Hispanic Banking: The Race Is On

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With Hispanics now constituting the largest minority in the United States – some 40 million people – their appeal to financial institutions is growing. Spanish banks are taking advantage of their strong presence in Latin America to move into the United States, even as U.S. banks are trying to take advantage of the growing Hispanic presence in their country to expand into Latin America.

For the moment, the financial institutions that serve this market are focused on sending remittances, a business that will amount to $30 billion this year, according to BID, the Inter-American Development Bank. That is more money than all the foreign direct investment in the region. The Hispanic market is extremely attractive for Spanish and American banks because most Hispanics do not even have a bank account yet; in countries like Mexico, credit accounts for only 10% of GDP.

Banks have recently been taking steps to win over this market. Last January, BBVA, Spain's second-largest bank, acquired a 40.6% interest in Bancomer, Mexico's largest bank. In May, Bancomer's U.S. subsidiary, Bancomer Transfer Services, purchased Valley Bank, a small institution in southern California. Although Valley Bank has only six offices, the acquisition will allow Bancomer to provide financial products to the U.S. Hispanic community.

Last March, Spain's largest bank, Banco Santander Central Hispano, joined forces with Bank of America, the second-largest U.S. bank, to buy 24.9% of Serfin, the third-largest Mexican financial group, at a cost of $1.6 billion. Shortly thereafter, the two partners underwrote a $200 million capital increase to finance the growth of their subsidiary.

Meanwhile, Citigroup, the world's largest financial group, is continuing its typically aggressive strategy. Citigroup and Banamex – its Mexican affiliate and the second-largest bank in that country – have launched a bi-national credit card for sending financial remittances. In addition, a front page article in the July 27 *Wall Street Journal* describes Citigroup's efforts to persuade "Mexico's long-neglected working class … to replace the rolls of pesos they fold into money belts with debit cards, credit cards and bank passbooks." It is part of Citigroup's experiment to "move down market in developing countries," including Brazil, India, China and other "fast-growing economies," the article says.

Wells Fargo, the fifth-largest bank in the U.S., has done something similar in its alliance with the Mexican subsidiary of HSBC, the former Banco Vital. HSBC's pact will create a network for transferring remittances between the U.S. and Mexico. HSBC, headquartered in the United Kingdom, is the world's second largest financial institution. Apart from acquiring Vital, HSBC has staked out a position in the U.S. by acquiring Household, which derives 15% of its revenues from consumer financing.

Another big player is Puerto Rican Banco Popular, the largest Hispanic bank in the U.S. The company operates in the North American market through two subsidiary companies, Banco Popular Puerto Rico and Banco Popular North America. The latter has 100 branches in the U.S. and will add 27 more next March with the acquisition of Quaker City Bank, headquartered in California. Through this acquisition, the bank has reinforced its presence in California - one of the states with the largest percentage of Hispanics - where it will now have 44 branches.

The Challenge of Going It Alone

Growing competition in the Hispanic market is not the only obstacle that banks must overcome. According to Wharton management professor Mauro Guillén, "The banking market in the United States is very fragmented. On top of that, the Hispanic population is geographically dispersed. That means the most attractive business, to start off, is sending remittances of money."

Traditionally, companies such as Western Union and MoneyGram have monopolized the remittance market. However, commercial banks have gradually been gaining market share. According to Spanish newspaper *Expansión,* those two companies controlled 40% of the business provided by Mexican immigrants to the United States just two years ago. Their market share has now dropped to 15%.

To make a dent in this market, banks have been lowering the commissions they charge for each money transfer. "Western Union and MoneyGram charge about 10% on each dollar they send," says Michael Peck, founder and general partner of Mapa, which partnered with La Caixa, the Spanish Bank, to develop a strategy in the United States. "La Caixa, which is working with the Ibero-American Development Bank to improve policies for sending money, has demonstrated that these commissions can be reduced when better technologies are applied," Peck says.

Yet it terms of building a truly global network, technology is the Achilles heel of Spanish banks, "which have many locations and global logos but have never managed to become global," notes José Mario Álvarez Novales, a professor at the Instituto de Empresa business school. "Until now, synergies were not necessary, and lots of freedom was given to subsidiaries in each country. They operated with plenty of autonomy, but they depended on each other if they belonged to the same company."

The remittance business, however, "requires a more centralized model for performing [money] transfers between countries," notes Novales. The key to creating greater synergies is the technology, which is not completely integrated across borders. "Instability in Latin America has led Spanish institutions to rely on models that are less centralized. That way, they can get out of any market right away if conditions get worse. The technology requires a great deal of investment. So they have opted to maintain greater autonomy rather than fully integrate their computer networks."

The peculiarities and regulations of each country also act as an obstacle to centralization. As Novales notes, "It is much easier to be global in the telecom sector than in banking. In banking, you depend more on local contacts, political power considerations, stock market regulations, currency devaluations and so forth."

Alliances and Other Strategies

The banking business is so new to the Hispanic population that each bank is developing its own strategy to win market share. In some cases, banks are getting together with their competitors to share risk.

American banks have the advantage of already being established in Latin America, and they seem to be depending more on their allies; HSBC is working with Wells Fargo and Santander Serfin with Bank of America.

In contrast, Citigroup prefers to go it alone, taking advantage of its subsidiary in Mexico (Banamex) to sell imaginative new products. Citigroup's binational credit card, marketed in California by Commerce Bank, a subsidiary of Banamex, will permit each U.S. customer to name someone in Mexico who can use an additional card, up to the limit set for the actual cardholder.

Spanish banks have the advantage of a greater presence in Latin America, but they lack a presence in the United States. "Spaniards know more about the Hispanic market than Americans do," says Novales. Spain has also been more loyal to the Latin American market, he adds. "American banks have resorted to a strategy of coming and going, depending on economic conditions. They have not generated much customer loyalty [in Latin America]. If Spanish banks create greater synergies and establish themselves in the United States, they have a better chance to win the battle because the Hispanic population feels more loyal to them." Nevertheless, Guillén states, "The Hispanic population of the United States is extremely heterogeneous. You cannot attack the Hispanic market as if it were one single thing. You have to design strategies that take account of the differences between various nationalities."

As Guillén notes, each Hispanic nationality has a different educational level and level of buying power. "Cubans have the most financial resources and best skills, followed by Mexicans, Colombians, Ecuadorians, Central Americans and, finally, the Puerto Ricans." Moreover, from state to state, the Hispanic population varies in terms of geographical concentration. "Hispanics are very dispersed except in Texas, Florida and California," Guillén adds.

In his opinion, this diversity is the main reason BBVA decided to buy Valley Bank, which is located in California. That institution will not only test the U.S. market for BBVA; it will provide the license that BBVA needs in order to sell financial products in the United States. "Spain's opportunities in the United States are not restricted to the Hispanic market. I don't think that should be the strategy. They should jump into the American market without further ado. However, at the moment they are focusing on the Hispanic population because they see it as the front door they can step through."

Novales believes that Spanish banks are justified in taking a cautious approach. "Their policy of paying dividends restricts them so much; they have no other choice. They have to enter only those new markets where profits are guaranteed." The growth strategy of Spanish companies "has consisted in doing what comes easiest. There are three markets: The first market is where you eat and where you make money; in the case of Spain, that [first market] is Latin America. The second market is where you compete; that is Spain. The third market is where you learn. In banking, the challenge is the United States. The anxiety stems from the fact that the U.S. is the market where you face the most danger because it is the most complex. However, it is a place where you can also learn."

More than 13 years ago, Santander tried to enter the U.S. market by purchasing a 13.5% share of First Fidelity, a midsize bank. Years later, when that institution merged with First Union, the sixth-largest bank in the country was formed, and Santander was the largest shareholder. Nevertheless, Santander jumped ship in 1997, selling its shares for a profit of 1.36 billion euros.

Santander's strategy was a classic approach in banking, explains Novales. "They behaved entirely like investors; buying a bank and then selling it to make a profit." However, if Spanish banks want to win the battle of the Hispanic market, Novales advises them to acquire institutions and establish synergies that allow them to operate across borders. This is especially true in this early stage, when companies are focusing on the remittance business. "Transferring funds is a way to get into the market and achieve a critical mass. Normally, the strategy would be to enter with a local brand and then launch an attack in retail banking."

Staying exclusively in the remittance market means running the risk of facing too many competitors. Some competitors are not even financial-service companies. Novales cites the example of a Peruvian e-commerce company, E Wong, established in 1998. After the Internet bubble burst, E Wong realized that Peruvians had little interest in online shopping. Reinventing itself in 2001, E Wong decided to take advantage of the growing market for services that helped immigrants.

"They launched a Peruvian Visa card that does not require American citizenship and allows people to go online and pay remittances to their family members, using the E Wong web site," says Novales. "That way, people spend their money on necessities, not on other products like alcohol. The fees are also lower than those charged by remittance firms and they are no higher than commissions charged by the usual Visa card. Peru's Interbank issued the card and did the banking part of the business."

Known as Wong Interbank Visa, this card enables customers to buy goods and services in more than 13 million establishments affiliated with Visa in Peru and elsewhere around the world. "This company is not yet a great threat to banks, because it operates only in Lima (Peru's capital). It does not have branches in major countries like Mexico, Brazil, and so forth," says Novales, adding, however, that while companies like these may not be competitive threats now, they could be in the near future.