



Seizing the Hispanic market

Financial institutions will need to do more than just translate their brochures into Spanish to capitalize on opportunities in this consumer segment.

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The McKinsey Quarterly, 2004 Number 3

Most US banks and insurance businesses, unlike many media and grocery companies, have avoided marketing their products and services specifically to Hispanic consumers. Until now, these differences made sense: the 38 million Hispanics who live in the United States typically spend less than the average US consumer on financial services but more on groceries and Spanish-language media.

Financial institutions could be missing out on a huge opportunity. By 2010 spending by Hispanics living in the United States will probably have risen to more than \$800 billion a year, from around \$500 billion, with financial services accounting for a substantial chunk of that increase.¹ Industries that currently cater to the Hispanic market benefit conspicuously from the growing population. But industries—for example, housing, health care, and financial services—that target middle- and upper-income consumers are likely to benefit significantly as Hispanic household incomes rise.

To succeed in this diverse market, banks and insurance companies will have to do more than translate their brochures into Spanish. They could benefit from the lessons learned by other consumer products marketers.² In courting Hispanics, financial-services companies must not only attract a new customer segment but also change its buying behavior. First, financial institutions will have to educate these consumers about such products as mortgages and insurance. Some offerings—long-term fixed mortgages that can be obtained with a low down payment, for instance—differ from those widely available in Latin America. In addition, recent immigrants may not take for granted the relative stability of US financial institutions. Through education and outreach programs, banks can help customers overcome such concerns. Garden State Mortgage, a small broker in New Jersey, has combined Spanish-language education programs for potential home owners with an array of prime and subprime mortgage products and innovative credit evaluations to increase the number of loans it can provide to Hispanic borrowers.

Second, new ways to build and evaluate credit histories will also open up other forms of consumer credit. A history of cash-only transactions and a lack of verifiable income make it difficult for some Hispanics to meet traditional lending requirements. But innovations such as prepaid Visa or MasterCard accounts can help new customers build favorable credit histories and ease the transition to traditional products.

Third, since the incomes and acculturation levels of Hispanic consumers vary widely, banks should offer a choice of products at every rung of the ladder: from inexpensive services (international wire transfers and check cashing) targeted at recent immigrants to products (mortgages and insurance) geared to the emerging middle class to the full portfolio of financial services for second- and third-generation Hispanic consumers. To give one example, Provident Bank, a small New Jersey institution with a large presence in this community, created a subsidiary to target the relatively high-risk subprime mortgage market. Hispanics now make up more than half of Provident's business in this category, and many of them will move up to loans with better terms once they establish their credit.

Finally, financial-services firms may want to follow the lead of grocery stores by developing new brands and retail formats for Hispanics. Flag Financial, a regional bank in Georgia, took this approach in creating El Banco de Nuestra Comunidad, a subsidiary that bills itself as "the bank for the unbanked." Bilingual employees, consumer education, and a strong involvement with the Hispanic community help its branches attract these customers. Some of the bank's unusual features include playrooms for children, Internet terminals, free local

phone service, and the certification of taxpayer identification numbers. A full 65 percent of the bank's revenue comes from nontraditional services such as check cashing, electronic income-tax filing, loans against anticipated refunds, and the sale of money orders and phone cards.

High-value sectors are expected to provide half of the growth in Hispanic purchasing power from 2001 to 2008, and the impact on them is likely to be disproportionate. The Hispanic housing market, for example, is projected to expand by more than \$90 billion—a 60 to 70 percent increase. Financial institutions should follow the lead of the media and consumer packaged-goods companies that focused on Hispanic customers in the 1990s. After all, businesses can't reap the rewards from this segment unless they understand and target it.

Notes:

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¹ Estimates based on the US Bureau of Labor Statistics consumer expenditure survey suggest that in 2001 Hispanic consumers not only spent as much as \$30 billion on mortgage interest and \$12 billion on insurance but also contributed up to \$35 billion to pension funds and the US Social Security system. While immigration and a high birthrate (nearly 5 percent, compared with a US average of around 1 percent) are factors in this growth in spending, household incomes—driven by Hispanic consumers now entering their prime earning years—will increase by about 3 percent annually.

² Luis D. Arjona, Rajesh Shah, Alejandro Tinivelli, and Adam Weiss, "[Marketing to the Hispanic consumer](#)," *The McKinsey Quarterly*, 1998 Number 3, pp. 106–14.