

The Hispanic Market: Changing Patterns of Untapped Growth

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Financial institutions have much to gain from serving the United States' rapidly growing and largely unbanked Hispanic population. This population is younger than the general population, and on the move, both geographically and socioeconomically. This white paper examines the changing demographics of the Latino market, answers some frequently asked questions about providing financial services to this population, and offers information about tools that can help financial institutions successfully serve this emerging market.

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Executive Summary

Industry experts are touting the Hispanic (or Latino^{*}) market as one of the most important strategic opportunities facing financial institutions today. To grasp the importance of this market and the effect it could have on the financial industry, all one has to do is look at the numbers. Hispanics are the largest minority and the fastest growing consumer group in the United States. The rate of growth for the U.S. Hispanic population is outpacing the general growth rate by a ratio of nearly 5 to 1. By 2010, the U.S. will be home to 50 million Hispanics, who will command buying power in excess of \$1 trillion. By 2050, the U.S. Hispanic population will exceed 100 million, which means that one in every four Americans will be Hispanic.

Perhaps the most significant attribute of this population, for financial institutions, is the fact that roughly 56 percent of U.S. Latinos are currently “unbanked.” Whereas other market segments are nearly saturated, the Latino market remains largely untapped by the financial industry. It’s easy to understand why an increasing number of financial institutions are turning their attention to the Latino market. The upward trajectory of these trends has given rise to projections of dramatic growth in the Latino demand for financial products and services. The FDIC predicts that Hispanics will account for 50 percent of all retail banking growth over the next two decades, and according to TowerGroup, that number could be as high as 70 percent over the next five years.

It’s important to note, not just the growth, but also the changing composition of the Hispanic population. Presently, Hispanics account for 13.7 percent of the total population. The new dynamics of the Hispanic market hinge on the emerging second and third generations, differences between those who are foreign-born and those who are native to the U.S., and movement of Hispanics into regions of the U.S. where previously there have been relatively few Hispanics.

This white paper explores how the Hispanic market is changing and what that means to financial institutions across the United States who are looking to tap this rapidly growing market segment.

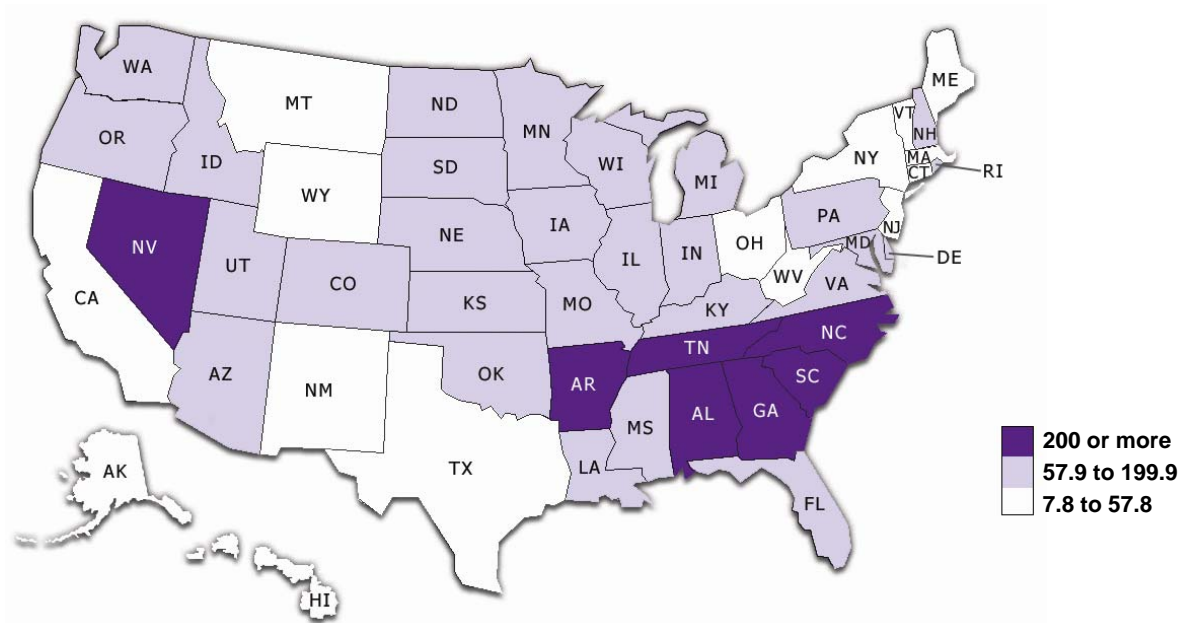
Geographic Distribution

Whereas financial institutions in the border states of California, Arizona, New Mexico, Texas and Florida have been vying to attract Hispanic customers for several years, the competition for such customers is now expanding to other parts of the country. The increase in Hispanic population is occurring in various states and cities throughout the entire United States, and some of the most dramatic growth has occurred in areas where Hispanics have not traditionally had a strong presence, in states such as North and South Carolina, Nebraska, and Iowa. Most of the states in the southeastern United States, for instance, saw their Hispanic populations more than double in the decade between 1990 and 2000. And, as a percent change, growth in the Hispanic population was substantial (approximately 60 percent to almost 200 percent) throughout the Midwest (see map).

* The terms *Hispanic* and *Latino* are used interchangeably in this white paper, as they are in many discussions of this topic.

This demographic shift is quickly changing the competitive landscape for financial institutions across the United States, as more and more financial institutions see Hispanic communities within their branch footprints.

Hispanic Population Growth As Percent Change 1990 to 2000



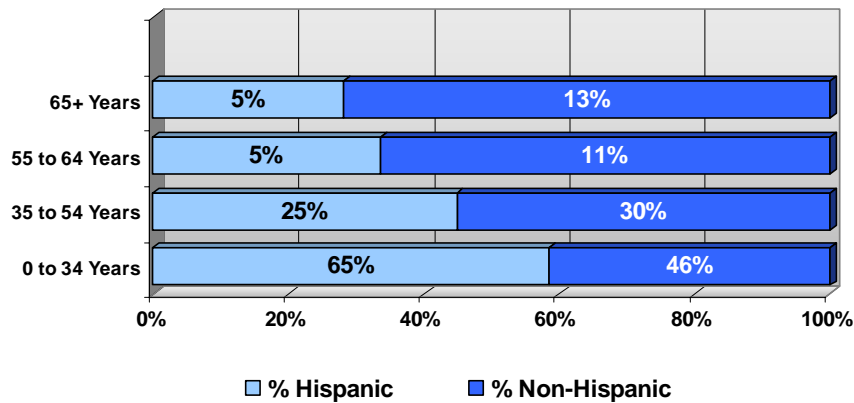
Source: U.S. Census Bureau

Youthfulness of the U.S. Hispanic Population

Hispanics are considerably younger than the general population, with a median age of 27, nearly 10 years younger than the median age for the U.S. population as whole. Almost 40 percent of Hispanics are under the age of 18, and an astounding 65 percent are younger than 35 years of age. The majority of U.S. Hispanic youth (86.5 percent) are native born. Due to their large numbers, young Latinos have emerged as an important consumer segment. They have been called the next generation of “baby boomers.”

Over the next 30 years, members of this Latino baby boom will form millions of new families, fueling a tremendous demand for financial products and services.

Population Comparison by Age



Source: U.S. Census Bureau

Shifting Composition of the Hispanic Population

According to the U.S. Census Bureau, Hispanics in the United States numbered more than 42.7 million in July 2005 (not counting undocumented immigrants), and they accounted for nearly half of the overall population growth since 2000. Hispanics are outpacing the general growth rate by a ratio of almost 5 to 1. Census projections show this upward trajectory continuing indefinitely. But as this segment of the population continues to increase, its composition will change.

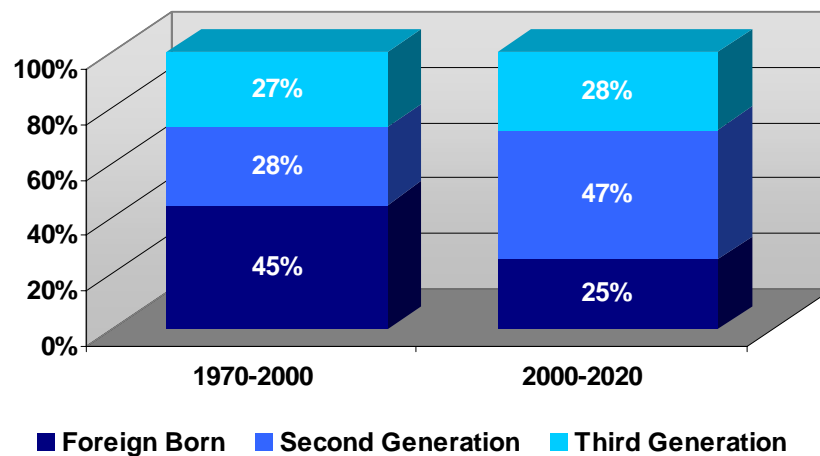
Immigration has fueled much of the U.S. Hispanic population growth in past decades. Although the number of U.S. Hispanics is expected to continue to grow rapidly, much of that growth will occur among U.S.-born Hispanics and will be due to high Hispanic birthrates, as the large second generation of Hispanics matures. Foreign-born, or first-generation, Hispanics will account for a smaller part of the growth, and the U.S.-born children and grandchildren of immigrants will account for the greater part.

Hispanic Population Sub-Segments:

- **First Generation:** Born outside the United States or on the island of Puerto Rico. Can be naturalized U.S. citizens, legal immigrants or undocumented immigrants.
- **Second Generation:** Born in the United States with at least one foreign-born parent. U.S. citizens by birth.
- **Third+ Generation:** Born in the United States with both parents also born in the United States. U.S. citizens by birth.

Based on current rates of immigration, the Hispanic population will grow by 25 million between 2000 and 2020. During that time, second-generation Hispanics will account for 47 percent of the increase. Their number will nearly double, and they will begin to outnumber first-generation immigrants.

U.S. Hispanic Population Growth by Generation



Source: U.S. Census Bureau

The shift from a Hispanic population consisting primarily of Latin American immigrants to one consisting of second and third-generation Hispanics will have profound implications for financial institutions seeking to serve these customers.

The New Hispanic Market: Generational Differences

The most significant generational differences among U.S. Latinos involve their level of acculturation, education, income, fluency in English, and attitudes toward financial institutions.

Level of Acculturation

Acculturation refers to the extent to which a Hispanic has adopted American attitudes and customs. The level of acculturation increases significantly between first-generation immigrants and their second-generation offspring.

A strong correlation exists between Hispanic participation in mainstream financial services and their level of acculturation. The longer Hispanics and their families have been in the United States, the more likely they are to use mainstream financial services. Acculturated Hispanics tend to have more formal education and earn more. They are more likely to be bilingual, and have a higher demand for banking products and services.

Acculturation is not only generational, it is also a function of time spent in the U.S. A survey of Latinos conducted in a major metropolitan area found significant differences between first-generation immigrants who had been in the U.S. 0-11 years and first-generation immigrants who had resided in the U.S. for 12 years or longer with regard to use of financial services (checking accounts, electronic bill payment, credit and debit cards) and ownership of assets (primary residence, vehicles). But that same study found no significant differences in the use of financial services between the latter group and Latinos born in the U.S.

It may be that immigrants adopt the ways of mainstream America more readily when it comes to practical matters like handling finances than they do regarding language, customs and culture in general.

Education

Although immigrants traditionally lag behind the U.S. average in educational attainment, there is a clear difference between those born in the U.S. and those born elsewhere. Compared with Hispanic immigrants, second- and third-generation Hispanics have markedly higher levels of education. Three out of every four U.S.-born Hispanic adults have finished high school, whereas fewer than half of foreign-born adults have done so. Similarly, Hispanics born in the U.S. are significantly more likely than Hispanic immigrants to attend college. These differences in educational attainment translate into marked differences in occupation and income.

Income

Overall, the median income for Latinos is increasing faster than the median income for any other consumer group. A closer look at this market segment reveals significant differences in income between native-born and foreign-born U.S. Latinos.

According to a 2003 survey, first-generation Hispanics had mean weekly earnings of \$457, the second-generation was earning \$535 per week, and the third \$550. Foreign-born Hispanic workers can be found in every occupational category, but they are disproportionately represented in lower paying jobs, reflecting differences in English-language fluency, level of education, and immigration status. The majority of foreign-born Hispanic workers are employed in construction trades or service occupations; as operators, fabricators or laborers; or in farming, forestry and fishing. By comparison, only about one-fourth of U.S.-born Hispanic workers hold such jobs.

Language

Not surprisingly, most Hispanic immigrants are more comfortable speaking Spanish, and may speak little or no English, relying on English-speaking friends or relatives in situations where English is required. According to a study by the Pew Hispanic Center, 72 percent of first-generation Hispanics are "Spanish dominant" (i.e., speak only or mainly Spanish). By contrast, only 7 percent of second-generation Hispanics and no third-generation Hispanics can be considered Spanish-dominant. Generally speaking, second-generation Hispanics are substantially bilingual, and third-generation Hispanics are primarily English speakers.

As more U.S. Latinos become bilingual or fluent in English, the language barrier will become less of an issue for financial institutions. Bankers should not, however, confuse this trend with a lessening need for multicultural marketing. Latinos value their cultural heritage, and many speak Spanish at home in an effort to preserve their ethnicity.

Overcoming Challenges

There are some common barriers to overcome when serving the Hispanic market. Success generally correlates directly with the ability to understand and embrace the unique qualities that differentiate this market segment. There is often an inherent distrust of financial institutions among Hispanics. Many are uncomfortable with the traditional banking environment because of the language barrier, lack of traditional forms of identification, and their struggle to understand financial products and services. Because second and third-generation Hispanics will dominate Hispanic population growth going forward, the magnitude of these challenges will lessen due to the increased levels of acculturation, education, and English-language fluency among Hispanics.

Nonetheless, serving this segment requires a different mindset and a different approach. Information Technology, Inc. (ITI) has a number of solutions that can assist financial institutions in reaching out to and better serving the Hispanic market. For more information on ITI or ITI's Hispanic market solutions, visit www.itiwnet.com or e-mail gwen.dalton@iti.fiserv.com.

Frequently Asked Questions

When Hispanic immigrants come to our branch, they often lack the sorts of identification we normally require. Are there other forms of identification we can accept?

Many financial institutions who serve immigrants from Mexico accept the Matrícula Consular, a photo ID issued by the Consulates General of Mexico as proof of Mexican citizenship. The Matrícula Consular has no effect on the immigration or visa status of the person to whom it is issued. Several other Latin American countries also issue consulate identification cards to their citizens residing in the U.S.

In place of a Social Security Number, financial institutions can elect to accept an Individual Taxpayer Identification Number (ITIN). ITINs are tax-processing numbers issued by the U.S. Internal Revenue Service to immigrants who are ineligible for Social Security Numbers.

What risk does our financial institution assume if we accept the Matrícula Consular as a form of identification? What are the potential benefits?

The U.S. Treasury Department has confirmed that current law does not prevent financial institutions from accepting the Matrícula Consular as proof of identity. In fact, the Federal Deposit Insurance Corporation and many banking associations have endorsed acceptance of this form of identification. The Matrícula, however, is not without controversy, and the regulatory environment should (as always) be monitored. Critics cite the document's alleged lack of security and potential for abuse by terrorists. Proponents argue that accepting the Matrícula for purposes of opening a bank account actually enhances efforts to prevent illegal financial transactions, because funds deposited in financial institutions are subject to monitoring in compliance with anti-money laundering legislation and the USA PATRIOT Act of 2001.

An increasing number of financial institutions accept the Matrícula Consular, enabling them to make significant inroads in reaching out to the “unbanked,” while also increasing account volume and fee income for services such as remittances and check cashing. Just as importantly, they are able to extend the benefits of traditional financial services to immigrants. By depositing their money in the bank, immigrants are less likely to be targets of robberies and muggings, they save on remittance services, and they are able to participate in a wider range of financial transactions, which also benefits the communities in which they live.

New businesses in our community are hiring substantial numbers of Hispanic immigrants, so we’ve seen many more Hispanics in the neighborhoods where we have our branches, but we never see them in our branches. How can we reach out to these potential customers?

Hispanic immigrants often distrust financial institutions. Many are not comfortable with the traditional banking environment. Their distrust stems, in many instances, from previous unfortunate experiences with banks in their home countries, and their discomfort is a consequence of the language barrier, their lack of traditional identification, and their struggle to understand financial products and services. To serve this market segment successfully, financial institutions must be sensitive to these special circumstances and build trust among Latinos through community outreach efforts. Establishing trust, which can be quite challenging, is the first and most critical step in successfully marketing to this segment of the population.

What products and services appeal to Hispanic customers?

Check cashing and remittances are two key services used frequently by a vast majority of the Hispanic population. The demand for these services is substantial: check cashers pay more than \$1.5 billion a year on check-cashing fees, and 42 percent of Hispanics send money to their home countries monthly. By providing these services, you generate fee income, and more importantly, you create a “gateway” with high-value services to draw these consumers into your bank.

Other key product offerings include basic checking and savings accounts tailored to the needs of Latinos, with features such as free checking with debit card access, low minimum-balance requirements, and bundled services such as free money orders and free check cashing.

Mortgages, consumer loans and small business loans are other areas with great growth potential. The rate of home and business ownership is increasing more rapidly among Hispanics than among any other group in the U.S.

As Hispanics become more acculturated, their need for traditional products and services increases.

ITI’s *Hispanic Banking Toolkit* contains further insights and information regarding these topics.