Understanding the needs of Black consumers

Black Americans’ buying power is growing, due to increasing education levels and the number of Black-owned businesses. Making up roughly 13.4% of the total population, Black Americans have more than $1.4 trillion in buying power. However, despite these gains, the household wealth gap between Black and white households is significant: about $154,000.

This paper will look at the numbers that reflect current disparities in opportunities for Black consumers, as well as recent research that points the industry toward a more equitable future: better serving the Black community through increased access to Black financial professionals — and thoughtful outreach by non-Black professionals.

STATISTICS REVEAL THE PROBLEM

There is a significant income gap between Black and white workers. Black males earn only 87 cents on the dollar compared with white males. Black females earn 63 cents for every dollar earned by white males. It’s important to note that factors have not been controlled for these wage gaps, so we’re not comparing same job title and experience, but the discrepancies speak to social barriers, opportunity gaps and occupational differences.

In 2018, the median income of Black households was roughly $26,000 lower than that of white households. It is unsurprising that the differences in both wealth and income translate into less generational wealth transfer within Black families. The reality is that only 8% of Black families receive an inheritance, compared with 26% of white families. This is a source of concern among Black Americans: 70% of Black families believe it is important that their children are not burdened to take care of them.

Solving the problem of the wealth gap will require that both public and private institutions work together to support members of the Black community in growth and protecting their current wealth.

Additionally, financial professionals must find ways to welcome and engage Black clients. Wealth management firms can do more to reach out to prospective clients and become more inclusive and still maintain — if not increase — profitability. Firms who ignore communities of color, whose buying power continues to grow, will not be equipped to address and appeal to this shifting and emerging market.
HISTORIC INDUSTRY STANDARDS MAY CAUSE CHALLENGES

It is not uncommon for brokerage houses to focus almost exclusively on assets under management as a qualification for wealth management services. For example, if a client possesses a minimum of $250,000 or $500,000 in assets, the door may be wide open to services; if not, the door may stay shut. Many minority clients have built their net worth through retirement accounts. Those accounts are held in custody and not considered managed assets until they are cashed in, which could leave many potential clients excluded until they retire and roll over their funds.

TAKE ACTION

Take a long-term view and recognize 401(k) funds as assets to manage. Many minority investors, who own a house and are taking care of kids and loved ones, are still building up their liquid assets. You can build trust and provide guidance to help Black clients grow their wealth.

MINORITIES SHARE CONCERNS ABOUT RISK

A wide body of research indicates that Black and Hispanic households are less willing to take financial risk than white counterparts. This is problematic because the lack of participation in the equity markets contributes to the perpetuation of the historic wealth gap between Black and white households.

Not willing to take any financial risk:
- 55% of Black households
- 68% of Hispanic households
- 42% for both white and Asian households when saving and investing

Willing to take an average amount of financial risk:
- 30% of Black households
- 21% of Hispanic households
- 40% of white households
- 39% of Asian households

Willing to take an above-average level of financial risk:
- 11% of Black households
- 8% of Hispanic households
- 16% of white and Asian/other households

Willing to take a substantial amount of risk:
- Fewer than 6% of households from any racial/ethnic group

INCREASING FINANCIAL EDUCATION IS KEY

A historic lack of access to wealth management and a general distrust of the financial and banking industry (discussed later in the paper) have kept Black consumers from traditional financial planning. Research reveals a reason for optimism: We know that Black people with higher financial education are generally more willing to take financial risk, such as investing in the stock market.

- Black consumers who had more financial knowledge were 1.58 times more likely to invest than those who had less financial knowledge.
- Black consumers who participated in financial education were 1.64 times more likely to invest than those who did not participate in financial education.

TAKE ACTION

One way that consumers improve their financial education is to work with a financial professional. Studies show that Black consumers are interested in and willing to work with a financial professional for targeted purposes, but they use them less than white consumers for comprehensive financial planning. Recognizing and understanding their fears can help build trust and financial knowledge.
USING WHAT WE KNOW TO IMPROVE OUTCOMES

Decades of research show that Black consumers tend to express higher levels of generalized distrust than whites. This can potentially be explained by a long history of racist, systemic practices — redlining, devaluation of property, school segregation, inequity in law enforcement — that disproportionately affects the Black population.

To overcome the generalized distrust of many Black consumers, financial professionals will need to spend more time building and developing their relationships with Black clients — specifically understanding and addressing their unique needs. The issue of trust must be addressed by both Black and non-Black financial professionals, and both should work to build better bridges to minority clients.

This also points to the need for an increased number of Black financial professionals, so that there are service providers who share important demographic characteristics with Black consumers. Nationwide is involved in an ongoing effort with other select financial services leaders and historically Black colleges and universities to improve equity and inclusion in the industry. The Financial Alliance for Racial Equity (FARE) seeks to increase the number of Black financial professionals through expanded research, increased training, and mentorship opportunities at both the university and professional level.

TAKE ACTION
Access our materials on trust and empathy to learn more about effectively communicating and deepening your client relationships.

Talk to your wholesaler for an invitation to our Why elevating your empathy is good for business webinar.

Read our Understanding trust and deepening client relationships white paper. nationwidefinancial.com/media/pdf/NFM-20031AO.pdf

MOVING FORWARD WITH GREATER UNDERSTANDING

Financial professionals can do several things to better engage and partner with Black clients and communities of color. You can begin by working with Black clients to build long-term relationships that focus more on financial planning and asset building. By better understanding the unique needs of Black clients, proving trustworthiness, and looking out for their best interests, financial professionals can make more of an impact on this population whose wealth continues to grow.

This is also an opportunity for financial professionals to push their firms to play a role in supporting Black consumers in growing and protecting their wealth. Assessing a firm’s commitment to diversity, equity and inclusion is a first step.

TAKE ACTION
Be an advocate for diversity in your firm. Evaluate how many minority people are senior leaders in your organization. How is your firm supporting organizations of people of color, minority suppliers, women’s organizations and LGBTQ+ groups?
PUT YOUR CLIENTS ON A PATH TOWARD SUCCESS.
Seek to understand your minority clients’ worldviews and tailor your financial planning and outreach to support their unique needs.

For more information on the topic of developing diverse markets, visit the Nationwide Retirement Institute at NationwideFinancial.com/RetirementInstitute.