How banks aim to close racial wealth gap: More minorities in leadership

By Allissa Kline

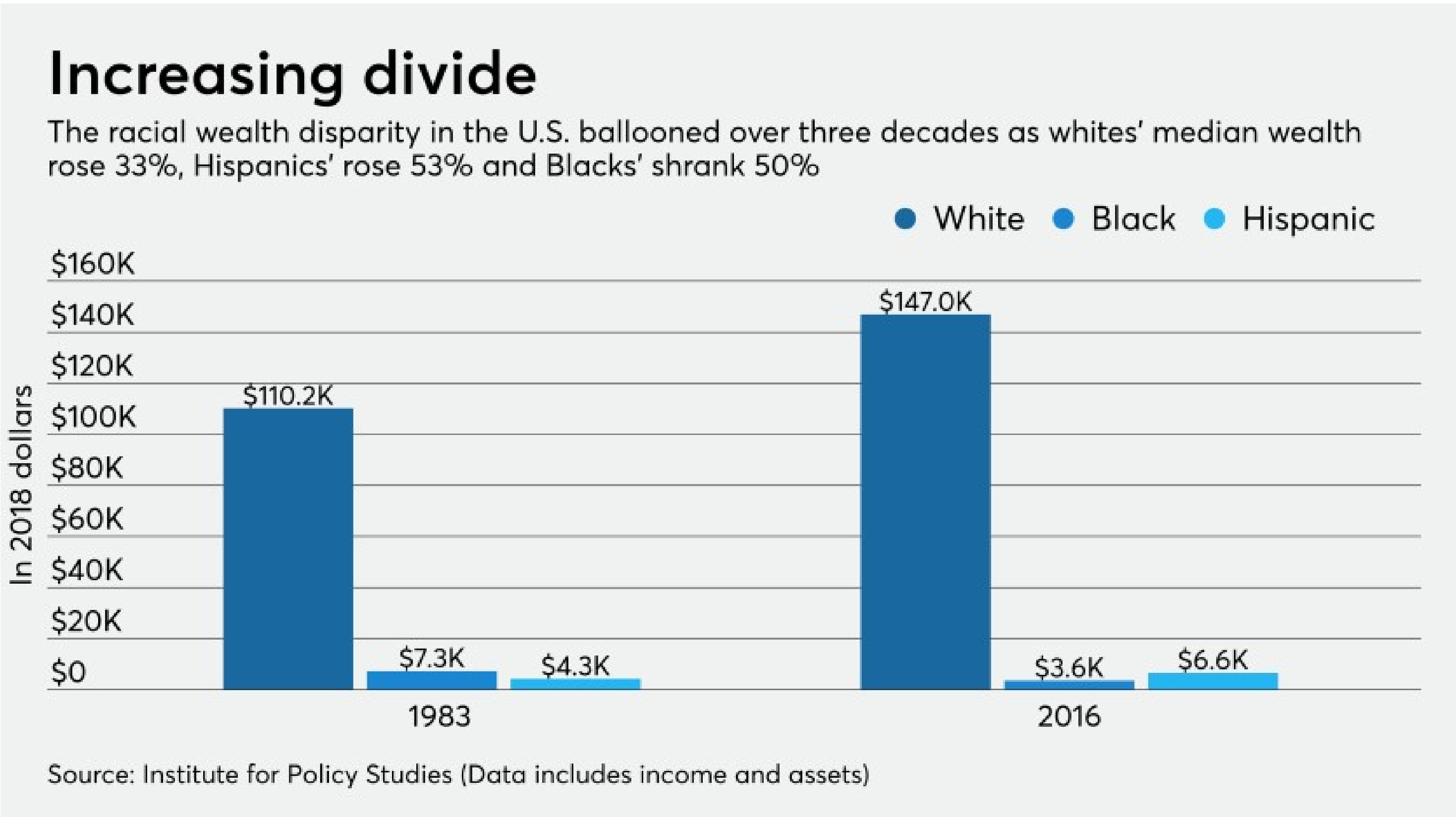
July 12, 2020, 9:00 p.m. EDT

Calls for swift action to end systemic racism have gotten louder in the seven weeks since the death of George Floyd, and expectations have mounted for banks to play a major role — especially when it comes to closing the income gap between whites and Blacks.

But to do that, banks will need to get their own houses in order — including diversifying top leadership and middle-management ranks. New hiring and promotional policies could reshape banks' understanding of local communities' needs and expand who gets mortgages or small-business loans and which families build lasting wealth, according to sources inside and outside banks.

Including more people of color in bank management would diversify the flow of capital, said Malia Lazu, the chief experience and culture officer at Berkshire Hills Bancorp in Boston.

"That really could be revolutionary," said Lazu, a former community organizer who joined the $13.1 billion-asset bank a year ago and oversees its diversity, equity and inclusion initiatives. "More people of color would own homes, which means they would have equity, which means they may be able to go to college or start a business with that equity. … When you think about who [banks] would make loans to, make investments to, make mortgages to, the ripple effects would be infinite."



Efforts by several banks to diversify their workforces, leadership teams and boards of directors with more women and minorities have been underway for years. But the combination of the coronavirus pandemic's heavier toll on minority communities and Black Lives Matter protests over the killing of Floyd and other Black Americans at the hands of law enforcement has put pressure on banks and other businesses to do more — and do it faster. There is still a dearth of people of color in banking, which often means communities of color don't have the same opportunities to develop wealth as white Americans do.

The main driver of income inequality in the U.S. is institutionalized racism, and more specifically redlining, said Adam Briones, the economic equity director at the Greenlining Institute, a public policy, research and advocacy nonprofit organization in Oakland, Calif. Redlining happens when banks refuse to make mortgage loans and provide other services to people based on race or ethnicity.

Because Blacks are systematically shut out of the way most Americans build net worth — homeownership — they can't tap into that capital, much less pass it on to the next generation.

"Hard work is pretty evenly distributed among all Americans, but what's not evenly distributed is what we inherit from our families, which our own individual merit or hard work plays no role in," Briones said.

Employing more people of color — and making them feel empowered within the organization — will open up new business opportunities, says Malia Lazu, the chief experience and culture officer at Berkshire Hills Bancorp. "The product set will be different," she says. "The way we think about marketing will be different."

The result is a racial wealth gap. How deep is the divide? A 2019 report from the Institute for Policy Studies shows that the median wealth for Black families in 2016 was $3,557—about 2% of the median wealth owned by white families, which owned nearly $147,000 in the same year.

Omar Ocampo, a researcher at the institute, said recent numbers from the Federal Reserve's Distributional Financial Accounts report show the gap persists. During the first quarter of this year, as wealth distribution among all groups in the U.S. declined by more than $6 trillion, the asset gap between white and Black families remained nearly unchanged, with Black families holding just 6% of the assets that whites own.

Ocampo said he is skeptical about whether the hiring and promotion of more Black professionals by banks will have any real impact on the gap. It may work, he said, if there are more Black decision-makers at banks.

"I think what really matters is, how do we redistribute the decision-making power?" he said.

Metrics, accountability at megabanks

Currently there are no people of color on the executive management teams leading three of the nation's four largest banks — JPMorgan Chase, Bank of America and Wells Fargo — which hold a combined $6 trillion in assets. The other, Citigroup, has one Black banker, Chief Financial Officer Mark Mason, on its 16-person executive management team.

The American Bankers Association, which represents banks of all sizes, not only encourages its members to review their diversity, equity and inclusion programs, but provides resources and services to do so.

In testimony given in February before the House diversity and inclusion subcommittee, Naomi Mercer, the ABA's senior vice president of diversity, equity and inclusion, said the 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," but acknowledged that the industry "still has work to do."

In an interview with American Banker, Mercer said there needs to be accountability on diversity, equity and inclusion matters in order to enact change within an organization. In other words: measure things.

"We talk about measuring everything, not just visible diversity, and we talk about having programs and initiatives in place that analyze the outcomes of what you've done," said Mercer, who joined the ABA in August 2019 after a 25-year military career during which she helped lead the Army's gender integration program. "Because if you're not analyzing it, how do you know if the program is effective or not?"

Some banks are already measuring diversity in the workplace. Last year, facing pressure from activist investors, New York-based Citi became the first banking company to disclose the pay gap between men and women across its global operations, with women earning 29% less than men. The $2.2 trillion-asset bank also said that among its U.S. employees, people of color earn 7% less than their white colleagues.

Citi also broke down its U.S. employees by race across all levels of the bank. As of September 2019, just 1.8% of executive and senior managers were Black. Of 66,739 total U.S. employees, 3.4% were Black men while 6.9% were Black women.

To meet its goals — such as making sure that Black and Hispanic colleagues fill 30% of the analyst and associate programs — Citi has embraced targeted recruiting, mentorship and skills development as well as employee affinity groups. It has also designed a compensation program that links executive pay to how well those leaders increase the number of women and U.S. minorities within the bank's workforce.

JPMorgan, Bank of America and Wells Fargo are taking similar approaches. Last year JPMorgan, the largest bank in the country, with assets oof $3.2 trillion, said it plans to hire more than 4,000 Black students into full-time jobs, apprenticeships and internships over the next five years while also reviewing its recruiting practices, training, products and services and supplier diversity.

Through its Advancing Black Leaders program, which began in 2016, JPMorgan — which was the subject of a New York Times article in late 2019 that described discriminatory treatment of a Black adviser and customers in Arizona — has increased the number of Black professionals in its most senior ranks, raising the number of Black managing directors and executive directors by more than 50% over the last four years. In late June the company said it would cut ties with customers who are racially abusive to call center employees.

As part of Bank of America's $1 billion pledge to help local communities address economic and racial inequality exacerbated by the pandemic, the $2.6 trillion-asset Charlotte, N.C.-based bank said it would focus on further recruiting and retaining employees in low- to moderate-income and disadvantaged communities. At the $2 trillion-asset Wells Fargo, CEO Charlie Scharf recently told employees that the San Francisco bank will double its Black leadership over the five years (it is currently at 6%) and tie year-end compensation decisions for top leaders to making progress in diversity representation and inclusion.

The Greenlining Institute applauded Wells Fargo's compensation decision and wants to see more banks do the same thing. Briones said the group is asking other banks to "match or best" these sorts of decisions.

"We want to see competition for who can do better in addressing systemic inequality," he said.

Efforts at regional, community banks

Greg Carmichael, chairman and CEO of Fifth Third Bancorp in Cincinnati since 2015, said his $185 billion-asset organization already evaluates diversity and inclusion as part of executives' compensation packages.

"If we're not where we need to be and plans aren't making progress, that's reflected in compensation," Carmichael said. "We absolutely make those adjustments accordingly."

As part of a $32.5 billion "community commitment" plan announced in 2016, Fifth Third set out to increase diverse hiring as a way to generate a pipeline of leaders who reflect the communities it serves. Currently, people of color represent 10% of executive and senior managers, 18% of first and midlevel managers, 18% of professionals and 34% of the rest of the workforce, for a total of 26.5% of Fifth Third's employee base.

Two divisions, commercial and small-business banking, are run by Black men. Carmichael said that Fifth Third has "a lot of work to do," particularly in the middle layer of the 20,000-employee company where there's a need for more women and people of color.

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Fifth Third CEO Greg Carmichael

The company is partnering with more historically black colleges to recruit Black employees. This year, for the first time, it will publicly share the diversity and inclusion goals it has set for executives and managers.

Last year, Fifth Third raised its starting pay to $18 an hour, a move that is part of a strategy designed not only to attract and retain talent, but to help provide a better quality of life for hourly workers.

Combined with hiring and promoting more people of color, "that's a way to trickle down through the organization to the next generation to make a difference in the community," Carmichael said.

"It all goes hand in hand to create a higher standard of living for people," he added.

Other banks are similarly paying more attention to who they hire and who they promote. Last week PNC Financial Services Group promoted two Black bankers to its executive team, three weeks after it pledged at least $1.05 billion to fight systemic racism. Part of the Pittsburgh company's financial commitment is to recruit, retain and promote more Black employees.

Meanwhile, M&T Bank in Buffalo, N.Y., is pursuing "sustainable change" that starts with unpacking unconscious bias throughout the $124.6 billion-asset organization's 17,000-person workforce, Chief Diversity Officer Glenn Jackson said. It is also undertaking journey mapping to help others understand the career paths of Black professionals and working to "reimagine community banking" to know the community in a better way, he said.

"It takes time, but it's a sustained effort," Jackson said. "If you just flipped a switch and change it, you haven't evolved the culture and you haven't evolved the system, and this is about systems changing."

At National Cooperative Bank in Arlington, Va., a focus on hiring and promoting more minorities ramped up in February 2019 when the $2.7 billion-asset bank began a series of discussions and exercises on unconscious bias. From there came the formation of a 12-person fellows program that is in charge of implementing the bank's diversity, equity and inclusion program. The fellows come from all sections of the bank.

John Holdsclaw IV, executive vice president of strategic initiatives, said the bank, which was created by Congress in 1978 and must make 35% of its loans to low- to moderate-income communities, is in the early stages of making changes that will include affinity groups and, perhaps one day, hiring goals for minorities.

One part of the equation for some banks has been to partner with Year Up, a national organization based in Boston that provides young adults ages 18 to 24 who have a high school diploma or a GED certificate, but no college degree, with 21 weeks of skills training and 26 weeks of internship experience at more than 250 top companies, including JPMorgan, Bank of America, Citi, Capital One Financial and Bank of New York Mellon.

Most of the students are low-income, and about 95% are minorities. Founder and CEO Gerald Chertavian, who started the organization in 2000, said financial services providers, which make up Year Up's largest segment of clients, have an opportunity to play a big role in reducing income inequality.

"When you have a good job where you can take care of your family and buy a home and give your children what they need, that's how you reduce the wealth gap in this country," Chertavian said. "[And] how you make this country more equal economically is by giving people more opportunity to move up and be economically mobile."

But first banks, and all businesses, have to ask themselves some hard questions.

"What are the practices we have in place to recruit and hire individuals [from diverse backgrounds] and also retain and promote them as well?" Chertavian said. "Where are we looking for talent, and what barriers are we putting in the way that might prevent folks from ever being seen in the first place?"

At Berkshire Hills Bancorp, Lazu and her team are starting to ask those questions. About six months ago, the bank hired a recruiter to connect with people of color about job opportunities.

The pandemic has put a hold on the bank's hiring for now, but Lazu is optimistic that the recruiter will tap into candidates who might have been overlooked in the past. Employing more people of color — and making them feel empowered within the organization — will open up new business opportunities and more.

"The product set will be different. The way we think about marketing will be different," Lazu said. "You would also see more empathetic management, more management ... knowing they need to stop and take a moment for George Floyd."

Allissa Kline Reporter

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Women in Banking