

Financial services consumption behavior across Hispanic American consumers

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Abstract

This study creates a generalized framework to explain Hispanic financial asset consumption behavior, and then develops and tests four research hypotheses derived from this framework. The findings demonstrate that Hispanic consumer choices of financial products generate investment portfolios that differ markedly from their non-Hispanic White (NHW) counterparts. In particular, Hispanic portfolios reflect a clear preference for near-term savings, favoring liquidity and low investment risk at the expense of higher yielding assets, and Hispanic investors demonstrate a strong affinity for insurance products, perhaps using these investments to fund intergenerational transfer of wealth over time. Less prevalent in Hispanic families' investment portfolios is significant investment in financial assets offering relatively high returns, such as common stock, mutual funds, brokerage accounts, and corporate bonds. This leads Hispanic households to exhibit investment balances that are significantly smaller than their NHW counterparts and accumulate wealth at a far slower pace over time.

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1. Introduction

In the past 10 years, the American Hispanic community has grown in size and prominence to become the largest minority segment of the U.S. population. Between 1990 and 2000, the Hispanic population grew by 59%, from 22 million to 35 million individuals, representing 12.5% of the U.S. population in 2001 (Desimone, 2000). Moreover, the Midwest, South, and Northeast regions of the United States experienced the largest percentage increase in Hispanic residents, reflecting the increased dispersion of this minority group across the American landscape.

In addition to this increased dispersion, the Hispanic community in the United States represents a diverse ethnic group whose members trace their origins to Mexico (66%), Central and South America (14.5%), Puerto Rico

(9%), Cuba (4%), and other Spanish-speaking countries (6.4%). Accordingly, the term Hispanic is really a generic label used to describe individuals from three different regions—Mexico, Central and South America, and the Caribbean—comprising over 20 separate nationalities (Webster, 1994). Nevertheless, while there are important and substantive differences between various Hispanic subcultures, the cultural, attitudinal, and behavioral similarities of different Hispanic subgroups often lead researchers to aggregate different subgroups into a single group (Loza, 1988; Fan and Solis Zuiker, 1994; Wagner and Soberon-Ferrer, 1990). Following this convention, we treat various Hispanic subgroups as a single segment in contrasting their consumer behavior with that of non-Hispanic White (NHW) households.

Despite the rapid population growth and increased geographic dispersion observed across the Hispanic community, there is virtually no research in the marketing and finance literatures that examines Hispanic consumer behavior differences with respect to financial investment products. This study seeks to fill this gap—and has two specific research objectives. First, it uses the extant marketing literature to construct an explanatory framework for Hispanic consump-

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tion patterns for retail financial products. Second, it tests this generalized framework using household financial data drawn from the Survey of Consumer Finances (SCF) published by the Federal Reserve Board of Governors.

The remainder of this paper is organized into five sections. Section 2 presents and describes the generalized explanatory framework and, based on it, develops four research hypotheses. Section 3 introduces the SCF data set, and Section 4 presents the empirical results. Section 5 discusses these results, explains how Hispanic investment choices disadvantage these investors, and offers some promising directions for future research. Finally, Section 6 provides conclusions regarding the key issues addressed in this study.

2. The financial services consumption behavior of Hispanic American consumers

Although the Hispanic American population overtook African Americans in size to become the largest minority group in 2000, there is very little academic research examining the consumption patterns and consumer behavior of Hispanic households, and virtually no literature that explores whether financial asset consumption preferences differ between Hispanic and NHW households. In general, past studies that characterize Hispanic consumer behavior patterns focus on either the relationship between ethnicity and consumer expenditure patterns for broad categories of consumer goods such as food (Wagner and Soberon-Ferrer, 1990) and transportation (Paulin, 1998; Fan and Solis Zuiker, 1994) or the relationship between ethnicity and family budgeting for typical household product categories (Fan and Koonce Lewis, 1999; Pitts, 1990; Cattán, 1993).

This latter group of studies provides a useful starting point to begin characterizing differences in the investment portfolio holdings of Hispanic and NHW financial consumers. It is generally accepted that the rate of wealth accumulation and the absolute level of household income is significantly lower across Hispanic consumers in comparison with NHW households (Pitts, 1990; Cattán, 1993). Since wealth accumulation rates and income levels are both positively related to the magnitude of financial holdings across households regardless of ethnicity, it is expected that Hispanic financial portfolios will be significantly smaller, and grow at a significantly slower rate over time, than financial portfolios owned by NHW households.

Beyond this basic wealth difference, the profile of Hispanic attitudes toward money developed in the consumer finance literature provides a productive point of departure for developing the explanatory framework for Hispanic investment behavior. First proposed by Alaniz and Gilly (1986), money attitudes represent people's beliefs about the symbolic nature and perceived value of different goods and services that money can buy. In this context, different purchase patterns by individuals from different ethnic back-

grounds reflect more than differences in the consumption of tangible goods and services. Rather, these differences reflect different cultural traditions about the symbolic importance and psychological significance of material wealth across different ethnic groups (Krueger, 1986).

Medina et al. (1996) use a modified version of the money attitude scale (MAS) developed by Gresham and Fontenot (1989) to examine differences in Hispanic versus NHW attitudes toward money. In developing this comparison, Medina et al. offer a series of research hypotheses developed around four money attitude dimensions first profiled by Yamauchi and Templer (1982) and later modified by Gresham and Fontenot (1989). If attitudes toward money represent an important determinant of household investment product selection, then the money attitudes manifest across Hispanic consumers reported by Medina et al. can be used to derive a set of testable hypotheses concerning the relationship between ethnicity and financial asset consumption preferences.

The first money attitude dimension, "power–prestige," is a consumer belief that money can enable social power and symbolic prestige for the money holder, because money represents a means to impress and influence others as a symbol of success. Accordingly, power–prestige involves status-seeking behavior, external recognition of individual achievement, and the way that acquisition of material goods can be used to influence others and represent symbols of success. Medina et al. (1996) contend that Hispanic culture is associated with higher levels of interdependence, conformity, and a willingness to be influenced by family, while NHW consumers are more individualistic, confrontational, and nonconformist in nature. This cultural difference led these researchers to hypothesize that Hispanics will realize lower relative MAS scores on the power–prestige dimension, although this hypothesis was not supported by the empirical data they provided.

Relating the power–prestige dimension to investment asset consumption preferences, however, provides a second opportunity to examine this hypothesis. In this context, Hispanic households should display a stronger preference for investment choices that acknowledge the importance of sustaining and supporting the integrity of the family, such as life insurance products. In addition, Hispanic households should display a preference for investment assets that provide tangible and immediate benefit to members of the family as well as providing a means to accumulate wealth. Owner-occupied real estate holdings satisfy this requirement better than less tangible financial asset choices such as stocks, bonds, and mutual funds. Finally, the power–prestige dimension suggests that NHW households should exhibit a greater preference for investment assets that are symbolic of material success and advanced economic status, such as vacation real property and other real property.

Hypothesis 1a: A greater proportion of Hispanic households will report investments in life insurance assets and owner-

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