

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



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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 study¹ 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 applicants⁶ 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.