Migrant Financial Health

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Migrants are significant contributors to our economy and society, yet today's U.S. financial system is not designed to serve their unique perspectives and financial needs in a high quality way. As a result, migrants have a higher tendency to be outside of the formal financial system and to struggle with their financial health compared to other consumers. Addressing their unique needs will optimize the potential of their contributions and those of future generations.

According to Pew Research Center, migrants account for 13% of the U.S. population totaling over 43 million people. They and their children, over 20 million second-generation American adults, have a significant, positive economic and social impact. Evidence suggests that inflows of both high-skilled and low-skilled migrants result in the long-term economic growth of this country. A National Academies of Sciences, Engineering, and Medicine's study found that second-generation Americans are strong contributors to the U.S. economy – they pay more taxes than their parents and other U.S.-born people.

Despite their economic contributions, research shows that migrants are particularly financially vulnerable in wage, wealth, and financial health. CFSI's study on consumer financial health found that only 32% of migrants are financially healthy, compared to 45% of U.S.-born consumers. These indicators can limit their economic activity and their ability to progress, impacting the economy and the generations that follow. Normalizing these gaps may take generations and require a multi-sector approach. **The financial service sector is key in this ecosystem and can take steps to improve migrant and second-generation Americans' financial health today.**

Migrants are a diverse and complex set of consumers and the U.S. has migrants from almost every country in the world. Understanding the segments within this migrant population is crucial in establishing and building a financial relationship. We have used data here from a new study by the Inter-American Dialogue on Latin American and Caribbean migrants' use of financial services, but many of the issues and solutions are relevant to a broader set of migrants.

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Selected demographic variables among migrants using nonbanking services

Category	Uses financial services of a NBFI	Check Cashing	Money Orders	Bill Payment	Prepaid Cards	Fast Loans	Cash Advance
Professional occupation	67%	35%	38%	19%	0%	4%	0%
Other education below University degree	52%	33%	34%	19%	6%	2%	1%
Male	51%	33%	31%	18%	5%	3%	1%
Under 30,000	51%	30%	32%	16%	5%	1%	1%
Other occupation than a professional	50%	31%	33%	18%	6%	2%	1%
Owns a bank account	50%	30%	32%	17%	5%	2%	1%
All migrants	**49%**	**31%**	**33%**	**18%**	**5%**	**2%**	**1%**
Over 30,000	49%	20%	33%	12%	5%	10%	2%
Undocumented	49%	33%	32%	21%	6%	3%	1%
Does not own a bank account	49%	34%	35%	23%	7%	3%	0%
Female	47%	28%	35%	20%	6%	1%	1%
University degree	41%	24%	27%	12%	2%	4%	0%

Source: Survey of 1227 migrants, Inter-American Dialogue, 2016.

Unique Perspectives

Navigating the financial services system in the United States is complicated, even if you are from here. What if you migrated here and have to start from scratch? Getting a bank account and a debit or credit card to start building your financial and credit profile are essential to becoming part of the U.S. financial system.

Some migrants get financial services information and advice from the communities they join early on after arrival. The Hossains, a Bangladeshi family from the U.S. Financial Diaries study, carefully use credit cards on small purchases and pay bills in full and often earlier than the due date to build their credit histories and scores in the long term. But unlike the Hossains, many migrant families spend years performing financial activity that does not support a journey toward future opportunity. **In many cases, without advice, migrants may take over five years to open a bank account**.

Adding to this challenge is an overall lack of trust in banks among some migrants, sometimes stemming from experiences in their home countries. According to a consumer counselor in an FDIC study, “Many clients come from countries in which the banks went bankrupt. They lost their money. Now they have a great deal of mistrust of banks, because they have lost their savings before.” A counselor in the same study raised another issue - that migrant clients in particular think that, “if you use a bank, it’s because you have money.”

Even when there is interest, some migrants do not have the right identification since many financial service providers only accept U.S. government-issued identification and social security numbers to get an account. Others struggle accessing credit because they have no or too little of a credit profile to be scoreable, or have a low score.

Managing money in and outside of the system

The FDIC recently found that 93% of households in the U.S. have a bank account, signaling fairly widespread inclusivity. However, the Inter-American Dialogue study of at least six Latin American and Caribbean nationalities, which represent over 70% of the Latino migrant population, shows that while there has been a growth in bank account ownership among this group over time, and is at its highest rate since 2000, only 69% of migrants have bank accounts.

Historical research from the Inter-American Dialogue shows that growth in bank account ownership is largely a function of the years that migrants have been in the United States, and that **larger proportions of migrants with legal status have a bank account** (91% of U.S. citizens have an account compared to 82% of residents and 48% of undocumented migrants).

Migrants rely on a wide range of financial services for which banking access is optional, even when they do have bank accounts. Sending money, getting money orders, cashing their checks, getting their salaries on a payroll deposit, and paying bills are five of most typical financial activities **that nearly half of migrants perform outside the banking system**. The use of money orders and check cashing is prevalent even among people with bank accounts and professionals with higher levels of education.

Ricardo and Daniela Garza, another household from the U.S. Financial Diaries, are of Latin American descent and have checking and savings accounts. Because money is tight and timing matters, they pay rent with money orders, use small-dollar loans, and have pawned household items. They also engage in informal financial services; they participate in savings groups and lend to family.

A large number of migrants seem to operate completely outside of the financial system. **Over one in ten migrants (15%) neither has an account nor uses a non-banking financial institution (NBFI).** They are mostly people living on less than US$30,000 a year and people with undocumented legal status. They are in large part those migrants who are working in low skilled occupations, and who are remitting and paying more relative to their income.

Being completely outside of the system gets in the way of establishing a financial profile in the U.S., which in turn impacts stability and mobility. However, access is not enough to solve the financial health struggles of migrants, or the second generation.

Unique Needs

Migrants and second-generation Americans have unique product and service needs.

Transnational Financial Lives

In addition to managing their financial lives in the United States, migrants maintain numerous financial links to their home countries such as investments, businesses, and properties according to the 2016 report by Orozco and Yansura, *Centro America en la Mira*.

Sending money online is growing in prevalence and interest as the digital divide narrows. According to the Inter-American Dialogue, 42% of migrants who are using cash money transfers are willing to switch to account-based transfers, such as online, mobile, or account-to-account models of sending.

Given this demand, there are an exciting number of solutions available to migrants to send remittances, pay bills overseas, and satisfy various transnational financial needs. For example, Xoom, now a PayPal service, operates in nearly 60 countries. Among the newer companies is regalii, which is available in 11 countries, and paykii, operating in at least 15 countries from the US outbound. However, many of these technologies and services are account-based and must be linked to an existing bank account.

Along with banking access in the United States, access to banking services in migrants' home countries is also highly important. According to the Inter-American Dialogue survey, **almost one in four migrants has a bank account in their home country.**

Having access to a bank account in both countries can help to fill important transnational financial needs. Migrants who have a bank account in their home country report more experience sending their remittances directly to another person's bank account as opposed to a cash payout; 44% of migrants who have a bank account in their home country have sent money to be directly deposited to a bank account compared to only 16% of migrants without a bank account in their home country.

Cultural Relevance in Design and Delivery

To facilitate access, some providers accept ITINs (individual tax identification numbers) and other alternative forms of identification such as foreign-issued IDs. Technologies by companies such as IDology and Jumio make identification verification for account opening online easier for consumers who have alternative forms of ID, and on a municipal level, New York City is an example that issues an ID that can be used to open bank and credit union accounts.

To communicate, some providers are hiring bilingual staff and adding Spanish and other languages to their digital platforms. This is relevant to migrants and also the second generation, since one in five consumers in the U.S. speaks a foreign language at home, many of whom are not migrants, according to the U.S. Census Bureau. Oportun, for example, has integrated these inclusive features to lend to consumers with little or no credit history by using underwriting methodologies that enable them to score individuals and they report payments to credit bureaus to help their more than 930,000 customers build credit histories.

Innovators sometimes borrow from home country traditions of money management, such as rotating savings and credit associations, to engage consumers. Mission Asset Fund is one organization that has formalized lending circles, some geared toward expenses related to citizenship and defer action for childhood arrivals (DACA) processes.

Taking Action

Our financial system today is not setup to widely and fully support the financial health of migrants, which impacts them and their families. Providers should take into account migrants and second-generation Americans' unique perspectives and needs and create products that are relevant to them, delivered in a relevant way. Doing so will help ensure that we optimize the economic and social impacts of families such as the Hossains and the Garzas.