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The economic state of Latinos in America: Advancing financial growth

Financial-services revenues from Latinos may grow by more than $90 billion by 2030. To get more of that market, institutions would need to tailor their offerings.

This report is a collaborative effort by Alberto Chaia, Arsenio Martinez, Nick Noel, Marukel Nunez Maxwell, and Lucy Pérez.

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Preface

Since 2021, McKinsey has published annual reports on Latino economic mobility. In 2021, *The economic state of Latinos in America: The American dream deferred* focused on Latinos' economic contributions as workers, business owners, consumers, and savers. In 2022, *The economic state of Latinos in the US: Determined to thrive* built on the 2021 report and delved deeper into Latino consumers' experiences, particularly how they remain underserved by available offerings despite their economic power.

In this year's report, *The economic state of Latinos in America: Advancing financial growth,* we put a spotlight on the relationship between Latinos and the financial-services sector. We decided to focus on how this particular industry can better serve Latinos—and make doing so a competitive advantage—because it's impossible to separate economic mobility in a society from its financial system.

Our research reflects this reality. The report links the barriers and pain points Latino households and business owners face when working with financial institutions, not only to the commercial opportunities inherent in eliminating these challenges but also to larger inequitable outcomes. The way forward involves identifying the right strategies for individual institutions and—something distinctive to this report—getting private investors involved in creating value from boosting Latinos' financial inclusion.

The research was led by Alberto Chaia, a senior partner in McKinsey's Miami office; Arsenio Martinez, a partner in the Washington, DC, office; Nick Noel, an associate partner in the DC office; Marukel Nunez Maxwell, a senior partner in the New York office; and Lucy Pérez, a senior partner in the Boston office.

The project teams were led by Roukaya El Houda, Jose Miguel Errazuriz, Monica Rex, and Kelly Song, and included Maya Aidlin-Perlman, Clara Carvalho, Kayla Getter, Juliette Low Fleury, Alexia Sabogal, Gil Sander Joseph, Laura Tamayo Castillo, Tre Tennyson, and Benjamin Topa. Margret-Ann Natsis led external outreach. The authors would like to thank them for their contributions and support.

We would especially like to thank the Aspen Institute Latinos and Society Program for its knowledge partnership and commitment to sharing this research externally.

We hope this report and our previous research will spur further action. This work is independent and reflects our own views.

Lucy Pérez

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Senior Partner, McKinsey
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Introduction

Access to financial services is an indispensable part of economic mobility. Financial services allow individuals and families to perform critical tasks such as making everyday transactions, obtaining credit, and holding insurance. These services can support customers' financial health and proficiency with financial tools and facilitate long-term wealth creation.[1]

Latinos represent about 20 percent of the US population today, and many of them are missing out on these benefits. Members of the Latino community have long faced obstacles in getting financial products and services that meet their needs. This problem manifests in a variety of ways. For example, there is a persistent wealth gap between US Latinos and their non-Latino White counterparts; the median White household has five times the wealth of the median Latino family.[2] Second, one in three Latinos was unbanked or underbanked in 2021.[3] Finally, 44 percent of loan applications by Latinos are denied, as compared with 34 percent for non-Latino Whites.[4]

Equitable access to financial services could significantly reduce financial volatility and accelerate wealth building for individual Latinos—all while addressing long-standing consumer needs. For Latino communities, equitable access would fortify economic resilience, reduce poverty rates, boost growth, and make local financial ecosystems more stable.[5]

Financial institutions would also benefit from developing better options for Latino customers. In fact, doing so can be a competitive asset. Pursuing inclusive growth can create a trifecta of benefits: granular growth,[6] profit, and environmental, social, and governance (ESG) priorities that could help companies beat the market.[7] Those benefits also make it a competitive necessity. Our analysis shows that revenue from Latino savers and from small and medium-size businesses (SMBs)—those with revenues of $30 million or less—is already $172 billion. We project that the market will organically grow to around $265 billion in 2030, 8 percent of the total value of the financial-services market.

Financial institutions aiming to expand and thrive among diverse customers could further boost this growth, which would require better serving the sector's existing 45 million Latino customers to gain market share.[8] Based on our analysis, if Latinos had the same penetration and usage rates for financial products and services as their non-Latino White counterparts, the financial-services sector would gain another $160 billion in annual revenue, nearly double the current total (Exhibit 1). Latino consumers would contribute 12 percent of the 2030 revenue to this significantly expanded total addressable market.

This possibility is particularly notable in this moment for the financial-services sector because bank performance has seen wide divergence in recent years. The top 40 percent of banks enjoy ROE of 14 percent or higher, but the bottom 35 percent see ROE of less than 8 percent.[9]

Our experience suggests that the financial institutions that will be best positioned for growth will be the ones that capitalize on new technologies, manage their balance sheets, and acquire and retain customers from emerging and growing markets. Providing better service to Latino customers can help financial institutions become stronger performers by growing their balance sheets with a customer segment that promises long-term growth and that can be efficiently served with digital technology.

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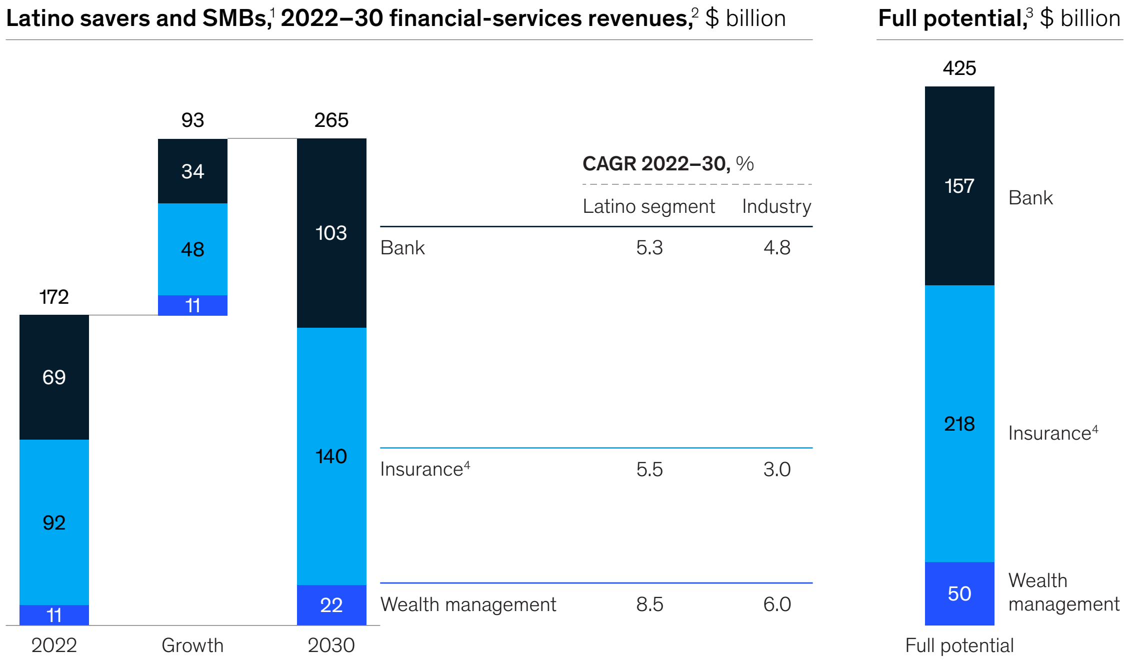
1 For more, see "The case for accelerating financial inclusion in Black communities," McKinsey, February 25, 2020.
2 "Survey of consumer finances, 1989 - 2022," US Federal Reserve, updated November 2, 2023.
3 *2021 FDIC national survey of unbanked and underbanked households,* Federal Deposit Insurance Corporation, 2021.
4 Kacie Goff, "SBA loan statistics: Race and gender," Bankrate, July 10, 2023.
5 "The economic state of Latinos in the US: Determined to thrive," McKinsey, November 14, 2022.
6 Granular growth integrates diversity, equity, and inclusion efforts; diversity in the supply chain; sound commercial strategy; and a commitment to communities. For more, see Chris Bradley, Rebecca Doherty, Nicholas Northcote, and Tido Röder, "The ten rules of growth," McKinsey, August 12, 2022.
7 "The triple play: Growth, profit, and sustainability," McKinsey, August 9, 2023.
8 Calculated using the assumption that US Latinos aged 18 or older are potential customers. See "Hispanic population of the United States in 2022, by sex and age," Statista, September 2023.
9 "Global Banking Annual Review 2023: The Great Banking Transition," McKinsey, October 10, 2023.

Exhibit 1

Latino savers and businesses could produce about $265 billion in potential revenue for financial services by 2030.



Note: All figures have been rounded.
[1]Small and medium-size businesses.
[2]Excludes health insurance and pensions because they are less subject to consumer choice compared with other areas of financial services.
[3]"Full potential" is a scenario in which market penetration and utilization rates for Latinos equal those of their non-Latino White counterparts.
[4]Includes property and casualty and life insurance.

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The Latino population is large and growing, with a median age of 30, compared with 41 for the overall US population.[10] The population is also upwardly mobile: Latinos' incomes grew by 4.7 percent per year from 2013 to 2023, compared with 1.9 percent for US incomes overall.[11] According to our analysis, a significant number of Latino-owned businesses are also clustered in high-growth sectors that are resilient to economic downturns, such as wholesale trade, transportation, and warehousing. Crucially, Latino customers have higher lifetime values in financial services compared with their non-Latino White peers,[12] partly because of their preference for digital channels and services: 35 percent of Latinos are first among their friends to try new technology.[13]

[10] Magdaliz Álvarez Figueroa et al., "One in every four children in the United States were of Hispanic origin in 2020," US Census Bureau, May 25, 2023.
[11] Dennis Hoffman and José A. Jurado, *The 2023 official LDC U.S. Latino GDP report,* Latino Donor Collaborative, 2023.
[12] According to McKinsey analysis, Latinos have higher lifetime value due to the faster increase in share of wallet going to financial services for Latinos and the additional years of customer relationship given the lower median age of Latino customers.
[13] McKinsey Digital Payments Survey 2022; Thaddeus Arroyo, "Leading without limits: How the tech industry can serve the Hispanic community," *Forbes,* October 28, 2021.

All of these savers and business owners need financial offerings that fit their needs. We estimate that individual institutions could earn a larger portion of about $105 billion in annual revenue: $95 billion from Latino customers persuaded to switch institutions and another $10 billion from increased aggregate demand for better offerings (our research shows Latino customers would be willing to pay 10 percent more for better products and services). The need is acute: 9.3 percent of Latino consumers don't have bank accounts,[14] and 26.0 percent are unscorable or are invisible to credit-scoring entities.[15] Notably, Latinos have one of the highest uninsured rates of any racial or ethnic group in the United States.[16]

Achieving parity in the rate at which Latino savers and business owners use financial products and services would drive economic mobility, building and protecting wealth. According to our analysis, providing more business banking products and services for Latino business owners could mean closing a $200 billion business-lending gap and enabling the creation of 700,000 new SMBs. Better serving Latino customers can help meet stakeholders' nonfinancial expectations and fulfill regulatory requirements in dimensions such as data transparency and fair lending for minority-owned businesses. Partnering with other key stakeholders is a strategic opportunity for financial institutions.

Several developments could give institutions even more reason to engage with Latino customers—and make doing so easier. The ongoing shift toward digital platforms will likely make it cheaper and easier for institutions to serve Latino savers. At the same time, changes in retail banking, including the entrance of nonbank participants, are challenging incumbents by bringing a wider variety of offerings that can be a good fit for different customers. Elevated offerings would be timely for Latino business owners, many of whom will need capital to fuel the growth that can come from commitments by large companies to source from suppliers from diverse backgrounds.[17]

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14 *2021 FDIC national survey,* 2021.

15 Individuals who have no credit history with one or more of the nationwide credit reporting agencies are generally described in the industry as "credit invisible." Individuals whose credit files are thin and provide insufficient credit histories to be meaningfully useful are characterized as "credit unscorable." For more, see *Who are the credit invisibles?: How to help people with limited credit histories,* Consumer Financial Protection Bureau, December 2016; Peter Carroll et al., *Financial inclusion and access to credit,* Oliver Wyman, 2022.

16 "Census Bureau releases new report on health insurance by race and Hispanic origin," US Census Bureau, November 22, 2022.

17 For more on sourcing from diverse suppliers, see Milan Prilepok, Shelley Stewart III, Ken Yearwood, and Ammanuel Zegeye, "Expand diversity among your suppliers—and add value to your organization," McKinsey, May 17, 2022.

Providing more business banking products and services for Latino business owners could mean closing a $200 billion business-lending gap and enabling the creation of 700,000 new SMBs.

Some forward-looking industry participants are already making progress and improving offerings for Latino customers. But for the industry as a whole, slow action or complacency would be risky. The good news is that institutions could plug into Latinos' growing economic power and develop an increased market presence by serving these customers well.

We use this report to highlight the social and economic benefits of serving Latino savers and SMB owners.[18] We identify internal organizational barriers and consider methods to help organizations build strong, productive relationships with these constituents. Finally, we discuss how institutions can zero in on the right strategy for serving Latino customers, give an overview of three strategic approaches, and outline the role of venture capital (VC) and private equity (PE) investors in growing the segment's economic mobility. While this report focuses on Latino savers and business owners, many of the strategies we recommend can also help financial institutions strengthen their relationships with other often-overlooked customer groups.[19]

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[18] "What is financial inclusion?," McKinsey, August 7, 2023; "The case for inclusive growth," McKinsey, April 28, 2021.
[19] For more, see "The case for accelerating financial inclusion," February 25, 2020.

The financial-services sector is projected to see $240 billion in potential revenue from Latino savers by 2030, but barriers persist

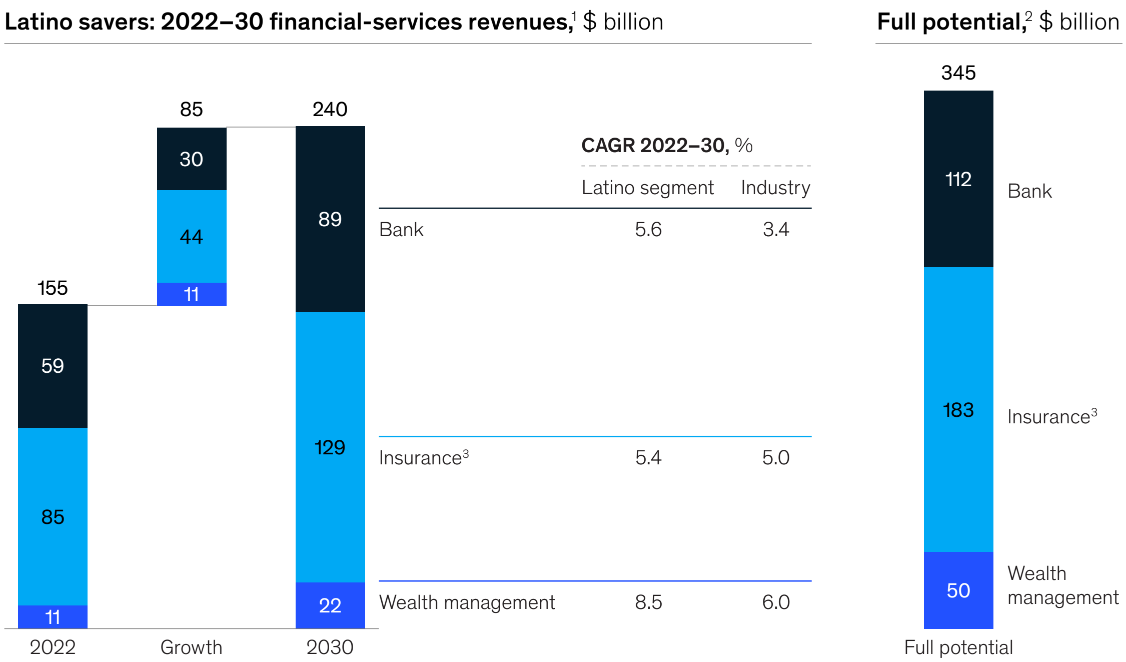
The fastest-growing segment of the US population, Latino savers also boast the highest rate of income growth: 4.7 percent per year from 2013 to 2023, 2.5 times that of the general population (at 1.9 percent).[20] Crucially, Latino households seem keen to spend on financial services.[21] Latino savers' spending on financial services from 2012 to 2022 grew twice as quickly as that of their non-Latino White counterparts, and emerging trends project that this trajectory will continue until 2030.[22] Our analysis suggests that revenue from Latino customers in banking, insurance, and wealth management will increase more than 50 percent, from around $155 billion in 2022 to around $240 billion in 2030 (Exhibit 2).

McKinsey research finds that Latino savers tend to be loyal, preferring to work with institutions they already know and have relationships with when it comes time to purchase new financial solutions such as investment services. Compared with the general respondent population, Latino respondents have stronger preferences for low- and no-fee

[20] *The 2023 official LDC U.S. Latino GDP report*, 2023.
[21] Ibid.
[22] Ibid.

Exhibit 2

Latino savers are projected to produce $240 billion of potential revenue for retail financial services in 2030.



Note: All figures have been rounded.
[1] Excludes health insurance and pensions because they are less subject to consumer choice compared with other areas of financial services.
[2] "Full potential" is a scenario in which market penetration and utilization rates for Latinos equal those of their non-Latino White counterparts.
[3] "Insurance" refers to auto, life, and fire and property insurance.

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products, joint family accounts, and offerings that help build credit.

Our research shows that many of these needs are not being met. Fifty-five percent of Latino savers told us they are dissatisfied with financial institutions' current offerings, which suggests that around $85 billion of the sector's roughly $155 billion in revenue from Latino savers could easily move toward better offerings—even if the replacement offerings cost more. Indeed, Latino savers in our research would be willing to pay 10 percent more for products and services that satisfy their needs, which translates into about $94 billion of potential revenue per year. This insight comes at a time when traditional banks face intensifying competition from nonbank entrants in fields such as insurance and fintech; alternative investment vehicles such as pension funds, sovereign wealth funds, and private capital held 70 percent of the net increase in financial funds from 2015 to 2022.[23]

Overall, we found that more effectively serving Latino savers across banking, insurance, and wealth management could generate as much as $105 billion in additional annual revenue for the industry. This revenue comes from sources such as $475 billion in annual deposits from Latinos, as well as from helping an additional five million Latino savers access mortgages (worth an estimated $3 trillion in total) and providing credit services to an additional 12 million Latinos. And though a wealth gap between Latinos and non-Latino Whites persists—for every $1 of net worth Latinos have, their non-Latino White counterparts have $5—Latinos are becoming wealthier more quickly than their peers.[24] The share of Latino household incomes of more than $125,000 per year grew by 81 percent from 2017 to 2022, compared with 53 percent in the general population (Exhibit 3).

Organizations could serve Latinos more effectively by removing barriers and recognizing the challenges that have hindered many Latinos from participating in the financial system and constrained their economic mobility. These areas cover Latino savers' needs in banking, credit scoring, mortgages, retirement savings and investments, and insurance coverage.

Barriers to relationships with Latino savers

A few factors have made establishing and maintaining relationships between financial institutions and Latino savers difficult. To start, 68 percent of Latino savers live in banking deserts—areas without bank branches.[25] Low levels of trust also keep Latino savers away: 22 percent of unbanked Latino savers said they avoid banks because they don't trust them.[26]

Assigning an accurate level of creditworthiness to Latino savers is also a consideration. About a quarter of Latinos either have no credit history or are considered unscorable using conventional methods. Partially as a result, Latino applicants are about twice as likely to be denied for mortgages and small-business loans than their non-Latino White peers.[27] We also found that, when they do receive these loans, Latino applicants often pay more for them. Among Latino savers who held mortgages, we found that Latino savers in 2021 paid 30 percent more for them, even though they repaid 5 percent more of their balances.[28] These differences are linked to the higher closing costs and interest rates that Latinos shoulder. Latino homebuyers paid 43 percent more to close on home purchase loans than non-Latino White applicants did and paid 30 percent more in interest, partially because of their lower credit scores and the higher resulting mortgage insurance charges.[29]

23 "Global Banking Annual Review 2023," October 10, 2023.
24 Neil Bennett, Donald Hays, and Briana Sullivan, "2019 data show baby boomers nearly 9 times wealthier than millennials," US Census Bureau, August 1, 2022.
25 For more on banking deserts, see Drew Dahl and Michelle Franke, "Banking deserts become a concern as branches dry up," Federal Reserve Bank of St. Louis, July 25, 2017; Ana Paula Calvo, Michael Chui, Lucy Pérez, and Bernardo Sichel, "The economic state of Latinos in America: The American dream deferred," McKinsey, December 9, 2021.
26 *2021 FDIC national survey,* 2021.
27 "Credit survey finds White-owned small businesses were twice as likely to be fully approved for financing as Black- and Latino-owned firms," Federal Reserve Bank of New York, April 15, 2021.
28 Analysis based on the McKinsey Consumer Survey 2021 and on Jason Richardson and Agatha So, *Hispanic mortgage lending: 2019 HMDA analysis,* National Community Reinvestment Coalition, 2020.
29 *Hispanic mortgage lending,* 2020.

Exhibit 3

US Latino savers have significant growth potential as financial institutions' customers.

US Latinos: Fueling growth

20.9%
of US GDP growth in 2011–21

19%
of the US population in 2022, growing to 25% in 2050

4.7%
income growth per year compared to 1.9% per year for the general population

Potential outcomes

4.1 million
more Latinos with bank accounts

12 million
credit-invisible or unscorable Latinos benefiting from more-accurate credit assessments

7 million
potential additional life insurance customers

81%
growth in Latino households making at least $125,000 (compared to 53% growth for the general population)

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Macroeconomic and industry developments have made removing these barriers easier. The flood of bank accounts Latino savers opened to deposit stimulus payments during the acute phase of the COVID-19 pandemic formed a solid base from which institutions could offer additional services.[30] At the same time, Latinos' move toward digital platforms would allow institutions to acquire new customers at lower costs. So would emerging digital and AI tools that enhance user experiences with tailored, lower-cost services. Forward-looking industry participants are already using digital solutions to overcome physical barriers to access and expand product offerings and remittance services.

Persistent pain points for Latino savers

Systemic barriers have hampered financial institutions' connections with Latino savers.[31] Indeed, 51 percent of our survey respondents said they felt somewhat or very undervalued by financial institutions,[32] and 55 percent of Latino savers described themselves as dissatisfied. Twenty-two percent of Latino respondents also told us banks didn't offer the services they needed (Exhibit 4).[33]

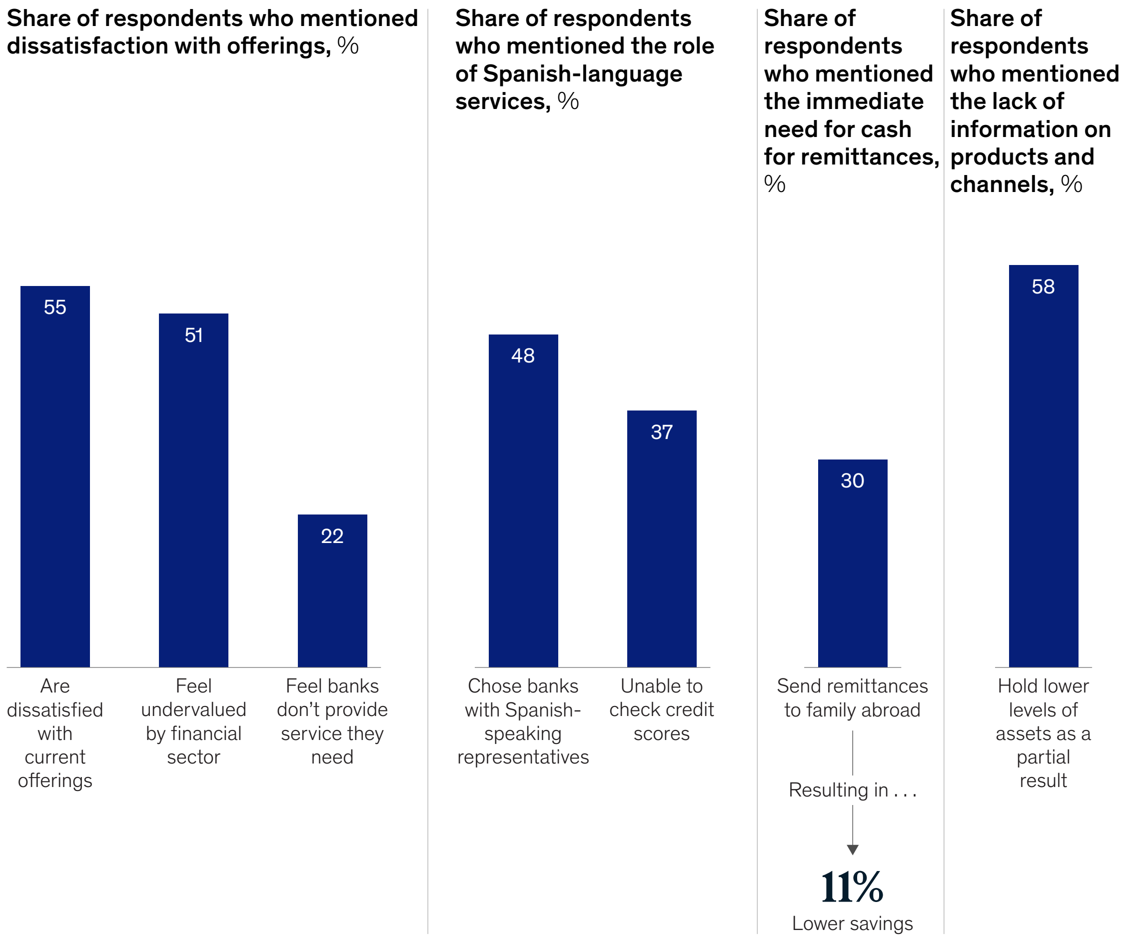
One area of acute lack is availability of Spanish-language services, an important criterion for Latino savers who are first-generation immigrants. Forty-eight percent of respondents in our research chose their banks based on the availability of Spanish-speaking representatives. But with inadequate staffing for Spanish-language services, 37 percent of Spanish speakers report being unable to check their credit scores, adding a layer to the challenges of credit scoring.[34]

Latino savers' pain points also hamper wealth building. Take, for example, the critical need for affordable, efficient international money transfers.

30 Claire Williams, "COVID stimulus programs helped more consumers become banked, FDIC says," *American Banker,* October 25, 2022.
31 For more, see "The economic state of Latinos in the US," November 14, 2022.
32 Bill Streeter, "Trends and insights into Hispanic market for financial marketers," The Financial Brand, February 1, 2019.
33 Based on the McKinsey Consumer Survey 2022.
34 Ibid.

Exhibit 4

Latino customers experience several pain points that prevent financial institutions from capturing their commercial potential.



Source: Bill Streeter, "Trends and insights into Hispanic market for financial marketers," The Financial Brand, February 1, 2019; McKinsey Affluent Consumer Insights Survey 2023 (Latino n = 346); McKinsey Consumer Survey 2022 (n = 4,400); McKinsey Global Payments Map remittances data

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Latinos' savings are, on average, 11 percent lower than those of their non-Latino White peers,[35] but many Latino savers maintain explicit financial ties to family abroad; 30 percent of Latino survey respondents sent money to family outside the United States,[36] sustaining a $4.3 billion remittance market for Latino customers alone (for more, see sidebar "Remittances and Latino savers").[37]

[35] McKinsey analysis based on data from "Consumer expenditures report 2019," US Bureau of Labor Statistics, December 2020.
[36] "The economic state of Latinos in America," December 9, 2021.
[37] McKinsey analysis based on data from "Remittances remain resilient but likely to slow," The World Bank, June 13, 2023.

Remittances and Latino savers

Every year, $145 billion in remittances flows into Latin America and the Caribbean. About 85 percent of the funding goes to only six countries. Of these, Mexico—the recipient of the second-largest volume of remittances worldwide—sits at the top of the list. The country receives 42 percent of all remittances bound for Latin America.[1]

For the financial sector, the consumer-to-consumer Latin American remittance market grew at a whopping 33.9 percent per year from 2019 to 2022.[2]

A submarket, US digital remittances, is projected to grow at 13.8 percent per year from 2023 to 2030.[3] Remittance providers have already found success by serving users of traditional (nondigital) ways to transmit remittances, as well as serving tech-savvy customers. These companies have invested in new products, enhanced digital capabilities, lowered transaction costs, increased transparency (especially in exchange rates), and increased the number of partnerships in destination countries.

The industry's growth, combined with market dynamics such as digitalization and consumer demand for lower fees, have attracted notice from private investors. Since 2020, private investments in remittance companies have generated deals worth between $400.00 million and $1.85 billion.[4] Seventy percent of investments in digital remittances have come from venture capital and private equity firms.[5]

1 *World Bank Blogs,* "Remittances to Latin America still growing," blog entry by Sonia Plaza, July 20, 2023.
2 Ibid.; "Remittances to reach $630 billion in 2022 with record flows into Ukraine," The World Bank, May 12, 2022.
3 *Digital remittance market size, share & trends analysis report by type (inward, outward), by channel (banks, money transfer operators, online platforms), by end use, by region, and segment forecasts, 2023 - 2030,* Grand View Research, 2023.
4 "Deal flow for cross-border payment companies, 2020-23," Crunchbase and PitchBook databases, accessed November 1, 2023.
5 Ibid.

Financial products can help savers build wealth. Take investing, for example: although Latino wealth is surging, Latinos are still the least likely to participate in the equities market. Only 28 percent of Latinos own stocks, compared with 39 percent of Black Americans and 66 percent of non-Latino White Americans (Exhibit 5).

Twenty-six percent of Latino savers have retirement savings accounts, worth an average of $31,000.[38] By comparison, 57 percent of non-Latino White savers have retirement savings accounts, worth $80,000 on average.[39]

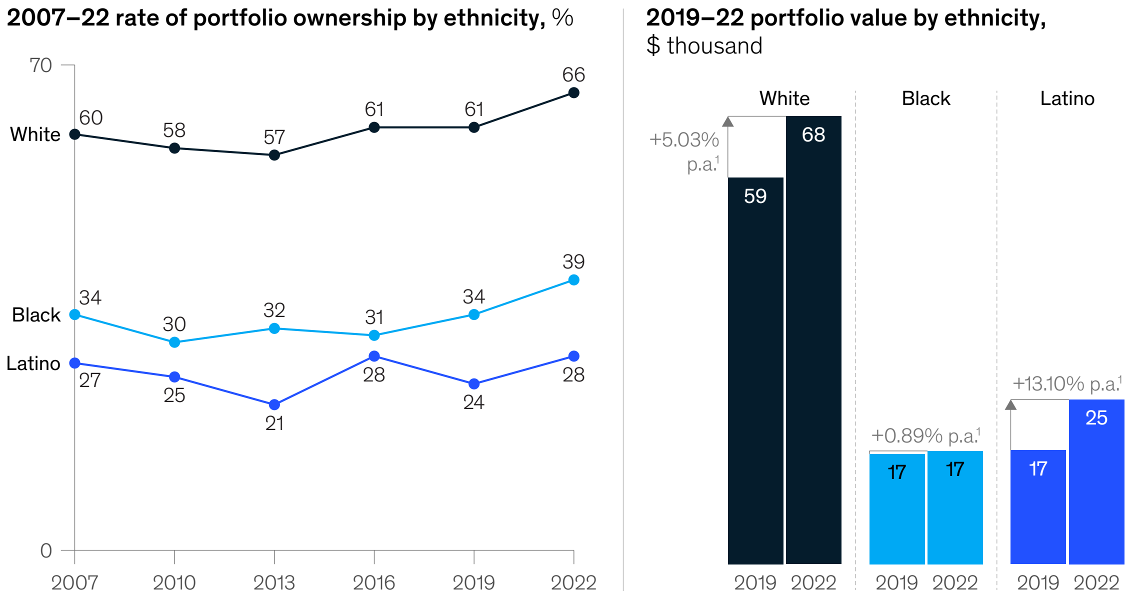
Wealth management can support Latino savers with their investments. Notably, half of respondents to our survey of Latino savers said they preferred to keep their investments with the same entity they bank with. Compared to the general population, a higher share of Latino respondents also matched with their advisers as the result of targeted outreach from institutions, rather than referrals. Latino savers value financial advisers who offer transparency and a comprehensive, personalized approach.

To protect wealth, savers could use life insurance, but only 42 percent of Latino savers have life

38 *Off the Charts,* "For most Americans, retirement accounts are paltry," blog entry by Kathy Ruffing, October 9, 2020.
39 Ibid.

Exhibit 5

Latinos own less stock than their peers, which hampers wealth building.



[1]Per annum.
Source: 2021 FDIC National Survey of Unbanked and Underbanked Households

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insurance, compared with 50 percent of all US savers.[40] The net result for Latino savers is less wealth and less protection from unexpected financial hits. A major cause of this undersupply of life insurance has been the lack of linguistically and culturally fluent agents in Latino communities, but many carriers have worked to remedy the situation.

[40] "New report reveals a majority of Hispanic Americans lack vital financial protection," Life Insurance Marketing and Research Association (LIMRA), September 15, 2022.

Providing better service to Latino business owners can produce $25 billion per year in revenue for financial institutions


ABIERTO
Bienvenidos

Latino-owned SMBs are expected to contribute significantly to the US banking and insurance sectors' revenue growth from 2022 to 2030. Our analysis reveals that Latino SMBs have achieved impressive growth, with an annual revenue increase of 4 percent in the last decade, surpassing all other ethnic groups by 1.5 times. Latinos are fueling this expansion with an entrepreneurial spirit, starting businesses at three times the rate of the general population.[41] Our analysis also suggests that Latino business owners' spending on banking and insurance will grow from $17 billion in 2022 to $25 billion in 2030. Increasing the availability of financial products for Latino-owned businesses could provide financial institutions with $55 billion of additional revenue. This in turn could result in $300 billion in loans by 2030, extending lending access to an additional one million fully Latino-owned businesses and bridging the $200 billion lending gap (Exhibit 6).

Concentrated in California, Florida, New York, and Texas,[42] Latino business owners seek more services and engagement than they currently have with institutions and private-market investors. Only 38 percent of Latino business owners use financial offerings beyond basic accounts.[43]

But these business owners are ready to engage, and their willingness to pay is consistent with that mindset. Latino business owners are distinguished by their focus on their businesses' long-term growth and their higher-than-average willingness to pay for relationship management services. According to our research, 20 percent of Latino business owners would be willing to switch to a new financial-services provider for better offerings (for context, 10 percent of non-Latino White business owners would). Latino business owners are willing to pay 10 percent more for financial products and services that better satisfy their needs, which suggests that meeting that demand could generate up to another $4 billion in revenue.

Financial institutions can build trust and create valuable long-term relationships by providing comprehensive solutions, particularly culturally competent relationship-oriented services, such as financial planning. When asked to rank a number of considerations by importance, respondents to our survey put support just after credit. Specifically, 35 percent of Latino business owners without relationship managers said they would be willing to pay for a dedicated relationship manager. Our research also shows that Latino business owners are more likely than their non-Latino White peers to switch primary banks for better access to credit, client service, and digital experiences such as integration with business software. Because many financial institutions are doing less new lending in a tighter monetary environment, access to credit has become a top concern for Latino business owners.

The goals are clear. But first, the financial-services industry would have to work with Latino business owners to overcome the obstacles they face in accessing funding from the financial system. McKinsey analysis shows that local and national banks—and private-market investors—have an opportunity to close the $200 billion lending gap and fund Latino economic mobility. Notably, we found that for each dollar Latino-owned SMBs receive in funding, their non-Latino White counterparts receive $2 to $7.

Barriers to obtaining funding

Barriers for Latino-led SMBs stem from characteristics of Latino business owners, their businesses, and the financial-services industry and ecosystem.

Though some institutions have simplified their lending processes, obtaining institutional funding is often daunting. For Latino business owners, their lower access to institutional capital reinforces existing hesitancy to trust financial institutions in the first place. When they do pursue funding, many find the funding process hard to navigate—79 percent thought banks demanded too much information, and 22 percent thought the process was harder than expected.[44]

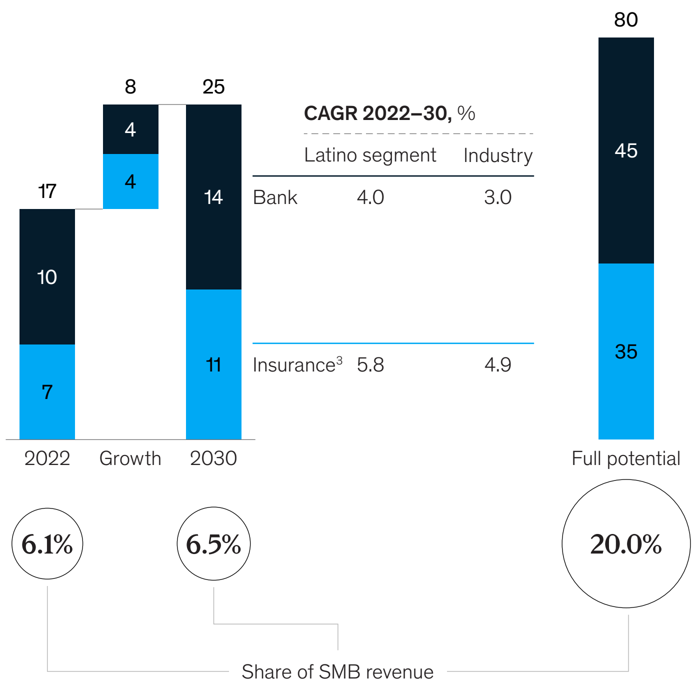
41 "The growing potential of the Hispanic small business economy," PNC, September 22, 2023.
42 "Annual Latino-owned business study 2022," Biz2credit, October 6, 2022.
43 McKinsey SMB Survey, October 2021. Of the more than 1,200 respondents, 160 were Latino SMBs.
44 Ibid.

Exhibit 6

Providing better service to Latino business owners can produce $25 billion in potential revenue for financial institutions.

Latino small and medium-size businesses (SMBs): Estimated 2022–30 financial-services revenues,[1] $ billion

Full potential,[2] $ billion



Latinos: A rapidly expanding segment

4%
annual revenue growth

20%
more represented in industries in the top quartile of growth

3×
as likely to start businesses as the general population

Opportunities

$198,000
average outstanding loan balance (compared to $232,000 for businesses owned by non-Latino Whites)

700,000
potential new Latino SMBs

$239 billion
in new loans that could go to Latino-owned SMBs

< 38%
of Latino SMBs have financial-services products other than basic accounts and deposits

[1]Excludes health insurance and pensions because they are less subject to consumer choice compared with other areas of financial services.
[2]"Full potential" is a scenario in which market penetration and utilization rates for Latinos equal those of their non-Latino White counterparts.
[3]"Insurance" refers to property and casualty and life insurance.

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Professional support can help, but awareness of it is low. An ecosystem-wide lack of Latino-specific initiatives, such as incubators and investor networks focused on Latino-owned SMBs, is a major barrier to obtaining funding for Latino-owned SMBs. Similarly, the system provides few channels through which SMBs of any kind can voice their needs to institutions. Complicating matters is the fact that Latino SMBs tend to have lower revenues and assets compared to the general pool of SMBs; they account for 7 percent of all SMBs but only 5 percent of SMB revenue.[45]

Without attention from the industry, offerings designed with Latino business owners in mind are hard to come by. Community development financial institutions (CDFIs) could fill some of the gap, but they don't have enough capital to scale their lending to a large number of SMBs. Small banks could meet some of Latino SMBs' funding needs, but those institutions' smaller size makes it more difficult to manage risk. Both kinds of institutions share challenges related to back-office capabilities that might otherwise be addressable with emerging technologies such as generative AI (for more, see

[45] Annual Business Survey 2020, US Census Bureau, 2020; "DFA: Distributional financial accounts," US Federal Reserve, updated September 22, 2023.

Generative AI in the financial sector

Generative AI could transform the financial-services sector by increasing productivity by 3 to 5 percent and reducing operating expenditures by $200 billion to $300 billion per year, all while improving customer experience.[1] When it comes to serving Latino customers, the technology could help financial institutions strengthen their offerings, differentiate themselves, and position themselves to capture a larger part of the market.

One of the technology's selling points has been its low barrier to entry, which allows smaller organizations to quickly test and implement use cases. Generative AI's impact in the back and middle offices could boost individual institutions' competitive positions. Crucially, it could augment back-office capabilities and make scaling easier and more cost-effective.

To be sure, institutions would need to monitor and continuously adapt their operations to evolving regulations governing the technology. Specific controls to mitigate the risks—many of which are not yet fully understood—will also be critical to protecting customers.[2]

1 "Global Banking Annual Review 2023: The Great Banking Transition," McKinsey, October 10, 2023.
2 For more on AI risk, see Kevin Buehler, Rachel Dooley, Liz Grennan, and Alex Singla, "Getting to know—and manage—your biggest AI risks," McKinsey, May 3, 2021.

sidebar "Generative AI in the financial sector").[46] Both kinds of institutions' digital user experiences also make using these institutions' solutions and scaling their lending businesses difficult.

Some industry participants are already contributing solutions, but few incumbents have taken action. Nonbank entities have begun to address some of Latino business owners' financial needs, and the financial ecosystem has produced more Latino-focused incubators and resources to elevate support for Latino SMBs. But these supportive developments will produce additional demand for banks' services. The question is how to meet that demand.

One built-in motivation for banks to better serve Latino-owned SMBs is section 1071 of the Dodd-Frank Act, which requires financial institutions to compile, maintain, and submit data on credit applications from businesses that are small or women- or minority-owned. Another reason to do this work is the updated rules related to implementing the Community Reinvestment Act, which was enacted in 1977 to help meet the credit needs of entire communities—particularly in low- and moderate-income neighborhoods (for more, see sidebar "Not just compliance: Rules through a business lens").

46 For more, see "How can generative AI add value in banking and financial services?," McKinsey, October 17, 2023.

Some industry participants are already contributing solutions, but few incumbents have taken action.

Latino SMBs may be less likely to get what they seek compared with non-Latino SMBs.

Lacking options, Latino SMBs contend with pain points

Latino business owners have a relatively narrow range of products from which to choose. Not sufficiently prioritized by traditional banks, they could turn to fintechs, but those solutions are imperfect, too. And the lending process, meant to inject capital to fuel a business, is often a challenge (Exhibit 7).

Some traditional banks may not have dedicated the optimal amount of resources to developing solutions aimed at Latino SMBs' needs. According to McKinsey survey results, Latino SMBs may be less likely to get what they seek compared with non-Latino SMBs. Take the loan process, which is emblematic of Latino-owned SMBs' need to gather solutions from multiple sources instead of fulfilling their needs with a single provider. Latino-owned SMBs are about as likely to be approved for loans as their non-Latino White peers at national banks.[47] However, the average loan size for Latino-owned businesses is lower: $47,000, as compared with $81,000 for SMBs owned by non-Latino Whites.[48]

At local banks, Latino-owned SMBs are less likely to be approved for loans—25 percent of them receive loans, compared with 48 percent of their non-Latino White counterparts.[49]

[47] J.D. Harrison, "Black, Hispanic entrepreneurs discriminated against when seeking small business loans," *Washington Post,* June 3, 2014.
[48] "Annual Latino-owned business study 2021," Biz2credit, 2021.
[49] "Credit survey finds White-owned small businesses were twice as likely," April 15, 2021.

Not just compliance: Rules through a business lens

Section 1071 of the Dodd-Frank Act amends the Equal Credit Opportunity Act (ECOA) and requires banks to comply by October 1, 2024. Similarly, the final rule of the modernized Community Reinvestment Act will take effect on January 1, 2026. How difficult it will be to comply with the updated requirements will depend in part on each bank's data collection, reporting, recordkeeping, and firewalls. Whether the data required by the updated rules is already being collected will be a particular help—or hindrance.

A business-focused approach to addressing these rules would turn what could be a compliance exercise into an opportunity to address structural challenges such as Latino business owners' access to capital and utilization parity. What's more, banks could use this transition to address their gaps in lending to small and medium-size businesses and capture part of the fast-growing minority- or women-owned business enterprises (MWBE) market as early movers.

Exhibit 7

The financial sector has opportunities to address more of Latino small and medium-size businesses' needs.

Unmet digital needs

Most financial-services offerings don't fulfill Latino business owners' needs for digital capabilities, integration with software, and culturally competent customer service

No all-in-one solutions

Latino business owners seek centralized providers of their financial solutions

Dissatisfaction with fintechs

Fintechs lack the staff and capital needed to adequately serve Latino business owners

Low product usage at megabanks

62% of Latino business owners only use basic accounts and deposits

Hard-to-navigate lending processes

79% of Latino business owners think the process requires too much information

Limited access to core products

10–30% Lower average balances across lending, credit cards, and deposits as a result, as compared to White-owned businesses

Source: McKinsey 2023 SMB Survey (n = 1,200+; Latino small and medium-size businesses, n = 160)

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Fintechs have entered the industry with innovative offerings.[50] However, Latino business owners may not be satisfied with these offerings, because our research shows they value personal attention from staff such as relationship managers.[51]

This leaves the standard lending process, which 22 percent of Latino business owners we surveyed found harder than expected. Seventy-nine percent of respondents also thought institutions demanded too much information, and 58 percent thought the process for funding after approvals was lengthy.

[50] For more, see "Global Banking Annual Review 2023," October 10, 2023.
[51] Lauren Ashcraft, "Banks should follow fintech's example to bridge the Latino banking divide," Insider Intelligence, October 2, 2023.

These pain points are part of a world in which minority-owned SMBs have limited access to loans, credit cards, and deposits—and in which their average bank balance is 10 to 30 percent lower than those of their non-Latino peers. Other factors, such as gender, can make running and funding an SMB more complicated (for more, see sidebar "Latina entrepreneurs: Fueling SMB growth under heavier loads").[52]

[52] McKinsey SMB Survey, October 2021. Of the more than 1,200 respondents, 160 were Latino SMBs.

Latina entrepreneurs: Fueling SMB growth under heavier loads

About a third of all new businesses created in 2020 had Latina founders, and their aggregate revenue from 2014 to 2020 grew at twice the rate of small and medium-size businesses owned by Latino men.[1]

However, Latina business owners are running and growing their businesses with fewer resources and more non-professional responsibilities. Latina entrepreneurs have less access to business loans. Data on disbursements of loans under the Paycheck Protection Program (PPP) suggests that 36 percent of Latina entrepreneurs received poor treatment from financial institutions and tended to receive lower-quality information.[2] As a partial result, Latina-owned businesses were twice as likely to close than business owned by their male counterparts and 5 percent more likely to conduct layoffs.[3]

Outside of work, gendered divisions of labor loom large. Latina entrepreneurs spend three times as much time on caretaking and twice as much time on household maintenance as their male counterparts.[4]

[1] McKinsey analysis based on data from the US Census Bureau's 2020 Annual Business Survey.
[2] Sterling Bone et al., *Lending discrimination during COVID-19: Black and Hispanic women-owned businesses,* National Community Reinvestment Coalition, 2020.
[3] "Annual Latino-owned business study 2021," Biz2credit, 2021.
[4] Rodrigo Dominguez-Villegas et al., "Latinas exiting the workforce: How the pandemic revealed historic disadvantages and heightened economic hardship," UCLA Latino Policy & Politics Institute, June 14, 2021.

Setting strategies to align with the commercial benefits

Offering Latino customers what they want—and serving them with what they need—is a significant undertaking. Many financial institutions still struggle to serve Latino customers well because of persistent barriers in the financial-services ecosystem. To be sure, some industry participants have started to pursue Latino customers with some innovative solutions, but the sector as a whole has not yet done so; 51 percent of Latinos still feel undervalued by the financial sector.[53] The challenges often come from common strategic frictions from financial institutions, such as offerings that don't fit Latino customers' specific needs and a lack of operational and organizational enablers within institutions.[54]

To counter these barriers, we outline three steps institutions could take to identify the right strategy to approach Latino customers, discuss three major strategies, and spotlight the role private-market investors can play in this ecosystem.

Three steps to get to the right strategy

Institutions could follow three steps to identify the right strategic approach to serve Latino customers (Exhibit 8).

Identify target segments and strategic approaches

The first step is to identify key customer segments and create a strategic approach that fits the organization's aspirations. On the figurative day one of the effort, institutions could start with understanding their current Latino customers' characteristics, product usage patterns, and needs.

Financial institutions that want to offer more services to Latinos could consider ways to implement inclusive practices as an overall strategic approach. This approach focuses on building trust and enhancing access to financial services.

Choosing this strategy means taking a long-term view of customer growth. Institutions following this approach would prioritize attracting new customers by investing in Latino customers and improving their access to financial services, breaking down the barriers that have hindered their participation in the financial system. Effective foundational financial services and products will be especially important at the start, with retention as the long-term goal.

On the other hand, an institution that decides to serve high-earning Latino savers and business owners who are already knowledgeable about financial products and services could emphasize commercial value. This approach might cater to first-generation immigrants seeking integrated banking platforms that work in both the United States and their home countries, upwardly mobile US-born Latinos in need of wealth management services, and business owners with substantial or fast-growing enterprises that may require investment banking services.

If financial institutions want to balance broadening their customer base with offering effective products and diversified services, they could focus on inclusive growth. This approach is aimed at Latinos who are fluent in English—possibly second- or third-generation Latinos who prefer digital and bundled solutions. Many of these customers already have some access to financial services and would consider switching or increasing their use of financial services if presented with products and strategies superior to what they currently encounter.

Develop value propositions and holistic commercial approaches

The next step is to develop compelling value propositions and commercial initiatives that resonate with key customers. As a starting point, institutions could identify products that best cater to Latino customers' needs and that reach them in the most effective channels.

Beyond the day-one actions, institutions could customize their holistic offerings based on their insights—and test and refine them to ensure that they meet customers' requirements. As part of this step, decision makers would also articulate the specifics of their commercial initiatives such as go-to-market strategies and products for this audience.

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[53] "Trends and insights into Hispanic market," February 1, 2019.
[54] Based on the McKinsey Consumer Survey 2022.

Exhibit 8

Three steps can help financial institutions take a coherent approach to better serve Latino customers.

Making it happen	Day 1 action
1 Identify target segments and strategic approaches for growth initiatives • Improve access with a long-term view of profitability (inclusion) • Increase penetration and product usage (inclusive growth) • Capture highly profitable customers (commercial value)	Understand current Latino customers' characteristics, product usage patterns, preferences, and needs
2 Develop value propositions and holistic commercial strategies • Tailor value proposition to meet target segment's needs • Create holistic commercial strategies that are aligned with value propositions	Identify product bundles and marketing channels and campaigns that would best cater to Latino customers
3 Deliver and scale an integrated inclusive growth strategy with different enablers • Integrate value proposition and commercial strategies into overall strategy and commitments • Determine internal and external enablers, such as operating models and partnerships • Identify champions and business leaders to support implementation	Review existing capabilities, resources, and broader commitments

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Deliver and scale the integrated strategies
Finally, financial institutions would focus on developing a governance model to help pilot, integrate, and scale the chosen approach across the enterprise.[55] Day-one actions include reviewing existing capabilities and resources to identify areas of overlap in serving Latino customers.

To scale, institutions need to identify the elements—enablers—that are critical to the success of their strategies. Enablers would come from adjustments to institutions' internal operations and organizations and external partnerships that can help organizations match their offerings with customers' needs and preferences. Crucially, institutions would need to clearly designate the business units and leaders responsible for championing their strategies.

Three strategic approaches

Depending on their goals and philosophies, financial institutions could use three strategic approaches to meet Latino customers' needs. One emphasizes commercial value, one emphasizes inclusion, and a third balances the two by seeking inclusive growth. All three strategic approaches are already in action in patches of the industry, and we will discuss what leading institutions are doing.

A commercial-value focus
Institutions that emphasize commercial value would work to rapidly acquire and grow revenue from key customers by addressing their specific needs and pain points. For instance, US institutions could use partnerships with major banks in Latin America to give highly profitable Latino customers

[55] "Black consumers: Where to invest for equity (a preview)," McKinsey, December 15, 2021.

a continuous experience. Specialized wealth-management teams could serve high-net-worth Latino customers, Latino-specific business units could meet business owners' needs, and boutique investment-banking services could serve high-growth Latino-owned SMBs. Some institutions have already created business units dedicated to serving Latino customers with sophisticated needs.

An inclusion focus

Institutions emphasizing inclusion might offer basic financial services and products to savers who live in banking deserts, with little or no credit visibility or English proficiency.

Because this strategy requires a long-term view, many of the necessary interventions would also address the long term. For example, institutions could build trust with Latino customers and communities and increase Latino customers' readiness to use financial services effectively by investing in financial education and by partnering with community, immigrant, and trade organizations to help refine and amplify messages.

More-flexible fee structures for services such as remittances could help support savers' everyday finances. Some financial institutions are already attracting more Latinos into the financial system by accepting a broader range of identification documents, such as individual taxpayer identification numbers and identification cards issued by home countries' governments. Others are investing in more-advanced credit assessment tools, with the aim of conducting more-holistic evaluations. For example, institutions could take into account Latino customers' credit scores from their home countries, or score credit using proxies for financial behavior, such as customers' rent-payment history.

An inclusive-growth focus

Institutions pursuing inclusive growth could offer tailored products and services that better address customers' needs, such as early payments to households to smooth cash flows and mortgage products for low-income families. Some industry participants are already offering superior digital experiences through advanced mobile platforms and are investing in research to better understand Latino consumers.

For Latino SMBs, institutions could offer relationship managers dedicated to helping Latino business owners with challenges such as navigating the funding process. Business owners could also use loans for professional certifications and education and for insurance coverage for non-US assets.

Investors and new entrants can also lead the way, though they may have to overcome challenges to freeing up capital. Despite some hurdles, decision makers have started to experiment with measures such as partnering with CDFIs to support business owners from historically overlooked communities in building their credit profiles and accessing credit.

Private investors and financial inclusion

Private-market institutional investors—specifically VC and PE firms—could play a central role in boosting economic mobility for Latino savers, business owners, investors, and investing professionals. Most obviously, firms could consider investing in Latino-owned SMBs. Some prominent VC and PE firms have already taken steps to invest in Latino business owners, launching Latino-focused funds.

In the medium to long term, having more capital under Latino management and increasing Latino representation among investing professionals could help investors produce more value.[56] We found that of the $11.7 trillion in assets under management in the private markets,[57] less than 1 percent are directly managed by Latino-controlled entities.[58] And at 4 percent, Latinos are also underrepresented in the ranks of investment professionals.[59] A number of Latino-controlled funds are already investing in

[56] For more on representation in financial services, see "The state of diversity in global private markets: 2023," McKinsey, August 22, 2023.
[57] *McKinsey Global Private Markets Review 2023: Private markets turn down the volume,* McKinsey, March 2023.
[58] "The state of diversity," August 22, 2023; "Knight Diversity of Asset Managers research series," Knight Foundation, accessed October 26, 2023.
[59] For more on DEI in private markets, see "The state of diversity," August 22, 2023.

opportunities in sectors that are growing thanks to the expanding Latino middle class, and those funds are also supporting the growth and evolution of Latino-owned businesses.

Finally, institutional investors could help bolster themes that support Latinos' economic mobility and boost financial-services uptake among Latino customers. One area to consider is homeownership, a common engine for household wealth building.[60] We also estimate that Latinos' part of the rent-to-own market could be worth up to $1.8 billion. In a similar domain, our analysis values companies that connect homeowners to home improvement loans at $400 million.

Decision makers could also stay alert to market trends that help remove barriers in the credit market. For example, based on McKinsey research, firms that help consumers improve their credit scores could see up to $1.2 billion in revenue from Latinos.[61] Companies that offer credit bureaus nontraditional sources of creditworthiness make up another potential market for Latino customers, worth $800 million.[62] Other companies help consumers rebuild credit with secured cards.

Finally, institutions could keep track of more-accessible, affordable, and flexible remittance options for Latinos. A crop of companies with this focus has already emerged. Because of the size of the market, reducing money transfer fees by 5 percent could save Latino customers up to $200 million per year.[63]

Improving financial offerings for Latino customers can create both commercial and social benefits. Institutions that proactively get to know Latino customers, remove the barriers to their participation in the financial system, court them, and serve them effectively could earn more of the market while supporting Latino communities' financial mobility. The best time to start is now.

60 Jenny Schuetz, "Rethinking homeownership incentives to improve household financial security and shrink the racial wealth gap," Brookings, December 9, 2020.
61 "Data point: Credit invisibles," Consumer Financial Protection Bureau, May 5, 2015; "The economic state of Latinos in the US," November 14, 2022.
62 Ibid.
63 Ibid.

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