



Clients with a migrant background

The role of risk preferences in retail banking

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Germany is a country of immigration. More than 16.5 million people living in Germany have a migrant background. This makes this group an important target demographic for banks.

Only those banks that offer their customers made-to-measure financial products and bespoke advisory services will be successful in retail banking over the longer term. And to be able to find the right financial product for each individual, advisors need to take investors' risk preferences into consideration. This also – in fact particularly – applies to investors with a migrant background.

Risk preferences that may potentially stem from the customer's personal migrant background are currently being underestimated in retail banking. This study aims to change that. In collaboration with Bayreuth University we have carried out an empirical analysis of risk preferences using data supplied by the German *Socio-Economic Panel* (SOEP).

The results of our regression analysis show that first-generation migrants tend to be relatively risk averse when assessing general risks. People who were born in another country and do not hold German citizenship are more risk-averse with regard to general risks than second-generation migrants and the native German peer group.

A very different picture emerges when we look at the risk preference of foreigners with regard to financial investments. Irrespective of their place of birth, investors with non-German citizenship are generally more risk-friendly than Germans.

Our discussions with personal account managers of ethnic Turkish customers of Deutsche Bank in Germany support this view to some extent. First-generation Turkish investors are generally considered to be rather risk-averse – their product use behaviour only begins to match that of the German peer group over the course of time.

Our observations suggest a number of implications for direct customer contact. The Turkish target demographic in particular shows that risk profiles can change over time. The key factor for the successful provision of financial advice to customers with a migrant background is to understand this transformation of the risk profiles over time, to manage it and to translate it into an appropriate investment strategy.

There are also strategic implications for the retail banking business. Financial institutions benefit from providing target-group-specific customer advice. This is particularly true for the target group of people with a migrant background: not only are their numbers set to grow over the coming years, but their average income levels are also likely to rise. Financial services for customers with a migrant background remain a growth market.

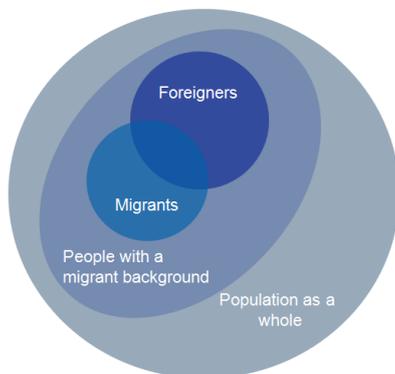


Clients with a migrant background: The role of risk preferences in retail banking

Who's who?

1

The following terms are important in the analysis of consumers with a migrant background.



Source: Deutsche Bank Research

- **Foreigners:** Legal term for persons who do not hold German citizenship.³
- **Migrants:** People who have migrated to Germany from another country – irrespective of their citizenship and regardless of the reason for their migration.⁴
- **People with a migrant background:** According to the definition of the German Federal Statistical Office, the population with a migrant background in the narrower sense includes all persons who immigrated to Germany after 1950 as well as all the foreigners who were born in Germany⁵. In addition, among those Germans with a migrant background who have held German citizenship since birth, only those who live with one or both of their parents in the same household are deemed to have a migrant background in the narrower sense. The population with a migrant background in the wider sense also includes those Germans with a migrant background who do not live with their parents (any more).

Multicultural marketing

2

Multicultural or ethnic marketing is aimed at minority ethnic groups. Cultural aspects, norms and the different needs of these target groups play a key role.

One well-known example of ethnic marketing in Germany is the *Ay Yildiz* mobile phone brand from E-Plus, aimed at people with a Turkish background. The name *Ay Yildiz* can be translated as 'star and crescent', a reference to the Turkish flag.⁸

Germany is a country of immigration. In 2014 alone, more than 1.3 million people came to live in Germany – a new 20-year high and more than the number arriving in any other member state of the EU. Of all the OECD countries, only the USA welcomes more people each year. The high immigration rate is also reflected in the net migration figures: in 2014 there were 522,090 more immigrants than emigrants. Almost two thirds (61.2%) of immigrants come from the European Union, three quarters from Europe. 15% are from Asia, 5.2% are from the Americas, Australia and Oceania and 5% are from Africa.¹ Net migration in 2014 increased by around 20% compared to 2013.²

People migrate for a variety of reasons. Contrary to popular assumption, not all migrants are drawn to Germany by the attractive opportunities it offers (pull factors). Many come as refugees, driven by political or economic necessity (push factors).

The current public debate about migration often distracts attention from those people who arrived in Germany in recent decades. They are now an integral part of society, with more than 16.5 million people living in Germany having a migrant background. Put another way: one fifth of the population either migrated to Germany themselves or were born to a parent who did.⁶ Two thirds of those with a migrant background are first-generation migrants. One third are second generation, i.e. born to parents who themselves came to Germany from another country.⁷ These figures show that people living in Germany with a migrant background are an **important economic factor**.

Banks know this. Many banks have identified people with a migrant background living in Germany as a special target group. With multilingual customer service staff and *multicultural marketing* they are attempting to harness the potential offered by this group of customers. However, only those banks that offer their customers made-to-measure financial products and bespoke advisory services will be successful in retail banking over the longer term. To be able to find the best financial product for each individual, advisors need to take investors' risk preferences into consideration. But it is precisely these *diversity aspects* that are often underestimated in dealings with people living in Germany whose roots are in other countries. For example, there has not yet been any systematic study of the extent to which the risk appetite of people with a migrant background in respect of financial transactions differs from that of the native population. Day-to-day business dealings are based on assumption and supposition, not on empirical findings.

This study aims to change that. It seeks to tap into the business potential of customers with a migrant background and examine the following questions.

- What role do customers with a migrant background play in the economy?
- Are there differences in terms of risk preference and investment behaviour? To answer this question we have teamed up with Bayreuth University to conduct an empirical analysis of data supplied by the German *Socio-Economic Panel*.
- What does this mean for retail banking?

¹ See BAMF (2015).
² See German Federal Statistical Office (2015a).
³ See Weiß and Diefenbach (2006).
⁴ See Weiß and Diefenbach (2006).
⁵ See German Federal Statistical Office (2014b).
⁶ See German Federal Statistical Office (2014b).
⁷ See BAMF (2015).
⁸ See Aygün (2015).



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Germany: Net migration

3

Net migration to Germany, in thousands



Sources: Federal Office for Migration and Refugees, Federal Statistical Office

Migrant background as an economic factor

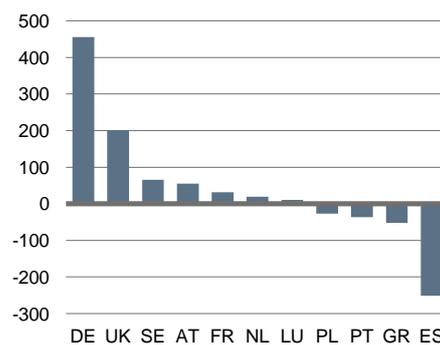
A migrant background is always the product of individual plans and fate. Nonetheless, to gain a better understanding of this target group it is worth comparing some statistics of people with a migrant background against the native German population. The average age of the native German population is just under 47 years. The age structure of people living in Germany who have a migrant background is younger, averaging 35 years.⁹ 17% of migrants have moved from one country to another more than once in their lives. As many as 45% of migrants from the EU-15 countries¹⁰ have already changed country more than once.¹¹

Data from the Federal Statistical Office's microcensus¹² clearly illustrates the differences between migrants from different regions. The following section looks both at migrants – i.e. people who have themselves moved to a new country – and people with a migrant background – i.e. migrants and their descendants in Germany.¹³

Net migration: Germany leads the way in Europe

4

Net migration 2013, in thousands

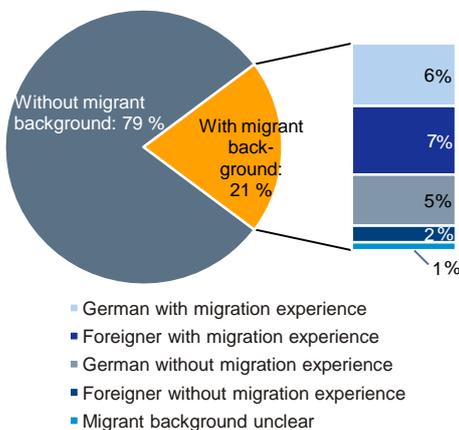


Source: Eurostat

Every fifth person in Germany has a migrant background

5

German population according to migration status 2013



Source: Federal Statistical Office, Microcensus 2013

- **EU-28:** migrants from the other EU states are, on average, less than 24 years old when they arrive in Germany. The situation is different for people from the EU-28 with a migrant background who are living here already. Their average age is 39. 23% of them do not have any professional or vocational qualification. Among people without a migrant background the figure is just 12%. However, 13% have a university degree – the same proportion as for those who are German by birth. Because of the younger age structure, however, a quarter of people with roots in EU countries are still in education or training. The job situation is considerably more positive. Just 6% were registered unemployed in 2013 – less than the 7.7% for Germans as a whole.¹⁴ Because of the healthy employment situation, households with roots in EU-28 countries often have a higher net income than other groups with a migrant background. Just under 13% of households have to get by on net income of less than EUR 900/month. In contrast, 22% of households have more than EUR 3,200 net at their disposal.¹⁵
- **Rest of Europe:** Among migrants from other European countries outside the EU, Turkey and Russia are the most common countries of origin. This group is 23 years old on average at the time of immigration – and thus also considerably younger than those people with a migrant background who are already settled in Germany (who are eleven years older on average). Furthermore, this group is also very young compared to the native German population and people with a migrant background from the EU-28 states. Consequently more than a third (34%) are still in education or training. Almost exactly the same proportion have not yet attained a professional or vocational qualification – Chart 8 shows that the proportion of people without a professional or vocational qualification is higher than in other groups with a migrant background. Only 8% have a university degree. Since a person's level of qualification is a key determining factor for their career, the employment situation for this group is similarly poor. The unemployment

⁹ See German Federal Statistical Office (2014a).

¹⁰ Countries that were members of the EU before 2004.

¹¹ See Brücker et al. (2014).

¹² See German Federal Statistical Office (2014b).

¹³ The microcensus does not exclude migrants who only intend to stay temporarily. Consequently the statistics may also include people who, for example, do not intend to settle permanently in Germany, such as exchange students.

¹⁴ See German Federal Statistical Office (2015b).

¹⁵ These categories were defined by the microcensus. Income of up to EUR 900/month covers the bottom two income thresholds. The two top income categories have net household income of EUR 3,200 or more.

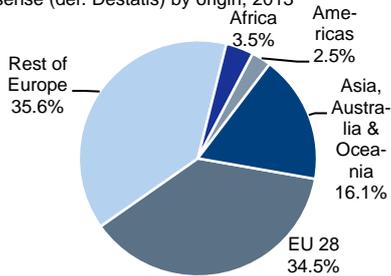


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Europeans in the majority

6

People with a migrant background in the narrower sense (def. Destatis) by origin, 2013



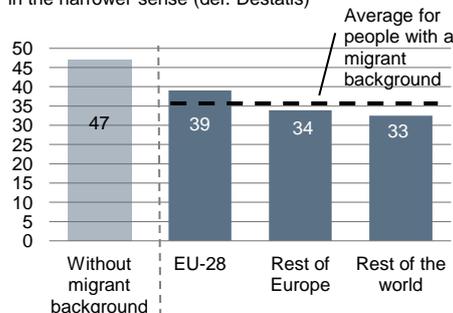
Excludes people who did not specify

Source: Federal Statistical Office, Microcensus 2013

Rejuvenation for Germany

7

Average age, people with a migrant background in the narrower sense (def. Destatis)



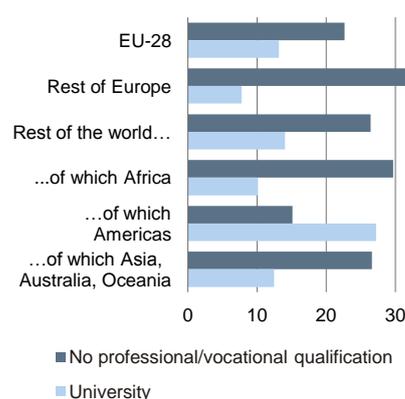
Excludes people who did not specify

Source: Federal Statistical Office, Microcensus 2013

Major difference in qualifications

8

People with a migrant background in the narrower sense (def. Destatis)



Excludes people who did not specify.

Source: Federal Statistical Office, Microcensus 2013

rate among those with a migrant background from European countries outside the EU is one in ten. 15% of households thus have to survive on net income of less than EUR 900/month. 17% have monthly net income of more than EUR 3,200.

- **Rest of the world:**¹⁶ At just under 25 years of age, migrants from the rest of the world are the oldest group when they arrive. Yet people with a migrant background from outside Europe who are already living in Germany are the youngest group, with an average age of 32.6 years. Consequently, 36% are still in education or training. The level of higher education varies greatly. Among those originally from Africa one person has a higher-level qualification for every three without any professional or vocational qualification. The situation is almost exactly the reverse among those with American roots, i.e. people from the USA, Canada and Latin America. Of this group, 27% have a university degree and 15% have no formal qualifications at all. Consequently, the ability of these groups to gain a foothold in the labour market varies greatly. 15% of people with African roots are unemployed, compared to only 8% of people from the Americas. People with a migrant background from Asia, Australia and Oceania fall somewhere in between. 10% of them are jobless. In total, 20% of households whose roots lie outside Europe have to get by on net income of less than EUR 900 per month. Only around 15% of them have a net household income of more than EUR 3,200 a month.

For all the differences between the groups, it is clear that migrants help to stabilise the demographic structure of the country. They mitigate the effects of an ageing population and the shortage of skilled labour that will become a growth-inhibiting factor for Germany by 2030 at the latest.

Many migrants are highly qualified. However, their qualification level cannot be compared like-for-like against that of the native German population. One third of migrants aged between 20 and 65 who came to Germany during the last decade (2001-2011) have a university degree, compared to only one in five native Germans. Degrees in science, IT, maths and engineering are even more prevalent among migrants¹⁷. However, it is important to note here that the actual standard of apparently equivalent qualifications can vary greatly. This is also reflected in the official recognition of foreign qualifications. Only around half of foreign qualifications are fully recognised in Germany. In total, more than half of people with a migrant background (54%) have a degree or professional/vocational qualification, one tenth are currently in education or training and 35% have no professional/vocational qualification at all.¹⁸

¹⁶ This category comprises migrants from Africa, America, Asia, Australia and Oceania.

¹⁷ See Bräuninger (2014).

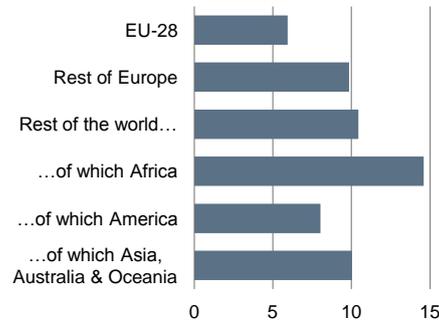
¹⁸ See Liebau and Romiti (2014).



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Unemployment among people from the other EU-28 states is the lowest 9

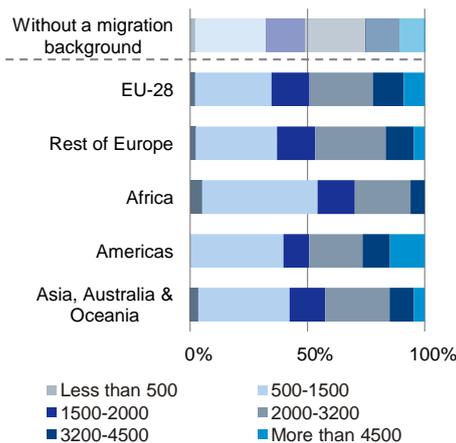
Unemployment rate: people with migrant background in narrower sense (def. Destatis) 2013, %



Source: Federal Statistical Office, Microcensus 2013

Income structure 10

Household income of people with migrant background in narrower sense (def. Destatis), EUR



Excludes people who did not specify

Source: Federal Statistical Office, Microcensus 2013

Migrants as start-up entrepreneurs

The desire to work for themselves is particularly strong among migrants, a claim supported by evidence from the *Global Entrepreneurship Monitor (GEM)*. In the following section about business start-ups, the term 'migrant' refers to all people living in Germany who were born abroad, plus their children who may have been born in Germany but feel closer to the foreign culture.¹⁹ We are using this definition for consistency with the source.²⁰

23.1% of people who have started a new business within the last three and a half years are migrants. This means that a greater percentage of migrants set up new businesses than native Germans. In terms of product innovation, age of production technology and production methods, there is little to separate foreign entrepreneurs from those with German citizenship.²¹ However, businesses started by migrants tend to be bigger than new German businesses. More than 70% of migrant entrepreneurs already employ other people when they start the new business, or intend to do so. Among German-born business starters the proportion is substantially lower, at just over 50%. And migrants tend to be younger when they start their new business: just under half (48%) of foreign business starters are under thirty years old, compared to just 37% of German entrepreneurs. Women are significantly under-represented in the group of migrant start-up entrepreneurs, accounting for just 32%, whereas among the native German population 43% of new businesses are started by women.²²

Migrants also have culture-specific unique selling propositions and contacts with their native country that they can exploit commercially. This might explain why the companies founded by foreigners generally tend to export more of what they produce. There are also differences in terms of qualifications. The proportion of German founders with a higher-level qualification is 37%. In contrast, only a quarter of those with a migrant background who start a new business have a higher-level qualification.²³

There are a number of possible reasons to explain the high proportion of self-starters among the migrant population. One reason may be that going into business for themselves gives them an opportunity to improve their social standing. Since migrants often have strong networks but tend to be less qualified than native Germans, the possibility of social advancement through self-employment may be more attractive than the alternative of working their way up within a large corporation. The *Global Entrepreneurship Monitor* figures also suggest that the higher level of self-employment among migrants is partly due to their poorer prospects in the labour market.²⁴ The failure rate among self-employed migrants is higher than among Germans. A fifth (21%) of all migrants' businesses fold within the first year. After three years the survival rate is around six in ten. Among the wider German population the failure rate is 15% after one year and 30% after three years. Studies reveal that the conditions under which the businesses are started tend to be less propitious, such as the lower age of foreign entrepreneurs when they start their business (i.e., less life experience) and lower qualification levels.²⁵

¹⁹ This is established by asking the survey respondents how they feel.

²⁰ See Brixy et al. (2011).

²¹ See Brixy et al. (2011).

²² See Metzger (2014).

²³ See Brixy et al. (2011).

²⁴ See Brixy et al. (2011).

²⁵ See Metzger (2014).



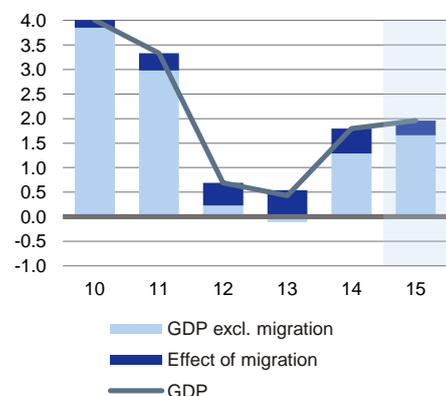
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Migration and growth

Significant growth effect caused by migration

11

% change on previous year

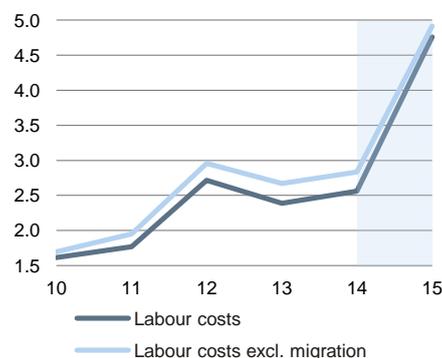


Sources: Federal Statistical Office, Deutsche Bank Research

Net migration depresses wage growth slightly

12

% change on previous year



Around one half of the expected labour cost increase in 2015 is attributable to the introduction of the minimum wage of EUR 8.50

Sources: Deutsche Bundesbank, Deutsche Bank Research

The migrant labour force is an important growth factor. Only last year Deutsche Bank Research²⁶ showed that the surge in employment resulting from migration since 2010 had had a significant impact on the growth of the German economy. Although migrants tend to be less productive than native Germans when they first arrive in Germany, because of their lack of country-specific knowledge, between 2010 and 2013 they were contributing around one fifth of the average growth of 2% p.a. In addition, once successfully integrated into the job market, migrants increased their productivity every year, thereby closing the gap on the native German population. Without immigration, GDP would have contracted slightly in 2013 instead of increasing by 0.4%. These figures are produced by breaking down the increase in gross domestic product into change in employment, hours worked and hourly productivity of the working population. The increase in the number of migrants is likely to continue adding another 0.4 percentage points to the German trend growth rate in the coming years.

Alongside the positive effects on growth, another effect of the increased supply of labour has been to depress wage growth by 0.2 percentage points.²⁷ However, the immigration of younger and better qualified workers, a trend that has been observed since 2010, is good news for the German labour market. Not only is flexibility in this labour market segment relatively high, but the German and foreign workforces complement one another, a factor that will benefit German workers in the medium term. The negative effect on the population with a migrant background already working in Germany will also be relatively low, assuming the new migrants are better qualified.

The benefits of immigration for the German economy outweigh the disadvantages, but this is not just a one way street: migrants are very satisfied with their life in Germany too. Three quarters of migrants who have come to Germany since 1995 intend to remain. However, they do not include the most highly qualified. 45% of that group are undecided as to whether they will stay in Germany or not.²⁸

Migrants as savers

Studies reveal differences in saving behaviour between native Germans and migrants when these two groups are compared directly. Bauer and Sinning (2010) estimate the probability that migrant households²⁹ will have any savings at all as around 25% lower than for German households. They point to two facts that may explain this.

- **Remittances:** Many migrants, particularly those who do not intend to stay permanently, send money back to their home country. If remittances to the home country are excluded, the savings ratio of migrant households is on average 2.3 percentage points lower than that of German households.³⁰ However, once this phenomenon is taken into account, the difference between the two groups is significantly less.
- **Differences in income:** It may be that migrants are able to save less because their average household income is lower so they have to spend a greater proportion of their income on daily living expenses.

²⁶ See Folkerts-Landau (2014).

²⁷ See Folkerts-Landau (2014).

²⁸ See Tucci et al. (2014).

²⁹ In the Bauer and Sinning (2010) study, the term 'migrant' is used to describe all persons born outside Germany who have moved to Germany at some point in their lives.

³⁰ The savings ratio is defined as the amount saved each month as a proportion of monthly income.



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Bauer and Sinning attribute 55% of the difference in savings ratio between Germans and migrants to observable characteristics. The remaining 45% points to differences in the propensity to save which can be attributed, in part, to migrants' appetite for risk. This will be examined in more detail below. After a brief overview of the literature, we will discuss the findings of our regression analysis and draw conclusions for the retail banking sector.

Risk appetite of migrants

Not everyone is prepared to leave their homeland and start a new life in a foreign country with an unfamiliar culture and language. It is this self selection – possibly coupled with an additional selection by the immigration authorities of the host country – that means migrants are often typical of neither the host country nor their home country. They are often ascribed specific qualities such as entrepreneurial skill, stronger ambition and greater adaptability.³²

Another characteristic that tends to be ascribed to migrants in public debate is a greater appetite for risk. People who choose to migrate to a different country do so with little certainty as to what life will hold for them there. In most cases they are entering an alien environment with an unfamiliar culture. Migration – so the argument goes – therefore implies a willingness to accept risk. Whether this supposition can be confirmed empirically has never been sufficiently tested. And so there is only a small number of academic studies that deal with the risk proclivity of migrants. The overview that follows contains the most relevant discussions on the subject.

Literature overview

Jaeger et al. (2010) examined whether people who are risk-tolerant are highly mobile. However, they only looked at migration within Germany. Using data from the *Socio-Economic Panel* (SOEP) Jaeger et al. analyse the correlation between individual attitude to risk and moves between the German regions. They found that people who are prepared to accept risk are also more willing to relocate. They have a higher probability (+1.5 percentage points) of moving to a different region and thus also to a new labour market³³ – a significant increase given the average migration probability of 5.8%.³⁴ The risk appetite of those who have relocated several times is even more pronounced than that of those who have only moved home once. Jaeger et al. describe the chain of causation thus: the willingness to move requires a willingness to take risks – and not vice versa. Jaeger et al. go on to point out that an American study produced similar findings. The only difference was that Americans have a significantly greater appetite for risk and thus a far more mobile labour market than the one in Germany.

Migrants invest in language classes and training

13

Migrants are often hungry for education and are often very keen to gain further qualifications in Germany. This is partly due to the fact that they are less well qualified to begin with. 28% of migrants are in education or training or have gained a (further) professional qualification after arrival. Among migrants who did not have any professional/vocational qualification beforehand, the proportion was a hefty 35%. This can be explained in part by the fact that many migrants are very young and have not yet completed their education/training when they arrive.

Investment in education also includes acquiring language skills. Language skills significantly improve a migrant's chances on the German jobs market. 61% of migrants on the 2013 IAB-SOEP migration panel said they had taken a language course; half of them in Germany. The fact that they have taken a language course is evidently a key reason for 58% of migrants describing their German as 'good' or 'very good'. Upon first arriving in Germany, only 12% of the respondents were able to make this claim.³¹

³¹ See Liebau and Romiti (2014).

³² See Brixy et al. (2011).

³³ Jaeger et al. argue that the economic activity of a region can be viewed as a distinct and separate labour market.

³⁴ The probabilities are based on the entire period of the study between 2000 and 2006.



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How banks sell themselves to customers with a migrant background

14

Banks are increasingly recognising the need to provide individually tailored financial advice for customers with a migrant background. They do this in three ways.

- **Services provided by foreign banks in Germany:** The Association of Foreign Banks in Germany has 211 members. The banks vary widely in terms of their business model, range of services and legal form.³⁸ One thing that many foreign banks have in common, though, is that they attract private individuals and companies from their home country. They therefore often have special products and services for such customers.
- **Special services provided by German banks:** The potential afforded by customers with a migrant background has already been recognised by many German banks. The market for ethnic Turkish customers in particular is fiercely contested. Deutsche Bank, for example, has introduced the Bankamız brand (see Box 20).
- **Financial services that meet religious criteria:** In March 2015 the first Islamic bank received a full banking licence from BaFin and now plans to open several branches in major German cities. It is thus one of the first banks to bring the concept of *Islamic banking* to Germany. *Islamic banking* enables the Muslim minority to conduct their financial transactions in accordance with the principles and rules of Sharia law. This includes a prohibition on interest payments. Sharia also forbids investments based on alcohol and tobacco.³⁹

Balaz and Williams (2010) confirm these results with their behavioural economics experiments. The authors test attitude to risk and uncertainty of Slovakian students, some of whom had already had experience of living abroad temporarily.³⁵ In the experiments, women who had lived abroad demonstrated a greater willingness to take risks than those who had never left their home country. Women with experience of migration were prepared to bet significantly higher amounts in three of the four experiments.³⁶ Among men, the experiment found no differences in the attitude to risk between migrants and non-migrants. The self-assessment of the students of their attitude to risk produced a similar picture. In respect of causality, Balaz and Williams agree with the findings of Jaeger et al., that attitude to risk determines the willingness to migrate. Other findings are also consistent with the consensus among researchers in this area.³⁷

However, the conclusions drawn by Balaz and Williams contradict the findings of Bonin et al. (2009). The paper compares the attitude to risk of migrants and of the native population based on data from the SOEP from 2004. According to *Bonin et al.* first-generation migrants are more risk averse not only in respect of general risk, but also in respect of financial decisions, sport, leisure and career. It is particularly notable that the attitude to risk of second-generation migrants is a lot more like that of the local population. The authors hypothesise that the attitude to risk is recalibrated through passage through the German school system and the general circumstances of life for the second generation. The fact that the studies by Bonin et al. and Balaz and Williams arrive at opposite conclusions may also be to do with the different definition of the term 'migrant'. Bonin et al. define migrants as people with foreign citizenship. In addition, they classify migrants who were born in a different country and have immigrated to Germany themselves, as first-generation migrants. Migrants who hold a foreign passport but were born in Germany are described as second-generation migrants. This definition is different to that used by Balaz and Williams, who also categorise temporary stays in a foreign country as migration.

Another study by *Bonin et al. (2012)*, building on the findings of the first study, analyses the relationship between degree of integration and risk attitude of the migrants. It was shown that migrants who make the greatest effort to integrate also tend to be less risk averse than their peers in the comparison group. Accordingly, migrants who cling on to their home culture more tightly will, on average, have a greater aversion to risk. Differences in the level of integration – and thus also in attitude to risk – were also found between different ethnic groups. *Bonin et al. (2012)* conclude that migrants from Western Europe tend to have a greater tolerance for risk than those from Turkey.

³⁵ Mostly study or work placements abroad.

³⁶ In the three experiments where a significant difference was found, women with experience of migration were prepared to stake an average of five euros more than women without migration experience.

³⁷ Balaz and Williams attribute a generally risk-averse attitude to the participants, as shown by a number of earlier studies. The fact that women are more risk averse than men is also consistent with existing empirical literature. For a more comprehensive review of the literature see Balaz and Williams (2010, p. 584 onwards).

³⁸ See Association of Foreign Banks in Germany (Verband der Auslandsbanken in Deutschland e.V.) (2015).

³⁹ See Dohms and Schreiber (2015).



Risk tolerance in financial investments: Approach of the study

The literature overview reveals that a discussion of the attitude to risk by people with a migrant background should be carried out on the basis of empirical evidence. Based on the studies discussed above we have therefore produced a study on this topic that is representative of the population as a whole. Using data from the *Socio Economic Panel* (SOEP) we analyse the differences between the risk attitude of people in Germany with foreign citizenship and that of the native population. We consider both the attitude to risk in general and that in relation to investments.

The study closely follows the methodology of Bonin et al. (2009). In order to ensure consistency with the source paper and compatibility with the SOEP, for the purposes of our regression we define as migrants everyone who has foreign citizenship. We then subdivide this group.

- **First-generation migrants:** Migrants with foreign citizenship who live in Germany but were born in another country and thus have their own first-hand migration experience.
- **Second-generation migrants:** Migrants who were born in Germany but nevertheless hold foreign citizenship.

Since 2004 the *Socio-Economic Panel* has occasionally asked respondents about their general attitude to risk and their attitude to risk in specific areas of life (such as investment or trust in strangers). The respondents rate their risk attitude on an eleven-point scale between 0 (absolutely no risk tolerance) and 10 (maximum risk tolerance). The last survey to ask questions about attitude to risk was in 2009.

In order to assess the willingness of investors with a migrant background to take risks, we have examined the following three variables from the 2009 survey:

- The general risk assessment.
- The tolerance to risk in relation to financial investments.
- The risk attitude in relation to financial investments of people who generally have a high appetite for risk.⁴²

The danger of distortion inherent in the subjective nature of individual self-assessment of risk tolerance does not apply when we are looking at the implications for the retail banking sector. This is because when customers go into their bank and speak to their financial advisors, they themselves rate their appetite for risk on the basis of a numerical scale, which is the same methodology as that used by the *Socio-Economic Panel*.

As outlined in the literature overview, Bonin et al. (2009) have already carried out a comparable study, also based on data from the SOEP. However, this data is from 2004, when the specific risk questions were first asked. In contrast to Bonin et al. (2009), who examine a wider range of questions, we focus on attitudes to risk that are relevant to financial services. We also examine whether and to what extent socio-demographic factors such as age or gender affect risk attitude. Based on Bonin et al. (2009), our regressions are carried out using the ordinary least squares method⁴³ with the risk attitudes as dependent variables.⁴⁴

A profile of the Socio-Economic Panel (SOEP)

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- The SOEP is a representative longitudinal study of the German population and has been carried out in German households every year since 1984.
- The survey now covers 30,000 voluntary participants in 11,000 households.⁴⁰
- The questions cover areas such as education, household composition, income, health and housing, as well as individual attitudes (such as risk tolerance).
- The annual surveys (waves) are periodically supplemented by additional questions on specific key issues. For example, questions about individual assessment of risk were first asked with 'Wave U' in 2004.⁴¹ The most recent survey on individual attitude to risk was conducted in 2009.

⁴⁰ See DIW (German Institute for Economic Research) (2015).

⁴¹ See Haisken-DeNew and Frick (2005).

⁴² We have defined a high appetite for risk as a rating of ≥ 7 out of 10.

⁴³ The ordinary least squares (OLS) method ensures that the discrepancies between the observed values and the associated predicted values are as small as possible. The corresponding estimators are called OLS estimators.

⁴⁴ The following regression function groups the three risk variables together under the term 'risk'.



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Guide to interpretation

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Table 18 (p. 12) can be interpreted as follows: positive coefficients point to a greater willingness to accept risk, while negative coefficients denote a lower willingness to accept risk. Whether an explanatory variable has a relevant influence on risk tolerance is measured using the probability of error (significance level). The lower the significance level, the greater the validity of the variables.

- High significance: A significance level of less than 1% means a highly significant influence.
- Significance: Values of less than 5% are regarded as significant.
- Slight significance: A significance level of less than 10% means slight significance.

The various levels of significance are indicated in Table 18 with asterisks.

Other findings

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In addition to migration status, a number of other factors have a significant influence on the general attitude to risk and the risk level when it comes to investment decisions. The study grouped migrants and Germans together when looking at this aspect.

- **Number of years in education:** Educated people are risk-friendly people – at least relative to the representative cross-section. The longer they have spent in education and training, the more risk-friendly respondents consider themselves to be, both generally and with regard to investment decisions.
- **Income:** A higher monthly net household income is generally linked to a greater willingness of the respondents to take risks.
- **Marital status:** Married people tend to be more risk averse. The finding that married people have a greater aversion to risk than unmarried people is statistically significant. This applies both to appetite for risk in general and specifically in relation to investments.
- **Gender:** The highly significant findings showing that women are substantially more risk averse than men confirm the consensus among academics.
- **Age:** Younger people are initially more risk-friendly, but become increasingly risk averse as they grow older. This could be because they have a greater interest in protecting the status quo. This difference between the age groups lessens in older age.

The explanatory variables are: holding non-German citizenship (*Migr*) and the birthplace of the migrants (*Migr*place of birth not in Ger*). The regression is also underlaid with additional socio-demographic control variables. We control for these variables even though they are of no direct relevance for our particular analysis, as they may nonetheless have a significant influence on the dependent variable. When designing the regression we use a replication of Bonin et al. (2009). Our control variables include education in years (*education*), net household income⁴⁵ (*inc/household*), gender (*fem*), whether the respondent is married (*marr*), whether he has children under the age of 16 (*childrU16*) and age in years (*age*).

For reasons of space we have not distinguished between different nationalities and the regression tables where we analysed men and women separately are not shown.

$$\text{Risk} = \beta_0 + \beta_1 * \text{education} + \beta_2 * \text{inc/household} + \beta_3 * \text{marr} + \beta_4 * \text{fem} + \beta_5 * \text{childrU16} + \beta_6 * \text{age} + \beta_7 * (\text{age})^2 + \beta_8 * (\text{age})^3 + \beta_9 * \text{Migr} + \beta_{10} * \text{Migr} * \text{place of birth not in Ger.} + \varepsilon_t$$

Results

Our results show that banks cannot lump foreign customers together as one undifferentiated customer group. If we look at the personal assessment of **general risk attitude**, the following picture emerges:

- Migrants who were born outside Germany (first generation) have a significantly higher risk aversion than the native population.
- Also, first-generation migrants are considerably more risk-averse than migrants who were born in Germany (second generation). This group are indistinguishable from Germans in terms of their attitude to general risk. The fact that second-generation migrants are very similar to the German peer group in terms of their general attitude to risk indicates that the risk preferences of migrants gradually move closer to those of the German population over time.
- This difference between first-generation migrants on the one hand and second-generation migrants and Germans on the other becomes even more clear when we look at women separately. Female migrants born outside Germany have a considerably greater aversion to risk than female migrants who were born in Germany, and women with German citizenship. Among men this difference is less pronounced.

If we then shift our focus away from general attitude to risk and towards **attitude to risk with regard to investment**, the picture changes. Migrants tend to be more accepting of risk in relation to financial investments than risk in general.

- When it comes to financial investments, the entire migrant group (both first and second generation) is substantially more risk tolerant than the German peer group. No differences were established between first and second generation migrants in terms of attitude to risk in relation to investments.
- The picture presented here is the same for female investors. When it comes to investments, female migrants (first and second generation) are more risk-friendly than German women. However, women in this data set – regardless of nationality and risk category – are still on average more risk averse than men.

One apparent contradiction remains. First-generation migrants are more cautious than Germans when it comes to the assessment of *general risk*. And

⁴⁵ Net household income is measured in units of EUR 10,000.



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yet at the same time, the group of all migrants is *more risk-friendly with regard to financial investments* than the native population. This may not necessarily be to do with the migrants themselves. It could be due to a particularly strong aversion to risk in the German peer group on financial matters. The legendary German angst of inflation and – by international comparison – the particularly conservative financial investment behaviour (as evidenced by the low level of equity holdings) point to this. A second reason may be the extremely heterogeneous nature of the migrant group studied. The large group of 'all people with foreign citizenship living in Germany' includes refugees and family members of former 'guest workers', as well as migrants from other EU and non-EU countries.

This reinforces the point that although the regression did not show any statistically significant distinction between the risk tolerance (with regard to investments) of first and second generation migrants, we should be aware that in practice there certainly can be differences between the generations and between individual nationalities. In day-to-day business, migrants cannot be treated as one single homogeneous customer group. Each one has to be treated as an individual.

We will now look at the attitude to investment risk of people who describe themselves generally as **particularly risk-friendly**. We have classed as particularly risk-friendly all respondents who rated their personal risk attitude as higher than 6 on a scale of 0 to 10. They are among the top 5% of the population in terms of appetite for risk.

- It is clear that migrants who regard themselves as particularly risk-friendly in terms of their general tolerance of risk are considerably more willing to accept risk in financial investments than the German population. This effect is highly significant.
- Migrants who were born in another country and have a relatively high willingness to take risks are prepared to accept a greater investment risk than even those native Germans who describe themselves as risk-friendly. However, risk-friendly first-generation migrants are still more risk averse than risk-friendly migrants of the second generation.
- When we examine the genders separately, we find this difference can also be observed among men. Both (fundamentally risk-friendly) second-generation and first-generation male migrants are considerably more open to risk with regard to investments than (fundamentally risk-friendly) native Germans.



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Regressions

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Dependent variables: Model	Attitude to risk generally	Risk tolerance with regard to financial investments	Attitude to risk in financial investments where general risk tolerance was higher
<i>Coefficients: *** significant at 1% level** significant at 5% level, *significant at 10% level - t-values in brackets</i>			
Number of years in education	0.0429257*** (6.71)	0.0873409*** (13.96)	0.1065107*** (4.46)
Net household income	0.6011594*** (6.36)	1.110088*** (12.01)	1.685163*** (5.00)
Married	-0.2076363*** (-4.87)	-0.0959918** (-2.3)	-0.2108029 (-1.35)
Female	-0.7776882*** (-24.47)	-0.7391863*** (-23.75)	-0.9068285*** (-7.11)
Children under 16	-0.0274311 (-0.61)	0.0151162 (0.34)	0.1157992 (0.73)
Age	-0.1242777*** (-4.42)	-0.0614741** (-2.23)	-0.0269429 (-0.25)
Age ²	0.2010842*** (3.71)	0.1010181* (1.9)	0.0523876 (0.24)
Age ³	-0.0128954*** (-3.91)	-0.0066287** (-2.05)	0.0035451 (-0.26)
Migrant	0.1734136 (1.01)	0.390727** (2.33)	1.742562*** (3.09)
Migrant* born outside Germany	-0.4101313** (-2.20)	-0.2620122 (-1.44)	-1.335593** (-2.13)
Constant	5.78562*** (17.98)	2.050542*** (6.5)	2.491321** (2.15)
Total sample N	17,225	17,106	1,867
R ²	0.0956	0.0859	0.0725
Adjusted R ²	0.095	0.0853	0.0675

Source: Deutsche Bank Research

Notes on the methodology

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- We were guided in our choice of method by the existing literature. Much of the literature uses the *ordered probit method* for ordinal variables – a method that models non-linear models (as can be the case with ordinal scales) using the probability of possible outcomes. However, interpreting the coefficients of ordered probit models is not straightforward. We used the ordered probit method alongside the least squares method. However, in the regression table we show the more easily interpreted least squares coefficients. These findings are relatively robust compared to the results of the *ordered probit* method.
- As above, we were also guided in terms of standard errors by the methodology used by Bonin et al. (2009) and use normal standard errors to calculate the t-statistic.



Case study and interpretation of the results

The results of our regression analysis show that there are differences in risk affinity between people in Germany with a migrant background and the native population. This also – in fact particularly – applies to personal investment decisions.

A case study of product use behaviour of Deutsche Bank's ethnic Turkish customer group can add some qualitative information to these results. However, it does not fully confirm the empirical findings and presents a slightly different picture, particularly for the customer group as a whole.

Case study: Customers of Turkish origin in Germany

Profile of Bankamiz

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Bankamiz ('Our Bank') is a customer interface of Deutsche Bank for people of Turkish descent living in Germany. Based on the *shop in shop* concept, it operates in regions and cities with a high density of ethnic Turks, employing advisors who are also of Turkish origin. Since *Bankamiz* was established in 2006, Deutsche Bank has significantly increased its market share among this target group. The aim is to have 60 branches with a total of 70 *Bankamiz* advisors in Germany by the end of the year.

The **product use characteristics of Deutsche Bank's ethnic Turkish customer group** are particularly well documented as Deutsche Bank has serviced this client group since 2006 via a special interface – *Bankamiz* (see Box 20). Also other banks provide these services, but *Bankamiz* is chosen as a case study. The data from *Bankamiz* and qualitative interviews with individual customer advisors are a useful addition to the findings of our (non-nationality-specific) regression. Clients of Turkish origin tend to be more risk averse in relation to financial investments than the results of our regression would suggest.

For example, the product use rate of *Bankamiz* customers in the area of **pension-related saving** – including insurance – is far above that of native German retail clients. First-generation migrants in particular prefer conservative financial transactions (e.g. current accounts) and favour low-risk investment opportunities in discussions with financial advisors. Securities accounts are rarely used by the Turkish target group. Among other retail customers the rate is almost four times higher.⁴⁶ This may also be due to differences in income levels.

The differences in investment behaviour are also reflected in **borrowing**. The higher loan take-up rate among people of Turkish origin living in Germany is often an expression of specific customer requirements. Clients may wish to borrow money to pay for lavish weddings, for example. Parents of young men often choose to take out loans of thousands of euros to prevent their sons from having to do military service in Turkey. Older workers may borrow money to take advantage of the opportunity offered by the Turkish government which allows them to buy into the Turkish pension scheme with a large one-off payment. Housing loan savings plans ("Bausparen") are also very popular: of those planning to save additional money for provision in old age, 25% invest in property in Turkey and 21% are planning to buy a property in Germany.⁴⁷ Despite a greater tendency to borrow on the part of customers of Turkish origin, the customer advisors we questioned emphasised that the default rate on consumer loans by households of Turkish origin tends to be lower than that of German households. This may be because close family ties in the ethnic Turkish customer group mean there is an unspoken understanding that family members will assume liability for each other's borrowing, even where there is no explicit guarantee.

⁴⁶ As well as a lack of affinity with financial products, observers attribute the low tolerance of risk in relation to finance to a loss of confidence following a major financial scandal in the Turkish community in the late 1990s, when investment advisors defrauded 200,000 private Turkish investors in Germany of a total of EUR 5 billion by using non-transparent holding structures. The investors were promised high returns. They were also told their money would be invested in Turkey in accordance with Islamic principles and in 'ethical' investments. See also Deutscher Bundestag (2007).

⁴⁷ See Sauer and Halm (2010).



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Product use behaviour: a comparison of Deutsche Bank retail customers and Bankamiz customers

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Product use rates	Bankamiz	Retail customers
Current accounts/ payment processing	73.6%	50.4 %
Savings reserve ⁴⁸	36.8 %	46.6 %
Pension (incl. insurance)	22.2 %	15.4 %
Housing loan savings plans	11.3 %	7.4 %
Personal loan	10.9 %	5.9 %
Securities account	3.1 %	11.1 %
Mortgage borrowing	1.8 %	2.7 %

Source: Deutsche Bank

Implications

Most customer advisors we interviewed about dealing with customers with a migrant background confirmed our findings regarding the risk attitude of migrants to some extent. They added that the risk attitude of migrants who remain in Germany for a long time eventually begins to match that of the native population.

This has various implications – both in terms of advising customers on a day-to-day basis and for the long-term strategic planning of a bank's retail banking business.

Three implications for customer relationship management ...

There are three fundamental implications for successful customer relationship management.

- **Firstly: Understanding of cultural differences is key.** Awareness that customers with a migrant background may possibly have a different risk profile enables retail banking advisors to tailor their advice more accurately and to avoid misunderstandings.
- **Secondly: Asking about attitude to risk enables the advisor to provide more accurately targeted advice.** Our findings show that people with a migrant background who generally see themselves as accepting of risk are far more prepared to take risk-friendly investment decisions than the native peer group. It is therefore particularly important to ask customers with a migrant background about their personal appetite for risk.
- **Thirdly: Advisors who understand how risk profiles change over time are better able to support their customers with the appropriate investment strategy.** Successful retail banking is not just about giving the best risk-profile-specific advice today, but also about continuing to develop the customer relationship over the longer term. The change in risk preferences of customers with a migrant background offers financial advisors an opportunity to support their customers in exploring riskier asset classes, to educate them, and to pass on risk-specific knowledge, thus cementing trust in the customer relationship.

⁴⁸ The category of savings reserve includes products such as a savings book and special savings plans.



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... and three implications for the strategic planning of the retail banking business

The implications to be drawn from the results of our study are not confined to the day-to-day business. They also have particular relevance for the long-term strategic planning of the retail banking business. Here too, three implications can be drawn.

- **Firstly: Target-group-specific relationship management pays off.** As outlined above, advisors who can provide targeted advice and support for customers with a migrant background can benefit from the effects of the close networks that exist within this group. Members of migrant networks are particularly inclined to recommend financial service providers. Statistics from *Bankamız* show that ethnic Turkish customers are up to 60% more likely to recommend a bank to a friend or acquaintance than the German peer group.⁴⁹ This *recommendation yield* is another reason to foster the relationship with customers with a migrant background particularly conscientiously.
- **Secondly: It is also worth developing other target demographics.** There is already a great deal of competition in Germany to attract people with a Turkish migrant background as customers. The plethora of Turkish media makes it relatively easy to target this group with tailored promotional campaigns. Other promising target groups include Russians, Poles and migrants from the former Yugoslavia. The fact that these target demographics are often very diverse religiously and ethnically remains a challenge, however. Other groups tend not to have a shared media environment in the same way that the Turkish target group does. The systematic development of other target groups with a migrant background will probably therefore be more expensive. Nevertheless, modern internet marketing mechanisms offer interesting opportunities for reaching even fragmented target groups effectively.
- **Thirdly: Financial services for customers with a migrant background remain a growth market.** As mentioned above, the proportion of consumers with a migrant background is growing as migration increases. Within this group too, financial circumstances generally improve the longer migrants remain in Germany. The target group of consumers with a migrant background also has more a favourable demographic profile. Taking all these factors into account, it seems inevitable that the demand for made-to-measure financial products for people with a migrant background will grow more strongly in future than for the German peer group.

The above analysis shows that individual risk preference is an important factor influencing investment behaviour. It is worth bearing this in mind, particularly in respect of customers with a migrant background. After all, if this target group does not have suitable savings and investment opportunities in Germany, the obvious alternative is for them to send their savings back to their home country and invest them there. This option will become increasingly attractive in times of low interest rates in Europe. The World Bank estimates that in 2014 alone USD 436 billion was **remitted** to developing countries. Migrants often put up with high transaction costs⁵⁰ to send funds to their home countries, which may suggest a lack of attractive returns and investment opportunities in their adoptive countries as well as personal reasons such as the desire to help out relatives.

⁴⁹ Deutsche Bank (2015), p.18.

⁵⁰ The transaction costs for remittances from Germany to Moldova, for example, were close to 16% in the first half of 2014. See World Bank (2014).



Outlook: Corporate customers with a migrant background are increasing in importance

If financial service providers take these implications on board, individual financial services for customers with a migrant background may in future be as much a part of everyday banking business as student loans, housing loan savings plans and loans for agricultural machinery. The huge potential offered by customers with a migrant background is easy to see – and, with the right strategy, easy to harness.

Still largely unexplored, in contrast, is the role of small-business customers and the self-employed with a migrant background. The high levels of self-employment among migrants, the fact that they tend to operate internationally and the importance of migrant networks provide excellent conditions for the development of potentially lucrative customer-group-specific products and services in business banking.

The next cross-cultural challenge for banks will be to attract, support and develop, as long-term customers, entrepreneurs with a migrant background. Understanding this group as customers will be an additional area for applied research, and one which this study suggests is worth investigating.

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