternative financial histories such as rental payments, informal savings contributions, and international banking records, factors that could offer a more accurate representation of financial reliability.[30] Instead, migrants are overwhelmingly classified as "high risk," not due to actual financial behaviour but due to an artificially constructed lack of creditworthiness. This creates a self-perpetuating cycle where migrants are locked out of mainstream financial services, forced into high-cost lending schemes, and subjected to greater economic precarity.[31]

The consequences of financial exclusion extend far beyond credit access but also cause housing instability and employability disparities. Migrants unable to access affordable credit often resort to predatory lending schemes, entrapping them in subprime rental markets where exploitative landlords take advantage of their financial vulnerability.[32] Many landlords impose rigid credit check requirements, making it nearly impossible for those excluded from formal financial services to secure stable housing. As a result, migrants and DECs are disproportionately pushed into temporary accommodations, insecure rental agreements, and overcrowded housing conditions, reinforcing long-term economic instability.

Employability is similarly impacted by financial exclusion as certain employers incorporate financial background checks into hiring decisions, further marginalising those without traditional credit histories.[33] All of these raise pressing policy concerns: ***How do financial institutions justify these disparities in lending and credit access, particularly when evidence demonstrates that migrants often exhibit strong repayment behaviours?*** For

27 (Fair Credit Charity, 2025)
28 (Citizens Advice, 2022; Financial Fairness Trust, 2024)
29 (Moro-Visconti, 2023; Stewart et al., 2025)
30 (Hull University, 2021)
31 (Financial Fairness Trust, 2024)
32 (Bell & Bevan, 2021; Yasin et al., 2025)
33 (McArdle et al., 2024)

example, RefuAid's Equal Access Loan, which provides interest-free loans to migrants, boasts a 98.6% repayment rate, yet mainstream banks continue to view migrant borrowers as inherently high-risk.[34] ***What accountability measures exist to challenge the racialised biases embedded in financial risk assessments?***

Despite limited regulatory interventions, progress remains inadequate. While the FCA and PRA have introduced measures to curb financial discrimination, these efforts fail to address the structural barriers embedded in financial institutions' lending practices (2023).[35] The overreliance on standardised credit-scoring models that do not account for diverse economic realities continues to obstruct financial inclusion.[36] Alternative credit assessment models, such as incorporating rental payment histories, remittance transactions, and community savings participation, have been widely proposed but remain marginal in mainstream banking institutions.[37] Fintech lenders, often seen as disruptors of financial exclusion, frequently replicate these same discriminatory practices through opaque algorithmic decision-making that embeds historical bias into lending outcomes.[38] ***What safeguards are in place to ensure that emerging financial technologies do not further entrench racialised financial exclusion, particularly for migrants?***

Addressing these inequities demands a radical rethinking of financial risk assessment models, the integration of culturally competent financial products, and a commitment to dismantling historically exclusionary banking structures. The problem extends beyond technical credit-scoring mechanisms; it is a fundamental question of financial ethics, institutional transparency, and corporate accountability. ***How can financial institutions be compelled to recognise migrants as economic contributors rather than financial***

34 (Fair Credit Charity, 2025)
35 (FCA, 2023)
36 (Oliver Wyman, 2022)
37 (Cambridge University Press, 2021)
38 (Moro-Visconti, 2023)

liabilities? Without systemic reform, the ethnicity premium will persist as a hidden tax on Black and diverse ethnic communities, entrenching racialised wealth disparities and perpetuating intergenerational cycles of economic exclusion. ***If financial institutions continue to prioritise risk-mitigation strategies that disproportionately exclude racialised groups, what alternative financial models can be implemented to counteract this systemic bias?***

Unless addressed, financial exclusion will remain a powerful driver of racial and economic inequality, ensuring that access to wealth-building mechanisms remains restricted for migrants and diverse ethnic communities. The financial sector must move beyond superficial diversity initiatives and commit to structural reforms that challenge the racialised hierarchies embedded in credit systems, housing access, and employment opportunities. ***If these reforms remain absent, what does this suggest about the broader complicity of financial institutions in maintaining racial economic inequalities?***

Historical Exclusion, the Gender Barrier, and Colonial Legacies

The exclusion of minority communities from mainstream financial systems in the UK cannot be understood apart from its historical roots. Legacies of colonial exploitation, systemic discrimination, and structural economic marginalisation have shaped enduring patterns of distrust, restricted access to capital, and entrenched wealth gaps across generations. Contemporary evidence underscores these continuities: the Runnymede Trust (2023) shows persistent racial disparities in mortgage access,[39] while Citizens Advice (2023) highlights how financial products and services remain misaligned with the socio-cultural realities of ethnic minority households.[40] These dynamics illustrate how historical exclusion is continually reproduced in the present, compounding barriers for entrepreneurs and families where race, gender, and class intersect. What follows examines how these inequities persist in financial institutions, through biased lending, leadership underrepresentation, algorithmic discrimination, and inadequate regulatory oversight, while pointing toward the need for culturally competent, community-driven models of financial inclusion.

Patel and Joseph (2020) argue that cultural barriers among the South Asian community stem from colonial legacies, economic marginalisation, and a lack of trust in financial institutions, shaped by historical and contemporary experiences of exploitation and exclusion.[41] Similarly, Okafor (2019) presents evidence that Black female entrepreneurs experience compounded financial barriers, navigating both racial and gender biases in accessing credit, venture capital, and business support structures, including poor experiences with investors, repeated rejection, and biases in the diligence process that overlook their potential.[42] A study by Gill (2021) highlighted the story of a Black female entrepreneur who faced 15 rejections before securing venture capital due to implicit biases.

39 Runnymede Trust (2023)
40 Citizens Advice (2023)
41 (2020); (Money Advice Service, 2019; Khan, 2018)
42 (Gill, 2021; Kantis et al., 2020)

Beyond ethnicity, factors such as gender, family composition, and income levels significantly impact financial inclusion. Women and single-parent families are more vulnerable to economic exclusion and a lack of access to financial products.[43] Moreover, many companies fail to recognise the broader socioeconomic challenges that DECs face, leading to a one-size-fits-all approach that does not consider cultural nuances.[44] Regulatory frameworks have failed to address their deeply entrenched biases, leading to persistent underrepresentation and exclusion in financial services.

Leadership Representation Deficit

Structural barriers, such as underrepresentation in leadership roles, further worsen these inequities. DECs remain significantly underrepresented in senior decision-making positions in financial institutions, limiting the development of inclusive policies and practices according to Fair4All Finance.[45] Social Finance UK (2022) notes that the lack of diversity in leadership roles results in policies and products that fail to address the unique needs of DECs. Diversifying leadership in financial institutions is essential to ensure representation and advocacy for minoritised groups at the policymaking and governance level.

Though alone, it is not a silver bullet to solve the issue, increasing financial education and literacy through culturally relevant initiatives can empower communities to engage with formal financial systems. Targeted regulatory reforms, including the implementation of anti-discrimination audits and the development of community-focused banking models, are necessary to dismantle entrenched barriers to financial inclusion.

Institutional accountability remains a pivotal area of concern. Despite the financial sector's claims and commitments to diversity and inclusion, studies reveal that corporate social responsibility initiatives have largely failed to address systemic barriers, with most interventions lacking cultural competency and failing to engage communities in meaningful ways.[46] Furthermore, financial regulatory bodies, such as the FCA, have been criticised for their reactive rather than proactive approaches to addressing racial economic disparities. [47]

There is a shortage of longitudinal studies that examine the compounded effects of financial exclusion across generations in minoritised communities. Additionally, the intersectional experiences of men and women in these groups remain underexplored, with limited attention in studies given to how financial exclusion intersects with other forms of marginalisation, such as disability and immigration status.[48] Chowdhury (2022) found that immigrant women with disabilities often face compounded challenges, such as navigating inaccessible banking systems while lacking linguistic support.

Moving forward, policy responses must include community-driven financial models, greater transparency in lending processes and enhanced regulatory scrutiny to dismantle

43 (Adami, 2022)
44 (PwC UK, 2023)
45 (2021)
46 (Taylor et al., 2022)
47 (Williams, 2021)
48 (Chowdhury, 2022)

entrenched systemic biases. The financial services sector must integrate a culturally resonant intersectional approach that considers socio-cultural realities and historical inequities to foster genuine economic inclusion.

The lack of Black and minority leaders in senior roles in financial institutions has real consequences. It shapes how products are designed, how services are delivered, and how policies are made, often in ways that exclude or disadvantage minority communities. Representation matters because leaders bring their lived experiences and cultural perspectives into decision-making. When leadership teams are not diverse, they are more likely to overlook the financial habits, needs, and cultural realities of diverse ethnic consumers. The result is financial products and services that do not fit, leaving whole communities underserved and excluded.

Evidence from Fair4All Finance (2023) underscores that ethnic minority entrepreneurs in the UK, including Black African, Black Caribbean, and Bangladeshi business owners, experience significantly higher loan rejection rates compared to their White counterparts, by factors of approximately 4x, 3.5x, and 2.5x, respectively. This disparity illustrates how systemic biases, rather than entrepreneurial capacity, drive financial exclusion.[49] The study attributed this disparity to a lack of cultural competence in lending institutions, which fail to consider alternative credit assessment models that reflect the economic behaviours of Black entrepreneurs. This has led to systemic exclusion from mainstream financial services, forcing many minority-owned businesses to rely on informal financial networks.

Another stark indicator of racial inequality in financial access is the persistent disparity in homeownership. In London, where homeownership is often seen as foundational to economic security, Black households remain significantly less likely than White households to transition into ownership. Instead, Black Londoners more frequently turn to social housing or remain renters, hindered not only by systemic biases in mortgage lending but also by historic wealth deficits and lower levels of inheritance.[50] The absence of culturally diverse decision-makers has resulted in policies that disproportionately disadvantage diverse ethnic applicants, leading to lower homeownership rates and a continuation of wealth gaps across generations.

Leadership that does not reflect the communities it serves has tangible consequences. Without cultural representation in senior roles, financial institutions are prone to designing biased risk assessments and credit-scoring models that fail to serve minority consumers. A study by Fair4All Finance (2023) demonstrates this; when financial services firms involve community organisations, infusing lived experience into design, outcomes align better with minority needs, promoting equity in product development and distribution.[51] Algorithmic biases in credit-scoring systems can disproportionately disadvantage Black applicants, reinforcing existing racial inequities. The FCA (2024) highlights how complex machine learning models in lending may encode unintended bias, even without explicitly using race,

49 Fair4All Finance (2023)
50 Greater London Authority (2023)
51 Fair4All Finance (2023)

because they rely on historical data that reflect societal inequalities and postcode-based profiling. These dynamics call for culturally competent algorithmic oversight to ensure equitable outcomes.[52]

Cultural representation in financial services is essential for building trust and ensuring fair treatment of ethnic minority customers. A recent UK Reboot "Race to Equality" report (2023) highlights that ethnic minority employees across financial firms perceive a scarcity of role models and leadership representation as significant obstacles. That disconnect not only undermines trust but also means products and services are often designed without considering the real-world experiences of these communities, reinforcing a cycle of exclusion.[53]

Policies and Practices Related to Cultural Representation in the Financial Sector

The Diversity and Inclusion in PRA-regulated Firms consultation highlights that UK financial institutions have not gone far enough in embedding effective diversity strategies. Although regulators advocate for holistic, firm-wide inclusion approaches that help reduce groupthink and improve governance, many banks and insurers are still only initiating superficial measures without meaningful cultural change.[54] A comprehensive study from Social Policy and Society, equipped by Cambridge University Press, examines the UK's Family Resources Survey to clarify how ethnicity intersects with financial exclusion. The findings show that minority groups are disproportionately excluded from mainstream banking, often due to intersecting disadvantages related to ethnicity, gender, and family structure.[55]

The Runnymede Trust's paper The Colour of Money (2020) outlines how entrenched racial disparities, such as Black African and Bangladeshi households holding approximately 10% of the wealth of White British households, demand targeted, culturally tailored interventions in financial policy.[56] To improve service delivery for DECs, financial institutions must adopt intersectional approaches that consider the complex interplay of race, gender, socioeconomic status, and migration status. Crenshaw (1991) highlights that ignoring intersectionality reduces the experiences of marginalised groups to a one-dimensional lens, which fails to capture the complexity of their economic and social realities. This reductionist approach is evident in financial institutions, where one-size-fits-all products and policies repeatedly overlook the diverse needs of minority communities, reinforcing exclusion rather than addressing it.[57]

The Institute of Race Relations (2021) stresses the structural disadvantages faced by Black and migrant communities, emphasising the need for targeted approaches that recognise

52 The Financial Conduct Authority (2024)
53 Reboot (2023)
54 Bank of England and Prudential Regulation Authority (2023)
55 Patel, K. (2021)
56 Runnymede Trust (2020)
57 Crenshaw, K. (1991)

their specific economic realities. This includes access to culturally competent financial services that go beyond generic inclusion strategies.[58] Furthermore, Collins (2000) argues that Black women's financial agency is often constrained by "controlling images", racialised and gendered stereotypes that shape societal perceptions and institutional practices, ultimately limiting their access to mainstream economic opportunities.[59]

Fair4All Finance's Levelling the Playing Field (2023) report calls for intersectional financial solutions that are tailored and community led. It highlights how generic, one-size-fits-all approaches erode trust and neglect culturally specific needs.[60] Similarly, strategic interventions should account for the "intersecting vulnerabilities" of Black and ethnic minority women, who face layered financial exclusion and barriers to capital. While there is growing awareness of the need for culturally responsive financial services, translating policy into practice remains elusive. For instance, although the Lending Standards Board (2022) recommends anti-discrimination evaluations, and the FCA's Consumer Duty (2023) emphasises customer-centric fairness, implementation across the sector is inconsistent and often perfunctory.[61] Market dynamics and institutional inertia tend to prioritise profit preservation and risk aversion, factors that historical patterns show implicitly reproduce disparities rather than dismantle them.

Citizens Advice's Popping the Bonnet (2024) exposes how people of colour face an "ethnicity penalty" in car insurance, paying around £250 more per year than White drivers with similar risk profiles.[62] This is a sharp example of how hidden costs and opaque pricing structures reinforce systemic exclusion across financial services in the UK.

Cultural competency must, therefore, be understood as a strategic necessity rather than a token gesture. Institutions that fail to integrate cultural awareness into leadership, product design, and service delivery risk not only alienating minority communities but also undermining their market share and long-term stability.[63] UK regulators are beginning to act: the FCA's Diversity and Inclusion discussion paper (2021) stresses that diverse leadership strengthens decision-making and reduces risks of groupthink, while the Bank of England and PRA (2023) underline that inclusive practices are essential for financial resilience and consumer trust.[64]

These insights reveal that systemic barriers persist, demanding more than performative diversity efforts. Financial firms must embed intersectional strategies, accounting for race, gender, socioeconomic status, and migration history, throughout product development and service delivery. A 2022 report from Oliver Wyman and Morgan Stanley underscores that financial institutions with inclusive leadership teams innovate more effectively and develop

58 Institute of Race Relations (2021)
59 Collins, P.H. (2000)
60 Fair4All Finance (2023)
61 Lending Standards Board (2022)
62 Citizens Advice (2024)
63 McKinsey & Company (2023)
64 Financial Conduct Authority (2021)

products that better serve ethnically diverse communities.[65] Expanding on that, McKinsey & Company (2023) found that companies with gender-diverse leadership outperform their peers in customer engagement and retention, demonstrating how leadership diversity translates into real commercial gain.[66]

Moreover, Deloitte (2023) shows that inclusive leadership enhances cultural intelligence in firms, leading to tailored engagement strategies that resonate with minority communities.[67] As an example of successful institutional change, some UK banks have launched no-interest microloan programmes for migrant entrepreneurs and expanded Sharia-compliant banking offerings, direct outcomes of leadership diversity and cultural awareness in product design.

Financial literacy must be elevated from a symbolic gesture to a strategic lever against systemic exclusion. UK research from Citizens Advice, outlined in their Popping the Bonnet (2024) report, reveals how financial surcharges like the ethnicity penalty in car insurance exacerbate exclusion by imposing costly and opaque financial burdens on minority consumers.[68]

Beyond risk mitigation, culturally competent financial education can empower communities. The Money and Pensions Service (MaPS) is actively building this infrastructure: it champions targeted financial resilience programmes that reach those most in need, especially ethnic minority groups, a recognition that generic literacy tools do not cut it for everyone.[69]

Further evidence from the UK comes via educational studies. A recent Spring 2024 project found persistent financial literacy gaps among East Midlands university students from ethnic minority backgrounds. Notably, many did not see day-to-day money decisions, like budgeting or banking, as linked to "financial literacy", revealing a disconnect between formal education and lived financial realities. [70]

To address this, education must be culturally responsive and community-driven. Financial institutions should not only fund but also co-develop initiatives with grassroots organisations. By situating literacy resources in local contexts and lived experiences, blending storytelling, case studies, and peer-based dialogue, we can build genuine financial resilience, trust, and sustained empowerment.

Future research should explore the role of financial literacy in mitigating systemic biases in service delivery by addressing questions such as: ***How can financial literacy programmes be tailored to address intersectional barriers related to race, gender, and socioeconomic status? What strategies can financial institutions adopt to embed culturally competent financial education into their service models? How can policymakers ensure that***

65 Oliver Wyman and Morgan Stanley (2022)
66 McKinsey & Company (2023)
67 Deloitte (2023)
68 Citizens Advice (2024)
69 Money and Pensions Service (2023)
70 Leone, V. et al. (2024)

financial literacy initiatives are accessible and equitable across diverse communities?

Despite the progress made, the intersectional experiences of financial exclusion related to disability, LGBTQ+ identities, and regional disparities remain underexplored. These factors compound existing barriers and require targeted research and policy interventions. Future research should investigate pressing questions, such as: ***How can financial institutions develop more inclusive credit-scoring models that account for diverse socioeconomic realities? What role does financial literacy play in mitigating systemic biases in financial service delivery? How can regulatory frameworks be redesigned to foster long-term cultural competency in financial institutions?***

Ultimately, addressing cultural representation in financial services requires a holistic approach that combines robust policy enforcement, leadership accountability, and community engagement to dismantle the entrenched structural inequalities that perpetuate financial exclusion.

Critical Analysis of Diversity Policies in UK Financial Institutions

Although the UK financial sector has begun to acknowledge the importance of diversity, progress remains uneven. The Bank of England's Diversity and Inclusion in PRA-regulated Firms consultation (2022) makes clear that systemic barriers continue to prevent DECs from fully participating and progressing in financial institutions.[71] Similarly, the FCA's Diversity and Inclusion in the Financial Sector discussion paper (2021) stresses that without tackling issues such as recruitment bias, limited progression opportunities, and a lack of cultural representation in leadership, firms will struggle to achieve meaningful, long-term change.[72] Together, these reports highlight that recognising diversity is not enough; structural barriers must be dismantled if the sector is to deliver genuine inclusion across all organisational levels.

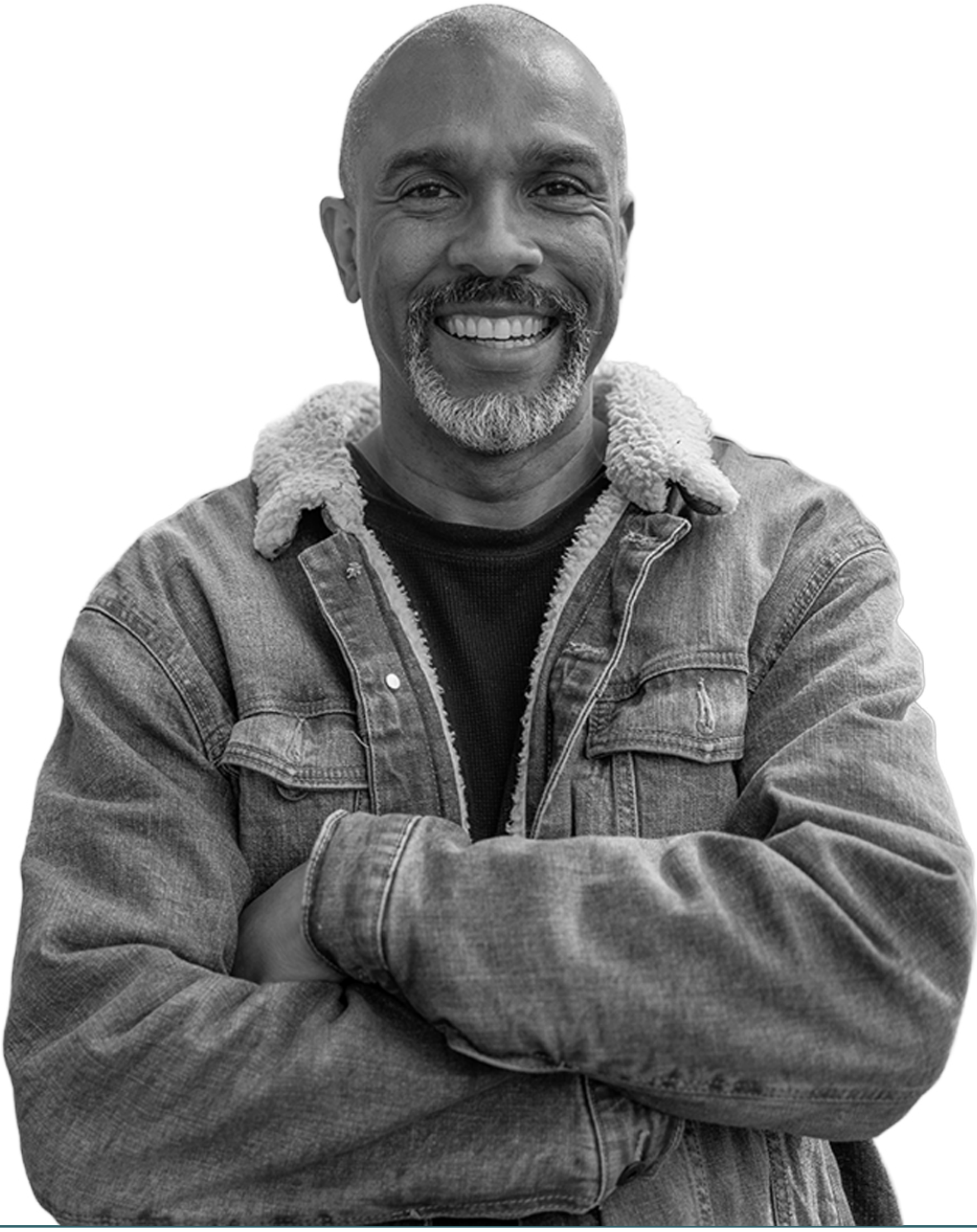
Strengths of Diversity Policies in UK Financial Institutions

- Regulatory financial regulators, including the FCA and the PRA, have introduced strict guidelines to promote diversity and inclusion. The FCA's Consumer Duty Legislation (2023) mandates a customer-centric approach, encouraging financial institutions to consider the diverse needs of their clientele. These regulatory efforts have driven greater transparency and accountability in financial services companies.

- Diverse leadership initiatives studies, such as McKinsey & Company's Diversity Wins (2021), demonstrate a strong correlation between diverse leadership and improved financial performance. Financial institutions, including HSBC and Lloyds Banking Group, have implemented leadership development programmes aimed at increasing ethnic minority representation at senior levels. The Oliver Wyman Financial Services Diversity Leadership Report (2022) highlights successful efforts by financial institutions to embed diversity in their recruitment and promotion strategies.

71 Bank of England and Prudential Regulation Authority (2022)
72 Financial Conduct Authority (2021)

- A wider recognition of the culturally responsive financial products, such as Sharia-compliant banking services and targeted microfinance initiatives for Black and ethnic minority entrepreneurs (Fair4All Finance, 2023) that have been implemented. Such initiatives address the specific needs of underrepresented communities and foster trust between financial institutions and diverse customer bases.
- Increased public scrutiny and accountability by advocacy organisations such as the Runnymede Trust (2020) have contributed to public awareness regarding financial exclusion, pushing financial services companies to adopt more inclusive policies. The Citizens Advice's Popping the Bonnet (2022) report has also led to increased pressure on institutions to address discriminatory pricing practices.



Weaknesses of Diversity Policies in UK Financial Institutions

- Despite the progress made, there is a lack of intersectional approaches, with many financial institutions continuing to adopt a one-size-fits-all approach to diversity, failing to address the intersectionality of race, gender, and socioeconomic status.

- Implementation of policies is slow. While diversity commitments are frequently made at the executive level, translating them into actionable change across middle and lower management levels remains a challenge. Hall's (2020) An Examination of the Unconscious Biases in Financial Policy Design argues that unconscious biases in hiring and promotion processes persist, hindering meaningful diversity at operational levels.

- Institutions taking tokenistic approaches and using box-ticking exercises often engage in surface-level diversity initiatives, which focus on quotas rather than fostering inclusive workplace cultures. These findings powerfully expose how diversity efforts often become performative checkboxes rather than transformative change. As reported in a Bloomberg article (2024) and echoed in findings from the FCA's multi-firm review, many diversity and inclusion initiatives are viewed in industry circles as largely symbolic or tokenistic, failing to penetrate institutional culture or produce substantive change,[73] and asserting that they fail to address the deeper cultural changes needed for long-term inclusion.

- Ethnicity pay gaps reports, such as Hull University's (2021) research on mortgage accessibility, reveal ongoing disparities in financial outcomes for diverse DEC employees and customers. Despite diversity pledges, structural barriers, such as discriminatory credit-scoring models and limited access to capital, continue to disproportionately affect Black and ethnic minority communities.

- Challenges in measuring the impact of the effectiveness of diversity initiatives remain. Many financial institutions lack strong evaluation frameworks and struggle to collect detailed (disaggregated) data on race and inclusion. Without this, it is hard to track real progress or hold leadership accountable, meaning that diversity efforts often go unmeasured and under-delivered.

73 Bloomberg News (2024) and Financial Conduct Authority. (2022)

Conclusion

This review makes clear that financial exclusion in the UK is not accidental but structural. The persistence of the ethnicity premium, discriminatory lending practices, algorithmic bias, and cultural incompetence across products and services reflects a system designed around exclusionary norms. Diversity initiatives, though increasingly visible, remain largely symbolic and insufficient to address deep-seated inequities. Without structural reform, financial services will continue to reproduce intergenerational disadvantages and reinforce wealth gaps across DECs.

The evidence shows that piecemeal efforts, generic financial literacy campaigns, voluntary diversity pledges, or shallow corporate responsibility programmes have failed. What is needed is a transformation in how the financial system defines fairness, risk, and accountability. This means regulatory enforcement of data transparency, integration of alternative credit histories, mandatory representation in leadership, and culturally relevant product design rooted in lived experience. It also requires investment in community-led financial education that recognises and values the informal practices and survival strategies of diverse ethnic communities.

True inclusion demands more than mitigation of harm; it requires redress. A reimagined financial system would be one in which products are co-designed with communities, decision-makers reflect the diversity of those they serve, algorithms are audited for fairness, and trust is built through transparency and accountability. Anything less risks perpetuating cycles of poverty, exclusion, and mistrust. With decisive action, however, the financial sector can shift from being a driver of inequality to a cornerstone of economic justice and resilience.

Recommendations

1. Mandating Transparency and Fairness in Finance

Directed at: HM Treasury, FCA, PRA

HM Treasury, the FCA and the PRA must build on the Fair Banking Act by making it a legal requirement for financial institutions to collect and publish ethnicity-disaggregated data across loans, credit, insurance and debt recovery. Without mandated data, unfairness remains invisible. The Equality Act 2010 is no barrier to implementing this, and the government should clarify that such monitoring is a compliance duty, not a breach.

Senior leaders must be held personally accountable when algorithms, postcode profiling or indirect policies produce discriminatory outcomes. All AI and digital tools used in lending should be subject to independent fairness audits, testing for bias, transparency, and explainability, with findings reported to regulators. Regulators should have enforcement powers to sanction institutions that reproduce racial or disability-based inequalities.

This is the baseline for a financial system that is transparent, accountable, and genuinely fair.

2. Embedding Alternative Financial Histories Into Credit Risk Assessment

Directed at: HM Treasury, FCA, PRA, mainstream banks, fintech lenders, credit reference agencies (Experian, Equifax, TransUnion), and the British Business Bank.

The UK's credit system systematically excludes Black, migrant and low-income communities by relying almost entirely on narrow credit files. Yet, millions of people demonstrate reliability through alternative financial histories, including regular rent and utility payments, council tax, remittances, and community savings systems such as Pardna and Susu. These practices prove financial discipline but remain invisible to mainstream lenders.

We recommend legislative reform: amend the Financial Services and Markets Act, or introduce a new Fair Credit Inclusion Act, to create a statutory duty for lenders and credit reference agencies to integrate alternative financial histories into creditworthiness assessments. This duty should be enshrined in law, with the FCA and PRA responsible for enforcement through supervision, sanctions, and oversight of market practice. This duty should be consistent, universal, and enforceable across all lenders and credit reference agencies. To ensure accountability, institutions must be required to run portfolio-level pilots and publish outcomes disaggregated by ethnicity, migration status, gender and income.

The objective here is simple: move from exclusionary credit metrics to a comprehensive, legally enforceable framework that guarantees fair access to mortgages, small business finance and insurance, and breaks cycles of systemic financial exclusion in the UK.

3. Enforcing Representation Through Rules, Quotas, and Lived-Experience Recruitment

Directed at: HM Treasury, FCA, PRA, UK Finance, the Financial Services Skills Commission, major banks and fintechs, institutional investors, public sector procurement bodies, and the Equality and Human Rights Commission.

The literature shows that decades of voluntary diversity initiatives have failed to shift outcomes: leadership remains overwhelmingly homogenous, middle management pipelines stall, and customer-facing teams lack cultural competence. Audits alone are insufficient; institutions have proven adept at passing them without structural change.

We recommend a return to clear, rules-based regulation. This should include:

- Legally binding quotas and reporting requirements for racial and cultural representation at all levels: boards, senior leadership, middle management, entry-level, and across all departments (C-suite, product/policy design, customer-facing roles).
- Mandatory reporting to the FCA and PRA, with data published annually and enforcement powers implemented where targets are missed.
- Non-traditional, lived-experience recruitment practices, supported by specialist providers from diverse ethnic communities, trialling skills-based pathways and moving away from narrow CV- and interview-based selection.
- Independent anti-discrimination audits focused on outcomes, such as lending, promotions, product design, and complaint handling. This should be conducted by external qualified bodies, not internal compliance teams.

Quotas are not symbolic. They are an enforcement tool to ensure that decision-makers reflect the communities they serve, embedding equity into governance and compliance. Evidence shows that when leadership and design teams are diverse, product inclusivity improves, discriminatory lending declines, and trust grows.

This is about moving diversity from intention to enforcement, and inclusion from aspiration to infrastructure.

4. Embedding Cultural Relevance in Financial Education and Debt Recovery

Directed at: HM Treasury, MaPS, DWP, DfE, DLUHC, DHSC, local and combined authorities, financial institutions, CDFIs, credit unions, fintech and AI innovators, further education providers, ethnic minority-led community organisations, and faith-based groups.

Standard financial literacy campaigns and debt recovery practices routinely fail DECs because they are generic, inaccessible, and often punitive. The literature shows disproportionate harm in debt collection, deep mistrust of institutions, and the exclusion of lived realities from financial education and debt advice services.

We recommend a major investment in culturally tailored financial education and reform of debt advice and recovery processes. This means:

- Co-design with grassroots and ethnic minority-led organisations, ensuring programmes reflect migration histories, informal economies, and lived experiences of exclusion.
- Delivery through trusted hubs (community centres, faith groups, mutual aid networks) in accessible, multilingual formats.
- Internal reform of debt recovery policies by banks, CDFIs, and fintechs to eliminate disproportionate impacts on diverse ethnic communities, with accountability for outcomes.
- Corporate social responsibility obligations for finance and tech firms to fund and partner in these financial education and debt advice initiatives.
- Culturally rooted education and fairer debt processes do more than build knowledge: they restore trust, prevent harm, and strengthen financial resilience in communities historically excluded from mainstream finance.

5. Supporting Diverse Ethnic Community Businesses to Start and Scale Enterprise Initiatives.

Directed at: Local councils, combined authorities, regional mayors, UKSPF managers, CDFIs, credit unions, trusts and foundations, angel and social impact investors, banking and financial institutions, as well as impact investment wholesalers such as British Business Bank, Fair4All Finance and Pathway Fund.

Access to start-up and scale-up finance remains a major barrier for diverse ethnic community groups, therefore limiting opportunities to build sustainable businesses, create jobs, and strengthen local economies. Evidence also shows that many entrepreneurs face an ethnicity premium, where they pay more for credit, insurance, and finance, even when they have the same financial profiles.

To support the start and growth of diverse ethnic community businesses, all parts of the financial ecosystem need to rethink how support is offered. Councils, combined authorities, and UKSPF managers can make a real difference by earmarking and directing grants and business support towards these communities. This would mean looking beyond traditional credit checks and valuing other signs of reliability, such as paying rent on time, contributing to community savings schemes, or managing household bills. These measures give a fairer picture of financial capability and open doors to those otherwise excluded.

Community lenders like CDFIs and credit unions are especially well placed to build trust and support entrepreneurs from diverse ethnic communities. These institutions should work with local community organisations and businesses to design loan products that reflect cultural realities, such as recognising informal savings groups. This way, these lenders can reach people where mainstream finance has failed. This approach not only helps businesses access affordable finance but also strengthens trust in and support of local networks.

For trusts, foundations, and angel or impact investors, this review makes clear that generic programmes are not enough. What works best is funding that is designed and delivered in partnership with ethnic minority-led organisations, where the people making decisions understand the lived experiences of the entrepreneurs they are supporting. Alongside money, there needs to be mentoring, peer networks, and practical business support tailored to cultural contexts. These kinds of wraparound offers help businesses not just to start but to scale, creating long-term impact.

Banks, large investors, and impact investment wholesalers like the British Business Bank, Fair4All Finance, and Pathway Fund have a responsibility to lead by example. They should commit to testing enterprise finance products aimed at entrepreneurs from DECs and publish data showing who gets accepted or rejected for loans. This transparency builds accountability and ensures that investment is genuinely reaching the businesses it is meant to serve.

Regional mayors and combined authorities can also use their influence to encourage fairer lending and investment practices through procurement and local economic strategies.

Finally, all stakeholders need to recognise the strengths that already exist in diverse ethnic communities. Informal lending groups, collective savings schemes, and mutual support systems are not signs of weakness but are powerful examples of resilience. Building on these traditions, rather than ignoring them, can create finance models that are trusted, inclusive, and fair. Supporting diverse ethnic businesses is not just about capital; it is about reshaping systems so they work for everyone and help communities thrive.

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