National Community Reinvestment Coalition

Racial and Ethnic Representation and Investment Framework For The Banking Industry

A Research Report and Recommendations for Beneficial State Foundation

ABOUT NCRC

NCRC and its grassroots member organizations create opportunities for people to build wealth. We work with community leaders, policymakers and financial institutions to champion fairness in banking, housing and business.

Our members include community reinvestment organizations, community development corporations, local and state government agencies, faith-based institutions, community organizing and civil rights groups, minority and women-owned business associations and social service providers from across the nation.

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KEY TAKEAWAYS

- Although African Americans comprise over 13% of the national population, and Latinos 18%, executive banking positions are only 3% Black and 4% Latino.
- Black and Latino bank workers are concentrated in entry-level, low wage and semi-skilled positions instead of management or executive positions, which are not sufficient wealth generating opportunities of employment.
- The financial industry must take on a stronger, more explicit commitment to Racial and Ethnic Representation and Investment (RERI). This framework outlines multiple ways to strengthen this commitment to RERI.

The framework includes best and promising practices for banks to improve Racial and Ethnic Representation within the internal workforce:

- Recognize racial and ethnic economic inequality as a social issue banks are committed to addressing.
- Collect and publicize racial and ethnic demographic data which includes a gender analysis, demographics of new hires and turnover, and supplier diversity metrics.
- Create and publish racial and ethnic representation goals.
- Evaluate managers' and executive leaders based on an assessment of their efforts and dedication to advancing racial and ethnic representation, as well as their efforts to strengthen Racial and Ethnic Representation and Investment standards and practices.

It also includes best and promising practices to strengthen Racial and Ethnic Representation and Investment within the hiring process:

- Implement a strong Rooney Rule.
- Participate in job fairs, recruiting events, conferences and other events where the participants are majority-minority.
- Offer paid mentorship and intern programs specifically to racial and ethnic populations that are under-represented in the bank.
- Sponsor financial clubs, student organizations and civic organizations that are majority-minority.
- Partner with and sponsor minority-led policy institutes, community coalitions and nonprofits in their work to address racial economic inequality.
- Advocate for larger change within the financial industry geared towards better serving LMI communities and communities of color.

INTRODUCTION

An individual's wealth level is the primary indicator of their socio-economic well being. The median Black family has a mere $3,600 in wealth, while the median White family has approximately $147,000, making the median Black family wealth a sheer 2% of White family wealth.[1] Asset poverty is widespread among individuals and communities of color and holistic reforms in all sectors must be enacted to bridge the racial wealth divide. As the country becomes increasingly aware of racial and ethnic economic inequality, particularly in regards to wealth, policymakers and advocates alike have increased their attention towards advancing racial and ethnic representation and investment, specifically in the banking industry. Section 342 of the Dodd-Frank Act required the establishment of an Office of Minority and Women Inclusion at multiple financial agencies and joint diversity, equity and inclusion (DEI) standards for the industry, an apparent effort towards improving racial and ethnic representation in the financial sector. However, the joint standards still expect financial institutions to voluntarily conduct assessments of their workforce's racial and ethnic representation and internally assess their efforts to strengthen minority representation. Echoing Representatives Maxine Waters' (D-CA) and Joyce Beatty's (D-OH) concerns regarding voluntary diversity self-assessments and data collection,[1] it is not enough for DEI efforts to be voluntary or go unregulated. Such standards should be an integral component of a bank's goals and practices, and routine assessments of progress in diversity, equity and inclusion should be a mandatory component of a bank's operations.

A commitment to racial and ethnic diversity must be a core bank value and considered essential to the financial bottom line. Financial institutions possess a powerful amount of social and economic capital that can be leveraged to advance the state of racial and ethnic representation and investment in the U.S. as a whole, not just in their own industry. Financial institutions are the gatekeepers to America's wealth, and as such, they have a great capacity to increase wealth building opportunities for diverse workers and consumers. While public policy is needed to address other drivers of racial wealth inequality and create meaningful regulations that support RERI, banks should lead, and not follow, in shepherding racial economic progress in this country. Meaningful commitment to racial and ethnic representation and investment (RERI) must be a sustained, holistic and widespread effort from banks and other financial institutions. To harness the vast possibilities and potential gains that banks can make in racial economic equity, the focus and efforts must start within the institution, and investment must begin internally with their workforce and suppliers. Racial and ethnic representation and investment may include numerous areas of the financial industry, such as: internal practices, philanthropy, equitable corporate leadership, secure products and services, and policy & advocacy. A bank's internal

1 Institute for Policy Studies (2019). Ten solutions to Bridge Racial Wealth Divide, p. 7. Retrieved from https://ips-dc.org/report-racial-wealth-divide-solutions/

practices to increase racial and ethnic representation and investment within its workforce and supplier contracts are the first steps toward greater equity.

Industry Averages of Racial + Ethnic Representation

Representation in:	Black	Latino	Asian	Women
National population	13.4%	18.3%	6%	50.8%
Average Banking Procurement	2%	.85%	3%	3.5%
Semi-skilled	12%	16%	8%	45%
Entry-level	14%	15%	5%	60%
Professionals	9%	7%	16%	40%
Mid-level management	7%	7%	11%	45%
Board of Directors	11%	5%	3%	30%
Executive/senior level	3%	4%	6%	30%

NCRC developed the Racial and Ethnic Representation and Investment (RERI) framework, which outlines benchmarks for racial and ethnic representation in all job levels of the banking industry. According to analysis of Equal Employment Opportunity Commission (EEOC) data regarding racial and ethnic diversity within each job level of the financial industry, we found that the representation of Black and Latino workers was concentrated in lower-wage, entry-level job positions. In contrast, c-suite and upper management positions were still predominantly White. Diversity should be found at all job levels, not just entry-level positions. Racial and ethnic stratification across job levels can contribute to America's perverse racial wealth divide. Low- and moderate-income (LMI), Black and Latino workers need opportunities for upward class and job mobility.

Based on EEOC national industry averages, our RERI framework includes a four-tiered grading system for banks to analyze their internal diversity progress across all job levels at the national level. Banks may use this methodology with subnational (e.g. Census Place, County, multi-county) data in order to develop standards that are measured against the racial and demographic composition of the communities they serve, aligned with their CRA investment area.

To help banks improve internal racial and ethnic representation among its workforce, this framework also includes a literature review of existing resources as well as promising practices to increase representation and investment through mechanisms such as hiring practices, recruitment efforts, sponsorship programs and more. Ten stakeholders from the financial sector were provided with the framework and were interviewed about their response to gain insight and feedback about this framework and its practicality.[2]

Recommended standards included in this framework were developed to inform a section of Beneficial State Foundation's Equitable Bank Standards -- currently in development -- and are provided here as a separate standalone framework. This racial and ethnic representation and investment framework focuses on African Americans and Latinos, though where appropriate, Native American and economically marginalized Asian American communities should also be addressed.

RACIAL AND ETHNIC BENCHMARKS FOR REPRESENTATION & INVESTMENT

Racial and ethnic representation benchmarks below are broken into four graded tiers: Poor representation (D grade), moderate representation (C grade), strong representation (B grade) and changemaker (A grade).[3] In these four graded tiers, we look at representation of the three largest racial/ethnic categories: African American, Asian American and Latinos and explore gender inequality within these groups

Poor Representation (Grade: D)

Race/ Ethnicity	Executive/ Senior Level	Board of Directors	Mid-Level Management	Professionals	Entry Level	Semiskilled	Supplier Diversity
Black	<3%	<10%	<7%	<8%	<11%	<10%	<2%
Latino	<4%	<5%	<7%	<7%	<12%	<12%	<1%
Asian	4%	<3%	<7%	11%	3%	5%	<2%
Gender Balance	30%/70%	30%/70%	30%/70%	30%/70%	30%/70%	30%/70%	30%/70%

- Poor representation is representation below industry averages and the demographic proportion of the population.

2 Details of feedback provided by stakeholders can be found in Appendix.

3 Methodology for creation of the tiers can be found in the appendix. Industry averages can also be found in appendix.

Moderate Representation (Grade: C)

Race/ Ethnicity	Executive/ Senior Level	Board of Directors	Mid-Level Management	Professionals	Entry Level	Semiskilled	Supplier Diversity
Black	4 – 6%	10 – 13%	7 – 9%	8 – 10%	11 – 13%	11 – 14%	2 – 4%
Latino	4 – 8%	5 – 10%	7 – 9%	7 – 9%	12 – 14%	12 – 14%	1 – 3%
Asian	6%	3%	11%	16%	5%	8%	3%
Gender Balance	40%/60%	40%/60%	40%/60%	40%/60%	40%/60%	40%/60%	40%/60%

- Moderate representation is representation close to the industry average or demographic representation if the industry average equals or surpasses demographic representation.

Strong Representation (Grade: B)

Race/ Ethnicity	Executive/ Senior Level	Board of Directors	Mid-Level Management	Professionals	Entry Level	Semiskilled	Supplier Diversity
Black	7% to 10%	13%+	10%-12%	11 – 13%	13% +	15% +	5% - 7%
Latino	9% to 12%	11 – 13%	10%-12%	10 – 12%	14% +	15% +	4% - 6%
Asian	10%	12%	10%	15%	6% +	4% +	6%
Gender Balance	50%/50%	50%/50%	50%/50%	50% /50%	50%/50%	50%/50%	50%/50%

- Strong representation is representation at levels significantly stronger than industry averages, in which the industry has low racial and ethnic representation.
- In this category, board of directors is representative of minority workforce averages.
- Industry averages for Blacks and Latinos in semi-skilled and low-wage positions are already representative of the population. Thus, increasing representation and diversity in low-wage positions is not a priority, especially if there is little room for upward mobility from a low-wage/semi-skilled position. Meaningful diversity efforts should be concentrated at upper levels.

Changemaker: (A)

Race/ Ethnicity	Executive/ Senior Level	Board of Directors	Mid-Level Management	Professionals	Entry Level	Semiskilled	Supplier Diversity
Black	11%+	----	13%+	13%+	----	----	8%+
Latino	12%+	14%+	16%+	13%+	----	----	7%+
Asian	12%+	10%+	12%+	15%	6%+	4%+	8%+
Gender Balance	----	----	----	----	----	----	----

- Changemaker representation is substantively above the industry average, and approaching or at equitable demographic representation.

RACIAL AND ETHNIC REPRESENTATION AND INVESTMENT (RERI): BEST AND PROMISING PRACTICES

INTERNAL RERI PRACTICES TO IMPROVE WORKFORCE DEMOGRAPHICS:

Practices listed below are necessary initial steps for a bank to take to improve racial and ethnic demographics within their internal workforce, and to improve a bank's commitment to diversity, equity and inclusion. These practices can be integrated by a bank in any order; no recommendation needs to necessarily be implemented first or last. While some promising practices may be logistically easier to implement, all are critical to the advancement of RERI and institutions should aspire to implement all practices.

- **Recognize racial and ethnic economic inequality as a social issue they are committed to addressing.**
  - Websites and annual reports should highlight the reality of the racial/ethnic wealth divide and racial/ethnic economic inequality as a whole. A bank's website and annual reports should also note the efforts being made to address racial and ethnic economic inequality, including its progress, success or weakness in racial and ethnic inclusion.
  - Highlighted progress and success in racial and ethnic inclusion may include an increase in minority representation in management or professional positions,

rates of successful sponsorship programs that lead to promotion or reaching demographic representation goals

- o Weaknesses that should be highlighted may include inequities in turnover rates among races/ethnicities, lack of diverse new hires or a lack of successful mentorship and sponsorship programs. A bankshould conduct annual training on racial and ethnic economic inequality, which explains why the bank has chosen this as a social issue to address, and how this relates to racial and ethnic inclusion.

- **Collect and publicize racial and ethnic demographic data.**[4]

  - o **This data, at the least, should report on African Americans, Asian Americans, Latinos, Native Americans and Whites.** These are all categories used by EEOC, and though of course these groupings are not near exhaustive, they are important in establishing baseline data on racial and ethnic inclusion.

  - o **Data should include a breakdown of representation by gender among all racial groups.** A gendered analysis should be used in reviewing racial inequality within the institution. Similarly, a racial inequality analysis should be used in understanding gender equity.

    - ◊ Having one gender dominate in racial and ethnic representation should be a mark of needed improvement. Similarly, having a gender balance that is not reflective of racial and ethnic diversity should be seen as problematic.

      - · For instance, an overrepresentation of Black women in entry-level positions would benefit from a racial inequality analysis to understand why there is such a concentration in entry-level job positions.

  - o **Data should track patterns in new hires, promotions and turnover.**

    - ◊ At the most basic level, a history should be developed that notes the race, ethnicity and gender of new hires, promotions and turnover at different levels of employment.

    - ◊ For example, patterns that need specific attention may include an increasing percentage of Black and Latino employees at lower level positions, such as clerical workers or service workers, compared to a higher concentration of White employees in executive positions.

    - ◊ Another instance may be tracking the rate of turnover among certain positions, and rate of turnover among certain demographics within each job position.

4 Final Interagency Policy Statement Establishing Joint Standards for Assessing the Diversity Policies and Practices of Entities Regulated by the Agencies (2015 June 10). Federal Register, 80(111). pp. 33016- 33025. Retrieved from: https://www.govinfo.gov/content/pkg/FR-2015-06-10/pdf/2015-14126.pdf

- ◊ For example, do Black loan officers experience higher turnover rates than their White or Asian counterparts? Why might this be the case, and is there anything the financial institution can do to decrease turnover rates among demographics with high turnover rates? Collecting this information can allow a bank to begin to answer the question of why this may be.

- o **Racial and Ethnic data should be collected and shared publicly for tier 1 and tier 2 suppliers.**[5]
  - ◊ Tier 1 suppliers would be third parties directly contracted by banks to provide goods and services to the bank.
  - ◊ Tier 2 suppliers would be vendors contracted by the tier 1 suppliers to ensure all operations are successful.
  - ◊ Collecting data about both tier 1 and tier 2 is important, as both levels are important to strengthening the economic standing of Black and Latino entrepreneurs.

- **Create and publish racial and ethnic representation goals.**
  - o This should include specific percentages and goals for representation among all targeted demographic groups.
  - o Progress, or lack of progress, in reaching RER goals over the last 5 to 10 years also should be evaluated and included in this publication. Published racial and ethnic representation goals should also include plans as to how a bank will attempt to reach racial and ethnic representation goals in a measurable time.

- **Evaluate managers and executive leaders based on an assessment of their efforts and dedication to advancing racial and ethnic representation, as well as their efforts to strengthen Racial and Ethnic Representation and Investment standards and practices.**
  - o **Evaluation of RERI efforts by managers and executive leaders should particularly focus on efforts to increase the representation of historically and contemporarily disenfranchised groups (African Americans, Latinos and Native Americans).**
    - ◊ One should to incentivize managers' and executive leaders' dedication to advancing RERI work is to tie compensation of upper and executive management to RERI evaluations. This is a way to ensure that upholding and advancing DEI standards, and strengthening racial and ethnic representation, are concerns at the forefront of leadership's work.

5 Greenlining Institute (2016). *Supplier Diversity Report: Banks Still Struggle To Contract With Diverse Businesses.* Retrieved from https://greenlining.org/publications/2016/supplier-diversity-re- port-banks-still-struggle-contract-diverse-businesses

- ◊ Evaluations should also include an assessment of resources and support provided by upper management intended to advance racial and ethnic representation.
- ◊ Evaluations may examine success of a manager's/executive's initiatives that serve disenfranchised groups.

PROMISING PRACTICES TO STRENGTHEN RECRUITMENT AND HIRING OF A DIVERSE WORKFORCE:

Suggested Promising Practices below are intended to strengthen and increase diversity, equity and inclusion efforts through hiring. These are steps to be taken once DEI standards, such as those above, are put into place.

Banks should:

- **Implement a strong "Rooney Rule:"** Interview at least two people of color from a socio-economically disenfranchised group (Blacks, Latinos and Native Americans) for available leadership/executive positions.[6]
- **Participate in job fairs, recruiting events, conferences and other events where the participants are majority-minority** [7] to increase visibility of career opportunities to socio-economically disenfranchised groups.
- **Offer paid mentorship and intern programs specifically to racial and ethnic populations that are under-represented in the organization**. Targeting these programs to underrepresented populations can build necessary work experience and career connections. Furthermore, making these mentorship and intern programs paid positions can increase the viability of such programs for underrepresented populations, who may not be capable of accepting unpaid positions.
- **Sponsor financial clubs, student organizations and civic organizations** that are majority-minority. Sponsorship can increase transparency, trust and knowledge of financial institutions among these clubs or organizations' members. This can also make a career in the financial industry a more viable option for underrepresented populations.
- **Partner with and sponsor policy institutes, community coalitions and nonprofits** in their work to address racial economic inequality that is majority-minority.

6 Working Mother Research Institute (2019). *The Gender Gap At The Top: What's Keeping Women From Leading Corporate America?* Retrieved from: https://financialservices.house.gov/uploadedfiles/hhrg-116-ba13-wstate-barrys-20200212.pdf

7 House Committee on Financial Services, Subcommittee on Diversity and Inclusion (2020). *Diversity and Inclusion: Holding America's Large Banks Accountable*. Retrieved from https://docs.house.gov/meetings/BA/BA13/20200212/110498/HHRG-116-BA13-20200212-SD003-U1.pdf

  - o This initiative can be directly tied to philanthropic efforts or community giving standards within the bank.

- **Advocate for larger change within the financial industry geared towards better serving LMI communities and communities of color.** This is not only advocating for wealth-building opportunities among these communities, but also plants the seeds for future generations to be financially secure. Long-term, wealth generation in economically disadvantaged communities can result in a much more financially capable, diverse and young workforce to enter the financial industry and other industries.

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APPENDIX

LITERATURE REVIEW OF PROMISING PRACTICES IN THE INDUSTRY

U.S. Equal Employment Opportunity Commission (2018). ***About the EEOC: Overview***
Retrieved from: https://www.eeoc.gov/eeoc/index.cfm

- The U.S. Equal Employment Opportunity Commission (EEOC) is responsible for enforcing federal laws that make it illegal to discriminate against a job applicant or an employee because of the person's race, color, religion, sex (including pregnancy, gender identity and sexual orientation), national origin, age (40 or older), disability or genetic information. It is also illegal to discriminate against a person because the person complained about discrimination, filed a charge of discrimination or participated in an employment discrimination investigation or lawsuit.
- The EEOC has the authority to investigate allegations of discrimination against employers who are covered by the law.
- EEOC works to prevent discrimination before it occurs through outreach, education and technical assistance programs.
- The EEOC provides leadership and guidance to federal agencies on all aspects of the federal government's equal employment opportunity program.

U.S. Equal Employment Opportunity Commission (2019). ***Job Patterns for Minorities and Women in Private Industry (EEO-1).*** **Washington, D.C.**
Retrieved from: https://www.eeoc.gov/eeoc/statistics/employment/jobpat-eeo1/index.cfm

- As part of its mandate under Title VII of the Civil Rights Act of 1964, as amended, the Equal Employment Opportunity Commission requires periodic reports from public and private employers and unions and labor organizations that indicate the composition of their workforces by sex and by race/ethnic category. Key among these reports is the EEO-1, which is collected annually from private employers with 100 or more employees and federal contractors with 50 or more employees. Approximately 73,400 employers, representing 56.1 million employees, filed EEO-1 reports in 2018.
- White workers still make up the predominant workforce. This is especially seen in executive/senior-level officials, where 60.4% of all executive/senior-level officials are White men. In the senior-level positions, Blacks and Hispanics make up a mere 6.27%.
- More gender equality amongst most races is seen when you focus on mid-level jobs, such as professionals, technicians and sales workers. However, women are *significantly overrepresented* in office and clerical work amongst all races.

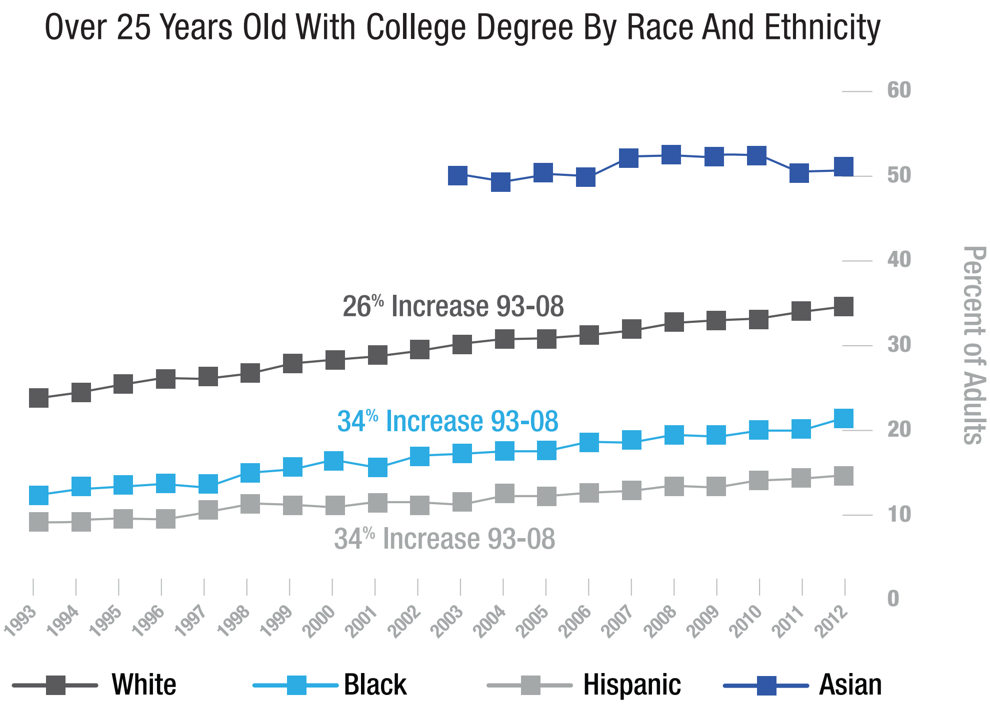
- Interestingly, highest employment rate for Blacks is within the office and administrative category (20.84% of the category is comprised of Black workers, 16.8% of which are Black women).
- Overall, minorities (except for Asians who are concentrated at the mid/top-level positions) are relegated to the mid and low-level positions within the finance and insurance industry.
- This trend, plus the finding that women are overrepresented in low-wage jobs such as office and clerical work, begs the question of meaningful diversity and inclusion. While the finance and insurance industry is more diverse than it was a few decades ago, the fact that minorities and women are concentrated at the bottom *and* that gender equality is only experienced at the mid/low tier illustrates that the diversification of the industry has been done so in a less than meaningful way. Minorities should be fairly and equitably included within top tier jobs, instead of concentrated at the bottom, for diversity to be significant.

North American Industry Classification System (2017). *Introduction to NAICS.* U.S. Census Bureau. Washington, D.C.
Retrieved from: https://www.census.gov/eos/www/naics/

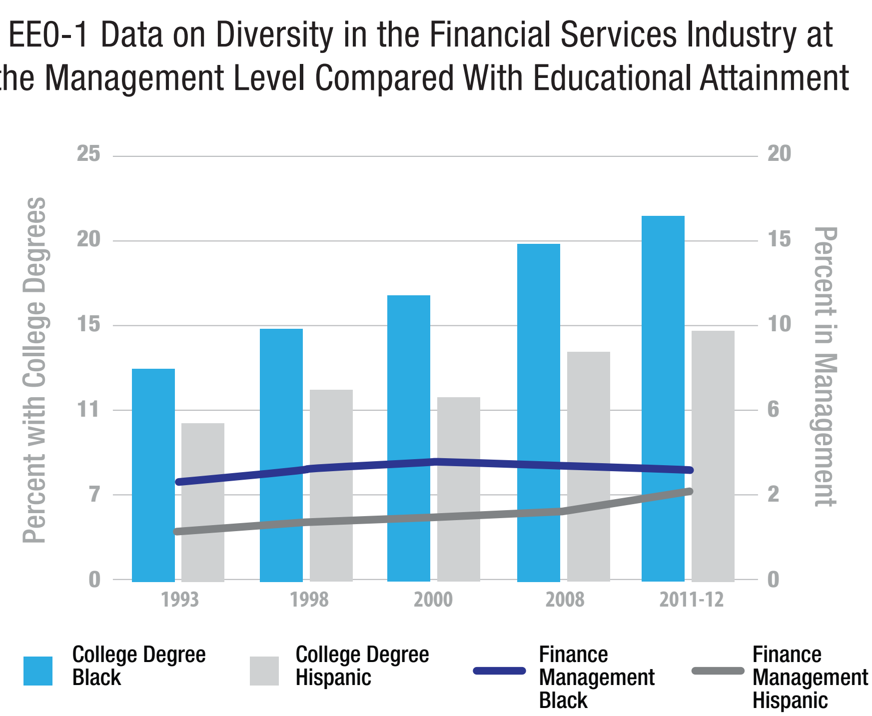
- EEOC collects data about employment statistics using the North American Industry Classification System (NAICS) Codes. The NAICS-3 code used to locate EEOC data regarding the commercial banking industry is NAICS #523.

NAACP (2013). *Opportunity & Diversity Report Card: The Consumer Banking Industry.*
Retrieved from: https://www.naacp.org/wp-content/uploads/2011/09/OpportunityDiversityReportCard.pdf

- In 2008, African American college attainment was 19.6%. This was a 7.5% increase from their 1993 attainment levels of 12.2%.
- Additionally, Hispanic college attainment levels increased from 9% in 1993 to 13.3% in 2008
- In 2008, nearly as much of the African American population had a bachelor's degree as Whites had in 1993. Yet, there was no corresponding climb in African Americans or Hispanics employed in management positions.
- The available data on both educational attainment and MBA enrollment would suggest that education is not the barrier for minorities that it is perceived to be. No group has increased its share of MBA recipients more than African Americans.



College attainment by race and ethnicity



Management level diversity compared with educational attainment (Government Accountability Office, 2010) (Government Accountability Officer, 2013)

- Upper management has remained mostly under-diversified and homogenous while semi-skilled positions, which include tellers, check processors and customer service professionals, comprise a highly diverse class. These entry-level positions provided applicants without higher education a career path that included opportunities for professional development and class mobility.
- As automation and technology allow banks to rid themselves of the branch model, it also reduces the highly diverse class of semi-skilled positions such as bank tellers and customer service professionals.
- Lower-wage positions will see their share of banking jobs shrink, closing the window by which many women and people of color gain access to the financial labor market.
- Diversity efforts appear to have resulted in little progress outside of the semi-skilled occupations. Semi-skilled occupations may include laborers, service workers, customer service professionals and more. Other, higher-ranking job levels such as technicians, engineers, lawyers and managers, are lacking such diversity. Diversity cannot be concentrated simply at the entry-level or semi-skilled positions, as this provides little opportunity for upward progression for its diverse employees.
- Banks will need to focus more heavily on their recruitment, mentoring and educational outreach efforts to lure qualified candidates to the banking industry from existing occupations requiring skill sets that overlap with banking, such as real estate or insurance.

Final Interagency Policy Statement Establishing Joint Standards for Assessing the Diversity Policies and Practices of Entities Regulated by the Agencies (2015). ***Federal Register***

Retrieved from: *(111).* pp. 33016-33025. https://www.govinfo.gov/content/pkg/FR-2015-06- 10/pdf/2015-14126.pdf

- These are common standards for assessment of diversity and inclusion practices to be used by entities regulated by these agencies; created by the Office of the Comptroller of the Currency (OCC); Board of Governors of the Federal Reserve System (Board); Federal Deposit Insurance Corporation (FDIC); National Credit Union Administration (NCUA); Bureau of Consumer Financial Protection (CFPB); and Securities and Exchange Commission (SEC). This document was published as a request from comments on the proposed information discussed in the document.
- For purposes of this policy statement, the agencies define “diversity” to refer to minorities, as defined in section 342(g)(3) of the Dodd-Frank Act (that is, Black Americans, Native Americans, Hispanic Americans and Asian Americans) and women. This definition of diversity does not preclude an entity from using a broader meaning concerning these standards.

- The agencies define "inclusion" to mean a process to create and maintain a positive work environment that values individual similarities and differences so that all can reach their potential and maximize their contributions to an organization.
- Entities that are subject to the recordkeeping and reporting requirements of the Equal Employment Opportunity Commission (EEOC) and the Office of Federal Contract Compliance Programs currently collect and maintain data and supporting documentation that may assist in evaluating and assessing their policies and practices related to workforce diversity and inclusion. Specifically, entities that file EEO–1 Reports required under Title VII of the Civil Rights Act of 1964 routinely track and analyze employment statistics by gender, race, ethnicity and occupational group.
- Concerning references to "metrics," the agencies continue to believe that quantitative data is valuable for evaluating diversity and inclusion but know that qualitative data and information also can provide useful material for the purpose of critically evaluating diversity and inclusion.
- Another group of commenters supported these standards and noted that entities with a commitment to diversity and inclusion often have supplier diversity programs. These commenters stated that supplier diversity could contribute to an entity's efficiency and innovation, reflect its customer base, promote growth and development, and support job creation and economic development.
- Entities often use metrics to identify the baseline of how much they spend procuring and contracting for goods and services, how much they spend with minority-owned and women-owned businesses and the availability of relevant minority-owned and women-owned businesses, as well as changes over time.
- Entities may use outreach to inform minority-owned and women-owned businesses (and affinity groups representing these constituencies) of these opportunities and the procurement process.
- The use of minority-owned and women-owned businesses as subcontractors provides valuable opportunities for both the minority-owned and women-owned businesses and the prime contractor. Entities may encourage the use of minority-owned and women-owned subcontractors by incorporating this objective in their business contracts.
- Entities that have successful diversity policies and practices allocate time and resources to monitoring and evaluating performance under their diversity policies and practices on an ongoing basis. Entities are encouraged to disclose their diversity policies and practices, as well as information related to their assessments, to the agencies and the public

Federal Deposit Insurance Corporation (2019). *Financial Institution Diversity, Self-Assessment 2018 Report, and Analysis.*
Retrieved from: https://www.fdic.gov/about/diversity/pdf/analysisofdiversityselfassessmentsfor2018.pdf

- Similar to the standards for assessment outlined in the Joint Standards for Assessing Diversity Policies and Practices of Entities Regulated by the Entities, this report by the FDIC compiles FDIC-regulated institutions, self-reported annual diversity assessment results. Out of 784 FDIC-regulated institutions, only 133 (or 16.9%) responded with voluntary submissions.
- The FDIC collects these results and shares them anonymously to provide opportunities for the financial community to develop or enhance their diversity and inclusion policies to help them achieve their strategic goals.
- The self-assessments received have also enabled the Office of Minority, Women, and Inclusion (OMWI) to identify exemplary practices that financial institutions have implemented as part of their workforce recruitment, supplier diversity procurement and training practices. The OMWI was established in 2011 within the Office of the Comptroller of Currency (OCC), under Section 342 of the Dodd-Frank Act of 2010.
- 90% of financial institutions reported having a Diversity & Inclusion Officer, or equivalent, designated. However, this is only representative of the 17% of banks which voluntarily submitted an annual diversity assessment to the FDIC. Banks who were willing to voluntarily submit diversity assessments are likely to be considerate of, and dedicated to, diversity and inclusion. This percentage would likely change if more banks had participated in the voluntary assessment.
- 44% said to have a Supplier Diversity Officer, or equivalent, designated.
- 95% of reporting financial institutions took proactive steps to promote a diverse pool of candidates, including women and minorities, in their hiring, recruiting, retention and promotion, as well as in their selection of board members, senior management and other senior leadership positions.
- 73% reported that they conduct outreach to educational institutions serving significant minority and women student populations; or that they participate in conferences, workshops and other events to attract minorities and women and to inform them of employment and promotion opportunities.
- Overall, a low percentage of respondents reported that they have metrics and analytics to monitor how much they spend on procuring and contracting for goods and services; how much they spend with minority-owned and women-owned businesses; and that they are knowledgeable about the availability of relevant minority-owned and women-owned businesses.

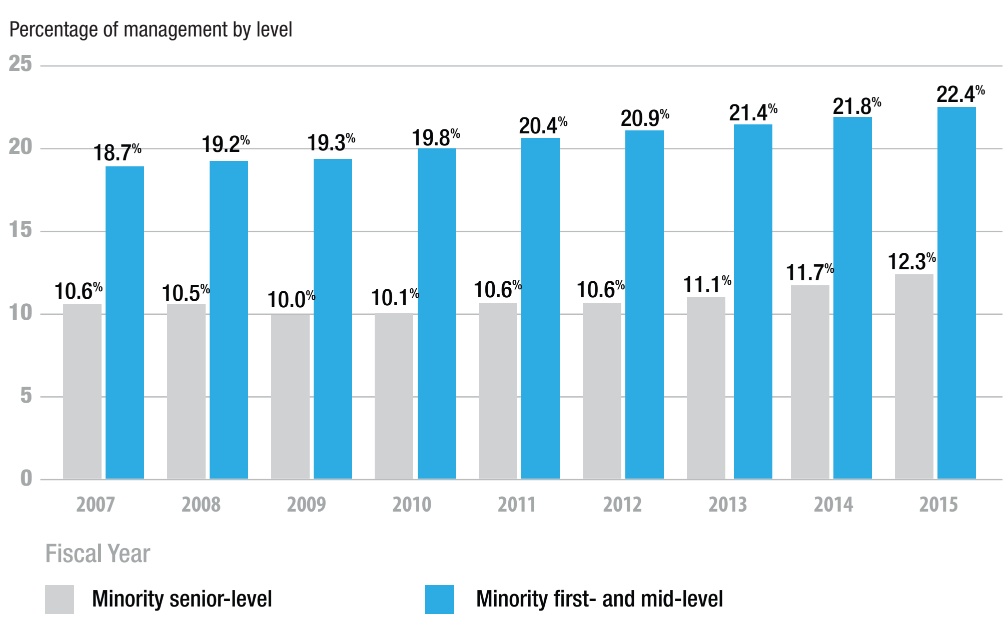
- 11% reported having contracts awarded to minority and women-owned businesses.
- 14% said they participated in conferences, workshops and other events to attract minority-owned and women-owned firms and inform them of contracting opportunities.
- Only 32% of financial institutions reported the publication of their diversity and inclusion strategic plan, while 24% of financial institutions published forecasts of potential employment and procurement opportunities.
- Similarly, only 29% of financial institutions publish information about its assessment of its diversity policies and practices.

U.S. Government Accountability Office (2019). *Testimony Before the Subcommittee on Diversity and Inclusion, Committee on Financial Services, House of Representatives. Statement of Daniel Garcia-Diaz: Representation of Minorities and Women in Management and Practices to Promote Diversity, 2007-2015.* Washington, D.C.
Retrieved from: https://www.gao.gov/products/GAO-19-398T

- "EEOC requires employers to use the North American Industry Classification System to classify their industry. Under this system, the financial services industry includes the following five sectors:
    - Credit intermediation and related activities (banks and other credit institutions), which include commercial banks, thrifts and credit unions;
    - Securities and other activities, which includes firms that bring together buyers and sellers of securities and commodities and offer financial advice;
    - Insurance firms and agents that protect against financial risks to policyholders;
    - Funds and trusts, which include investment trusts and holding companies; and
    - Monetary authorities, including central banks."
- At the overall management level, representation of minorities in the financial services industry increased from 2007 through 2015, though representation varied by individual minority groups. Minority representation in overall management positions increased by 3.7 percentage points.
- Asians had the most significant gains since 2007, increasing their representation among managers from 5.4% to 7.7%.
- Hispanics made smaller gains; their representation among managers increased from 4.8% to 5.5%.

- In contrast, the proportion of African Americans in management positions decreased from 6.5% to 6.3%.
- From 2007 through 2015, women represented about 45% of overall management. Representation of each racial and ethnic group varied by gender during this period.
- The representation of minorities in overall management was consistently the greatest in the banks and other credit institutions and lowest in the insurance sector.
- Among first- and mid-level managers, representation of minorities increased at a lower rate in the financial services sector from 2007 to 2015 (3.7 percentage points) than in the professional services sector (7.5 percentage points) and slightly lower than the overall private sector (3.8 percentage points).
- Research reviewed and representatives spoken with identified several practices believed or found to be useful for recruiting women and racial/ethnic minorities, which included:
    - Recruiting students from a broad group of schools and academic disciplines. For example, representatives from one firm said that they were interested in candidates with critical thinking skills and that technical skills could be taught to new employees. Additionally, representatives from several firms noted the importance of recruiting at a broad group of schools, not just a small number of elite universities.

Representation of Minorities in First- and Mid-Level Management and Senior-Level Management Positions in the Financial Services Industry, 2007-2015



Source: Gao analysis of Equal Employment Opportunity Commission date GAO-19-398T

- Offering programs to increase awareness of careers in financial services. Several representatives of financial firms reported that they had established relationships with high school students to expose diverse students to the financial services fields.

As You Sow (2020). *Shareholder Resolution: JP Morgan Chase & Co., Diversity in the Workplace.*
Retrieved from: https://static1.squarespace.com/static/59a706d4f5e2319b70240ef9/t/5df27a874508e6201367e775/1576172168385/20.JPM.2_JPMorgan_Chase_Diversity_in_the_Workplace_WEB.pdf

- Diversity and inclusion efforts within banking institutions are difficult to evaluate with public information, considering that a bank's diversity efforts are often assessed and published by an internal entity. An internal entity conducting and publishing assessments makes it difficult to discern if efforts are being objectively, accurately and holistically evaluated. Bias may be present in an internal entity.
- Findings released usually aren't meaningful statistics, making it difficult to determine the effectiveness of human capital management.
- "Stakeholders may become concerned that banking institutions' diversity statements, such as JPMorgan Chase's, are corporate puffery, language described by the United States Federal Trade Commission as marketing exaggerations intended to "puff up" products and not able to be relied upon by consumers and investors."
- "Investors' desire for information on this issue is significant. In June 2019, $1.74 trillion in represented assets released an Investor Statement that spoke to the importance of increased corporate transparency on workplace equity data. As stated: It is essential that investors have access to the most up-to-date and accurate information related to diverse workplace policies, practices and outcomes."

U.S. House Committee on Financial Services (2019). *Megabanks Diversity Assessment Findings.* Washington, D.C.
Retrieved from: https://financialservices.house.gov/news/documentsingle.aspx?DocumentID=40419 1

- The United States's biggest banks are making some progress in their diversity efforts, but there is much more to do, including: "increasing their focus on recruiting through minority colleges and universities, closing the pay equity gap for women and minorities, and increasing investment in leadership and development programs for building a pipeline of diverse talent."
- The U.S. population is over 50% of women and 40% minorities, yet the boards of directors of the nation's largest financial institutions are comprised of only 29% women and 17% minorities.

- Only one bank, Citigroup, has a female CEO.
- There is no chief diversity officer currently reporting directly to the CEO of large U.S. banks.
- Only 4 out of 8 megabanks spent more than $1 billion on diverse suppliers in 2018.
- Less than 1% of megabank spending is devoted to diverse asset managers and suppliers.
- Only 4% of externally managed assets go to diverse-owned firms

National Association of Real Estate Brokers (2019). ***State of Housing in Black America.***

Retrieved from: http://www.nareb.com/site-files/uploads/2019/09/NAREB_Shiba2019_small-compressed.pdf

- Variations in socioeconomic status and available opportunities are particularly pronounced when examining racial and ethnic diversity among millennials. Black millennials are placed at a disadvantage when compared to White counterparts due to challenges faced during household formation, socioeconomic mobility, and access to homeownership.
- Fannie Mae and Freddie Mac possess and utilize their own scoring systems that are more sophisticated than FICO 4 scores, which are used to determine whether or not to submit the loans. Before borrowers can even be considered for Fannie Mae or Freddie Mac purchase, " possibly tens-of-thousands of borrowers each year are either rejected, discouraged or channeled unnecessarily to FHA for high-cost loans, due to FICO 4 scores that might be misrepresenting their actual creditworthiness."
- Mounting evidence supports the idea that consumer credit histories should be expanded to include a broader set of expenses, drawing from alternative data sources. These data sources may include rent payments, telephone bill payments, utilities, and cable payments. Drawing from multiple, alternative data sources can "improve the ability to assess—and assess more positively—many thin file potential borrowers and could provide the ability to score current credit invisibles."
- Black families have less wealth, meaning individuals themselves have less money and less family members who can contribute money to assist individuals with down payments. This creates and regenerates disparities across racial lines, in which more affluent individuals such as White and Asian Americans can access the homebuying process more often or in a greater capacity than their Black counterparts. These disparities are worsened by the income gap faced by Americans of color, creating challenges to saving up for a down payment and having the income to cover a mortgage.

Diversity Best Practices, (2019). ***Workforce 2025 #diversity(r)evolution.***
Retrieved from: https://www.diversitybestpractices.com/publications/workforce-2025-diversityrevolution#page-2

- DEI should be treated as a business imperative by strengthening accountability of broader C-suite and operating leaders. C-suite leaders' commitment to DEI should be evaluated, and could be tied to compensation.
- Succession-planning efforts over the next 5 to 15 years should be created by companies. These planning efforts should work to mitigate and remedy systemic inequities and structural biases that have historically impacted the economic mobility and advancement of disenfranchised people.
- Accountability for DEI can be strengthened by developing internal diversity metrics and scorecards, "tracking and measuring both quantitative (e.g., demographic representation) and qualitative (e.g., culture, innovation, community outreach, business development, etc.) results", and tying DEI performance reviews to compensation.
- Mentorship and sponsorship opportunities are needed to diversify the internal financial services labor pipeline and to instill a dedication to diversity and inclusion by making the new workforce more diverse. C-Suite members should be engaged to serve as sponsors and teachers about real-life business experiences and challenges.
- Recruitment, performance evaluations, compensation, and all aspects of the talent process should be evaluated for unconscious biases that may be informing decisions.
- Employee resource groups began as communally created safe spaces for people who held marginalized identities as a tool to help peers navigate the financial services workplace. Now, these groups increasingly focused on business imperatives such as marketing/branding to diverse consumers, sales, and talent recruitment. Leaders of ERGs should be looked to for promotions and company leadership around DEI efforts.

Greenlining Institute (2018). ***Diversity, Equity, and Inclusion Framework: Reclaiming Diversity, Equity, and Inclusion for Racial Justice.***
Retrieved from: https://greenlining.org/publications/2018/diversity-inclusion-framework/

- Diverse job creation happens not only in the internal workforce but also in supply chains. Whether through direct employment or contracts, these avenues all generate ripple effects through local economies. Thus, supplier diversity is arguably just as important as internal workforce diversity (p. 2).
- Diversity, equity and inclusion (DEI) standards and practices need explicit language and strong theories of change.

- The Greenlining Institute defines *diversity* as "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." (p. 3)
- *Equity* refers to resources and the need to provide additional or alternative resources so that all groups can reach comparable, favorable outcomes (p. 3).
- When creating DEI standards and attempting to advocate for diversity and inclusion, the Greenlining Institute recommends asking yourself "Four W's":
  - **"Who** am I advocating on behalf of? Who are their allies/similarly impacted communities? Who am I not including in this effort?
  - **What** am I advocating for Diversity, equity and/or inclusion? What areas do I want to impact?
  - **Where** does this take place? Does it impact a workforce, supply chain or another area?
  - **Why** does diversity, equity and/or inclusion matter? Why should stakeholders prioritize this, and what are the consequences if no action is taken?"

Greenlining Institute (2016). *Supplier Diversity Report: Banks Still Struggle to Contract with Diverse Businesses.*
Retrieved from https://greenlining.org/publications/2016/supplier-diversity-report-banks-still-struggle-contract-diverse-businesses/

- Supplier diversity programs have the potential to be win-win contracts for not only the vendors and corporations, but also local economies. Diversifying supply chains and procurement dollars initiates business competition, save money on costs, and expand a company's relationship with local communities. Vendors are also able to expand and sustain their business and contribute to their local economy in a greater capacity.
- The Greenlining Institute recommends that financial regulators use their authority to create transparency and uniform metrics regarding supplier diversity. "Without adequate oversight, supplier diversity will remain a 'nice to do' rather than a priority for the vast majority of financial institutions."
  - Collecting, analyzing and sharing procurement data is an essential step in creating transparency regarding supplier diversity and shows a commitment to creating a diverse supply chain.

Working Mother Research Institute (2019). *The Gender Gap at The Top: What's Keeping Women from Leading Corporate America?*
Retrieved from: https://www.workingmother.com/sites/workingmother.com/files/attachments/2019/06/women_at_the_top_correct_size.pdf

- This nationally-representative survey conducted by Working Mother Research Institute found that 77% of women say a top barrier to gender equity is lack of information on how to advance.
- 74% of women agree they understand what's needed to advance in their company, but only 37% said their company provided information about career paths.
- 28% of women vs. 53% of men participated in a leadership development program in the past 24 months.
- 39% of women vs. 54% of men had a career discussion with their mentor in the past 24 months
- Men are three times as likely to have been encouraged to consider a Profit & Loss responsibility role, and twice as likely to have received a promotion in the past 24 months.
- Multicultural women are more than twice as likely to aspire to be CEO and less likely to be satisfied with their current level than White women.
- Men were twice as likely as women to aspire to CEO (20% vs. 9%)
- The disparities in knowledge regarding open positions, as well as mentorship opportunities and disparities in current employment level/aspirational employment level, illustrate a systemic inequality in opportunities for women. To provide solutions for these issues, transparency in succession planning, career planning, sponsorship and professional development is needed.

INDUSTRY AVERAGES OF RACIAL + ETHNIC REPRESENTATION

Industry Averages of Racial + Ethnic Representation

Representation in:	Black	Latino	Asian	Women
National population	13.4%	18.3%	6%	50.8%
Average Banking Procurement	2%	.85%	3%	3.5%
Semi-skilled	12%	16%	8%	45%
Entry-level	14%	15%	5%	60%
Professionals	9%	7%	16%	40%
Mid-level management	7%	7%	11%	45%
Board of Directors	11%	5%	3%	30%
Executive/senior level	3%	4%	6%	30%

National Demographics:

- **Black National Population + Industry Averages**
    - National Population: 13.4%
    - Financial Industry Averages: Black representation
        - Semi-skilled = 12%
        - Entry level = 14%
        - Professionals = 9%
        - Mid-level management = 7%
        - Board of directors = 11%
        - Executive/senior level = 3%
        - Average banking procurement spent with Black-owned businesses: 2%
- **Latino National Population + Industry Averages**
    - National population: 18.3%
    - Financial Industry averages: Latino representation
        - Semi-skilled = 16%

        - Entry-level = 15%
        - Professionals = 7%
        - Mid-level management = 7%
        - Board of directors = 5%
        - Executive/senior level = 4%
        - Average banking procurement spent with Latino-owned businesses: .85%

- **Asian national population + industry averages**
    - National population: 6%
    - Financial Industry averages: Asian representation
        - Semi-skilled = 18%
        - Entry level = 5%
        - Professionals = 16%
        - Mid-level management = 11%
        - Board of Directors = 3%
        - Executive/senior level = 6%
        - Average banking procurement spent with Asian-owned businesses: 3%
- **Women national population + industry averages**
    - National population: 50.8%
    - Average banking procurement spent with Asian owned businesses: 3.5%
    - Financial industry averages: female representation
        - Semi-skilled = 45%
        - Entry level = 60%
        - Professionals = 40%
        - Mid-level management = 45%
        - Board of directors = 30%
        - Executive/senior level = 30%
- **National average of Banks' MWBE Procurement: 9.3%**

BENCHMARKS METHODOLOGY:

- "Moderate Representation" represents financial industry racial averages of each job level. Averages were gathered from 2018 EEOC data within the NAICS code 523 industry; "Securities, Commodity Contracts, Other Financial Investments." This is where commercial banking is categorized.
- The "Board of Directors" category was gathered from the House Committee on Financial Services' 2020 report, "Diversity and Inclusion: Holding America's Large Banks Accountable." This report directly contacted banks to retrieve Board of Directors diversity data. EEOC data regarding Board of Directors composition is not available.
- Unlike racial and ethnic representation in job levels, data regarding supplier diversity in the financial industry is not publicly available. Thus, supplier diversity data was interpreted from The Greenlining Institute's "Supplier Diversity Report: Banks Still Struggle to Contract With Diverse Businesses." This report directly contacted banks for their supplier diversity information.
- Job categories seen here are synthesized versions of EEOC job categories, to create a more digestible picture. Similar job levels are combined under one title. Detailed descriptions of each EEOC job category can be found here. A breakdown of each EEOC job category within each level is included here:
    - Executive/Senior level
        - EEOC Category = Executive/Senior Level Officials & Managers
    - Board of Directors
        - Data gathered from this report.
    - Mid-Level Management
        - EEOC Category = First/Mid Level Officials & Managers
    - Professionals
        - EEOC Category = Professionals + Technicians
    - Entry Level
        - EEOC Category = Sales Workers + Office & Clerical Workers + Craft Workers
    - Semi-Skilled
        - EEOC Category = Operatives + Laborers + Service Workers

STAKEHOLDER FEEDBACK

To gain insight and feedback about this framework and its practicality, ten stakeholders from the financial sector were provided with the framework and were interviewed about their response. The varying perspectives of interviewees — ranging from banking directors, policy advocates, and community organization leaders— led to a holistic understanding of the landscape of Racial and Ethnic Representation & Investment (RERI) in the financial industry. Stakeholders' feedback allowed for a deeper exploration of the framework's policy and advocacy implications. All respondents highlighted the urgency and importance of focusing on RERI, especially within the banking industry, as a tool towards remedying racial inequality.

All respondents, whether they came from banking, advocacy, or policy perspective, reported that this framework was very helpful, but those holding diversity, equity, and inclusion (DEI)-specific roles shared particular insight. They noted that these recommendations are especially helpful to support their advocacy work and advance DEI efforts within a bank.They rely on this kind of research to show higher management that DEI, and specifically RERI, is an issue that needs greater support from all stakeholders.

Stakeholders affirmed that there is great potential for coalition-building opportunities, through expanding relationships and partnerships between banks and community based organizations, in order to expand the accessibility of financial services and banks' footprints in target communities. For example, one stakeholder pointed to their organization's partnership with a national bank. The partnership is for a workforce development program, which trains local entry-level bank tellers about how to move up the corporate ladder. Other bank partnerships could be with nonprofit organizations to provide accessible checking accounts, as community-based organizations may be more familiar and integrated with target communities.

Multiple stakeholders cited a need for stronger government regulation and mandates around RERI and supplier diversity. Respondents also strongly advocated for more attention and effort from banks around supplier diversity and appreciated that it was highlighted within the framework. Stakeholder insight and further reflection on the framework illustrated potential barriers to implementing recommended best practices. Multiple respondents reported that it is difficult to make RERI, and DEI work in general, a sustainable effort that banking executives care about, especially if they do not understand a "business case" for it. RERI efforts and initiatives tend to be unsustained efforts that often fall by the wayside or eventually get abandoned because they are not championed by leadership nor required by regulatory agencies.

After conversations with our relevant stakeholders, it was clear that the components outlined in this framework are only a part of the larger puzzle of RERI. Furthermore, it became clear that there are other areas of RERI and other methods of investment that must be explored.

Internal racial and ethnic representation must be strengthened. Stakeholders noted that accessibility and availability of products and services for low wealth people of color (POC) consumers are also necessary to strengthen a bank's RERI. Corporate governance of a bank must be equally evaluated for its commitment to racial equity. Stakeholders noted that banks also need to strengthen their philanthropic and advocacy efforts regarding racial equity. The feedback received from interviews affirmed that the framework should act as a foundational basis for banks seeking to strengthen their commitment to RERI

ADDITIONAL RESOURCES

House Committee on Financial Services, Subcommittee on Diversity and Inclusion (2020). *Diversity and Inclusion: Holding America's Large Banks Accountable*. Retrieved from https://docs.house.gov/meetings/BA/BA13/20200212/110498/HHRG-116-BA13-20200212-SD003-U1.pdf

Urban Institute (2019). *Building Black Homeownership Bridges: A Five-Point Framework for Reducing the Racial Homeownership Gap.* Retrieved from: https://www.urban.org/sites/default/files/publication/100204/building black ownership bridges.pdf

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