

God Bless America - Dios bendiga Améric



**TO BUILD** relationships with Hispanics in its community, this Garden City, Kan., bank opened a branch in the plant of an area meatpacker, where many Hispanics are employed.

grants worked. At the facility, modeled after branches found in grocery stores, workers could cash paychecks, apply for loans or transfer funds to family in other countries.

Clearly, this is one financial institution that has adapted its business strategies to meet the needs of a changing customer base.

Similarly, other financial institutions may want to consider ways to reach these consumers, says Fred Ramos, president of the Tulsa Hispanic Chamber of Commerce and a director of the Federal Reserve Bank of Kansas City's Oklahoma City Branch. He said that financial institutions

wanting to serve Hispanics need to be aware of sociocultural nuances.

"Hispanics want personal contact—they want to talk to the bank president," he said.

Hispanic consumers will likely remain loyal to the businesses with which their families have done business, Ramos said.

In addition to cultural characteristics, socioeconomic characteristics vary among well-established Hispanic populations in high-concentration areas and newer immigrant populations in high-growth areas. Established Hispanic residents are more likely to be bilingual and have higher incomes than newer, less-established immigrants. Rural and suburban areas in

# BANKING ON THE FUTURE

## Reaching out to the HISPANIC population in RURAL KANSAS

**BY ERIC ROBBINS, POLICY ECONOMIST**

**I**n 2002, a year before Census Bureau officials announced that Hispanics had become the largest minority group in the United States, officials of a Garden City, Kan., bank were already contemplating how to reach their area's burgeoning minority population. After all, many of these consumers do not obtain financial services from banks, but utilize alternative sources like check cashing centers. They are "unbanked."

The solution? If unbanked consumers wouldn't go to the bank, the bank would go to them. A Garden City bank opened a branch in a meatpacking plant where many immi-

the Midwest and Southeast are attracting growing numbers of these new immigrants.

In order to gain perspective on strategies bankers use to build rapport with Hispanics, representatives of the Federal Reserve Bank of Kansas City conducted a field study in Garden City, which has a population that is 42 percent Hispanic.

## Changing demographics

In the Tenth District, New Mexico and Colorado have the highest percentages of Hispanic residents, many of whom are concentrated around metropolitan areas. However, as the map on page 8 indicates, some rural counties have high percentages of Hispanic residents as well. The Census Bureau has forecast that the nationwide population will be 20 percent Hispanic by 2030. Nine counties in southwestern Kansas already have Hispanic populations that exceed this.

Many Hispanics are attracted to agriculture-related employers, such as meatpacking plants. Garden City, which 25 years ago was predominantly white, is now a town of great ethnic diversity, with many immigrants who work at food processing companies. Communities such as this could suggest the future for other rural areas.

The Federal Reserve's Survey of Consumer Finances found that 9 percent of U.S. households are unbanked—they do not maintain demand deposit accounts, savings accounts or other transaction accounts with financial institutions. Of these unbanked households, a disproportionate percentage includes minority households. Thirty-four percent of U.S.-born Hispanic residents are unbanked, and an even larger percentage of Mexican immigrants are unbanked—53 percent. Thus, the Hispanic population represents a largely untapped banking market whose numbers and buying power are growing quickly.

Instead of traditional banking services, these unbanked households use alternative money service businesses (MSBs), such as check cashing outlets and money transfer agents. Many Hispanic consumers have a significant need for services that allow them to send money to fami-

ly members in their home country. These services, called remittances, have traditionally been provided by MSBs. However, as the demand for remittance services has grown, more and more financial institutions have developed remittance products.

As more banks and credit unions provide services that compete with MSBs, unbanked consumers may benefit from reduced fees and better access to their pay if they become banked. Generally, banks offer check cashing and money remittance services at a lower cost than MSBs.

In addition, as these individuals move into the financial mainstream, they can develop credit histories that may enable them to purchase homes and obtain consumer credit.

## A case study

Socioeconomic and cultural barriers stand in the way of reaching many Hispanic consumers. The study by the Federal Reserve Bank of Kansas City included a survey regarding the banking habits of Hispanic consumers designed to elicit some of these barriers.

Among the 109 Hispanic consumers that were surveyed, about 62 percent said they have accounts with banks and use banks to cash their paychecks. However, when sending money to family members abroad, the majority of survey respondents said they use MSBs such as Western Union and MoneyGram. MSBs are also the predominant service provider that Hispanics use to pay their bills. Most of those surveyed pay their bills with money orders or cash; only 34 percent use checks.

What accounts for the large number of Hispanic consumers who are unbanked? The most often-cited reason for remaining unbanked was the lack of personal identification documents that are required by banks to

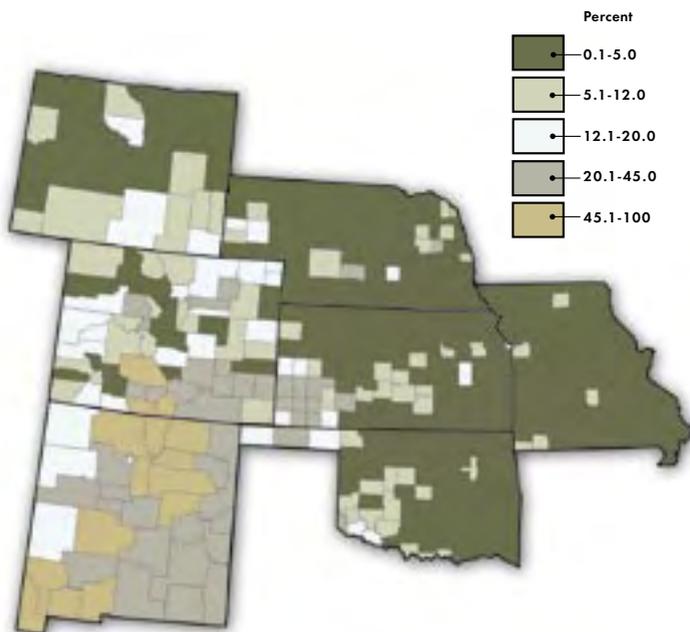
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## PERCENT HISPANIC POPULATION BY COUNTY (Tenth District States)



SOURCE: Census 2000, U.S. Census Bureau

**NOTE:** Comments cited by anonymous survey respondents are in italics. The 109 individuals interviewed by the Federal Reserve Bank of Kansas City completed surveys at the Finney County Community Learning Center or are the result of one-on-one discussions in a Garden City housing development. Thus, the results may be subject to some self-selection bias.

establish accounts. As a result of the USA Patriot Act, financial institutions are required to establish procedures for verifying their customers' identities—so-called Customer Identification Programs, or CIPs.

Although financial institutions may accept a variety of identification documents to meet these requirements, many banks find the requirements too cumbersome or confusing to utilize. And even though many banks are willing to develop CIPs that utilize identification documents from foreign governments or consulates, some Hispanic consumers are discouraged nonetheless by the level of scrutiny they face in establishing an account. One survey respondent's comment is illustrative: *"I think the main problem with going to banks is having to give them so many forms of identification; it seems so complicated."*

Another important factor cited by many of those interviewed is language barriers. *"I*

*prefer going to a place where they speak Spanish,"* said one respondent.

Therefore, language and identification requirements are significant entry barriers to Hispanic consumers. However, Ramos cautions against focusing solely on the language barrier. Businesses should not rely solely on bilingual communication to develop relationships with Hispanic consumers, he said.

"Businesses get distracted with the bilingual issue—we have cultural characteristics such as loyalty, a sense of family and place, which businesses are missing," he said, noting that many second-generation Hispanics do not speak Spanish. He also believes that financial institutions must educate Hispanic consumers on financial products.

Many Hispanics are unaware of the money remittance services that are available from their own banks or prefer those of MSBs because of convenience. Several of the largest MSBs have offices throughout Latin America. Hispanic consumers may prefer to send money through a source that is close to their family member at home. One respondent incorrectly thought that a bank had to have branches in Mexico in order to send money to relatives there.

Still other survey respondents expressed distrust of financial institutions. This sociocultural barrier is described by a comment from one respondent: *"My father put money in a Mexican bank. He soon started losing money for no reason. When he came here, he never trusted banks."*

### Strategies to reach Hispanics

Several financial institutions in Garden City are working to overcome barriers related to language, culture and misconceptions about identification requirements. Representatives of the Federal Reserve Bank of Kansas City interviewed the presidents of three banks, one thrift and one credit union. All of these financial institutions aggressively explore methods of serving their market, including unbanked Hispanic consumers.

Language may pose the biggest entrance barrier to Hispanic consumers, but also may be overcome more easily than other barriers. A common strategy among those interviewed is

to employ bilingual staff members, including bilingual managers. Another method to overcome language barriers is to ensure that account-opening documents, financial disclosures, brochures and other documents are available in Spanish.

In addition to offering bilingual financial services, these institutions work to address the other socioeconomic and cultural issues mentioned earlier by working through local employers, community organizations and schools to improve financial literacy among the unbanked. One institution established mini-banks at local elementary schools in order to introduce financial concepts to children. Others provide financial education workshops at large area employers. By working through local community organizations, financial institutions can develop relationships with unbanked consumers and overcome the distrust they may have.

Dealing with identification requirements is also a necessary step before financial institutions can effectively serve the unbanked Hispanic market. The customer identification requirements are flexible and allow banks to determine which documents they will accept from consumers. New immigrants can obtain identification from their country's consulate in the United States—the consular or Matrícula card. The Internal Revenue Service also issues Individual Tax Identification Numbers to individuals, regardless of immigration status, who cannot obtain a Social Security number. These various identification documents are being accepted in order to fulfill the CIP requirements.

Garden City financial institutions employ several strategies to attract Hispanic customers that could be replicated in other markets. Some of these are innovative, such as the branch established at the meat-packing plant. That bank also installed a check cashing machine to enable bank customers and noncustomers to cash company checks drawn on that bank. Still another area bank is building a Hispanic branch operated by bilingual staff.

Several institutions also provide financial products that might be well-suited for this market segment. One participating institution

offers a dual account debit card to its customers. The customer receives two debit cards. One of these cards, which can be given to a relative in a separate location, is linked to a sub-account that is accessible at participating ATMs or at the point-of-sale worldwide. Rather than sending monthly remittance payments, consumers can simply deposit money into the designated sub-account—thereby incurring lower fees and obtaining more beneficial exchange rates. Some employers also offer payroll payments via a plastic debit card, reducing the check cashing fees paid by unbanked employees.

## Going forward

Hispanics' buying power is increasing quickly. The disposable income of Hispanics reached \$686 billion in 2004 and will reach \$1 trillion in 2009, accounting for 9 percent of total U.S. purchasing power, according to the Selig Center for Economic Growth.

The changing U.S. population will require adaptive business strategies. As the fastest growing minority group in the United States, Hispanics are attracting a great deal of attention from all business sectors.

As Hispanic consumers build capital and need more advanced financial services, financial institutions must be prepared to go beyond just the basic relationships they have established with these consumers and create new products to meet their expanding financial needs.

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## FURTHER RESOURCES

STRATEGIES FOR BANKING THE UNBANKED: HOW BANKS ARE OVERCOMING ENTRANCE BARRIERS

[www.KansasCityFed.org/TEN](http://www.KansasCityFed.org/TEN)

**COMMENTS/QUESTIONS** are welcome and should be sent to [teneditors@kc.frb.org](mailto:teneditors@kc.frb.org).