



CMG Partners

STRATEGIC MARKETING CONSULTING

Innovative Approaches to the Hispanic Retail Banking Market

**How retail banks are capitalizing on the Hispanic
market opportunity**

February 2008



"Marketing to Hispanics is not as simple as translating English into Spanish."

From the article titled Courting the Hispanic Market published in the New York Times on Dec 26, 1983, almost 25 years ago. Even then, some marketers understood that there was more to the Hispanic market than just Spanish language. Yet, with all that has been learned about Hispanics, properly targeting this segment remains an elusive goal for many companies perhaps due to continuing challenges in finding an effective strategy. For other organizations it may be that they require better information to initiate targeted Hispanic efforts. The fact is that the Hispanic market is the fastest growing segment of the U.S. population and is gaining economic strength worthy of marketers' attention.



Executive Summary

In 2004, recognizing the growing importance of the Hispanic market, CMG Partners released an in-depth analysis of the Hispanic market for financial services. We concluded that though Hispanics are one of the strongest growth engines for the financial services industry, the Hispanic market might not be a relevant market opportunity to all firms in the short term. We recommended that firms go beyond stereotypes and generalizations to perform a thorough evaluation of the portions of the market relevant to their institution to better understand whether there were relevant segments worth investing in immediately.

Since the release of our first analysis, the Hispanic market has not only become more important as a growth segment, but it has also become a much more competitive arena within the financial services market. As was the case in 2004, numerous indicators continue to serve as the fuel for the increased influence Hispanics are playing within mainstream America, including:

- **Rapid Population Growth:** The Hispanic population is growing 4 times faster than the overall U.S. population; projections expect one in four Americans will be Hispanic by 2050.
- **Favorable Acculturation Trends:** Hispanics are more likely to speak English or a combination of Spanish and English. By 2020, two-thirds of all Hispanics will be U.S.-born.
- **Robust Economic Power:** From 2000 to 2006, Hispanic households making more than \$50,000 per year outpaced the general market growth rate by 4 to 1. By 2011, Hispanics will represent almost 10% of U.S. buying power.

The continued growth of the segment has not gone unnoticed or unanswered. Banks and other financial institutions of varying size and reach have targeted Hispanics, creating an intensified competitive environment. New entrants include a greater number of mid-tier, regional banks that previously were not involved in the market as well as smaller community banks and non-traditional entrants like Wal-Mart, H&R Block, and 7-Eleven. A more crowded competitive space and complex market has also moved marketing effectiveness to the forefront given that economics and ROI is more challenging than before.

The landscape of the Hispanic market is evolving rapidly and with it, the implications for the best opportunities. The majority of growth is now being driven by U.S.-born Hispanics who are more likely to be acculturated and more likely to acquire financial services. Not only is the market changing due to demographic and cultural changes, but also geographic shifts. What once was a concentrated market is now much more geographically dispersed with states like Georgia and North Carolina, that are experiencing explosive growth, emerging to become significant Hispanic markets in their own right.

More than ever, the complexity of the Hispanic market is requiring banks to go beyond Spanish-language capabilities to gain an intimate cultural knowledge of its sub-segments. The emphasis of most targeted initiatives continues to be the largest segments of the market, the un-banked and under-banked, but other new and potentially more profitable Hispanic sub-segments such as business owners and the mass-affluent are expanding. Those institutions that are succeeding are going beyond simply launching cookie-cutter initiatives and checking off the appropriate boxes. They're approaching the development of tailored initiatives through a holistic process, aligning internal resources and stakeholders with a distinct strategy for each target segment.

We believe this new analysis will support the continued need to analyze and address Hispanic market opportunities through segmented approaches.



The Hispanic Growth Engine

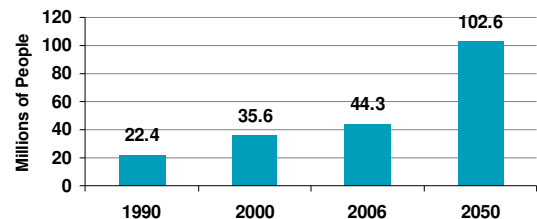
Since 2000, the Hispanic boom has fueled overall U.S. population growth, outpacing the general market by 4 to 1.¹ From 2000 to 2006, Hispanics accounted for almost half of the 13.8 million additional inhabitants living in the U.S.² Hispanics represented 44.3 million people, or 14.8% of the total U.S. population, and it is expected that they will continue to drive growth and become a larger market segment (Graphic 1). After 2030, the population growth rate for the U.S. is expected to be the slowest since the Great Depression, as the size of the baby boom generation will further decline. Within the next generation, by 2050, one in four Americans will be Hispanic (versus 3 in 20 at the end of 2006).³

Hispanic Identity

The terms “Hispanic” and “Latino” describe cultural ethnicity, not race. Hispanics hail from more than 20 countries, each with Indigenous, African and European cultural origins spanning several races, resulting in a complex heterogeneous market that can be segmented and clustered by criteria including identity (country of origin, race), acculturation (language preference, consumer behavior), and demographics (Graphic 2). It is unrealistic to expect a single strategy to work for the entire Hispanic market. Only segmented approaches will result in successful marketing initiatives.

Like other immigrant groups that have come to the U.S. with distinct norms, values, and languages, recent Hispanic immigrants continue to adapt themselves to the American culture. Yet, unlike other groups, uninterrupted immigration from Latin America, given its land-based proximity to the U.S., provides momentum for a dynamic presence. Some Hispanics remain faithful to their heritage while others embrace American culture as their own. Two terms are widely used to describe this cultural process: acculturation and assimilation.

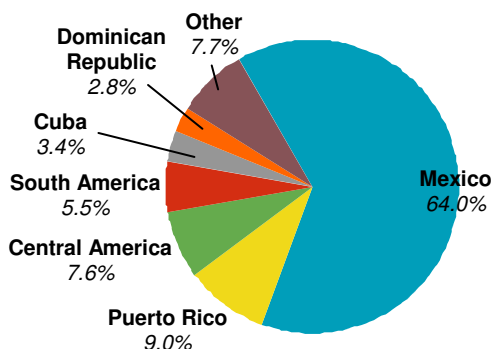
GRAPHIC 1
Hispanic Population Growth and Projection



Sources: CMGP analysis of U.S. Census Decennial Surveys, 2006 American Community Survey, US Census 2004 Population Projections

GRAPHIC 2

Hispanics by Country/Region of Origin



Because these terms are sometimes used interchangeably and incorrectly, they are worth defining; we consider *acculturation* as the process in which Hispanics (a minority) adopt the beliefs and behaviors of mainstream America while *maintaining* their own. These are individuals who can be described as bi-cultural as they have gained a second culture. Numerous factors can influence the acculturation process including country of origin, immigration status, years living in the U.S., language preference, etc. *Assimilation*, on the other hand, is defined as the process of cultural learning absorption in which Hispanics adopt the beliefs and behaviors of mainstream America while *displacing* their own. Assimilated Hispanics no longer identify themselves as Hispanics, no longer speak Spanish, and reflect similar behavioral characteristics of the average U.S. consumer.

¹ U.S. Census, 2006 American Community Survey

² Pew Hispanic Center, Statistics for Hispanics at Mid-Decade, September 2006

³ U.S. Census, March 2004



Finally, there are unacculturated Hispanics who choose to retain their native culture without adopting U.S. cultural values. Caution should be used with the word unacculturated, which all too often is implicitly linked with undocumented Hispanic immigrants. The two groups are not the same. Unacculturated Hispanics may represent varying levels of education, income, age, etc. It's more appropriate to view acculturation as a cultural process that is a continuum; it does not necessarily correlate with socioeconomic factors like income and education. To get a sense of how the Hispanic market characterizes itself, 26% of Hispanics say they are relatively unacculturated, 63% partially acculturated, and 11% mostly acculturated.⁴

As the acculturation process continues, it will be important to understand which “levers” have a greater impact to better align marketing initiatives to them, such as intermarriages between Hispanics and non-Hispanics as well as legal immigration status. The latter has been shown to be a significant determinant in accumulation of basic financial services among Hispanics. Hispanics who have obtained U.S. citizenship are twice as likely to have a banking account and a credit card than undocumented immigrants.⁵ This is a promising sign given that the proportion of all legal foreign-born residents who have become naturalized U.S. citizens reached 52% in 2005, a 14-point increase since 1990.⁶

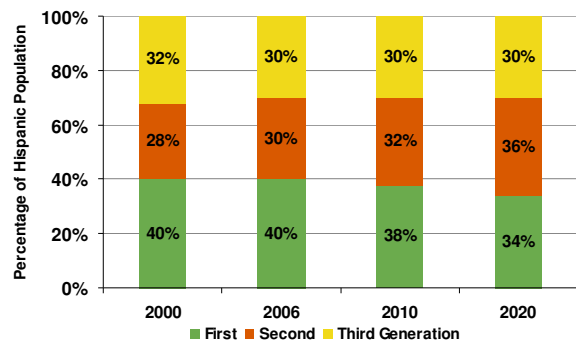
Redefining the Hispanic Market

Two underlying factors are significantly influencing Hispanic acculturation. First, a new generation of Hispanics is taking shape. U.S.-born Hispanics accounted for two-thirds of the Hispanic population's growth rate from 2000 to 2005.⁷ This trend, which is expected to continue, forecasts a shift away from foreign-born Hispanics as the majority group of the overall Hispanic market (Graphic 3).

At the same time, the age distribution of the Hispanic market is shifting upward due to generational shifts. Although Hispanics remain on average nine years younger than non-Hispanic Americans, Hispanic median age increased 1.5 years potentially due to a 40+% growth rate among Hispanics 45 years and older (Graphic 4 on the following page). The implication is that as more Hispanics begin to contemplate retirement, they could become the next generation to succeed the baby boomers.

These alterations in the makeup of the Hispanic market are reflected in changing patterns of Spanish language usage. As Hispanic families become more multi-generational, Spanish language preference at home has declined significantly over the past 10 years.⁸ Almost half of Hispanics now prefer to speak either English or a combination of English and Spanish at home. Despite these trends towards a more mixed language environment, the majority of Hispanic marketing and advertising continues to be delivered in Spanish since advertisers (and agencies) find it easier and more efficient to reach and track results. Also, it represents an incremental

GRAPHIC 3
Hispanic Generational Shifts



Source: CMGP analysis of Pew Hispanic Center projections October 2003

⁴ Synovate Diversity Group, 2005

⁵ Inter-American Development Bank, Sending Money Home, and Public Opinion Research Study of Latin American Remittance Senders in the U.S., October 2006

⁶ Pew Hispanic Center, Growing Share of Immigrants Choosing Naturalization, March 2007

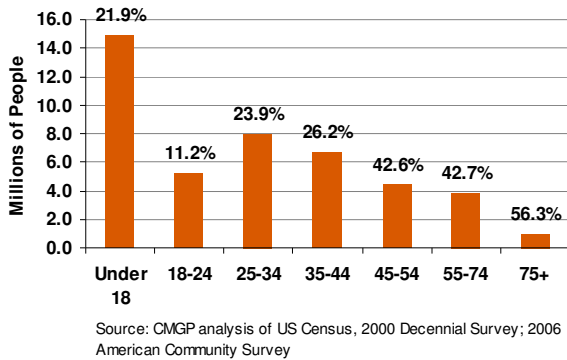
⁷ Pew Hispanic Center, Statistics for Hispanics at Mid-Decade, September 2006

⁸ Magazine Publishers of America, 2007 Hispanic/Latino Market Profile citing Synovate 2006 U.S. Diversity Markets Report



GRAPHIC 4

2006 Hispanic Age Distribution
(with 2000-2006 growth rates)



opportunity, as it is an unexposed group to general market English-language campaigns. Recent research has found that younger Hispanics respond more favorably to bilingual ads that mimic their own language usage patterns.⁹

Over time we may see changes in Hispanic self-identification. Although it may change in the long-run, for the moment, even second generation Hispanics who follow consumer behavior patterns more akin to the general market continue to self identify as Hispanic. Of particular interest to those tracking the Hispanic market is the fact that Census projections are based on the assumption that Hispanics will continue to identify themselves as such after multiple generations.

Economic Power

Although Hispanics slightly lag overall median household income, they have achieved greater income parity within the last few years. Between 2000 and 2006 some 35% of all Hispanic households are earning more than \$50,000 per year, having grown by more than twice as much as all households within this income range (Graphic 5).¹⁰ These income gains bolster the Selig Center’s frequently cited projections that Hispanic buying power will exceed \$1.1 trillion by 2011, representing almost 10% of total U.S. consumer buying power.¹¹

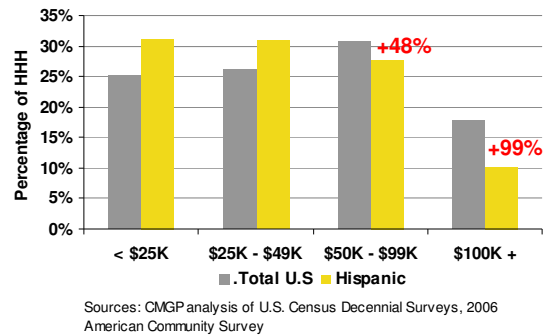
“Many companies have ignored the Hispanic market. The most often cited reason is that, on average, Hispanic households earn less than the median household and therefore may be less able to invest. That part of the market is not the sweet spot”

– Jeffrey M. Humphreys, Director, University of Georgia Selig Center

Like many Americans, Hispanics dream of owning a home and starting a business. The release of the Survey of Business Owners in 2002 has expanded the Hispanic market opportunity to include the business owner segment that had not been previously considered. The 2002 survey counted 2.2 million Hispanic-owned businesses generating nearly \$300 billion in revenues.¹² Moreover, Hispanic businesses are growing at three times the overall market rate; by 2010 they are forecast to increase by 60% to 3.2 million companies generating a combined \$465 billion in revenues.¹³ For financial institutions, this segment represents dual opportunities to target both Hispanic proprietors and their businesses with personal and business products and services. Gaining a piece of either one greatly increases the chances of capturing a greater share of wallet.

GRAPHIC 5

HH Income Distribution
(with Hispanic '00-'06 growth rates)



⁹ Ibid.

¹⁰ U.S. Census, 2000 Decennial Survey, 2006 American Community Survey

¹¹ University of Georgia, Selig Center, The Multicultural Economy, 3rd Quarter 2006

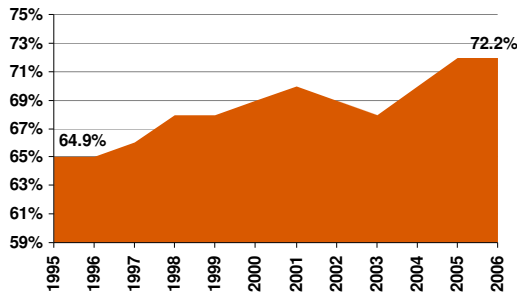
¹² Small Business Administration, Minorities in Business, April 2007, and HispanTelligence, The US Hispanic Economy in Transition, March 2005

¹³ Ibid.



GRAPHIC 6

Hispanic HH ownership Rate as a % of Average U.S. HH ownership Rate



Source: CMGP analysis of Joint Center Housing Study of Harvard University

may once again require a segmented approach. Although overall Hispanic homeownership will climb an additional 6 points, projections for Hispanics between the ages of 40 and 59 forecast that they will achieve a 65% homeownership rate, a 15 point increase over 2006.¹⁵ This demographic is also expected to generate half of all new Hispanic owned homes created between 2005 and 2015.

Emerging Hispanic Markets

California, Florida, New York, and Texas still represent 63.8% of the total U.S. Hispanic market, but some of these states are showing signs of maturation, growing less than the Hispanic average growth rate of 21.5% between 2000 and 2006.¹⁶ During the same period, other states such as Georgia, Nevada and North Carolina have grown over 40% and boast Hispanic populations of more than 500,000 each, making them important Hispanic markets.¹⁷ Other states, including Kansas, Nebraska and Oregon are on similarly rapid growth trajectories, which are attracting the attention of financial institutions.

An analysis of 2004-2006 census data (Graphics 7 and 8 on the following page) revealed that these “emerging” markets appear to be growing due to regional migration. Hispanics within emerging states, primarily located in the Pacific Northwest, Midwest and Southeast, were three times more likely to have moved from another state within the past year. And contrary to initial projections, emerging markets states are not just composed of undocumented Hispanics although they are more likely to have direct immigration from abroad. Clear distinctions also exist among certain states. Of the emerging markets analyzed, Georgia and North Carolina reflect higher concentrations of Hispanics from Central America, more foreign-born Hispanics that are not U.S. citizens, and above-average levels of Hispanics who do not speak English as a first language. On the other hand, states like Michigan and Ohio have high levels of Hispanics who prefer to speak English to Spanish -- a likely sign of second and third generation Hispanics who have acculturated. Such market differences should compel institutions to reconsider their strategies on how to align local tactics to the unique sub-segments within their footprints. We predict that Hispanics will continue to migrate to alternative non-traditionally Hispanic metro areas for several reasons, including better job opportunities and lower cost of living in comparison to hyper-competitive markets like Miami and Los Angeles.

¹⁴ Joint Center for Housing Studies at Harvard University, The State of the Nation’s Housing, 2007

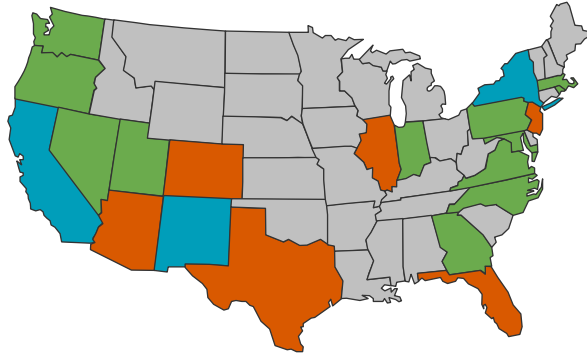
¹⁵ Joint Center for Housing Studies at Harvard University, Addendum to Research Note N06-1, December 2007

¹⁶ U.S. Census, 2000 Decennial Survey, 2006 American Community Survey

¹⁷ Pew Hispanic Center, Statistics for Hispanics at Mid-Decade, September 2006



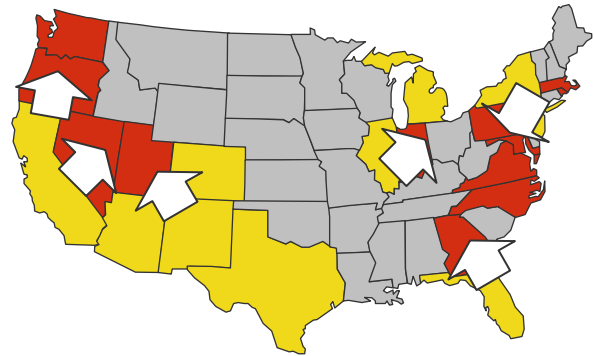
GRAPHIC 7
Hispanic shift: Emerging Markets vs. Established Markets



- **Emerging Market**
 - Above Avg. Hispanic Growth %
 - >250K Hispanic Population
- **Established Market**
 - Above Avg. Hispanic Growth %
 - >14% Hispanic Penetration
- **Maturing Market**
 - Below Avg. Hispanic Growth %
 - >14% Hispanic Penetration

	State	2006 Hispanic Population	Change: 2006 vs. 2000	% Change: 2006 vs. 2000
	TOTAL	44,252,278	9,757,477	28.3%
Emerging	Georgia	696,146	270,841	63.7%
	Indiana	299,398	89,209	42.4%
	Maryland	336,390	108,804	47.8%
	Massachusetts	510,482	97,986	23.8%
	Nevada	610,051	220,715	56.7%
	North Carolina	597,382	229,992	62.6%
	Pennsylvania	527,142	145,983	38.3%
	Rhode Island	117,708	30,254	34.6%
	Utah	286,113	88,798	45.0%
	Virginia	470,871	146,557	45.2%
	Washington	580,027	145,280	33.4%
Established	Arizona	1,803,377	535,600	42.2%
	Colorado	934,410	215,454	30.0%
	Florida	3,642,989	1,019,202	38.8%
	Illinois	1,888,439	378,676	25.1%
	New Jersey	1,364,699	266,490	24.3%
	Texas	8,385,118	1,854,659	28.4%
Mature	California	13,074,155	2,332,444	21.7%
	New Mexico	860,687	114,132	15.3%
	New York	3,139,590	357,086	12.8%

GRAPHIC 8
Hispanics who moved from another state within the past year



- < 3.0%
- > 3.0%

State	% Change: 2006	Avg. Annual % Change: 2004-2006
TOTAL	2.2%	2.0%
Georgia	5.1%	4.9%
Indiana	5.6%	5.4%
Maryland	4.1%	4.2%
Massachusetts	2.4%	1.9%
Nevada	5.4%	5.2%
North Carolina	5.8%	4.8%
Oregon	4.1%	4.2%
Pennsylvania	3.7%	4.4%
Rhode Island	2.6%	2.3%
Utah	4.8%	3.9%
Virginia	4.7%	4.6%
Washington	4.5%	5.0%
Colorado	2.8%	2.6%
Michigan	3.5%	2.9%
Arizona	3.1%	2.9%
Florida	2.6%	2.8%
Illinois	1.2%	1.2%
New Jersey	1.7%	2.1%
Texas	1.7%	1.3%
California	0.7%	0.6%
New Mexico	2.3%	2.3%
New York	1.0%	0.9%

Sources: CMGP analysis of U.S. Census Decennial Survey, 2004-2006 American Community Survey



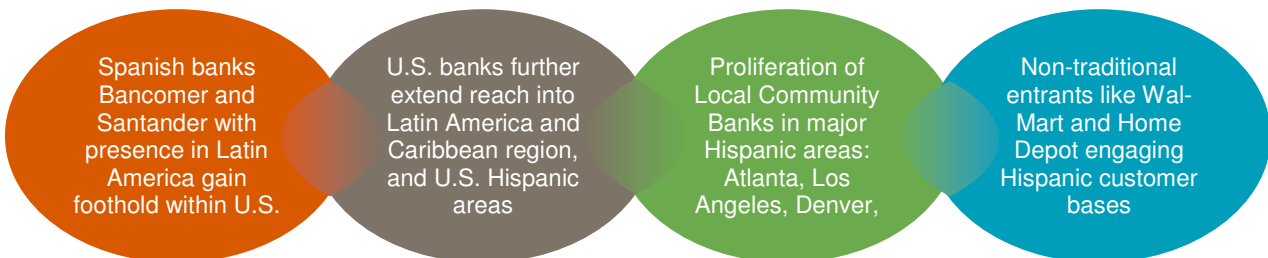
Competitive Landscape

For retail banks, competition is fiercer than ever. Executives and industry observers say that overall it's a much tougher market than it was a few years ago.¹⁸ Banks searching to avoid competition for customers are focusing on emerging markets to gain Hispanic market share. However, there are few geographic areas now considered underserved. The majority of competitors within emerging Hispanic markets continue to be community and regional players, not the deep-pocketed national banks. These smaller banks have found success in targeting multicultural segments by leveraging their community banking and grass-roots efforts as a way to differentiate themselves from the impersonal mega-banks. Several institutions have leveraged emerging markets to their advantage:

- Sovereign Bank launched its Hispanic initiative in Providence, RI
- KeyCorp has focused on Albany and Denver and has expanded into Buffalo, Syracuse, Seattle, and Portland, OR
- Bancorp, based in MN, found its largest Hispanic customer segments in its own state and Iowa, although it has presence in Phoenix

Competition has also swelled as more firms have entered the marketplace and existing players have expanded their reach both within the U.S. and Latin America. Within the past few years, GE Money and Citi separately acquired multiple leading banks and credit card issuers in Central America with the intent on expanding their cross-border services, including remittances. On the domestic front, Wachovia expanded its footprint in several major Hispanic states through its acquisition of Golden West Financial. Most importantly, two of the largest banks in Latin America, Banco Bilbao Vizcaya Argentaria (BBVA), which has a majority stake in Bancomer (Mexico's largest bank), and Banco Santander Central Hispano (BSCH) both acquired U.S.-based banks. These purchases will allow them to leverage their brands in the U.S. where many Hispanics are already familiar with these financial institutions from their country of origin.

GRAPHIC 9
Competitive Market Forces



The success financial institutions have had in targeting Hispanics has attracted new, non-traditional entrants as well. Retail players like Wal-Mart, Home Depot and 7-Eleven are hoping their customers will perceive the retail environment to be less intimidating and more trustworthy than those of financial institutions -- a reality that has allowed many similar non-traditional players in Latin America to develop financial product initiatives with great success. Likewise, community banks are catering to Hispanics through more personalized products and services. Within the past 2 years, across the U.S. more than 25 local and community banks opened focusing on serving Hispanics. Ironically most of these new banks have the support of former Hispanic executives from larger

¹⁸ American Banker, Courting the Unbanked, Beyond Traditional Hubs, June 13, 2007



financial institutions.¹⁹ There are also a few other entrants like Nexxo and Amigo Money that are attempting to target Hispanics with technology-based solutions like money transfers through secure websites and SMS. While the future of these smaller companies and new services is still under question, it's clear that more entrants are tapping into this market with financial services causing noise and confusion among consumers.

The banking industry in general has recognized the need to place greater emphasis on localized efforts, and to have branch offices perceived to be community friendly. For the time being, however, local community banks have an advantage in targeting since they are more nimble and are more focused on tailored local efforts than most of the larger institutions. Larger financial institutions need to consider how they can drive brand loyalty either through better customer experience or improved product and localized service development.

Footprint Determines Strategy

While today most large banks have a Hispanic initiative in place, their respective strategies are likely to depend on the bank's footprint. As Graphic 10 on the following page demonstrates, a bank's target market, positioning, product offering, communications and technology will vary depending on the markets where the bank operates, as well as its overall size.

Culturally relevant face-to-face interaction is an utmost priority for Hispanic banking customers. Unfortunately this is the dimension of Hispanic initiatives that banks have struggled to fully execute. Banks in general are working off existing general market processes and procedures to develop tailored solutions for the Hispanic market, but that may not always be the best approach. It is local community banks that are defining the new Hispanic customer experience by building branch offices to better serve Hispanics through a host of relevant non-banking services like complimentary Internet service and fax, phone card refills, and photocopies. Recognizing the importance of family, these banks have also been built to accommodate the extended Hispanic family by providing an area for children and enough space for multiple individuals to speak with a bank representative. By developing themselves from the ground up to serve Hispanics, local community banks are better positioned to become what Starbucks is to so many Americans; the "third place" besides home and work where people feel comfortable going to meet friends to chat, contemplate things alone, or discuss business with a colleague.

CMG Partners conducted a qualitative competitive analysis looking at several different variables to create a competitive benchmark of banks' performance on basic elements that support a Hispanic initiative. Graphic 11 on the following page reflects the results of our analysis. Overall, the analysis shows most banks have similar, basic supporting elements of an initiative in place. This highlights the need to go beyond checking off the box indicating that your bank has Spanish translations and other in-language support in order to achieve differentiation. The market has developed beyond such basics and is now much more competitive and complex. Today, a bank's focus needs to be on building perceived differentiators by further improving customer experience and service delivery. It is about looking at effectiveness of each of the areas banks are trying to target and assessing how well they line up with these segments. To do this, banks need to conduct further research to better understand the Hispanic sub-segments within their footprint and their corresponding needs, and then design and execute creative initiatives to reach and keep these sub-segments.

¹⁹ Wall Street Journal, Legal and Illegal, Welcome, November, 10, 2007



GRAPHIC 10
Bank's Strategy Depends on Its Footprint

Type of Bank	National	Regional	Local Community
Target Market(s)	Multiple Hispanic segments: recent immigrants, business owners and affluent	Varies by region: from recent immigrants to business owners to affluent	Primarily recent immigrants and unacculturated Hispanics
Positioning	Strong brand equity; Competitive pricing	Wide offering without big bank feel	High touch customer experience; close ties to the community; flexible model
Product Offering and Development	Comprehensive; some tailoring; includes bi-national products	Offers products small banks can't provide	Limited tailored products; Customized service
Communications	Mass media communications; "customized" direct marketing	Varies depending on the overall Hispanic marketing strategy, size and location of the regional bank	One-on-One communications; limited mass media spending
Operations / Technology	Obtained through outside vendors, managed In house	Outsourced	Outsourced
Examples	Bank of America Wells Fargo	Union CA Bank	Banuestra LCCU Credit Union

Proximity to Customers

GRAPHIC 11
Qualitative Competitive Analysis

	Bank of America	Citi	Chase	Wells Fargo	WaMu	U.S. Bank	Banco Popular	Union CA Bank	Banuestra	Libertad Bank	LCCU Credit Union
Footprint	<i>National</i>				<i>Regional</i>				<i>Local Community</i>		
Market focus (Emerging, Established, Mature)	All	All	All	All	Emerg. & Estab.	All	All	Mature	Emerg.	Estab.	Emerg.
In-language Marketing	●	●	◐	●	◐	◐	◐	◐	●	●	●
SP language Media Ad Spend	◐	◐	◐	◐	◐	◐	◐	◐	◐	◐	○
In-language Financial Ed	Yes	Yes	Yes	Yes	Yes	Yes	1-on-1	Yes	1-on-1	1-on-1	Yes
Grassroots / Outreach	●	◐	◐	●	◐	◐	◐	◐	●	◐	◐
Tailored Branch Experience	◐	◐	◐	◐	◐	◐	◐	◐	●	◐	◐
Bi-National Products	No	Yes	No	No	No	No	Yes	No	No	Yes	No

● = very strong ◐ = strong ◑ = moderate ◒ = weak ○ = little to none



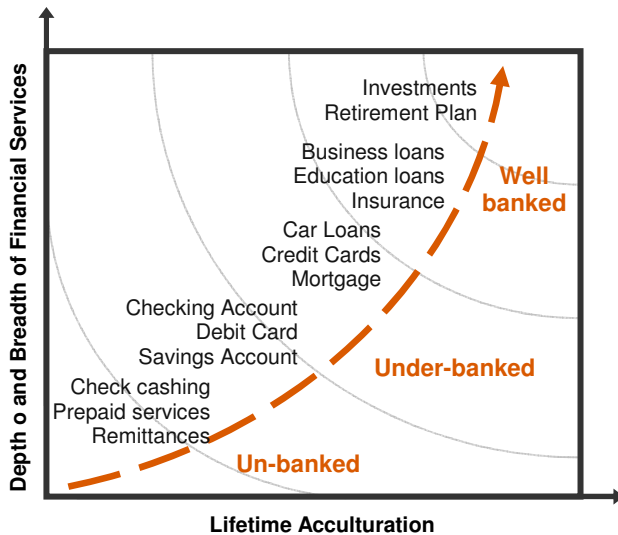
A Long Term Play – The Lifetime Value Model

In analyzing the Hispanic market and competitive environment, CMG Partners developed a lifetime value model to conceptualize how Hispanics consume financial services as they acculturate and gain wealth (Graphic 12).

Financial institutions continue to direct the majority of resources towards the lower tier of un-banked and under-banked Hispanics because they are considered the easiest to target and convert given their lack of banking relationships. Financial institutions hope to convert these prospects into loyal customers that can be moved along the lifetime value model, increasing their portfolio of financial services. Meanwhile, the upper tier of the market remains largely untapped. Only a few firms have established initiatives that have gained significant traction.

GRAPHIC 12

Hispanic Banking Lifetime Value Model



One of the primary reasons for institutions to focus on the lower tier of the market is volume, and the widespread belief that Hispanics are more likely to be loyal to brands they trust, in particular strong, well-known brands. So while it is thought that un-banked Hispanics may be cultivated to become brand loyal customers, they are also more skeptical with regards to financial institutions. Recent studies have shown that Hispanic brand loyalty may differ by category, and that younger Hispanics are not as brand loyal as older Hispanics.²⁰ A 2006 survey by Encuesta Inc. showed that brand preferences of second-generation Hispanics resemble those of the general market.²¹ Financial institutions may find it easier to convince this next generation but have a harder time identifying them and retaining them as loyal customers.

Segmenting the Market

We have deepened the CMGP lifetime value model construct to include six potential business and consumer customer groups segmented by revenue and income, respectively. The segments are mapped onto a grid with overlays of relevant financial products and services (Graphic 13 on the following page). The blue color-coding represents offerings that have traditionally been the focus of financial institutions' offerings while the grey color-coding indicates offerings that still represent a relatively under-penetrated product or service opportunity.

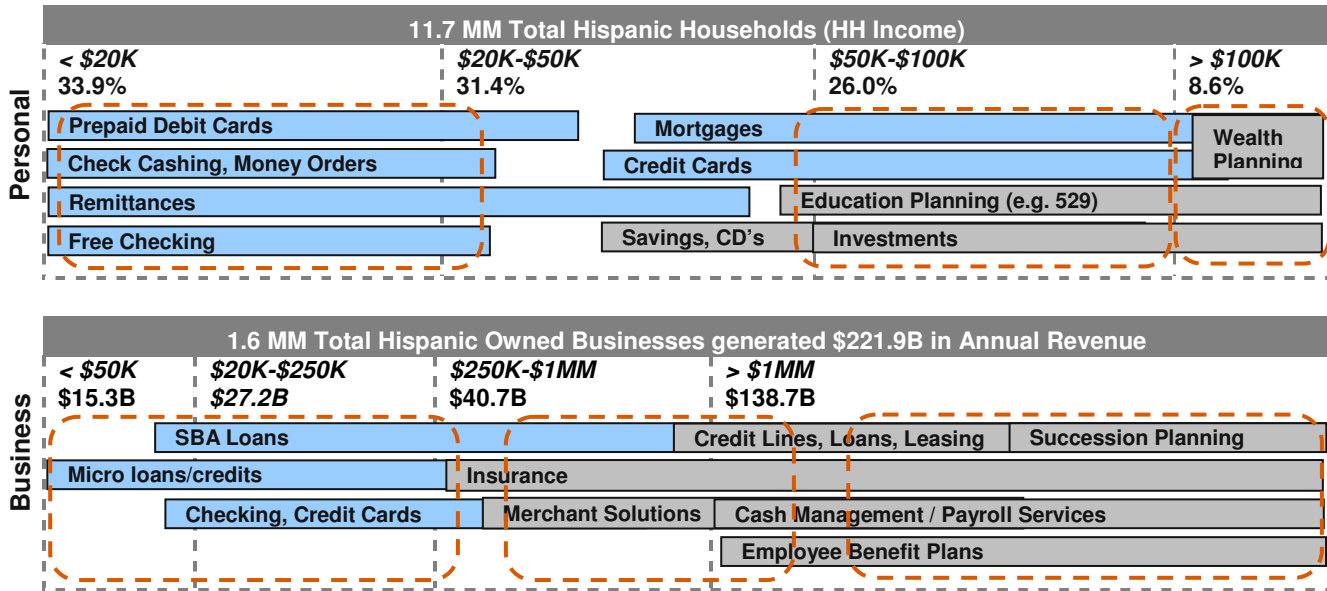
The visual market representation reinforces how the Hispanic market is more complex than may appear at first glance, requiring segmented approaches. While most efforts have been and continue to be targeted at Tier 1 segments, we consider the growing "mass affluent" market, those households generating between \$50K and \$100K per year, the true sweet spot for several reasons. First, this is a critical mass of the Hispanic market, yet it is a manageable group of 3.3 million households. Secondly, 56% of Hispanic households within this income range have a head of household between the ages of 25 and 44, a much higher percentage than whites. These individuals are less likely to have reached significant lifecycle milestones that are directly linked to financial needs, such as purchasing a home, financing children's college education, and planning for retirement.

²⁰ Cultural Access Group, Hispanic Brand Loyalty Segmentation Study, 2006

²¹ Encuesta, Americanos Poll: U.S. Hispanic Brand Power Index Study, October 2005



GRAPHIC 13
Potential Customer Segmentation Scheme



Source: CMGP analysis of U.S. Census 2006 American Community Survey, U.S. Census 2002 Survey of Business Owners

Tier 1

Alternative Identification Acceptance

Although acceptance of a Mexican consulate ID (matrícula) in lieu of an authorized U.S. identification began in 2001, not until recently have numerous financial institutions developed programs that accept alternative identification. This is no longer a Mexico only phenomenon. Over 400 banks now accept matrículas from other countries providing recent Hispanic immigrants the ability to access basic financial services. Of even greater importance has been the development of programs that accept an IRS individual tax identification number (ITIN), given to individuals who didn't qualify for a social security number. Rather than have to rely on a local neighborhood loan, Hispanics can open accounts, and in some cases obtain credit cards or loans with an ITIN.²²

Over 10.8 million ITIN's have been issued since the program's inception in 1996, of which 25% were released between 2005 and 2006.²³ We surmise that this surge is driven by two primary factors. First, new bank accounts have spurred Hispanics to request ITIN's. Second, and more likely, is that Hispanic immigrants who can present themselves as acculturated individuals by proving they have been paying taxes and saving money have a greater chance of securing legal residence. Either way, the more Hispanics that achieve secure legal residence and obtain U.S. citizenship, the more likely they are to access more financial services.

Eradicating this barrier has encouraged banks to begin developing innovative products and services to those Hispanic segments within Tier 1 utilizing alternative identification. A few examples include Bank of America's credit card program, Wells Fargo's home loan program, and Citi's partnership with ACORN (a non-profit

²² Wall Street Journal, Bank of America Casts Wider Net for Hispanics, February 13 2007

²³ Houston Chronicle, For tax preparers, immigrants are next frontier, April 7, 2007



organization) to provide loans without a Social Security Number. The Citi program has shown very positive results; of the 800 mortgages made there have been only two late payments and no foreclosures.²⁴ Unfortunately, these and other innovative programs are pilot programs and as such remain limited in reach. While much can be said about the innovations in accepting alternative forms of identification to offer financial services one aspect remains an area of risk to financial institutions – they may become potential targets of negative attacks from external stakeholders who disagree with business practices that target customers who lack official U.S. documentation and are considered illegal immigrants.

Alternative Credit Scoring

Not only do financial institutions face challenges in dealing with alternative identification, but also the challenge of serving a market that is hindered by customers without proper credit history. This need for reliable credit scoring methods is incredibly relevant today given the subprime mortgage fallout. Financial institutions require risk management and decision making tools that can protect their credit portfolios by knowing which customers to provide credit to. The need for these alternative mechanisms will only increase over the next decade as some 60% of first-time home purchases will be made by consumers with little to no credit history.²⁵

Fortunately, several players have developed innovative alternative credit scoring systems and mechanisms within the past few years. Fair Isaac, whose FICO credit score is an industry standard, created FICO Expansion Score, which analyzes non-traditional credit data such as deposit account records, payday loan cashing, and performance on purchase payment plans.²⁶ Others like First American, which provides credit-reporting services for property buyers and mortgage lenders, created a nontraditional score called Anthem that incorporates data like rental and utility payments, non-deductible insurance payments, and child care expenses. Finally, some such as LexisNexis, rely on public records and non-traditional data like address tenure to score customers that traditionally would have been deemed either thin file or no hit.

Debit and Credit Cards

In order to help Hispanics build credit, banks are also developing a suite of debit and credit cards to serve the nearly 80 million un-banked customers that spend about \$1 trillion a year.²⁷ This has led to bullish forecasts that the prepaid card market will continue to expand by 9% a year through 2009, when it is expected to exceed \$235 billion.²⁸

Test initiatives include Bank of America's hybrid prepaid card developed for Hispanics without credit history. Customers pay a deposit but receive a credit card with incentives. Should they exhibit proper payment and spending behavior, customers may be rewarded their deposit back along with a more favorable credit rate. The two major credit card issuers, MasterCard and Visa are expanding the reach of their pre-paid networks to better serve the un-banked by increasing the number of relevant locations where cardholders can load money, such as supermarkets.²⁹

Beyond prepaid cards, banks are also looking to the Hispanic market as a growth engine for credit cards where penetration has hovered around 60% for the last few years. Although more Hispanics have enough disposable income to use credit cards, they still prefer to rely on debit cards. Even affluent Hispanics over-index on debit

²⁴ San Francisco Chronicle, Selling illegal immigrants the American dream June 15 2006

²⁵ First American Corporation, 2006

²⁶ Tomas Rivera Policy Institute, Increasing Wealth in the Latino Community, July 2007

²⁷ US Banker, Landing the Unbanked with Lure Aiming to Build Credit, April 2007

²⁸ Ibid.

²⁹ Ibid.



card transactions in comparison to general market affluent individuals.³⁰ Banks will face a challenge in educating Hispanics about credit given that they traditionally have avoided accumulating debt, and prefer not worrying about future payments.

Tailored loyalty and affinity marketing initiatives offer two potential solutions. A recent study shows that middle-income Hispanics over-index as active participants in loyalty programs and are looking for value-added benefits yet Hispanics don't always perceive the rewards to be of value to them.³¹ Tailoring efforts to the Hispanic market could result in the "stickiness" factor that loyalty initiatives seek to achieve. Affinity marketing, if properly targeted, can also be a powerful tool. Institutions like U.S. Bank and Bank of America have created such programs with partners like Latina Style magazine and Mexicana Airlines to provide relevant rewards and benefits to Hispanics.

Outside the Bank

Community outreach and educational initiatives are the primary tools banks use to differentiate from competitors and build a personal approach with Hispanic customers. Banks have gone from throwing *pachangas*, (Latin American parties), to going to the *carnicerías* (butcher shops), to meeting their potential customers outside of church, to developing *novelas* (soap operas) and other TV programs that help overcoming barriers, and reaching Hispanic consumers outside the bank.

With more competitors launching outreach initiatives, banks have become more adept at introducing creative and culturally relevant programs. Beyond looking to partner with traditional Hispanic organizations, banks have sought multi-stakeholder partnerships that allow each party to leverage the strengths of the other participating organizations. The challenge however in working with multiple partners is ensuring that shared goals can be aligned among all stakeholders involved. Too often the end result is that while one group benefits from the campaign, it does so at the expense of its partner(s). Prior consideration should be made in developing success metrics for each partner as well as arranging for joint post-campaign analysis to help ensure that future campaigns can be replicated and improved if necessary or not pursued at all.

Financial Literacy

Another area that has significantly evolved over the past few years is financial education. About six or seven years ago, banks began to recognize the need to develop in-language financial education initiatives to help Hispanic consumers enter the banking system. Since then, a number of different programs have been developed. In the past two years, some significant innovations are worth highlighting.

One excellent example of such a program, developed by Freddie Mac in conjunction other co-sponsors, resulted in the Spanish language *novela* "Nuestro Barrio", an edutainment soap opera that has run on public TV and other cable programs for the past two years. The main goal of this *novela* was to educate Hispanics on financial matters such as home buying, predatory lending, and the importance of maintaining good credit, among others. Another significant educational effort is the recently released film "Angela's Dreams" produced by LCCU Credit Union in North Carolina. The film's storyline has characters within the film dealing with relevant financial challenges that could be faced by unacculturated Hispanics, the primary target audience. While initial results for "Angela's Dreams" have been very positive, edutainment tactics should be just one piece of the puzzle.

³⁰ Integras, Household Financial Behavior of Middle-Class Hispanics, September 6, 2007

³¹ COLOQUY, The Difference Engine, August 2007



Financial education is crucial to gain Hispanic customers and ensure the proper use of financial services. Unacculturated Hispanics are accustomed to a different financial system where the concept of credit history, for example, can be very unfamiliar. In order to convert Hispanic prospects and build their trust to acquire more financial products, banks need to have in place a fully integrated financial education program. One that not only involves some edutainment aspects, but also offers in-language collateral, Spanish language interactive education, and in-depth one-on-one discussions with bank representatives. The last is where smaller community banks have excelled. Rather than rely on mass-produced curriculum, community banks leverage their staff to provide personalized financial literacy solutions.

Remittances

Without a doubt money transfers, also known as remittances, made by Hispanics in the U.S. to family and friends in Latin America and the Caribbean (LAC) region continue to be the bread and butter that banks rely on to build relationships with un-banked and under-banked Hispanics. Since 2001, the remittance market has exploded, growing 160% to nearly \$62 billion. It is expected to reach \$100 billion by 2010, of which the U.S. will represent \$80 billion.³²

Given the above figures, it is no wonder that banks continue to invest in this aspect of the market. Although banks hold only a 19% market share, they've made significant inroads in chipping away market share from international money transfer companies such as Western Union and MoneyGram that remain in control of 63% of the remittance market. More importantly, 49% of senders now have a bank account, up six points from 2004.³³ However, banks need to consider further analyzing those Hispanic consumer segments that send remittances. An analysis conducted by CMG Partners of 2006 data from the U.S. Census and the Inter-American Development Bank reveals that, on a per capita basis, foreign-born Hispanics from Central America on average send more money per year, and are more frequent remittance senders. In general, foreign-born Hispanics within emerging markets sent, on average, more money per year, and several up-and-coming emerging states such as Massachusetts, Nevada, Pennsylvania, and Washington already constituting more than \$500 million each in remittances as of 2006.

Yet, the majority of banking institutions continue to solely focus their remittance programs on Mexico. Although Mexico still constitutes almost 47% of the total market, it may no longer be the most profitable segment for banks to pursue given the competitive environment. Banks have slashed remittance fees by nearly two-thirds since 2000, and in some cases, such as Bank of America and Citibank, have eliminated fees altogether.³⁴ In reducing fees, banks have facilitated the growth of this market, lowering barriers for consumers to send more money more frequently. In doing so however, banks have potentially started down a slippery slope towards commoditization of the offering. To avoid this path banks need to consider introducing add-ons to remittance services. Most already require remittance senders to open an account to benefit from the free or reduced fees, and have also begun to link accounts, depending on deposit amounts, to their standard loyalty programs.

What is unclear is how successful banks have been in cross-selling additional services to these Hispanic customers. Some like U.S. Bank have provided positive signs that their strategy is working – it claims that about 45% of all new Hispanic customers were first MoneyGram-U.S. Bank customers and that the bank is seeing more than 15% annual growth in Hispanic depositors compared to a 7% rate for its overall depositor base.³⁵

³² Inter-American Development Bank Multilateral Investment Fund (MIF)

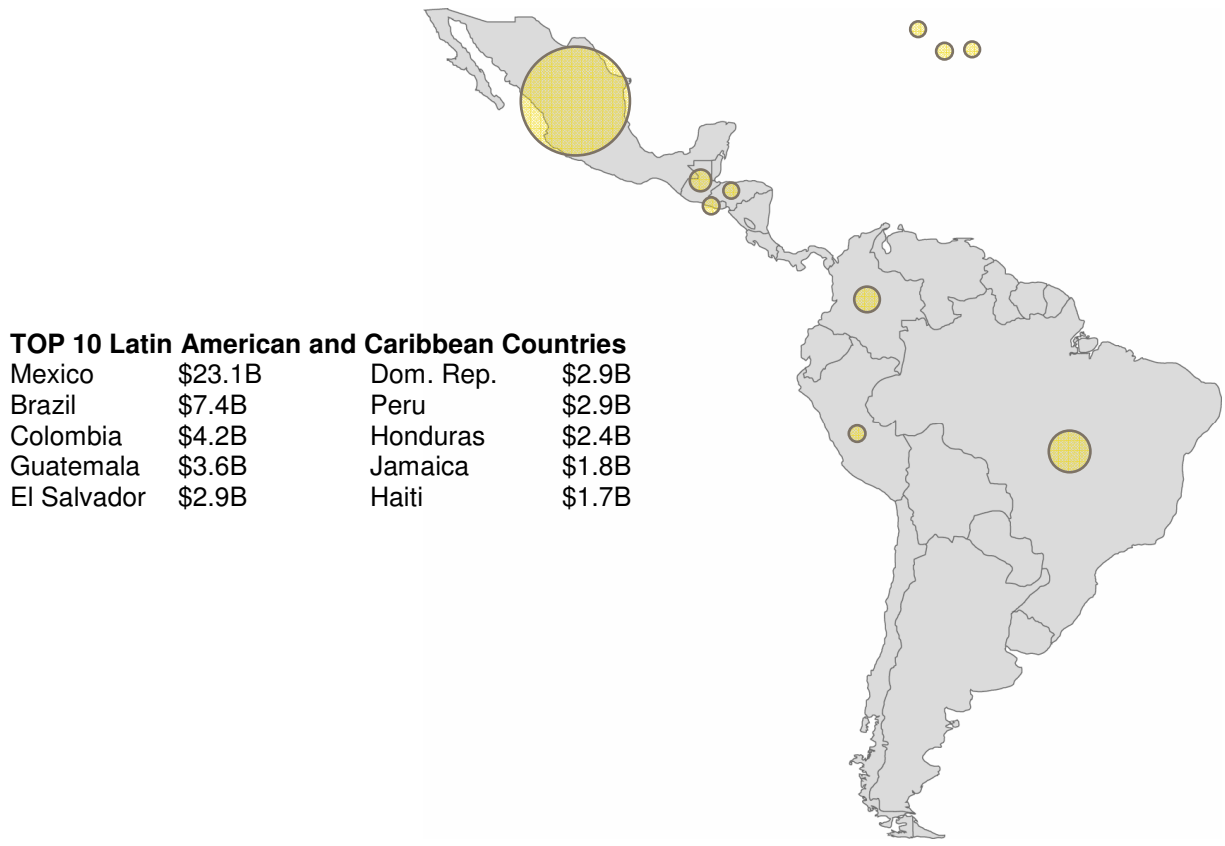
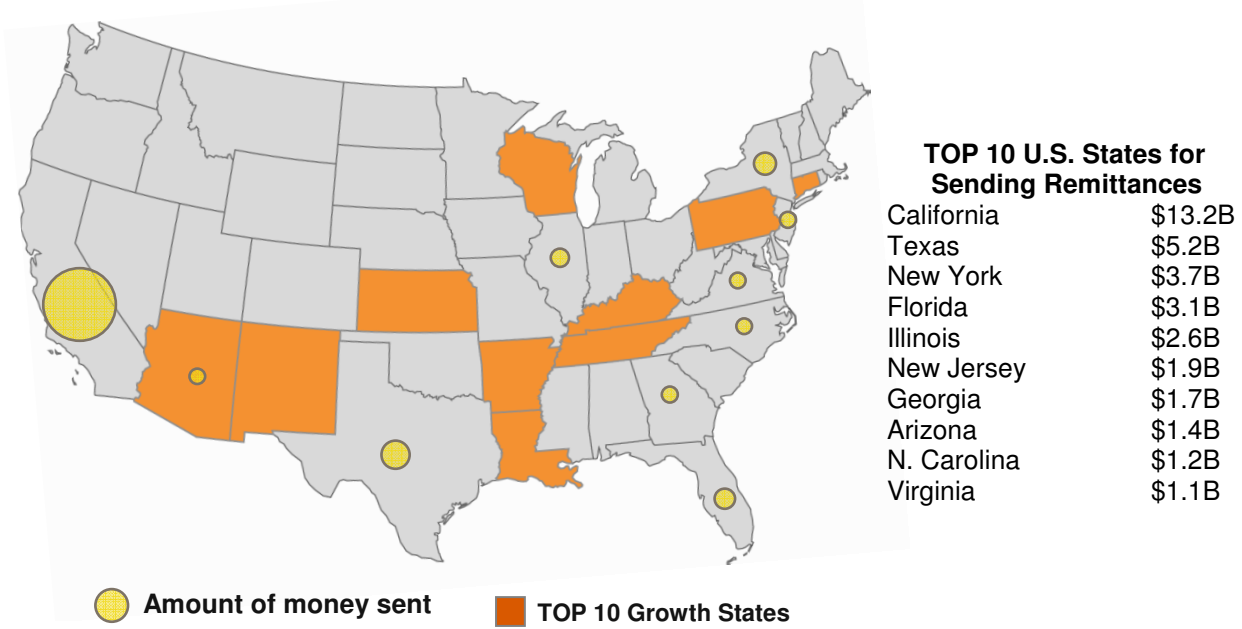
³³ Inter-American Development Bank, Public Opinion Research Study of Latin American Remittance Senders in the U.S., October 2006

³⁴ The Washington File, U.S. INFO, Remittances from U.S. to Latin America Now More Affordable, May 11, 2006

³⁵ ATM & Debit News, U.S. Bank Sticks by its Card Remittances, June 15, 2006



GRAPHIC 14
2006 U.S. Remittances to Latin America and the Caribbean



Source: Inter-American Development Bank



Tier 2

Business Services

As with the 2000 decennial census, the Census release of the 2002 Survey of Business Owners revealed a new segment with dual potential for financial institutions; business owners with both personal and business banking needs. According to the report, there were 2.2 million Hispanic-owned businesses generating nearly \$300 billion in revenues in 2002. More importantly, Hispanic firms grew three times as fast as the overall market from 1997 to 2002. By 2010 the segment is projected to swell to 3.2 million companies generating a combined \$465 billion in revenues.³⁶

Unlike the Hispanic population, Hispanic-owned businesses remain highly concentrated within established Hispanic areas. Virtually 73% of all Hispanic firms are located within four states: California, Florida, New York, and Texas, and if drill down further – the majority are within key metro areas like Los Angeles, Miami, Houston, and New York City. Financial institutions can benefit from developing targeted campaigns within very specific geographic areas, but they face immense competition from not only major banks but also from well-established local community and regional banks. For that reason, financial institutions should consider analyzing the emerging markets as potential growth areas. Although smaller in size, several emerging states surpassed the segment's 31% growth rate, including Georgia, Maryland, Nevada, Pennsylvania and Virginia. Specific areas, like the greater Washington, D.C. metro region merit special attention; it has the highest incidence of Hispanic-owned firms providing professional services such as IT, technology, legal, accounting, and engineering.³⁷

The challenge financial institutions face in serving Hispanic-owned businesses is that many of them may not yet require or even qualify for bank loans and other relevant business services. Some banks, in particular smaller institutions, may face internal obstacles in pursuing a long-term initiative that may not provide some sort of immediate positive ROI. Banks should consider how to develop tailored ROI models to facilitate initial trust building efforts with Hispanic prospects. Even if the bank can only refer the business owner to someone else, the bank can better position itself in the future when those same business owners return as desirable customers.

Given the size of the Hispanic business owner segment, it can be sub-segmented through a number of criteria, including firm size (employees), industry, and geography. An emerging group is that of young companies established by recent immigrants who may require assistance that extends beyond in-language support. They won't easily ask for clarification to avoid being embarrassed in front of someone they don't know, which reinforces the need to partner with familiar organizations and influencers like accountants to develop educational outreach efforts. On the other end of the segment spectrum, acculturated business owners are more likely to reflect similar needs as those of non-Hispanic business owners. However, like other multicultural groups, distinct differences come into play when dealing with Hispanics business owners. Services should be adapted accordingly, such as proper relationship management. According to recent research, only one in three Hispanic business owners say they have a relationship manager at their main financial institution, half the general market response.³⁸

Where banks have been very aggressive is with Hispanic owners of large businesses who have garnered significant media exposure and gained prominent stature within their communities. These individuals can be offered sophisticated offerings, including commercial loans and investment services, and while it is a select group,

³⁶ HispanTelligence, The US Hispanic Economy in Transition, March 2005

³⁷ Washington Post, The Latino Small Business Boom, March 3, 2006

³⁸ Synergistics Research, Hispanic Small Business Lack Relationship Managers, July 25, 2006



they represent an estimated \$500 billion in assets.³⁹ But some successful Hispanic business owners pose a dilemma for Wall Street; they want financial services firms to recognize them as Hispanics but not treat them any differently than a non-Hispanic client.

Investment Services

In response to this opportunity, wealth management firms are stepping up efforts, including recruiting more bilingual Hispanic financial advisors who reflect the changing Hispanic landscape in order to better serve potential Hispanic investors. Merrill Lynch, whose multicultural group is considered the pioneer in targeting multicultural investors, has been joined by other major firms including Citi Smith Barney, Wachovia, and Morgan Stanley. But beyond diversity recruitment initiatives, Wall Street firms have not done much to attract Hispanics, in part because they are interested in only a select group of prospective clients with significant liquid assets or whose businesses require commercial-size loans.

As the pool of high-net-worth (HNW) individuals without investment accounts disappears, firms will need to seek out other ways to grow. It is estimated that there are more than \$2 trillion in un-invested assets, with Hispanics representing more than 25% of this untapped market.⁴⁰ One of the key reasons is that Hispanic household making more than \$100,000 per year grew by 64% from 2000 to 2006 versus 40% for the general market. In fact, the number of Hispanics who earn \$100,000 and have at least \$500,000 in assets is growing eight times faster than the non-Hispanic market.⁴¹

For the most part, affluent Hispanics are self-made entrepreneurs who invest profits back into their businesses. They represent a huge opportunity for the wealth management industry, which has become holistically focused on managing client assets (investments), liabilities (loans, lines of credit), and wealth planning (estate planning, i.e. transfer of wealth to next generation). Value-added services like wealth planning and estate planning resonate strongly with Hispanics who are more likely than others to be concerned with the welfare of their family. As such, educational planning and insurance services may be good fits for this segment.

One challenge is that most Hispanic investors are, on average, more self-directed than non-Hispanic investors.⁴² That behavior appears to change once Hispanics acquire more wealth; about two-thirds of Hispanics with more than \$1 million in assets work with a primary financial advisor. While research in this area is limited, Hispanics tend to be more risk averse than average investors, allocating more to traditional investment vehicles like real estate, CD's and fixed income rather than mutual funds, stocks, and options. Investment education will play a significant role in shifting behavior more towards equity investments.

Wealth management firms will also have to reposition their brands to increase relevancy among Hispanics given that most don't think they qualify for services, and perceive such services as only for the "rich". Fortunately, affluent Hispanics tend to cluster – almost 50% of them (those earning more than \$100,000 per year) are located within 5 DMA's: Chicago, Houston, Los Angeles, Miami, and New York.⁴³ This makes marketing more efficient in terms of financial resources. Firms will have to develop targeted local initiatives to target these elusive individuals who can engage in situational identity and behave both as an average American and as a Hispanic.

³⁹ Wall Street Letter, Top brokerages increase minority recruitment efforts, October 9, 2006

⁴⁰ Ibid.

⁴¹ Tomas Rivera Policy Institute, Increasing Wealth in the Latino Community, July 2007

⁴² Hispanic Business, Portrait of the Hispanic Investor, March 2006

⁴³ U.S. Census, 2006 American Community Survey



Opportunities and Challenges

While barriers of entry into the Hispanic market have diminished, banks still face several challenges in trying to connect with Hispanic customers. First and foremost, competition is tougher than ever, creating a much more complex environment. Banks can no longer simply check off boxes for Hispanic targeted initiatives and expect positive results. This market opportunity is now about quality, about analyzing internal capabilities, seeing how well they line up with the target segments, and developing proper mechanisms to capture specific segment opportunities. That needs to begin with a holistic assessment internally, ensuring comprehensive support for the initiative, especially with senior management. Cross-functional alignment is crucial in developing and executing a seamless customer experience for a new customer base, especially Hispanics.

To date, many banks have focused on the recent immigrant market, and as noted above this has led to real innovation. However, this focus makes less sense today due to several factors:

- Foreign-born Hispanics are a minority within the Hispanic market and no longer the fastest growing segment of the market. U.S.-born Hispanics now represent the majority, approximately 60% of the Hispanic population.⁴⁴
- Increased competition among banks vying for un-banked segment of the market is eroding immediate value and making long-term success more challenging.
- Larger banks with bi-national strategies and deep resources may have a real advantage over other financial institutions.
- Second and third generation Hispanics may be more attractive customers in the coming years due to the positive correlation between acculturation and lifetime economic value.

If one thing is constant with the Hispanic population, it is change. The Hispanic population has reached an inflection point where immigration from abroad is no longer the primary growth driver but rather second and third generations of U.S.-born Hispanics are coming to the fore. The market is not only becoming more acculturated due to this shift, but also more nuanced. These cultural, economic and social differences are giving rise to new segments within an already heterogeneous market that will need to be addressed through relevant and differentiated offerings, which can be resolved through segmented approaches. One strategy cannot produce effective results if it's just transplanted on a cookie-cutter basis to another market. An understanding of the different Hispanic sub-segments is the key to success.

With such a dynamic market, banks need to carefully consider how they will position themselves in the market in the future, not just today. Within just a few years, the Hispanic market has demonstrated itself to be a viable market opportunity supported by sound fundamentals. However, it still may not be an appropriate opportunity for all financial institutions to pursue. Only those that truly make long-term investments in developing their practices and offerings will be able to effectively capture the Hispanic market opportunity.

⁴⁴ Pew Hispanic Center, The Rise of the Second Generation, Changing Patterns in Hispanic Population Growth, October 2003

About CMG Partners

Since 1998, CMG Partners has helped clients capitalize on market opportunities and improve business results through the development and implementation of innovative go-to-market, brand, and communications strategies. We work with organizations along the complete continuum of company, product, and customer life cycles, from helping identify, evaluate, and exploit new market opportunities to refining and re-energizing existing businesses, brands, and strategies.

CMG Partners can help you create lasting bonds between your brand and Hispanic consumers. Succeeding in the rapidly growing U.S. Hispanic market requires more than translating collateral and ads. That's why at CMG Partners, our in-culture and integrated approach to Hispanic Marketing follows the same fact-based, results-oriented process by which we successfully segment, target, and market to any consumer group.

And because Hispanic Marketing requires specialized knowledge and skills, we've assembled a team with decades of experience in both Latin America and the U.S. Our integrated approach goes beyond communications to look at all customer touch points. And unlike many firms, we can help drive your strategy through every channel all the way to the local level — to identify and capture your most profitable Hispanic market opportunities.

Contact Information

Mark Carr, Partner
Octavio Sacasa, Manager

T: 800.688.1803

E: financialservices@cmgpartners.com

W: cmgpartners.com