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DIVERSITY AND EQUALITY

BankThink Data needed on racial makeup of banks' workforces

By Gregory D. Squires February 01, 2021, 11:02 a.m. EST 3 Min Read

Structural racism and the persistent racial wealth gaps are at the forefront of many public policy debates today, and a big part of that debate is how to increase diversity in employment practices.

These problems — and debates over remedies — are alive and well in the financial service industry. A recent report of the majority staff at the House Financial Services Committee noted that the financial services industry "remains mostly white and male," concluding that "more work is needed."

Numerous research reports show that racial and ethnic diversity leads to greater productivity and profitability, attraction of more talented employees and greater innovation, among other benefits.

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Still, the financial services workforce — from the boardroom to suppliers and contractors — remains predominantly white and male. Voluntary steps alone will not be sufficient to eradicate the old-boy network legacy. Government intervention can provide a helpful nudge.

A first step is simply requiring far more disclosure.

In order to know where we are, and where we need to go, financial services providers should publicly disclose race, ethnicity and gender statistics of employees across their organizations, including suppliers and contractors.

Similar data should be made public of the organization's board to a greater degree as well. Information on compensation and other terms and conditions of employment, along with promotions and dismissals, should be provided.

Such disclosures could create an incentive for financial institutions to redouble their recruitment and retention efforts toward staff who do not necessarily look like them. As former Supreme Court Justice Louis Brandeis famously said, "sunlight is the best disinfectant."

Lessons procured from Home Mortgage Disclosure Act data are instructive. In 2006, former Federal Reserve Board Gov. Mark W. Olson said the HMDA data can "prompt discussion, investigation, analysis and research that may deepen our understanding of why these patterns occur and allow us to increase fairness and efficiency in the home loan market."

The HMDA, the Community Reinvestment Act and other fair-lending rules have increased lending in traditionally underserved communities by billions of dollars. Disclosure of diversity data can have a similarly stimulating impact.

Disclosure is the first step, but more must be done. Public policies can be implemented to incentivize bankers — along with their suppliers, contractors and boards — to take more aggressive actions in efforts to increase the diversity of their workforces.

similar to the Rooney Rule in the National Football League.

The CRA evaluations should take into consideration diversity efforts and results when regulators are determining final grades. Access to the Federal Reserve's discount window should be based in part on similar initiatives.

Participation in publicly subsidized development activities, like so-called opportunity zones, should incorporate similar requirements. And again, all occupational data (like the composition of current workforces, demographics of hiring pools, recruitment programs, promotion and demotion, retention initiatives and general findings from exit interviews) should be made public. Regulators need such data to be effective.

Community organizations, advocacy groups, academic researchers, journalists and others need the data to pressure both financial services providers and regulators to do their jobs.

Diversity efforts can benefit communities, combat structural racism, close the racial wealth gap and enhance the productivity and profitability of financial institutions. Such steps constitute significantly wider impacts that can often bring conflicting interests together. And this is not a bad thing in today's polarizing environment.

Editor's note: This op-ed is the first in a monthly series called "Deposits and Withdrawals" offering a point and counterpoint on a key topic. The second in this series will be published Wednesday.

Gregory D. Squires Professor, George Washington University

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