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Introduction

The purpose of this survey is to learn more about the efforts of community banks to reach emerging markets such as recent immigrants, ethnic communities and other groups who may be outside of the financial mainstream. Specifically, the survey seeks to determine:

- The degree to which community banks are active in serving new markets,
- What strategies they use to serve these groups,
- What products and services they offer that are tailored to these groups,
- Whether their outreach efforts have been successful.

The survey was distributed electronically by e-mail to community bankers at ICBA-member institutions. Responses were solicited regardless of whether the bank was active in efforts to build customer relationships within emerging markets. However, the responses may show some degree of self selection skewed towards community banks with an affirmative interest in outreach to emerging market consumers.

The response window was open for a period of approximately three weeks from February 20, 2008 to March 14, 2008. The survey generated 340 responses over that period, representing a broad cross-section of community banks around the country.

For the purposes of analysis, the survey divides respondents into two groups – those banks who are actively engaged in efforts to build customer relationships with consumers from emerging demographics, hereafter referred to as “**Outreach Banks**” and those who do not, hereafter referred to as “**Non-Outreach Banks**”.

The survey asked a number of questions to all respondents, a set of questions to Outreach Banks and a separate set of questions to Non-Outreach Banks. The responses to questions asked of all respondents are reported as a percentage of total respondents, discounting non-responses unless responses could be imputed. Responses to questions asked only of Outreach or Non-Outreach Banks are reported as a percentage of the relevant group, discounting any non-responses.

This survey was inspired by research entitled, “*Are Immigrants Important to the Future of Community Banking in Texas?*” conducted by the Independent Bankers Association of Texas’ Education Foundation.

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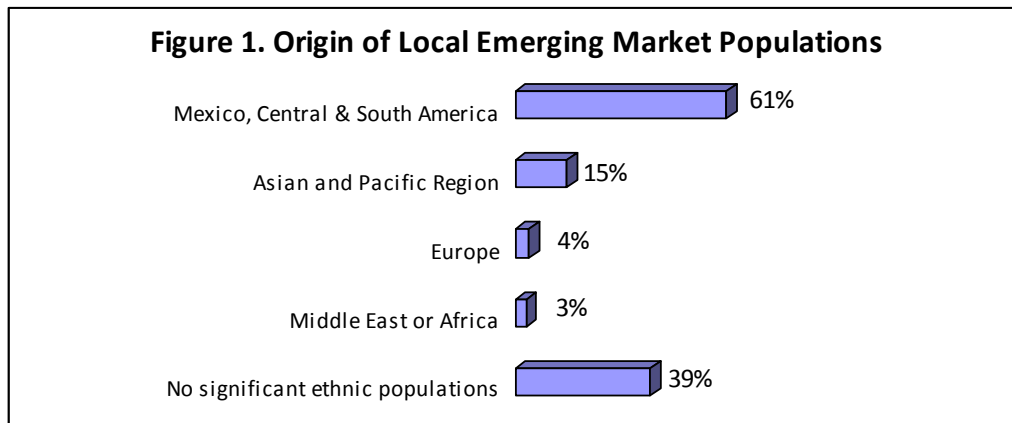
Executive Summary

- Nearly half (47%) of respondent community banks are making efforts to serve emerging market consumers.
- More than three-quarters of Outreach Banks (77%) report some success in initiating account relationships with consumers from emerging market groups. However, few community banks describe their efforts as “very successful.”
- Community bank efforts to serve emerging markets fall into four broad areas – marketing, multi-lingual staff and services, special products and incentives, and financial literacy programs. Some 30% of Outreach Banks incorporate elements in each of these areas while an additional 20% report efforts in three of the four areas.
- Half of banks offer core products – deposit products, mortgage loans, consumer loans and business loans – to emerging market consumers with enhancements such as multi-lingual account materials, online and telephone banking, or ATM services in another language. Approximately one quarter support their existing products with multi-lingual staff or marketing materials in a language other than English.
- Only 40% of Outreach Banks offer products, such as remittances, non-customer check cashing and/or prepaid cards, as a lead-in to establish account relationships with emerging market consumers.
- Financial literacy programs and multi-lingual staff and services are the individual strategies most frequently used in emerging market outreach. Fewer banks use marketing materials specifically targeted towards these groups, offer special types of products or special incentives to attract emerging market customers.
- The majority of Outreach Banks (56%) report offering services in a language other than English (most frequently Spanish). This figure increases among banks that offer a financial literacy program and those that feel these markets are “very important” or “important” to the future of their bank’s business.
- When asked what programs or competencies they would like to develop to enhance their success in reaching emerging markets, two-thirds (66%) said “a better understanding of the financial needs of underserved consumers.”
- Among Non-Outreach Banks, the reasons most frequently cited as “very important” or “important” in their decision are concerns about the risk and profitability of serving emerging market consumers (54%) and the demographic make-up of their local market (52%).
- Most Non-Outreach Banks remain open to launching a program in the future. Only 30% of Non-Outreach Banks (14% of total respondents) indicate they would not consider launching a program in the future.

Characteristics and Demographics

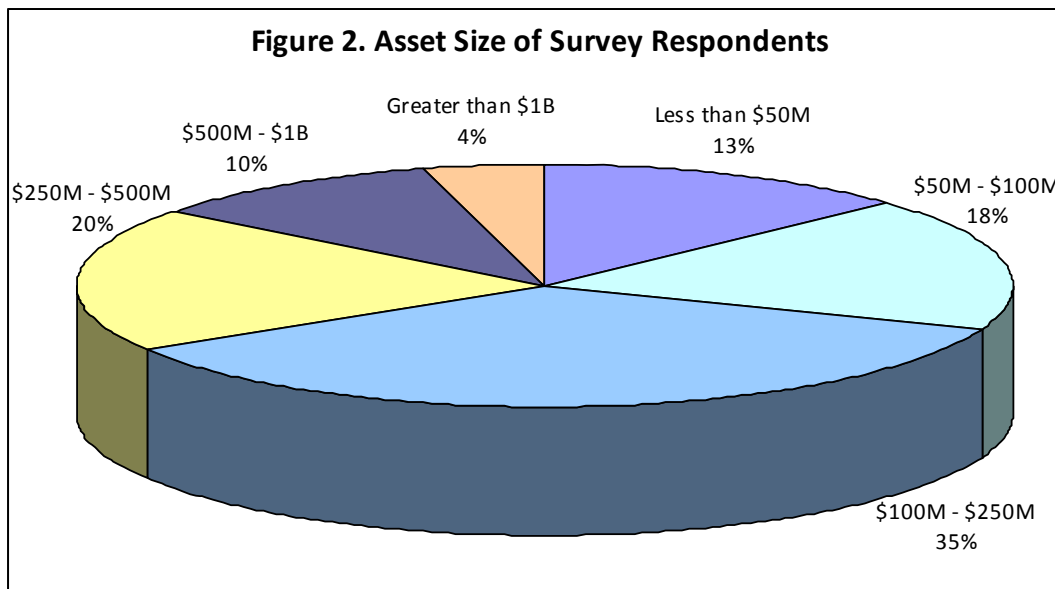
Market Demographics

Some community banks report very specific ethnic populations in the areas they serve – for instance the Hmong people of Southeast Asia or Bosnian populations displaced from Eastern Europe. To ease analysis, this report aggregates identified ethnic groups into broader regional and/or linguistic groups (Figure 1). Hispanic populations from Mexico, Central and South America were the most commonly reported group, followed by a number of varied ethnic groups originating in the Asia-Pacific region. Thirty nine percent of respondents report no significant ethnic populations in the markets they serve.



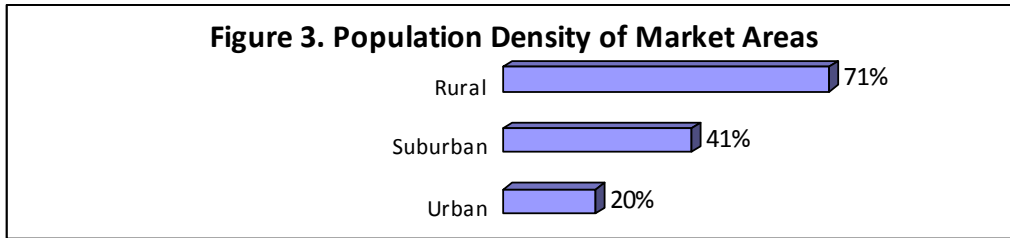
Asset Size

The asset size of community banks that participated in the survey skews slightly towards larger community banks.



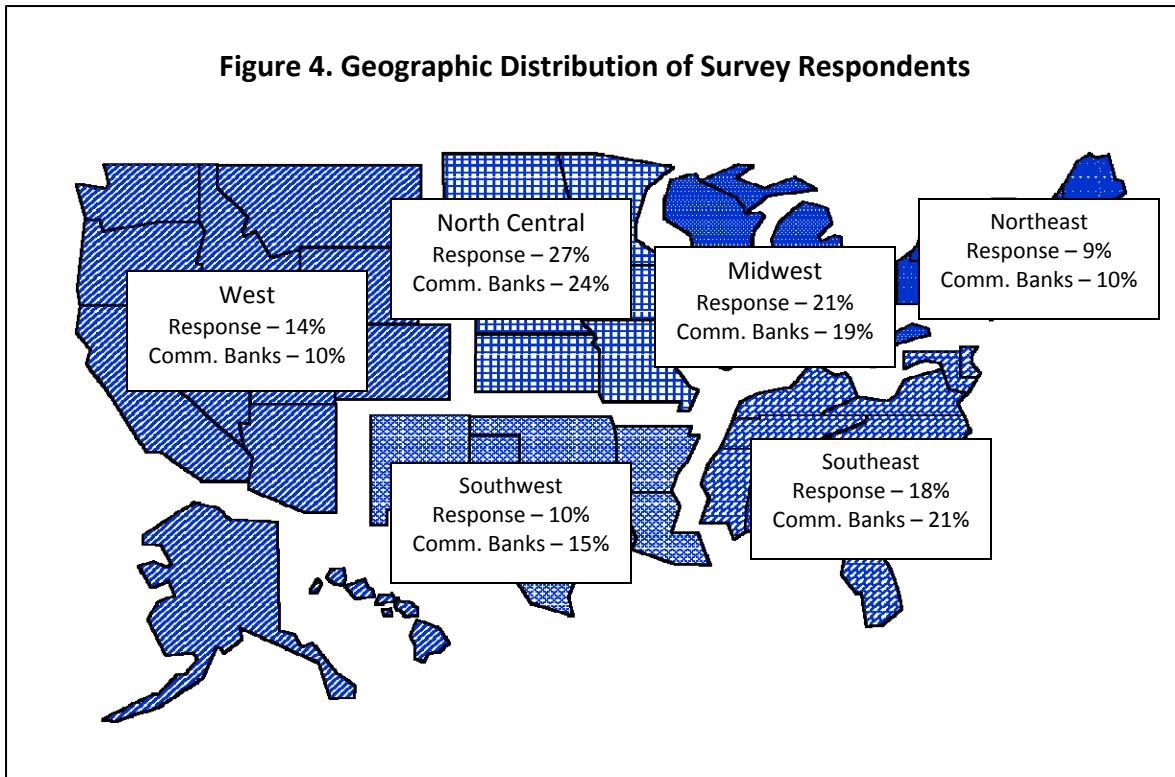
Population Density

Over 70% of responding banks have branches serving rural areas, 41% have branches that serve suburban markets and 20% serve urban areas.



Geographic Distribution

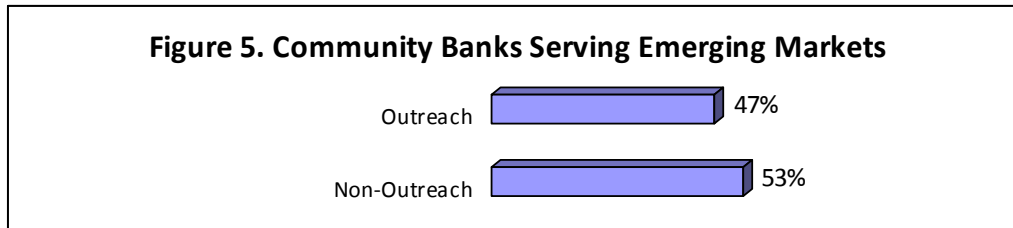
The survey elicited responses from community banks in 44 states. The graphic below shows the geographic make-up of the survey response. The survey response represents a good approximation of the geographical distribution of the nation's community banks.



Analysis

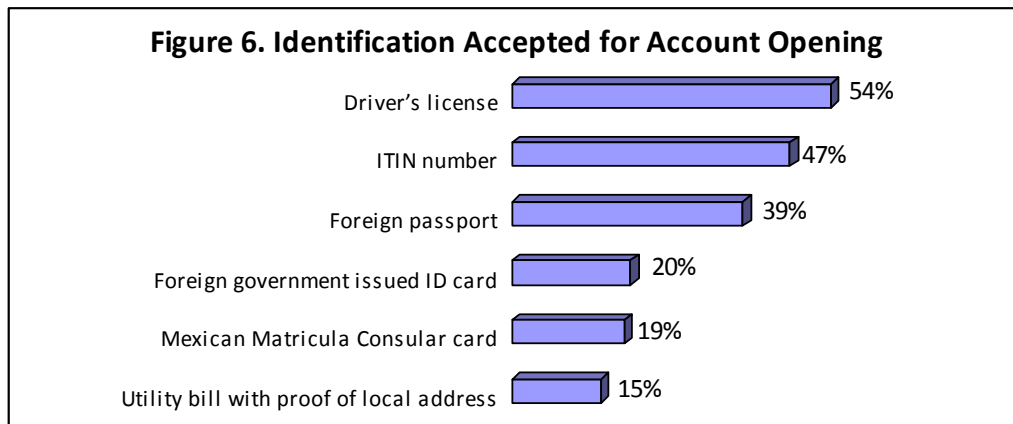
Efforts to Reach Out to Emerging Market Consumers

The survey response was roughly split between banks trying to build customer relationships with emerging market consumers called Outreach Banks (47%) and banks that are not undertaking special outreach efforts called Non-Outreach Banks (53%). While this survey was primarily concerned with outreach to emerging market consumers, it's worth noting that 34% of respondents who report "no notable ethnic groups" in their local market still offer some type of outreach program, presumably geared generally toward underserved consumers.



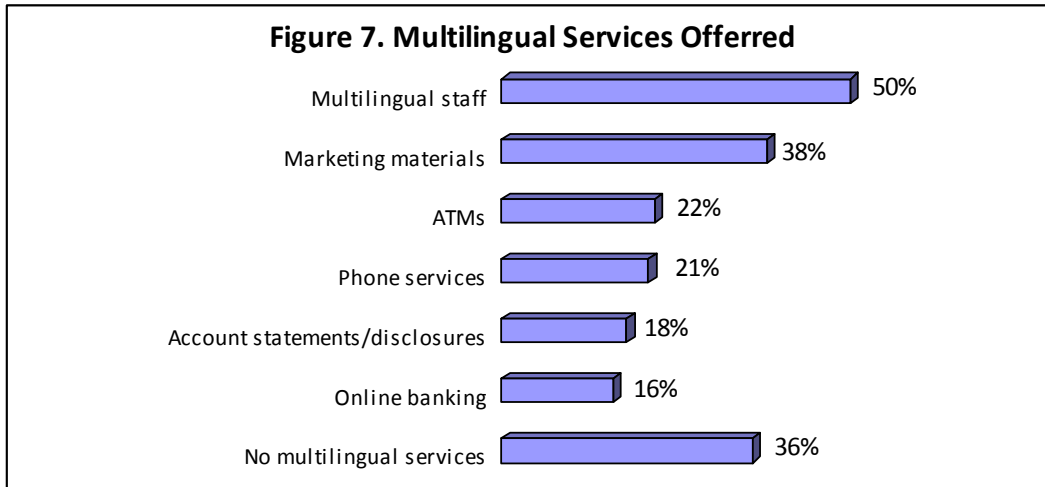
Consumers from emerging markets frequently lack Social Security numbers and have more difficulty providing adequate identification in order to open a bank account than consumers who are already in the financial mainstream. Therefore a bank's ability to accept a variety of different forms of identification is an important factor in their ability to serve emerging market consumers.

When asked which forms of identification they accept for account opening when a consumer does not have a Social Security number (Figure 6), 44% of respondents report that they do not open accounts without a Social Security number. After stating that their bank did not open accounts without a Social Security number, 17% of respondents report that they accept an ITIN for account opening.

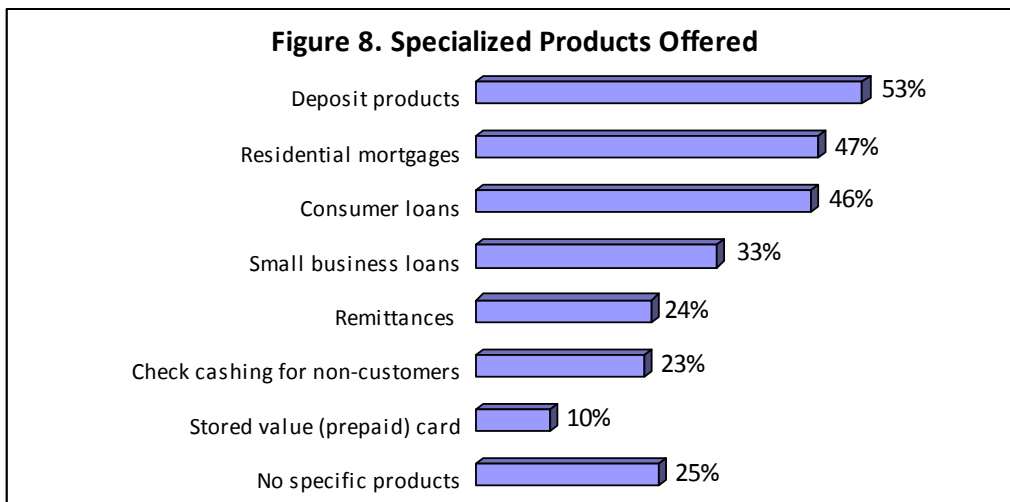


Serving Emerging Market Consumers

Among banks that are actively trying to reach emerging market groups, only 46% have developed marketing materials specifically targeted to these consumers (Figure 7). The majority (56%) offer services in a language other than English. This language is most often Spanish, however, the survey revealed accommodations for speakers of Hmong, Japanese, Korean, German, Urdu, Arabic, Polish and Hindi.



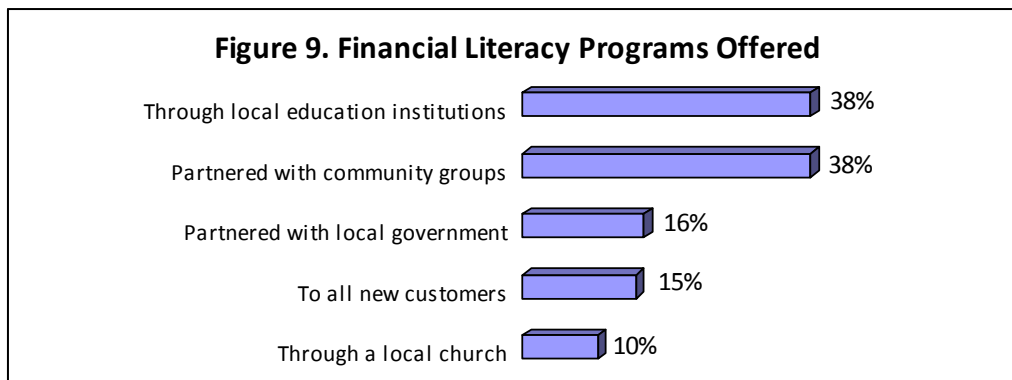
When asked whether they had developed any products specifically targeted towards emerging market groups as part of their efforts (Figure 8), many banks indicate that existing product lines were sufficient to provide for the financial needs of consumers from emerging market groups. Only 40% of Outreach Banks offer a product, such as remittances, non-customer check cashing and/or prepaid cards, as a lead-in to establish account relationships with emerging market consumers.



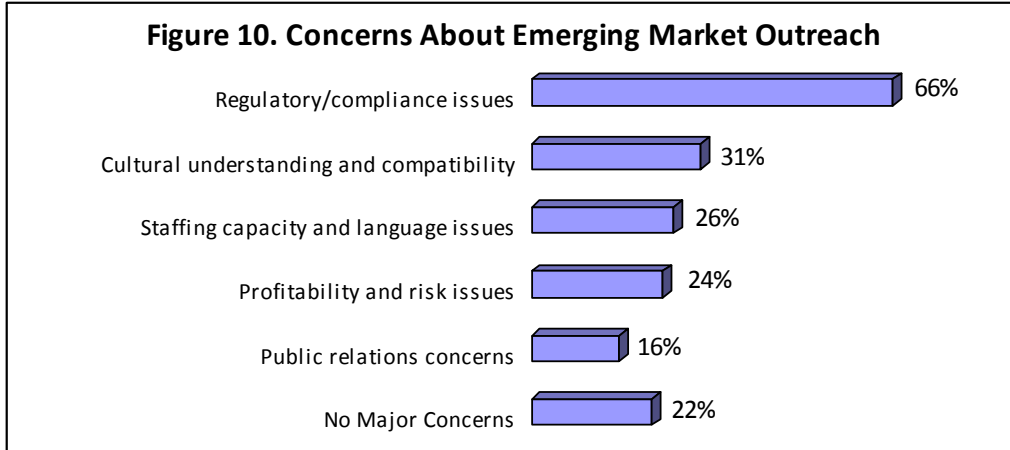
Many banks report offering specialized core products to these consumers – deposit products, residential mortgages, consumer loans and small business loans (Figure 8). Of the banks offering core products to emerging market consumers, only half offer enhancements such as multilingual account materials, online banking, telephone banking or multilingual ATMs. This suggests that some community banks' core products in this area differ little from their existing product lines but are augmented by support from multi-lingual staff or marketing materials in a language other than English.

Few community banks offer special incentives or programs designed to meet the specific needs of consumers in emerging markets. Fifty-four percent (54%) of Outreach Banks do not offer any incentives to this group. While not necessarily targeted specifically to customers from emerging market groups, 33% offer convenient ATM locations. Only 12% offer special fees/discounts for products and services, and 10% offer extended opening hours.

Financial literacy programs are often a core component of community banks efforts and are offered by 64% of Outreach Banks (Figure 9). The survey found that banks offering financial education programs are more likely to market specifically to emerging market consumers, to offer multilingual services and to have multilingual staff. With the notable exceptions of regulatory/compliance issues and public relations issues, community banks offering financial education programs generally have fewer concerns about serving customers from these groups.

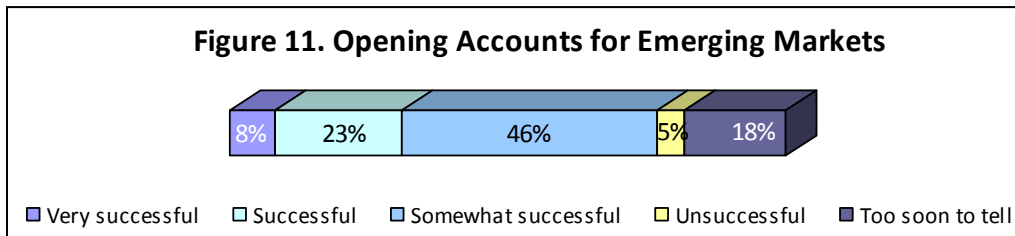


The survey sought to identify what concerns Outreach Banks have about their efforts to reach emerging market consumers (Figure 10). Community banks are most frequently concerned about navigating the regulatory/compliance issues which arise when trying to reach underserved groups.

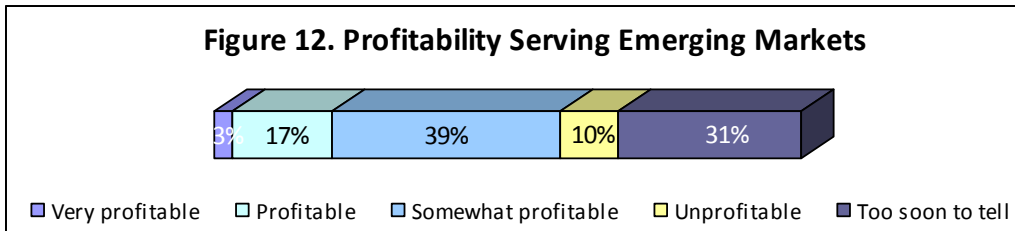


Success and Profitability

Community banks reported some success establishing relationships with consumers outside of the financial mainstream (Figure 11). Seventy-seven percent (77%) of Outreach Banks reported some success in their efforts. They most frequently judge their efforts to be “somewhat successful” (46%); only 23% judge them to be “successful” and only 8% describe their efforts as “very successful.” While a mere 5% judge their efforts as “unsuccessful.”



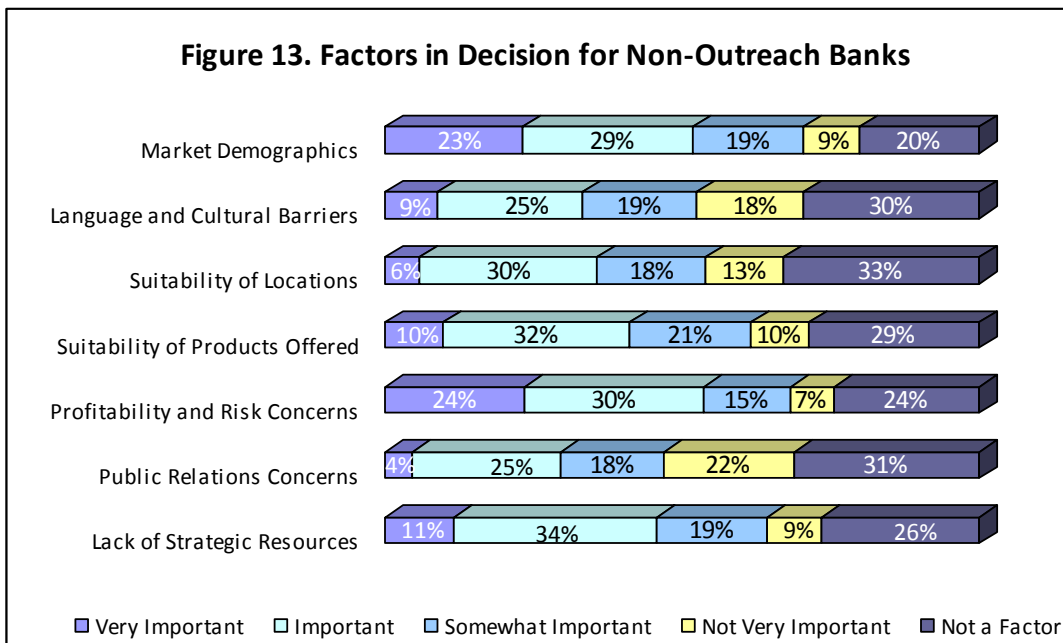
Many community banks that are not actively reaching out to consumers from emerging market demographics cite concerns over the profitability and/or risk in the reasoning behind their decision (Figure 13, next page). According to the survey, 59% of Outreach Banks find their programs at least “somewhat profitable.” Relatively few community banks rate their programs as “profitable” (17%) or “very profitable” (3%). Thirty-one percent (31%) of banks said that it was “too soon to tell” whether their program was profitable (Figure 12).



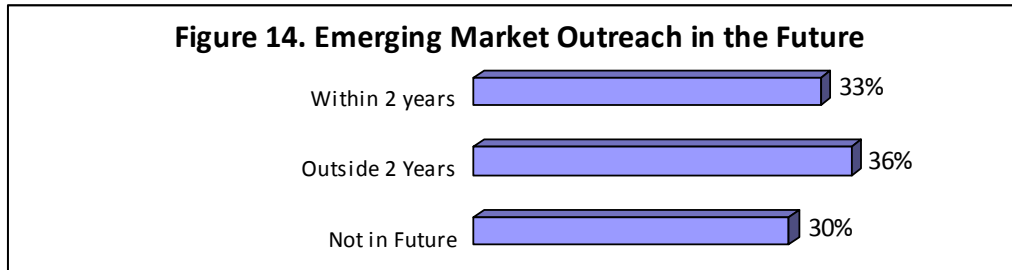
Key Reasons Some Community Banks Don't Reach Out

Fifty-three percent (53%) of all respondents report that they are not reaching out to consumers in emerging markets (Figure 5). To gain insight into the reasons why community banks do not reach out to emerging market consumers, Non-Outreach Banks were asked to rate the importance of several influencing factors (Figure 13). "Local market demographics" was cited as "very important," "important" or "somewhat important" by over 70% of Non-Outreach Banks.

The next most frequently cited as a "very important" or "important" factor was "profitability and risk concerns" at 54%. This factor is cited as "very important," by close to one-quarter (24%) of Non-Outreach Banks. While less frequently cited as "very important," lack of strategic resources was most frequently cited as an "important" consideration. Most frequently cited as "not a factor" were suitability of locations, public relations concerns and language and/or cultural barriers.



Many Non-Outreach Banks remain open to the possibility of launching efforts to reach emerging market consumers at some point in the future (Figure 14). Thirty-three percent (33%) of these banks report that they would consider launching a program within two years and another 36% would consider doing so beyond the two-year time frame. Only 30% of Non-Outreach Banks (14% of total respondents) do not anticipate launching a program to reach emerging market consumers in the future.



Barriers to Serving Emerging Market Consumers

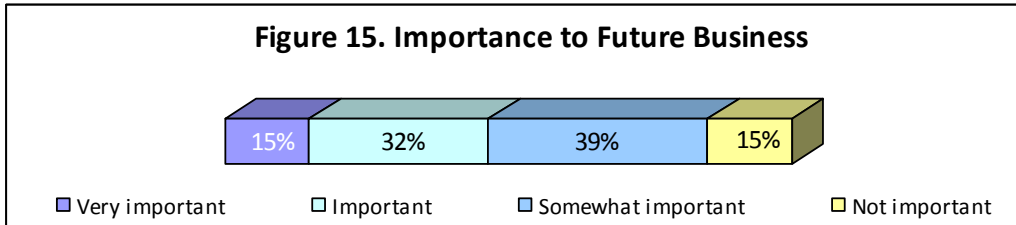
The vast majority of community banks (84%) said there were no federal regulations preventing their community bank from opening accounts for consumers from emerging markets. The same percentage (84%) was aware that the USA PATRIOT Act and related regulations allow banks to accept foreign government-issued identifications documents and other identification such as the Individual Taxpayer Identification Number (ITIN) to verify a customer's identity.

However, 16% of respondents did say there are regulatory barriers to banking consumers from these groups. This group of respondents cited confusing and often conflicting regulations under the Patriot Act, BSA/AML compliance guidelines along with CIP or "know your customer" requirements as being barriers to community banks serving this marketplace.

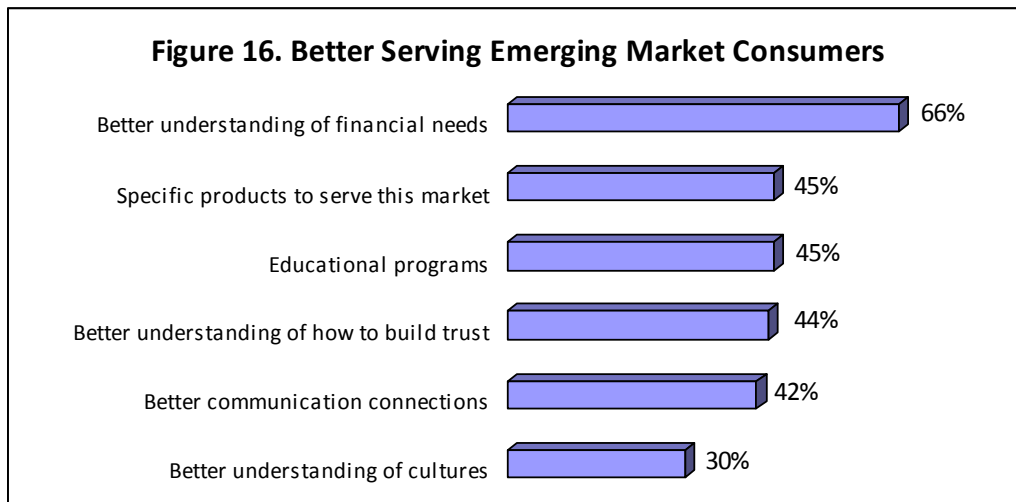
Another 16% were unaware that they could accept an ITIN for account opening and only 8% said that state and/or federal examiners discouraged their bank from opening accounts for underserved consumers. Fully 90% of respondents said that the community bank rather than the federal government should have the ultimate responsibility in the decision to accept or reject a customer seeking to open an account.

Emerging Markets: The Future?

Most community banks see reaching emerging market consumers as “somewhat important” to the future of their community bank’s business (Figure 15). Nearly half (47%) of respondents said these efforts are either “very important” or “important.” Only 15% of respondents considered reaching emerging market consumers as “not important.”



Finally, the survey sought to determine the resources necessary to assist community banks’ pioneering efforts to reach out to emerging market consumers and build profitable customer relationships (Figure 16). When asked what new programs or competencies they would like to develop to enhance their success in this area, the majority (66%) cited “a better understanding of the financial needs of underserved consumers” while 45% cited both specific products and educational programs tailored to the needs of these markets.



Conclusion

A large number of community banks are active in serving new markets, with nearly half of the respondents reporting that they actively reach out to these consumers.

The survey showed that community bank efforts to reach out to consumers from emerging markets fall within four distinct areas:

- Marketing
- Multi-lingual staff and services
- Products and special incentives
- Financial literacy programs

Of the community banks reaching out to these consumers, over 50% use a multifaceted approach that touches on three or more of the four areas. While no single approach can fit the local conditions for every community bank, outreach efforts that incorporate elements in all four of these areas report the most success in establishing customer relationships with emerging market consumers.

While many community banks report offering core products – deposit products, mortgage loans, consumer loans and business loans – to emerging market consumers, only half offer enhancements to these products such as multi-lingual account materials, online banking, telephone banking or ATMs. Only 40% offer remittances, non-customer check cashing and/or prepaid cards as a lead in to establish account relationships with underserved consumers.

Community banks operate in business conditions specific to their local community with very specific strategic plans and with limited resources. Not all community banks are able to engage in programs designed to reach emerging markets. Many community banks report no significant ethnic populations within their local market. Some report that their community has undergone little of the demographic change reported in the media but that they are prepared to take advantage of the opportunity when it presents itself.

The survey found that community banks need to better understand the financial needs of emerging market consumers in order to better serve them. Many community banks offer their existing product lines to these consumers, but would like to develop more specialized products to meet their needs. Many community banks also report an interest in developing financial literacy programs to help reach these groups. Financial literacy programs are clearly a key component of community bank outreach efforts.

Finally, the survey showed a growing awareness of the importance of building new markets to the future business of community banks. Only 15% of all survey respondents indicated they would not consider reaching out to emerging market consumers in the future. The overwhelming majority of respondents (85%) said reaching out to emerging market consumers will play a role in their community banks' future business. This shows that community banks' efforts to build customer relationships with emerging market consumers will continue to grow in the future.