A REVIEW OF DIVERSITY AND INCLUSION AT AMERICA'S LARGE BANKS

HEARING

BEFORE THE

SUBCOMMITTEE ON DIVERSITY AND INCLUSION

OF THE

COMMITTEE ON FINANCIAL SERVICES

U.S. HOUSE OF REPRESENTATIVES

ONE HUNDRED SIXTEENTH CONGRESS

SECOND SESSION

FEBRUARY 12, 2020

Printed for the use of the Committee on Financial Services

Serial No. 116–86

U.S. GOVERNMENT PUBLISHING OFFICE
42–820 PDF WASHINGTON : 2021

HOUSE COMMITTEE ON FINANCIAL SERVICES

MAXINE WATERS, California, *Chairwoman*

CAROLYN B. MALONEY, New York
NYDIA M. VELÁZQUEZ, New York
BRAD SHERMAN, California
GREGORY W. MEEKS, New York
WM. LACY CLAY, Missouri
DAVID SCOTT, Georgia
AL GREEN, Texas
EMANUEL CLEAVER, Missouri
ED PERLMUTTER, Colorado
JIM A. HIMES, Connecticut
BILL FOSTER, Illinois
JOYCE BEATTY, Ohio
DENNY HECK, Washington
JUAN VARGAS, California
JOSH GOTTHEIMER, New Jersey
VICENTE GONZALEZ, Texas
AL LAWSON, Florida
MICHAEL SAN NICOLAS, Guam
RASHIDA TLAIB, Michigan
KATIE PORTER, California
CINDY AXNE, Iowa
SEAN CASTEN, Illinois
AYANNA PRESSLEY, Massachusetts
BEN MCADAMS, Utah
ALEXANDRIA OCASIO-CORTEZ, New York
JENNIFER WEXTON, Virginia
STEPHEN F. LYNCH, Massachusetts
TULSI GABBARD, Hawaii
ALMA ADAMS, North Carolina
MADELEINE DEAN, Pennsylvania
JESÚS "CHUY" GARCIA, Illinois
SYLVIA GARCIA, Texas
DEAN PHILLIPS, Minnesota

PATRICK MCHENRY, North Carolina, *Ranking Member*
ANN WAGNER, Missouri
FRANK D. LUCAS, Oklahoma
BILL POSEY, Florida
BLAINE LUETKEMEYER, Missouri
BILL HUIZENGA, Michigan
STEVE STIVERS, Ohio
ANDY BARR, Kentucky
SCOTT TIPTON, Colorado
ROGER WILLIAMS, Texas
FRENCH HILL, Arkansas
TOM EMMER, Minnesota
LEE M. ZELDIN, New York
BARRY LOUDERMILK, Georgia
ALEXANDER X. MOONEY, West Virginia
WARREN DAVIDSON, Ohio
TED BUDD, North Carolina
DAVID KUSTOFF, Tennessee
TREY HOLLINGSWORTH, Indiana
ANTHONY GONZALEZ, Ohio
JOHN ROSE, Tennessee
BRYAN STEIL, Wisconsin
LANCE GOODEN, Texas
DENVER RIGGLEMAN, Virginia
WILLIAM TIMMONS, South Carolina
VAN TAYLOR, Texas

CHARLA OUERTATANI, *Staff Director*

SUBCOMMITTEE ON DIVERSITY AND INCLUSION

JOYCE BEATTY, Ohio, *Chairwoman*

WM. LACY CLAY, Missouri
AL GREEN, Texas
JOSH GOTTHEIMER, New Jersey
VICENTE GONZALEZ, Texas
AL LAWSON, Florida
AYANNA PRESSLEY, Massachusetts
TULSI GABBARD, Hawaii
ALMA ADAMS, North Carolina
MADELEINE DEAN, Pennsylvania
SYLVIA GARCIA, Texas
DEAN PHILLIPS, Minnesota

ANN WAGNER, Missouri, *Ranking Member*
FRANK D. LUCAS, Oklahoma
ALEXANDER X. MOONEY, West Virginia
TED BUDD, North Carolina
DAVID KUSTOFF, Tennessee
TREY HOLLINGSWORTH, Indiana
ANTHONY GONZALEZ, Ohio, *Vice Ranking Member*
BRYAN STEIL, Wisconsin
LANCE GOODEN, Texas

CONTENTS

WITNESSES

WEDNESDAY, FEBRUARY 12, 2020

APPENDIX

A REVIEW OF DIVERSITY AND INCLUSION AT AMERICA'S LARGE BANKS

Wednesday, February 12, 2020

U.S. House of Representatives,
Subcommittee on Diversity
and Inclusion,
Committee on Financial Services,
Washington, D.C.

The subcommittee met, pursuant to notice, at 10:10 a.m., in room 2128, Rayburn House Office Building, Hon. Joyce Beatty [chairwoman of the subcommittee] presiding.

Members present: Representatives Beatty, Clay, Green, Gottheimer, Lawson, Adams, Dean, Garcia of Texas, Phillips; Wagner, Budd, Hollingsworth, Gonzalez of Ohio, Steil, and Gooden.

Ex officio present: Representative Waters.

Chairwoman Beatty. The Subcommittee on Diversity and Inclusion will come to order. Without objection, the Chair is authorized to declare a recess of the subcommittee at any time. Also, without objection, members of the full Financial Services Committee who are not members of this subcommittee are authorized to participate in today's hearing.

Today's hearing is entitled, "A Review of Diversity and Inclusion at America's Large Banks."

I now recognize myself for 4 minutes for an opening statement.

In today's hearing, I am proud to discuss a review of diversity and inclusion within America's 44 largest banks. Last June, Chairwoman Maxine Waters and I sent a letter to 44 of the largest banks in America requesting them to share their diversity data with this committee.

Months of analysis and review of banks' responses led to the creation of the committee's staff report entitled, "Diversity and Inclusion: Holding America's Largest Banks Accountable," which was circulated with today's hearing materials. This report confirms that America's largest banks must be more transparent so that regulators, Congress, and the American people can hold them accountable for real and intentional diversity and inclusion outcomes.

Nearly all banks submitted substantive, qualitative data to share their diversity and inclusion (D&I) recruitment strategies and outreach to diverse organizations. But this report shows that despite some successes in recruitment strategies and establishing employee resource groups, our work is not done and there is progress to be made.

For instance, the research shows that there are clear barriers in retaining and promoting underrepresented groups in the banking industry. Experts know the commitment to diversity and inclusion must be driven from the top down, and there is a lack of diverse groups within C-Suites and boardrooms, as the report shows by the banks' own data submission.

Therefore, banks need more commitment, concrete plans, and cultural changes, in terms of C-Suite and board diversity. Also, we need more inclusion, in terms of business diversity, especially in the utilization of diverse asset managers, law firms, and women- and minority-owned business partnerships. This report is the first step in requiring banks to respond to our call in holding them accountable.

This first-ever Subcommittee on Diversity and Inclusion has garnered national attention and has brought diversity and inclusion to the forefront of the nation's largest financial institutions. We have already seen some banks make public commitments to hold themselves accountable for improving diversity and inclusion within their firms.

For example, CNBC reported in January that Goldman Sachs was setting a new standard of having at least one diverse board member before taking any companies public. Additionally, Citigroup announced their commitment to close the gender gap.

Today, we welcome a distinguished panel of witnesses who will testify to the predominant challenges faced by banks in creating an inclusive workforce. I believe we must mirror the world we want to live in. As you know, this has been a long journey, and it is very important to me and this entire committee. When representation and equity is an overarching priority in the banking industry, we can develop banks that out-innovate and outperform others and continue to move the needle within the industry.

I reserve the balance of my time for the Chair of the full Financial Services Committee, the Honorable Chairwoman Maxine Waters.

The Chair now recognizes the ranking member of the subcommittee, Mrs. Wagner, for 4 minutes for an opening statement.

Mrs. WAGNER. Thank you, Madam Chairwoman.

I want to thank our witnesses for testifying before the subcommittee today. Today's panel includes expert witnesses representing multiple parts of the financial services industry. I look forward to hearing your testimony and taking this opportunity to learn more about the strides being made within the industry and successful strategies for recruiting and retaining diverse employees.

Republican and Democrat members of this committee agree that firms have more work to do to improve diversity, particularly in leadership positions. And, in fact, all of the banks surveyed in the Majority staff report acknowledge in some way that they need improvement with respect to diversity and inclusion.

The Majority report found that the two most commonly cited challenges in improving diversity and inclusion at the financial institutions were: one, the competition for diverse talent with finance-related expertise; and two, the ability of firms to retain a diverse workforce. Studies continue to show that minorities and women tend to leave financial services firms at a higher rate than their white male counterparts.

To improve the rate of retention, companies must adjust their culture and promote the development of diverse talent. This requires a pronounced commitment from corporate leadership and a specific action plan to increase inclusion. In order to be most effective, company policy changes should be implemented from the very top down and have buy-in at all levels of management.

In reading the Majority report, I am encouraged that many corporations are proactively addressing diversity and inclusion, and a set of best practices are emerging. Some of the best practices we have learned about in hearings in this committee and in Congress regarding retention rates and improving inclusivity of the workplace include: providing financial literacy training; transparency regarding salaries and promotion opprtunities; mentoring and sponsoring programs; employee resource groups; unconscious bias training; and flexible work hours for working mothers.

Various studies have identified several benefits for companies that increase their diversity, including different perspectives, increased creativity, more innovation, faster problem-solving, better decisions, higher profits, lower turnover, and improved hiring. So, we know just how beneficial it is to have a diverse and inclusive workplace.

And industry has taken notice, too. According to our witness, Dr. Greenfield's, testimony, the projected representation among women and people of color in the industry over the next 10 years is expected to continue increasing. We look forward to hearing more about that. Dr. Greenfield's research shows that there are different areas of strength and weakness within the industry when it comes to representation.

For women, she says that retention is an area of strength, while hiring and promotion are areas where improvement is needed. For people of color, hiring is an area of strength, while promotion and retention are areas where more focus is needed. These findings are reflective of what this subcommittee has heard from multiple witnesses that, while there are clear efforts being made by the industry to improve and declare acknowledgement of the benefits of a diverse workplace, good work is being accomplished and more can be done.

I look forward to learning more today about the current state of diversity and inclusion within the financial services industry, the direction it is heading, and how Congress can help promote the best practices and strategies that we will hear about today. I am proud of this subcommittee for examining these important issues and I applaud the chairwoman for her efforts. Thank you, and I yield back.

Chairwoman BEATTY. Thank you.

The Chair now recognizes the chairwoman of the full Financial Services Committee, the Honorable Maxine Waters, for 1 minute.

Chairwoman WATERS. Thank you, Madam Chairwoman. Before I begin, I would like to thank you for holding this hearing and for your leadership on this important issue. I am so very proud that your efforts have culminated in the issuance of an historic and groundbreaking staff report on the diversity of our nation's large banks.

This report has been a long time in coming. Back in June 2019, you and I, Madam Chairwoman, sent letters to the 44 banks with more than $50 billion in assets, asking them to report on their workforce diversity, their investment with diverse firms, their diversity practices and policies, and any challenges they face in achieving diversity.

I believe that America's banks took our charge seriously, and I thank them for their participation in this effort. The information they have provided is illuminating and is something that the American public deserves to see. The committee staff report found that banks have a lot of work to do, in terms of diversifying their senior staff and their boards. Banks also need to do more to contract with minority- and women-owned businesses.

Moreover, banks need to disclose their data to their regulators and to the American public. I believe that today, with this hearing, we are bringing diversity at our large banks from out of the shadows and into the light.

And, Madam Chairwoman, again, I want to thank you. You've worked very hard. I know that this is a subject that is dear to you and that you are doing everything possible to help our banks and other corporations understand what their responsibilities are to all of the people. With that, I yield back.

Chairwoman BEATTY. And thank you, Madam Chairwoman. Today, we welcome the testimony of a distinguished panel of six witnesses. And I thank you all for being here.

First, we welcome the testimony of Kenneth Bentsen, Jr., president and chief executive officer of the Securities Industry and Financial Markets Association (SIFMA). Mr. Bentsen also served as a Member of the United States House of Representatives, representing Texas, and he actually sat on the House Financial Services Committee.

Second, we welcome the testimony of Naomi Mercer, the senior vice president of diversity, equity, and inclusion for the American Bankers Association, a trade association which represents banks of all asset sizes.

Third, we welcome the testimony of Rawan Elhalaby, the senior economic equity program manager at the Greenlining Institute, where she leads the organization's research efforts around bank accountability and financial inclusion.

Fourth, we welcome the testimony of Joseph Vaughan, the executive director of the Corporate Diversity and Inclusion Forum, an organization that leads efforts to promote and enhance diversity and inclusion performance within the financial services industry.

Fifth, we welcome the testimony of Subha Barry, the current president of Working Mothers Media, and a past senior vice president and chief diversity officer at Freddie Mac.

And finally, we welcome the testimony of Gail Greenfield, a senior workforce strategy and analytics consultant at Mercer. Dr. Greenfield has more than 15 years of experience in diversity and inclusion, including workforce analytics, pay equity, and diversity and inclusion analytics.

The witnesses are reminded that their oral testimony will be limited to 5 minutes. And without objection, your written statements will be made a part of the record. The witnesses are reminded to turn on their microphones and abide by the three lights in front of you: green means go; yellow means wrap it up; and red actually means stop.

Mr. Bentsen, you are now recognized for 5 minutes to give an oral presentation of your testimony. And then, we will go in the same order as you were all introduced.

STATEMENT OF THE HONORABLE KENNETH E. BENTSEN, JR., PRESIDENT AND CHIEF EXECUTIVE OFFICER, SECURITIES INDUSTRY AND FINANCIAL MARKETS ASSOCIATION (SIFMA)

Mr. BENTSEN. Thank you, Chairwoman Beatty, Ranking Member Wagner, Chairwoman Waters, and distinguished members of the subcommittee. Thank you for the opportunity to testify today on behalf of SIFMA and to share our members' commitment to diversity and inclusion in the securities industry.

SIFMA commends the members of this committee for your collective focus on this important issue. SIFMA is the leading trade association for broker-dealers, investment banks, and asset managers operating in the United States and global capital markets. SIFMA's members recognize that achieving diversity in our workforce is a necessary goal that requires an ongoing commitment to fostering the culture of diversity and inclusion, and that a diverse and inclusive workforce that reflects the diversity of the clients and communities we serve is both the right thing to do and a business imperative.

The commitment is a priority for SIFMA's board of directors. Through our Diversity and Inclusion Advisory Council, we provide a forum that allows our members the opportunity to discuss their unique initiatives and to benchmark with their peers on ways to achieve their D&I goals. SIFMA, through our D&I Advisory Council and industry-wide channels, convenes conferences, roundtables, and symposia to enhance D&I efforts for our members.

Biennially, SIFMA, on behalf of our participating member firms, facilitates a thorough benchmarking survey. This study, conducted on a confidential basis, allows our members to assess their firm's D&I plans and how their progress compares to the results of their peers and to look respectively at the strong policies and practices needed to in order to achieve future goals.

SIFMA completed its most recent survey in 2018, and while I can't share the specific survey results due to nondisclosure agreements, I did want to share a few topline observations. All participants reported having a strategic plan for diversity. In the United States, 95 percent of organizations' strategic plans explicitly address gender, gender identity, race, and ethnicity. Sexual orientation and veterans were also commonly covered in 80 percent. Responses indicated that leaders at all levels in the industry are actively engaged in diversity and inclusion efforts, particularly senior leaders.

Representation of women in the industry was 44 percent. The overall industry hire rate for women is comparable to the rate of men, as is the overall turnover rate, indicating that while both populations are growing, the share of women in the industry relative to men has remained steady. Likewise, the share of women is projected to increase by 2 percentage points over the next 5 years, and 3 percentage points over the next 10 years, making the ratio of men to women equal.

People of color make up roughly one-third of the overall industry population in the United States. The overall industry rate for people of color exceeds that for whites by more than 5 percentage points, while the turnover rate is about 2 percentage points higher for people of color than for whites, indicating that the percentage of people of color relative to whites in the industry has been increasing.

Ninety-four percent examined pay equity. Sixty-seven percent of the respondents conduct such analysis at least once a year. Eighty-two percent of respondents said adjustments are made as far as the annual review process, and a similar number said they have a formal remediation process to address pay equity risk.

Our members report to us that they are employing a wide array of strategies to develop the diverse talent pipeline, so it's sustainable throughout the future. In fact, the committee staff report recognized several SIFMA member company initiatives to encourage upward mobility for diverse individuals, including development opportunities to highlight business' strategic and financial skills to create pathways for return to the workforce and identify new ways to promote more diverse individuals within their companies.

Many SIFMA D&I Council members report to us that they tied their diversity and inclusion efforts to their performance results and compensation plans. Firms have worked to ensure hiring interviews or objective by developing best practices to reduce bias in the interview process and require that interview panels include minorities and women.

Many have also developed special internship programs to further enhance their hiring diversity, some of which specifically target high-school students on track to be the first in their families to attend college. These recruitment efforts include leadership summits tailored to women, Latino, LGBTQ, and HBCU students.

In their efforts to recruit mid-level candidates, many firms work with affinity organizations and community groups that bring together historically overlooked communities. Firms have developed "return to work" programs to attract predominantly female talent back into the workplace after a career break, with programming that includes group coaching, mentoring, and other upskilling.

The strides members have made to build diverse talent pipelines, however, can only be sustained by simultaneously facilitating an inclusive culture of opportunities for diverse staff. Firms have established advancement initiatives to increase female and minority representation in senior leadership by providing ongoing development opportunities to strengthen their business, strategic, and financial skills.

And many firms incorporate a discussion of diversity in their succession planning process. Sponsorship is another important aspect of retaining and promoting diversity. Veterans have always been of great importance to our members. Some of our members have undertaken ambitious initiatives to increase their hiring of our country's veterans.

Again, I want to commend the work of this subcommittee, and I commit to work with you as the securities industry invests in the business of diversity. Thank you, and I look forward to answering your questions.

[The prepared statement of Mr. Bentsen can be found on page 49 of the appendix.]

Chairwoman BEATTY. Thank you very much.

Ms. Mercer, you will have 5 minutes to present your oral testimony.

STATEMENT OF NAOMI MERCER, SENIOR VICE PRESIDENT, DIVERSITY, EQUITY, AND INCLUSION, AMERICAN BANKERS ASSOCIATION (ABA)

Ms. MERCER. Chairwoman Beatty, Ranking Member Wagner, and members of the subcommittee, my name is Naomi Mercer and I am the senior vice president of diversity, equity, and inclusion at the American Bankers Association. I appreciate the opportunity to present ABA's views on the issues of diversity, equity, and inclusion, an issue that I have spent many years advancing.

Let me start by commending the subcommittee on the work you have done to draw attention to these important issues and on the release of your recent diversity report. We are very appreciative of the time that the committee staff has taken to meet with ABA and many of our member institutions to discuss their diversity, equity, and inclusion initiatives.

ABA is the voice of the nation's $18 trillion banking industry, which is comprised of small, midsized, regional, and large banks that together employ more than 2 million people. I joined ABA last year, after a 25-year career in the United States Army, where my responsibilities included overseeing the Army's Gender Integration and Religious Accommodation Program.

I also served as an assistant professor at the United States Military Academy. I was teaching composition and literature at West Point, but my real mission was to develop cadets into leaders of character, with critical thinking skills and, more importantly, empathy. My students were predominantly white, male, and from privileged backgrounds, who needed the skills to understand and respect the perspectives of their soldiers with more diverse identities and backgrounds.

It was my first experience teaching diversity, equity, and inclusion. After my retirement from the Army, ABA hired me to this position, working with our member banks to help them address many of the same diversity, equity, and inclusion (DE&I) issues we face in the military.

The banking industry firmly believes in the value of diversity, equity, and inclusion. A diverse workforce and vendor channel is critical to the success of individual banks being able to meet the needs of a diverse set of communities and customers across the nation. In recent years, ABA has encouraged its member banks to review their diversity, equity, and inclusion programs, while providing a range of resources and services to help banks address DE&I issues.

The industry has made progress in recent years to diversify its talent pool and leadership and to meet the needs of customers from all walks of life. Many banks have robust DE&I programs and have implemented leading practices, such as employee resource groups, and leadership and formal mentoring programs to advance women, people of color, and other underrepresented groups, and supply our diversity programs.

As the subcommittee report clearly notes, the industry also still has much work to do. Today, banks of all sizes are engaged in a range of initiatives to embrace diversity, equity, and inclusion, not just because it's the right thing to do, but because it's good for business. ABA recognizes that DE&I efforts must be tailored to individual organizations and factor in the bank's existing culture, the bank's needs for the present and the future, and steps the bank must take to achieve an inclusive environment.

The banking industry has made progress in diversity, equity, and inclusion, but challenges remain, as the banking industry, like many other business sectors, is most diverse among employees below the senior leadership and middle-management areas.

ABA is committed to providing leadership for our banks by creating the salient research on leading practices, such as using diverse and representative hiring and promotion slates, helping banks to expand their networks when searching for directors and C-Suite executives, teaching banks to prime interview and promotion review to reduce unconscious bias, and many more to help our banks build and implement strategies for DE&I.

Cultural change within an organization is incremental and change across an entire industry can be frustratingly slow. ABA and our member banks stand ready to work with the subcommittee to advance diversity, equity, and inclusion.

Thank you for the opportunity to share ABA's efforts to help the banking industry address these important issues. I am happy to answer any questions you may have. Thank you.

[The prepared statement of Ms. Mercer can be found on page 102 of the appendix.]

Chairwoman BEATTY. Thank you.

Ms. Elhalaby, you are now recognized for 5 minutes.

STATEMENT OF RAWAN ELHALABY, SENIOR ECONOMIC EQUITY PROGRAM MANAGER, THE GREENLINING INSTITUTE

Ms. ELHALABY. Thank you, Chairwoman Beatty, Ranking Member Wagner, and members of the Subcommittee on Diversity and Inclusion for holding this hearing and for inviting the Greenlining Institute to testify.

My name is Rawan Elhalaby, and I am a proud San Diegan and Palestinian-American. I am the economic equity senior program manager at the Greenlining Institute and I lead our research on the financial services sector. The Greenlining Institute is a State and national policy and research organization that envisions the nation where communities of color thrive, and a person's race is never a barrier to economic opportunity.

The name of my institution comes from the antidote to the discriminatory practice of redlining. For anyone unfamiliar with the history of redlining, it was the public and private practice of drawing literal red lines around non-white neighbors on a map to signify that they were not suitable areas for banks or insurance companies to do business.

Thanks to the Fair Housing Act and other civil rights laws, redlining is banned today. Yet, we can still see its lingering effects through society, with the lower earning potential of people of color, inferior treatment of minority small-business owners by banks, people of color routinely denied home loans at a higher rate than their white counterparts, and a widening racial wealth gap.

In the last 40 years, the wealth of the median Black family has decreased by 50 percent, while the wealth of the median white family has increased by 33 percent. The Greenlining Institute has over 25 years of experience analyzing diversity at all levels of government, higher education, philanthropic foundations, and banks.

At Greenlining, we understand that people solve the problems they see. One of the most successful examples of transparency legislation is the Home Mortgage Disclosure Act (HMDA). HMDA requires banks to disclose data on their lending by race and ethnicity and we use this data to identify potential discriminatory patterns. While HMDA does not enforce lending quotas or prohibit any particular activities, it does make banks take responsibility for lending or not lending to specific communities.

Greenlining also tracks corporate contracting with diverse businesses or supplier diversity. California has an active, groundbreaking, supplier diversity, transparency effort, including the California Public Utilities Commission's General Order 156. This order encourages utility companies to contract with minority women and disabled veteran-owned businesses and requires annual reporting of their procurement and outreach policies.

In 2019, I authored a study on the boards of directors of the 10 largest banks in California. I found out, on average, people of color made up 30 percent of bank board composition, even though over 67 percent of California's population are people of color. These figures have barely changed since we analyzed bank boards in 2012, and again in 2017, showing that banks have not made sufficient progress on recruiting people of color to their boards.

To complete our bank research, Greenlining requests data from national institutions that operate in California and uses this data to track and rank these companies. We have seen in our work that financial institutions and other companies often make claims to prioritize diversity and inclusion, but data reveals the action or lack thereof behind these buzzwords.

Data allows Greenlining to benchmark the banking industry's goal of increasing the D&I in critical areas. Unfortunately, we experienced substantial difficulty in receiving data broken down by race and ethnicity. Banks have inconsistent diversity data collection and reporting practices and generally, under-resource internal teams tasked with responding to our data requests.

Another driving factor is that banks are not required by law to provide the race data that is most meaningful to us. The CRA and other color-blind civil rights laws, while immensely impactful, are not sufficient on their own for eliminating discrimination in the financial services sector. Race-conscious regulations are needed to ensure financial inclusion.

Greenlining urges Congress to expand existing legislation that requires government agencies and private institutions to disclose data on diversity and inclusion practices. One example is Section 342 of the Dodd-Frank Act, which created Offices of Minority and Women Inclusion (OMWIs) to ensure policymakers and regulators better reflect, understand, and promote job creation in minority communities.

Data transparency on D&I helps agencies identify where policy and practice improvements should be made. The rise of the non-bank financial technology or fintech lenders is one largely unregulated area, where improvements in D&I can be made: 1.6 percent of the tech industry is Latino; and less than 1 percent is Black, and without increased transparency, these figures may stay static for too long.

To conclude, I applaud the Committee on Financial Services for prioritizing diversity and inclusion with the creation of this subcommittee. And I thank you again for the opportunity to testify today and highlight our work. The Greenlining Institute looks forward to working with you to shed light on the diversity and inclusion practices of the nation's banks. As I hope my testimony has demonstrated, transparency brings sunshine to essential parts of the financial sector and we need more of it.

[The prepared statement of Ms. Elhalaby can be found on page 54 of the appendix.]

Chairwoman BEATTY. Thank you.

Mr. Vaughan, you are now recognized for 5 minutes.

STATEMENT OF JOSEPH M. VAUGHAN, EXECUTIVE DIRECTOR, CORPORATE DIVERSITY AND INCLUSION FORUM

Mr. VAUGHAN. Thank you. Chairwoman Beatty, Ranking Member Wagner, and distinguished members of this subcommittee, thank you for the opportunity to share the perspectives of the Corporate Diversity and Inclusion Forum regarding the importance of diversity and inclusion performance in the financial services sector.

Throughout the 116th Congress, the House Financial Services Committee has worked to illuminate the correlation between greater diversity and inclusion performance and the long-term economic stability, safety, and soundness of the financial services sector. In fact, witnesses before the committee have incontrovertibly established the economic benefit of diversity and inclusion performance to the United States' economy.

The Corporate Diversity and Inclusion Forum works to educate market participants, policymakers, and the public regarding the intersectionality of greater diversity and inclusion performance in the sector and the goals of Federal, State, and local policymakers. We believe greater diversity and inclusion performance enhances profitability and is integral to addressing the persistent wealth gap in diverse urban and rural communities. In fact, McKinsey & Company recently estimated the U.S. economy will see between a $1 trillion and $1.5 trillion decline in consumption and investment between 2019 and 2028, due to the racial wealth gap yielding a 4 to 6 percent decline of the GDP in 2028.

In recent years, the financial services sector has made significant strides to embrace the evolving demographic shifts in the U.S.

workforce and consumer base. Countless financial services firms have integrated diversity and inclusion practices into their business enterprise. Diversity councils, employee resource groups, enhancements to more robust hiring, recruitment and retention policies, and the hiring of chief diversity officers are just a few examples of the critical practices being replicated across the sector.

While these efforts are laudable, it is reasonable to question whether efforts to realign business practices to more inclusive goals are sustainable and permanent. The committee's Banking Diversity Data Report rightly highlights key performance improvements among covered institutions, such as a broad commitment to achieve pay equity and, in some cases, linking diversity and inclusion results to performance. Those improvements are tempered by persistent shortcomings enumerated in the analysis, such as a muted commitment to supplier diversity and poor representation of women and minorities in senior leadership ranks and on corporate boards of directors.

The report's findings also identify structural challenges the industry faces in broadening the talent acquisition pipeline. The CDIF strongly encourages the financial services firms to make a concerted effort to engage diverse colleges and universities in the development of academic curricula, which produce talented graduates, well-suited to adapt to the rigors of the industry. Further, the industry must endeavor to visit college campuses and promote their goals and values, if we are to assuage perceptions that diverse talent is undervalued, unwelcome, and marginalized in the sector.

These outreach efforts are further enhanced by embracing STEM education and financial literacy in K–12 education as well. While the report's findings represent a current snapshot of large bank performance, it's critically important to recognize the data collection, data aggregation, and reporting process were implemented through a collaborative and constructive engagement between the committee's Majority and covered institutions.

Similarly, pursuant to Section 342 of the Dodd-Frank Act, the Directors of the Offices of the Minority and Women Inclusion have endeavored to develop an honest, collaborative, and transparent engagement with covered entities through a series of roundtables, conferences, and forums. The OMWI Directors have engaged market participants across the U.S., sought strategic advice in the development of the final joint standards, which were published in 2015, and are integral to developing a comprehensive assessment of D&I performance.

Further, the OMWI Directors have taken a constructive approach in the development of the voluntary, self-assessment process, consistent with the key recommendations of the industry, such as a self-reporting process outside of prudential examinations, and the aggregation of D&I performance data from covered entities.

The U.S. economy has experienced nearly a decade of expansionary growth that has served as a catalyst in the implementation of sound diversity and inclusion best practices. Although our workforce is enjoying near full employment, too many diverse urban and rural communities have not benefitted fully from the expertise and knowledge of the financial services sector.

The Great Recession of 2008 yielded higher attrition rates in the sector for women and under-represented minorities. And my fear is the gains identified in the Banking Diversity Data Report will be lost during a future economic downturn. Greater transparency and disclosure will assuage that potential outcome and help to enshrine the ongoing commitment to D&I in this sector.

Thanks again for the committee's consideration, and I look forward to answering your questions.

[The prepared statement of Mr. Vaughan can be found on page 113 of the appendix.]

Chairwoman BEATTY. Thank you.

Ms. Barry, you now have 5 minutes to present oral testimony on your written presentation.

STATEMENT OF SUBHA BARRY, PRESIDENT, WORKING MOTHER MEDIA

Ms. BARRY. Honored members of the subcommittee, I thank you for inviting me today.

By way of added background, I spent 26 years of my career in financial services at some of our nation's largest institutions: 20 years in frontline trading, sales, and business development roles; and 6 years as a global chief diversity officer. I personally experienced the bias that women and people of color face in that industry, but I also experienced the great opportunities and credibility that came with being successful.

As the president of Working Mother Media, we are a go-to resource for Fortune 1,000 companies, nonprofits, and governmental organizations. And we specialize in issues of DE&I, women and women of color, and parenting and caregiving. And we annually produce an inclusion index that assesses the diversity and inclusion best practices and outcomes. It is in this capacity that I share my comments with you.

The report that the committee staff prepared identified three barriers to achieving diversity and inclusion results. And I will be happy to sort of illustrate some of the ways in which companies are overcoming those challenges. But there are two additional barriers that need to be acknowledged and addressed.

One is a bias in talent development. Organizations must acknowledge and focus on the bias that exists in their talent decision-making systems and processes. And why do we say 44 financial institution's populations demographically match that of the U.S. population? Very few of them are diverse at the top, whether it's the board, the CEO, or the C-Suite.

And the lack of mechanisms that measure and titrate, for example, how feedback is given, or support is given and how that's received by underrepresented minority groups create gaps that become chasms. Recent gender gap research shows that women are one-third less likely to realize what relationship capital is and the importance of cultivating and monetizing it. Women and people of color aren't coached or made aware that building and leveraging relationships in your early career is critical, so they start out on their backs here.

This also shows up in the lack of sponsorship for women and people of color. With 73 percent of white women and 83 percent of multicultural women citing the lack of sponsors as the main reason they haven't gotten into critical profit-and-loss roles. And remember, a 2015 Standard and Poor's 500 analysis found that 90 percent of new CEOs were promoted or hired from line roles with profit and loss responsibility. You can do the math.

The second one is the lack of accountability for making progress. There are two aspects to this. One, holding companies accountable for transparently providing D&I data and metrics, both internally and externally. And two, holding the CEOs and their leadership teams accountable for the results they produce that tie to the above metrics.

So, structured programs need to be created. Clear-cut accountability metrics need to be normalized across geography and industry. We say diversity is critical to businesses, but we don't measure or compensate enough on diversity and inclusion performance. For example, 75 percent of all the inclusion index companies say they hold managers accountable for D&I results, but only 35 percent of them link compensation to D&I results. And only 46 percent set new numeric goals for diversity representation, and 58 percent set percentage goals. Again, you do the math.

Our inclusion index provides tools to hold organizations and leaders accountable. It measures demographics, best practices and talent processes, and culture and leadership accountability, and doing this annually allows companies to mark progress and tweak their strategy. So, intentions and words must translate into actions and consequences.

So, what do we recommend? Be transparent about data. Build accountability from the top. Establish development programs for women and underrepresented minorities. Establish new work norms. Challenge existing norms. Reframe how work gets done. And leverage your employee resource groups for marketplace impact.

In summary, while some organizations are proactively addressing D&I, there is much more work to be done, especially in the banking sector. The formula is straightforward, but the execution is key. And accountability creates the real change.

I thank you, and I'm happy to answer any questions that the committee may have.

[The prepared statement of Ms. Barry can be found on page 38 of the appendix.]

Chairwoman BEATTY. Thank you.

And I now recognize Dr. Greenfield for 5 minutes.

STATEMENT OF GAIL GREENFIELD, SENIOR PRINCIPAL, WORKFORCE STRATEGY AND ANALYTICS, MERCER

Ms. GREENFIELD. Members of the subcommittee, thank you for the opportunity to share my views on this important topic.

My name is Gail Greenfield, and I'm a senior principal at Mercer, a consulting firm and Marsh & McLennan business. I work with clients to help them create more diverse and inclusive workforces. My comments today will focus on evidence gathered through Mercer research and consulting assignments, as well as research conducted by others.

Before I speak about this evidence, I want to discuss the business case for diversity and inclusion. The business case is clear. An extensive body of trust research has demonstrated the value of a diverse and inclusive workforce. Organizations interested in improving their financial performance, better leveraging their talent, and increasing innovation need to make diversity and inclusion a priority.

In developing a diversity and inclusion strategy, Mercer recommends focus on four key measures. The first is representation. Based on recent research conducted by Mercer on behalf of financial institutions, we find that female representation in the industry is 44 percent. The highest representation is at the staff level, which is roughly two-thirds female. Representation drops below 40 percent at the professional and manager levels, and fewer than 1 in 4 executives are women.

People of color collectively make up 32 percent of the overall industry workforce, with representation dropping to one-quarter at the manager level, and 14 percent at the executive level.

The second measure is talent flows. Based on hiring, promotion, and turnover trends, how is a representation in the industry expected to change over the next decade? Based on Mercer's research, we expect a 3-percentage point increase in the representation of women at the manager level and above over the next decade. The projected increase is larger for people of color, where we expect an 11-percentage point increase in representation at the manager level and above.

Our research further revealed that for women in the industry, retention is an area of strength, while hiring is an area of strength for people of color. For both women and people of color, the key lever to further increase the representation at senior levels is to ensure they're being promoted at comparable rates to their male and white counterparts.

The third measure is employee experience. There's limited information on the perceptions of those employed in the financial services industry; however, we can glean insights from a study Mercer conducted on behalf of the Financial Services Pipeline Initiative. The study included a survey of 10,000 individuals to learn about the experiences and perceptions of Hispanics and Latinos and Blacks and African Americans in the financial services industry in Chicago. One key finding is that people in these groups are less likely than whites to feel there is a racially and ethnically diverse mix of role models in their organizations and are less likely to perceive a leadership commitment to diversity and inclusion.

The last measure is pay equity. PayScale recently released a report revealing that the raw gender pay gap in the finance and insurance industry is $0.26, with women in the industry earning $0.74 for each dollar earned by men. After accounting for legitimate compensable factors, the pay gap falls to $0.03. I refer to this figure as the unexplained pay gap.

Mercer also compiles information on pay gaps. Among the financial services companies for whom Mercer conducts pay equity assessments, we find the unexplained gender pay gap is less than $0.01. Unexplained pay gaps are less than $0.01 for Blacks and African Americans and for Hispanics and Latinos. We find a positive pay gap for Asians of slightly more than $0.01. These studies reveal that pay gaps are driven mainly by compensable factors.

Mercer's experience indicates that the single most important factor in determining an employee's pay is their career level. Thus, closing raw pay gaps will require organizations to ensure women and people of color gain access to more senior, higher-paying roles. I caution organizations, however, not to be deceived into thinking a small, unexplained pay gap does not deserve attention. A back-of-the-envelope calculation suggests a $0.01 unexplained pay gap translates into lost wages for women in the U.S. of $500 million each week.

Thank you for this opportunity. I hope my remarks today have provided evidence-based strategies for what financial services companies can do to advance diversity and inclusion. I look forward to answering your questions.

[The prepared statement of Dr. Greenfield can be found on page 93 of the appendix.]

Chairwoman BEATTY. Thank you very much. Before I recognize myself for 5 minutes, let me say thank you to all of the panelists, and let me also say, because of the large number of panelists, we are going to ask you to be brief and concise so everyone can get through asking each of you or most of you a question. And each of you will, as well as the Members, have an opportunity to follow up in writing.

And now, I recognize myself for 5 minutes for questions. My first question is for Dr. Mercer, Dr. Greenfield, and Mr. Vaughan. In a review of the business case for diversity, the president of the National Minority Supplier Development Council testified that diverse supply chains are better equipped to address consumer preferences in a direct way. She also added that diverse firms tend to hire diverse workers at a much higher rate.

With that, we found that some of the banks did not even track their spending with diverse firms. Would you recommend that banks have a public database on their website to increase transparency? That can be a yes or a no. How can organizations continue to work with other organizations, like the U.S. Chamber of Commerce or LGBTQ or the National Veterans Supplier Diversity? Dr. Mercer?

Ms. MERCER. Chairwoman Beatty, we encourage our banks to have supplier diversity and we also encourage them to collaborate with a variety—

Chairwoman BEATTY. Okay. Transparency on their website, yes or no?

Ms. MERCER. Yes, because we are—

Chairwoman BEATTY. Mr. Vaughan, transparency on their website, yes or no?

Mr. VAUGHAN. Absolutely.

Chairwoman BEATTY. Ms. Barry, yes or no?

Ms. BARRY. Absolutely.

Chairwoman BEATTY. Dr. Greenfield?

Ms. GREENFIELD. I'd like to see that at the discretion of the particular organization.

Chairwoman BEATTY. Mr. Bentsen?

Mr. BENTSEN. I think we would leave that up to the firms. I think a lot of firms do that.

Chairwoman BEATTY. Okay. Ms. Elhalaby?

Ms. ELHALABY. Yes, definitely.

Chairwoman BEATTY. Thank you very much. The next question deals with Section 342 of the Dodd-Frank Act, which several of you have mentioned, and which we know established OMWIs. And they charged them with increasing inclusion and diversity with their workforce. They charged them with increasing participation of women in minority-owned businesses in their agency, and also, to assess diversity policies and practices of the industry that they regulate. Mr. Vaughan, how important is the data collection process in measuring D&I? I believe it's difficult to measure what we don't track.

Mr. VAUGHAN. It is absolutely critical, whether you are looking at supplier diversity or talent acquisition, and the makeup of boards or leaderships teams. Disclosure certainly, as one of my fellow witnesses has said, brings transparency and increases performance. What gets examined and measured gets done.

Chairwoman BEATTY. We also know that, for example, the FDIC and the OCC did it on a voluntary basis and their assessments were as low as 16 percent and 9 percent. Mr. Bentsen and Dr. Mercer, why do you believe the response rates from your members to regulate are so low?

Mr. BENTSEN. We do have a number of members who tell us that they respond to it. Our members interpret the statute as actually being a discretion, not a mandate. And we do know we have members who raise concerns because while EEOC, which all members have to supply, has FOIA protection, 342 data may not have FOIA protection, and firms are concerned about confidentiality risks that would come from that.

Chairwoman BEATTY. Thank you. The president of the National Minority Supplier Development Council testified in one of our hearings that diverse supply chains are better-equipped to address consumer presences in a direct way. Despite this, review of the bank supplier diversity members from the subcommittee still show that not all of our nation's largest banks track this data or track their business partnerships with diverse asset management, something you're going to hear a lot about in looking at that. Mrs. Barry, can you tell us why you think some banks do not track their diverse supplier and how much they spend? And why banks who handle tens of hundreds of billions of dollars in assets do not have or do not track their partnerships with diverse managers? And, Ms. Greenfield, I will ask you that same thing.

Ms. BARRY. I believe that the banks are challenged by that data, because the data doesn't look good, and when it doesn't look good, they're not willing to share that data. It's as simple as that. But the second piece is where they gather that data. One of the things that the best practicing banks are doing is they are requiring their diverse suppliers or all of their suppliers to also monitor their own diverse sub-suppliers and subcontractors.

Chairwoman BEATTY. To anyone, why do you think they don't have diverse asset managers? We now know through our studies that there are many minority diverse asset managers who can do it, but we are finding out that was an ah-ha moment for many of the banks. Why? Anyone?

Mr. VAUGHAN. It is why our diversity still remains not a top-line priority for the organizations.

Chairwoman BEATTY. Okay.

Mr. VAUGHAN. Once they make the commitment, they will change the results.

Chairwoman BEATTY. Thank you. And my time is up.

I now recognize the ranking member of the subcommittee, my colleague, Ranking Member Wagner, for 5 minutes of questioning.

Mrs. WAGNER. Thank you, Madam Chairwoman.

Dr. Greenfield, according to your testimony, Mercer's point of view is that workforce diversity is an outcome that organizations ought to actively manage and that an organization's diversity and inclusion strategy is more likely to be effective if it is evidence-based. How do you advise companies to increase diversity and inclusion within their ranks?

Ms. GREENFIELD. First and foremost, we tell them to look at their own data. Obviously, benchmarks can be very useful, but ultimately, they need to look at their own data. So that is what we work with our organizations to do. What we work with our clients to do is to help them look at their own data, and understand where they stand relative to themselve, essentially, an internal benchmark. So, for example, we have them look at things like promotion rates for women versus men, for whites versus people of color, hire rates, turnover rates, and look to see where there are gaps.

And where there are gaps, we help them understand what is driving those gaps. So, for example, if we find in an organization that turnover is an issue for people of color, then we would work with them to understand, well, what are the drivers of turnover in the organization? Are there particular experiences that lead to retention or increase the likelihood of quitting and how do those particularly relate to people of color?

So it is all about understanding your own data. And I will say, there is no one-size-fits-all approach. What works for one organization may not work for others.

Mrs. WAGNER. Dr. Greenfield, in your testimony, you state that companies should identify the cultural dynamics that may be posing a risk to their organization's culture of inclusion. Could you elaborate on these dynamics, because I do believe that the changes—obviously, supportive leadership from the very top and changing that corporate culture is what is key. Could you please elaborate?

Ms. GREENFIELD. I would completely agree that you can try and build diversity using a variety of different policies and practices, but if you don't have an inclusive culture, then it is going to be very difficult to retain women and people of color in an organization where they don't feel welcome and they don't feel supported.

So one of the things that we encourage our clients to do is to make sure they understand that employee experience, that they hear the voices of their employees. Most notably, we have organizations do their own surveys. Many organizations do engagement surveys and we are recommending that they add to their engagement surveys questions that are specifically around diversity and inclusion and the experience of different people.

Asking, for example, is there a good mix of role models in the organization that I can look up to? Do I have a sponsor in the organization, who is making me more visible to the rest of the organization? Do I feel like I have an understanding of the career path available to me? Do I feel like I have fair access to opportunities?

It's extremely important to hear directly from employees to understand how their experiences are differing based on whether it is gender or—

Mrs. WAGNER. Are those anonymous and at all levels of employee?

Ms. GREENFIELD. Those are generally anonymous, yes. It is very rare to have something that is not. Of course, this would be anonymous. And the results are generally not reported to the manager, unless they have a certain number of responses or more and it is aggregated.

Mrs. WAGNER. Moving on, obviously, it is very clear that diversity and inclusion are two distinct, but equally important, factors with respect to hiring and retaining a diverse workforce. And how employees, as you have elaborated, perceive their experience in the workplace. According to Mercer's research, what are some of the factors that affect whether a company is able to retain a diverse workforce and what strategies have you seen as effective for creating a more inclusive workplace, outside of surveys and such regarding—

Ms. GREENFIELD. Yes, and I will say that there is no one response to that, because when we do turnover analyses for organizations, we find different results for different organizations. But some of the things that we see that are a common theme are things like supervision, the relationship between an individual and their supervisor. Things like, for example, am I supervised by someone of the same race or ethnicity? Someone of the same gender or a different gender? I would like to be able to say that there is one set of best practices and one set of drivers, but that is just not the case.

Mrs. WAGNER. I am running out of time. Mr. Bentsen, I think that all of the members of this subcommittee can agree that an internal professional development program benefits the employee, the employer, and the general corporate culture that we have been talking about here. Lawful hiring practices are of critical importance in getting qualified employees who represent an increasingly diverse America.

But mentorship and promotion of qualified, diverse candidates is perhaps even more important. Can you speak to some of the mentoring practices of your member firms?

Mr. BENTSEN. Absolutely, Congresswoman. That is a very good point because on the one hand, recruitment is great, but you invest in that employee and you want that employee to be there for the long term. So if you are not having retention rates at the same rate, then you are not getting, effectively, a return on your investment, right?

Mrs. WAGNER. Yes.

Mr. BENTSEN. And so, firms report to us that they are and, in fact, we work with our firms through our various conferences developing different tools, such as mentoring programs, such as affinity groups and the like to work on retention.

Mrs. WAGNER. My time has expired. I would love it, Mr. Bentsen, if you would elaborate some more about your member firms in writing.

Mr. BENTSEN. Absolutely.

Mrs. WAGNER. And I yield back to the Chair.

Chairwoman BEATTY. Thank you.

The gentleman from Florida, Mr. Lawson, is now recognized for 5 minutes.

Mr. LAWSON. Thank you, Madam Chairwoman.

And I welcome all of you to the committee. This question, I think, will go to Dr. Mercer, and anyone else who would care to comment on it. The American Bankers Association (ABA) notes in its testimony that 140 banks are led by racially and ethnically diverse leadership. What challenges do banks face in achieving greater diversity at the leadership level?

Ms. MERCER. Congressman, the challenges that the banks are facing at the leadership level is to have qualified people that they can bring in, but it is a matter of expanding their networks to find the people who are qualified to bring into those leadership positions.

Ms. BARRY. If I could add to that?

Mr. LAWSON. Yes.

Ms. BARRY. The important thing to note is that you need to look at the pipelines. What is the pipeline to the CEO's job? If 90 percent of the people who get promoted to CEOs have profit-and-loss management experience, and when there is a very small percentage of women who actually get that experience along the way in their careers, they essentially don't even enter that pipeline. So the important thing is right at the get-go in their early careers, women and underrepresented minorities need to be shown and taught what those profit-and-loss roles are. How they can opt into those roles in early career and get that experience early so that they are actually in line to be in that pipeline?

Mr. LAWSON. Mr. Vaughan, go ahead?

Mr. VAUGHAN. I would add that many financial services firms have only deployed their diversity inclusion programs in the last 5 years. In fact, I think two-thirds of the S&P 500 companies who have chief diversity officers (CDOs) have only hired those CDOs in the last 5 years. And we have to recognize it is going to take time to really build the mechanisms and develop the talents and the candidates who will eventually be the leadership of the future generation of the industry.

Mr. LAWSON. Mr. Bentsen, did you want to respond?

Mr. BENTSEN. Again, I think that these are issues that the firms are focusing on and need to focus on. And I would note that members report to us in the surveys. And we have been doing these surveys for over 2 decades now, across a broad range of the industry. Our members are not just the big banks, they are broker-dealers and asset managers of all different sizes all over the country.

But what they report to us is where they are today is not—the majority view themselves at an intermediate stage and some, to Mr. Vaughan's comments, are at the beginning stage. Very few, if any, are saying they have mastered this issue. And so, this is very much a work in progress.

Mr. LAWSON. Okay. And I am going to try to get this next question in. Banks had identified challenges in hiring a diverse staff, including reports that there is too much competition in and around the small field of qualified minorities, STEM, and financial graduates.

According to the 2017 GAO report, financial services firms focus on recruiting and hiring from elite universities as a source of their diversity recruiting practice. What are some of the reasons why the institutions do not recruit from public universities and Historically Black Colleges and Universities (HBCUs), which provide rigorous academic support to minority students pursuing STEM and financial degrees, which would vastly expand the pool of qualified candidates? And everyone can comment. I have about 49 seconds, but I would like for you all to comment on that.

Mr. BENTSEN. The vast majority of our member firms who participate in our surveys report that they are actually are recruiting from HCBUs and other so-called non-elite universities. And, again, the breadth of our membership recruits from across the college/university sector in the United States.

Mr. VAUGHAN. I would just state that there is a persistent perception that those educational curriculums are not rigorous and that there needs to be improvements in terms of the educational curriculum, and that the industry should be out promoting those helping to replicate those programs at HBCUs and rural community colleges as well.

Ms. BARRY. There are two very specific examples I will call out. A company like Microsoft is creating internships and mentoring as early as elementary and middle school to foster that career interest and focus on building those analytical skills early. And Bloomberg has been one of the leaders in looking at top 10 percent of the students, across a wide variety of institutions, not just the elite ones.

So, there are companies that are actually doing this well, and that model needs to be adopted across-the-board.

Mr. LAWSON. My time has expired, and I yield back. But I have a lot of questions in that area.

Chairwoman BEATTY. Thank you. The gentleman's time is up.

The gentleman from North Carolina, Mr. Budd, is recognized for 5 minutes.

Mr. BUDD. Thank you, Madam Chairwoman.

Ms. Elhalaby, thank you for being here, and for your time this morning. I think we can all agree that diversity and inclusion efforts in the financial services sector are very desirable goals. And as we have heard this morning, the financial services industry is proactively seeking to improve the diversity of their workforce, not only because it is the right thing to do, but because a lot of studies have shown that it is a highly effective way to increase innovation and profitability, things we can all agree on.

Now, there's more work to be done, but it is encouraging to see that large banks and financial institutions are really taking this mission more seriously. However, I am concerned that we can't see the forest through the trees here, and that we are starting to mandate the private sector of one particular industry to self-report. And it may not meaningfully lead to a more diverse and inclusive workforce.

So my question for you is, what other industries, such as tech or energy, healthcare, telecom, or others have a mandate or requirement to conduct a self-assessment and provide the results of their D&I report to their regulator?

Ms. ELHALABY. Thank you. We have seen in California, specifically, that the public utilities industry, so energy, water, telecommunications—

Mr. BUDD. Can you give an exception outside of California?

Ms. ELHALABY. My expertise lies specifically there, so I would not be able to. Thank you.

Mr. BUDD. So, it is some number approaching zero that is outside of California, other industries, is what I am seeing.

Dr. Mercer, a question for you, in all of the discussions surrounding diversity and inclusion, sometimes there are categories of identities that are overlooked. For example, being of a minority religion in the United States or being of a different socioeconomic background than most of your colleagues is another form of diversity. So what do you think about aspects of diversity that are not discussed as much, such as religious diversity or socioeconomic diversity or political. Let's say that you are a Republican in San Francisco. We mentioned California earlier. Are these things as important as gender and ethnic and racial diversity?

Ms. MERCER. Absolutely. DE&I programs need to be tailored to the environment and the organization in which they are going to function. And we have a lot of small community banks that are in racially and ethnically homogenous communities. So we encourage them because the other limitations in their community to consider other avenues of getting diversity of thought into their leadership, into their bank, and on their boards of directors.

Mr. BUDD. Studies are showing that this is the right thing to do. Do we really need to do regulation for this? Because it is good for business to be more diverse. It is the right thing.

Ms. MERCER. It is absolutely the right thing to do diversity, equity, and inclusion. It is good for business and there is a strong moral case for it. We encourage our member banks to self-report for the OMWI self-assessment and we had a webinar to that effect to encourage our banks to do so.

But we also realize that in diversity, equity, and inclusion, accountability is very important, but it should be internally motivated. We think that our banks do gather that information; they may just not release it publicly.

Mr. BUDD. Understood. Thank you very much.

Mr. Bentsen, I am sure you know that the Human Rights Campaign (HRC) produces an annual list of the most diverse companies to work for. Their 2019 iteration included 33 of the 44 banks that the chairwoman's report lists. Why do you think the HRC included so many banks on this year's list?

Mr. BENTSEN. Congressman, I am not familiar with that specific report, but this is something again that our members report to us and this is a priority. As I said, this is a priority for my board of directors and that represents a broad, cross-section of the securities industry. So I think to your earlier questions, and I think Dr. Mercer got into this, many firms take a very broad view of diversity, and that is driven to a large extent by the pool of talent from which they are recruiting, and it's also driven by the pool or community of the clients which they are serving. And so, I think that is how many firms determine how they look at diversity.

Ms. BARRY. There is one additional aspect to that and the fact that with LGBTQ persons, and persons with disabilities, there is an intersectionality there that cuts across gender and race, and very often, that is something companies are willing to step up and do.

Mr. BUDD. Thank you. I just want to summarize. It seems like the financial services industry is making progress without government intervention. Thank you. I yield back.

Chairwoman BEATTY. Thank you. The gentlewoman from California, the Honorable Maxine Waters, the Chair of the full Financial Services Committee, is now recognized for 5 minutes.

Chairwoman WATERS. Thank you very much, Chairwoman Beatty. Again, I would like to compliment you on the work that you've done to get this report that you are releasing today to the public. And I am so pleased about the witnesses that you have gotten here to testify today.

We just released this groundbreaking report, showing the real numbers about diversity at America's largest banks, as you know. That is what we have been talking about. I understand that SIFMA also has a biennial report on its member firms, including banks, but it is not publicly released. I want to ask my friend, Ken Bentsen—it's good to see you—do you think that banks and other financial services firms should be required to publicly release their diversity and inclusion data? Should banks be more accountable to shareholders, regulators, and the public for their diversity and inclusion efforts?

Mr. BENTSEN. First, if I might, with respect to our report, it is a tool, like our other benchmarking surveys that we do with our members, and there is a lot of confidential information the firms share that they wouldn't necessarily share with their competitors but they can learn from, and that's why our report has nondisclosure agreements and why we are not able to share it publicly.

In terms of what firms should or whether firms should be mandated or not, again, many of our firms do share such information publicly. Others choose not to because of concerns around privacy, litigation risk, and the like. And I think as we commented back when 342, your statute as part of Dodd-Frank, as I recall, was being implemented in 2013, and then ultimately, I believe, in 2015, we did raise some questions.

And something that I think policymakers should consider in terms of what data should be public, what data should be subject to Freedom of Information requests, what data shouldn't be, similar to what firms require to the EEOC. So these are the issues that we are talking with our members about, as this committee is talking about, whether there should be mandates around disclosure or reporting and disclosure.

Chairwoman WATERS. So, do you consider that information on inclusion and diversity as information that should be kept private because in some way it reveals something that would interfere with the bottom line?

Mr. BENTSEN. Again, this is something that our firms are talking about. Some firms do disclose this. Some firms choose not to because they are concerned either about employee privacy or proprietary information, and it is something that our firms are talking about as to whether, where they can—

Chairwoman WATERS. But if the information is proprietary and they do not care to release it, how are we going to get into a discussion with them about diversity and inclusion? How can we even approach that subject without information?

Mr. BENTSEN. First of all, I think you have gotten into a discussion with them about it, and I think that is something, as I mentioned, that we have been working on for 2 decades with our members and many firms are beginning to report under 342. Many firms are publicly reporting, and as shown in the data, and in our case, the survey we do, which represents half of our industry, half of the securities industry in the U.S., are taking this very seriously.

Chairwoman WATERS. I appreciate that. Ken, did you say we have been working on this for 2 decades? Is that what you just said?

Mr. BENTSEN. That SIFMA has.

Chairwoman WATERS. That is a long time.

Mr. BENTSEN. And we have seen growth. But as I said in my comments, what members report to us is that most members feel they are in an intermediate stage. No member or very few members believe they've mastered this issue.

Chairwoman WATERS. Well, we are very serious about this issue and the creation of the subcommittee, which is chaired by Ms. Beatty, is going to spend significant time on this. What we know and what we have learned is that discrimination and other kinds of reasons have caused a lack of opportunity for talented people who would like to be in the financial services space, who would like to have opportunity, and it has eluded them because we have not been able to get to it and no one has paid attention to it in the ways that we are.

So, I want the word to go forward, and perhaps you can help with this, to say that we are very serious. Ms. Beatty is spending significant time on this issue, and we intend to do everything that we can for transparency in all of the industries to open up the opportunities that have eluded so many people of color for so long. So, I thank you for being here today. And help us communicate.

Thank you. I yield back the balance of my time, Ms. Beatty.

Chairwoman BEATTY. Thank you so much, Chairwoman Waters.

The gentleman from Ohio, Mr. Gonzalez, is recognized for 5 minutes.

Mr. GONZALEZ OF OHIO. Thank you to my friend, Chairwoman Beatty, for holding this hearing today.

And thank you to the witnesses for your participation. I would like to submit, for the record, a Wall Street Journal article from October 26, 2019, entitled, "Financial Industry Leads the Way on Diversity and Inclusion."

Chairwoman BEATTY. Without objection, it is so ordered.

Mr. GONZALEZ OF OHIO. Thank you.

One of the reasons I wanted to highlight that article specifically is it reflects what I have seen in my own home State of Ohio. I am proud to say that in Ohio, institutions like Key Bank, Synchrony Bank, Huntington Bank, and Fifth Third Bank have all made efforts to prioritize diversity and inclusion initiatives. I met with each of their staffs on this issue specifically, and it is clear that the priority that has been set in Ohio is starting to take hold.

There is plenty of work to be done, right? You never quite get there. But I am proud of my State and I am proud of the institutions and the efforts that they have made in this arena. For my first question, I want to start with Mr. Bentsen. I noticed that there were 7 of your members in total in the top 50 for most diverse companies. What resources, programs, or practices does SIFMA provide that your firm has utilized to facilitate a more diverse and inclusive work environment?

Mr. BENTSEN. There are many things we do at SIFMA for our members. I have talked about the biennial benchmarking survey that we have been doing for over 2 decades, and our Diversity and Inclusion Council conducts both an annual conference, as well as periodic roundtables in sharing of best practices.

But more importantly, over the last several years, we have integrated into all of our various conferences, whether it is our Legal and Compliance, our Executive Education program that we do with the Wharton School, our Operations Conference, our Private Client Wealth Management Conferences, different D&I components, whether it is in roundtables, break-out sessions, work sessions, where we are really working with what I would call the core rank and file of the industry or the people who are doing the job day-in and day-out.

Mr. GONZALEZ OF OHIO. Anecdotally, it feels like there has been more of an emphasis in the last couple of years. Does your experience reflect that or how is the uptake of those programs? What has the trendline been on that?

Mr. BENTSEN. I think this is something that has been on the uptake since the early 2000s in the industry.

Mr. GONZALEZ OF OHIO. Okay.

Mr. BENTSEN. And I can say it is from a point of personal experience, having been in the industry before I came to Congress. The emphasis inside the industry is profoundly different today than it was in the 1980s and early 1990s, when I was in the business. And I think that is a good thing.

Mr. GONZALEZ OF OHIO. Right.

Mr. BENTSEN. But it is something that is a huge commitment, from the top down.

Mr. GONZALEZ OF OHIO. Good. And then this one is going to be for anybody who wants to jump in. This past year, the FDIC issued a proposed rule to formalize the Agency's policy covering individuals seeking to work in the banking industry who have been convicted of certain crimes. And, again, I'll open this up to the panel. Does anyone want to comment on the FDIC's rule, and should more be done to provide individuals a second chance, while still protecting the financial interests of customers? Does anybody want to take that one on? You don't have to. That's fine.

It's an initiative that is important for me, that I think would be helpful, frankly. I believe in second chances. I think mistakes that some of us might make when we are young that are unrelated to working in the financial sector, I think we should have some leniency in that regard.

Final question, which I will open again to the panel, how does the industry leverage benchmarking and information sharing to enhance diversity and inclusion performance?

Ms. BARRY. I can give you some insight into that.

Mr. GONZALEZ OF OHIO. Please.

Ms. BARRY. We have five surveys we do. They are all quantitative surveys, so there is no subjectivity to the judgment made on it. Best companies for working mothers, which is around working parents and caregivers; best companies for women; best companies for multicultural women; and then we do one for the law firms also; and an inclusion index. Companies like IBM and J&J have been submitting data for over 30 years, so they see the value and benefit in extensive submissions, 400-plus questions answered year-in and year-out. So, I can't emphasize enough the importance of collecting data that is objective, that takes out any kind of subjective view to it, and measuring them and reporting it back to them as an aggregate and then individually.

Mr. GONZALEZ OF OHIO. Thank you. With that, I will yield back.

Chairwoman BEATTY. Thank you. The gentleman yields back.

The gentlewoman from North Carolina, Ms. Adams, is recognized for 5 minutes.

Ms. ADAMS. Thank you, Madam Chairwoman, for convening the hearing today, and thank you for your leadership and your tenacity in requesting critical data from our financial institutions.

To the panelists, thank you all for being here. We can't make serious strides in diversity, inclusion, and equity without first knowing the data and the demographics. Once we have that, we can begin to develop thoughtful, intentional strategies to improve the workplace and the workforce. So having said that, I want to raise a couple of questions.

Dr. Mercer, the Dodd-Frank Act created the Offices of Minority and Women Inclusion (OMWIs) and all of the Federal financial regulators, largely through the work of this committee's chairwoman, Chairwoman Waters. And since the inception of OMWIs, they have done work to diversify the agencies themselves and to hold the government itself accountable for diversity and inclusion. What should be the role of OMWI offices with respect to their regulated entities, and do they need additional authority to be effective? Dr. Mercer?

Ms. MERCER. Congresswoman, we appreciate the opportunity to work with the OMWIs and we encourage our member banks to do the self-assessment that is governed by the OMWI offices. We think that the collaboration with the OMWIs should also lend itself toward our banks leading practices that can help them shape their DE&I initiatives and programs.

Ms. ADAMS. Okay. In the report, committee staff recommended legislation, such as the draft bill, the Promoting Diversity and Inclusion in Banking Act that would require bank examinations of diversity and inclusion efforts and would require banks to disclose diversity data to the Offices of Minority and Women Inclusion. This question is for you, Dr. Mercer and Dr. Bentsen. To what extent do you believe that this legislation would increase transparency of diversity information in the banking industry and do you support it?

Ms. MERCER. Congresswoman, ABA's legislative team will need the opportunity to speak with our member banks before giving you an answer to that question, and they will have to follow up with you.

Ms. ADAMS. Dr. Bentsen?

Mr. BENTSEN. Yes, the same. We are reviewing the legislation with our members to get their view. But I also do want to echo what Dr. Mercer said with respect to engagement with the offices, which we do with our members and through our D&I Council.

Ms. ADAMS. Okay. So, Ms. Elhalaby, Ms. Barry, and Dr. Greenfield, do you support the legislation?

Ms. ELHALABY. We are also doing further analysis, but we think that this could really represent important steps for the Federal Government to take on promoting transparency and disclosure.

Ms. ADAMS. Okay. Dr. Mercer and Dr. Bentsen, to what extent have your member firms vocalized challenges in implementing their diversity and inclusion initiatives, and what kind of assistance do your organizations provide to your members who vocalize such challenges?

Ms. MERCER. Congresswoman, we have an advisory role to our banks. Some of their challenges are, especially for our smaller community banks, with getting started with DE&I. And so we advise them on some leading practices to help them get going. We also have resources and tools on our website that are available to any of our members to use to help them with DE&I.

We are starting up an advisory working group in order to further determine what those needs are, so that we can continue to develop the resources that they need and can use.

Mr. BENTSEN. Congresswoman, this is exactly why we have things like our D&I Council, why we do our benchmarking surveys, so that members can learn from each other what both the challenges that they have in terms of creating a culture of inclusivity and improve their retention programs, as well as in their recruitment programs. And so, this is what leads to things like employee resource groups, sponsorships, mentorships, and the like. And that is what firms continue to build every day as part of their diversity and inclusion.

Ms. ADAMS. Okay. Thank you.

Quickly, Dr. Greenfield, to what extent has Mercer's research identified similar challenges by banks or others in the financial services industry and what recommendations have been made to help organizations overcome such challenges?

Ms. GREENFIELD. Well, in terms of the most recent research that we have looked at, one thing that is notable is that there does appear to be a bit of a revolving door for people of color, so we do see notable hiring throughout the hierarchy for people of color, but we also see turnover.

Ms. ADAMS. Okay.

Ms. GREENFIELD. Now, while we do expect, based on our data, to see an increase in representation of people of color, we do see some issues regarding retention. So, we've been working with our organizations to help them improve retention.

Ms. ADAMS. Thank you very much. I'm out of time. I yield back, Madam Chairwoman.

Chairwoman BEATTY. Thank you.

The gentleman from Texas, Mr. Gooden, is recognized for 5 minutes.

Mr. GOODEN. Thank you, Madam Chairwoman.

Congressman Bentsen and Dr. Mercer, I have a question for both of you. The majority of banks, I understand, report with detailed transparency in their ESG reports regarding D&I, and they highlight additional practices and results in those reports. Do you expect your members to continue to expand their ESG disclosures to reflect their ongoing commitment to D&I, moving forward?

Ms. MERCER. Congressman, that is an answer I will have to get back to you on.

Mr. GOODEN. Okay.

Mr. BENTSEN. I guess, the way I would answer that is that this continues to be a priority for the industry, so I would only see all of these efforts increasing within the industry.

Mr. GOODEN. And, Dr. Greenfield, through Mercer's work, are you observing that companies are recognizing the value of diversity when it comes to developing business strategies and making decisions?

Ms. GREENFIELD. Yes. I don't think there is any question at this point. Back maybe a decade ago, the business case for diversity and inclusion was not as clear. I don't hear that anymore from our clients about whether or not they think there is a business case. So, I think it is pretty clear that there is, and they are trying to determine how they can craft strategies to best support their talent strategy and their business strategy.

Mr. GOODEN. Is it fair to say that we should expect diverse companies to thrive in the market, compared to their less diverse competitors?

Ms. GREENFIELD. Yes, absolutely. I think the evidence is very clear that diversity and inclusion is associated with important business outcomes like higher return on equity, better financial performance, and better employee satisfaction. Organizations that are interested in delivering on their business results would be wise to be prioritizing diversity and inclusion.

Mr. GOODEN. Ms. Barry, did you want to add anything?

Ms. BARRY. Well, I just believe that this is a rising tide, not only in the banking industry, but really across most major corporations. You're starting to see a big focus on this. One of the ideas that I would suggest—I know this is the Financial Services Committee—is to require the SEC, when companies register, to disclose their diversity and inclusion stats and let them disclose it. Make it part of it for everybody, as opposed to just one sector.

Mr. GOODEN. Thank you.

Mr. VAUGHAN. Congressman, I do agree with that perception. I think if you look to things like the CEO Action for Diversity and Inclusion, which is a joint effort, where more than 800 CEOs have signed onto an affirmation of their commitment to diversity and inclusion performance or to the purpose of a corporation, where 181 CEOs have signed onto that effort, companies benefit from espousing where their values are, and we are going to see that continue in the future.

Mr. GOODEN. Thank you.

Madam Chairwoman, I yield back.

Chairwoman BEATTY. Thank you.

Mr. GOODEN. Mrs. Wagner, would you like my time?

Mrs. WAGNER. I would like it.

Mr. GOODEN. I will yield it to Mrs. Wagner.

Chairwoman BEATTY. The gentleman yields to the ranking member.

Mrs. WAGNER. I thank the gentleman for yielding me some time.

We have talked a lot about the financial services sector being an extension of the STEM utility out there and the STEM field. And we have watched struggles in the STEM field for women and people of color and other diversities to join in.

I am wondering, and Mr. Bentsen, perhaps you can speak to this, or even Dr. Mercer, how does the financial services industry, knowing that it is a STEM field and profession, measure up toin term of reporting, in terms of their diversity and inclusion, measure up with other STEM groups in engineering and math and technology and sciences and research, things of this nature? Mr. Mercer?

Mr. BENTSEN. You're the academic, but Congresswoman, first of all, there is no question that that is an important community that the industry has to recruit from. The industry is increasingly becoming a technology-driven industry, as is maybe everything. And the competition for that is fierce as well. What firms are trying to do, and one of our other panelists talked about this before is, how do we get ahead of the curve, in terms of not just waiting until you are going to the universities and the engineering or mechanical engineering schools in the university and trying to recruit at that point in the junior or senior year. But how can you get there in the high schools, through sponsorship, and things like that. So, firms are certainly, in some cases, starting internships like that and beginning to get into that process.

Mrs. WAGNER. And, in fact, it was cited by the Majority that improving the diversity and inclusion at financial institutions, part of the challenge there was the competition for diverse talents with STEM and finance-related expertise. Anything to add, Dr. Mercer?

Ms. MERCER. We look at different hiring models in order to gather a base of knowledge to advise our banks on hiring practices that could expand their talent pool.

Mrs. WAGNER. Thank you. I have run out of time. I yield back.

Chairwoman BEATTY. Thank you so much.

The gentlewoman from Pennsylvania, Ms. Dean, is recognized for 5 minutes.

Ms. DEAN. Thank you, Madam Chairwoman. I appreciate the chance to ask a few questions, and I really appreciate the chance to be on this important subcommittee.

I wanted to just follow up on a question that Ms. Adams was asking and just try to get a little more detail from both Dr. Mercer and Mr. Bentsen on the participation rate in the surveys. The data that we see is that the FDIC is participating in about 16 percent, the OCC at 9 percent, and the Fed at about 5 percent. You are encouraging members to participate. Those rates are terrible. They are very, very low. What are you doing to encourage and what can you do to put more teeth into that encouragement and get full participation?

Ms. MERCER. Congresswoman, we hosted a webinar with the regulators from the FDIC, the OCC, and the Federal Reserve in November. And that webinar, which is still available on our website to our member banks, went over how to do the self-assessment, and then also touched on leading practices for DE&I in recruiting and retaining minority members or applicants and women into their banks.

Ms. DEAN. Was the webinar intended to try to get greater participation? Are you alarmed by this?

Ms. MERCER. It was intended to encourage our banks to continue the self-assessment, and if they had not done so before, to do so. We are also looking at venue space during a conference that is upcoming, so that the FDIC can give a presentation to some of the CDOs and HR professionals that we expect to be in that audience from our banks on how to do the self-assessment, since they just moved their report into FDICconnect, which most of our community banks are already familiar with.

Ms. DEAN. Thank you.

Mr. Bentsen, with SIFMA?

Mr. BENTSEN. We also encourage, and we try to provide information on the reporting requirements to our member firms. It's interesting to learn things from our colleagues from ABA as well, that we will talk about with our own team. We don't have any data as to why firms don't report. We know concerns they have raised, as I mentioned, around FOIA, but we don't keep any data as to why they are not doing it.

I will say that our survey captures about half of the industry.

Ms. DEAN. I ask these questions, based on just my own experience digging in as a result of being a part of this subcommittee. I took this committee assignment really seriously. And when we went back into our district last summer, we held roundtables on diversity and inclusion, and it was very enlightening. We held roundtables on disability, on race, gender, the LGBTQ community. And we learned and we listened what is working and what is not.

And the very thing that we are talking about in terms of failure of participation is what works is when institutions or organizations or government, whomever, is actually intentional, is actually looking at themselves under a microscope, collecting the data. One of the people at one of our roundtables, a leader of a government community in our area said, "We believed we were diverse, and then we looked around and recognized that we weren't."

So unless you are intentional, unless you are doing these self-assessments and being honest about it, we are going to be much slower in getting toward that diversity and inclusion.

Let's start with just some of the things that we learned. So, Dr. Mercer, Mr. Bentsen, what are your recruitment practices in your own hiring? How are you attracting talent? And I am thinking, in particular, talent from underserved areas to participate, to be hired and find careers in the work that you do.

Ms. MERCER. For ABA, currently, we have a veterans' recruiting program, which is how I was hired by the organization. Our organization is actually very diverse already and we continue to pay attention to that. One of the biggest programs that has worked for us in attracting talent is student loan reimbursement or helping our hires to pay off their student loans over time. And we have also used that as a recommendation to some of our community banks, especially ones in more rural areas that have a more difficult time attracting talent, that they offer student loan reimbursement as an incentive.

In our organization, we do a lot of learning and development based around diversity, equity, and inclusion and it has been integrated into our organization.

Ms. DEAN. I am just going to say a quick word; I know my time is running out. But it was very interesting in a separate veterans' panel, we were not focusing on diversity and inclusion. It came up very, very clearly that veterans have a hard time becoming assimilated, particularly commanders, people who had successful careers in the military. You would think industry and organizations would prize their talent, and they are finding real barriers. Thank you. I yield back.

Chairwoman BEATTY. Thank you.

The gentleman from Wisconsin, Mr. Steil, is recognized for 5 minutes.

Mr. STEIL. That was a almost a little lecture on diversity there. I appreciate you calling today's hearing, Chairwoman Beatty.

And I appreciate the witnesses being with us here today. What we have heard today is a lot of the work I think that some of these large corporations, banks in particular, are doing to get towards this end goal, including investing appropriately in programs that are moving us forward towards more diversity.

I want to just dig in a little bit here, Ms. Greenfield, as it relates to the resources that some of these corporations and banks are putting into these diversity programs. Could you scale the type of investment that we are seeing by some of these banks into improving their diversity?

Ms. GREENFIELD. I don't have any specific numbers for you, but what—

Mr. STEIL. Can you scope it? Scale it? Anything?

Ms. GREENFIELD. I cannot; I am afraid I would not be willing to say that. I could look into it and get back to you.

Mr. STEIL. That would be helpful.

Would anybody else like to discuss the time, scale, and resources that are being invested?

Mr. BENTSEN. Likewise, I don't have the data, but anecdotally, it's quite substantial, and again, members report to us that this runs from senior leadership down. And so once you are including senior leadership, that means it is getting a great deal of emphasis.

Mr. VAUGHAN. I would add that it is important to recognize that the institutions covered in this study tend to have the most well-established, long-standing diversity and inclusion programs in the industry. And what we see in their performance is really the thought leadership that middle-market and small firms in this sector need to leverage to continue to grow their programs.

Mr. STEIL. Thank you.

I am going to go with the broad scale that you offered there, Mr. Bentsen, that it is substantial, that these companies are now putting in substantial resources. I just find it interesting because often, when we are in our Full Committee, there is a favorite slide that comes up from some of my colleagues on the other side of the aisle showing the banks profits up, up, up, up.

And what I think is important to note is that companies that are performing well have the resources to invest in their employees. And so, across the broad business spectrum that we seen in the United States, companies that are performing well, that have the resources, often reinvest that into their employees. And I think it is of note as we see some of these large banks have thoughtful programs, investing substantial resources into improving the diversity in their institutions, that there is an aspect that they are doing this in a time when they are able to.

So as we see companies generating profits, I think one of the things that needs to be highlighted is that many of these companies then go back and are reinvesting in their employees. And one of the areas that has the greatest need for investment is in improving the diversity of women and underrepresented minority groups to be successful. Sometimes, when we see that side, I think it is worthwhile thinking that as businesses do well, there is a benefit to these businesses in investing back into their institutions.

And one of the greatest areas of that, that I think we are highlighting today in many ways, is the investment in making sure that women and underrepresented minority groups succeed.

I want to shift gears slightly and go back to Dr. Greenfield. In your testimony, you discussed the concept of an internal labor market. I would like you to dive in if you would and just share a little bit more as to what you mean by that and how some of these resources that we have at these banks are playing a role in that internal labor market?

Ms. GREENFIELD. Sure. Essentially, at its core, an internal labor market is just understanding how people move in, through, and out of an organization. It is really understanding the talent dynamics within an organizatio, understanding how are women and people of color entering the organization from the external labor market compared to their white and male counterparts, how are they moving up throughout the organization, and how are they being retained, compared to these counterparts?

And this is really key to increasing diversity and inclusion for organizations. If they want to increase the representation of women and people of color, they must have an understanding of where they have gaps. Is it in hiring? Is it in promotion? Is it in turnover? And at what particular levels? Are there certain chokepoints beyond which women and people of color are struggling to progress? And if there are, they need to understand, and do more digging to understand, what are the actual driving forces behind that?

Mr. STEIL. Thank you.

With my limited time left, I would like to go back to Mr. Bentsen. The financial services industry has made significant progress, there is room to go, but significant progress in improving its diversity and inclusion practices. We will all recognize that some are further ahead than others. And I am sure that is reflected amongst your membership. Can you discuss the role that SIFMA is playing in facilitating some of the business-to-business sharing of best practices?

Mr. BENTSEN. Yes, Congressman. As I mentioned, besides our benchmarking, where we have about half of the industry, in terms of employee base, participate in that, we have tried to permeate beyond our D&I Council, which is about 70 member firms, to across all of our industry programming from executive education to legal to all of these issues, to have D&I programming in there and bringing in senior industry leaders as part of that process.

Mr. STEIL. Thank you very much.

I yield back.

Chairwoman BEATTY. Thank you.

The gentleman from Missouri, Mr. Clay, who is also the Chair of our Subcommittee on Housing, Community Development, and Insurance, is recognized for 5 minutes.

Mr. CLAY. Thank you, Madam Chairwoman. And thanks for holding this hearing.

And I thank all of you all for being here. It's good to see you again, Mr. Bentsen. Let me ask you, with your background toggling between a Member of Congress and financial services, you probably have a unique insight on why and how banks and other financial institutions operate.

I would like for you and Dr. Mercer to address for me, how do we eliminate that blind spot throughout a financial institution? When a customer walks in your institution, and with all things being equal, they may have pretty good credit score, but they apply for a loan or a credit card, whatever, and because of biases, they are treated differently as a customer. They are given a higher interest rate. They may be denied or approved for a home improvement loan or a loan or a mortgage. How do we address that as a society or as an industry? How would you address it? Let's start with you, Mr. Bentsen.

Mr. BENTSEN. Thank you, Congressman. I don't represent the loan side of the industry, but let me say this. First, it starts with the tone at the top, and the tone at the top has been quite clear across the industry and increasingly so. And with executives that I speak with in our sector of why this is important.

And it is important really for two reasons that I have talked about before. One, it is important—and Congressman Steil was sort of talking about this as well. If you are going to manage and run a successful company, you have to invest in your employees. And the employees you are going to hire are going to look like the community that you are hiring from and you are serving. So, you would have to make sure that you have that. And we are seeing that more and more every day and recognize it at the senior levels of leadership.

But the second thing, which is maybe even more important that you touch on is, and particularly in the securities industry, this is a highly competitive industry, an extremely competitive industry. Clients can walk out the door any time they want to and there is somewhere else for them to go. And so, managers who do well tend to be pretty smart and to figure out, if I am not keeping up with my client, my business isn't going to be around too much longer. And this is something else that executives figure out.

So, have there been blind spots? For sure. But I think this is something that people realize, what does our community look like today, who are the clients we are serving, and how do we make sure we are competitive in that marketplace?

Mr. CLAY. Dr. Mercer, how does the banking industry do a better job of serving their customers?

Ms. MERCER. Unfortunately, discrimination is a problem in every segment of society, and the banking industry is no exception. However, unconscious bias training can help people understand what their biases are and become aware of them, and then perhaps alter their behavior once they have that awareness.

One of the things that I am looking into is research by Dr. Barbara Adams that talks about having diversity of biases, which tends to mitigate some of the situations that you were giving in your example. Where as long as not everyone has the same bias, it can equalize the playing field for everyone. Our mortgage lenders, in particular, have a degree of anxiety because most of them are aging out. And they know that they need to recruit diverse talent to replace them and diverse talent to serve the customer base that is also emerging.

Mr. CLAY. And how is that process going? Are they really getting a more diverse workforce?

Ms. MERCER. Sir, they are working on it, and they are asking for speakers and training and resources to help them do that. And ABA tries to provide those resources and tools for them.

Mr. CLAY. Thank you.

And I see Mr. Vaughan. Go ahead.

Mr. VAUGHAN. Congressman, I would just add that it is really critical that the diversity and inclusion practices be fully resourced, integrated fully throughout the business enterprise, and that the institutions must make sure that their policies and practices are such that when the consumer walks in the door, there is very clear delineation of what types of products and how they will engage that consumer as they seek to access credit-based products or other services from the institution.

Mr. CLAY. I thank you all for your responses, and I yield back.

Chairwoman BEATTY. Thank you.

The gentleman from Texas, Mr. Green, who is also the Chair of our Subcommittee on Oversight and Investigations, is recognized for 5 minutes.

Mr. GREEN. Thank you, Madam Chairwoman. I want to compliment you on the diversity of the panel and for the tenacity that you have shown in this area. I think history will be very kind to you.

Diversity has become a great talking point. The challenge for us is, how do we make it an action item? Talking points are great. Action items are better. Dr. King reminded us that those who tell us that we can wait, that there is more time, that wait almost always means never. He went on to say that justice too long delayed is justice denied.

So, let's take a look at this from a voir dire or voir dire, depending on where you are from, point of view. It is a term that trial lawyers use, one that I am quite fond of as a former litigator. Question for you, and would you kindly extend a hand into the air, so that I may, for the record, record your position. If you believe that CEOs should be incentivized to ensure diversity in their company's ranks, particularly in upper-management positions, kindly extend a hand into the air.

[Hands raised.]

Okay. Please hold your hands up, so that I may make a proper recording. I take photos of these for my office. Let the record reflect that Ms. Mercer, Ms. Elhalaby, and is that Ms. Greenfield, I can't quite see it from here, oh, who did not raise their hands.

If you believe that race-conscious regulations are needed to ensure financial inclusion, raise your hand, please.

[Hands raised.]

I believe that one of our panel has indicated that that would be very helpful. But only one person? Raise your hand, please, if you think race-conscious regulations are needed. Okay. We'll note that one panelist has extended a hand, and that is Ms. Elhalaby. Thank you very much.

Friends, one more question. If you believe that in a country where women outnumber men, 71 percent of the average, executive, senior level, diversity positions across banks, that 71 percent of them should be held by men, extend a hand into the air. If you think that 71 percent should be held by men—not one hand is in the air. Well, yes. Seventy-one percent are currently held by men, 29 percent by women. All I'm asking is if you think that is right, raise your hand.

Okay. Let's do it the other way. If you think that is wrong, raise your hand.

[Hands raised.]

You have to participate. I know it is tough. Thank you.

Dear friends, I greatly appreciate what is happening here, but having lived as long as I have and experienced the invidious discrimination that I have suffered, I really don't have as much patience, because I don't have as much time left to make the change that I want to see. I just don't have the patience that a good many of my colleagues do—and I respect them—but I don't have it. We need to change it and we need to change it right away.

An excuse of, we can't find any, that is what I am hearing from some of you. That is not acceptable. I see one sitting out there in the audience right now, a person who is capable, competent, and qualified, was hired by your business, Mr. Bentsen. People are available. We have to get on with it. I refuse to leave the planet, assuming that I have a reasonable amount of time left, without at least making sure that my record reflects that I did all that I could.

When you have power, you have to use it. We have the power. Regulations may be the thing to do. I think the carrot was a good idea. But after having heard things today, I think we have to move now to the stick. That is regulations. I yield back the balance of my time.

Chairwoman BEATTY. Thank you.

The gentlewoman from Texas, Ms. Garcia, is recognized for 5 minutes.

Ms. GARCIA OF TEXAS. Thank you, Madam Chairwoman. And I thank you and Chairwoman Waters for putting all this attention on an issue that has been very concerning for me for many years. I do want to apologize first, Madam Chairwoman, not only to you, but to all of the panelists. I have been in a Judiciary Committee markup that is rather lengthy, and we are still taking votes, and then we will probably be doing it most of the day. So, I am running back and forth across the hall. But please do not consider my lack of attendance as a lack of interest, because it is really quite the contrary.

This is a critical issue for me. It brings back a lot of memories of when I was city controller in Houston and, in fact, going to some of the pricings on Wall Street. And I remember the very first one, walking in and not seeing the diversity and inclusion that we would all hope for. In fact, it is safe to say that I saw hardly any women and hardly any minorities on the floor.

That has changed a little with time. And I am hopeful, someday, to drop in on a bond buyer conference and see if it has changed there, too. Because I recall going to quite a few of those and, again, there too, there was maybe a handful or two of minorities or women in the room or at the conference. So we have to make change, but make it real of not only changing the people at the table, but making sure that they are heard, making sure that they are part of the conversation and the decision-making process.

Dr. Mercer, I have to say that I am very disappointed that the ABA and the banks have been unwilling, in this hearing, to support legislation mandating D&I disclosure. The industry seems to be telling us that diversity is important, but is unwilling to go beyond, "Trust us." We are going to keep doing it better.

But we see that the participation rates in the OMWI surveys are incredibly low and, frankly, somewhat unacceptable. Knowing that D&I data is going to be made public will be a powerful focusing tool inside these organizations. I know that some banks are already doing this, and I would hope ABA reconsiders its position. Otherwise, I am afraid that we will be having this conversation again in 5 years, applauding whatever tiny improvements have been made.

I want to talk about retention issues, and I wanted to start with you, Mr. Bentsen. I know that we have identified some retention challenges. Could you share with me those that you see, and can you discuss the factors that are driving the turnover?

Mr. BENTSEN. Not a lot is reported to us, in terms of why people leave. In some cases, firms will talk to employees as they are leaving and find out if there is an issue or if they are just going to a different firm for whatever reason.

What the firms are trying to do is get ahead of that, and to come up with different mentoring sponsorship programs, things like employee resource groups, things like mentoring with senior executives or managers. Trying to, as one of the panelists put it, create either a pipeline or a pathway from where someone is today to where they can aspire to, as they progress within the firms, with the goal of keeping that retention.

Because, as I pointed out, particularly with people of color, what our survey shows is recruitment of people of color is above the mean, which is good. But retention is below the mean. So that means, for all the investment that is being made to recruit people of color, the firms are keeping many people, but not keeping as many as they would like. So they have to come up with these different tools. And they are always trying to figure out what other firms are doing to do so.

Ms. GARCIA OF TEXAS. But is there any one thing or two things that you can pinpoint, things that would be a best practice of what really needs to be done to increase retention?

Mr. BENTSEN. I think our firms would report to us two things: one, mentorship with a more senior employee; and two, employee resource groups, where employees would feel that there is an inclusivity effort on the part of the firm.

Ms. GARCIA OF TEXAS. Okay. Dr. Mercer, did you have anything to add?

Ms. MERCER. Congresswoman, I believe that the mentorship and sponsorship, as Mr. Bentsen has discussed, is essential. I would also add stay interviews and promotion and professional development transparency. Those seem to be key drivers for our bankers in retaining their personnel, so the stay interview conducted at key points in someone's career would be very effective.

Ms. GARCIA OF TEXAS. Thank you.

Thank you, Madam Chairwoman, and I yield back.

Chairwoman BEATTY. Thank you. I would like to ask unanimous consent to have a letter from the University of Michigan School of Social Work Regarding Diversity and Inclusion in the Financial Services Industry to be entered into the record. Without objection, it is so ordered.

I would like to thank all of our witnesses today for their testimony and for their time.

The Chair notes that some Members may have additional questions for this panel, which they may wish to submit in writing. Without objection, the hearing record will remain open for 5 legislative days for Members to submit written questions to these witnesses and to place their responses in the record. Also, without objection, Members will have 5 legislative days to submit extraneous materials to the Chair for inclusion in the record.

This hearing is now adjourned.

[Whereupon, at 12:03 p.m., the hearing was adjourned.]

A P P E N D I X

February 12, 2020

Subcommittee on Diversity and Inclusion
A Review of Diversity and Inclusion at America's Large Banks

February 12, 2020
Testimony of Subha Barry, President, Working Mother, Diversity Best Practices, NAFE & Culture@Work

Thank you for inviting me to present on how we can better hold America's largest banks accountable for improving Diversity, Equity and Inclusion in their workforce and workplace.

By way of background, I spent 26 years of my career in Financial Services at some of our nation's largest financial institutions, 20 years in front-line trading, sales and business development roles and 6 years as a Global Chief Diversity Officer. I personally experienced the bias and cultural challenges that women and people of color face. But I also experienced the opportunities and credibility that came with being successful.

Currently, I am President of an organization that is considered a 'Go-to' resource for Fortune 1000 companies, nonprofits and governmental organizations. We specialize on issues of Diversity, Equity & Inclusion, Women & Women of Color, Parenting & Caregiving. We annually produce an Inclusion Index that assesses Diversity and Inclusion best practices and outcomes.

It is in this capacity that I share my comments with you. They affirm many of the key findings of the Committee Staff Report and I add some of our observations and recommendations for further improvement.

The report mentions 3 barriers to achieving D&I results.

1. Defining D&I in consistent ways (We define it through EEOC race/ethnicity guidelines, gender identity, disability, LGBTQ+, age/generation and veteran status).
2. Challenges with data collection and self-identification (Companies like **Northrop Grumman** have done this successfully by creating a psychologically safe environment to disclose)
3. Competition for Diverse Talent. (Companies like **Microsoft** are proactively investing in creating earlier pipelines of talent).

I can share more details during Q&A and give insight into how organizations are doing this effectively.

In addition to these 3 challenges, there are TWO additional barriers that need to be acknowledged and addressed.

Talent-Development Bias
Organizations must acknowledge and focus on the bias that exists in their talent decision-making systems and processes.
The report states that the 44 financial institutions' populations are demographically matched to the US population. But note that these organizations are not diverse at the top - at the CEO and C-Suite levels.

The lack of mechanisms that measure and titrate what and how feedback and support is given and received creates gaps that become insurmountable chasms. Often, women and people of color receive feedback that is more politically correct rather than being constructive and insightful.

Working Mother's recent Gender Gap research shows women are a third less likely to realize what relationship capital is and the importance of monetizing it. Women and people of color aren't coached or made aware that leveraging relationship capital is absolutely critical in early career. They start out with this disadvantage.

This shows up in the lack of sponsorship for women and people of color. 73% of white women and 83% of multicultural women cite the lack of sponsors as the main reason they haven't moved into critical P&L jobs.

A 2015 SP 500 analysis found that 90% of new CEOs were promoted or hired from line roles with P&L responsibilities.

In addition, there is unconscious bias in the decisions to hire, promote or terminate. Do we hire and promote people who look like us? How likely are we to feel an affinity to someone from another race or culture?

Lack of Accountability for making progress
There are 2 aspects to this:
a. Holding companies accountable for transparently providing D&I data and metrics internally and externally.

b. Holding the CEOs and their leadership teams accountable for the results they produce that tie to the above metrics.

We need to create more structured and tailored programs and create clear-cut and standardized accountability metrics that can normalize across geography and industry.

We say diversity is critical to our businesses but we do not measure or compensate for D&I performance. Think of how we would measure and compensate for meeting business revenue goals or expense management or innovative new product development. There are virtually no repercussions for not meeting D&I goals.

Our Diversity Best Practices Inclusion index provides tools to hold organizations and leaders accountable. It measures demographics, best practices in talent processes, culture and leadership accountability. Doing this annually allows companies to mark progress and tweak strategy and execution plans accordingly.

75% of all DBP Inclusion Index companies say they hold managers accountable for D&I results but, only 35% of them link compensation to D&I results.

Only 46% of DBP Inclusion Index companies (remember these companies are proactively engaged in D&I) set numeric goals for diversity representation and 58% set percentage goals.

Intentions and words must translate to actions and consequences.

RECOMMENDATIONS/SUGGESTED ACTIONS (So what do we recommend?)

1. Be Transparent About Your Data
2. Build Accountability from the Top
3. Establish Development Programs for women and underrepresented minorities that build Relationship Capital, Sponsorships and Mentoring
4. Establish New Work Norms, Challenge Existing Norms and Reframe How Work Gets Done

5. Leverage Employee Diversity for Marketplace Impact - Recruitment, Retention and Business Development.

In summary, while some organizations are proactively and creatively addressing D&I in their organizations, there is much more to be done, especially in the Banking Sector.

Organizations spend $8billion on D&I education but only 35% of the CEOs have clear cut metrics and hold their teams accountable for achieving D&I goals. Bridge the gap.

The formula is straightforward; Execution is the key:

1. Develop scorecards and metrics.
2. Audit processes, systems, and culture for bias and mitigate it.
3. Reward positive results and penalize lack of progress.

Accountability creates Real Change.

THANK YOU

APPENDIX

Persistent Challenges faced by the 44 Largest Banks in the US:

1. Defining D&I in consistent ways: We look at it two ways:
From a metrics perspective -- the vast majority of organizations follow EEOC race/ethnicity guidelines.

From a definition perspective -- most organizations also include gender identity, disability, LGBTQ+, age/generation and veteran status.

2. Challenges with data collection and self-identification
From our Diversity Best Practice Inclusion Index (which includes data from over 150 companies), 64% capture data on LGBTQ, and 100% capture data on people with disabilities and veterans.

More companies are sharing their data and implementing strategies to get employees to voluntarily disclose disabilities, sexual orientation and veteran status.

Northrop Grumman instituted a communications campaign highlighting reasoning and rationale for disclosure and engaged employees as ambassadors. They launched their LGBTQ self ID campaign first. Within 1 year, they had a 45% increase in LGBTQ+ employees that self-identified.

3. Competition for Diverse Talent.
Some organizations are proactively investing in creating earlier pipelines of talent. They are widening the net outside normal competitive channels and proactively creating talent development opportunities.

Microsoft is creating internships and mentoring as early as elementary and middle school to foster career interest and focus on building analytical skills, strong communication skills and decision-making abilities.

Bloomberg considers the top 10% of talent across a variety of schools, not just the top tier schools.

4. Auditing Talent Bias
In diverse succession planning and talent development, examine compensation and promotion histories for comparable positions to identify disparities and inequities.

Cast a wider net with succession planning by Identifying the top 10% of diverse talent and create "ascension plans", not just those who make the top 10% of your succession plan.

Insist on diverse recruitment. Mandate diverse slates of qualified candidates (75% of all DBP Inclusion Index companies do this). Require a diverse slate of interviewers (71% of all DBP Inclusion Index companies do this).

Enlist the support of white, male senior leaders to examine actions that may contribute to an old-boys club environment

RECOMMENDATIONS/SUGGESTED ACTIONS

Recommendation 1: Be Transparent About Your Data

- Data allows us to better identify gaps, and pinpoint strategies and solutions
- Transparency creates a culture of accountability. it enables organizations and stakeholders to hold themselves accountable
- If all 44 financial services companies participated in the Inclusion Index, OMWI could leverage a consistent, widely utilized tool to provide both the accountability and visibility to progress and also provide participating organizations with a roadmap on how to close the gaps - only 9 of the 44 companies participated in our Index last year

Recommendation 2: Build Accountability from the Top

1. CEOs must hold senior leaders accountable for results. Tie performance on D&I to metrics and compensation: what gets measured gets done
2. Create scorecards, (Sodexo, Intel) and establish goals against critical drivers such as recruitment/hiring representation, talent development and sponsorship

3. Audit your talent and recruitment processes for bias; provide training to mitigate it and create checks and balances to ensure that it doesn't creep back in again

<u>Example: Accountability</u>
Sodexo created a diversity Scorecard to build accountability for increasing gender representation. Managers earn up to 600 points for achieving numeric benchmarks for attaining hiring, promoting, and retaining women and underrepresented groups. An additional 400 points measure diversity and inclusion actions that improve culture and demonstrate inclusive leadership, for example such as mentoring or sponsoring women or people of color. The scorecard is driving real results. Women's representation increased by 10% at entry and manager levels, more than 20% at the SVP level, and doubled in the company's C-suite.

<u>Example: Accountability</u>
Intel set a goal of "full-representation" by 2020, and earmarked $300 million to achieve their goal. To build accountability, diversity is one of the strategic performance goals that determine 50% of executives' annual cash incentives. In addition, everyone at Intel gets an additional bonus—equal to as much as 7% of the person's total bonus—if the company hits two goals: hiring 40% minorities and women and ensuring that the retention rate of those groups is at least equal to that of white and Asian men. These incentives helped Intel reach its representation goals two years ahead of schedule.

<u>Recommendation 3: Establish Development Programs that Build Relationship Capital, including Sponsorships and Mentoring</u>

- Hold senior leaders accountable for identifying high-potentials and providing them with visibility, stretch assignments, job shadowing, and mentoring
- 56% of all Diversity Best Practices Inclusion Index companies have formal sponsorship programs
- Reward sponsoring behavior of senior leaders with salary and bonus
- Encourage all mentors and sponsors to expand narrow definitions of "readiness" they currently hold

Why It's so Important: Our new research on multicultural women shows:

Multicultural women don't want to work in corporate America.

50% are considering leaving their companies within the next two years and its highest for black women (52%) compared with 40% for white women.
They are frustrated by their race and ethnicity eclipsing their capabilities and skills. This is especially frustrating because they are also the most ambitious, with 55% aspiring to senior roles, 25% more than white women.

What They're Not Getting:
They lack direct support and guidance. More than two-thirds attribute their disenchantment to lack of sponsors, lack of mentors and lack of support from senior men.

Example: Sponsorships for Women
J&J created an enterprise sponsorship program for women and diverse talent. The program has had 100% retention, with 61% of the sponsees either promoted or receiving developmental lateral moves. Sponsorships have helped propel women into leadership positions: 36% of J&J corporate executives are women and 40% of women at J&J have P&L responsibility.

Example: Sponsorships for Women
EY prepares high potential employees to become "sponsor ready" on day one. Through successful mentoring relationships, high performers are aligned with influential executives who serve as sponsors and provide ongoing guidance and support. To ensure accountability, EY monitors promotion rates, representation of women at the partner level, engagement survey scores, and feedback from professional networks. As a result of its sponsorship program, EY has built a strong pipeline of female talent, improved engagement and retention rates of women leaders, and increased the number of women partners.

Recommendation 4: Establish New Work Norms, Challenge Existing Norms, and Reframe how Work Gets Done

- Build supportive cultures to enable employees to fully utilize flexibility and working from home without fear of career damage. This is not just for parents; it includes everyone, even older workers.
- Use CEOs and other senior executives who work flexibly as role models

One study found 76% of Millennials would take a pay cut to work for a company that offers flexible office hours (Qualtrics). HBR research found 69% of women who off-ramp would have stayed at their companies if they had flexible work options.

Example: Flexibility and Challenging Norms
Unilever provides inclusive benefits for families, including gender-neutral parental leave, gradual phase-back after leave, and accessible, affordable childcare. The company's agile work environment encourages flexible schedules, remote work, and job shares. These strategies pay off: women are well-represented across all levels at Unilever, and the company exceeds the gold standard of 50% gender balance ratio at the managerial level.

Example: Flexibility and Challenging Norms
Dell's flexible work program, which enables employees to work remotely and at variable hours, has saved the company an average of $12 million annually since 2014 due to reduced office space requirements. The company's flexible policies align with its culture, which prizes trust, accountability, and results over visibility and oversight. Today, nearly 60 percent of employees work flexibly, and the Net Promoter Score of employees who work remotely tends to be 20 percent higher than the score of those who don't.

Recommendation 5: Leverage Employee Diversity for Marketplace Impact
- Use employee-resource groups and diverse employees to connect with customers and community (More than 90% of Diversity Best Practices Inclusion Index companies do this)
- Mandate slates of diverse suppliers for critical vendor roles
- Require key vendors to use diverse suppliers themselves (second-tier supplier diversity)
- Cast a wider net; tap into broader organizations and look at associations and affiliations

Example: Capturing Diverse Markets
Prudential has developed specific niches for marketing insurance products individually to African-American, Asian and Latinx communities and is considered a market leader in reaching those customers. Ties in to strong community efforts in all those communities (and LGBTQ) as well as aggressive supplier diversity programs to build community ties.

Data highlights

· 44 financial services companies were asked to submit data to Congress

· Comparison of the data submitted to Congress versus Financial Services Companies that participated in our 2019 Inclusion Index; (Important to note that this is a small sample size)

- Their workforce 51% women vs. 54% ours
- Their workforce 30% people of color vs. 40% ours
- Their boards 27% women 11% black 5% Latinx 1% Asian; Our boards 28% women, 12% blacks, 4% Latinx, 2% Asian
- 43% of them recruit diverse talent vs. 100% of ours
- 36% of them link D&I to performance reviews vs. 78% of ours
- 29% provide D&I training vs. 96% of ours. Most common training is unconscious bias

Examples of other Best Practices - Visible and Invisible Disabilities

- **JPMorgan Chase's Autism at Work program** is focused on recruiting, hiring and supporting individuals on the autism spectrum in key roles within the company, including vice presidents. These employees have consistently demonstrated higher levels of productivity and retention.

- **Accenture's Disability employee resource group** launched a monthly *Walk in My Shoes* lunch and learn series. Each month, up to 150 members join the call, during which a member will share their personal experience with disability. This helped the ERG grow from a handful of members initially to more than 1,700 employees across the country.

- **Microsoft's Autism Hiring Program** attracts and supports talented candidates on the autism spectrum throughout the interview and hiring process. In the new one-week working interview, candidates showcase their unique talents and meet hiring teams while learning about Microsoft as an employer of choice. During the week they are on site, each candidate is supported by a job coach to help them connect with the workforce and prepare for the interview. The approach has led to the successful hiring of more than 100 individuals on the spectrum in a range of tech engineering and data scientist roles.

Bank of America's Disability Advocacy Network (DAN) launched a 12-month series to increase awareness of hidden disabilities. More than 7000 employees registered for sessions and read articles on topics such as learning disabilities, caregiving, unseen physical disabilities and mental health awareness. DAN also co-hosted a suicide prevention awareness event with the American Foundation for Suicide Prevention and National Alliance on Mental Illness. 6,285+ employees joined the broadcast and the company received 28% more calls to the Employee Assistance Hotline as a result.

sifma

Invested in America

Written Testimony of Kenneth E. Bentsen, Jr.

On behalf of the Securities Industry and Financial Markets Association

Before the U.S. House of Representatives

Committee on Financial Services

Subcommittee on Diversity and Inclusion

Hearing entitled "A Review of Diversity and Inclusion at America's Large Banks"

February 12, 2020

Chairwoman Beatty, Ranking Member Wagner, Chairwoman Waters, Ranking Member McHenry and distinguished members of the Subcommittee, thank you for the opportunity to testify today on behalf of SIFMA and to share our members' commitment to diversity and inclusion in the securities industry. SIFMA commends the members of this Committee for your collective focus on these important issues.

SIFMA is the leading trade association for broker-dealers, investment banks and asset managers operating in the U.S. and global capital markets. On behalf of our industry's nearly one million employees, we advocate on legislation, regulation and business policy affecting retail and institutional investors, equity and fixed income markets and related products and services. We serve as an industry coordinating body to promote fair and orderly markets, informed regulatory compliance, and efficient market operations and resiliency. We also provide a forum for industry policy and professional development. The combined businesses of SIFMA's members represent 75% of the U.S. broker-dealer sector by revenue and 50% of the asset management sector by assets under management.

SIFMA recognizes that achieving diversity in our workforce is an evolutionary process that requires an ongoing commitment to fostering a culture of diversity and inclusion, from the breakroom to the boardroom, as well as regular assessments to evaluate the effectiveness of workforce, employment and business practices. The securities and capital markets industry has long recognized that building and maintaining a diverse and inclusive workforce that reflects the diversity of the clients and communities we serve is both the right thing to do and a business imperative. Likewise, our industry recognizes that a workforce that is diverse in demographics, experiences, talents and ideas is the most effective way to cultivate varied perspectives that benefit our employees, the clients we serve and the economy as a whole. Research has shown that companies with diverse employment perform better financially and are more successful. This does not come as a surprise given an inclusive environment allows for greater collaboration and innovation.

This commitment is a priority for SIFMA's Board of Directors. For the past two decades, SIFMA members have proactively worked to support, promote and advocate for a diverse and inclusive securities industry. Through our Diversity and Inclusion Advisory Council, we provide an open and honest forum that allows our members the opportunity to discuss their unique initiatives and to benchmark with their peers on ways to achieve their D&I goals. SIFMA D&I Advisory Council member firms employ 2.2 million people (total including broker-dealer and/or asset manager), including 296,000 registered representatives and 195,000 financial advisors. SIFMA, both through our D&I Advisory Council and industry-wide channels, convenes conferences, roundtables and symposiums offering timely advice, proven strategies and best practices to help our firms focus on and enhance their D&I efforts. These events include participation from the Directors of the Offices of Minority and Women Inclusion (OMWI) at the regulators, as well as senior industry leaders, allowing for greater collaboration between our members and their primary regulators.

SIFMA and our members believe an evidence-based approach leads to the most successful D&I outcomes. Biennially, SIFMA, on behalf of our participating member firms and working with our outside partner Mercer, who we're pleased to have joining us today, facilitates a thorough benchmarking survey examining demographics, D&I programs, and industry practices. This benchmarking study conducted on a confidential basis allows our members to assess their firm's D&I plans and how their progress compares to the results of their peers. The survey also gives our members the opportunity to actively engage in discussions about where the industry stands and to look prospectively at the strong policies and practices needed in order to achieve our future goals. SIFMA completed its most recent survey in 2018. Collectively, the participating organizations employ more than 500,000 across the securities industry which represents about 50 percent of the industry workforce across a broad range of firms. And while I can't share the specific survey results due to non-disclosure agreements, I wanted to share a few topline observations.

- All participants reported having a diversity strategic plan. In the U.S., 95 percent of organizations' strategic plans explicitly addressed gender, gender identity, race, and ethnicity. Sexual orientation and veterans are also commonly covered (80%+).
- Responses indicated that leaders at all levels in the industry are actively engaged in diversity and inclusion efforts, particularly senior leaders. Every organization agreed that their senior leaders believe there is a business case for D&I, and all indicated their senior leaders are actively involved in D&I programs and initiatives. This type of engagement across an organization is critical for ensuring successful outcomes.
- Representation of women in the industry was 44 percent. The overall industry hire rate for women is comparable to the rate for men, as is the overall turnover rate, indicating that while both populations are growing, the share of women in the industry relative to men has remained steady. Likewise, the share of women is projected to increase by two percentage points over the next five years and three percentage points over the next ten years, making the ratio of men and women equal.
- People of color make up roughly one-third of the overall industry population in the US. The overall industry hire rate for people of color exceeds that for whites by more than five percentage points, while the turnover rate is about two percentage points higher for people of color than for whites, indicating that the percentage of people of color relative to whites in the industry has been increasing.
- We are in the planning stage of our 2020 survey and will look forward to sharing the key highlights when it is complete later this year.

To continue to improve upon their diverse workforces, our members report to us they are employing a wide array of strategies to develop diverse talent pipelines that are sustainable throughout the future. In fact, the Committee's staff report recognized several SIFMA member company initiatives to encourage upward mobility for diverse individuals including development opportunities to highlight business, strategic and financial skills, create pathways to return to the workforce and identifying new ways to promote more diverse individuals within their companies. As a matter of accountability, many SIFMA D&I Council members report to us that they tie their diversity and inclusion efforts to their performance results and compensation plans.

Throughout the hiring process, our member firms have implemented strategies to reduce bias, cultivate diverse pipelines and expand their recruiting efforts. Firms have worked to ensure interviews are objective by developing best practices to reduce bias in the interview process and requiring that interview panels include minorities and women. Many of our members focus their recruiting efforts on institutions with broad racial diversity, including Historically Black Colleges and Universities (HBCUs). Many have also developed specialized internship programs to further enhance their hiring diversity, some of which specifically target high school students on track to be the first in their families to attend college. Several SIFMA firms offer early-pipeline programs designed to attract undergraduate and MBA students who may not otherwise look to pursue a career in the securities industry. These recruitment efforts include leadership summits tailored toward women, Latino, LGBTQ and HBCU students. In their efforts to recruit mid-level candidates, many firms work with affinity organizations and community groups that bring together historically overlooked communities, as well attend targeted job fairs and utilize recruiting firms or consultants that specialize in identifying diverse candidates. Firms are committed to expanding their pool of mid-level candidates through programs that consider and give opportunities to nontraditional candidates. Firms have developed "return to work" programs to attract predominantly female talent back into the workplace after a career break with programming that includes group coaching, mentoring and other "upskilling."

I would like to also highlight an important rule change recently issued by FINRA that provides a path for diverse individuals to work in the securities industry and others to return to the workforce after a period away. This new rule provides for a more accessible entry point to those who have never worked in the securities industry to demonstrate their knowledge and capabilities. In the past, someone who was interested in working in the industry had to be affiliated with a registered firm before taking the necessary tests to be registered as a securities professional with FINRA. FINRA acknowledged that at times, securities professionals may need to put their careers on hold while maintaining their accreditation, thus they have extended the time limit before a registered representative must retake such licensing exams.

The strides our members have made to build diverse talent pipelines, however, can only be sustained by simultaneously facilitating an inclusive culture and ensuring advancement opportunities for diverse staff. To that end, firms have established advancement initiatives to increase female and minority representation in senior leadership by providing ongoing development opportunities to strengthen their business, strategic, and financial skills. Many firms incorporate a discussion of diversity in their succession planning process. Some firms have in place formal mentoring programs to help employees navigate the organization and support their professional development, many of which specifically target diverse populations including women and people of color. Sponsorship, another important aspect of retaining and promoting diverse talent, is also strongly encouraged at senior levels, with some firms providing training to senior leaders so they are prepared to sponsor underrepresented talent within their organization. Others have developed leadership academies to ensure that diverse employees are prepared to take on top roles in the firm.

Beyond these hiring, retention and promotion practices, firms have taken other critical steps to build inclusive cultures. SIFMA member firms have instituted comprehensive D&I advocate programs for all employees to contribute to inclusivity, encourage inclusive behavior, and diversify their networks and experience. Our firms have established Employee Resource Groups, which as the report noted, are also a proven and effective tool for enhancing recruitment, retention and career development. Some of these groups include shared identities such as veterans, gender and ethnicity, and LGBTQ employees, and allow these networks to collaborate internally and with outside organizations.

Veterans are of great importance to our members as well. In fact, the skills that are second nature to military veterans like leadership, teamwork and problem solving are in high demand in our industry. Some of our members have undertaken ambitious initiatives to increase their hiring of our country's bravest citizens. In fact, one firm just surpassed their five-year goal to hire 10,000 veterans into high-quality positions with clear advancement potential. That is just one example among many where SIFMA members are prioritizing those who serve.

Another important way SIFMA and our member firms work to cultivate a pipeline of future talent is through the facilitation of several of innovative programs run by our affiliated SIFMA Foundation. The programs reach 600,000 high school and middle school students from more than 15,000 schools nationwide each year with critical financial literacy programs. These programs include the Stock Market Game, Invest Write, Invest It Forward and the Capital Hill Challenge, all of which provide students the opportunity to learn and experience the securities industry first-hand where they may not have had the opportunity otherwise.

It is essential when discussing D&I best practices to also acknowledge the issue of pay equity. The 2018 SIFMA D&I Survey found that 94 percent examine pay equity, with 67 percent of respondents conducting such analysis at least once a year. Eighty-two percent of respondents said that adjustments are made as part of an annual review process and a similar number said they have a formal remediation process to address pay equity risks. Many firms also have a formal remediation process in place to address any pay equity risks that their analyses identify.

Diversity and inclusion is a business imperative for our industry. I want to reiterate that SIFMA and its member companies are firmly committed to bringing greater attention to these important topics and will continue to work to enhance the cultures and employment in all facets of the business. Again, I commend the work of this Committee and commit to continue working with you as the securities industry invests in the business of diversity. Thank you and I look forward to answering your questions.

Data Transparency is a Racial Equity Issue: Communities of Color Need Diversity and Inclusion Policies at Banks

Written Testimony of

Rawan Elhalaby
Senior Economic Equity Program Manager
The Greenlining Institute

For the Subcommittee on Diversity and Inclusion

"A Review of Diversity and Inclusion at America's Large Banks"

February 12, 2020

Attachments:
- The Greenlining Institute: Bank Board Diversity Policy Brief (2019)
- The Greenlining Institute: Corporate Board Diversity Issue Brief (2018)
- The Greenlining Institute: Diversity, Equity and Inclusion Framework (2018)
- The Greenlining Institute: Bank Board Diversity Report (2012)

I. INTRODUCTION

Thank you, Chairwoman Joyce Beatty, Ranking Member Ann Wagner, and Members of the Subcommittee on Diversity and Inclusion for holding this important hearing and for inviting The Greenlining Institute to testify.

My name is Rawan Elhalaby, a proud San Diegan and Palestinian American. I am the Economic Equity Senior Program Manager at The Greenlining Institute and lead our research on the financial services sector. The Greenlining Institute is a state and national policy, research, organizing, and leadership development organization working to advance economic opportunity and empowerment for people of color and low-income communities. Founded in 1993 and based in Oakland, California, Greenlining envisions a nation where communities of color thrive, a person's race is never a barrier to economic opportunity, and where anyone can achieve the American Dream.

In this testimony, I wish to emphasize the following:

1. Diversity and inclusion are the building blocks of a fair society. Numerous academic and private-sector studies have shown that diverse businesses outperform homogenous organizations time and time again;
2. Transparency in an institution's approach to diversity does not require any change to that institution's business plan or practices, it merely gives consumers in our diverse nation the ability to fairly evaluate where they spend their hard-earned dollars; and
3. By 2040, the US will be majority people of color. Our communities have a right and responsibility to contribute to our nation's public, private, and non-profit sectors, and transparency data can help make clear where our participation is lacking.

II. *GREENLINING'S HISTORY WITH DIVERSITY, EQUITY, AND INCLUSION*

Since we have "green" in our name, I am often asked if Greenlining is related to environmentalism. While our work does include environmental advocacy, our name actually comes from the antidote to the discriminatory practice of redlining. For anyone unfamiliar with the history of redlining, it was the public and private practice of drawing literal red lines around non-White neighborhoods on a map to signify that they were not suitable areas for banks or insurance companies to do business. Thanks to the Fair Housing Act and other civil rights laws, redlining is banned today, yet we can still see its lingering effects throughout society: the lower-earning potential of people of color,[1] inferior treatment of minority small business owners by banks when applying for loans,[2] people of color routinely denied home loans at a far higher rate than their White counterparts,[3] and a widening racial wealth gap, as the wealth of

[1] Federal Reserve Bank of Cleveland: What is Behind the Persistence of the Racial Wealth Gap?
[2] National Community Reinvestment Coalition: Disinvestment, Discouragement and Inequity in Small Business Lending
[3] Modern-day redlining: Banks discriminate in lending

the median Black family has decreased by 50 percent in the last 40 years while that of the median White family has increased by 33 percent.[4]

The Greenlining Institute has over 25 years of experience analyzing diversity at all levels of government, higher education, philanthropic foundations, and banks. At Greenlining, we understand that people solve the problems they see. Our Diversity, Equity, and Inclusion Framework shows that when companies are intentional about creating diverse, equitable, and inclusive work environments, they help to correct income disparities that then inform broader economic conditions in marginalized communities.[5] The framework posits that when people of color can fully and fairly access jobs, they contribute to an ecosystem that positively impacts their communities. For financial institutions especially, the leadership and senior management should reflect the communities they serve to effectively build trust with consumers and make capital and financial services accessible.

One of the oldest and most successful examples of transparency legislation is the Home Mortgage Disclosure Act (HMDA), passed in 1975. HMDA requires banks to disclose data on their lending by race and ethnicity to help the public and legislators identify potential discriminatory patterns. While HMDA does not enforce lending quotas or prohibit any particular activities, it does make banks take responsibility for lending, or not lending, to specific communities.

Greenlining also tracks corporate contracting with diverse businesses ("supplier diversity"). California and many of the companies that operate here have long recognized that diversity is integral to good business and that a diverse workforce and diverse procurement infrastructure can help companies venture into new markets and increase shareholder value. Nowhere is this culture more apparent than in the groundbreaking supplier diversity transparency efforts taken on by utility companies under the guiding principles of the California Public Utilities Commission's General Order 156 (GO 156). GO 156 encourages utility companies to contract with minority, women, disabled veterans owned businesses and requires annual reporting on their procurement and outreach policies.[6]

Lastly, diversity is good for business. Studies have shown that diverse boards give a company a competitive advantage, and companies lacking in diversity represent a potential risk to a company's competitiveness.[7]

III. GREENLINING'S RESEARCH APPROACH

Every year, Greenlining produces board and supplier diversity research on a variety of industries, including telecommunications, health, and financial services. In 2019, I authored a

---

[4] Institute for Policy Studies: Ten Solutions to Bridge the Racial Wealth Divide
[5] The Greenlining Institute: Diversity, Equity and Inclusion Framework
[6] Bill Text - AB-53 Insurers: procurement contracts: minority, women, and disabled veteran business enterprises.
[7] Deloitte: 2017 Corporate Board Diversity Survey

study on the board of directors of the ten largest banks in California. I found that on average, people of color made up 30 percent of bank board composition, even though over 67 percent of California's population are people of color.[8] These figures have barely changed since we analyzed bank boards in 2012 and again in 2017, showing that banks have not made sufficient progress on recruiting people of color to their boards.[9] [10]

To complete our bank research, Greenlining requests data from national institutions that operate in California. We use this data to track and rank these companies on indicators that impact communities of color, including board of director diversity. We have seen in our work that financial institutions and other companies often make claims to prioritize diversity and inclusion, but data reveals the action—or lack thereof—behind these buzz words. Research from Greenlining and other similar organizations helps to highlight where there is a disconnect between those goals and the actual policies and practices that drive the composition of their workforce and board of directors.

IV. HOW THE FEDERAL GOVERNMENT CAN SUPPORT INCREASED TRANSPARENCY FOR DIVERSITY AND INCLUSION AT LARGE BANKS

Data allows Greenlining and other organizations to benchmark the banking industry's goal of increasing diversity and inclusion in critical areas. Only data can effectively highlight the impact of successful diversity programs, which can then serve as examples for other institutions and industries.

Unfortunately, Greenlining experiences substantial difficulty in receiving data broken down by race and ethnicity. This difficulty impedes our ability to produce timely research and keep the public, banks, and legislators informed on this important topic. One driving factor is that banks have inconsistent diversity data collection and reporting practices, and generally under resource the internal teams tasked with responding to our data requests. Another driving factor is that banks are not required by law to provide the disaggregated data that is most meaningful to research organizations like Greenlining.

As the National Community Reinvestment Coalition stated in their 2019 report on minority small business lending, "a lack of data cloaks bank small business lending practices, hindering the regulators' and stakeholders' ability to monitor and hold banks accountable."[11] For the data we collect to be most impactful and informative, as well as to accurately portray how banks are meeting their commitments to diversity and inclusion, it must be disaggregated by race and be completed by all institutions.

---

[8] The Greenlining Institute: 2019 Bank Board Diversity Policy Brief
[9] The Greenlining Institute: Annual Bank Board Diversity Report 2012
[10] The Greenlining Institute: Corporate Board Diversity April 2018
[11] National Community Reinvestment Coalition: Disinvestment, Discouragement and Inequity in Small Business Lending

The Community Reinvestment Act and other colorblind civil rights laws, while immensely impactful, are not sufficient on their own for eliminating discrimination in the financial services sector. Race conscious regulations are needed to ensure financial inclusion.

Greenlining urges Congress to expand existing legislation that requires government agencies and private institutions to disclose data on diversity and inclusion practices. Section 342 of the Dodd-Frank Act created Offices of Minority and Women Inclusion (OMWI) in eight agencies to ensure policymakers and regulators better reflect, understand, and promote job creation in minority communities.[12] OMWIs have worked to build up a robust infrastructure that includes internal assessments, crafting strategic plans, and increase diversity in their large agencies.[13]

In one example, the OMWIs in each of the Federal Home Loan Banks have been successful in increasing the share of minority employees in the banks. Data transparency on diversity and inclusion with the Federal Home Loan Banks helps the agency to identify where policy and practice improvements should be made, such as developing incentives and updating outreach methods.[14]

In California, reporting requirements in the California Public Utilities Commission have significantly increased diverse supplier spending in energy, communications, and water companies, generating unprecedented results and standing the test of time.[15]

It is also critical for Federal regulators to set a strong example for the state's grappling with the rise of non-bank Financial Technology (FinTech) lenders. In California, five of the ten largest home lenders are non-banks. While these home lenders market similar products and services, they are not subject to any bank regulations like the Community Reinvestment Act, Home Mortgage Disclosure Act, or Dodd-Frank Act. Unfortunately, we know that a tiny percentage of the tech industry is African American or Latino, and without increased transparency these figures may stay static for far too long.

In addition to board, management, and supplier diversity, Greenlining also requests transparency data from banks regarding their philanthropic giving to organizations led by and serving people of color. Recent studies have shown the benefit of diverse non-profit boards, especially as it pertains to engagement, fundraising, and advocacy.[16] Despite the importance of diversity in philanthropy, data on this topic is often some of the most difficult to get from banks. This reluctance may, in part, stem from a lack of clarity around their ability to collect data on their grantees. Greenlining recommends that any future legislation explicitly allow for data collection and transparency in a bank's philanthropic giving.

---

[12] The Greenlining Institute: Communities Need Diverse Policymakers, Now More Than Ever
[13] Regulated Institutions to Submit Self-Assessments of Diversity Policies and Practices
[14] GAO-19-589, FEDERAL HOME LOAN BANKS: Efforts to Promote Workforce, Supplier, and Broker-Dealer Diversity
[15]The Greenlining Institute: 2019 Supplier Diversity Report Card
[16] Johnson Grossnickle and Associates: New Research Shows Benefits of Diversity on Nonprofit Boards

V. CONCLUSION

We applaud the Committee on Financial Services for prioritizing diversity and inclusion with the creation of this subcommittee. As people of color move toward becoming America's new majority, we must be full participants in the U.S. economy and able to participate everywhere decisions are made that affect our lives.

Chairwoman Beatty and members of the Subcommittee, thank you again for the opportunity to testify today and highlight our work. The Greenlining Institute looks forward to working with you to shed light on the diversity and inclusion practices of the nation's banks. As I hope my testimony has demonstrated: transparency brings sunshine to essential parts of the financial sector, and that sunshine helps to create and drive important conversations around diversity and inclusion.

ECONOMIC EQUITY • POLICY BRIEF • OCTOBER 2019

2019 BANK BOARD DIVERSITY

Author

Rawan Elhalaby, *Economic Equity Senior Program Manager, The Greenlining Institute*

OVERVIEW

The Greenlining Institute regularly examines corporate executive board diversity.[1] Our 2019 study zeroes in on the gender and racial makeup of bank executive boards, and occurs just as federal policymakers push for diversity in banking and financial inclusion, including the recent creation of a Subcommittee on Diversity and Inclusion within the U.S. House Committee on Financial Services and a June 2019 hearing on "Diversity in the Boardroom."[2] Greenlining supports efforts in Congress to increase board diversity by requiring disclosure of corporate board demographics (H.R. 3279 and H.R. 1018) and identifying diverse board candidates (H.R. 281).

Our analysis of the 10 largest depository banks in California, defined by deposit market share, found that on average, people of color make up 30 percent of board composition, while making up over 67 percent of California's population. Bank of the West topped the rankings with a board containing 75 percent people of color.

Why Board Diversity at Banks Matters

When companies are intentional about creating diverse, equitable and inclusive work environments, they help to disrupt the income disparities that inform broader economic conditions in marginalized communities. For financial institutions in particular, the leadership should reflect the communities they serve in order to effectively build trust with consumers and make capital and financial services accessible. And ultimately, a diverse board improves an institution's bottom line.[3]

Executive boards are the ultimate decision-makers in financial institutions and drive policies that trickle down to communities. Boards are accountable for the actions and behaviors of their institutions. In order to fight redlining and promote economic development in communities of color, boards need to reflect the diversity of the population they serve. In the United States, people of color make up 41.8 percent of the population. California's population is more than 67 percent people of color.

Greenlining Standards for Equitable Bank Boards:

- Consider the racial demographics of the United States as a benchmark for representation.
- Consider the gender demographics of the United States as a benchmark for representation.
- Include at least one person of color and one woman for consideration in board candidate searches.
- Publicly disclose executive board members, disaggregating by race and gender.

We believe that executive boards of national banks that meet Greenlining's standards for equity will be more likely to create equitable and inclusive policies and have a greater commitment to diverse communities.

Findings

Board diversity among California's largest banks still has room for progress. Overall, the boards of the banks we analyzed fail to mirror the racial and gender diversity of California and most also fail to reflect the demographics of the United States overall. Although Bank of the West ranks highest, with 75 percent of its board made up of people of color, the majority of the banks we studied had fewer than 40 percent people of color on their boards and, on average, people of color made up 30 percent of board composition.

On average, women made up 29 percent of board members. First Republic Bank ranked marginally higher than its counterparts with a board made up of 36 percent women.

Silicon Valley Bank was the only bank we studied with no people of color represented on its board. Six of the 10 banks have below average representation of people of color in comparison to the banks we studied, and five of the 10 banks have below average representation of women.

Board Diversity by Race				Board Diversity by Gender			
CA Deposit Size Ranking	Racial Diversity Ranking	Bank	POC %	CA Deposit Size Ranking	Gender Diversity Ranking	Bank	Women %
6	**1**	Bank of the West	75%	7	**1**	First Republic Bank	36%
4	**2**	MUFG Union Bank	46%	9	**2**	U.S. Bank	35%
5	**3**	Citibank	40%	1	**2**	Bank of America	35%
10	**4**	CIT Bank	33%	2	**3**	Wells Fargo	33%
9	**5**	U.S. Bank	29%	10	**3**	CIT Bank	33%
2	**6**	Wells Fargo	25%	8	**4**	Silicon Valley	27%
1	**7**	Bank of America	18%	6	**5**	Bank of the West	25%
3	**7**	JPMorgan Chase	18%	4	**6**	MUFG Union Bank	23%
7	**7**	First Republic Bank	18%	5	**7**	Citibank	20%
8	**8**	Silicon Valley	0%	3	**8**	JPMorgan Chase	18%
		Average	30%			**Average**	29%

METHODOLOGY

Greenlining submitted a request for data to the 10 largest financial institutions in California, based on their California deposit share. We received a complete response from eight of the 10. For the two institutions with incomplete data, we were able to find their executive board data on the institutions' websites (through 2019 proxy statements and investor reports).

In order to keep the analysis uniform based on the variation in responses we received, including banks that aggregated people of color, we aggregated Black, Latinx, Asian, and Native American board members, tallied the results, and ranked the financial institutions based on the percentage of people of color on their boards. We separately conducted a similar analysis for gender, so women of color were counted twice if they appeared on a board.

Given the available data, this analysis focused on the banks with the largest deposit market share in California, which includes banks that have a limited branch presence in the state. This study is also limited by data reporting that: 1) often did not disaggregate people of color, which does not allow us to identify banks with limited representation by particular marginalized communities of color, and 2) may not account for individuals that identify as gender non-conforming and may choose not to identify themselves as such to these institutions.

STRATEGIES FOR BUILDING DIVERSE BOARDS

- **Establish a commitment to diversity, equity and inclusion:** Each bank CEO should embed the values of diversity, equity and inclusion into their institution's mission and policies, including board recruitment policies and practices, and make a public commitment to establish and maintain a diverse executive board. A commitment to diversity, equity and inclusion in bank practices includes forming a committee to track progress, hosting cultural sensitivity trainings for the board, and establishing policies that prevent discrimination in board recruitment.
- **Disclose board demographics and policies:** Banks should disclose their diversity policies and practices on their websites, as recommended by the OCC's Office of Minority and Women Inclusion.[4] In addition, in order to allow for accountability by consumers and advocates, all banks should publicly disclose the demographics of their board and disaggregate the information to specify the race of each individual board member. As Congresswoman Maxine Waters emphasized, data transparency will show where there is discrimination and identify opportunities for eliminating it.[5]
- **Set goals for representation on boards:** Banks should have quantitative goals for the number of people of color and women/gender non-conforming individuals serving on their boards in order to keep themselves accountable and incentivize diversity in the recruitment and selection process. These goals should reflect the diversity of the communities they serve.
- **Expand qualifications for board members:** Communities of color have been historically left out of the traditional sectors and positions that make up the pool of board candidates. In order to be inclusive and increase the diversity of the board, CEOs must expand the pool of applicants. Recruitment should have an expansive criteria that includes non-traditional sectors, including nonprofit leaders, reaches beyond a bank's usual circle of referrals, and includes individuals who may not have served as former CEOs but have still relevant executive experience.[6] Widening the pool of board candidates will not only promote diversity within the bank, but also build a bench of more diverse voices for leadership in the larger industry.
- **Professional development of bank leadership:** Senior management often helps shape the makeup of the executive board by recruiting and suggesting people for board positions from within their personal and professional circles. As such, underrepresentation of women and people of color in senior management will have an effect on the makeup of executive boards. Professional development for the purposes of promotion and retention of diverse up-and-coming leaders in banks, as well as proactive recruitment from diverse populations, can have an impact on board composition. JPMorgan Chase's Advancing Black Leaders program is an example of proactive professional development that focuses on hiring, retaining and uplifting Black individuals.[7]

Bank boards should reflect the diversity of California and the nation. We believe that these strategies will lead to greater racial equity within banks and in their investments in communities. Diverse leadership will help banks understand and meet the needs of their diverse customer base and prioritize reinvestment in currently underrepresented communities.

ABOUT THE GREENLINING INSTITUTE

Founded in 1993, The Greenlining Institute envisions a nation where communities of color thrive and race is never a barrier to economic opportunity. Because people of color will be the majority of our population by 2044, America will prosper only if communities of color prosper. Greenlining advances economic opportunity and empowerment for people of color through advocacy, community and coalition building, research, and leadership development. We work on a variety of major policy issues because economic opportunity doesn't operate in a vacuum. Rather than seeing these issues as being in separate silos, Greenlining views them as interconnected threads in a web of opportunity.

About the Economic Equity Team

The Greenlining Institute's Economic Equity program works to overcome the lingering effects of redlining, help communities of color build wealth, and ensure that our financial system works for all.

AUTHOR BIOGRAPHY

Rawan Elhalaby, *Senior Economic Equity Program Manager*

Rawan Elhalaby is the Senior Economic Equity Program Manager at The Greenlining Institute where she oversees bank accountability efforts using the Community Reinvestment Act. As the daughter of working class refugees, Rawan is all too familiar with the obstacles to achieving self-sufficiency in the United States for low-income and immigrant families. As such, she has spent her career addressing these obstacles at Greenlining and one-on-one with recently arrived refugees from Iraq, Somalia, Syria, and Afghanistan (among others) to San Diego at the International Rescue Committee. She has also worked as a policy consultant to the Consumer Financial Protection Bureau, the County of San Diego, the Western Regional Advocacy Project, and the Dellums Institute for Social Justice. Rawan holds a degree in Political Science from San Diego State University and a Master of Public Policy from UC Berkeley's Goldman School of Public Policy.

Editorial: **Bruce Mirken**, *Media Relations Director, The Greenlining Institute*

Special thanks to *Greenlining Institute Summer Associate* **Maria Cecilia Perez** for assistance with research.

ENDNOTES

[1] http://greenlining.org/publications/2018/2017-corporate-board-diversity
[2] https://financialservices.house.gov/calendar/eventsingle.aspx?EventID=403834
[3] https://www2.deloitte.com/us/en/pages/about-deloitte/articles/board-diversity-survey.html
[4] https://www.occ.gov/news-issuances/news-releases/2016/nr-ia-2016-91.html
[5] https://www.vox.com/policy-and-politics/2019/1/3/18157768/maxine-waters-house-financial-services-committee-cfpb
[6] https://financialservices.house.gov/uploadedfiles/hhrg-116-ba00-20190620-sd002_-_memo.pdf
[7] https://www.jpmorganchase.com/corporate/About-JPMC/ab-advancing-black-leaders.htm

THE GREENLINING INSTITUTE

The Greenlining Institute
360 14th Street, 2nd Floor
Oakland, CA 94618

T: 510.926.4001
F: 510.926.4010
www.greenlining.org

The Greenlining Institute
@Greenlining
The Greenlining Institute
@Greenlining

DIVERSITY AND INCLUSION • ISSUE BRIEF • APRIL 2018

CORPORATE BOARD DIVERSITY

MAJOR PLAYERS FAIL TO REFLECT CALIFORNIA'S LABOR FORCE

Danielle Beavers *Director of Diversity and Inclusion, The Greenlining Institute*
Joe Jackson *Manager Of Diversity And Inclusion, The Greenlining Institute*

TABLE OF CONTENTS

INTRODUCTION

Corporate boards play a critical role in America's economy, and their membership matters. Boards serve as top-level decision makers and set companies' priorities. When these bodies are diverse, they're better equipped to make decisions that consider and benefit communities. Despite efforts to diversify corporate America's boards, however, women and people of color face challenges breaking through the "good old boy's network."

This brief evaluates the 2017 racial, ethnic and gender board diversity of 59 companies across some of California's leading industries—banking, insurance, technology, health, environmental, and utilities.[1]

[1] We chose to examine corporate board diversity in fields that correspond with Greenlining's policy advocacy programs.

SUMMARY OF FINDINGS

- People of color and women each comprised one out of four board members.
- Latinos and women were underrepresented on boards compared to their labor force participation in California:
  - Latinos make up 6 percent of board members
  - Women make up 26 percent of board members
- Seven companies had no people of color on their boards and more than half of organizations had less than 25 percent people of color.
- Three companies had no women serving as board members, while 24 companies had less than 25 percent.
- East West Bank had the most racially diverse board (at 66 percent), followed closely by Kaiser Permanente, Pacific Gas and Electric, and Hewlett Packard.
- Health service providers did best in terms of gender diversity. Blue Shield of California, Dignity Health and Adventist Health all have between 40 and 50 percent women on their boards.
- Overall, corporate boards in California's leading industries fail to mirror the state's incredibly diverse labor force.

METHODOLOGY

Greenlining analyzed board diversity data of the 10 leading companies from five of our issue areas: Bridges to Health, Economic Equity, Environmental Equity, Energy, and Telecommunications. Choosing five companies from each, we combined Energy and Telecommunications into one section. In addition to the four categories, we evaluated nine leading companies in insurance[1] and 10 in technology industries, creating a total of six reporting categories for this brief. Greenlining selected companies with a significant presence in California, regardless of their headquarters location. We obtained information about the name, race/ethnicity, and professional background of every board member from each company's website.

To understand the extent to which the boards reflected California's labor force, Greenlining compared each industry to California's race/ethnicity and gender rate of labor force participation from the 2015 American Community Survey. Race and ethnic categories include Asian, Black, Latino, White and Other.[2]

---

[1] This Insurance industry section is distinct and separate from the health insurance section within the Bridges to Health policy area.

[2] "Other" combines multiracial, Pacific Islander and "Some Other Race" categories in the ACS data set.

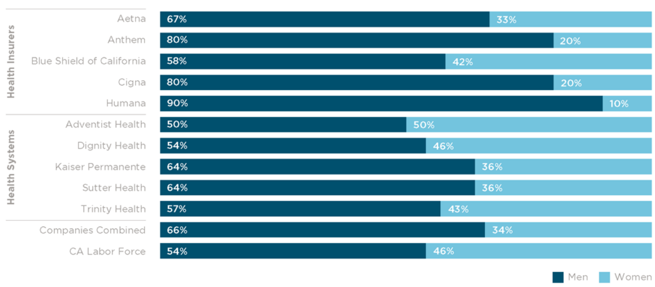
BRIDGES TO HEALTH

Companies Featured: Five largest health systems[3] and five largest health insurers in California, by revenue

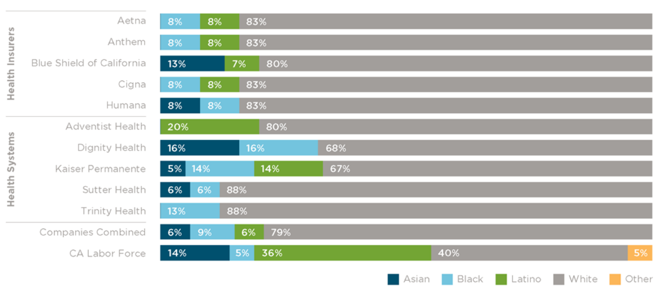
Combined 2016 Global Revenue: $371 billion[4]

Industry Highlights: Eight companies' boards have at least 25 percent women. Adventist Health is the only organization to achieve an even split of men and women out of all 59 companies reviewed in this brief. Kaiser Permanente leads in racial and ethnic diversity, with Dignity Health following close behind. Kaiser Permanente has at least three ethnic groups represented while Dignity Health has only two. No other health industry companies examined had greater than 25 percent people of color.

Health Care Board Diversity by Gender[5]



Health Care Board Diversity by Race/Ethnicity



[3] Health systems' (hospitals and care providers) revenues are national figures because their organizations provide services within the United States only.

[4] See Appendix I for all companies' revenues.

[5] On all graphs, percentages may not add up to exactly 100% because of rounding.

BANK SERVICES

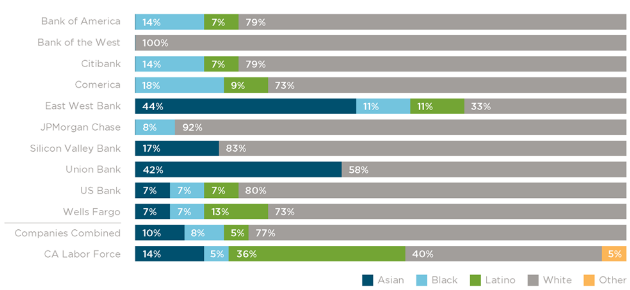
Companies Featured: 10 largest depositary banks in California, defined by amount of deposits

Combined 2016 Global Revenue: $377 billion

Industry Highlights: East West Bank is a leader in racial board diversity, having the greatest proportion of racial and ethnic groups represented (including substantial Asian representation, possibly connected to the bank's roots in the Chinese-American community). Wells Fargo has the highest proportion of women on its board. Seven of the 10 companies have at least 25 percent women board members.

Bank Board Diversity by Gender

Bank Board Diversity by Race/Ethnicity



ENVIRONMENTAL EQUITY

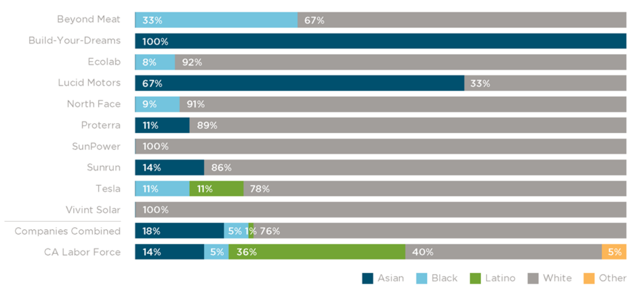
Companies Featured: 10 California employers that supply products or services that are environmentally sustainable or are manufactured sustainably

2016 Global Revenue: $30.8 billion

Highlights: Ecolab led in gender diversity, with women representing 33 percent of its board. However, compared to other companies in other sections of this brief, environmental companies have room for improvement in gender diversity. Only two companies have at least 25 percent women occupying board seats. White men made up 100 percent of Vivint Solar's and Beyond Meat's boards. Overall, these boards need improvement in racial and ethnic diversity.

Environmental Board Diversity by Gender

Environmental Board Diversity by Race/Ethnicity



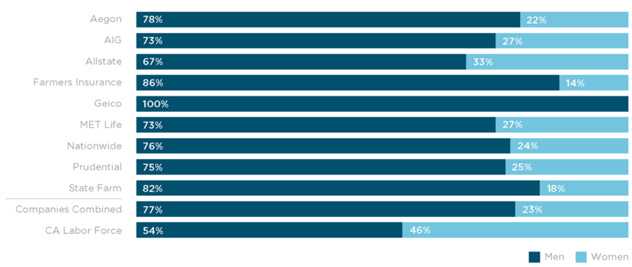
INSURANCE

Companies Featured: 10 largest insurers in California, by revenue

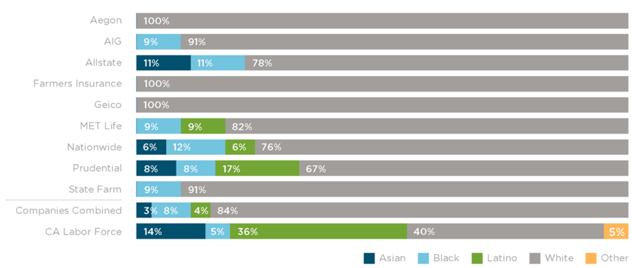
2016 Global Revenue: $382 billion

Industry Highlights: Four firms achieved at least 25 percent women on their boards, with Allstate having the highest percentage of women at 33 percent. Prudential leads its peers in racial diversity on its board and was the only insurance company whose board included more than 25 percent people of color. GEICO's board is made up of only White men. Overall, the insurance companies have more work to do to diversify their boards.

Insurance Board Diversity by Gender



Insurance Board Diversity by Gender



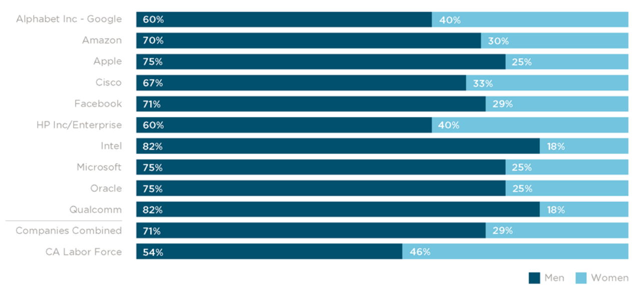
TECHNOLOGY

Companies Featured: 10 largest technology companies in California, by revenue

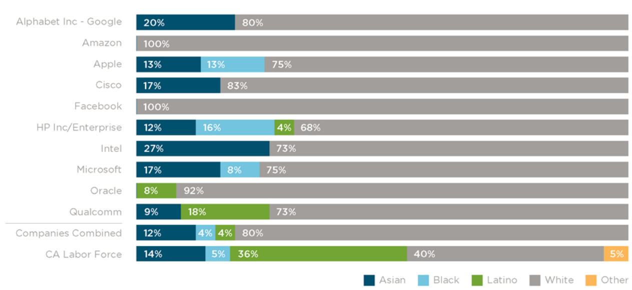
2016 Global Revenue: $821 billion

Industry Highlights: California has the sixth largest economy in the world, according to the Legislative Analyst's Office, and the technology sector powers much of California's economic activity. Eight technology companies have at least 25 percent women on their boards, with Google and Hewlett Packard leading at 40 percent. With people of color making up 32 percent of its board, Hewlett Packard is a leader among these top ten tech companies. Only half of these firms seat at least 25 percent people of color on their boards.

Technology Board Diversity by Gender



Technology Board Diversity by Race/Ethnicity



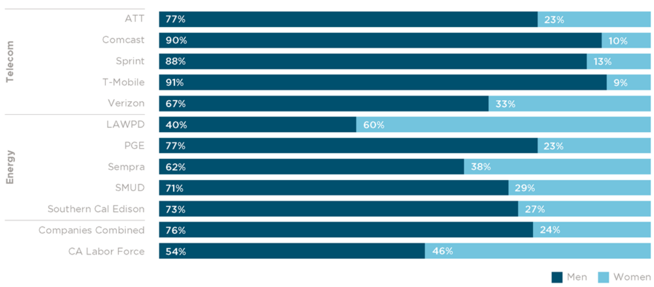
ENERGY AND TELECOMMUNICATIONS

Companies Featured: The five largest energy companies and five largest telecommunications firms in California, by revenue

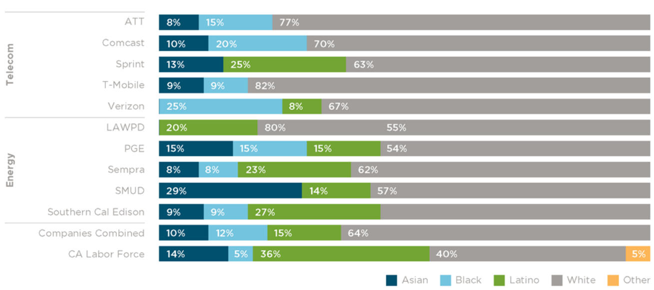
2016 Global Revenue: $670 billion

Industry Highlights: Women's representation remains an opportunity for growth. Overall, women accounted for 24 percent of board seats. Leaders in the utility space include Sempra and the Los Angeles Department of Water and Power, a municipal utility[6], with women occupying about 40 percent of their boards. Only three of these companies have at least 25 percent women in board seats. Eight of these companies have at least 25 percent people of color on their boards. Combined, people of color make up just over a third of board members.

Energy and Telecommunications Board Diversity by Gender



Energy and Telecommunications Board Diversity by Race/Ethnicity



[6] California's energy utilities include investor-owned, publicly owned, cooperative and community choice organizations (California Energy Commission, 2017). We examined the five largest, regardless of ownership.

CONCLUSION

Greater public conversation about board diversity during the last several years has led to some progress in representation of people of color and women on the boards of major corporations. However, considerable opportunity remains for improving the diversity of corporate boards, which rarely approach the diversity of California overall. Corporations should embrace a continued commitment to achieving diversity and establish accountability mechanisms to ensure progress.

LIST OF COMPANIES AND ANNUAL REVENUE

Companies	Revenue ($)	Source
(SEMPRA) SoCal Gas and SDGE	1.37 billion	(Sempra Energy)
Adventist Health	9.65 billion	(Adventist Health Systems, 2016)
AEGON US Holding Group	16.537 billion	(Aegon N.V., 2016)
Aetna	63.155 billion	(Aetna, 2017)
Allstate Insurance Company	36.5 billion	(Cision - PR Newswire Association LLC, 2017)
Alphabet - Google	90.272 billion	(Alphabet Inc., 2016)
Amazon.com Inc	135.9 billion	(The Wall Street Journal, 2016)
American International Group	52.367 billion	(American International Group, Inc., 2016)
Anthem Inc.	84.9 billion	(Anthem Inc., 2016)
Apple	215.639 billion	(Apple Inc., 2016)
ATT	163.8 billion	(AT&T Inc., 2016)
Bank of America	83.701 billion	(Bank of America Corporation, 2016)
Bank of the West	586.9 million	(Bank of the West, 2016)
Beyond Meat	N/A	
Blue Shield of California	17.6 billion	(Blue Shield of California, 2016)
BYD Company Limited	15 billion[7]	(Nikkei Inc., 2016)
Cigna	39.7 billion	(Cigna Corporation, 2017)
Cisco	49.24 billion	(Cisco Systems, Inc., 2017)
Citibank	69.9 billion	(Citigroup Inc., 2016)
Comcast	80.4 billion	(Comcast Corporation, 2016)
Comerica	2.9 billion	(CNN, 2016)
Dignity Health	12.6 billion	(Dignity Health, 2016)
East West Bank	432 million	(East West Bancorp, 2016)
Ecolab	1.23 billion	(Ecolab USA Inc., 2016)
Facebook	27.6 billion	(Facebook Inc., 2016)
Farmers Insurance	12.6 billion	(Farmers Insurance, 2017)

[7] Converted from 100 billion yuan

Companies	Revenue ($)	Source
Geico Insurance Group	26.3 billion	(Society of Collision Repair Specialists, 2017)
HP Inc/Enterprise[8]	98.3 billion	(Hewlett Packard Inc/Enterprise, 2016)
Humana	54.37 billion	(NASDAQ, 2016)
LADWP	4.34 billion	(City of Los Angeles, 2016)
Intel	59.38 billion	(Intel Corporation, 2016)
JPMorgan Chase	95.668 billion	(JPMorgan Chase & Co, 2016)
Kaiser Permanente	64.6 billion	(Kaiser Permanente, 2017)
Lucid Motors	N/A	
Metropolitan Life Insurance	63.47 billion	(NASDAQ, 2016)
Microsoft	85.3 billion	(Microsoft Corporation, 2016)
Nationwide Group	27 billion	(Nationwide Group, 2016)
North Face (VF Corporation)	12 billion	(VF Corporation, 2017)
Oracle	37 billion	(Oracle, 2016)
PGE	17.666 billion	(PG&E Corporation, 2017)
Proterra	N/A	
Prudential Insurance Company	58.77 billion	(Prudential Financial, Inc. , 2016)
Qualcomm	23.6 Billion	(Qualcomm Incorporated, 2016)
Silicon Valley Bank	1.6 billion	(SVB Financial Group, 2017)
SMUD	1.49 billion	(Sacramento Municipal Utility District, 2017)
Southern Cal Edison	11.869 billion	(Edison International and Southern CA, 2016)
Sprint	33.3 billion	(NASDAQ, 2017)
State Farm	76.1 billion	(State Farm Mutual Auto Insurance, 2017)
SunPower	2.55billion	(SunPower, 2017)
Sunrun	454 million	(©2017 Sunrun, 2017)
Sutter Health	11.873 billion	(Sutter Health, 2016)
Tesla	7 billion	(NASDAQ, 2016)
T-Mobile	37.2 billion	(T-MOBILE USA, INC., 2016)
Trinity Health	17.6 billion	(Trinity Health, 2017)
Union Bank	5.3 billion	(MUFG Americas Holdings Corporation, 2017)
US Bank	21.308 billion	(U.S. Bancorp, Inc., 2016)
Verizon	126 billion	(Verizon, 2016)
Vivint Solar	135.2 million	(Vivint Solar Developer, LLC., 2016)
Wells Fargo	88.267 billion	(Wells Fargo, 2016)

[8] HPE and HP Inc are two separate companies split from what used to be HP. The revenue in this table reflects their combined revenue. HPE earned $50.1 billion, while HP Inc brought in $48.2 billion.

SOURCES CITED

©2017 Sunrun. (2017, Mar. 8). Sunrun Reports Fourth Quarter and Full Year 2016 Financial Results. Retrieved from Sunrun: https://www.sunrun.com/why-sunrun/about/news/press-releases/sunrun-reports-fourth-quarter-and-full-year-2016-financial

Adventist Health Systems. (2016). Audited Consolidated Financial Statements. Retrieved September, from: http://eziegler.com/Files/AHS_FY_2016_Financials.pdf, 2017

Aegon N.V. (2016). Annual Report. Retrieved September 2017, from: https://www.aegon.com/contentassets/ba816ee01cd54e9abdcd942f2fb9fcfe/aegon-annual-report-2016.pdf

Aetna. (2017, Jan 31). Aetna Reports Fourth-Quarter and Full-Year 2016 Results. Retrieved September 2017, from Aetna Website: https://news.aetna.com/news-releases/aetna-reports-fourth-quarter-and-full-year-2016-results/

Alphabet Inc. (2016). Income Statement. Financial Report. Retrieved Oct 2017, from: https://abc.xyz/investor/news/earnings/2016/Q4_alphabet_earnings/

American Community Survey. (2015). 2011-2015 American Community Survey 5-Year Estimates. U.S. Department of Commerce, U.S. Census Bureau. Retrieved from: https://factfinder.census.gov/faces/nav/jsf/pages/searchresults.xhtml?refresh=t

American International Group, Inc. (2016). AIG 2016 Annual Report. Retrieved from AIG Website: http://www.aig.com/content/dam/aig/america-canada/us/documents/investor-relations/2017/aig-2016-annual-report.pdf

Anthem Inc. (2016). Anthem 2016 Annual Report. Retrieved from Anthem Website: http://media.corporate-ir.net/media_files/IROL/13/130104/2016AR/index.html

Apple Inc. (2016). Apple Annual Report. Retrieved from Apple - Investor Relations: http://investor.apple.com/secfiling.cfm?filingid=1628280-16-20309&cik=320193#A201610-K9242016_HTM_S6D9F6383DC8154C6A9550261722A985C

AT&T Inc. (2016). Annual Report 2016. Retrieved Oct. 2017, from AT&T: https://investors.att.com/~/media/Files/A/ATT-IR/financial-reports/annual-reports/2016/att-ar2016-completeannualreport.pdf

Bank of America Corporation. (2016). Investor Relations - Annual Reports & Proxy Statements. Retrieved Oct. 2017, from Bank of America Investor Relations Website: http://media.corporate-ir.net/media_files/IROL/71/71595/BOAML_AR2016.pdf

Bank of the West. (2016). Annual Reports. Retrieved Oct. 2017, from Bank of the West Website: https://www.bankofthewest.com/about-us/our-company/annual-reports.html

Blue Shield of California. (2016). Retrieved Oct. 2017, from blueshieldca.com: https://www.blueshieldca.com/about/corporate-info/facts

California Employment Development Department. (2016). Industry Employment & Labor Force - by MONTH. Labor Market Information Division. Retrieved August 17, 2017, from: http://www.labormarketinfo.edd.ca.gov/file/indhist/cal$shws.xls

California Energy Commission. (2017). Electric Utilities in California. Retrieved Sept 2017, from California Energy Commission: http://www.energy.ca.gov/almanac/electricity_data/utilities.html

Cigna Corporation. (2017, Feb. 2). Cigna Reports 2016 Results. Retrieved Oct. 2017, from Cigna Website: https://www.cigna.com/newsroom/news-releases/2017/cigna-reports-2016-results-expects-attractive-earnings-growth-in-2017

CISCO SYSTEMS, INC. (2017, Aug. 16). Cisco Reports Fourth Quarter and Fiscal Year 2017 Earnings. Retrieved Oct. 2017, from Cisco Systems Website: https://investor.cisco.com/investor-relations/news-and-events/news/news-details/2017/Cisco-Reports-Fourth-Quarter-and-Fiscal-Year-2017-Earnings/default.aspx

Cision - PR Newswire Association LLC. (2017, Feb 1). Allstate Finishes 2016 with Strong Profitability. Retrieved from PR Newswire: http://www.prnewswire.com/news-releases/allstate-finishes-2016-with-strong-profitability-300400966.html

Citigroup Inc. (2016). 2016 Annual Report. Retrieved Oct. 2017, from Citigroup Website: https://www.citigroup.com/citi/investor/quarterly/2017/annual-report/

CNN. (2016). CMA - Comerica Inc. Financial Results. Retrieved Oct. 2017, from CNN Money Website: http://money.cnn.com/quote/financials/financials.html?symb=CMA

Comcast Corporation. (2016). Comcast Reports 4th Quarter and Year End 2016 Results. Retrieved Oct. 2017, from Comcast Website: http://www.cmcsa.com/releasedetail.cfm?ReleaseID=1009218

Dignity Health. (2016). Dignity Health Posts 2016 Financial Results. Retrieved Oct. 2017, from Dignity Health Website: https://www.dignityhealth.org/about-us/press-center/press-releases/dignity-health-posts-2016-financial-results

East West Bancorp. (2016). East West Bancorp 2016 Annual Report. Retrieved Oct. 2017, from East West Bank Website: http://www.annualreports.com/HostedData/AnnualReports/PDF/NASDAQ_EWBC_2016.pdf

Ecolab USA Inc. (2016). 2016 Annual Report. Retrieved Oct. 2017, from Ecolab Website: http://investor.ecolab.com/~/media/Files/E/Ecolab-IR/Annual%20Reports/2016-annual-report.pdf

Edison International and Southern California Edison. (2016). Energy for What's Ahead: 2016 Annual Report. Financial Report. Retrieved from: https://www.edison.com/content/dam/eix/documents/investors/corporate-governance/2016-annual-report.pdf

Facebook Inc. (2016). Facebook Reports Fourth Quarter and Full Year 2016 Results. Retrieved Oct. 2017, from Facebook Investor Relations Website: https://investor.fb.com/investor-news/press-release-details/2017/facebook-Reports-Fourth-Quarter-and-Full-Year-2016-Results/default.aspx

Farmers Insurance. (2017, June 7). Farmers Insurance Exchange Ranks Among the Nation's Largest Companies as Insurer. Retrieved Oct. 2017, from Farmers Insurance: https://www.farmers.com/news/2017/farmers-insurance-exchange-ranks-among-nation-largest-companies-insurer-2017-fortune-500-List/

Hewlett Packard Enterprise Company. (2016). HPE 2016 Form 10-K. Retrieved Oct. 2017, from Hewlett Packard Enterprise Investor Relations: http://investors.hpe.com/~/media/Files/H/HP-Enterprise-IR/documents/hpe-2016-10k.pdf

Hewlett Packard Inc. (2016). HP Inc. Reports Fiscal 2016 Fourth Quarter Results. Retrieved Oct. 2017, from HP Inc. Website: http://h30261.www3.hp.com/news-and-events/news-library/2016/11-22-2016.aspx

Imperial Irrigation District. (2016). Publications and Reports. Retrieved Oct. 2017, from IID.com: http://www.iid.com/home/showdocument?id=14479

Intel Corporation. (2016). Financials and Filings - Earnings Reports. Retrieved Oct. 2017, from Intel Investor Relations: https://s21.q4cdn.com/600692695/files/doc_financials/interactive/2016/index.html

JPMorgan Chase & Co. (2016). 2016 Annual Report. Retrieved Oct. 2017, from JPMorgan Chase Investor Relations: https://www.jpmorganchase.com/corporate/investor-relations/document/2016-annualreport.pdf

Kaiser Permanente. (2017, Feb. 13). Kaiser Foundation Health Plan and Hospitals Report Annual Financial Results for 2016. Retrieved from Kaiser Permanente: https://share.kaiserpermanente.org/article/kaiser-foundation-health-plan-hospitals-report-annual-financial-results-2016/

Legislative Analyst's Office (LAO). (2016, Dec 5). Cal Facts: 2016. Retrieved Sept 21, 2017, from Legislative Analyst's Office | The California Legislature's Nonpartisan Fiscal and Policy Advisor: http://www.lao.ca.gov/Publications/Report/3511

Microsoft Corporation. (2016). Microsoft 2016 Annual Report. Retrieved from Microsoft Website: https://www.microsoft.com/investor/reports/ar16/index.html

MUFG Americas Holdings Corporation. (2017, Jan. 24). MUFG Americas Holdings Corporation Reports Fourth Quarter. Retrieved Oct. 2017, from Union Bank: https://www.unionbank.com/Images/MUAH-EARNINGS_EX-99-1-Q4-2016-r133_FINAL_Banner.pdf

NASDAQ. (2016). Humana Inc. Revenue & Earnings Per Share (EPS). Retrieved Oct. 2017, from Nasdaq.com: http://www.nasdaq.com/symbol/hum/revenue-eps

NASDAQ. (2016). MetLife, Inc. Revenue & Earnings Per Share (EPS). Retrieved from Nasdaq.com: http://www.nasdaq.com/symbol/met/revenue-eps

NASDAQ. (2016). TSLA Company Financials. Retrieved from Nasdaq.com: http://www.nasdaq.com/symbol/tsla/financials?query=income-statement

NASDAQ. (2017). Sprint Corporation Income Statement. Retrieved from Nasdaq.com: http://www.nasdaq.com/symbol/s/financials?query=income-statement

Nationwide Group. (2016). 2016 Annual Report. Financial Report. Retrieved Oct. 2017, from: https://static.nationwide.com/static/2016-Nationwide-Annual-Report-NFM-16228AO.pdf?r=65

Nikkei Inc. (2016, Mar. 30). China's BYD posts 79% profit jump for 2016. Asian Review. Retrieved Oct. 2017, from Nikkei Asian Review: https://asia.nikkei.com/Business/AC/China-s-BYD-posts-79-profit-jump-for-2016

Oracle. (2016). Q4 FY16 SaaS and PaaS Revenues Were Up 66%, and Up 68% in Constant Currency. Retrieved from Oracle Investor Relations: http://investor.oracle.com/financial-news/financial-news-details/2016/Q4-FY16-SaaS-and-PaaS-Revenues-Were-Up-66-and-Up-68-in-Constant-Currency/default.aspx

PG&E Corporation. (2017, Feb 16). PG&E Corporation Reports Full-Year and Fourth Quarter 2016 Financial Results. Retrieved from PG&E: http://s1.q4cdn.com/880135780/files/doc_financials/2016/Q4/PG-E-Corporation-Reports-Full-Year-and-Fourth-Quarter-2016-Results.pdf

Prudential Financial, Inc. (2016). Annual 2016 Report. Retrieved from: http://www3.prudential.com/annualreport/report2017/annual/HTML1/prudential-ar2016_0012.htm

Qualcomm Incorporated. (2016). Qualcomm Announces Fourth Quarter and Fiscal 2016 Results. Retrieved from Qualcomm Website: https://www.qualcomm.com/news/releases/2016/11/02/qualcomm-announces-fourth-quarter-and-fiscal-2016-results

Sacramento Municipal Utility District. (2017). INDEPENDENT AUDITORS' REPORT . Finacial Report. Retrieved 2017, from: https://www.smud.org/assets/documents/pdf/2016-Audited-Financials.pdf

Sempra Energy. (n.d.). Balanced Growth 2016 Annual Report. Retrieved September 2016, from: http://www.sempra.com/pdf/financial-reports/2016_annualreport.pdf

Society of Collision Repair Specialists. (2017, Mar. 1). Buffett/Berkshire: GEICO saw big customer growth in 2016. Retrieved Oct. 2017, from: Repairer Driven News: http://www.repairerdrivennews.com/2017/03/01/buffettberkshire-geico-saw-big-customer-growth-in-2016/

State Farm Mutual Automobile Insurance Company. (2017). State Farm Announces 2016 Financial Results. Retrieved from State Farm Website: https://newsroom.statefarm.com/state-farm-2016-financial-results/#tDBTDLUG7QZSCpfq.97

SunPower. (2017, Feb. 15). SunPower Reports Fourth Quarter 2016 Results. Retrieved from SunPower Website: http://newsroom.sunpower.com/2017-02-15-SunPower-Reports-Fourth-Quarter-2016-Results

Sutter Health. (2016). Sutter Health Financial Performance. Retrieved from Sutter Health Website: https://www.sutterhealth.org/about/financials

SVB Financial Group. (2017). FORM 10-K (Annual Report). Financial Report. Retrieved Oct. 2017, from: http://files.shareholder.com/downloads/SIVB/5402159052x0x931908/89E3F0A7-BF4D-4E05-AC0F-A6235E966A7B/SEC-SIVB-719739-17-12.pdf

The Wall Street Journal. (2016). AMZN Annual Income Statement - Amazon Inc. Retrieved from The Wall Street Journal: http://quotes.wsj.com/AMZN/financials/annual/income-statement

T-MOBILE USA, INC. (2016). T-Mobile Annual Report 2016. Retrieved Oct. 2017, from T-Mobile Website: https://explore.t-mobile.com/2016-annual-report

Trinity Health. (2017). Facts and Figures/Financial Strength. Retrieved from Trinity Health: http://www.trinity-health.org/financial-strength

U.S. Bancorp, Inc. (2016). US Bank 2016 Annual Report. Retrieved from US Bank: https://www.usbank.com/en/annual_report/investment/2016-performance.html

Verizon. (2016). Verizon Annual Report 2016. Retrieved from Verizon: https://www.verizon.com/about/sites/default/files/annual_reports/2016/financial-highlights.html

VF Corporation. (2017, Feb. 17). VF Reports 2016 Fourth Quarter and Full Year Results; Provides Outlook for 2017. Retrieved from VFC.com: http://www.vfc.com/news/press-releases/detail/1616/vf-reports-2016-fourth-quarter-and-full-year-results

Vivint Solar Developer, LLC. (2016). Vivint Solar Announces Fourth Quarter 2016 And Fiscal 2016 Financial Results. Retrieved from Vivant Solar: http://investors.vivintsolar.com/company/investors/Press-Releases/Press-Release-Details/2017/Vivint-Solar-Announces-Fourth-Quarter-2016-And-Fiscal-2016-Financial-Results/default.aspx

Wells Fargo. (2016). Our Commitment: Wells Fargo & Company Annual Report 2016. Financial Report. Retrieved Oct. 2017, from: https://www08.wellsfargomedia.com/assets/pdf/about/investor-relations/annual-reports/2016-annual-report.pdf

About the Greenlining Institute

Founded in 1993, The Greenlining Institute envisions a nation where communities of color thrive and race is nevera barrier to economic opportunity. Because people of color will be the majority of our population by 2044, Americawill prosper only if communities of color prosper. Greenlining advances economic opportunity and empowerment for people of color through advocacy, community and coalition building, research, and leadership development.We work on a variety of major policy issues, from the economy to environmental policy, civic engagement andmany others, because economic opportunity doesn't operate in a vacuum. Rather than seeing these issues as beingin separate silos, Greenlining views them as interconnected threads in a web of opportunity.

About the Diversity and Inclusion Team

The Greenlining Institute's Diversity and Inclusion program leads the organization's workforce and supplier diversity advocacy through policy, coalition building, and research. It advances a concerted agenda across our core policy concentrations of Economic Equity, Environmental Equity, Bridges to Health, Energy and Telecommunications, Philanthropy, Insurance, and Technology.

Author Biographies

Danielle Beavers *Director of Diversity and Inclusion, The Greenlining Institute*
As the Diversity and Inclusion Director, Danielle works to promote job creation for people of color. She leads Greenlining's workforce and supplier diversity advocacy in the banking, environmental, health, technology, insurance, and utility industries. Danielle views diversity as the antidote to redlining in the job market, and works to ensure that anchor institutions and their regulators fully reflect and benefit communities of color. She serves as Vice Chair of the California Department of Insurance's Diversity Task Force and is also a member of the California Utilities Diversity Council, Wells Fargo's Supplier Diversity Advisory Group, and the Small Business Administration's Los Angeles PLUM (Partnership for Lending in Underserved Markets) Market Research Action Group. She first came to Greenlining as the 2012 Community Reinvestment Fellow and received her B.A. from Stanford University in Comparative Studies in Race and Ethnicity with Honors.

Joe Jackson *Manager of Diversity and Inclusion, The Greenlining Institute*
Joe is dedicated to advancing racial equity and social justice so that people of color have every opportunity to heal and thrive. As Greenlining's Diversity and Inclusion Manager, Joe advocates for racially equitable recruitment, contracting and retention of employees of color and minority-owned businesses. He approaches this work from an intersectional lens and always stays mindful of the compounded vulnerabilities of dis/ability, economic status, gender, immigration, and/or race. Joe brings more than 10 years of experience in education (both direct service and policy-driven) and workforce development serving transgender job-seekers. He studied Gender Studies at U.C. Davis. Joe's lifelong commitment to social justice is informed by his own experiences as an African American transgender man with a learning "disability", who navigated juvenile justice and foster-care systems in his youth.

Editorial

Bruce Mirken *Media Relations Director, The Greenlining Institute*

Design

Taylor Francis *Graphic Designer & Illustrator, Oakland*
Leonna Spilman *Communications Strategy Manager, The Greenlining Institute*

The Greenlining Institute
@Greenlining
The Greenlining Institute

THE GREENLINING INSTITUTE

THE GREENLINING INSTITUTE

DIVERSITY AND INCLUSION MARCH 2018

DIVERSITY, EQUITY AND INCLUSION FRAMEWORK

RECLAIMING DIVERSITY, EQUITY AND INCLUSION FOR RACIAL JUSTICE

Danielle Beavers *Director of Diversity and Inclusion, The Greenlining Institute*

INTRODUCTION

Buzzwords like "diversity," "equity" and "inclusion" receive more attention than ever. From Oscar nominations to the president's cabinet, major new headlines and social media hashtags make one thing clear: Their absence is bad, and people care. What remains uncertain, however, is 1) these values' relevance to larger social movements and 2) how to go beyond "moving the needle" to make significant gains.

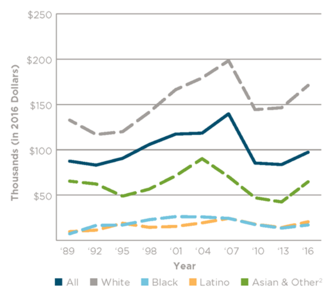
This publication explains the critical role of diversity, equity and inclusion (DEI) in the fight for racial justice. It forms the foundation for our forthcoming toolkit, which will provide resources to companies, advocates and others seeking to utilize DEI in advocacy to create jobs for communities of color.

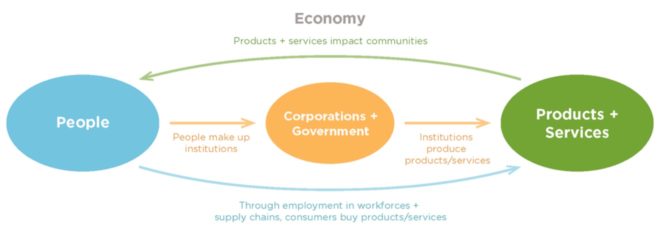
CLOSING THE RACIAL WEALTH GAP WITH DIVERSITY, EQUITY AND INCLUSION

At Greenlining, we use diversity, equity and inclusion to close the racial wealth gap in two ways. First, we advocate for increased access to products and services for communities of color in various industries, including mortgages, health care, and many others. Second, we ensure people of color are fully included in and benefit from job creation in those same spaces.

This job creation takes place through workforces and supply chains, which racial justice advocates too often overlook. They determine which communities benefit from wealth creation—whether through direct employment or contracts that generate ripple effects through local economies—and who gets left out. Making these spaces diverse, equitable and inclusive for communities of color can serve as the antidote to redlining in the job market.

Racial Wealth Gap: Median Family Wealth[1]





Our strategy consists of making clearer the relationship between institutions, their products and services, and the people who buy them. When people of color can fully and fairly access jobs (via workforces and supply chains), this ecosystem is stronger and healthier for all.

---

[1] Board of Governors of the Federal Reserve System. Survey of Consumer finances (SCF), 2016. https://www.federalreserve.gov/econres/scfindex.htm

[2] "Asian and Other" includes American Indian, Alaska native, native Hawaiian and Pacific Islander. Asians represent approximately 80 percent of this group in population estimates published by the Census Bureau.

DEFINING DIVERSITY, EQUITY AND INCLUSION

While DEI may be used interchangeably in everyday conversations, we believe the field needs explicit language and strong theories of change in order to identify systems of power and pursue racial justice.

The following concepts are interdependent and require specific attention.

- *Diversity* refers to difference or variety of a particular identity. This framework focuses on race, but other markers of difference like gender and sexual orientation can be addressed as well. Diversity measures an entity's composition.
  - Example: In 2012 Greenlining served as chief sponsor of AB 53, which required insurance companies in California to disclose contracting data for minority, women, and disabled veteran-owned businesses. Creating transparency in this industry's contracting enabled companies to identify disparities and take concerted action to increase business with diverse suppliers from $930 million in 2012 to $1.7 billion in 2016.
- *Equity* refers to resources and the need to provide additional or alternative resources so that all groups can reach comparable, favorable outcomes. For further information on racial equity and examples of racially equitable policies, see Greenlining's 2013 Racial Equity Toolkit.
  - Example: In partnership with The Justice Collective, Greenlining's internal Workplace Equity and Inclusion initiative ensures we hold ourselves accountable to embodying DEI at all levels. Our goals and objectives include but are not limited to:
    - Diversity, equity and inclusion become institutionalized at Greenlining through **trainings, formalized policies, and practices,**
    - Greenlining will have an explicit, achievable and **sustainable plan** to address, rectify and proactively prevent inequities in the workplace,
    - Greenlining will have a deeply rooted and inclusive workplace **culture,**
    - Diversity, equity and inclusion will be a **core competency** for all staff,
    - Greenlining can **communicate best practices and lessons learned** during this process and lead the sector in this regard, and
    - All **staff buy in** to this mission and feel **"ownership"** to drive sustainability.
- *Inclusion* refers to internal practices, policies, and processes that shape an organization's culture. It speaks to how community members of a shared identity experience their environment. Inclusion benefits existing populations represented within an organization. Spaces can be inclusive of particular groups while still lacking representation (i.e. diversity) of others.
  - Example: Greenlining's Breaking Down Barriers for Women Physicians of Color case study details how these professionals face exclusion throughout their medical education and careers. In addition to diversifying the field, recommendations focus heavily on inclusion within the health workforce. They include mentorship opportunities, cultural sensitivity training, anti-discrimination and reporting policies, and pay equity.

EVOLUTION OF DIVERSITY, EQUITY AND INCLUSION

Too often forgotten, the Civil Rights Movements fought for jobs and economic opportunity. The seminal Civil Rights Act of 1964 prohibits discrimination in employment while the Minority Business Development Agency, created in 1969, supports entrepreneurs of color.

The American DEI field grew out of the 1960's Civil Rights Movement. It expanded over time to include identities other than race, including gender, sexual orientation, veteran status, etc. The following graphic gives a high-level overview of DEI's evolution as it applies to race.

	Defining Principle	Leading Argument Used
Tolerance *1960s–Mid 1970s*	**Toleration, or restrained acceptance,** of people of color integrating into workplaces, education, and/or neighborhoods.	Tolerance **1) satisfies moral arguments for equality and 2) mitigates the rising disruption** caused by people of color demanding access to previously segregated spaces.
Multiculturalism and Awareness *Mid 1970s–1990s*	**Recognition, and sometimes respect or celebration,** of racial minorities and their accomplishments. Metaphors of the American Melting Pot or Salad Bowl are repurposed from the 19th century immigration wave.	Multiculturalism prepares the nation for the **growing population and impending demographic revolution** when people of color will be the majority.
Diversity *1990s–Present Day*	**Expectation that corporations and government reflect the nation.** In the early 2010s the field became more nuanced to incorporate inclusion and equity as distinct, but related concepts. Traditional and social media are heavily used to hold entities accountable.	Diverse groups make more **efficient decisions and benefit the larger organization.** This is sometimes called the "Business Case" for diversity.

DEI has certainly evolved over time, as the narrative shifted from mere toleration to recognition, and now to valuation. Despite these advances, diversity, equity and inclusion will not reach their full potential until viewed as instrumental tools for racial justice. DEI must be operationalized to first and foremost benefit people of color—not used to increase corporate profits or mitigate racial tensions. In short, DEI must return to its radical civil rights origins and become purposed for justice.

FOUR Ws FOR DEI ADVOCACY

Diversity, Equity and Inclusion do not exist in a vacuum. Effective advocacy will understand and explicitly communicate their use in a specific context. Greenlining uses the Four Ws, "Who, What, Where, and Why," to ensure our strategies are outcomes-oriented and secure tangible benefits for communities of color.

Who *am I advocating on behalf of? Who are their allies/similarly impacted communities? Who am I not including in this effort? Have I analyzed this issue from an intersectional lens?*

We advocate on behalf of communities of color. Because communities of color are too often pitted against one another, fighting for crumbs, we intentionally work across racial lines.

Intersectionality explains how social identities such as race, class, and gender intersect to create overlapping or interdependent systems of oppression or privilege. For example, our Bridges to Health Team's Boys and Men of Color and Girls and Women of Color portfolios specifically recognize and address the intersections of race and gender.

What *am I advocating for: diversity, equity and/or inclusion? What area do I want to impact?*

Depending on the situation, we champion various combinations of diversity, equity and/or inclusion. Examples in the Defining Diversity, Equity and Inclusion Section (page 3) demonstrate how we tailor our advocacy to the context.

All of Greenlining's advocacy promotes economic opportunity in communities of color. DEI can also be used to address other areas, including education, arts and culture, etc.

Where *does this take place? Does it impact a workforce, supply chain, or another area? Will you engage individual entities on their internal practices or advance policies to impact an entire region or industry?*

Our work focuses on California and has national implications. It impacts both the products and services *and* the workforces and supply chains of the health care, financial services, energy, environmental, and technology industries. We advance policies on the state and federal level to make systemic change.

Why *does diversity, equity and/or inclusion matter? Why should stakeholders prioritize this, and what are the consequences if no action is taken? Page four's graphic demonstrates how "the why" for DEI evolved over time.*

Our "why" is simple: justice. Communities of color have been, and continue to be, redlined out of economic opportunity. Greenlining's Publications page offers extensive research across a variety of industries on this point.

CALL TO ACTION: JOIN GREENLINING'S DEI WORKING GROUP

Greenlining cannot enact change alone. To most effectively advocate, we are building on existing DEI research and seeking to partner with others to engage in thought leadership and influence the larger racial justice community. This publication serves as the first step in that process. We will form a Working Group of interdisciplinary stakeholders and produce a toolkit that reflects the principles laid out here. Outcomes we want to see include:

- Corporations adopt justice-oriented diversity, equity and inclusion standards into their workforces and supply chains.
- Policymakers draw on the toolkit for best practices as they craft legislation.
- Economic development practitioners, civil rights advocates, funders, and other relevant stakeholders incorporate DEI into their work.
- Communities of color better understand how to identify and secure economic opportunities within workforces and supply chains.

To learn more about the Working Group and stay up-to-date on diversity, equity and inclusion news, please email DEI@greenlining.org to join our listserv.

About the Greenlining Institute

Founded in 1993, The Greenlining Institute envisions a nation where communities of color thrive and race is nevera barrier to economic opportunity. Because people of color will be the majority of our population by 2044, America will prosper only if communities of color prosper. Greenlining advances economic opportunity and empowerment for people of color through advocacy, community and coalition building, research, and leadership development. We work on a variety of major policy issues, from the economy to environmental policy, civic engagement and many others, because economic opportunity doesn't operate in a vacuum. Rather than seeing these issues as being in separate silos, Greenlining views them as interconnected threads in a web of opportunity.

About the Diversity and Inclusion Team

The Greenlining Institute's Diversity and Inclusion program leads the organization's workforce and supplier diversity advocacy through policy, coalition building, and research. It advances a concerted agenda across our core policy concentrations of Economic Equity, Environmental Equity, Bridges to Health, Energy and Telecommunications, Philanthropy, Insurance, and Technology.

Author's Biography

Danielle Beavers *Director of Diversity and Inclusion, The Greenlining Institute*
As the Diversity and Inclusion Director, Danielle works to promote job creation for people of color. She leads Greenlining's workforce and supplier diversity advocacy in the banking, environmental, health, technology, insurance, and utility industries. Danielle views diversity as the antidote to redlining in the job market, and works to ensure that anchor institutions and their regulators fully reflect and benefit communities of color. She serves as Vice Chair of the California Department of Insurance's Diversity Task Force and is also a member of the California Utilities Diversity Council, Wells Fargo's Supplier Diversity Advisory Group, and the Small Business Administration's Los Angeles PLUM (Partnership for Lending in Underserved Markets) Market Research Action Group. She first came to Greenlining as the 2012 Community Reinvestment Fellow and received her B.A. from Stanford University in Comparative Studies in Race and Ethnicity with Honors.

Editorial

Bruce Mirken *Media Relations Director, The Greenlining Institute*

Design

Taylor Francis *Graphic Designer & Illustrator, Oakland*
Leonna Spilman *Communications Strategy Manager, The Greenlining Institute*

Acknowledgements

Susanne Wong *Consultant*
Joe Jackson *Diversity and Inclusion Manager, The Greenlining Institute*
Jimmy Donelson III *Diversity and Inclusion Fellow, The Greenlining Institute*

The Greenlining Institute
@Greenlining
The Greenlining Institute

THE GREENLINING INSTITUTE

ISSUE BRIEF • FEBRUARY 2013

PREETI VISSA, CHIEF OPERATING OFFICER, THE GREENLINING INSTITUTE

issue brief

Greenlining Institute

Annual Bank Board Diversity Report 2012

This is the Greenlining Institute's seventh annual study of bank board diversity. This brief measures the racial, ethnic, and gender diversity of the boards of directors at the top 13 banks in California by market share. For the first time, we also examine the professional backgrounds of the directors at each bank.

Despite some improvements from last year, white and male leadership still predominates among the financial institutions studied.

Of the 13 financial institutions examined, only four (Bank of America, Wells Fargo, Union Bank, and US Bank) have at least one African American, Latino, Asian, and female board member. City National has no Asians, Latinos, or women on its board.

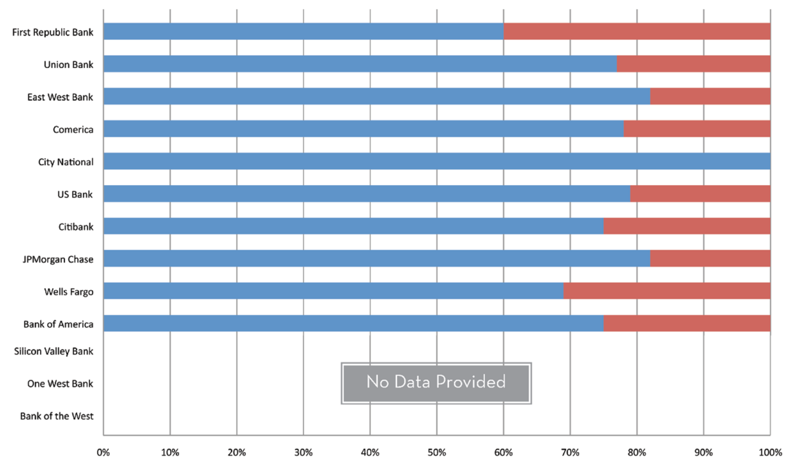
METHODOLOGY We sought board diversity data from the top 13 banks in California, ranked by their California Deposit Market Share.[1] Together, these 13 financial institutions make up over 80 percent of the California market. For each, we obtained information about the name, race/ethnicity, and professional background of every board member from each company's website. We then contacted each bank to confirm the accuracy of our analysis. We were unable to find board member data for three banks: OneWest Bank, Bank of the West, and Silicon Valley Bank.[2]

FINDINGS

Gender

Banking leadership is still clearly a male-dominated field. Every bank reviewed has a majority male board membership. First Republic Bank ranks highest in gender diversity with 40 percent female board membership, followed by Wells Fargo at 31 percent. City National ranks the lowest, with no female board members.

Bank Board Diversity by Gender



	Bank of America	Wells Fargo	JPMorgan Chase	Citibank	US Bank	City National	Comerica	East West Bank	Union Bank	First Republic Bank	Bank of the West	One West Bank	Silicon Valley Bank
Male	75%	69%	82%	75%	79%	100%	78%	82%	77%	60%	N/A	N/A	N/A
Female	25%	31%	18%	25%	21%	0%	22%	18%	23%	40%	N/A	N/A	N/A

FINDINGS

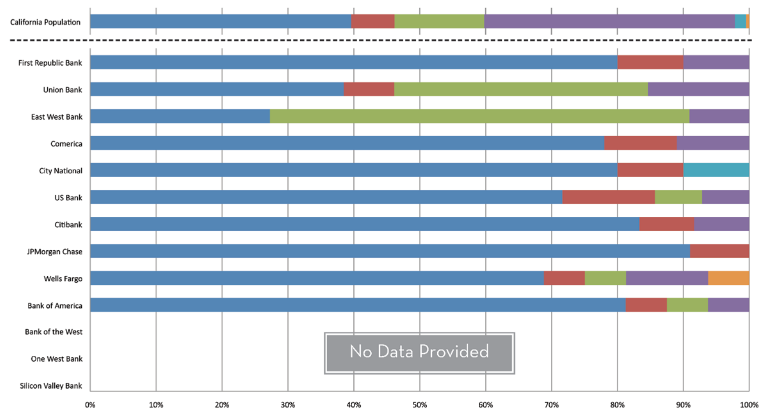
Race/Ethnicity

We applaud Bank of America, Wells Fargo, Union Bank, and US Bank for having at least one black, Asian, and Latino member on their boards. City National is the only bank we studied to have a Native American on its board. East West Bank, whose customer base is largely Asian, and Union Bank, which is foreign owned, have the highest percentages of non-whites. Not surprisingly, both of these banks have heavy Asian representation on their boards. Following them are Wells Fargo and US Bank, where racial and ethnic minorities comprise 31 percent and 29 percent of their boards, respectively.

Wells Fargo has shown the greatest improvement since last year, with the addition of one female board member, one Latino, and one Native Hawaiian/Pacific Islander. In one year, racial and ethnic minority representation on Wells Fargo's board increased from 20 percent to 31 percent. Bank of America also added one Asian board member.

JPMorgan Chase ranks lowest in racial/ethnic diversity, with one black board member but no Asian or Latino representation. Citibank showed a dramatic decrease in diversity, with racial and ethnic minority representation on its board dropping by half, from 33 percent to 17 percent. Citibank no longer has any Asians on its board.

Bank Board Diversity by Race/Ethnicity



	Bank of America	Wells Fargo	JPMorgan Chase	Citibank	US Bank	City National	Comerica	East West Bank	Union Bank	First Republic Bank	Silicon Valley Bank	One West Bank	Bank of the West	California Population
White	81%	69%	91%	83%	71%	80%	78%	27.27%	38.46%	80%	N/A	N/A	N/A	39.70%
Black	6%	6.25%	9.00%	8.30%	14%	10%	11%	0%	7.69%	10%	N/A	N/A	N/A	6.60%
Asian	6%	6.25%	0%	0%	7.14%	0%	0%	63.64%	38.46%	0%	N/A	N/A	N/A	13.60%
Latino	6%	12.50%	0%	8.33%	7.14%	0%	11%	9.09%	15.38%	10%	N/A	N/A	N/A	38.10%
American Indian	0%	0.00%	0%	0%	0%	10%	0%	0%	0%	0%	N/A	N/A	N/A	1.70%
Pacific Islander/Native Hawaiian	0%	6.25%	0%	0%	0%	0%	0%	0%	0%	0%	N/A	N/A	N/A	0.50%

FINDINGS

Gender and Race

East West Bank and Union Bank lead their peers in overall diversity, with people of color and/or women constituting 72.7 percent and 69.2 percent of their boards, respectively. They are followed by Wells Fargo (56.3 percent) and US Bank (42.8 percent).

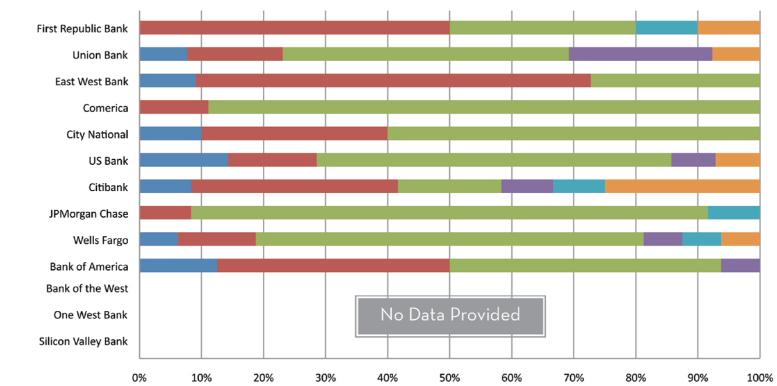
FINDINGS

Diversity by Professional Background

For the first time this year, Greenlining also conducted a preliminary analysis of the professional backgrounds of all board members. We based our analysis on the last known position held by each board member. In the interest of simplicity, we organized professions into six categories: government, financial services, other private sector (including the leadership of other major corporations), non-US-based, not for profit, and academia.

As expected, the vast majority, almost 80 percent, of board members represent the financial services industry or come from other large private corporations. Four banks (Wells Fargo, Citibank, JPMorgan Chase, and First Republic Bank) have nonprofit leaders on their boards, and five (Union Bank, US Bank, Citibank, Wells Fargo, and First Republic Bank) have academic representation on their boards. Only two, Wells Fargo and Citibank, have a board membership that includes all six sectors.

Bank Board Diversity by Professional Background



	Bank of America	Wells Fargo	JPMorgan Chase	Citibank	US Bank	City National	Comerica	East West Bank	Union Bank	First Republic Bank	Silicon Valley Bank	One West Bank	Bank of the West
Government	12.50%	6.25%	0%	8.33%	14.29%	10%	0%	9.09%	7.69%	0%	N/A	N/A	N/A
Financial Services	37.50%	12.50%	8.33%	33.33%	14.29%	30%	11.11%	63.64%	15.38%	50%	N/A	N/A	N/A
Other Private Sector	43.75%	62.50%	83.33%	16.67%	57.14%	60%	88.89%	27.27%	46.15%	30%	N/A	N/A	N/A
Non US Based Company	6.25%	6.25%	0%	8.33%	7.14%	0%	0%	0%	23.09%	0%	N/A	N/A	N/A
Not for Profit	0%	6.25%	8.34%	8.34%	0%	0%	0%	0%	0%	10%	N/A	N/A	N/A
Academia	0%	6.25%	0%	25%	7.14%	0%	0%	0%	7.69%	10%	N/A	N/A	N/A

RECOMMENDATIONS

The establishment of the Offices of Minority and Women Inclusion, which monitor the racial, ethnic, and gender diversity of the workforce and senior management of all federal financial regulatory agencies and their regulated entities, ensures that the diversity of the major financial agencies will soon be analyzed on the federal level. We are pleased to see many financial institutions taking positive steps in the past year to increase the diversity of their boards, but more needs to be done. In order to continue building boards that reflect the diversity of California, we offer the following recommendations:

❑ Expand Qualifications for Board Members

Employees of color in leadership positions within nonprofit and community-serving organizations represent an untapped resource for board member recruitment. Restricting membership to executive management from the private and government sectors unnecessarily excludes otherwise qualified applicants. Considering more leaders with nonprofit backgrounds could increase the number of diverse professionals ready to step into leadership roles.

❑ Support Professional Development

Providing professional development support, whether through internal programs or by funding external curricula, will create a pipeline that increases the number of diverse executives who may become board members later in their careers. Skills that employees learn through the course of their employment can enhance their performance and help those with high potential to advance to executive management ranks—a level which they may not reach without the additional support. Investing in the professional development of diverse employees can lay the foundation for long-term increases in board and executive management diversity.

❑ Create a Commitment from the Top

Every bank CEO should make a voluntary commitment to include at least one African American, Latino, and Asian American leader on his or her firm's board. This should include a specific commitment to include board members from a broader range of professional backgrounds and experience. Such a commitment could preempt further regulatory interventions and set the standard for all Fortune 500 companies.

❑ Ensure a Diverse Applicant Pool

In previous reports, Greenlining has praised the National Football League's "Rooney Rule," which requires that at least one minority candidate be included in the applicant pool for any senior position. We echo Sen. Robert Menendez (D-New Jersey) in recommending that all major financial institutions implement the Rooney Rule for new board and executive committee positions.

In an era when consumers are looking more and more for banks to prove that they have consumers' best interests at heart, it is imperative for those banks to demonstrate that their leadership reflects and understands the needs of an increasingly diverse customer base. We believe that such diverse leadership will both strengthen banks' relationships with their customers and help financial institutions adapt more quickly to our rapidly evolving society.

[1] Deposit Market Share Report, Federal Deposit Insurance Company, as of June 30, 2012.

[2] Bank of the West did not reply to our data request in time, Silicon Valley Bank declined to participate in this report, and OneWest Bank replied that as a private company, they are not required to make their board data public.

THE GREENLINING INSTITUTE
1918 UNIVERSITY AVENUE, 2ND FLOOR
BERKELEY, CALIFORNIA 94704
WWW.GREENLINING.ORG

T: 510.926.4001 | F: 510.926.4010

ACKNOWLEDGEMENTS

AUTHOR: PREETI VISSA, CHIEF OPERATING OFFICER, THE GREENLINING INSTITUTE

EDITOR: BRUCE MIRKEN, MEDIA RELATIONS DIRECTOR,
THE GREENLINING INSTITUTE
EDITORIAL ASSISTANCE: TRAM NGUYEN,
THE GREENLINING INSTITUTE

DESIGN: VANDY RITTER DESIGN, SAN FRANCISCO

CONTACT: BRUCE MIRKEN, MEDIA RELATIONS DIRECTOR
T: 510.926.4022 | BRUCEM@GREENLINING.ORG

WWW.GREENLINING.ORG

Connect with us

Download our free mobile app today

MERCER

Marsh & McLennan Companies, Inc.
1166 Avenue of the Americas
New York, NY 10036
+1 212 345 5000
Fax +1 212 345 4808

Testimony of

Gail Greenfield PH.D.,

Senior Principal,

Mercer

Before the Subcommittee on Diversity and Inclusion,

Committee on Financial Services

February 12, 2020

Washington, DC

MARSH & McLENNAN COMPANIES

Chairwoman Beatty, Ranking Member Wagner and Members of the Committee, thank you for the opportunity to discuss diversity and inclusion in America's large banks.

My name is Gail Greenfield. I am a Senior Principal in Mercer's Workforce Strategy & Analytics practice, specializing in diversity and inclusion analytics. Prior to joining Mercer in 2000, I was an assistant professor of economics at The College of Wooster. More recently, I worked as a senior program officer for The National Academies of Sciences, Engineering, and Medicine as a part of the Board of Higher Education and Workforce. I have 20 years of experience conducting research and consulting to organizations. I received my PhD in economics from Claremont Graduate University and my bachelor's degree in business economics from the University of California, Santa Barbara.

Mercer is a business of Marsh & McLennan, the world's leading professional services firm in the areas of risk, strategy and people. Headquartered in the US, the Company's 76,000 colleagues advise clients in over 130 countries. In addition to Mercer, Marsh & McLennan's businesses include Marsh, Guy Carpenter and Oliver Wyman. Collectively, we employ 24,000 colleagues in the US.

Today I will discuss the current state of diversity and inclusion in the financial services industry, where the industry appears to be headed and how financial services companies can use analytics to build more diverse and inclusive workforces. My comments will focus on evidence gathered through Mercer research and consulting assignments, as well as research conducted by others.

Business Case for Diversity and Inclusion

Historically, the rationale for organizational diversity and inclusion efforts focused on the legal and compliance justification, coupled with the moral imperative that "it's the right thing to do." More recently, however, the focus has shifted to the business case for diversity and inclusion. The business case is clear. An extensive body of trusted research has demonstrated the value of a diverse and inclusive workforce. The nonprofit organization Catalyst reviewed 30+ research studies on the connection between diversity and business outcomes, demonstrating that diversity—for example, women in leadership, board positions, or workforces; racial and ethnic diversity; and LGBT+ inclusion—is positively associated with important business outcomes.[1] The word cloud in Exhibit 1 summarizes Catalyst's findings. Specifically, a business outcome appears in the word cloud if a study shows a relationship between diversity and that outcome. The greater the number of studies that show a link between diversity and an outcome, the larger the relative size of the outcome in the word cloud. Most notably, numerous studies show that diversity is positively related to return on equity, financial performance and employee satisfaction, as well as innovation, creativity and knowledge formation and patents. Evidence suggests that organizations interested in improving their financial performance, better leveraging their talent and increasing innovation need to make diversity and inclusion a priority.

[1] Catalyst. Diversity Matters, 2014, available at http://www.catalyst.org/knowledge/diversity-matters.

Exhibit 1
Business Case for Diversity

Source: Mercer graphic based on Catalyst's review of the research (http://www.catalyst.org/knowledge/diversity-matters).

Mercer's Point of View

Mercer's point of view is that workforce diversity is an outcome that organizations ought to actively manage. In our experience, an organization's diversity and inclusion strategy is more likely to be effective if it is evidence-based. The key is understanding what type of workforce an organization has created, where it's headed, where it wants to go, and focusing on interventions shown to be most effective in building a diverse workforce. Diversity can only be sustained, however, if it is supported by an inclusive culture. An organization's culture reflects its values, norms, behaviors, leadership and organizational practices.

In developing an evidence-based diversity and inclusion strategy, Mercer recommends organizations focus on the following four key measures of diversity and inclusion:

(1) Representation: This measure helps an organization understand the workforce that it currently has (i.e., the current state of diversity). For example, what proportion of an organization's workforce are women and people of color?

(2) Talent flows: This measure helps an organization understand where it's headed (i.e., the future state of diversity). For example, based on an organization's recent talent dynamics (i.e., recent hiring, promotion and turnover trends), how are the representation of women and people of color expected to change over the next 5 to 10 years?

(3) Employee experience: The first two measures focus on measuring diversity. Measuring the experiences of the employees in an organization—through such things as interviews, surveys and focus groups—enables an organization to measure the inclusiveness of its culture.

(4) Pay equity: A key component of an organization's diversity and inclusion strategy is regularly assessing pay equity to ensure there is no pay inequity by gender or race/ethnicity and proactively remediating any issues identified.

Representation and Talent Flows in the Financial Services Industry

With these four measures of diversity and inclusion in mind, first I'll share information on representation and the flow of talent in the financial services industry. To do that I want to introduce you to the concept of the internal labor market. Every organization has an internal labor market—either by design or default. People are selected in to the organization and they advance, perform, stay or leave in response to an organization's unique mix of workforce management practices. Internal labor market dynamics constantly shape an organization's workforce. An internal labor market map (or ILM map) is a "system-at-a-glance" descriptive summary of key aspects of an organization's internal labor market dynamics. An ILM map can be used to understand how talent is distributed across career levels and the rates at which people are hired into the organization, promoted within the organization and exiting the organization.

What do we see in terms of representation in the industry?

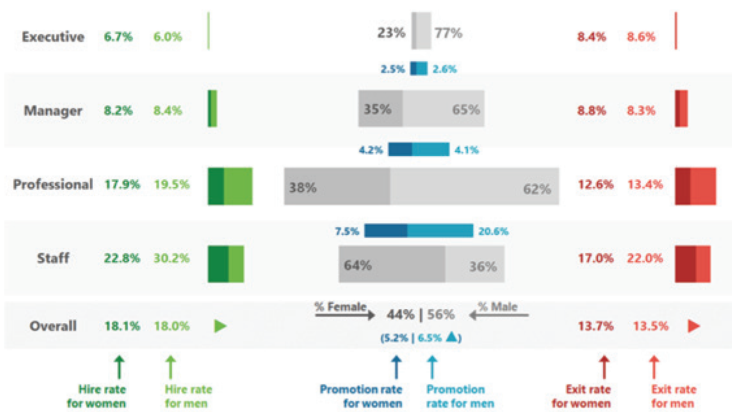
Based on recent research conducted on behalf of financial institutions,[2] Mercer created ILM maps for the financial services industry by gender and by race/ethnicity. Exhibit 2 shows the industry ILM map by gender. Overall female representation in the industry is 44%, with representation declining as one moves up the hierarchy. The highest representation is at the Staff level, which is roughly two-thirds female (64%). Representation drops below 40% at the Professional (38%) and Manager (35%) levels, and fewer than one in four Executives are women. Exhibit 3 shows the industry ILM map by race/ethnicity. People of color collectively make up 32% of the overall industry workforce in the US.[3] People of color representation hovers in the thirties at the lower levels, dropping to one-quarter at the Manager level and 14% at the Executive level.

[2] The research was conducted in 2018 and includes more than 500,000 employees working in the financial services industry. The research includes those working outside the US, although US-based employees constitute more than 75% of the employees covered by the research. The average number of employees across the participating organizations is roughly 20,000. Note that the research excluded employees in consumer, commercial and transaction banking.

[3] People of color includes US-based employees classified as Hispanic or Latino, Black or African American, Native Hawaiian or Other Pacific Islander, Asian, American Indian or Alaskan Native or Two or More Races.

Exhibit 2

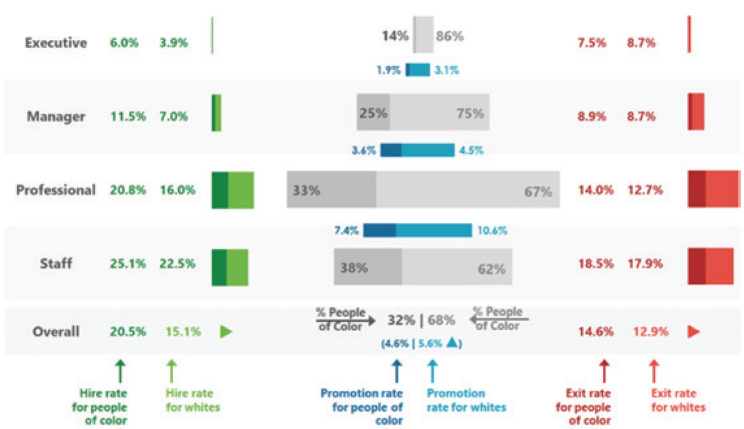
Internal Labor Market Map by Gender for Financial Services Industry



Source: Mercer, 2018

Exhibit 3

Internal Labor Market Map by Race/Ethnicity (US only) for Financial Services Industry



Source: Mercer, 2018

What do we see in terms of talent flows in the industry?

In addition to representation, Exhibit 2 shows hire rates, promotion rates and exit[4] rates for women as compared to men in the financial services industry. We observe lower rates of hire for women as compared to men at all levels except the Executive level. The differences are most notable in the lower career levels, particularly at the Staff level where there is more than a seven percentage point difference between the hire rates of men and women. These results suggest that the industry is focused on recruiting senior-level female talent, with less focus on the pipeline of future female leaders. Looking at promotion, we observe comparable promotion rates between men and women at all levels, except for promotions from the Staff level to the Professional level, where the promotion rate for women is less than half that of men. Are women concentrated in roles that are not associated with upward progression or are they in similar roles to men but less likely to be promoted out of those roles? This remains an open question. Looking at exits, we observe that exit rates are lower for women as compared to men at all levels, except at the Manager level where the rate is slightly higher.

Exhibit 3 shows hire rates, promotion rates and exit rates for people of color as compared to whites in the financial services industry. Hire rates for people of color are notably higher than that of whites at each career level, suggesting concerted efforts by organizations to recruit people of color. On the other hand, promotion rates are lower for people of color as compared to whites at all levels, with the largest gap at the Staff to Professional level (as we saw with women). Exit rates are higher for people of color as compared to whites at all levels except for the Executive level.

What is the expected future state of diversity in the industry?

Exhibit 4 shows how the representation of women and people of color in the financial services industry at senior levels (i.e., the Manager level and above) is projected to change over the next decade. For women, assuming current industry workforce dynamics persist—that is, assuming hire rates, promotion rates and exit rates for women versus men remain unchanged over the next 10 years—we expect to see a three percentage point increase in the representation of women at senior levels, from 33% in 2018 to 36% in 2028. The projected increase is notably larger for people of color, where we expect an 11 percentage point increase in the representation of people of color at senior levels, from 23% in 2018 to 34% in 2028. As part of the research, we also identified areas of strength and areas of opportunity for further increasing the representation of women and people of color in the industry. For women, retention is an area of strength, while hire and promotion are areas of opportunity. For people of color, hiring is an area of strength, while promotion and retention are areas of opportunity. For both women and people of color, the key lever to increase the representation of women and people of color at senior levels is to ensure women and people of color are being promoted at comparable rates to their male and white counterparts.

[4] Exits include employee exits from financial institutions included in the research study (voluntary or involuntary), but do not imply that the employee left the financial services industry.

Exhibit 4

10-Year Projections of the Representation of Women and People of Color in the Financial Services Industry

	Women	People of Color (US only)
Current Representation (Manager+ level)	33%	23%
Projected Representation in 10 years (Manager+ level)	36%	34%
Hire rates	● (yellow)	● (green)
Promotion rates	● (yellow)	● (red)
Retention rates	● (green)	● (red)
Key lever (to increase representation at Manager+ level)	Promotion	Promotion

Key:
- ● (green) Rates tend to favor women/POC or are equitable
- ● (yellow) Mixed results, rates favor women/POC at some levels and men/whites at others
- ● (red) Rates tend to favor men/whites

Source: Mercer, 2018

Employee Experience in the Financial Services Industry

As I mentioned earlier, organizational diversity can only be sustained if it is supported by an inclusive workplace culture. The cultural inclusiveness of an organization or industry can be measured by examining the employee experience. Unfortunately, there is limited information publicly available on the perceptions of those currently employed in the financial services industry. However, we can glean some insights from a research study Mercer conducted on behalf of the Financial Services Pipeline (FSP) Initiative. In 2013, Chicago-based financial institutions joined forces with The Chicago Community Trust to form the FSP Initiative. FSP members represent more than 30,000 leaders and professionals in the Chicago-area financial services industry—close to 50% of the area's industry workforce. The Initiative's goals are to increase representation of Hispanics/Latinos and Blacks/African Americans, at all levels, and improve overall cultural competency within the Chicago-area financial services industry. The study[5] included a survey of 10,000 individuals working at FSP member organizations to learn about the experiences and perceptions of Hispanics/Latinos and Blacks/African Americans in the industry as compared to their white counterparts. Key findings include:

- Fairness with regard to access to opportunities, the distribution of rewards and the application of employer policies are important to all groups. However, the experience of fairness by Blacks/African Americans and Hispanics/Latinos is less positive than that of whites.

[5] Financial Services Pipeline Initiative. Bridging the Diversity Gap, 2017, available at: https://www.fspchicago.org/about-us/our-research/bridging-the-diversity-gap/.

- Blacks/African Americans and Hispanics/Latinos are less likely than whites to feel there is a racially and ethnically diverse mix of role models in their organizations and are less likely to perceive a leadership commitment to diversity and inclusion.

- Blacks/African Americans report higher levels of job insecurity. At the most senior career level, intentions to leave the industry are more prevalent among Blacks/African Americans and Hispanics/Latinos as compared to whites.

Pay Equity in the Financial Services Industry

As I mentioned earlier, an important part of an organization's diversity and inclusion strategy is regularly assessing pay equity and proactively remediating any issues identified. Mercer's *When Women Thrive* research[6] found that having a strong pay equity process is associated with greater current and projected future representation of women at senior levels. Specifically, the research revealed that an organization's pay equity process should rely on a robust statistical approach (e.g., multiple regression), the organization should have a formalized remediation process to address identified pay equity risks and the organization should have a team assigned that is responsible for pay equity assessment. Mercer's recent research conducted on behalf of financial institutions found that more than 80% of companies in the study agree or strongly agree that their pay equity process relies on a robust statistical approach, more than 80% agree or strongly agree that they have a formalized remediation process and more than 90% agree or strongly agree that they have a team that is formally responsible for assessing pay equity.

In terms of the current state of pay equity, PayScale recently released a report[7] revealing that the raw gender pay gap across industries is 21 cents, with women earning 79 cents for each dollar earned by men.[8] After accounting for job type, seniority, location, industry, years of experience and other "compensable" factors, the pay gap falls to two cents, suggesting that women with the same job and qualifications as men earn 98 cents for each dollar earned by men. I refer to this figure as the "unexplained" gender pay gap because it is not explained by legitimate compensable factors.

While the raw pay gap has improved by roughly five cents over the past five years, the unexplained pay gap has remained virtually unchanged. Looking at the gender pay gap in the finance and insurance industry, the PayScale study finds that the raw pay gap is 26 cents, with women in the industry earning 74 cents for each dollar earned by men in the industry. The unexplained pay gap in the industry is three cents, suggesting that women in the industry with the same job and qualifications as men earn 97 cents for each dollar earned by men.

[6] Mercer. When Women Thrive, Businesses Thrive, 2016, available at: https://info.mercer.com/WWT-Full-Report.html.

[7] PayScale. The State of the Gender Pay Gap 2019, available at: https://www.payscale.com/data/gender-pay-gap.

[8] Raw pay gap is based on a comparison of median salary for women to median salary for men.

Mercer also compiles information on unexplained pay gaps.[9] Among the financial services companies for whom Mercer conducts pay equity assessments, we find the average unexplained gender pay gap is less than one cent, with women in the industry earning 99.1 cents for each dollar earned by similarly situated men. Unexplained pay gaps by race/ethnicity in the industry are also less than one cent for Blacks/African Americans (as compared to whites) and for Hispanics/ Latinos (as compared to whites). We find a positive unexplained pay gap for Asians (as compared to whites) of slightly more than a cent.

These studies reveal that raw pay gaps are driven mainly by compensable factors, with a smaller portion driven by unexplained pay inequities. Mercer's experience in conducting pay equity assessments for its clients indicates that the single most important compensable factor determining an employee's pay is their career level or salary grade (that is, where they sit in an organization's career hierarchy). Thus, closing raw pay gaps will require organizations to ensure women (and people of color) gain access to more senior, higher paying roles. I caution organizations, however, not to be deceived into thinking that a small unexplained pay gap does not deserve attention. For one Mercer client with an unexplained gender pay gap of 2.4%, we estimated that this seemingly small unexplained pay gap translated into a loss of more than $90 million each year for women at the company. These are the findings for just one organization. One can imagine the collective impact of even a one cent unexplained pay gap on a single industry or the entire US economy. A back-of-the-envelope calculation suggests that a one cent unexplained pay gap translates into lost wages for women in the US economy of roughly $500 million each week.

What Financial Services Companies Can Do to Advance Diversity and Inclusion

Based on our experience, there are some fundamental things financial services companies can do to advance diversity and inclusion. First, companies should build a business case to understand where diversity and inclusion issues may be impeding achievement of business objectives. Second, companies should understand the current state of diversity in their organization and develop diversity projections to see where their organization is headed. Third, companies should identify the cultural dynamics that may be posing a risk to their organization's culture of inclusion. Lastly, companies should regularly conduct pay equity assessments using a rigorous, statistical approach and remediate issues identified.

[9] Figures in this paragraph are based on 2018 salary data.

Testimony of

Naomi Mercer

On Behalf of the

AMERICAN BANKERS ASSOCIATION

Before the

Financial Services Subcommittee on Diversity and Inclusion

U.S. House of Representatives

AMERICAN BANKERS ASSOCIATION ®

Testimony of

Naomi Mercer

On behalf of the

American Bankers Association

before the

Financial Services Subcommittee on Diversity and Inclusion

U.S. House of Representatives

February 12, 2020

Chairwoman Beatty, Ranking Member Wagner, and members of the Subcommittee. I am Naomi Mercer, Senior Vice President of Diversity, Equity, & Inclusion at the American Bankers Association (ABA).

I appreciate the opportunity to present the views of the ABA on the issue of diversity, equity, and inclusion (DEI), an issue that I have spent many years advancing. Let me start by commending the subcommittee on the work you have done to draw attention to these important issues. We are also very appreciative of the time that committee staff has taken to meet with ABA and many of our member institutions to discuss their diversity, equity, and inclusion initiatives.

ABA is the voice of the nation's $18 trillion banking industry, which is composed of small, midsize, regional and large banks that together employ more than two million people, safeguard nearly $14 trillion in deposits, and extend $10 trillion in loans. We also provide industry-leading training, education and other resources to help our member banks best serve their communities and customers, while navigating an increasingly competitive and evolving business environment.

I first came to diversity, equity, and inclusion work in the classroom while I served as an Assistant Professor in the Department of English and Philosophy at the United States Military Academy. Although I was teaching composition and literature, my real purpose was to develop cadets into leaders of character with critical thinking skills and, more importantly, empathy. My students were predominantly white, male, and from upper-middle-class backgrounds who needed the skills to understand and respect the perspectives of their soldiers with more diverse identities and backgrounds. When I left the Academy in 2016, my final assignment in the Army was a three-year tour in the Pentagon. I was initially assigned as the Ethics and Character Integration Officer and the Army Liaison to the Special Assistant to the Secretary of Defense for the Military Profession. Since the Special Assistant's tenure was winding down, I was immediately appointed as the co-lead for the Army's gender integration program. Within a few months, I was also tasked with running the Army's religious accommodation program. I was particularly suited to oversee both the gender integration and religious accommodation programs since my dissertation topic had been an examination of religious fundamentalism in feminist dystopian writing. I continued running the Army's programs as their lead until my retirement from the military in 2019. In addition to my educational background in intersectional feminist theory, analysis, and criticism during my master's and doctoral programs, including a minor in Gender and Women's Studies, I completed an Executive Certificate in Strategic Diversity and Inclusion through Georgetown University's Institute for Transformational Leadership. While I did not have any direct experience in the banking industry prior to this role, I believe my experience and work with DEI issues in the military complements a career in the private sector. My goal is to use my experience in the Army to help our member banks address some of the same workplace challenges.

The banking industry believes in the value of diversity, equity, and inclusion and that a diverse workforce is critical to the success of individual banks being able to meet the needs of a diverse set of communities and customers across the nation. In recent years, ABA has encouraged its member banks of all sizes to review their diversity, equity, and inclusion programs, while providing a range of resources and services to help banks address DEI issues. In 2017, at the direction of ABA President and CEO Rob Nichols, the ABA initiated an internal taskforce to examine the needs of the banking industry with respect to diversity, equity, and inclusion.

One of the many outcomes of that taskforce's work was the creation of the position that I occupy today, where I serve as a subject matter expert on diversity, equity, and inclusion as well as an advisor and resource for our member banks to help further develop their DEI programs.

Banking Diversity & Inclusion

The banking industry has made measurable progress in recent years to diversify its talent pool and leadership and to meet the needs of customers from all walks of life. As the subcommittee report notes, the industry also still has work to do. Today banks of all sizes are engaged in a range of initiatives to embrace diversity, equity, and inclusion not just because it's the right thing to do but because it's good for business. A 2019 Federal Reserve study[1] for example found that banks perform better once they reach a critical level of board diversity;

[1] Ann L. Owen and Judit Temesvary, "Gender Diversity on Bank Board of Directors and Performance," *FEDS Notes*, Federal Reserve Board, February 12, 2019.

specifically, revenue and expense ratios increase once the share of women serving on board-level positions reaches 17 percent. On average, women in the banking industry make up 23 percent of directors on bank boards. For large banks, the subcommittee report shows the figure is closer to 30 percent.

ABA has made it a priority to address all types of diversity, as each of our member banks has a distinct culture and core values. We also recognize that DEI efforts must be tailored to individual organizations and factor in the bank's existing culture, the bank's needs for the present and the future, and steps the bank must take to achieve an inclusive environment. Additionally, banks serve diverse groups of customers who need the agility and innovation of banks with diverse leadership to meet their banking needs.

Our member banks run the gamut of diversity, equity, and inclusion. Many have robust DEI programs and have implemented leading practices such as Employee Resource Groups, leadership and formal mentoring programs to advance women, people of color, and other underrepresented groups, and supplier diversity programs. One of our member banks is leading the way in corporate America writ large in responding to pay inequity and transparency. Another bank recently announced that they had hired 10,000 veterans in the past five years, and approximately 17,000 in the last decade. One member bank's DEI program is preparing to move from "Courageous Conversations" that build inclusive teams toward "Courageous Actions" to foster ally-ship, bystander intervention, and more. In the past few weeks, one of our member banks announced a brick-and-mortar branch aimed at serving deaf and hard of hearing individuals and another bank is in the news for their success with hiring neurodiverse individuals.

We are providing support to banks still developing robust DEI programs. This includes sharing educational materials on the range of diversity in their communities, leading practices for recruiting, hiring, retention, and promotion, and ideas on how to integrate DEI into every aspect of the bank. DEI discussions are a regular feature at ABA conferences and events. Just this week, our annual Conference for Community Bankers featured a special program on women's leadership and the importance of placing more women on bank boards. We stand ready to meet our bankers where they are and help them advance DEI in their organizations.

Banks can also improve their DEI implementation by partnering with national and local civil rights organizations. Many banks tell us that their inclusionary practices have been informed through open communication such as policy dialogues and community advisory boards, and engagement through board service, volunteerism, and more with a wide variety of civil rights organizations, including those focused on race, people living with disabilities, gender, and immigration. Banks not only gain insight into their own workforces, but also gain a deeper understanding of how to make a diverse group of customers themselves feel welcomed and included in the bank.

ABA also appreciates the efforts of regulatory agencies, particularly the Offices of Minority and Women Inclusion (OMWI) to track diversity in the financial services industry and within their own organizations. We also draw upon other leading resources from academia, private research foundations, the public sector, and private sector sources such as the recent Oliver Wyman Report and the McKinsey & Company and Lean In joint workplace survey. By drawing on existing research and literature and applying it to our industry, we are able to build a holistic picture of the banking industry and how ABA can add value in the DEI space through supporting our banks.

The banking industry is comparable in many respects to the diversity of corporate America. Women hold less than 20 percent of corporate board seats in the Fortune 1000; that number rises closer to 30 percent for large boards of directors. Among Fortune 500 companies, 33 women are CEOs; 38 women are the CEOs of public banks, one of whom is the current chair of the ABA Board. Although numbers for racial and ethnic diversity are lower in both corporate America and within the banking industry, people of color have experienced a higher rate of growth on board seats in recent years.[2] Additionally, the House's "Diversity and Inclusion: Holding Large Banks Accountable" report shows that people of color hold 20 percent of bank board of director positions in large banks. Among smaller banks, by ABA's count, 148 banks are led by people of color, either as CEOs or as a majority of the bank's board of directors.

ABA itself is a diverse organization from top to bottom. We have achieved a high degree of gender parity at every level among 370 employees. I was hired as the result of a focused campaign to recruit more veterans. ABA President and CEO Rob Nichols is actively engaged in ensuring that our senior leadership is made up of not only the best talent but also of a diverse group of leaders who reflect the diversity of our organization as a whole. As an organization, ABA exemplifies our motto: Building Success. Together.

Diversity, Equity, and Inclusion Challenges

While the banking industry has made progress in diversity, equity, and inclusion, challenges remain. Similar to many other business sectors, the banking industry is most diverse among employees at the entry and lower level positions, while senior leadership and middle management tend to be more stratified. ABA is committed to providing leadership for our banks

[2] "Missing Pieces Report: The 2018 Board Diversity Census of Women and Minorities on Fortune 500 Boards," Deloitte, January 2019.

by accreting the salient research on leading practices such as using diverse and representative hiring and promotion slates, helping banks to expand their networks when searching for directors and C-suite executives, teaching banks to prime interview panels and promotion reviews to reduce unconscious bias, and many more, to help our banks build and implement strategies for DEI.

Some of our smaller banks are located in geographic areas that have less racial and ethnic diversity in their communities. Our role is to help banks facing this challenge recognize other aspects of diversity, such as among generations, people living with disabilities, the LGBTQ+ community, veterans, religious faiths, and socio-economic class. These aspects of identity and background add to the diversity of thought that banks need and want to develop. Some of our bankers are overwhelmed by the sheer amount of information about DEI and question what would be the most effective actions for their organization. We are committed to helping them assess their needs, develop a strategy that works for their bank, and move beyond compliance toward a diverse and inclusive organization. Our bankers want to implement DEI in ways that are successful, but some may hesitate because they do not want to misstep. We are also prepared to help bankers who attempted DEI initiatives that failed and may be shy of trying a course correction.

For any organization to become an inclusive space that welcomes diverse points of view, values all contributors, and supports all employees, it must be prepared to assess its culture honestly. Banks must also address the diversity in their communities so that their customers feel included, respected, and supported. Organizations must have uncomfortable conversations to resolve underlying issues and break down the barriers to inclusion for everyone. The process of inclusion is not easy, but the outcome of diversity is worth the effort. Our bank leaders each have unique challenges, but they are aware of the compelling moral and business cases for diversity, equity, and inclusion.

ABA DEI Initiatives

One of my first actions was to reconvene an internal diversity, equity, and inclusion team to synchronize DEI initiatives already underway within our organization, such as partnering with the National Bankers Association and outreach to minority owned banks.

Recently, ABA hosted a webinar with representatives from the Offices of Minority and Women Inclusion from the Federal Reserve, OCC, and FDIC to familiarize bankers with the OMWI data collection and to encourage bankers to voluntarily submit their diversity data. We sponsor a vibrant Emerging Leaders Council which is more than 50 percent women and is 18 percent racially diverse, to help young bank leaders develop their potential. Our Women's Leadership Initiative provides opportunities for amplifying women's development and contributions. ABA is an annual sponsor of *The Most Powerful Women in Banking Awards* and frequently addresses topics such as board diversity and the engagement and retention of female talent. We have partnered with the U.S. Chamber of Commerce Foundation's Hiring Our Heroes program to encourage banks to place transitioning members of the military as well as military spouses in temporary positions, with the goal that the experience will evolve into a fulltime position.

The Value of DEI

The business case for diversity is well-established: diverse teams that have done the work of inclusion are more productive, creative, and innovative.[3] Our bankers understand that to sustain their banks' profitability, service to their communities, and role in the economy, they must remain relevant. Diversity on paper is not enough. Our bankers recognize that inclusive environments are the cornerstones for attracting and, more importantly, retaining talent from all segments of an increasingly diverse population as well as serving increasingly diverse groups of customers.

In a recent report, a little over a third of American workers are fully engaged in the workplace, 13 percent are actively disengaged, and 53 percent in the middle are present but not engaged.[4] While these numbers are disturbing, it is important to note that the added benefit of creating an inclusive culture is it engenders greater engagement in employees and greater productivity.

Employee turnover routinely costs businesses a third or more of the employee's annual salary.[5] Organizations with reputations for inclusive cultures experience 100 percent more job applicants[6] for their open positions and 23 percent less employee turnover.[7] Inclusive environments attract more applicants from underrepresented populations through their reputations as being great places to work. Inclusion and equity are processes. Diversity is the outcome of both.

Summary

[3] Vivian Hunt et al, "Delivering Through Diversity," McKinsey & Company, January 2018.
[4] Jim Harter, "Employee Engagement on the Rise in the U.S.," Gallup, August 26, 2018.
[5] "More than Metrics: Why diversity, equity, and belonging matter to workplace experience," Envoy, January 29, 2020.
[6] Ibid.
[7] Deborah L. DeHass, Brent Bachus, and Eliza Horn, "Unleashing the power of inclusion," Deloitte, 2017.

Cultural change within an organization is incremental and change across an entire industry can be frustratingly slow. ABA is directly engaged in advising, educating, and energizing our member banks on diversity, equity, and inclusion. We recognize that DEI programs must be tailored to each organization's unique culture, community, customer base, and workforce. ABA and the industry stand ready to work with the Committee to advance diversity, equity, and inclusion.

Thank you for the opportunity to outline ABA's efforts to address these important issues within the banking industry and for your interest in diversity, equity, and inclusion within American society as a whole. I am happy to answer any questions you may have.

Written Testimony

Joseph M. Vaughan, Executive Director, the Corporate Diversity and Inclusion Forum

Before the House Financial Services Subcommittee on Diversity and Inclusion

"A Review of Diversity and Inclusion at America's Large Banks."

Wednesday, February 12, 2020

Chairwoman Beatty, Ranking Member Wagner, and distinguished Members of the Subcommittee, thank you for the opportunity to share the perspectives of the Corporate Diversity and Inclusion Forum (CDIF) regarding the importance of diversity and inclusion performance in the financial services sector.

Throughout the 116th Congress, the House Financial Services Committee has worked to illuminate the correlation between greater diversity and inclusion performance and the long-term economic stability, safety and soundness of the financial services sector. Fact witnesses before the committee have incontrovertibly established the economic benefit of diversity and inclusion performance to the United States' economy.

The Corporate Diversity and Inclusion Forum works to educate market participants, policymakers and the public regarding the intersectionality of greater diversity and inclusion performance in the sector and the goals of federal, state and local policymakers. We believe greater diversity and inclusion performance enhances profitability and is integral to addressing the persistent wealth gap in diverse urban and rural communities. In fact, McKinsey & Company recently estimated the U.S. economy will see between a $1 Trillion and $1.5 Trillion dollar decline in consumption and investment between 2019 and 2028 due to the racial wealth gap yielding a 4 to 6 percent decline of the GDP in 2028[1].

---

[1] https://www.mckinsey.com/industries/public-sector/our-insights/the-economic-impact-of-closing-the-racial-wealth-gap

In recent years, the financial services sector has made significant strides to embrace the evolving demographic shifts in the U.S. workforce and consumer base. Countless financial services firms have integrated diversity and inclusion best practices into their business enterprise. Diversity councils, Employee Resource Groups (ERGs), enhancements to more robust hiring, recruitment and retention policies, the hiring of Chief Diversity Officers (CDOs) and efforts to ensure pay equity are just a few examples of the critical practices being replicated across the sector. While these efforts are laudable, it is reasonable to question whether efforts to realign business practices to more inclusive goals are sustainable and permanent.

The Committee's banking diversity data report rightly highlights key performance improvements among covered institutions such as a broad commitment to achieve pay equity and in some cases linking diversity and inclusion results to performance. Those improvements are tempered by persistent shortcomings enumerated in the analysis such as a muted commitment to supplier diversity and poor representation of women and minorities in senior leadership ranks and on corporate boards of directors.

The report's findings also identify structural challenges the industry faces in broadening the talent acquisition pipeline. The CDIF strongly encourages financial services firms to make a concerted effort to engage diverse colleges and universities in the development of academic curricula which produce talented graduates well-suited to adapt to the rigors of the industry. Further, the industry must endeavor to visit college campuses and promote their goals and values if we are to assuage perceptions that diverse talent is undervalued, unwelcome and marginalized in the sector. These outreach efforts are further enhanced by embracing STEM education and financial literacy in K through 12 education as well.

While the report's findings represent a current snapshot of large bank performance, it's critically important to recognize the data collection, data aggregation and reporting process were implemented through a collaborative and constructive engagement between the Committee's majority and covered institutions.

Similarly, pursuant to Section 342 of the Dodd-Frank Act, the Directors of the Offices of Minority and Women Inclusion (OMWI) have endeavored to develop an honest, collaborative and transparent engagement with covered entities.[2] Through a series of roundtables, conferences and forums, the OMWI Directors have engaged market participants across the US and sought strategic advice in the development of the Final Joint Standards which were published in 2015 and are integral to developing a comprehensive assessment of D&I performance.[3] Further, the OMWI Directors have taken a constructive approach in the development of a voluntary self-assessment process consistent with key recommendations of the industry such as a self-reporting process outside of prudential examinations and the aggregation of D&I performance data from covered entities.

The US economy has experienced nearly a decade of expansionary growth that has served as a catalyst in the implementation of sound diversity and inclusion best practices. Although our workforce is enjoying near full employment, yet too many diverse urban and rural communities have not benefited fully from the expertise and knowledge of the financial services sector. The great recession of 2008

---

[2] Dodd-Frank Wall Street Reform and Consumer Protection Act 12 U.S.C. § 5452 (2010)
[3] https://www.federalregister.gov/documents/2015/06/10/2015-14126/final-interagency-policy-statement-establishing-joint-standards-for-assessing-the-diversity-policies

yielded higher attrition rates in the sector for women and underrepresented minorities, and my fear is the gains identified in the banking diversity data report will be lost during a future economic downturn. Greater transparency and disclosure will assuage that potential outcome and help to enshrine the ongoing commitment to D&I in the sector. Thanks again for the Committee's consideration and I look forward to answering your questions.