“Changing Banking Needs of Immigrants: An Interim Report”

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Objective

To identify the changing banking needs of immigrants as they acculturate into the United States aiming to better supply such needs.
Rationale

• Hispanic population and net worth in US
• Increased regional demographic and economic integration
• Migration and remittances’ flows Latin America (multiple dependence).
• Remittances: Investment and development projects (WB, IDB) & Make money (financial institutions).
• Gains from optimizing fit between supply of banking services and Hispanics’ banking needs [value segmenting Hispanic market by acculturation level].
Rationale (Cont.)

• As immigrants integrate into the new society, their banking needs expand and they need commensurate banking services

If banks and financial institutions are to take advantage of these changing needs of immigrants, they must understand them better.
Thesis

• Patterns of financial behavior are a function of individuals’
  – Cultural characteristics,
  – Socioeconomic and demographic factors,
  – Psychosocial factors, and
  – Relevant environmental factors

• These factors change over time (See Maslow)
Maslow’s Need Hierarchy

- The need for self-actualisation
  Experience purpose, meaning and realising all inner potentials.
- Esteem Need
  The need to be a unique individual with self-respect and to enjoy general esteem from others.
- Love and belonging needs
  The need for belonging, to receive and give love, appreciation, friendship.
- Security Need
  The basic need for social security in a family and a society that protects against hunger and violence.
- The physiological needs
  The need for food, water, shelter and clothing
The Model: Acculturation and financial behavior

Socioeconomic and Demographic Factors
- Sex
- Age
- Age at Immigration
- Education
- Income/wealth
- Employment
- Household composition (e.g. marital status, children, older generation in the house)
- Fluency with English
- Area of residence
- Country of origin

Cultural Factors
- Cultural beliefs, attitudes and values
- Live in ethnic enclave

Changes in psychosocial factors and financial preference
- Finance-related knowledge, attitudes, beliefs
- Financial Needs & Preferences

Changes in environmental factors leading to changes in financial behavior
- Bank accounts
- Financial instruments
- Availability of services
- Marketing Efforts Targeted at Hispanics

Patterns of financial behavior
Methodology

• Questionnaire
  – Items Likert scale (1-5) & direct questions [reflective & absorptive scales]
  – Pilot test: 60 observations
  – Sample: 302 observations

• Analyses: regression, discriminant
Preliminary results

Reliability [Cronbach’s alpha]

- American-Oriented Scale  0.88
- Mexican-Oriented Scale    0.86
- Convenience              0.77
- Product offerings        0.85
- Fees                    0.82
- In-person transactions   0.72
- ATM transactions         0.89
- Online transactions      0.90
- Automated Phone Transact 0.93
- Phone Transact Live Rep  0.88
Acculturation items (after Cuellar et al, 1995)

- I speak Spanish
- I enjoy English language movies
- I speak English
- My thinking is done in the English language
- I enjoy Spanish language
- I enjoy speaking Spanish
- I write letters in English
- I enjoy reading books in Spanish
- I socialize with Anglos
- I enjoy Spanish language movies
- My friends are of Anglo origin.
- My thinking is done in the Spanish language
ACCULTURATION MATRIX

M e x i c a n - o r i e n t e d S c a l e

High

TRADITIONALS

HIGH BICULTURALS

LOW BICULTURALS

ASSIMILATED

Low

American-Oriented Scale

Low

High
Level of Acculturation
(Question #12 from Survey)
Distribution of Acculturation Scores

Acculturation and Changing Banking Needs of Immigrants
Distribution of Acculturation Levels

![Histogram showing distribution of acculturation levels with mean and standard deviation](image)
Financial Literacy
Total Number of Questions Answered Correctly
(Questions #13-#18 from Survey)

- 6 Correct: 0%
- 5 Correct: 5%
- All Incorrect: 11%
- 1 Correct: 17%
- 2 Correct: 25%
- 3 Correct: 22%
- 4 Correct: 20%
Banking Services Used

- Home Equity loan
- Credit Card
- Money market account
- Certificate of deposit
- Online banking
- Brokerage account
- Personal loan
- Mortgage

- Debit card
- Monetary transfers to other countries
- Savings account
- Insurance
- Checking account
- Bill payment service
- Investment service
- Other: Please specify
Preliminary results (cont.)

• No Significant Effects of **Acculturation Level** on:
  
  • Financial literacy
  • Level of sophistication of usage of financial services
  • Services most frequently used
  • Frequency transaction method
  • Factors most important in service satisfaction
  • Satisfaction: transaction method
  • Satisfaction: Convenience, Product Offerings, Fees
Preliminary results (Cont.)

• Significant relationship between level of sophistication of usage of financial services and:
  – net worth
  – median household income
  – level of education
  – financial literacy

• No acculturation effects but economic indicators & (financial) knowledge
  ➢ Sample bias
  ➢ Dissonant selves (rich and sophisticated in use of financial services but not acculturated)
Most important factors in selection Bank #1:

- Quality of services
- Speed of services
- ATM availability
- Low interest on loans
- Low fees

Least important factors in selection Bank #1:

- Able to send money to other countries
- Services available in other countries
- My employer uses the same bank
- Services provided in multiple languages
- Online banking
Factors important in choice of #1 bank
Survey Question # 3

- Able to send money to other countries: 35.4%
- My employer uses the same bank: 41.1%
- Services available in other countries: 43.4%
- Services provided in multiple languages: 49.7%
- Proximity to my home/workplace: 73.2%
- Personal relationships: 74.2%
- High interest rates on my deposits: 76.2%
- Many banking services: 77.2%
- Online banking: 77.5%
- Convenient hours of operation: 79.1%
- Many free services: 83.1%
- Low fees: 83.8%
- Low interest rates on loans: 84.1%
- ATM availability: 85.8%
- Speed of services: 86.4%
- Quality of service: 89.1%

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Factors least important in choice of #1 bank
Survey Question # 3

- Speed of services: 1.0%
- Quality of service: 1.3%
- Many free services: 1.7%
- Many banking services: 2.0%
- Low fees: 2.3%
- Convenient hours of operation: 3.0%
- ATM availability: 4.3%
- Low interest rates on loans: 5.0%
- Proximity to my home/workplace: 5.3%
- High interest rates on my deposits: 6.6%
- Personal relationships: 7.3%
- Online banking: 9.3%
- Services provided in multiple...: 23.2%
- My employer uses the same bank: 34.1%
- Services available in other countries: 35.4%
- Able to send money to other countries: 44.0%
Preliminary results (Cont)

**Experience Rating of Service:**

- Best: Product Offerings – Convenience
- Worst: Fees

**Experience With Transaction Method**

- In Person [Courtesy teller [Best]/ Time waiting in line [Worst]]
- ATM [Ease of use/ Number & location ATMs]
- Online [Speed transaction/ Uneasy use of website]
- Auto Phone [Speed transaction/ Services performed]
- Live Rep Phone [Services performed/ Courtesy of Representative]
Experiences ranked “excellent” and “above average” at the #1-ranked bank
Survey Question # 8

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Least satisfactory experiences with #1 Bank Survey question # 8

- Convenience
- Account Initiation/Product Offerings
- Fees

Acculturation and Changing Banking Needs of Immigrants
### Most used:

<table>
<thead>
<tr>
<th><strong>Services</strong></th>
<th><strong>Transaction Method</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>Checking account</td>
<td>ATM</td>
</tr>
<tr>
<td>Debit card</td>
<td>In Person</td>
</tr>
<tr>
<td>Savings account</td>
<td>Online</td>
</tr>
<tr>
<td>Bill payment service</td>
<td>Phone Live Rep</td>
</tr>
<tr>
<td>Credit card</td>
<td>Phone Auto</td>
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<tr>
<td></td>
<td>Mail</td>
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</tbody>
</table>
Transaction methods ranked as “excellent” or “above average” with #1 bank
Survey question # 9

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Transactions methods rated as “extremely poor” or “below average” when dealing with #1-ranked bank
Survey question #9

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Limitations/ Future Research

• Better representation of less acculturated
• Other geographies & other groups of Hispanics
• Identifying banking services in demand but not yet appreciated by banks
• Characterizing the supply side:
  – criteria to serve immigrant markets (?lower down payments, latitude regarding immigrant status)
  – Determining credit worthiness (?immigrant financial portrait: pooled income, credit history)
  – ?Culture-sensitive outreach activities (importance of relationships, language, (non-banking) services provided).