

PERSPECTIVES

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Strategies for Banking the Unbanked: How Banks are Overcoming Entrance Barriers

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INTRODUCTION

Shifting population characteristics are leading to significant change among consumer market segments. Many of these changes are the result of the increasing number of minority consumers—especially Hispanics. As a fast growing market segment, Hispanics may be a new source of growth for financial institutions. However, like many minority consumers, a large percentage of Hispanics do not use banks. Instead, these “unbanked” consumers typically obtain financial services from alternative sources—so-called money service businesses (MSBs).

While new immigrants may be well served by MSBs, well-established Hispanics may need banking relationships in order to gain access to consumer financing and lending products for home, automobile, and educational investments. These financial needs could be met at a lower cost if they are provided by mainstream financial institutions. If unbanked consumers would likely be better off by becoming banked, why do unbanked consumers choose to use money service businesses instead of banks? What factors influence their decision making? Are banks offering financial products or services that meet the needs of these unbanked consumers?

This paper will explore the factors that contribute to Hispanic consumers remaining unbanked and strategies that banks can use to bring these consumers into the financial main-

stream. The first section of the paper introduces the unbanked phenomenon in the United States and focuses on the unbanked Latino market. The second section describes shifting demographic characteristics of the U.S. population, especially the growth of the Hispanic population. The third section describes a study conducted in Garden City, Kansas, which illustrates the perceptions of Hispanic immigrants regarding financial products and services and the barriers these consumers face. The final section provides examples of the strategies that Garden City bankers are using to reach unbanked Hispanic consumers.

THE UNBANKED PHENOMENON

By all accounts, millions of consumers in the U.S. are unbanked.¹ These unbanked consumers are disproportionately represented by ethnic minorities and immigrants.² For example, almost one-half of all African American consumers and one-third of U.S.-born Hispanic residents are unbanked (Chart 1). An even higher percentage of Mexican immigrants are unbanked (53 percent) and 37 percent of other Latin American immigrants are unbanked (Chart 2).³ Because Latino immigrants constitute a large portion of the unbanked, this study focuses on the Hispanic/Latino population as a way to learn more about the unbanked population.

The unbanked phenomenon may be an important issue for public policymakers because of the cost to consumers and the increasing portion of this market segment. Consumers that utilize MSBs for financial services will generally pay higher fees when compared with customers of traditional financial institutions. For example, a product cost comparison estimated the annual cost of a basic bank account to be \$79 compared to total annual fees of \$246 when using a check cashing outlet.⁴ As traditional financial institutions offer lower-cost services to unbanked consumers, MSBs may reduce their fees in order to remain competitive.⁵ Consumers will be the beneficiaries of increased options and competitive pricing.⁶ The unbanked phenomenon also increases in importance as population demographics evolve. The following section describes

Chart 1
Percent Unbanked Consumers, U.S. Born

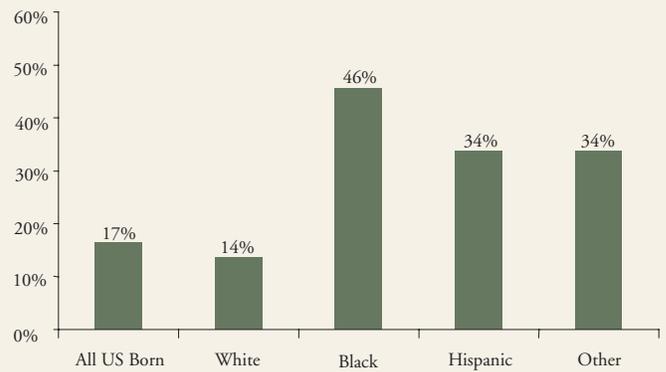
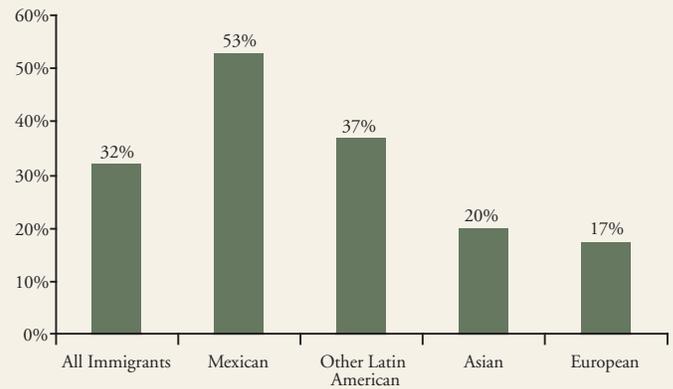


Chart 2
Percent Unbanked Consumers, Immigrants



Source: 2000 Survey of Income Program Participation, U.S. Census Bureau

how these changes may lead to increasing numbers of unbanked consumers.

CHANGING DEMOGRAPHICS OF THE U.S. CONSUMER

Population demographics in the United States are undergoing significant change. These include increasing numbers of retirees, as baby boomers age, and a declining percentage of people under the age of 44. These demographic changes also include a transformation of racial and ethnic characteristics. For instance, population projections show that an increasing percentage of the total U.S. population consists of minority residents. Between 2000 and 2030, the U.S. population is projected to increase by 29 percent. During

the same period, the total minority population may increase by 79 percent (Table 1).

Today, people of Hispanic origin are the largest minority group in the United States, equaling more than 14 percent of the U.S. population. Hispanics are also among the fastest growing ethnic and racial groups. As a result of this rapid growth, the Hispanic population is projected to double between 2000 and 2030 – totaling more than 73 million people.

In the past, much of this growth was due to immigration. However, future growth will likely be associated with an increasing number of second generation Hispanics as a result of higher birth rates among this ethnic group.⁷ In addition, the number of immigrants from other Latin American countries is increasing, whereas past immigration came largely from Mexico.⁸ These characteristics are causing the Hispanic population not only to grow in numbers but also to become more diverse.

Socio-economic characteristics of Hispanic consumers are also becoming more diverse. For example, many Southwestern states have high concentrations of well-established Hispanic residents. Map 1 shows counties in the Tenth Federal Reserve District states with Hispanic populations above the national average (14 percent).⁹ (Counties that are shown in various shades of green indicate concentration percentages that exceed 14 percent.) These well-established Hispanic populations are more likely to be bilingual and have higher incomes. Well-established Hispanics are also likely to have more mature financial needs, such as a need for business loans, auto loans, real estate loans, and financial planning services.¹⁰

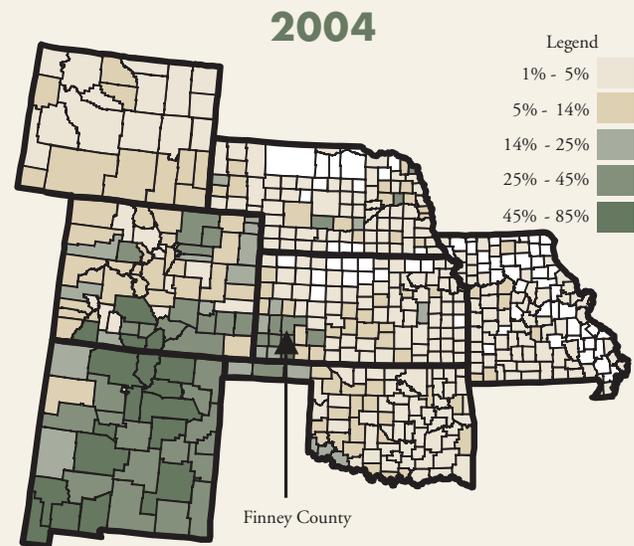
As depicted in Map 1, most of the counties located in the eastern one-half of the Tenth Federal Reserve District have lower percentages of Hispanic residents. However, Map 2 indicates that many of these counties have experienced rapid growth. Map 2 reflects the growth of Hispanic populations between 1990 and 2004. Previous studies explored similar high-growth rates in rural and suburban areas in the Midwest and Southeast.¹¹ These high-growth Hispanic populations are less likely to be bilingual and may have lower incomes when compared with Hispanics located in

Table 1
U.S. Population Projections by Race and Ethnicity, 2000-2030

	2000	2010	2020	2030	Percent Change 2000 - 2030
Population Total in thousands	282,125	308,936	335,805	363,584	29%
Percent of Total Population by Race					
White	81.0%	79.3%	77.6%	75.8%	21%
Black	12.7%	13.1%	13.5%	13.9%	41%
Asian	3.8%	4.6%	5.4%	6.2%	111%
All other races	2.5%	3.0%	3.5%	4.1%	110%
Percent of Total Population Hispanic Origin (of any race)	12.6%	15.5%	17.8%	20.1%	105%
Estimated Minority Population	30.6%	34.9%	38.7%	42.5%	79%

Source: U.S. Census Bureau

MAP 1
**PERCENTAGE OF HISPANIC
POPULATION**

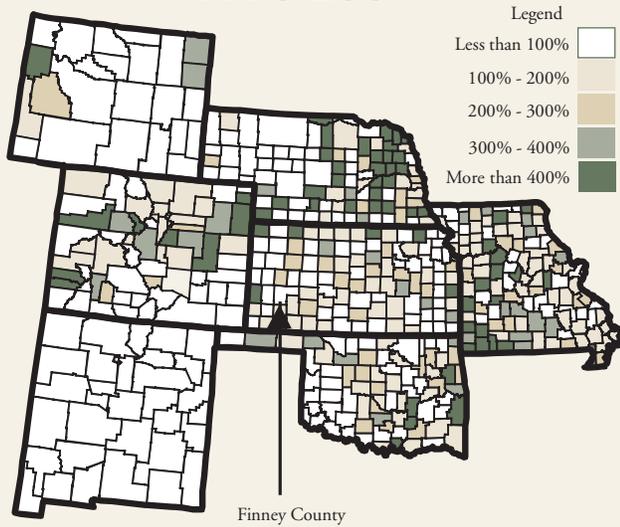


Source: U.S. Census Bureau, 1990 Census, and 2004 population estimates

high-concentration areas. In addition, their financial needs may differ from those of more well-established Hispanics. They are more likely to require basic financial services, such as check cashing and money remittance services.

MAP 2

PERCENT GROWTH BY COUNTY 1990-2004



Source: U.S. Census Bureau, 1990 Census, and 2004 population estimates

As Hispanic populations grow, so does their importance to retail-oriented financial institutions and other companies that serve consumers. As noted earlier, a large percentage of U.S.-born Hispanics and Hispanic immigrants are unbanked. Thus, as the number of Hispanics increases, the number of unbanked consumers may also increase. Hispanic consumers' importance to private sector companies is also increasing as their buying power grows. The Selig Center for Economic Growth reported that disposable income of Hispanics reached \$686 billion in 2004 and will reach \$1 trillion in 2009, equaling 9 percent of total U.S. purchasing power.¹² Understanding variation among unbanked Hispanic consumers' needs, and the barriers they face, may assist financial institutions in developing products that better suit this customer segment.

BARRIERS TO THE UNBANKED

What barriers keep Hispanic consumers from entering the financial mainstream? Why do Hispanic consumers choose to utilize MSBs to meet their financial needs? In order to answer these questions and obtain information regarding the banking habits of

Hispanic consumers, representatives of the Federal Reserve Bank of Kansas City conducted a field study in Garden City, Kansas. We chose Garden City for the case study because it has an unusually high number of Hispanic residents relative to other rural Kansas counties and may provide valuable insights into the financial needs of the growing Hispanic market.

Garden City is the county seat of Finney County. Similar to surrounding counties, Finney County has a high concentration of Hispanic residents. In 2004, the U.S. Census Bureau estimated that 46 percent of the county's 39,271 residents were of Hispanic origin. Like many other high-concentration counties, Finney County's Hispanic population did not grow as quickly as the high-growth counties with lower concentrations of Hispanics. Nonetheless, its Latino population almost doubled between 1990 and 2004.

Much of Finney County's population growth has been due to an evolution of agricultural practices. Since the 1950s, the meatpacking industry and innovations in irrigation technology have radically transformed the social and economic composition of Garden City. The implementation of deep-well turbine water pumps, combined with growth in feed-yard cattle operations, attracted large meatpacking plants such as IBP/Tyson, Excel, and ConAgra.¹³ In 1980, IBP/Tyson launched the world's largest meatpacking plant just seven miles west of Garden City, resulting in an influx of primarily Hispanic laborers.¹⁴ The demographic characteristics of Garden City changed significantly as a result of the entrance of these agricultural processing companies into the market (Table 2). In 1980, Garden City's Hispanic population equaled 16 percent of the total population compared to more than 40 percent in 2003.

Table 2
Garden City Population Demographics by Race, 1980-2003

Year	Total Population	Non-Hispanic White	Hispanic	Black	American Indian/Asian
1980	18,256	82%	16%	1%	0.5%
2000	28,451	49%	44%	1.5%	2%
2003	27,312	48%	45%	1%	4%

Source: U.S. Census, Planning and Community Development (City of Garden City)

Banking Characteristics of Survey Respondents

The Federal Reserve Bank of Kansas City's 2005 Garden City Survey of Hispanic Consumers included questions regarding the survey respondents' residency characteristics, banking habits, methods for accessing pay and paying bills, and methods for sending money to their country of origin. The study resulted in survey responses from 109 Hispanic consumers at the Finney County Community Learning Center and an area housing development.¹⁵ We also interviewed representatives of five Garden City financial institutions regarding the strategies they are using to bring unbanked Hispanic consumers into the financial mainstream. The following section describes the results of the consumer survey and establishes a framework for understanding some of the barriers these consumers face.

Garden City's Hispanic population has not grown as quickly as other counties, which suggests that its Hispanic population is stable. While many of its Hispanic residents have resided in the U.S. for less than five years (35 percent), almost half of the survey respondents indicated that they have resided in the U.S. for more than 10 years (Table 3). Therefore, the survey population likely includes individuals with varying financial needs.

Table 3
Length of Stay in U.S.

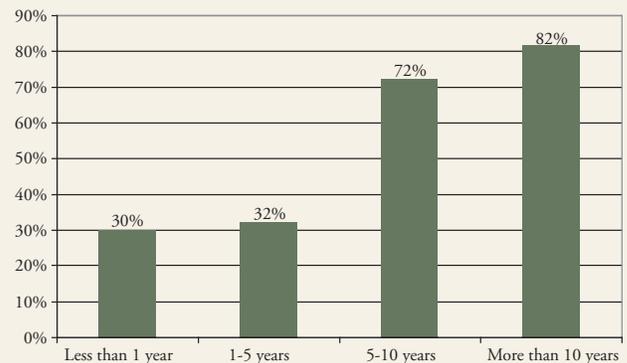
Time Period	Percent of Respondents
Less than 1 year	9%
Between 1 and 5 years	26%
Between 5 and 10 years	19%
More than 10 Years	46%

Source: 2005 Federal Reserve Garden City Survey of Hispanics

Although the number of survey respondents is small, their banking characteristics are similar to those found in other formal studies.¹⁶ Sixty-two percent of those surveyed reported having a bank account, and 45 percent of the respondents said they previously maintained a bank account in their country of origin. Interestingly, survey respondents that reported living in the U.S. more than five years were much more likely to have bank accounts when compared with other respondents (Chart 3).

CHART 3

BANK ACCOUNT HOLDERS BY LENGTH OF STAY IN U.S.*



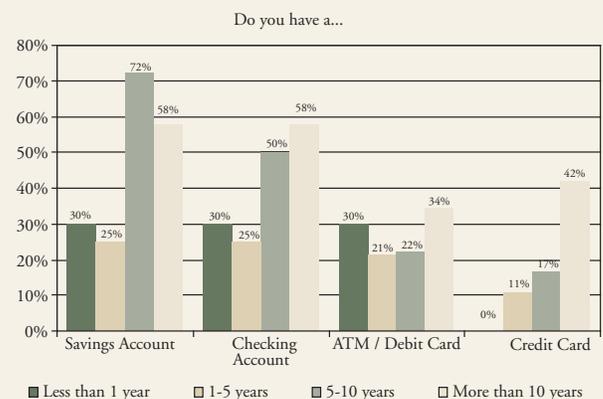
Source: 2005 Federal Reserve Garden City Survey of Hispanics

*Note: Chart 8 provides additional information regarding identification documents held by these peer groups; residency status was not addressed.

As we suggested earlier, survey respondents that have lived in the U.S. for a greater period of time are more banked. In addition, long-term residents were more likely to have credit and debit cards (Chart 4). Chart 4 shows not only variation among survey respondents based on their length of stay in the U.S., but also variation among the types of banking and payment products used by survey respondents overall. While a large number reported having some type of account, a smaller percentage of respondents indicated that they have ATM/debit cards.

CHART 4

BANKING CHARACTERISTICS OF SURVEY RESPONDENTS BASED ON LENGTH OF STAY IN U.S.



Source: 2005 Federal Reserve Garden City Survey of Hispanics

Note: Due to the small number of survey respondents in the "less than 1 year" category, it is difficult to determine whether this data is meaningful.

As is the case with most consumers, Hispanics interact with the financial services industry to access their income from working. Seventy-nine percent of the survey respondents said they receive some sort of formal paycheck through their employer. And most of these individuals use banks to cash their paychecks (68 percent). Despite the fact that many respondents indicated that they have savings or checking accounts, most of the respondents pay bills using cash (60 percent) and money orders (39 percent).

Unlike most other consumers, many Hispanics have a significant need for services that allow them to send money to family members in their home country. These services, called remittances, have traditionally been provided by MSBs, such as MoneyGram and Western Union. For example, in our survey, 32 percent of the respondents indicated that they send money abroad at least once per month. Our survey also suggests that almost half of the respondents have been sending money abroad for 5 or more years, averaging \$150 per transaction. Interestingly, more than 60 percent of respondents have bank accounts, yet the majority of the respondents in our survey use MSBs to send money remittances (Chart 5). Bankers confirmed that many Latinos withdraw money from their banking institutions on a monthly basis and “walk across the street” and remit money via MSBs. Clearly, even docu-

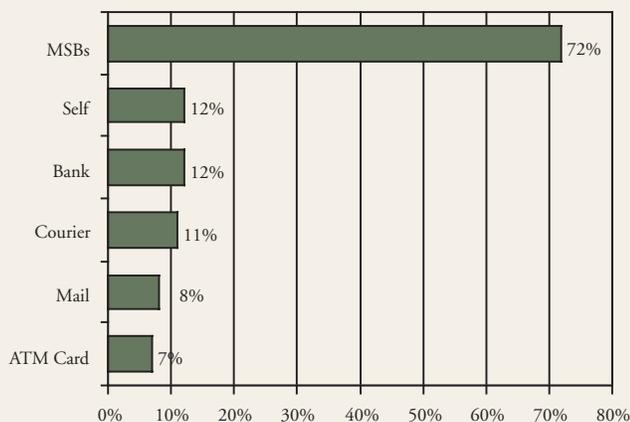
mented, banked Hispanics tend to remit money through MSBs rather than banks. This finding is consistent with other studies on remittances.¹⁷

Various reasons explain why Hispanics choose MSBs to remit money instead of banks. When asked what factors influence the type of remittance method they choose, most survey respondents cited security. Although most Americans equate financial institutions with security, survey respondents seem wary of sending money via banks (Chart 6). Security concerns may be related to the security of family members in their home country as well as convenience. As one banked consumer said, “*Even though I have a bank account, I still go to a store to send my money. It’s easier for my mother to get it.*” Concerns regarding security and convenience are allayed by MSBs that have thousands of locations throughout Latin America. For example, one respondent said, “[MSBs] seem to be more secure than banks. I would much rather spend more money because it makes it safer and easier for my family, it’s faster. In like 10 minutes, it’s there.” Thus speed and security may be more important than the cost of remittances.

Hispanics also may use MSBs for remittances because they are unaware that their bank offers remittances. For example, one respondent believed that banks need branches in their home country in order for their relatives to retrieve the funds.

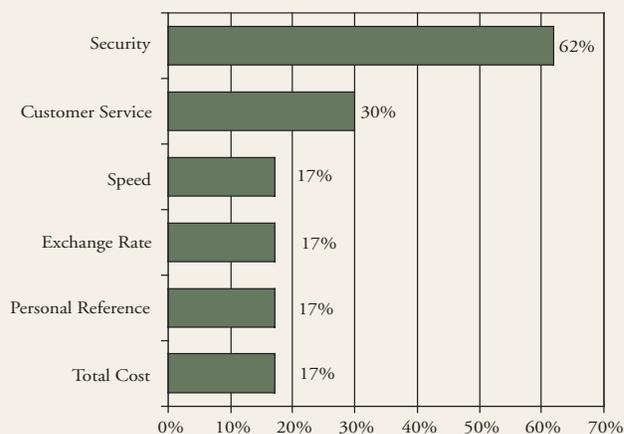
CHART 5 METHOD OF REMITTING MONEY

How do you send money home?



Source: 2005 Federal Reserve Garden City Survey of Hispanics
(Due to more than one possible answer, numbers total greater than 100 percent.)

CHART 6 FACTORS FOR SELECTING REMITTANCE METHODS



Source: 2005 Federal Reserve Garden City Survey of Hispanics
(Due to more than one possible answer, numbers total greater than 100 percent.)

Barriers to Entering the Financial Mainstream

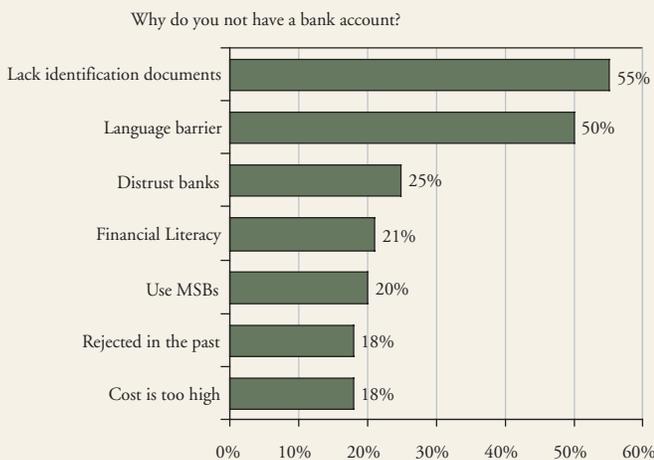
While many of the survey respondents indicated that they maintain some type of deposit account with a financial institution, the remaining survey respondents noted several factors that contribute to their unbanked status. The foremost reason for remaining unbanked is the lack of necessary identification documents, with the language barrier a close second. Other reasons for remaining unbanked include distrust of financial institutions, financial literacy issues, and a preference for using MSBs, among others (Chart 7).

Many Hispanic consumers may be discouraged from establishing formal bank accounts because they believe they lack the correct identification documents. Banks are required by the U.S.A. Patriot Act to obtain and verify a minimum level of information before opening an account.¹⁸ The financial institution must establish a so-called Customer Identification Program (CIP) that includes a determination of what types of information the institution will require in order to open an account. The minimum information includes: the customer's name, date of birth (for individuals), address, and an identification number. The required identification number for U.S. citizens is the Social Security Number or evidence of application for one. Non-U.S. citizens must

have at least one or more of the following: an Individual Taxpayer Identification Number or ITIN¹⁹; passport number and country of issuance; alien identification card number; or number and country of issuance of any other unexpired, government-issued document evidencing nationality or residence and bearing a photograph or similar safeguard. New immigrants can obtain identification from their country's consulate in the United States—the consular or Matricula card.²⁰ (Appendix A includes a description of the technical requirements of CIP Programs).

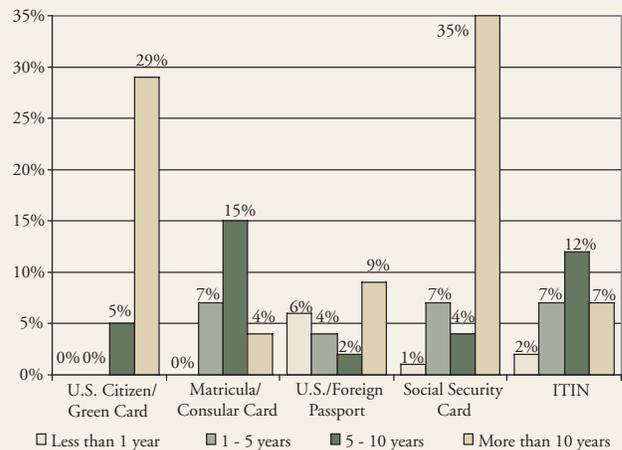
Although financial institutions have the flexibility to accept a wide variety of documents to meet the identification requirements, each institution must make an independent determination. Therefore, identification requirements may differ across financial institutions. Some consumers seem discouraged by these requirements. One respondent said, “The main problem with going to banks is having to give them so many forms of identification. It seems so complicated.” Another individual emphasized the difficulty of obtaining a Matricula card from the Mexican consulate in St. Louis by saying, “Even if they accept a Matricula, it's hard to get all the way to St. Louis to get one.” The survey found that respondents who have resided in the U.S. for shorter periods were very unlikely to have multiple identification documents (Chart 8).

CHART 7
REASONS FOR BEING UNBANKED



Source: 2005 Federal Reserve Garden City Survey of Hispanics
(Due to more than one possible answer, numbers total greater than 100 percent.)

CHART 8
IDENTIFICATION DOCUMENTS OF RESPONDENTS, BY LENGTH OF STAY IN U.S.



Source: 2005 Federal Reserve Garden City Survey of Hispanics

In addition to variation among identification requirements, language barriers and literacy are also important factors. One respondent remarked, “*I don’t know how to read or write. My children do all of my paperwork for me. So don’t ask me to open a bank account and write checks.*” Although many financial institutions employ bilingual frontline staff, many Hispanic consumers maintain relationships with MSBs out of loyalty. A comment from a respondent is illustrative: “*I prefer going to a place where they speak Spanish. Most banks have Spanish speakers, but my family and friends all go to the local stores to send money home.*” Building relationships with Hispanic consumers is also important in order to overcome distrust of banks. As one individual commented, “*My father put money in a Mexican bank. He soon started losing money for no reason. When he came here, he never again trusted banks.*”

In summary, many factors contribute to Hispanic consumers remaining unbanked. For recent immigrants, basic financial services offered by MSBs may fulfill their needs. In addition, language barriers and identification requirements may act as stumbling blocks to their becoming banked. Many Hispanic consumers also have a distrust of financial institutions based on past experience with banks in their home country or as a result of being rejected by financial institutions in the U.S. Eventually, these consumers may require more mature financial services, such as auto loans, student loans, and mortgages. In order to obtain these services, they will likely need to develop relationships with traditional financial services providers. The following section discusses strategies Garden City bankers are using to address these barriers.

INNOVATIVE STRATEGIES FOR BANKING THE UNBANKED

To what extent are financial institutions reacting to the changing demographics of their community by designing products and services to address market changes? To investigate this question, we interviewed representatives of three banks, one thrift, and one credit union, collectively referred to as “banks.” These financial institutions represent nearly 80 percent of the

deposit market share in Garden City and are known for their significant outreach and active participation in the Hispanic community. Bankers in Garden City are employing innovative strategies to serve the Hispanic market. The overarching objective of many of these strategies is to develop relationships with Hispanic consumers. By doing so, financial institutions overcome the distrust that Hispanics may hold with regard to mainstream financial institutions.

Several Garden City banks use financial education efforts in order to develop these relationships. Two banks established partnerships with major employers of Hispanics to provide educational workshops during regular business hours. Another bank focused on financial literacy training for children by sponsoring “mini-banks” at surrounding elementary schools. This banker remarked: “*we believe that early childhood development is key to fully understanding the benefits of personal financial management [...] the schools see its benefit because it complements students’ education through the teaching of economics and finance.*”

In addition to partnering with local schools and employers, Garden City banks have also partnered with community organizations. Partnerships with community-based organizations are vital to reaching Hispanic consumers. Almost every bank established working partnerships with community organizations that are deeply connected with the community. One bank noted, “*We need to educate our community, and the best way to get to a large number of Hispanics is through community organizations.*” Community organizations are trusted social service providers that already know about the experiences, needs, and financial characteristics of Hispanics. Another bank remarked in regard to Hispanic immigrants, “*Frankly, they are here, trying to make a better life, they are our community, and we want to form partnerships.*”

Community involvement is another important factor in building relationships between the Hispanic community and financial institutions. One banker highlighted the importance of “putting yourself in their shoes.” This banker drew from personal experience as a Latino immigrant—emphasizing the ability to fully understand the emotional, physical, and educational

transition processes that are associated with leaving one's homeland for a new life in another country. "We are involved in the [Hispanic] community. You will see us at Habitat for Humanity, multicultural Task Force Meetings, LULAC (League of United Latin American Citizens), buying groceries at the local foodmart, and going to church. We are passionate about what we do."

Another factor affecting Hispanic consumers' access to the mainstream financial system is the language barrier. Garden City financial institutions that are reaching out to Hispanic consumers do so by employing bilingual managerial and platform staff. One bank noted, "We need to communicate with the customer and let them know that we are working for them! And successfully attracting the Hispanic market depends on establishing a trust factor, which usually starts with Spanish as a common denominator." Another bank instituted a Spanish-speaking lobby-designated team to welcome Hispanic customers immediately, making them feel welcome and assessing their needs, and guiding them in the right direction. All interview participants reported offering bilingual account opening documents, product information and brochures, and financial education materials.

Banks can successfully use language as a means of building relationships with both new immigrants and well-established Hispanic consumers. However, this requires that financial institutions employ bilingual staff beyond the frontline, including loan officers and managers. Furthermore, in order to overcome misconceptions about bank products, banks need to educate consumers on their product availability. One banker noted that their platform staff actively educates customers on new and existing products and services while they wait to perform banking transactions.

Employing bilingual staff, however, is not necessarily enough to reach Hispanic consumers. Fred Ramos, President of the Tulsa Hispanic Chamber of Commerce and a member of the Federal Reserve Bank of Kansas City's Oklahoma City Branch, Board of Directors cautions against focusing solely on the language barrier. In his words, "businesses get distracted with the bilingual issue—we have cultural characteristics such as loyalty, a

sense of family and place, which businesses are missing." In addition, he noted that second generation Hispanics have more mature financial needs. These individuals will remain loyal to the financial institutions with which their parents developed relationships.

Developing relationships and overcoming language barriers are likely the first steps to bringing unbanked Hispanic consumers into the financial mainstream. The next hurdle for many Hispanics is meeting identification requirements. Financial education initiatives can be effective in clearing up the confusion related to identification requirements. To counter documentation barriers, Garden City banks are using a variety of identification verification techniques. For example, many accept non-traditional criteria such as consular cards, ITINs, work authorization numbers, and employee identification cards. One bank in particular accepts ITINs and workplace photo identification cards in combination as identification tools. This banker remarked, "We try to make it as easy as we can while still knowing that we are positively identifying these customers."

Offering financial products that meet the needs of Hispanic customers may provide another avenue of reaching this market. Several Garden City financial institutions offer savings accounts with low minimum balance requirements as well as specialized home mortgage products. In addition, these financial institutions utilize alternative underwriting criteria such as rent and utility payments, length of employment, and history of remittance receipts to establish creditworthiness.

Garden City financial institutions are also responding to the more basic needs of Hispanic customers by offering innovative payment instruments. For example, several institutions address consumers' remittance needs by offering savings accounts that include a sub-account feature. The consumer can transfer money into the sub-account, which is accessed with a Visa- or MasterCard-branded debit card. The debit card may be assigned to the customer's family member in a foreign country. The debit cardholder can then use the card at ATMs or at the point-of-sale.

The application of innovative payment instru-

FEDERAL RESERVE ACTIONS TO ASSIST HISPANIC CONSUMERS

DIRECTO A MÉXICO AND FEDACH INTERNATIONAL MEXICO SERVICE

In September 2005, the Federal Reserve partnered with the Banco de Mexico to publicize the Federal Reserve's FedACH International Mexico Service through a marketing effort called Directo a México. The FedACH International Mexico Service allows U.S. financial institutions to send money remittances electronically to the Banco de Mexico. Banco de Mexico transfers the funds to banks throughout Mexico.

Recipient financial institutions in Mexico receive credit for these remittances on the next business day. These institutions deposit the funds into the recipient's account. In addition, the originating financial institution in the United States pays the full cost of the transaction. Thus recipients in Mexico can obtain access to these funds free of charge. However, the receiver must have an account with a financial institution in Mexico. Banco de Mexico believes this service will encourage unbanked consumers in Mexico to establish bank accounts.

The Directo a México marketing program notes that "FedACH International Mexico Service is priced so that U.S. financial institutions can offer it at extremely competitive rates. The service is offered to financial institutions at the very low, per-item surcharge of \$0.67. Of course, financial institutions add value to the payment and are expected to charge a higher, but still extremely competitive fee to customers. The wholesale foreign exchange rate applied to every payment—regardless of amount—means that the receiver gets more pesos for every dollar sent." For additional information visit: www.frbservices.org/Retail/intfedach.html

FINANCIAL EDUCATION INITIATIVES

The Federal Reserve produces consumer guides on a variety of subjects. Many of these brochures are now available in Spanish. Topics include: Protecting Yourself from Overdraft and Bounced-Check Fees; What You Should Know about Your Checks; Consumer Handbook on Adjustable-Rate Mortgages; Looking for the Best Mortgage; What You Should Know about Home Equity Lines of Credit; and, Building Wealth—A Beginner's Guide to Securing Your Financial Future. For more information visit: www.federalreserve.gov/consumers.htm

ments can also be instrumental in providing access to employees' pay. Rather than issuing paper paychecks that must be cashed or deposited, employers can offer a relatively new payment instrument called a payroll card. These cards are generally Visa- or MasterCard-branded debit cards that are issued by the employer's financial institution. The employer electronically transfers employee payroll information to its financial institution. The financial institution in turn assigns the proceeds of payroll to individual employees' debit cards. The employee can use the card at ATMs or at the point-of-sale without incurring the same fees they would incur by using check cashing stores to access their pay. For employers, it is less costly to transfer payroll funds electronically than to print paper checks.

Payroll cards are commonly used among large

national companies with young employees that are likely to be unbanked, such as Pizza Hut and McDonalds. While only one of the banks interviewed indicated that they offer payroll cards, several other banks said they were exploring the possibility. Survey responses suggest that banks will need to educate consumers and businesses on the benefit of payroll cards—although 68 percent of our consumer survey respondents said they receive all or part of their pay through direct deposit, a majority said they would not feel comfortable receiving their pay on a plastic payroll card (56 percent).

Innovation does not exclusively pertain to electronic or digital products and systems, but also consists of a unique application of traditional techniques. For example, one Garden City financial institution established a bank branch in the headquarters of a local

IBP/Tyson meatpacking plant. The financial institution has deposit account relationships with almost half of IBP/Tyson's employees. In addition to the brick-and-mortar branch location, the bank also maintains an ATM that provides check cashing services to Tyson's employees. This is especially useful for employees that are assigned to late shifts when the bank branch is closed. According to the bank, the ATM cashes approximately 750 checks each week. This is an example of financial institutions providing low-cost and efficient financial services to Hispanic immigrants.

CONCLUSION

As America's population becomes increasingly diverse, public and private sector organizations will need to adapt to serve all consumers. However, in planning for the future, these organizations need information about how their customer base may change. This paper has shown that the demographic characteristics of the U.S. population will likely undergo significant change,

especially as the number of minorities increases.

Although the increasing number of Hispanics as a percentage of total population is not surprising, this demographic change has significant implications. One implication may be an increasing number of unbanked consumers. While many new immigrants may be well served by alternative financial services providers, barriers may exist that keep Hispanics from entering the financial mainstream. In order to serve these unbanked consumers, financial institutions should be aware of these barriers and the variation in Hispanics' financial experience and needs.

Some financial institutions with a large base of minority customers are responding to changing demographics by developing and adopting innovative strategies. These strategies can be effective in overcoming the barriers Hispanic consumers face. In addition, the experience of these financial institutions may serve as a useful example for financial institutions in other areas of the U.S. where Hispanic populations are increasing.

APPENDIX A—TECHNICAL REQUIREMENTS OF CUSTOMER IDENTIFICATION PROGRAMS

Banks must implement and maintain customer identification programs (CIP) that allow them “to form a reasonable belief that it knows the true identity of each customer.” The CIP must be based on the bank's assessment of risks such as its size, location, customer base, the types of accounts it maintains, how the accounts may be opened, and the types of identifying information available. [31 CFR 103.121(b)]

Financial institutions are required to obtain and verify a minimum level of information before opening an account. [31 CFR 103.121(b)(2)(i)(A)]. An account is defined as a formal banking relationship established to provide financial transactions, services, or dealings and includes deposit accounts, savings accounts, credit extensions, and safekeeping services such as safety deposit boxes.[31 CFR §103.121(a)(1)(i)]. The minimum information includes: the customer's name, date of birth (for individuals), address, and an identification number. [31 CFR 103.121(b)(2)(i)(A)]. The required identification number for U.S. citizens is the Taxpayer Identification Number (TIN) or evidence of application for one. [31 CFR 103.121(b)(2)(i)(A)(4)(i)]. Non-U.S. citizens must have at least one or more of the following: a TIN; passport number and country of issuance; alien identification card number; or number and country of issuance of any other unexpired government-issued document evidencing nationality or residence and bearing a photograph or similar safeguard. [31 CFR 103.121(b)(2)(i)(A)(4)(ii)]. Banks are allowed to accept applications for a TIN as long as the bank's CIP program includes procedures to confirm the customer applied for the TIN before opening the account, and the bank obtains the TIN within a reasonable period of time after the account is opened. [31 CFR 103.121(b)(2)(i)(B)].

Banks must also verify the above information through documents, nondocumentary methods, or a combination of the two within a reasonable time after the account is opened. [31 CFR 103.121(b)(2)(C)(ii)]. Banks' CIP “must include risk-based procedures for verifying the identity of each customer to the extent reasonable and practicable. The procedures must enable the bank to form a reasonable belief that it knows the true identity of each customer. These procedures must be based on the bank's assessment of the relevant risks, including those presented by the various types of accounts maintained by the bank, the various methods of opening accounts provided by the bank, the various types of identifying information available, and the bank's size, location and customer base.” [31 CFR 103.121(b)(2)]

To verify an individual's identity with paper, acceptable documents include an “unexpired government-issued identification evidencing nationality or residence and bearing a photograph or similar safeguard, such as a driver's license or passport.” [31 CFR 103.121(b)(2)(ii)(A)(1)] To verify an individual's identify through nondocumentary methods the bank's methods “**may** include contacting a customer; independently verifying the customer's identity through the comparison of information provided by the customer with information obtained from a consumer reporting agency, public database, or other source; checking references with other financial institutions; and obtaining a financial statement.”

ENDNOTES

¹The Federal Reserve's 2001 Survey of Consumer Finances found that nine percent of U.S. households are unbanked while the Center for Financial Services Innovation estimates that 17 percent of all U.S. born residents are unbanked. (see footnotes 2 and 3, respectively).

²Families that did not have transaction accounts in 2001 were disproportionately likely to have low incomes, to be younger than 35, to be nonwhite or Hispanic, and to have relatively low levels of wealth. See Ana A. Aizcorbe, Arthur B. Kennickell, and Kevin B. Moore, "Recent Changes in U.S. Family Finances," *Federal Reserve Bulletin*, January 2003.

³Katy Jacob, Sabrina Su, Sherrie L. W. Rhine, and Jennifer Tescher, "Stored Value Cards: Challenges and Opportunities for Reaching Emerging Markets," The Center for Financial Services Innovation, April 2005.

⁴Samuel Frumkin, William Reeves, and Barry Wides, "Payroll Cards: An Innovative Product for Reaching the Unbanked and Underbanked," *Community Developments*, Office of the Comptroller of the Currency, June 2005.

⁵The average cost of remittance transactions declined by 50 percent during a five-year period following the entrance of mainstream financial institutions into the remittance market. Sheila C. Bair, "Low-Cost Payday Loans: Opportunities and Obstacles," June 2005 (citing studies by the Inter-American Development Bank).

⁶This cost advantage can quickly dissipate if the customer is subject to minimum balance requirements and overdraft fees. See Sheila C. Bair, "Improving Access to the U.S. Banking System Among Recent Latin American Immigrants," The Multilateral Investment Fund.

⁷Jeffrey A. Ayres, Stephen L. Kiser, and Adrian R. Sanchez, "Banks are Still Sizing up Opportunities in the Growing Hispanic Market," *FDIC Outlook*, Winter 2004, (citing studies conducted by the Pew Hispanic Center).

⁸Ibid.

⁹The Tenth Federal Reserve District consists of the states of Colorado, Kansas, Nebraska, Oklahoma, Wyoming, the western one-third of Missouri, and the northern one-half of New Mexico.

¹⁰Jeffrey A. Ayres, Stephen L. Kiser, and Adrian R. Sanchez, "Banks are Still Sizing up Opportunities in the Growing Hispanic Market," *FDIC Outlook*, Winter 2004.

¹¹Ibid.

¹²Jeffrey M. Humphreys, "The Multicultural Economy 2004: America's Minority Buying Power," *Georgia Business and Economic Conditions*, 2004.

¹³K. Freiburg, "Iowa Firm Plans Huge Beef Plant". Wichita Eagle-Beacon, September 5, 1979.

¹⁴Donald Stull et. al., "Changing Relations: Newcomers and Established Residents in Garden City, Kansas." Institute for Public Policy and Business Research, University of Kansas, Report No. 172, 1990.

¹⁵Due to the nature of the survey, the results of the consumer surveys may be subject to some self-selection bias.

¹⁶See studies cited in notes 2 and 5.

¹⁷Catalina Amuedo-Dorantes, Cynthia Bansak, and Susan Pozo, "On the Remitting Patterns of Immigrants: Evidence from Mexican Survey Data," Federal Reserve Bank of Atlanta, 2005.

¹⁸MSBs are required to develop, implement, and maintain effective anti-money laundering programs. MSBs are also required to maintain records of customer information when selling cashiers checks, money orders, or travelers checks in excess of \$3,000, and to file reports of suspicious activities.

¹⁹The Internal Revenue Service issues ITINs to individuals who are required to have a U.S. taxpayer identification number but do not have, and are not eligible to, obtain a social security number from the Social Security Administration. ITINs are issued regardless of immigration status because both resident and nonresident aliens may have U.S. tax return and payment responsibilities.

²⁰Consular cards are foreign government-issued identification cards. Matricula cards are issued by the Mexican government and require an original birth certificate, a secondary official identification card with a photo, personal information, and a document reporting the applicant's current address.