

# Financial Access and Insurance: A Preliminary Description of Factors that Affect Immigrants

By Robin Newberger

## Introduction

Providing financial services to immigrants is a growing business for bankers, and a growing area of study for policymakers and researchers. While still an emerging field, most of the attention to financial access thus far has tended to focus on core banking products such as bank account ownership, mortgage loans, and services that immigrants tend to use more often than native-born, such as wire transfers, that banks must market more aggressively than in the past to attract (some) immigrant groups. Insurance is another financial tool that, like accounts and mortgages, helps households accumulate and maintain assets, deal with unexpected financial contingencies, avoid a bad credit rating (a common result, after a medical crisis, among households having inadequate or no health insurance), and otherwise have an opportunity to participate in the financial mainstream. Yet insurance has received comparatively little attention in discussions about immigrants who do not or cannot take full advantage of common financial products and services. As is the case with many other financial products, proportionately fewer immigrants have property/casualty, life or health insurance than the native-born.

This article reports on participation rates by immigrants and examines some factors that influence access to health, property/casualty and life insurance. Although these types of insurance have distinct purposes, the discussion focuses on common barriers. An understanding of the issues impacting immigrants' decision to purchase insurance may be important for insurers and insurance brokers trying to reach (new) immigrant markets, as well as for consumers and advocates whose mission is to help people build and preserve their assets. Insurers and consumer advocates have for many years (correctly) taken the position that, like core bank products, insurance is essential to financially stable households. Accordingly, it

is important to understand factors that limit access to this basic financial product.

Both banks and insurers are interested in immigrant market trends. The number of immigrant households is projected to increase from 35 to 42 million between 2000 and 2020 and will account for approximately one-third of all new households over this period.<sup>1</sup> Immigrants are already an important segment of the U.S. automobile market: Hispanics will represent 20 percent of the total used car market by 2010.<sup>2</sup> Immigrants are also well-represented among business owners: about 10 percent of immigrants are self-employed versus nine percent of the native-born.<sup>3</sup> In addition, the immigrant population is dispersed across the United States, making access to coverage an issue not just for a handful of places or states, but for communities across the country.

The first section of this article presents data from various surveys that quantify the use of automobile, home owner, health, and life insurance among immigrants. The second section discusses factors that affect coverage, first summarizing findings from a handful of (health insurance) studies, and next briefly reviewing various policies and practices in the insurance industry that may also influence access. The main sources of information for this article are national surveys, trade publications, research studies on insurance, and interviews with industry experts.

## Coverage Rates for the Foreign- and Native-born

A limited amount of data is available on the private insurance participation rates of immigrants. A few national data sets collect basic information on the ownership of health, life, and home owner insurance among the foreign-born. Table 1 summarizes this information. In the absence of national data on automobile insurance coverage among the foreign-born, Table 1 also includes the results of a local survey (Los Angeles) of foreign-born Hispanics.

Table 1. Private Insurance Coverage

	Foreign-born (%)	Naturalized citizens (%)	Native-born (%)
Auto insurance <sup>1</sup>	71	n.a.	86 <sup>2</sup>
Home owner insurance <sup>3</sup>	53	68	74
Health insurance <sup>4</sup>	48	56	61
Life insurance <sup>5</sup>	37	45	61

- 1 Tomas Rivera Policy Institute, 2005. Study covers Latinos in Los Angeles. 87 percent of native-born Latinos have auto insurance. Responses to this question are not contingent on automobile ownership.
- 2 Insurance Research Council, Press Release June 28, 2006. This percentage is for the entire U.S. population.
- 3 American Housing Survey, 2005. Contingent upon owning a home, 90 percent of the foreign-born have home owner insurance, as do 92 percent of naturalized citizens and 94 percent of the native-born.
- 4 Current Population Survey, March 2006 Supplement. Immigrants 18 and older. About a quarter of naturalized citizen adults receive public health insurance, as do about 15 percent of noncitizens and 27 percent of native-born adults.
- 5 Survey of Income and Program Participation, month 36, wave 9. January 9, 2004. Heads of household.

The lowest rates of coverage among immigrants are for private health and life insurance. In addition, coverage is consistently lowest among noncitizens. About 41 percent of noncitizens have private health insurance, compared to 56 percent of naturalized citizens and 61 percent of the native-born. Thirty percent of noncitizens have life insurance compared to 45 percent of naturalized citizens and 61 percent of the native-born. With respect to property/casualty insurance, there are sizeable differences in automobile and home ownership insurance rates, although the data are driven by underlying differences in car and home ownership rates—prerequisites to having auto and home owner insurance. About 78 percent of immigrants own cars compared to 86 percent of the native-born,<sup>4</sup> and about 53 percent of immigrants own homes compared to 70 of the native-born.<sup>5</sup>

A less direct way to compare coverage rates is through expenditure data on home owner, vehicle, health, and life insurance. Because of the poor quality of responses to insurance expenditure questions,<sup>6</sup> consumer expenditure data is most useful for capturing general differences in insurance usage between demographic groups. For example, the Consumer Expenditure Survey for 2004 shows that more Hispanic households (the survey does not collect information on country of birth) spend nothing on

auto, home, life, and health insurance compared to non-Hispanic White households; but for those who do report expenditures on insurance, Hispanics spend a slightly higher amount of their annual incomes on auto and home owner insurance than non-Hispanic Whites. They spend a proportionately lower amount on health and life insurance.

## Factors that Affect Coverage for the Foreign-born

### Socioeconomic Factors and Type of Employment

A limited number of studies, focusing exclusively on health insurance, seek to explain differences in coverage rates between immigrants and the native-born. They tend to support the idea that what matter the most are socioeconomic factors and the nature of the jobs that many immigrants occupy (rather than being an immigrant per se), at least among documented immigrants.

For example, using data from Los Angeles, Goldman et al. (2005) find that having lower family income, less education, fewer assets, and working in an industry that is less likely to offer health benefits largely explain the difference in coverage between documented immigrants and the native-born.<sup>7</sup> Another study by Prentice et al. (2005) using the same Los Angeles data finds that after adjusting for socioeconomic status, naturalized citizens are not significantly different from native-born citizens in their ability to gain or maintain insurance.<sup>8</sup> Capps, Kenney, and Fix (2003) also emphasize the role of jobs in explaining the discrepancy in health coverage for citizen children of non-citizen parents. Much of the coverage gap between citizen children whose parents are not citizens and those whose parents are citizens stems from the significantly lower rate of employer-sponsored insurance among children in mixed-status families.<sup>9</sup>

These studies also agree that immigrants without 'documented' or citizenship status are less likely to have health insurance. Goldman et al. (2005) show

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that undocumented immigrants have lower rates of health coverage after controlling for a wide array of socioeconomic factors. Ku and Waidman (1999) also find that citizen status and language proficiency have a significant impact on insurance coverage.

Prentice et al. (2005) find that, compared to citizens, undocumented and legal residents have shorter insured periods and are significantly less likely to gain insurance even when other factors affecting health insurance coverage are held constant.

Responses from focus group participants reinforce the idea that certain demographic and socioeconomic characteristics are associated with auto, home, and life insurance coverage. A 2005 study of Latinos in Los Angeles (sponsored by Allstate) found that consumers who are older, have higher incomes, and have more education are more likely than their counterparts to have both property/casualty and life insurance.<sup>10</sup> English proficiency and time in the U.S. are also associated with degree of coverage. About 80 percent of Latinos who had lived in the U.S. more than two decades had car insurance, compared to about 40 percent of those who had lived in the U.S. less than ten years. About 70 percent of those with more than 30 years of residence reported having home or renter's insurance, compared to 22 percent of the foreign-born with less than ten years of residence. About 60 percent of third-or-later-generation Latinos reported having life insurance, compared with about 30 percent of foreign-born Latinos.

### Industry Norms and Practices

Another set of potential influences on insurance use relates to industry norms and procedures. A preliminary scan of underwriting practices, pricing policies, and marketing strategies reveals that a small number of industry provisions limits coverage for immigrants without citizenship or Social Security numbers. In addition, issues related to the neighborhoods where many immigrants live create their own hurdles to accessing insurance, although these environmental factors do not only affect immigrants. Even if it is not the intent of insurance companies to avoid immigrants, industry experts acknowledge that more work is needed to serve Hispanics and low- and moderate-income families,<sup>11</sup> as well as African American, Chinese, and South Asian consumers.<sup>12</sup>

### Underwriting Guidelines

The underwriting process, that of identifying and calculating the risk of loss from policyholders, can affect the type and cost of coverage that carriers make available to many immigrants. In the case of private health and life insurance, foreign birth can directly affect the decision to offer coverage. For example, a study of Texas health insurers found that nearly half of the companies surveyed set strict residency or citizenship standards for the sale of a health policy.<sup>13</sup> Life insurance applications generally ask applicants to indicate their place of birth and the extent of their foreign travel. Life insurance companies are also subject to anti-money laundering laws under the Bank Secrecy Act and are required to file Suspicious Activity Reports for transactions of at least \$5,000 (including payout amounts).<sup>14</sup> As a practical matter, the agents

and brokers of these firms who have direct contact with customers are responsible for obtaining relevant customer-related information. Most health and life insurance companies in the U.S. also require a Social Security number for individual coverage, although a handful of companies accept Individual Tax Identification Numbers instead.

Foreign birth is not explicitly considered in the underwriting of property and casualty insurance.<sup>15</sup> However, other factors incidental to being an immigrant, such as living

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in a neighborhood with a high rate of ethnic concentration, may influence the underwriting decision.<sup>16</sup> For example, a 1997 study by the Urban Institute found that home owners in predominantly minority neighborhoods are less likely to have private home insurance, more likely to have policies that provide more limited coverage in case of a loss, and likely to pay

more for comparable policies.<sup>17</sup> The debate associating race and coverage is ongoing.

The use of credit scores in the underwriting process is another practice that may make insurance less available or more costly to some immigrants. A growing number of insurance companies use credit-related insurance scores to help them decide whether to accept an applicant for automobile and home owner insurance, and sometimes to set a price for coverage. Insurance scoring takes into account payment histories, bankruptcies, number of credit accounts in use, amount of outstanding debt, length of credit history, and other financial practices as a way to predict the likelihood of having an accident and filing a claim.<sup>18</sup> While credit-based insurance scores do not take one's ethnic group or nationality into consideration, people with "thin" credit files, for whom companies cannot find a meaningful credit history, may be viewed negatively by insurance companies (although this is not always the case). A consumer can also be given a bad credit score – resulting in higher auto or home owner insurance rates – because of the absence of positive factors, including a real estate secured loan or the absence of credit information.<sup>19</sup> In addition, a Social Security number is often needed to obtain an insurance bureau/credit score.

## Pricing and Ratings Territories

The price of insurance is another factor that potentially reduces coverage among certain immigrants. The nominal prices of automobile, home owner, and health insurance rose by more than 25 percent, 45 percent, and 84 percent respectively between 2000 and 2006, compared to inflation of 17 percent over the period. Life insurance premiums have declined since 2000.<sup>20</sup>

**Table 2. Average Annual Expenditures on Property/Casualty Insurance**

	Automobile (\$)	Home owner (\$)
2000	689	508
2001	723	536
2002	784	593
2003	869	668
2004	844	693
2005	863	711
2006	867	736

Source : [www.iii.org/media/presentations/pcoverview](http://www.iii.org/media/presentations/pcoverview)

**Table 3. Average Annual Worker Contribution to Health Insurance Premium**

	Single Coverage (\$)	Family Coverage (\$)
2000	336	1620
2001	360	1788
2002	468	2136
2003	504	2412
2004	564	2664
2005	612	2712
2006	624	2976

Source: *Employer Health Benefits 2006 Annual Survey*

Immigrants may face even higher prices for property/casualty insurance if they lack a track record of insurance history in the U.S. Stability of residency and prior insurance coverage are common considerations in pricing decisions. Prices may also be higher for customers who buy fewer policies. Some companies that sell home owner, auto, and liability coverage will take 15 to 20 percent off of the premium if they can sell more than a single policy.<sup>21</sup> Immigrants may also face higher prices if they live in neighborhoods with higher traffic density, a higher number of multi-family dwellings, or lower per capita income. Drivers from lower-income neighborhoods can pay between \$50 to over \$1,000 more per year for auto insurance premiums than those living in higher-income neighborhoods.<sup>22</sup> Home owners in lower-income neighborhoods can pay as much as \$300 more for home

insurance than those in higher-income neighborhoods.<sup>23</sup> High prices can negatively impact the decision to purchase insurance. The primary reason people go without health insurance – including the nonpoor – is the high cost of coverage.<sup>24</sup> There are similarities to the property/casualty arena. Differences in average automobile insurance costs across neighborhoods (within a single metropolitan area) have large and negative impacts on car ownership rates.<sup>25</sup>

## Marketing and Distribution

What immigrants know about insurance, the knowledge level of the person who explains it to them, and who is available to sell it to them are other factors that may affect participation in the insurance system. For many immigrants, their primary source of information about insurance is the ethnic networks that surround them.<sup>26</sup> Immigrants who come from families with little experience with insurance in their home countries may therefore be at a particular disadvantage. The socioeconomic characteristics of a person's neighborhood also appear to be related to one's level of knowledge about insurance. The lower the income level of a neighborhood often means lower professionalism on the part of insurance agents. Yet the lower the income level of a neighborhood, in general the more education about insurance is needed.

A number of carriers and agents have already begun to respond to the changing demographics of the U.S. Many companies have adapted their marketing and distribution strategies to win a greater share of multi-cultural customers.<sup>27</sup> Recognizing that more recent immigrants tend to prefer a one-on-one, face-to-face visit with an agent, and that people are most comfortable

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doing business with agents who are from their own communities, a number of companies have begun recruiting and training ethnic and bilingual agents,<sup>28</sup> and have developed culturally sensitive advertising materials. Insurance companies have also situated agencies close to 'mom and pop' shops where neighborhood residents conduct their regular business. In addition

to insurance, agencies offer diverse services like tax preparation, notary, and vehicle registration.<sup>29</sup> Some have adopted multi-tiered distribution systems where they

market their products both through independent brokers and captive agents. Some larger companies have bought up independent ethnically-owned smaller agencies. Some companies have also developed elaborate segmentation schemes based on socioeconomic status, time since migration, and country of origin of Hispanic immigrants, and designed special services to serve each segment.

The number of ethnic and culturally diverse agents varies across place and product lines. Anecdotal evidence suggests that in some places, like Southern California, the Hispanic market is saturated with ethnic agents. In other places, long-standing arrangements between carriers and agents often discourage the hiring and training of less experienced agents. Companies do not want to dilute existing franchises, and they continue to renew the contracts of agents who already generate a solid book of business. Reaching immigrant customers is an even greater challenge for life insurance agents, particularly those who sell investment- and account-based products. The life insurance distribution system is increasingly integrated with the financial sector, yet immigrants are less likely to own even the most entry-level financial products such as checking and savings accounts.

## Conclusion

While much has been written about the factors that affect immigrants' use of bank accounts, more work is needed to understand the issues that affect immigrants' purchase of insurance, particularly property/casualty and life insurance. More work is also needed to determine the steps that can be taken to overcome barriers to insurance access

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where they exist. The strategies suggested by the information in this article range from developing new underwriting criteria for assessing the risk, to encouraging immigrants to open bank accounts and take advantage of alternative means to establish a credit history. A handful of companies have already developed new products aimed at the immigrant market, including mortgage insurance on loans to borrowers with Income Tax Identification

Numbers<sup>30</sup> and health insurance to holders of Mexican and Guatemalan consular-issued identification cards.<sup>31</sup> The most comprehensive and effective strategies to deal with barriers to insurance may not focus on immigrants

in particular, but address the environmental factors in neighborhoods with high concentrations of minorities and immigrants. As more companies publicly identify the immigrant market as a path for business growth, the success (or failure) of strategies to win these customers will likely contribute new insights into the factors that affect access to insurance.

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## Notes

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