

Latinos: Opportunities for U.S. banks

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Latin American immigrants are the fastest-growing segment of the U.S. population, However, many are excluded from mainstream banking.

Latinos, now numbering more than 37 million, are the single largest minority group in the United States, contributing an estimated \$450 billion annually to the country's economy. Nevertheless, despite their increasing influence in all areas of society, most Latin American immigrants find themselves in an irregular legal situation. One of the many financial consequences of this is that the Latinos who frequently use financial services do not generally turn to banks. This has partly led to the appearance and eventual dominance of alternative providers.

In "[Best Practices in Banking for Latin American Immigrants in the United States](#)" ("Mejores prácticas en bancarización de inmigrantes latinoamericanos en Estados Unidos"), researcher Francesc Prior and professor [Javier Santomá](#) of IESE examine why traditional banking has failed this market, and what the more clever institutions are doing to regain lost ground.

To do so, Prior and Santomá take a closer look at the customer. Generally speaking, Latin American immigrants need a place where they can cash their paychecks each week. They use money orders, a type of check not drawn at a bank, to pay for services such as electricity and telephone. They also send money transfers, a market currently dominated by non-banking entities such as Western Union. They can get an advance on their paycheck from "payday lenders." When they need credit for something such as buying a car, they accept the options given to them by the dealer. Their mortgages are those of the subprime market, which have sadly become famous in the wake of the crisis felt by certain financial markets.

All of these "alternative" or non-regulated providers charge premium rates for their services.

The failure of traditional banking

This situation is due, in part, to Latinos' general lack of financial education. Many of them were without accounts in their countries of origin, and believe that these institutions are only useful for the rich. Curiously, Latin American immigrants to Spain do, in fact, enter the financial system. Thus, questions arise over failures in the U.S. institutions.

The U.S. banking industry appears incapable of recognizing the potential of this market, considering it unprofitable to have Latinos as customers. The industry has not yet found a way to overcome language barriers or adapt its services to new arrivals. For example, the minimum balance required to maintain an account is set too high, which effectively eliminates recent arrivals. The situation with loans is similar. To grant them, banks usually ask for a social security number, which again eliminates all those people without their papers in order.

U.S. regulations technically allow financial institutions to decide which identification documentation to request from their customers. Theoretically, that kind of freedom could allow banks to deal with illegal immigrants, but given the current climate in the United States, such freedom usually comes down on the side of greater restrictions. In other words, when in doubt, rule them out. If banks can limit the functionality of the accounts they open for immigrants, such as not allowing them to use automated teller machines (ATMs), then they normally choose to do so.

Immigrants end up feeling discriminated against, which only reinforces their distrust of traditional banking. Naturally, they start to believe that banks are in cahoots with the government, and all of the information provided could be used against them. When a major institution does try to make it easier for illegal immigrants, as Bank of America did by offering a special credit card, political pressure mounts and stunts its development.

Not insurmountable

Clearly, there are obstacles, but they are not insurmountable, even in the realm of money transfers where major operators such as Western Union and MoneyGram maintain an iron grip. Such operators give their customers options - for a price. This is one area where banks have tried to innovate in order to make inroads into the non-banking Latino community. Wells Fargo, for example,

created the "InterCuenta Express," offering several options for sending money: cash to cash, cash to account, account/card to cash, among others. Customers can even send prepaid cards from the United States, which can be acquired at any retail outlet with minimal requirements. The most valued feature of these cards is that they allow users to cash their paychecks, which means they can avoid paying the outrageous fees charged by some establishments.

Citibank is another pioneering institution here. Its "Access Account" has been successful in the middle to lower income segments of the population. It has no minimum balance requirement, and the \$3 maintenance fee is waived so long as one deposit is made per month. The account includes a debit card that can be used at point-of-sale and for cash withdrawal. After four months, a secured credit card is also offered. The customer deposits money and that amount becomes their credit limit and the guarantee that they will pay off their debt. The idea is to let the user become familiar with the system and start developing a positive credit history. After 18 months of satisfactory payments, the customer receives a regular, unsecured credit card. It is a popular system: some financial institutions such as the Latino Community Credit Union are using it to give customers their first personal loans.

The options available for mortgages, however, are far fewer. Some institutions sidestep the problem of identifying users via their social security number by using their Individual Taxpayer Identification Number (ITIN) instead. Anyone who pays taxes in the United States, whether legal or illegal, can get one, and the institutions that accept the ITIN also distinguish themselves by using alternative variables for savings and payments in their credit report. They look at not only work income, but also transfers sent or the payment of basic services such as electricity and telephone. This formula for analyzing people's credit leads to lower-than-average default rates and the possibility of promoting cross-selling.

However, some institutions could end up having problems doing this. The Patriot Act, formulated in response to the September 11 attacks on the United States, says that the ITIN is not a valid form of identification for customers, as it lacks the requisite security checks. Fortunately, though, there are ways around this. The "matrículas consulares," issued by embassies and containing no information about the person's status (with or without papers), verify proof of identity and residence within the consular district. The Mexican "matrícula" is already valid at 178 financial institutions in the United States.

Getting there is what's important

Once products have been designed for Latin American immigrants, they must then be delivered. Most of the institutions achieving success among Latinos have opened service points in residential areas. Others have them in high-transit areas such as worksites, supermarkets and gas stations. Latino Community Credit Union set up its first branch adjacent to an NGO that offers practical support to recent arrivals.

In terms of delivery, hours of operation are also important. But accessibility must be considered in its broadest sense, including the environment and atmosphere in which the service is provided. For example, an office with televisions, free Internet stations and toys for children to play with sends a much different message from an office with staff barricaded behind bullet-proof glass.

The staff working in the distribution network is also a key to success. Latin American immigrants prefer face-to-face interaction and relationships of trust. All marketing strategies should ensure that the employees involved know Spanish and are familiar with Latino culture. Likewise, sales materials should be available in that language, as should any related documentation. Advertising needs to be done in the Latino media, but word of mouth should also be given considerable attention. One good reference from a legal adviser or consular staff can accomplish more than any ad ever could.

In short, barriers must be broken down to promote the use of banking among Latin American immigrants - from the obvious ones, such as language, to less evident ones, such as trust. Banks need to be reminded that no one likes being regarded with suspicion and having restrictions placed upon them for no good reason. Quite the contrary, Latinos need to be treated with extra care. As Prior and Santomá explain, the investment required to adapt banking products is far less than the enormous potential benefits of this growing market.

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