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Financial literacy and remittance behavior of skilled and unskilled immigrant groups in Australia

Wasana Karunarathne [a], John Gibson [b,*]

[a] Department of Economics, University of Melbourne, Australia
[b] Department of Economics, University of Waikato, New Zealand

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ABSTRACT

Studies of financial literacy show that many people are poorly prepared for making major financial decisions. One important sub-group rarely examined by financial literacy studies is immigrants, who have specialized financial needs related to remittances. This paper examines variation in financial literacy amongst two actively remitting immigrant groups in Australia – Sri Lankans and Samoans – using surveys designed and supervised by the authors. Paying attention to remittance-related and credit-related literacy, large gaps in the level of financial literacy of the two groups are shown, which are due especially to differences in educational attainment. The wide variation in transactions costs of various remittance channels suggest that many immigrants could save several hundred dollars per year if improved financial literacy helped to produce more efficient remittance choices.

1. Introduction

Many people are poorly prepared for making major financial decisions, according to the rapidly growing literature on financial literacy (Lusardi & Mitchell, 2006). Immigrants are rarely studied in this literature, despite their rising population share in many countries and despite their low rates of participation in the formal financial sector. Case studies of immigrants suggest that it may take a full generation for financial assimilation to occur (Paulson & Rhine, 2008) and to the extent there is learning-by-doing, lack of financial assimilation impairs the financial literacy of immigrants. Another reason for interest in the financial literacy of immigrants is that they are a group who typically carry out a type of specialized financial transaction – sending remittances.

Remittances are an important source of external finance for developing countries that dwarfs foreign aid and is almost as large as foreign direct investment (World Bank, 2011). Yet at the individual level, sending remittances may be one of the most expensive financial activities of consumers, in terms of the relative transactions costs. For example, transactions costs to send remittances from Australia and New Zealand to the Pacific Islands range from 15 to 26% for banks and larger money transfer operators (MTOs) such as Western Union, according to the cost-comparison website www.sendmoneypacific.org and rates are high from Australia to other destinations as well (AusAID, 2011).[1] Except for the highest interest rates for short-term informal credit (e.g., payday loans) few other financial dealings have transactions costs anywhere near as high as this. Improved financial literacy may help lower costs of sending remittances if remitters could become more effective

* Corresponding author at: Private Bag 3105, Hamilton, New Zealand. Tel.: +64 7 838 4289; fax: +64 7 838 4035.
E-mail addresses: lakminik@unimelb.edu.au (W. Karunarathne), jkgibson@waikato.ac.nz (J. Gibson).

[1] In contrast, the global average of remittance transactions costs is just nine percent, and is even lower, at approximately 4%, in some especially competitive corridors.

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consumers, comparing remittance costs and quickly switching to cheaper providers to add competitive pressure. Yet the available evidence suggests that immigrants are often ignorant of remittance cost, the methods available, or how to compare methods (Gibson, Boe-Gibson, McKenzie, & Rohorua, 2007; Gibson, McKenzie, & Rohorua, 2006).

The goal of this paper is to expand the evidence base on financial literacy of immigrants by examining two distinctive, actively remitting groups in Australia. Using primary surveys we contrast financial literacy of immigrants from a country that largely supplies highly skilled immigrants to Australia (Sri Lanka) with that of immigrants who come from a country that largely supplies less skilled immigrants (Samoa). We focus on remittance-related literacy and credit-related literacy, and then use a regression decomposition to see which factors most affect the financial literacy of these immigrant groups. Another contribution of the paper is to consider whether there is scope for financial innovation to lower the transactions costs of remittances. Survey data are used to see how remitters may respond to lower transactions costs because there is uncertainty in the literature about the elasticity of remittances with respect to transactions costs. Although the results are only for two groups of immigrants in one major immigrant receiving country, the results may have broad relevance since so little is known about immigrant financial literacy.

The rest of the paper is organized as follows. In Section 2 we explain the background and how the surveys were conducted. Section 3 describes and compares the two samples participating in the surveys. Section 4 provides a brief review of the approaches that we used to measure financial literacy. The decomposition methodology and results for examining differences in financial literacy are in Section 5, while the analysis of information-seeking behavior is in Section 6. This is followed by a discussion of the scope for financial innovation in Section 7. Section 8 concludes the paper.

2. Background and survey

In order to examine the variation in financial literacy we conducted our own surveys of two identifiable immigrant populations that differ in terms of education, position in the labor market (and more broadly, in the income distribution), and immigration stream. The first was Sri Lankans, who mainly enter Australia as either skilled migrants or as tertiary students, becoming permanent migrants after completing their studies. The second group was Pacific Islanders, especially Samoans, who mainly enter Australia through family migration, or indirectly by concessional migration to New Zealand with subsequent entry to Australia after obtaining New Zealand permanent residence.[2] Since Pacific migration is mainly through concessions and family categories these migrants can be expected to have lower formal skills. Census data confirm this expectation, with 55% of the Sri Lanka-born population reporting at least bachelor-level education in the 2006 Census of Population and Housing versus only 10% of the Samoa-born population. Neither group is especially important in Australian immigration, with Sri Lanka ranking only the 16th and Samoa the 60th most important source country for the number of foreign-born in Australia in the 2006 Census. Thus, while our results will show the extent of variation in financial literacy amongst two actively remitting immigrant groups they may not apply to all immigrants.

Immigrants are a rare population so obtaining a representative sample can be prohibitively expensive (McKenzie & Mistiaen, 2009). We therefore recruited study participants from these two populations using snowball sampling and intercept point sampling methods. Both are non-random approaches, which are widely used for building a sample when no frame is available.[3] These approaches also mimic how policymakers and financial institutions might try to reach immigrant groups for targeting financial literacy interventions. In order for the surveys to be conducted in the most effective and culturally appropriate way, individuals from these same populations led the field work, necessarily limiting the geographical scope of each sample. Specifically, the Sri Lankan sample was from the greater Melbourne area while the Pacific Island sample was from the greater Sydney area. These were the locations of the survey team leaders and in each case are also the dominant areas where immigrants from each particular population have settled in Australia.[4]

For the Sri Lankan sample, initially 20 people were selected from various Sri Lankan groups, and each of these persons was asked to provide contacts of five other Sri Lankan immigrants to interview. Of the 120 potential participants identified this way, 80 on the seed list agreed to participate in the baseline survey. In turn, when the interviews were conducted with these 80 people, they were asked to provide further referrals, leading to another 129 respondents and giving a final sample of $n = 209$. For the Pacific Island sample, recruitment was through various Pacific Island churches, located mainly in western and southern Sydney. The remaining participants were recruited from pre-existing research networks of the Samoan team leader, to provide a sample of $n = 379$. One feature of the Pacific Island sample is that it included some second-generation migrants. These people are not born in the Pacific but are still likely to be active remitters due to the on-going linkage with the extended families in the Islands (Lee, 2003) and so for this reason we did not rule any of them out.

The surveys were fielded in 2011 using largely the same questionnaire that was adapted to the specific nature of each group. Since the Sri Lankan immigrants are likely to be highly skilled, their questionnaires were printed only in English while the Pacific Island sample had both English and Samoan versions (the number of non-Samoan respondents was too small to

[2] Concessions allowing a quota of Pacific Islanders to be granted New Zealand permanent residence, in addition to those entering normally, include the Samoa Quota (1100 per year), and the Pacific Access Category (250 from Tonga and 75 from Kiribati and Tuvalu per year). Once these Pacific Islanders obtain New Zealand permanent residence they have unrestricted entry and residence in Australia under the Trans-Tasman Travel agreement.

[3] Including use by Mansoor and Quillin (2007) and IOM (2010).

[4] The 2006 census shows Victoria as the most popular destination for Sri Lankan migrants (containing 51% of the total) and New South Wales as the popular state of residence for Samoans (with 45% of the total).