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Ownership and Trust in Banks: Evidence from the First Bank in an American Indian Nation†

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Financial inclusion requires trust. Yet, both historically rooted and modern factors have limited the trust between American Indian nations and financial institutions (Community Development Financial Institutions Fund 2001).[1] Compared to other Americans, Native Americans who apply for mainstream forms of credit experience higher denial rates, higher interest rates, and lower credit limits, even after conditioning on a rich set of observable factors (Wellhausen 2017, Cattaneo and Feir 2020, Dimitrova-Grajzl et al. 2015).

American Indian Nation A ranks among the lowest-income American Indian nations in the United States and is plausibly a banking desert: the closest financial institution is about ten miles away on roads that are difficult to drive in the winter. Nation A's tribal government recently voted unanimously to approve the entry of Bank [X] into its reservation. Bank [X] is 100 percent owned by American Indian Nation B, and its CEO expects this to be a significant comparative advantage in its ability to both manage risks and earn the trust of Nation A's citizens.

The entry of Bank [X] was the catalyst for our collaboration with Nation A to conduct the first-of-its-kind noncensus survey regarding tribal citizens' financial situations, their attitudes and beliefs about banks, and their support for Bank [X]'s entry before Bank [X] broke ground. In this paper, we explore observational data on how individual tribal citizens' trust in banks influences their support for a bank opening on their reservation as well as the mitigating role that Native ownership may play for Bank [X]. We also provide some of the first evidence on access to and use of financial services in an American Indian nation (see also our companion paper Wellhausen, Feir, and Thrall 2021) and the determinants of trust in banks. We document a nonlinear relationship between support for a bank opening on the reservation and general trust in banks. We show that knowledge that the bank is Native owned is potentially a mediator between trust and support for the presence of a financial institution.

I. Trust and Financial Inclusion

Academic understanding of what shapes trust in financial institutions is still emerging. Fungáčová, Hasan, and Weill (2019) provide a cross-country investigation of the level and determinants of trust in banks. Other country-specific works have investigated how financial crisis impacts general trust in banks (Sapienza and Zingales 2012, Stevenson and Wolfers 2011, Knell and Stix 2015). Van der Cruijsen, de Haan, and Jansen (2016) suggest that bad experiences with banks during the 2009 financial crisis were correlated with not only lower trust in banks but also lower general trust. Jansen, Mosch, and van der Cruijsen (2015) provide evidence in the Dutch context that the public has lower trust in banks with higher executive compensation, negative media reports, and nontransparent product information. Greater levels of financial knowledge are also correlated with greater trust in banks and participation in the financial sector (van der Cruijsen, de Haan, and Roerink 2019).

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[1] See Brown, Cookson, and Heimer (2019) and Akee and Jorgensen (2014) for examples of structural barriers that have limited access to Native American capital, preventing the formation of trust.

There is accumulating evidence that high levels of generalized trust are related to financial inclusion. For example, Xu (2020) finds that individuals from states with higher generalized social trust are more likely to have access to and use consumer financial services. Guiso, Sapienza, and Zingales (2004) use Italian microdata to show that individuals from areas with higher levels of social capital are more likely to use formal financial services and less likely to participate in informal credit markets. The most relevant paper to ours is Galiani, Gertler, and Ahumada (2020), which explicitly studies whether trust in financial institutions is related to the use of formal financial services among low-income individuals in Peru. They randomly assign individuals (who are participants in a conditional cash transfer program) to a three-and-a-half hour course that is intended to build trust in financial institutions but not financial literacy. Treatment effects on savings are large and positive, with increases in savings close to double the rate of the prior ten-month period.

Our setting and question is slightly different: when do the citizens of an independent and sovereign political jurisdiction (such as in the reservation of American Indian Nation A) support the entry of a foreign-owned bank, and how does this relate to trust? The relationship between trust in banks and support for more proximate access to a financial institution is not obvious ex ante. Trust in banks may be positively correlated with support for a bank opening locally if individuals with high levels of trust in banks are less likely to fear that the bank will cause harm to the community than those with lower levels of trust in banks. On the other hand, the trust in banks may be negatively correlated with support for a local bank opening if those with lower levels of general trust in banks are more likely to think a local bank is important because local banks are more accountable to the communities they are in.

II. Survey Implementation and Design

The involvement of all parties was critical to the success of the survey. While our survey was wholly independent of Bank [X]'s investment decision, the CEO of Bank [X] spoke on behalf of the research team in support of the survey to the tribal government and their research ethics regulatory commission; the Federal Reserve Bank of Minneapolis' Center for Indian Country Development provided funding; and the tribal college took responsibility for survey roll-out and enumeration, with support and training from the research team. Upon the conclusion of the survey, the research team provided a full report to the tribal government and tribal college and continues to be present for their research needs; Bank [X] also received a report that is available to any other interested investor. The survey was intended to run from January through May 2020, before Bank [X]'s scheduled groundbreaking. Due to the COVID-19 pandemic, the survey was stopped in March; Bank [X] broke ground in July and opened its doors in January 2021. For more details about the process and implementation of the survey, see Wellhausen, Feir, and Thrall (2021).

Given ethical and practical considerations, the data was generated using convenience sampling of the survey population—Nation A enrolled members or recognized descendants over the age of 18. The enumerators set up in highly frequented areas of the reservation, and they also went to places on the reservation that may otherwise be overlooked (like care homes or places without a standard address). Respondents could also go to the local job center to complete the survey with the support of tribal college staff. Respondents were given a $10 gift card to the reservation's only grocery store in exchange for their completion of the survey. In total, we received nearly one thousand high-quality responses of the target population.

Comparing our data with Nation A administrative data and the American Community Survey (2014–2018) suggests that we received a plausibly representative sample, with men being slightly underrepresented. We do not share community averages in order to respect Nation A's data sovereignty, but differences between our sample and other datasets are given in Wellhausen, Feir, and Thrall (2021). The survey flow (as well as a more detailed discussion of the randomized elements of the survey, outcomes of interest, and balance tests) can be found in Wellhausen, Feir, and Thrall (2021).[2]

[2] In brief, the randomized elements of the survey (not explored here) stem from the unique setting and institutional actors who have interest in expanding access to safe and reliable financial services, the tribal legislature and the Federal Reserve System, and they are truthful statements provided by one of these actors.

We measure trust using a ten-point scale: "Now we would like to ask you about your opinions about banks. How much do you trust banks, on a scale from one (no trust) to ten (total trust)?" We also presented respondents with a list of (negative) opinions about banks and asked them to select all of the opinions with which they agreed. The list of these statements is given in the online Appendix and was constructed to be consistent with FDIC's Household Use of Banking and Financial Services survey but was augmented to better suit community needs in the tribe's review process. After being asked about their opinions about banks and their levels of trust, respondents were then asked, "How much do you agree with this statement, on a scale from strongly disagree (one) to strongly agree (ten)? 'In general, it would be good for a bank to open on the [Nation A] Reservation.'"

III. Results

A. *Financial Access in Nation A*

Data from our survey suggest that roughly 33 percent of these citizens do not have a bank account, another 50 percent are underbanked,[3] and 44 percent do not have a credit card. In comparison, a 2018 study found that only 6 percent of all US households report not having a bank account, and 16 percent are underbanked (Demirgüc-Kunt et al. 2018). Likely due in part to the lack of access to credit, 31 percent of respondents report not being able to come up with $400 in an emergency, substantially higher than the US average in 2019 of only 12 percent.[4] Roughly 20 percent of respondents currently held payday loan debt, 17 percent nonbank debt, and 16 percent medical debt, with 10 percent holding a mortgage or home loan and roughly the same number with a student loan. We found that about half of the respondents indicate a degree of financial satisfaction of less than five on a scale from one to ten.

The majority of respondents, however, indicate that their own level of financial knowledge is relatively high: on a scale of one (very little knowledge about finances) to ten (very high knowledge about finances), more than half ranked themselves above five. As a more concrete measure of financial knowledge, over 50 percent of people reported that they knew they could receive free annual credit reports under US law. There were other indicators of high financial interest, with nearly half writing down the link where they could receive their credit report or clicking on the link. In addition, among those that didn't have a bank account, 79 percent would like to have one. Taken together, despite limited local access to financial services, respondents were generally knowledgeable about and interested in finance based on the indicators approved for the survey.

B. *Trust in Banks and Support for a Bank Opening on the Reservation*

We first show that our question measuring trust in banks captures something meaningful and is generally related to other beliefs about and experiences with banks.[5] We find that at low levels of trust, respondents are more likely to have other negative beliefs or experiences with banks. Opinions that may be plausibly related to trust in banks—including "I do not think banks have my best interests at heart," "I have felt disrespected or mistreated at banks," "people who use banks lose control over their money," "I do not think my money is safe in a bank," "using a bank invades my privacy," and "dealing with a bank is an unpleasant experience"—are generally monotonically related to trust, with individuals reporting higher levels of trust being less likely to agree with these statements. On the other hand, statements that do not specifically relate to trust—including "there is not a bank in a convenient location for me," "bank accounts are too complicated," and "bank fees and minimum balance requirements are too high"—are less correlated with trust than one may expect.[6] In regressions of these correlations conditional on age, gender, income, and education and enumerator fixed effects, we find that the strongest negative determinants of trust are the belief that

[3] Being underbanked is defined as the use of nonstandard forms of credit sources such as auto title debt, nonbank loan debt, and payday loan debt.

[4] The Federal Reserve Board's 2019 Survey of Household Economics and Decision-Making.

[5] See online Appendix Table 1 for these summary statistics.

[6] The relationship between trust and the opinion that "bank accounts are not necessary" is more ambiguous; in our data, it is negatively associated with trust.

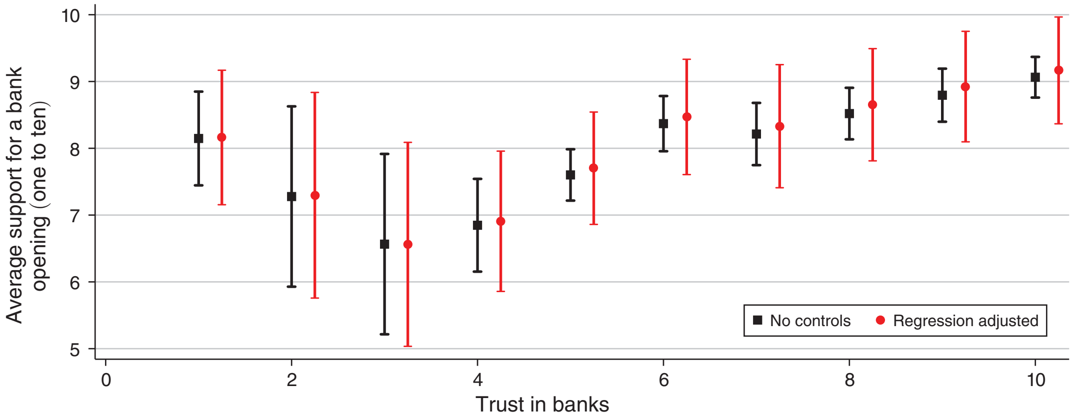

Figure 1. Support for a Bank Opening on the Reservation and Trust in Banks

Note: Sample size for each category is 68, 18, 23, 46, 163, 65, 103, 127, 78, 219.

banks do not have one's best interests at heart and that money is not safe in banks.[7] Taken as a whole, this evidence supports our contention that our measures of trust are capturing beliefs about banks in general.

We next explore how trust relates to public support for the entry of a bank in general to Nation A's territory. First, it is worth noting that there is extremely high agreement with the statement "in general, it would be good for a bank to open on the [Nation A] reservation," with 54 percent of respondents indicating the highest level of agreement. In Figure 1, we show the nonlinear relationship between trust in banks and how supportive individuals are of a bank opening on the reservation in general. Black points and confidence intervals are unconditional means, while the red have been adjusted for enumerator fixed effects as well as differences in age, gender, education, and income, all of which have been shown to be correlated with trust in financial institutions (Fungáčová, Hasan, and Weill 2019). The nonlinear relationship suggests that, perhaps surprisingly, local availability of financial services is particularly valued by respondents with low levels of trust in banks. A similar nonlinearity exists between trust in banks and the belief that one would become a customer of a bank that opened on the reservation, as shown in the online Appendix.

[7] For results, see online Appendix Table 2, specifically the full specification in column 4.

C. *The Value of Native Ownership*

American Indian Nations A and B have historically had a close relationship characterized as friendly, and anecdotally, citizens of Nation A hold a broadly positive view of Nation B. In our survey, when told that Bank [X] was 100 percent owned by Nation B, more than 30 percent of respondents reported that this knowledge increased their support for Bank [X]'s opening, while only roughly 8 percent said that it would decrease their support. Given this positive relationship between the nations, we explore whether knowledge of Nation B's ownership of Bank [X] mitigates low levels of trust and general support for a bank opening on a reservation.

Compared to a hypothetical bank owned by an American company, we find significantly higher support for Nation B ownership across most of the trust-in-banks spectrum, as show in Figure 2, and the difference is larger at low and intermediate levels of trust. We find some, albeit weak, evidence that respondents with very low ex ante levels of trust in banks are especially supportive of Bank [X] upon learning that it is owned by Nation B even conditional on other observable factors, as depicted in online Appendix Figure 2. While merely observational, our suggestive findings may motivate

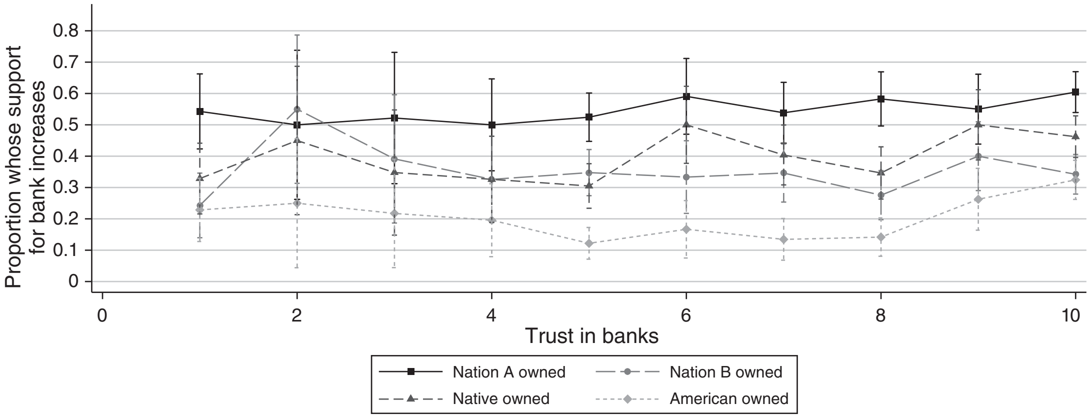

Figure 2. Support Increases for a Bank Opening on the Reservation Based on Ownership

Note: See the online Appendix for details and Wellhausen, Feir, and Thrall (2021) for details of the survey flow.

theoretical work on why the mechanisms tying trust to ownership would be particularly salient for those in the middle or low end of the trust distribution.

IV. Discussion

Understanding ways that American Indian nations can increase support for financial institutions is critical for increasing the possibility of financial inclusion. In Wellhausen, Feir, and Thrall (2021), we explore in detail the randomized elements of the survey to understand how true information about support for Bank [X] from Tribal Nation A's legislature, as well as a general statement of support for financial inclusion from the Federal Reserve System's Board of Governors, influences citizens' responses to the entry of a Bank [X]. We hope that the novel collaboration underpinning this piece and the complementary article provides part of a basis for evidence-based policies to increase financial access throughout Indian Country.

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