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Customers with immigrant status in the focus of compliance

By Mikhail Karataev

Immigration policy is perhaps the most obvious and controversial issue on the American business agenda. Immigrants have played a decisive role in shaping the modern face of the United States, making significant contributions to the economy, culture, and society. It's enough to recall the speech of President Franklin D. Roosevelt, "Remember, remember always, that all of us, you and I especially, are descended from immigrants and revolutionists."[1] However, opening your first U.S. bank account, getting cell phone service for the first time, getting insurance, renting a house or car—let alone taking out a loan—as an immigrant in 2024 will be surprisingly difficult. All these challenges generally reflect the unspoken position of modern business on immigration issues. This article will take a closer look at the real and formal compliance risks with immigrant customers in 2024.

Challenging risk assessments

In 2023, 1.2 million immigrants became lawful residents in the U.S., setting a record.[2] The foreign-born population of the U.S. is 49.5 million,[3] representing more than 17.1% of the workforce and over 21.7% of entrepreneurs.[4] Moreover, immigrants made up more than one-fifth of the population in four states: California (26.7%), New Jersey (23.4%), New York (22.8%), and Florida (21.6%).[5] Immigrants' spending power in the U.S. economy is around $1.6 trillion, and they pay nearly $579.1 billion in taxes annually. This data indicates significant business potential to serve customers with immigrant status, but in practice, the situation is often different. According to a Census Bureau report, 26 million people are uninsured.[6] Eighteen percent of lawfully present immigrants lacked health insurance (compared to 8% of U.S.-born citizens).[7] One of the main reasons for this situation is the overly conservative approach companies use to assess compliance risks, as immigrants usually meet the high-risk criteria.

Citizens and immigrants don't have the same compliance profile, so their risks should be assessed differently. If a company approaches a client's compliance risk assessment formally, it will almost certainly refuse an immigrant a financial service. Immigrants new to the U.S. do not have a credit history, making it difficult for a financial company to assess their risk profile and complete know your customer (KYC) procedures. During KYC compliance checks, immigrants inevitably encounter differences in documentation standards between countries, unfamiliarity with the types of documents accepted by U.S. financial companies, or challenges in obtaining specific documents such as government-issued IDs or proof of address.

These characteristics do not always mean the presence of real anti-money laundering (AML) risks. Moreover, one study based on Texas Department of Public Safety data found that undocumented immigrants had over two times lower crime rates than native-born citizens.[8] However, the similarities between immigrants' profiles and high-risk KYC criteria are often a reason for denial of financial services. And if people are restricted from using legitimate financial services, it increases the risk of money being diverted into unregulated channels where money laundering and terrorist financing are more likely.

Financial companies, in turn, cannot weaken existing KYC controls due to very real risks, which in the anti-financial crime (AFC) system are divided into human smuggling and human trafficking, crime, and tax fraud.