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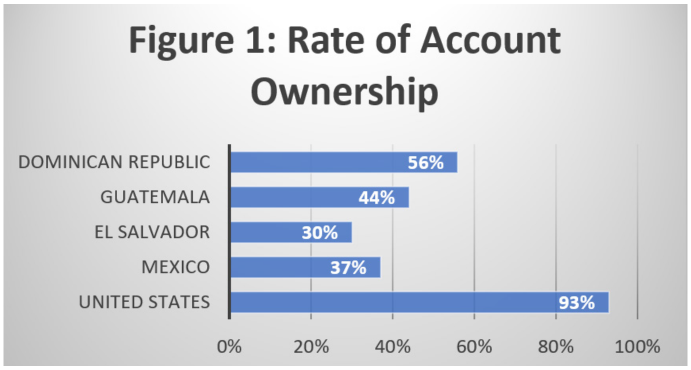
Financial Inclusion across the Americas

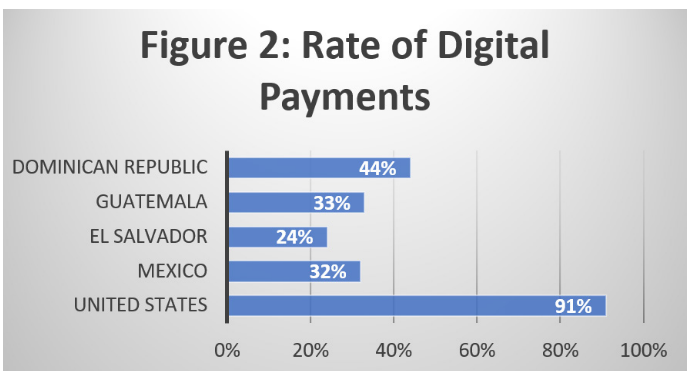
The U.S. has the largest immigrant population in the world, with immigrants representing about 14% of the population. Mexico, El Salvador, Cuba, the Dominican Republic, and Guatemala are among the top ten countries that account for 57 % of all immigrants in the United States. When starting life in a new country, immigrants face cultural and language changes, and must learn how to navigate a number of unfamiliar systems that are necessary to function effectively and achieve success in our society. The financial system is one of the most challenging to learn and certainly one of the most essential. Learning how to navigate the American financial system is critical for immigrants because building a credit score opens the doors to housing, taking out a mortgage, and even a potential job. Moreover, knowledge of financial instruments increases one's ability to accumulate wealth. For immigrants, understanding how to access financial products and services in the United States might depend on the level of participation in the financial system in their native country.

Financial inclusion provides information about participation or involvement in a financial system. Financial inclusion is having access to financial products such as accounts, digital payments and credit that are affordable and able to meet one's needs. Financial inclusion helps reduce extreme poverty and is considered a cornerstone to a country's development. It has been identified as an enabler of several of the United Nation's sustainable development goals, which were created to address global challenges. Due to its importance, the World Bank developed the Global Financial Inclusion (Global Findex) Survey, which every three years collects nationally representative data to measure access to financial services and digital payments across the world.

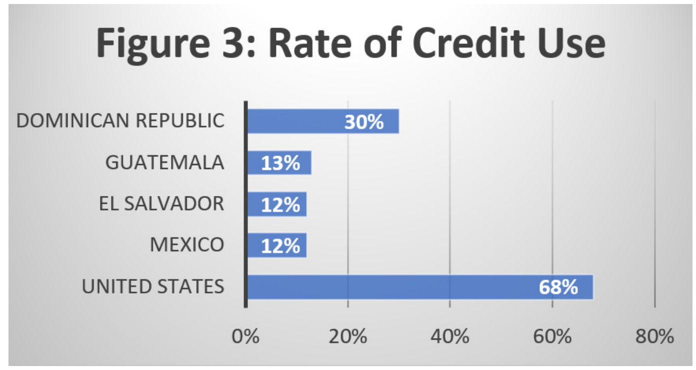
As seen in Figure 1, Data from the 2017 Global Findex Survey shows that in the United States, 93% of individuals 15 years or older had an account at a bank or another type of formal financial institution. In contrast, account ownership in other countries within the Americas is much lower. For example, the rate of account ownership was 37% in Mexico, 30% in El Salvador, 44% in Guatemala, and 56% in Dominican Republic. The rates of account ownership within these developing countries in the Americas highlight the challenge that immigrants face when they move to the United States. Most of them are not familiar with formal financial institutions and are now expected to navigate a sophisticated financial system in a different language. For example, an employer may require them to have an account at a financial institution to receive their wages.



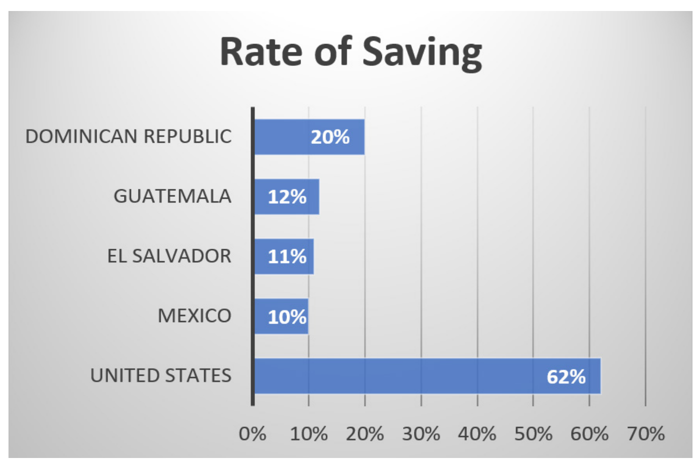
Another measure of financial inclusion is the degree to which technology is used to make or receive payments. Figure 2 shows the percentage of respondents who used the internet or a mobile phone to make or receive payments. The rate of technology use was 91% in the United States. In the other countries in the Americas, El Salvador had the lowest rate at 24% and the Dominican Republic had the highest rate at 44%. These statistics also highlight the challenge that immigrants face as they move from a cash society to a digital payments society.



Having access to formal credit is another important component of financial inclusion and essential in the United States to build one's credit score and buy a car and a home at affordable interest rates. As shown in Figure 3, in the United States, 68% of adults reported having borrowed money from a financial institution in the past 12 months. The use of formal credit is less common in other countries within the Americas. The rate of borrowing was 12% in Mexico and El Salvador, 13% in Guatemala, and 30% in the Dominican Republic. These statistics do not necessarily mean lack of access to credit in these countries, but rather a different support system to access credit such as store credit, government lending for housing, saving clubs, etc. The lack of familiarity with formal lending and their home country's experience with borrowing makes immigrant more susceptible to use predatory lending.



The Global Findex Survey also measures the ability to save money on a regular basis. As shown in Figure 4, in the US 62% of adults saved money at a financial institution while the savings rate was 10% in Mexico, 11% in El Salvador, 12% in Guatemala, and 20% in Dominican Republic. Immigrants may not be aware that the United States has transferred financial responsibilities for saving (individual retirement accounts, college savings, etc.) from state and companies to households. Moreover, they may not be aware of the limited employer and government financial support for disabilities, accidents, or maternity leave. Immigrants may not realize that they are expected to have an emergency fund and a financial plan for retirement.



We often think of social justice in terms of access to health care, education, and good paying jobs. It is less common to think of it in terms of financial inclusion and how it may affect wealth accumulation. Private and public institutions as well as individuals working with immigrants into the United States should work together to educate them so that they can be financially integrated into the United States.

More Information

Batalova, Jeanne. "Frequently Requested Statistics on Immigrants and Immigration in the United States." Migrationpolicy.org, 15 Mar. 2022, www.migrationpolicy.org/article/frequently-requested-statistics-immigrants-and-immigration-united-states.

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World Bank Group. "The Global Findex Database 2017." Worldbank.org, 23 Oct. 2018, https://microdata.worldbank.org/index.php/catalog/3324.

About the Author

Dr. Alicia Rubio, is Professor of Finance, Benson Endowed Chair, and Undergraduate Director for the HEB School of Business and Administration at the University of the Incarnate Word. She hold a Ph.D. is in Family and Consumer Economics from Purdue University. Due to her interest in cultural perspectives, Dr. Rubio's research has focused on the influence of culture and values in the financial behavior of people around the globe with a special interest in Latin America. She has also studied culture's effects on savings behavior and financial planning among several cultural groups in the United States.