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-
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 hypo-
theses. Section 3 introduces the SCF data set, and Section 4
presents the empirical results. Section 5 discusses these
results, explains how Hispanic investment choices disadvan-
tage 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 cate-
gories (Fan and Koonce Lewis, 1999; Pitts, 1990; Cattan,
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 consum-
ers. It is generally accepted that the rate of wealth accumu-
lation and the absolute level of household income is
significantly lower across Hispanic consumers in compari-
son with NHW households (Pitts, 1990; Cattan, 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 devel-
oped 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 consump-
tion 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, confor-
mity, 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 dimen-
sion, 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–pre-
stige 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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