Strategies for Financial Inclusion

Reaching Out to Immigrant and Ethnic Minority Groups

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Introduction

In recent years, immigrant and ethnic minority groups have garnered considerable interest from financial institutions. For this literature review, Wilder Research reviewed 21 articles focusing on the financial characteristics of the following immigrant and ethnic minority populations: African-American, Latino, Hmong, and the 1.5 generation. The "1.5 generation" refers to people who immigrated to the US from another country before or during their early teens (Rojas, 2014). The majority of articles Wilder Research found addressed generational differences among immigrant communities in terms of acculturation, rather than addressing the 1.5 generation directly.

Although Wilder Research reviewed articles specific to each immigrant or ethnic minority group, many of the findings overlapped. This is largely due to the commonalities in challenges that recent immigrants face. As such, this review is structured by topic rather than by cultural group. Topic areas include: Microculture, acculturation, accessibility of financial services, community outreach, and financial service preferences and delivery. That being said, the literature supported the idea that tremendous importance lies in a person's individual culture. Wilder Research made concerted efforts to bring out culturally specific findings when applicable.

Microculture

Many studies noted the importance of acknowledging the complexities within immigrant and ethnic minority communities, some using the term "microculture" to describe these complexities (Minnesota DEED, no date; Perry, 2006; Principal Financial Group, 2012; Toussaint-Comeau & Rolnick, 2003). In other words, there is no Asian American community (Patraporn et al., 2010), much like there is no African-American community or Latino community – there are micro-communities within each. To illustrate this point, one Latino-focused study found that if a Latino immigrant was born in Mexico, Puerto Rico, the Dominican Republic, they were less likely to have a bank account than Latinos born in the US. However, Latino immigrants born in Cuba were equally as likely as those born in the US to have a bank account (Perry, 2006).

Acculturation

Many studies addressed the generational differences in banking preferences and habits of immigrants in terms of level of "acculturation" (Lutheran Immigration and Refugee Services, 2012; Paulson, 2006; Perry, 2006; Principal Financial Group, 2012; Southeast Asia Action Resource Center, 2012; Yang & Solheim, 2007). Acculturation refers to length of time in the US, plans to return home, the amount of non-English language use in daily life, and citizenship status (Perry, 2006). Overall, studies noted that respondents who had resided in the US for a relatively short length of time, planned to return home, spoke primarily in a language other than English, and were not US citizens were *less likely* to have a bank account or utilize other financial institutions.

One study, focusing on the Latino community, noted the following distinctions based on acculturation levels:

- **Unacculturated.** This group refers to immigrants who are foreign-born and Spanish-dominant. On average, members of this group have lived in the US for 14 years.
- **Partially acculturated.** This group refers to a mix of US- and foreign-born Latinos. The members of this group are either bilingual or Spanish-dominant, and have lived in the US for an average of 18 years.
- **Mostly acculturated.** This group refers to mostly US-born Latinos. The median number of years living in the US is 36.7. This group mostly uses English at home, is English-dominant, or is bilingual (Principal Financial Group, 2012).

It is important to note that different immigrant groups may acculturate at different rates, depending on a number of factors. In order to focus marketing efforts, some financial institutions group immigrants by acculturation level, with introductory banking services marketed towards "unacculturated" members of an immigrant community and intermediate banking services marketed towards "partially acculturated" or "mostly acculturated" members (Paulson, 2006; Principal Financial Group, 2012).

Age and retirement

One study noted that 7 in 10 immigrants are between 18-54 years old compared to about half of the general population (Paulson, 2006), which may indicate different financial service preferences between immigrants and non-immigrants. In support of this finding, one study found that most Latino immigrants were not of retirement age and, moreover, didn't plan to retire in the US (Principal Financial Group, 2012). Considering retirement, another study found that more African-Americans plan to retire earlier – by age 60 – than the general population (Prudential, 2013).

Role of family and community

For African-American and Latino communities, studies found that women were more likely to be responsible for household finances (Minnesota DEED; Prudential, 2013; Stevenson & Plath, 2002). Moreover, in African-American households, women were more likely to be the primary income-earner and not have a spouse (Prudential, 2013). One study focusing on immigrants in general, however, noted that males are typically the head of household, which could result in a difficult position if women handle finances but hold less power in finance-related decisions (Lutheran Immigrant and Refugee Services, 2012).

A number of other stressors are more likely to affect African-American households such as: African-Americans are more likely than the general population to be financially supporting a relative, and more likely to be supporting both children and parents – a phenomenon referred to as the "sandwich generation" (Prudential, 2013). Additionally, one study found that Hmong immigrants place high value on family and the extended Hmong community, often allotting financial help to children and relatives before themselves (Yang & Solheim, 2007). Likewise, Latinos were more likely to turn to community leaders than financial institutions with questions about finances (Neiser, 2006). When creating and marketing financial services, banks and other financial institutions should be responsive to the roles that family and community play in immigrant and ethnic minority communities.

Accessibility of financial services

A number of studies acknowledged the importance of "transcreation" when making financial services accessible to immigrant, religious, or ethnic minority communities (Lutheran Immigrant and Refugee Services, 2012; Muniz, 2004; Neiser, 2006; Principal Financial Group, 2012; Southeast Asia Action Resource Center, 2012). Transcreation refers to a more intensive and responsive process than translation, which includes making efforts to understand cultural values as well as acknowledging the limitations of word-for-word translation. For example, one study noted that the Hmong community does have words for "bank," "loan," or "credit" (Toussaint-Comeau, 2003). In this case, the transcreation process would include acknowledging the limitations of translation, and then making efforts to understand the significance of such words being absent from the Hmong language. After making these efforts, the financial institution would create services or products that attempt to be responsive specifically to the Hmong community. It is through a lens of transcreation that the following items relating to accessibility of financial services should be viewed.

Modes of communication

According to one study, minority ethnic or immigrant communities sometimes felt overlooked by advertisements from mainstream financial institutions, reporting that 60 percent of African-Americans thought ads were "designed for whites (Stevenson & Plath, 2002). Authors suggested reaching out to African-American or other culturally specific advertisement agencies (Patraporn et al., 2010; Stevenson & Plath, 2002) or changing advertising to be more inclusive to other groups or cultures (Paulson, 2006).

One study noted that low-income segments of the Latino community may not have regular internet access as well (Mandell, 2006). Likewise, another study found that African-Americans with an annual household income that exceeds $50,000 are more likely to have regular internet access compared to African-Americans with an annual household income that does not exceed $50,000 (Stevenson & Plath, 2002). It may also be important for financial institutions to create multi-lingual components to websites as well as ATMs to address potential customers who primarily speak a language other than English (Paulson, 2006).

Identification

Most often, identification issues were referred to in relation to the Latino community (Minnesota DEED; Muniz; 2004; Perry, 2006). In response to identification issues, banks and other financial institutions are increasingly using alternative forms of identification for those without a Social Security Number, such as the individual taxpayer identification number (ITIN) or the Matricula Consular (Lutheran Immigrant and Refugee Services, 2012; Muniz, 2004). ITINs are issued to individuals who are required to have a U.S. taxpayer identification number but do not have and are not eligible to obtain a Social Security Number, such as foreign nationals (IRS, 2013). The Matricula Consular, on the other hand, is an identification document provided by the Mexican government to Mexican citizens, and can be used to open bank accounts in the US. Some organizations offer an Individual Development Account (IDA) to customers who possess an ITIN and some mainstream banks allow potential customers to present an ITIN to start a bank account. ITINs can also be used to establish credit, a fact that – according to one study – many immigrants were unaware of (Muniz, 2004; Paulson, 2006).

While the use of alternative IDs was noted by many articles, one study outlined a number of barriers to using the ITIN (Paulson, 2006). In order to qualify for an ITIN, the study noted that foreign nationals may need some tax documentation, such as a Form 1040. The article also references the US Treasury as cautioning banks and other financial institutions from solely relying on the ITIN to verify the ID of a foreign national. Such barriers could account for hesitancy by banks or other financial institutions to accept ITINs.

Underwriting standards

Loan underwriting standards can act as a barrier to immigrants or ethnic minorities without a credit history (Chin et al., 2011; Patraporn et al., 2006; Paulson, 2006; Toussaint-Comeau, 2003). These studies suggested using alternative methods to establish credit, such as measuring a household’s total income (rather than solely the applicant’s), timely payment of rent or other bills, regular remittance-sending, as well as retrieving financial information from a potential customer’s country of origin. However, Paulson noted that the extra work involved to accommodate customers without a credit history added an average of three weeks onto the loan application process.

Moreover, according to one study, African-Americans were more likely than whites to receive subprime loans throughout the early and mid-2000s, which resulted in African-Americans being disproportionately affected by the foreclosure crisis (Chin et al., 2011). In addition to increasing flexibility regarding loan underwriting standards, financial institutions must also take into account past negative experiences with mainstream financial services when reaching out to immigrant and ethnic minority groups.

Ease of access

Some studies noted that proximity of financial institutions to immigrant and ethnic minority communities is sometimes a barrier, noting that financial institutions have limited access points to highly concentrated ethnic communities (Appleseed, 2008; Lusardi, 2005; Muniz, 2004). Muniz suggested that banks open branches in different cultural communities. Another study included an example of a mobile banking unit that adopted the food truck model (Suro & Bendixen, 2002). The operation included a large truck or van set up in a targeted cultural community – perhaps at a community organization or place of worship – outfitted with a person authorized or able to issue alternative forms of ID, such as the ITIN or Matricula Consular, as well as a representative from a financial institution that has made policies to accept these forms of identification. Another study suggested more widespread use of cell phone banking options to make financial services more accessible (Paulson, 2006).

Likewise, other studies suggested that banks or other financial institutions expand their hours of operation to accommodate the oftentimes non-traditional work schedules of recent immigrants (Appleseed, 2008; Paulson, 2006).

Community outreach

Studies found that African-Americans expected financial institutions to be invested in their communities (Prudential, 2013; Stevenson & Plath, 2002). However, Prudential's study found that African-Americans were 13 percent less likely than the general population to be contacted by a financial advisor. Moreover, only 26 percent of African-Americans in the same study believed that financial institutions had shown support for the communities. Compared to the general population, African-Americans were more likely to receive financial information from local credit unions, faith-based organizations, and through financial seminars.

Outreach strategies

A number of articles suggested delivering services and financial education through employers (Lusardi, 2005; Muniz, 2004; Neiser, 2006; Principal Financial Group, 2012). Almost half of Latinos in Muniz's study reported that they prefer to receive financial benefit information from their employer, but less than a third had received material about retirement. The Principal Financial Group suggested for banks or other financial institutions to partner with employers to offer employment plans and financial education. Neiser offered an example of such a partnership, in which a Latino-focused financial institution partnered with a major corporation that employed a large number of low-income Latino workers to provide financial education, specifically around homeownership. The partnership resulted in an increase in employee retention as well as an increase in the number of home loans taken out through the financial institutions.

Other outreach strategies were noted as well, such as starting a community-based participatory research project with community members to determine financial needs, contacting churches or other faith-based organizations, and partnering with local schools (Lutheran Immigrant and Refugee Services, 2012; Paulson, 2006). Paulson mentioned an instance of a bank opening a branch in a local high school, run by high school students. The effort not only increased student financial literacy, but also offered parents opportunities to learn about and become involved in mainstream financial practices.

Community-based organizations (CBOs)

A number of articles noted the benefits of partnering with community-based organizations (Appleseed, 2008; Chin et al., 2011; Lutheran Immigrant and Refugee Services, 2012; Patraporn et al., 2010; Paulson, 2006). Among some expected benefits of partnering with community-based organizations – such as one-on-one relationship-building, increased technical assistance, and eliminating the language barrier – one study noted some other benefits of co-ethnic banking (i.e., banking with someone of matching ethnicity), including:

- Customers were more likely to secure loans,
- Customers were also more likely to engage in asset-building more intensively and for longer periods of time,
- Lenders were better able to assess the feasibility of the proposed venture,
- Borrowers may be more likely to make payments to maintain their standing in a community
- Customers with poor or no credit history were able to build credit instead of being turned away.

When reaching out to immigrant and ethnic minority groups, banks and other financial institutions should consider combining a number of outreach strategies found in the literature, such as working with a community-based organization in tandem with a school to improve financial inclusion for adults as well as students.

Financial service preferences and delivery

Financial service preferences and habits

Many findings related to service preferences of immigrant and ethnic minority overlapped. Similarities in financial preferences and habits included:

Products with higher liquidity are preferred. Studies indicated that products with high liquidity (i.e., are almost immediately available in cash) are preferred by African-American and Hmong respondents (Southeast Asia Action Resource Center, 2012; Stevenson & Plath, 2002; Yang & Solheim, 2007). The Southeast Asia Action Resource Center also noted that retrieving funds quickly was difficult for some non-English-speaking respondents because a translator was not readily available at their bank.

Insurance is important to immigrant and ethnic minority groups. One study noted that African-American respondents ranked life insurance as the most important financial service (Stevenson & Plath, 2002). This aligns with the same study's findings that African-American respondents include building an "emergency fund" in their top three financial priorities. Likewise, another study found that its Latino respondents who made less than $50,000 annually ranked health insurance as "most necessary" among financial services (Muniz, 2004).

Immigrant and ethnic minorities are saving money. Two studies found that members of the Latino and Hmong communities save money regularly (Muniz, 2004; Yang & Solheim, 2007). Interviews with Hmong communities indicated that an average Hmong elder has $30,000-$50,000 saved for their own funerals. However, Hmong elders were more likely to keep savings in their homes rather than in a savings account. Related to saving habits, two studies noted that near-term savings were a preferred financial product for African-American respondents (Prudential, 2013; Stevenson & Plath, 2002).

Personal assets are the main source of business financing for immigrants. One study found that Hmong business owners were more likely than a comparison group of business owners to use their personal savings to start a business (Toussaint-Comeau, 2003). Another study, which focused on immigrant business owners, also found that personal assets were the main source of business financing for its respondents (Lutheran Immigrant and Refugee Services, 2012).

Additionally, almost a quarter of Hmong business owners included in Toussaint-Comeau's study felt that they would be denied a loan from a bank whereas none of the control respondents felt this way. Likewise, according to Chin et al., 89 percent of loans in Minnesota in 2009 were made to whites compared to 11 percent made to people of color. The same study found that African-Americans experience higher loan denial rates in comparison to whites – this was true for areas with larger populations of African-American residents (such as North Minneapolis), for the City of Minneapolis, Hennepin County, and the 13-county area denoted as the Minneapolis/St. Paul "Metro Area."

Remittance services

A remittance transfer refers to electronically transferring money to recipients abroad, including friends, family members, and businesses (Consumer Financial Protection Bureau, 2013). Regarding cost of remittance sending, studies found that remittance-senders send about $200 every month, and that many money transfer agencies charge a flat fee not dependent on the amount of money sent (Appleseed, 2008; Suro & Bendizen, 2002). In addition, there can be check-cashing fees on either side of the transaction as well as exchange rate fees.

Another study outlined six types of remittance-sending currently available:

Cash-to-cash transfers. This is the basic product used by most money transfer operations used by most money transfer operators.

Debit or dual ATM cards. These can be used both in the US and abroad, where the card is linked to an account at any bank and withdrawals are made through ATMs. The recipient is not required to have a bank account, but draws funds from the sender's account.

Credit cards. The cardholder abroad and in the US can make purchases as well as withdraw money. This product subjects the US cardholder, but not the second cardholder abroad, to a credit check.

Account to account transfers. Both participants must have a bank account. A US accountholder transfers money to the recipient's account with a partner bank.

IRnet. The IRnet was created by the World Council of Credit Unions. Funds on the receiving end are paid in cash at money transfer agencies, telecommunications offices, post offices, participating credit unions, or they can be deposited directly to the recipient's credit union account.

Stored value card (SVC). The sender purchases a card, loads a dollar amount onto it, and sends it to the remittance recipient. The card can be used for withdrawal at an ATM or for payment at a point-of-sale. The card does not require either sender or recipient to have a bank account (Paulson, 2006).

Despite results showing that bank-based remittance services are less expensive than typical transfer services, two studies noted that bank-based remittance services account for a low percentage of overall remittances sent, with one study estimating that at most banks account for 11 percent of remittances sent (Lutheran Immigrant and Refugee Services, 2012; Paulson, 2006). Moreover, of remittance-senders whose bank offers remittance services, less than one-quarter used those services (Perry, 2006). This finding is supplemented by other studies that indicated consumer choice of sending agency relies on proximity, word-of-mouth, reliability, staff that speaks the sender's language, and the preferences of the relative receiving the funds (Paulson, 2006; Suro & Bendixe, 2002). Remittance-senders rarely indicated cost as a major factor when choosing a particular money transfer agency. Studies suggested bundling remittance sending services with check-cashing services and a basic bank account, clearly posting all transaction fees, and ensuring cross-border mobility of bank accounts to attract more remittance senders (Appleseed, 2008; Paulson, 2006).

Capitalizing on "teachable moments"

Two studies noted the benefits of delivering services at "points of financial change" in a customer's life, such as buying a home or starting a business (Muniz, 2004; Neiser, 2006). Focusing on low-income Latino customers, these studies suggested providing counseling and services relating to the Earned Income Tax Credit (EITC), especially as an inclusion strategy for those who are unbanked.

Summary and recommendations

Literature review findings indicate that US financial institutions have recognized the importance of engaging immigrant and ethnic communities, especially those who are unbanked. As banks, credits unions, and community-based organizations create services and products to accommodate and attract such customers, it will be necessary to acknowledge their cultural heritage and any linkages that members of cultural groups may have to their country of origin.

As noted, many articles gave importance to a community's microculture. That being said, only one study operationalized "microculture" sufficiently for analysis. Wilder Research advises caution when interpreting findings pertaining to any immigrant or minority ethnic community "at large" and suggests that further research, conducted with a microcultural framework, is necessary to adequately respond to a community's needs or desires for financial inclusion.

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