Utilization of Formal and Informal Financial Services Among Immigrants in the United States

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This study develops detailed profiles of formal and informal financial services use by low and moderate-income immigrants in the United States, in comparison to their low-income native counterparts. It also examines immigrants' financial attitudes towards different types of financial services. The study findings indicate that low-income immigrants and natives had different patterns in terms of financial service utilization. Immigrants were more likely to use informal financial services to conduct different financial transactions such as receiving income, converting income checks, making payments, building savings, and obtaining loans. However, low-income immigrants and natives tended to use both formal and informal services, and the patterns of financial service use depended on different financial transactions. The most-liked financial service features of immigrants include convenience, cost-saving, security, and friendly environment and staff of financial service providers. Policy and practice implications for developing financial services that could better meet the needs of immigrants were discussed.

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PURPOSE OF RESEARCH

Although previous research has increased knowledge about bank use among immigrants and correlates of such use and nonuse (e.g., Paulson, Singer, Newberger, & Smith, 2006; Rhine & Greene, 2006), much less is known about the utilization of informal financial services. Our study contributes to the literature by developing detailed descriptive profiles of selected immigrant groups to illustrate the relative importance of formal and informal financial service use for selected types of financial transactions. We also examine their attitudes about different financial services. Comparable information is developed for a sample of low-income immigrants as well as their native counterparts. This allows assessment of the extent to which important financial transactions follow similar or dissimilar patterns between low-income immigrants and natives.

This study contributes to the literature in two important ways. First, our dual focus on both formal and informal financial services utilization among immigrants, instead of only on bank account ownership, has not been presented in prior studies. This is an important issue because immigrants, as well as low-income natives, are more likely to rely on informal services, and such uses may also limit their participation in formal financial markets. Second, we also examine how immigrants’ financial attitudes towards different types of financial services, which also has largely been absent in previous literature and may have importance in terms of developing financial training and other information on services.

METHODS

We use data from the Survey of Financial Activities and Attitudes (SF AAA), a survey sponsored by the U.S. Office of the Comptroller of the Currency (OCC). The survey was conducted between 1998 and 1999 in census tracts with median household incomes of less than 80% of the median household income in the New York City and Los Angeles County metropolitan areas. This data set includes unique content that suits our study purposes well, and it is the best available data set for addressing our research questions. Most important, it includes detailed information on different types of financial services (e.g., services provided by banks, check cashing outlets, supermarkets or stores, and work places) that individuals have used to conduct various types of financial activities. The financial activities contained in the survey include receiving income, converting income to cash, making payments, sending remittances, building savings and obtaining loans. Furthermore, the survey includes respondents’ attitudes concerning why they choose to use or not to use certain financial services. In addition, it includes high percentages of immigrants (46%) living in low- and moderate-income communities. The study sample includes 771 immigrants and 1232 natives.

We first develop a detailed profile on the patterns of financial service utilization, and we present this profile for all respondents in our sample, as well as among immigrants and natives. We present how often they use different types of financial services to conduct each of the six routine financial activities that we mentioned above. We also construct a similar profile of immigrants’ attitudes on why they use or do not use certain financial services. Bivariate analyses are conducted to compare whether the service use and attitudes differ between immigrants and natives.

FINDINGS

Consistent with previous studies, we find that immigrants have much lower bank account ownership than their native counterparts. Our study findings further indicate that low-income immigrants and natives have different patterns in terms of their financial service utilization. Immigrants were more likely to use informal financial services, such as check cashing outlets, money orders, and cash, when they conducted financial activities of receiving income, converting income checks, and making payments. Similarly, they were more likely to build their savings in “informal” ways including in cash and money orders; and they also were more likely to obtain their loans from family/friends and other “informal” avenues instead of getting loans from banks. However, the study findings also indicate that low-income immigrants and natives tended to utilize both formal and informal services, and the patterns of financial service utilization depended on different financial transactions.

We also examine immigrants’ attitudes towards financial services. We find that the most important reasons of immigrant not having a bank count was cost-related factors (e.g., bank fees) and the complexity of opening and managing a bank account. When conducting different financial transactions, the most-liked service features by immigrants include convenience, cost-saving, safety and security, and friendly staff and environment of financial service providers.

CONCLUSIONS

Our study results point to practice and policy implications with respect to the development of financial services that could better meet the needs of immigrant population. Most important, social work educators should work with consumer educator and community advocates to encourage mainstream financial institutions to reach immigrant markets by developing more suitable services and products for this population. These services and products could include opening special bank branch offices that are conveniently located for immigrant neighborhoods, offering bank services with lower fees and required account balances, and providing services that are friendly and cultural sensitive to immigrants. The study results also point to the importance of financial education that could help immigrants better understand the financial services that are offered by banks and other mainstream financial institutions.