

TEXAS

—BUSINESS—◆—REVIEW—

Bureau of Business Research • McCombs School of Business • The University of Texas at Austin

APRIL 2003

“The Business of the Future”

Banks, Latinos, and the Changing Financial Borders

by Gary P. Freeman

Director

David L. Leal

Associate Director

and Luis F. B. Plascencia

Research Associate

*Public Policy Clinic
Department of Government
The University of Texas at Austin*

A major change is underway in the relationship between mainstream financial institutions and the U.S. Latino population. From small independents like Second Federal Savings in Chicago to the nation’s largest retail bank, Bank of America, these institutions display an intense and fundamentally new interest in the banking potential of this group. Wells Fargo, Bank of America, Citigroup, and other U.S. banks plan to spend at least \$8.5 billion through 2005 to attract Hispanic customers. Moreover, banks now tie their profit growth to the rapidly expanding Latino population: “Bank of America expects 80 percent of its consumer profit growth to come from Hispanic customers in the next decade, or at least \$336 million a year based on earnings in the first nine months of 2002.”¹ In addition, governmental and international lending entities such as the Federal Deposit Insurance Corporation (FDIC), the Federal Reserve Banks, and the Multilateral Investment Fund (MIF) are turning their attention to integrating the underserved Latino consumer base into the banking sector.

Why now? Two distinct but interrelated factors are driving these recent developments. First, monetary remittances from Latinos, mostly new immigrants, to relatives in Latin America and the Caribbean have grown substantially. Specifically, total remittances to the region quadrupled in the last ten years—the cumulative effect of millions of separate transactions averaging a mere \$200—and are projected to exceed \$300 billion for the current decade. For Mexico alone, the total jumped from less than \$1 billion in 1980 to \$10.5 billion in 2002. Latin America and the Caribbean

is now the leading remittance-receiving region in the world.

The second factor is demographic. Data from the 2000 census confirmed what many had anticipated: the Latino population showed significant growth in the 1990s. During this decade, the total Latino population in the United States increased from 22.4 million to 35.3 million. The Hispanic population of Texas grew by 2.3 million (54 percent) in this period.

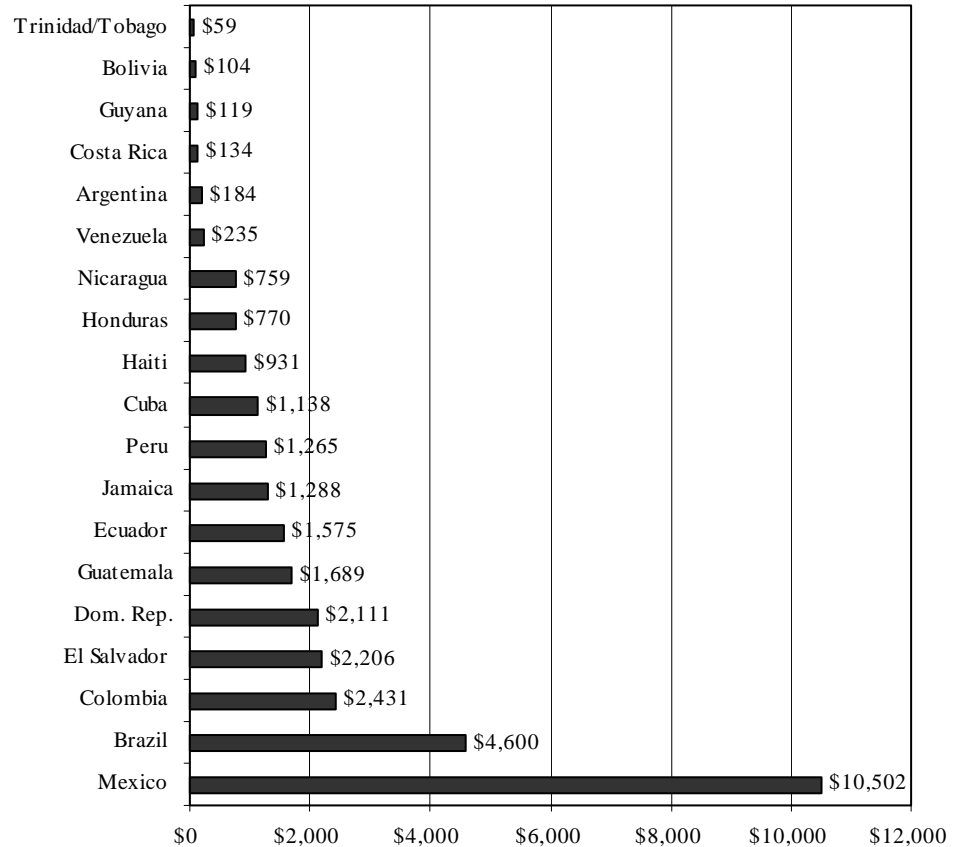
Because of the dominance of Mexican-origin Hispanics within the Latino population in both the United States (59 percent) and Texas (76 percent) and the importance of Mexico to the Texas economy, we focus on the efforts of financial institutions to attract this particular segment of the population.

International Money Transfers

Monetary remittances sent by immigrants are critical to the lives of millions of their relatives, to the economies of their home nations, and to the earnings of corporations involved in transmitting funds. Mexico, Brazil, Colombia, and El Salvador topped the list of the recipients of the \$32 billion sent to Latin America and the Caribbean in 2002 (see figure). Mexico alone accounted for more than 30 percent of the total. In 2002, Mexican expatriate workers forwarded an estimated \$29 million a day. Extrapolating from data on the proportion of transmittals in 1990 from selected American states, we estimate that Texas remitters sent more than \$2.3 billion to Mexico in 2002.²

This enormous market has triggered intense competition between banks and the

Remittances to Latin America and the Caribbean, 2002 (millions \$U.S.)



Source: Multilateral Investment Fund & Inter-American Development Bank, *Sending Money Home: An International Comparison of Remittance Markets* (February 2003).

One source projects that remittances to Mexico and Central America in 2030 will range from a low of \$17 billion to a high of \$30 billion.

non-bank financial institutions involved in money transmission. Although it is difficult to gauge the profits earned by the non-bank institutions, a 1997 report to the U.S. Treasury by Coopers and Lybrand L.L.P. notes that this is a highly concentrated and lucrative sector. In 1996, for example, Western Union and MoneyGram together controlled 97 percent of the market. The \$10.8 billion transferred generated \$1.15 billion in revenue. The report concludes: "Over the past five years, the market has been growing at a rate of approximately 15% per year, a trend that is expected to continue for at least the next few years. The international component per se of the transmission market has been growing at 20% for the last five years. Recent immigrants using international transfer services to send money home has been a major driver of this growth."³ More recently, First Data

Corporation's Western Union recorded a dramatic increase in its 2002 third quarter profit: \$342.5 million, up from \$151.2 million the year before. In December 2002, Western Union and its subsidiary Orlandi Valuta and MoneyGram settled a class action suit for allegedly hiding fees in their money transactions. The suit focused on the fact that the exchange rate at the time remitted money was cashed was not properly disclosed. The settlement involved almost \$400 million.

One source projects that remittances to Mexico and Central America in 2030 will range from a low of \$17 billion to a high of \$30 billion. This and other official estimates do not include unreported transfers that take place in cash and bypass the formal financial sector. Other sources estimate that an additional \$3 billion are sent to Mexico in cash and not recorded by the Mexican central bank. In fact, in 2002,

banks controlled only 9 percent of the lucrative transfer market.

Latino Demographic Trends

The United States and Texas experienced substantial growth in their Latino population during the 1990s (table 1). Massive immigration during this period fueled the overall growth of the Latino population. Table 2 presents the data for the foreign-born component.

Immigration accounted for between 43 and 48 percent of the Latino population growth in Texas and the United States during the 1990s. Moreover, an important component of this growth was the 53

percent increase in the Mexican-origin community, which grew from 13.5 to 21 million. Current estimates place the total Mexican-origin population in the United States at 23 million. This population is highly concentrated in California (11 million) and Texas (6.7 million). A large proportion—estimates range from 25 percent to 58 percent—of this community is “unbanked,” meaning that as many as half of Latinos have no bank accounts. That this group controls more than \$450 billion in purchasing power sends a clear signal to banks of the growth potential within this market.

Latinos may be deterred from working with banks due to their limited or negative

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Table 1
Trends in Total Latino Population

	United States	Texas
Population 1990	22.4 million	4.3 million
Population 2000	35.3 million	6.7 million
Increase (1990-2000)	13 million	2.3 million
Percentage increase (1990-2000)	58	54

Table 2
Trends in Total Latino Foreign-born Population

	United States	Texas
Population 1990	7.8 million	1.0 million
Population 2000	14.2 million	2.1 million
Increase (1990-2000)	6.3 million	1.1 million
Percentage increase (1990-2000)	81	97

Note: Totals do not add due to rounding.

Source: Bureau of the Census. Figures for U.S. Latinos in 2000 exclude 3.8 million residing in Puerto Rico.

The U.S. Treasury report observes: “The proposed regulations do not discourage bank acceptance of the ‘*Matrícula consular*’ identity card.” With this tacit consent of the Treasury, banks can now adopt this form of identification without technically violating the new security regulations.

prior experience with such institutions in their home countries. Also, they may be reluctant or unable to meet current requirements of American banks, such as minimum balances and fees for services. Undocumented immigrants face an additional major obstacle: they must produce proof of identity and residence when seeking to open an account. These immigrants represent a substantial part of the Latino immigrant population in the United States and Texas. The Immigration and Naturalization Service estimates that 7 million undocumented persons lived in the United States in 2000, about one million residing in Texas. The vast majority of these were Latinos. As shown below, recent changes in U.S. Treasury policy, Mexican government strategy, and American banking practices have opened access to banking services for millions of undocumented immigrants. These changes, in turn, must also be seen as responses in part to pressures from Latino and other elected officials, local government officials and police chiefs, and pro-immigrant advocacy groups.

The Banks Take the Stage

Commercial banks are especially eager to tap the underserved Hispanic market due to recent adverse trends in the banking sector. These include the declining profits from financial investments (due to the slowing of the U.S. economy in early 2001); the falling volume of corporate loans; and the decreasing numbers of customers, principally higher-income clients who shifted money from interest-bearing accounts to mutual funds and brokerage accounts.

Some of the key actions that illustrate the changing relationship between financial institutions and the Latino community in the last two years include:

- *March 2001.* In response to meetings with pro-immigrant advocates and consultation with regulators, Second Federal Savings in Chicago launches its Amigo Card, an ATM card marketed to Hispanics. The savings and loan became the first in the nation to accept the IRS-issued Individual Taxpayer Identification Number (ITIN) and the *Certificado de Matrícula Consular*, an identification card issued to nationals living abroad by Mexican consulates. Created in 1870, the *Matrícula* was updated by the

Mexican government in 2002. Some critics see the aggressive marketing of the card as part of a strategy to create a quasi-legal status for undocumented Mexicans in the absence of the formal amnesty sought by Mexican President Vicente Fox at the outset of the Bush administration in 2001.

- *May 2001.* Citigroup purchases Grupo Financiero Banamex-Accival (Mexico’s second largest bank) for \$12.5 billion. The acquisition is the single largest foreign investment in Mexico. Citigroup’s Chase bank has operated in Mexico since 1929 and the new acquisition solidifies the integration of its U.S. and Mexico financial network.

- *November 2001.* Wells Fargo accepts the combination of an ITIN and a *Matrícula* for new accounts. This new development bolsters its InterCuenta Express debit card arrangement with Bancomer in Mexico. In the first seven months, the bank reported 20,000 new accounts and deposits totaling \$50 million; a year later, 60,000 new accounts. According to Robert Byrne, director of Diverse Growth-Segment Division, “immigrants really are the business of the future.”

- *March 2002.* Citibank announces it will accept the *Matrícula*.

- *May 2002.* Bank of America initiates its SafeSend remittance service and announces that it will also accept the *Matrícula*.

- *October 2002.* The U.S. Treasury issues a report to Congress on Section 326b of the USA Patriot Act (PL 107-56, October 2001). The report points out the difficulty of authenticating the identity of persons due to the myriad of documents, legitimate and fraudulent, that exist, and to the absence of a single database that would allow banks to verify identity information. In a footnote, the report observes: “Thus, the proposed regulations do not discourage bank acceptance of the ‘*Matrícula consular*’ identity card that is being issued by the Mexican government to immigrants.” With this tacit consent of the Treasury, banks can now adopt this form of identification without technically violating the new security regulations. More than 100 banks are said to accept the *Matrícula* in 2003.

- *November 2002.* The Federal Reserve Bank of New York sponsors a conference

entitled “The Passage to Banking: Linking Immigrants to Mainstream Financial Services.” Citigroup’s Vice President for Hispanic Markets is one of the panelists.

• *December 2002.* The FDIC, the Office of the Comptroller of the Currency, the Small Business Administration, and the Federal Reserve Bank of Kansas City sponsor a conference entitled “Leading Avenues for Latino Immigrants.”

• *December 2002.* Bank of America acquires 25 percent of Grupo Financiero Santander Serfin (Mexico’s third largest bank) for \$1.6 billion.

Conclusion

Financial institutions’ ambitious marketing initiatives aimed at the Latino population and the rapid and widespread acceptance of the *Matrícula Consular* mark a significant change in private sector policies. It is too early to assess their effectiveness, but it is not too soon to consider a number of longer-term implications.

Latinos who become banking customers for the first time may gain access to one key element of the “American dream”: credit. Through personal loans, credit cards, and home mortgages, previously unbanked Latinos may improve their economic status and begin to accumulate assets.

The efforts of Citigroup, Bank of America, and Wells Fargo to establish direct links between financial services in the United States and Mexico, whether partially or wholly owned, also represent major changes. These efforts represent the groundwork for realizing a vision of a seamless North American financial market. Among the potential beneficiaries are Mexican immigrants. For example, a greater number of workers from Guanajuato will be able to make deposits in Dallas that their relatives can then withdraw from an ATM in their hometown—all at a significantly lower cost than wiring the same amount through Western Union or MoneyGram.

The current competition for the Latino consumer base is fairly new and so it remains to be seen if large banks will dominate or if smaller community banks, savings and loans, and credit unions will be able to garner a significant share of that market.

Nor is it obvious that MoneyGram, Western Union, and other non-financial enterprises will be able to retain their dominance over the money transmission sector.

The central role of the large undocumented population lends a large measure of uncertainty to calculations of the potential of the Hispanic market. The trends noted above indicate that the banks and federal and local governments are willing to grant undocumented immigrants access to banking services, a step that plausibly contributes to their integration into American society. Critics note that it may also constitute an incentive for additional unauthorized entries and, to that extent, is inconsistent with the new control initiatives launched in the immigration reforms of 1996 and redoubled after September 11. Developments in the banking sector illustrate well the enduring and strong tension between American impulses to limit undocumented immigration and to welcome immigrants willing to work, whatever the provenance of their original entry.

Notes

1. Scott Silvestri, “Banks Out to Attract Hispanics,” *Houston Chronicle*, January 16, 2003.

2. Rodolfo O. de la Garza and Manuel Orozco, “Binational Impact of Latino Remittances,” table 2.8, p. 42, in Rodolfo O. de la Garza and Briant Lindsay Lowell, eds., *Sending Money Home: Hispanic Remittances and Community Development* (Lanham, MD: Rowman & Littlefield), 2002.

3. Coopers and Lybrand L.L.P., *Non-bank Financial Institutions: A Study of Five Sectors*, 1997. ♦

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Texas Business Review is published six times a year (February, April, June, August, October, and December) by the Bureau of Business Research, University of Texas at Austin. Subscriptions are available free upon request. Views expressed in this newsletter are those of the authors and do not necessarily reflect the position of the Bureau of Business Research.

Research and service activities of the Bureau of Business Research focus on the ways Texas industries can become nationally and globally competitive. The Bureau is policy oriented and dedicated to public service. The Bureau is located on the sixth floor of the College of Business Administration building.

Editor: Bruce Kellison
Bruce.Kellison@bus.utexas.edu

Managing Editor: Sally Furgeson
Sally.Furgeson@bus.utexas.edu

Sales Office: (888) 212-4386
(512) 471-1063 fax
Rita.Wright@bus.utexas.edu

General: **bbr@uts.cc.utexas.edu**

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BUREAU OF BUSINESS RESEARCH
The University of Texas at Austin
1 University Station B8500
Austin, Texas 78712

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Analyzing a database of more than 175,000 Texas automobile policies and claims information matched with the policyholder's credit score, BBR researchers tested the statistical relationship between credit score and insurance losses. The report is available free of charge and can be viewed, downloaded, or printed from the BBR website at http://www.utexas.edu/depts/bbr/bbr_creditstudy.pdf

Announcement

The 2003 edition of **Texas Trade and Professional Associations** will be released in May 2003 by the Bureau of Business Research. Since 1951, this directory has provided information on associations with headquarters in Texas. The new edition lists association name, address, phone and fax numbers, web address, executive officer, publication titles, and number of members for more than 900 associations. Listings are alphabetical by name, and the directory also includes city and subject indexes. The database is also available on CD-ROM or diskette. For ordering information, contact Rita Wright at 888-212-4386 or email at Rita.Wright@bus.utexas.edu. ♦