AN OVERVIEW OF DIVERSITY TRENDS IN THE FINANCIAL SERVICES INDUSTRY

HEARING

BEFORE THE

SUBCOMMITTEE ON DIVERSITY AND INCLUSION

OF THE

COMMITTEE ON FINANCIAL SERVICES

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AN OVERVIEW OF DIVERSITY TRENDS IN THE FINANCIAL SERVICES INDUSTRY

Wednesday, February 27, 2019

U.S. HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON DIVERSITY AND INCLUSION,
COMMITTEE ON FINANCIAL SERVICES,
Washington, D.C.

The subcommittee met, pursuant to notice, at 2:05 p.m., in room 2128, Rayburn House Office Building, Hon. Joyce Beatty [chairwoman of the subcommittee] presiding.

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

Ex officio present: Representatives Waters and McHenry.

Chairwoman BEATTY. The Subcommittee on Diversity and Inclusion will come to order. Today's hearing is entitled, "An Overview of Diversity Trends in the Financial Services Industry."

Without objection, the Chair is authorized to declare a recess of the committee at any time. Also, without objection, members of the full Financial Services Committee who are not members of this subcommittee are authorized to participate in today's hearing.

The subcommittee is meeting today pursuant to the notice to hear testimony on an overview of diversity trends in the financial services industry. I will now recognize myself for 5 minutes to give an opening statement.

To the Members, I would also like to advise you that votes may be called around 2:20 or 2:30. We will proceed with opening statements from myself, from Ranking Member Wagner, and 5 minutes to our witness, if time allows, before recessing for votes.

Thank you for joining me today for this first historic hearing of the newly established Subcommittee on Diversity and Inclusion. I would like to take time to thank Ranking Member Ann Wagner and the members of this committee for serving on the Subcommittee for Diversity and Inclusion, which I am proud to Chair.

Diversity and inclusion issues are important to me. Before I came to Congress, I worked directly with government agencies, nonprofits, and major corporations, including financial institutions, on how to create more diverse workplaces. As such, I understand the challenges that both industry and government face in overcoming the obstacles that can prevent the full inclusion of diverse populations. I am honored to bring my experience on this issue to the committee.

Under the leadership of Chairwoman Waters, the Financial Services Committee created this subcommittee to institutionalize the consideration of diversity and inclusion issues, create a forum for discussing diversity data and trends, raise awareness, and review and assess how the financial services industry maintains and grows their inclusiveness of people of color, women, urban and rural persons, persons of disability, LGBTQ, millennials, Native Americans, and Active Duty servicemen and our Nation's veterans.

It is no secret that the lack of diversity and inclusion in our society leads to persistent income inequities and also growing the wealth gap, which we are prepared to explore.

Now, let us look at some statistics. According to the U.S. Census Bureau, within the next 25 years more than half of all Americans are expected to belong to a minority group.

Additionally, the Equal Employment Opportunity Commission, commonly known as the EEOC, reported in 2013 that while women represent 53.2 percent of the professionals, they make up only about 38.6 percent of employees at the management level.

The EEOC also reported in 2013 that although African Americans and Hispanics collectively represent almost half of the service workers and laborers industries, they are disproportionately underrepresented in the professional and management ranks.

A larger, more diverse talent pool should lead to a more diverse workforce, and yet, despite increased awareness of the business importance of diversity in the workplace and elsewhere in society, troubling disparities persist that affect recruitment, retention, and promotion.

These disparities are very pronounced in the financial services industry in particular, as today's hearing and our witness' testimony will demonstrate. For instance, according to the U.S. Government Accountability Office (GAO), from 2007 to 2015, the percentage of African-American managers in the financial services industry decreased from an already low 6.5 percent to 6.3 percent and remained largely unchanged for women at 45 percent.

As I look around this room, we are representative of different cultures, different regions of the country, and different views. As the Noble Laureate Maya Angelou has appropriately famously quoted, and I paraphrase, in diversity there is beauty and there is strength. We should know that diversity makes for a rich tapestry, and we must understand that all threads of that tapestry are equal in value, no matter their color.

During the course of this Congress, we will analyze diversity and inclusion trends and data, exercise oversight of what regulators and industries are doing in this space, highlight best practices, and consider legislation that may be needed to change the culture in government and industry, and move the needle in a positive direction on the issues of diversity and inclusion in our Nation.

Numerous studies have proven empirically that diversity increases productivity and the bottom line. Yet, the data on diversity and inclusion efforts in our Nation's industries and government are not aligned. We need to find out why and we need to fix it now.

I look forward to working with all of the members of this committee in a bipartisan manner and conducting this subcommittee with civility and respect for all members.

Now, I would like to say, welcome to the Subcommittee on Diversity and Inclusion. I look forward to hearing the testimony of today's witness, Mr. Daniel Garcia-Diaz, who serves as Director in GAO's Financial Markets and Community Investment team, and is an expert in analyzing and assessing diversity and inclusion.

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

Mrs. WAGNER. Thank you so much, Madam Chairwoman. It is an honor to be with you this afternoon, holding the inaugural hearing of this new, very important subcommittee. I look forward to working with you and Chairwoman Waters as we examine how best to promote diversity and inclusion in the financial services industry.

Women and minorities are growing their numbers and securing leadership positions on Main Street, Wall Street, and as elected officials. However, there is still much work to be done to ensure the financial industry, along with many other sectors of the U.S. economy, is reaping the benefits of our country's diversity.

While we need more data and information, research shows that diversity and inclusion can bring both social and economic benefits to the workplace. A study by the Milken Institute found that diversity in the composition of organizational groups affects outcomes such as turnover and performance. Several studies have revealed a connection between greater diversity and enhanced financial returns. Further, corporate scandals are less common on boards where women and minorities are represented.

This subcommittee's jurisdiction includes overseeing the effectiveness of the Offices of Minority and Women Inclusion, known as OMWIs, at Federal financial services agencies. Earlier this month, I contacted the eight regulatory agencies with Offices of Minority and Women Inclusion to further understand agency efforts to increase diversity and inclusion.

Today, I do want to welcome Daniel Garcia-Diaz, who authored a November 2017 GAO report examining diversity in the financial services sector.

We thank you, Daniel, for taking the time to share your results with us.

The findings of the report show that industries' good intentions are not necessarily resulting in increased diversity across the sector. This is an issue across the American economy, from the technology industry to the media.

While there is no question that companies are committed to providing opportunity for all employees, and there are many success stories, the report demonstrates that the overall level of diversity within the industry did not significantly improve from 2007 to 2015.

After reading this report, it is clear that recruitment and retention are the primary challenges that companies face as they try to address diversity in their ranks. Talent among those with diverse backgrounds is equal, but we must do more to promote equality of opportunity.

The financial services industry, led first by OMWIs, can find ways to better seek out and train promising diverse candidates at first-, mid-, and senior-level career stages. Opportunity starts early, as we have seen in STEM-related professions. It starts early with education and finding ways to attract high school students and undergraduate and graduate students to careers in the financial services sector.

I so look forward to working with my friend, Chairwoman Beatty, on these twofold initiatives: ensuring that the financial services industry is benefiting from America's diversity; and ensuring that people from diverse backgrounds and all socioeconomic levels have the resources, access, and pathways to benefit from our robust financial services industry, an industry that has improved the quality of life for so many Americans.

I thank you all for coming to this inaugural Diversity and Inclusion Subcommittee hearing.

And I thank you, Director Garcia-Diaz, for your testimony this morning.

I yield back.

Chairwoman BEATTY. Thank you.

The Chair now recognizes the ranking member of the full Financial Services Committee, Mr. McHenry, for 1 minute.

Mr. MCHENRY. Thank you, Madam Chairwoman, and thank you for your leadership.

I also want to thank the ranking member of the subcommittee, Ann Wagner, who is the Full Committee vice ranking member as well, for her leadership and commitment to this important issue.

I support Chairwoman Waters' decision to create this new subcommittee, and I continue to support her work on the issues facing diversity and inclusion in the financial services sector.

Additionally, I want to commend Ranking Member Wagner for her diligence on this issue and leadership. Two weeks ago, the ranking member sent letters to all the Offices of Minority and Women Inclusion, better known as OMWIs, at the regulatory agencies to better understand their actions on diversity. The responses from these letters and the information gleaned from this hearing will help this subcommittee identify the appropriate role of Congress on a going-forward basis to facilitate greater diversity in the industry and at regulatory agencies.

I look forward to the hearing, and I certainly appreciate all the work that the GAO does in a disciplined study at the direction of Congress.

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

Chairwoman WATERS. Thank you very much, Madam Chairwoman.

Today, we are convening for the first time the Subcommittee on Diversity and Inclusion, which will examine and resolve the systemic economic exclusion of women, people of color, persons with disabilities, LGBTQ-plus individuals, veterans, and other members of our society who have to fight for a seat at the table.

I am pleased that the subcommittee is beginning with this hearing on an issue that has stymied the financial services industry: including women and minorities in management.

Beginning in February of 2005, 14 years ago, the Financial Services Committee requested that the GAO review diversity trends in the financial services industry. In 2006, GAO looked at diversity from 1993 to 2004 and reported that the percentages of minorities in management rose from 11.1 percent to 15.5 percent, with the percentage of African Americans rising from 5.6 percent to 6.6 percent.

GAO has since updated its report several times. In GAO's most recent report covering 2007 to 2015, minority representation increased from 17 percent to 21 percent. However, the percentage of African Americans in senior roles decreased from 6.5 to 6.3 percent, and all minorities continued to be underrepresented.

For years, policymakers, diversity advocates, and diversity professionals in the financial services industry have sent the message that diversity and inclusion must be more than words. They require action and resolve. Unfortunately, the data shows that the financial services industry lacks both today.

This subcommittee begins the process of shining light on these trends and begins its work to improve the industry so that our financial system works for everybody.

And I am so pleased that Mrs. Beatty has taken the leadership on this Diversity Subcommittee. There is nobody, no one else who could do the job better than she can.

I yield back the balance of my time.

Chairwoman BEATTY. Thank you.

Today, we will welcome the testimony of Daniel Garcia-Diaz. Mr. Garcia-Diaz is Director of Financial Markets and Community Investment at the United States Government Accountability Office (GAO). He is also the author of the GAO report, "Trends in Management Representation of Minorities and Women and Diversity Practices, 2007–2015."

The witness is reminded that his oral testimony will be limited to 5 minutes. And without objection, his written statement will be made a part of the record. The witness is reminded to turn on his microphone and abide by the three lights in front of him: green means go; yellow means wrap it up; and red means stop.

Mr. Garcia, you are now recognized for 5 minutes to give an oral presentation of your testimony.

STATEMENT OF DANIEL GARCIA-DIAZ, DIRECTOR, FINANCIAL MARKETS AND COMMUNITY INVESTMENT, U.S. GOVERNMENT ACCOUNTABILITY OFFICE (GAO)

Mr. GARCIA-DIAZ. Chairwoman Beatty, Ranking Member Wagner, and members of the subcommittee, thank you so much for the opportunity to be here today to discuss GAO's work on trends in workforce diversity in the financial services industry. I am especially pleased to be participating in the first hearing of the newly established Subcommittee on Diversity and Inclusion.

Over the years, GAO has worked with the Financial Services Committee to share information on the extent that minorities and women are making headway in the financial services industry, particularly at the management level.

My statement today draws from our most recent report, issued in November 2017. Specifically, I will focus on trends in minority and women representation among managers in financial firms from

2007 through 2015, and practices these firms have identified to address challenges in increasing diversity.

Unfortunately, the trends are clear: Management-level representation of minorities and women showed marginal to no increase from 2007 through 2015.

The situation is more worrying when we look at representation at the senior level. Specifically, minority representation increased from about 11 percent to 12 percent in this period. In addition, African-American representation decreased not only in percentage terms, but also in absolute numbers.

Among first- and mid-level managers, that is just right below the senior level, minority representation increased from 19 to 22 percent in this period.

When we look at women representation, we found that it remained unchanged at the senior level, at around 30 percent. However, women representation was much stronger among first- and mid-level managers, at almost 48 percent.

We also looked at representation by different sectors within the financial services, and generally banks and lenders had greater representation of minorities than the other sectors, such as insurance and securities. In fact, the insurance sector lagged banks by almost 3.5 percentage points.

Women representation in management tended to be the highest in the insurance sector. The security sector tended to have the lowest level of women representation.

For today's hearing, my team examined EEOC data for 2016, the most recent available at this time, and we observed little or no change since 2015 across many of these measures for minorities. And we also noticed some growth in women representation among first- and mid-level managers.

Many firms recognize that an inclusive workforce can help attract the best and the brightest and can contribute to innovation in products and services. But simple aspiration for achieving a diverse workforce is not enough. Diversity management requires intentional and strategic action that is sustained over the long haul.

For this reason, we consulted with financial firms, industry groups, and others to understand the types of practices that they have identified to improve upon current trends. We consistently heard from experts that firms should engage in broad-based recruitment. In other words, firms need to cast their nets wider and not limit themselves to the same schools and the same academic disciplines.

In addition, establishing mechanisms to hold managers accountable can help firms move towards their workforce diversity goals. As we have noted in our past work, leadership commitment to diversity is essential, but experts tell us that middle managers may not be as committed as leadership.

Accountability measures to ensure that leaderships' and managers' efforts are aligned can be established in a variety of ways. For example, one firm representative stated that linking managers' compensation to diversity goals has been an effective practice for retaining women and minorities. Establishing such accountability measures could help ensure that leadership's vision is carried out.

Finally, firms and stakeholders we met with agreed that data analysis to assess the diversity of their workforce and spotting potential bottlenecks and problems is a key part of effectively managing workforce diversity.

Before I conclude, I would like to highlight for the subcommittee GAO's completed and ongoing work in this area. We have issued eight reports related to diversity in the financial sector. We also have completed a recent report on Board diversity at the Federal Home Loan Banks and are currently examining the diversity of these banks' workforce and business activities. Building on this wealth of experience, we look forward to assisting the subcommittee.

This concludes my opening remarks. Thank you again for the opportunity to speak today, and I will be glad to answer any questions you have.

[The prepared statement of Director Garcia-Diaz can be found on page 26 of the appendix.]

Chairwoman BEATTY. Thank you, Mr. Garcia-Diaz.

I now recognize myself for 5 minutes for questions.

Mr. Garcia-Diaz, I have a series of questions, but to get through my 5-minute time period, I am going to reference a study. The 2015 international management consultancy firm McKinsey & Company first published a report entitled, "Diversity Matters," which makes the business case for diversity. That report has since been updated, and the most recent version was published just in January of 2018, entitled, "Delivering Through Diversity."

The most recent report used a dataset of over 1,000 companies in 12 different countries, using two measures of financial performance: earnings before interest and taxes to measure profitability and economic profit margin to measure value creation.

This data was used in a combination of diversity and inclusion efforts of 17 companies from around the globe to study where diversity matters most and how leading companies have used it successfully.

Are you familiar with this report?

Mr. GARCIA-DIAZ. With the body of work that McKinsey has done, yes, and it seems to build on what we have seen in the past. But this particular report, no, I have not evaluated it.

Chairwoman BEATTY. So let me give you a little more data before I ask you to respond.

The report found that companies in the 25 percent for executive-level gender diversity were 21 percent more likely to outperform on profitability and 27 percent more likely to have superior value creation.

Additionally, the report found that companies in the top 25 percent for executive-level ethnic and cultural diversity were 33 percent more likely to have industry leading profitability.

Conversely, the report found that the less diverse executive teams were 29 percent less likely to achieve above-average profitability.

In your report, there is a section on research on potential benefits of workforce diversity, and I believe it is on page 7. Can you briefly discuss your findings in that section and how they support the findings that I gave you in the McKinsey study?

Mr. GARCIA-DIAZ. We scanned the literature for the 2017 report and generally found studies that certainly support the idea that a more diverse culture at a firm can contribute to product innovation, idea generation in groups. It also can contribute to higher levels of satisfaction at work, which of course can be correlated with better performance.

In terms of the association between diversity and financial performance, for the studies we looked at there have been attempts to make an association. Often, the challenge with those studies is the causation part. It may be correlated, but we don't know the direction of causality.

But, again, generally there is a consistent story that is being conveyed through these studies that financial performance can be positively impacted by a diverse workforce. But of course that is an area where I would say that continued study and research would be needed to really pin these issues down.

Chairwoman BEATTY. Okay. Thank you.

As you know, in our larger Committee on Financial Services, we deal a lot with banks and credit unions and securities and other activities, insurance and funds and trusts. In your report, you provided a breakdown of financial services industries in those same sectors.

There was also some alarming data of decreasing numbers, and you can pick a minority group, whether it is women, whether it is African Americans, or whether it is Hispanics.

Did the GAO explore some of these trends in the data and why they exist? Or can you tell me if there are specific diversity management practices that could help us address these discrepancies?

Mr. GARCIA-DIAZ. Yes. The challenges with the data that we are working with from EEOC is it is hard to figure out what is going on behind the numbers. So we did consult with experts in the field and industry representatives and firms to get an idea of what is going on. And some of the issues that we heard are certainly kind of, if you have been working in diversity and inclusion issues for a while, sort of the same set of issues are behind it.

One thing I would just highlight in the few seconds here is that one thing maybe that we heard was the impact of the financial crisis having on the trends in diversity, and in particular, firms' ability to continue some of the efforts they had in place prior to the financial crisis, to ensure that there were adequate recruitment and retainment efforts and seeing through the promotion process to higher levels of management.

Chairwoman BEATTY. Thank you.

I now recognize the gentlewoman from Missouri, the ranking member of the subcommittee, Mrs. Wagner, for 5 minutes.

Mrs. WAGNER. I thank the Chair.

Mr. Garcia-Diaz, it is important to understand, I think, the data in your report. Can you tell me briefly, how do you define diversity for the purposes of your report? And what were the parameters that you identified? Are those consistent with other diversity and inclusion evaluations?

Mr. GARCIA-DIAZ. Yes. So diversity is actually a very broad concept. It can include racial and ethnic characteristics, male/female.

Those were the ones that we focused on in this study in particular, because that is what was available in the data.

When we think about diversity and inclusion, these are certainly very important components of it, these characteristics, these dimensions, but not the only ones. So when we think about diversity, we need to think about diversity in veteran status, age, and things like that. And that is the way we at least envision it.

There is no one picture of what a diverse organization looks like. If you can imagine a credit union in Maine versus a global bank in New York City, diversity might be interpreted differently in those situations.

Mrs. WAGNER. There is a need to do, I think, outreach and education in STEM at the undergraduate level.

A 2018 Bloomberg article cited testimony from the founder of the Women in Technology and Entrepreneurship in New York, Judith Spitz, who was the CIO of Verizon. And Ms. Spitz stated that their research showed that although there are increasingly higher numbers of women in undergraduate institutions, there are only about 1 percent of them who are studying, for instance, computer science. Computer sciences and similar disciplines are becoming increasingly crucial to the financial services sector.

I believe this is a major impediment when it comes to gender diversity in the financial sector. How do you suggest we remedy this situation?

Mr. GARCIA-DIAZ. That certainly speaks to the original kind of pipeline of potential candidates that you have to apply for a financial services job.

And as the industry has moved to look at other programs beyond MBAs, but looking at math programs, engineering programs, there is this balancing concern, that while you may be getting disciplinary diversity, you are not necessarily getting, for example, gender diversity, particularly because in some of the sciences, math, and engineering, it tends to skew towards male representation.

Mrs. WAGNER. Our subcommittee is striving to promote increased diversity and inclusion in the financial services sector. There are two ways, I think, that this can be accomplished, through punishment or through incentives, the carrot and the stick notion, so to speak.

Your research has spoken to the advantages of incentives. Why do you think the current set of incentives is not really working?

Mr. GARCIA-DIAZ. Well, I think there has been over the years a shift from this notion of diversity is the right thing to do, we need to do more of it. But how do you make that compelling and incentivize that behavior for managers to promote diversity at all levels of their organization?

So I think this is where the business case argument or framework comes into play, where you find real business reasons why diversity contributes not only to the bottom line, but to the wellbeing of the organization, employee satisfaction, and things like that.

Once you have achieved an organization that is inclusive of people of different backgrounds, race, religion, and so on, ultimately that makes it more inviting for candidates to apply for those types of jobs and you get this virtuous cycle going that according, at least, to some of the conversations we have had with experts, doesn't necessarily exist right now in the financial services.

Mrs. WAGNER. Any specific incentives that have been proven to increase diversity in these financial firms, do you think?

Mr. GARCIA-DIAZ. It is one of those things where I wish I could say that there are two or three things. But when we talk to the experts, they have to try all different methods—

Mrs. WAGNER. We talked about flex time. We talked about lifestyle issues, mentorship. I have gone through your GAO study, and do any of those kinds of things come to mind?

Mr. GARCIA-DIAZ. Yes. Our work highlights, actually, things like mentorship, outreach to the community and schools to introduce students to the financial services, that it is a viable career path.

Mrs. WAGNER. We see that in STEM quite a bit, but we would love to see that more so in the financial services sector.

Mr. GARCIA-DIAZ. I think a lot more can happen in that space. And, again, if you take my comment earlier that had some of those efforts slowed down since the financial crisis, then it would be a useful area for a lot of firms to focus on.

Mrs. WAGNER. My time has expired. I yield back.

Chairwoman BEATTY. Thank you.

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

Mr. GREEN. Thank you, Madam Chairwoman. I am so honored to be a part of this subcommittee. I am especially honored because you are the chairperson and you have always been involved with the committees with which I have been associated. And I wanted to make sure that I was here today to be a part of this historic meeting. This is unprecedented, and I am proud and honored to be associated with this subcommittee.

Let me quickly indicate that I believe the tone and tenor are set by the persons at the top. And if you have a diversity mentality, you are likely to understand recruitment and retention. You are likely to understand unconscious bias. You are likely to understand why you have to intentionally move forward in your recruiting efforts to acquire and maintain diversity. And you understand that it is important to train your managers and your employees about inclusion and unconscious bias.

So let me just ask this question, if I may. Have we, in our efforts to diversify, placed emphasis on bonuses for the people at the top who can cause diversity to be reflected throughout the organization? Bonuses.

Mr. GARCIA-DIAZ. Yes. And I think you are touching on issues that we have highlighted as critical, not only the leadership commitment to diversity, but to begin to set those goals and priorities for the whole organization. Then, how do you carry that out? How do you ensure that people are taking actions to address that?

In our 2017 report, we reiterated here in the testimony is the issue of introducing accountability for middle managers, to ensure that they are living up to this vision, which includes linking managers' performance at meeting diversity goals to their compensation. That would be one method, for instance.

Mr. GREEN. And to what extent is this being done throughout the industry?

Mr. GARCIA-DIAZ. We don't have data on that. It is strictly at this point anecdotal, what we have heard, that some firms are doing this. If it is widespread, we just don't have the data on that.

Mr. GREEN. And have you found in your research that where it is implemented, you get greater results, better results?

Mr. GARCIA-DIAZ. Yes. And so for the firms that did report using, they thought it did actually contribute positively to their ability to not only recruit but also retain talented minorities and women.

Mr. GREEN. And is it true that you found—I think you have said as much, but I will just ask and then I am going to yield back because I know that time is of the essence—that when you have a person who intentionally, who is at the top, who intentionally wants to recruit and diversify, that you get greater results?

It seems that the answer would be a simple "yes," but I would like it for the record.

Mr. GARCIA-DIAZ. Yes. It is a simple answer. Yes, that is a practice that in our interviews with experts and researchers have identified that it needs to be intentional.

Mr. GREEN. So the reverse of that would be then that if you find places where you don't have the balance that we seek, the diversity, there is a good likelihood that someone at the top is not emphasizing it appropriately.

Mr. GARCIA-DIAZ. That is one possibility.

Mr. GREEN. I thank you.

Madam Chairwoman, I will yield back, because I understand time is of the essence.

Chairwoman BEATTY. Thank you. The gentleman yields back.

To the Members, votes have been called on the Floor, so the committee will pause for votes and resume immediately after votes. The committee stands in recess.

[recess]

Chairwoman BEATTY. The committee will come to order.

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

Mr. GONZALEZ OF OHIO. Thank you, Madam Chairwoman.

Let me first start by saying how much I am looking forward to working with my fellow Buckeye, Chairwoman Beatty, and also Ranking Member Wagner on this subcommittee. In my short time in Congress, I have learned that these two women have an unmatched commitment to improving the lives of their constituents and are both excellent choices to lead this subcommittee.

Mrs. Beatty, in particular, I have followed for many years and know that this important issue is one that she has been championing in my home State, and I look forward to working with her on helping make Ohio a shining example of a diverse and inclusive financial sector and workforce.

Lastly, I want to thank Chairwoman Beatty and Ranking Member Wagner for starting this subcommittee in what I consider to be exactly the right place, which is a thorough review of what the data tells us about our present situation. I think we start with data, we start with an open, honest dialogue about what our current position is, how we got here, what the trends are. And then, as we are grounded in data, we consider policies, their effects positively or negatively, and how that will stay foremost in our mind.

So I think that is an excellent way to start, and I thank both of you for that leadership.

I am proud of two great examples in Ohio, one is KeyBank, headquartered right outside my district in Cleveland, Ohio. They have received the designation as one of DiversityInc.'s Top 50 Companies for Diversity, having a board of directors that is 50 percent diverse by gender and race. This includes implementing a mentor program for senior and junior employees, focusing on holistic benefits packages, and training management employees in unconscious bias.

Huntington Bank, also headquartered in Ohio, has also made tremendous strides in diversity. In 2018, Huntington invested $142 million in the economic success of diverse businesses. Huntington is also committed to encouraging a diverse workforce, with a board of directors that is 30 percent diverse, a senior management team that is 42 percent diverse, and a total workforce that is 64 percent diverse.

The progress made at Key and Huntington show that the industry has made strides forward, although I recognize that there is certainly much work to be done.

So, Mr. Garcia-Diaz, first, I want to thank you for waiting out our votes, and everybody else who stuck around. I think the data that you presented is obviously important data, and what we have seen today is primarily aggregate data.

When you drill down into regions, subregions, different sectors of the industry, are there certain areas where we are seeing bright spots that we can be excited about, that we can say, hey, this area or this part of the industry is doing a really good job on this front and maybe we need to kind of study them a little bit?

Mr. GARCIA-DIAZ. Yes. If you look at the data even in our 2017 report—we actually have an appendix that goes down to State-level reporting, not just national—you see actually a dramatic variance across States. And that shouldn't surprise us. So you can look at California and Florida, and they have obviously a large Hispanic population, and as a result you do see higher than average.

Mr. GONZALEZ OF OHIO. Did you control for that in the data at all?

Mr. GARCIA-DIAZ. No. We are just reporting—we are not doing an econometric kind of analysis where we are controlling for other features. It is more of descriptive statistics.

Mr. GONZALEZ OF OHIO. Okay.

Mr. GARCIA-DIAZ. But I think that is an area that does provide actually some good areas for future work, to look at that kind of variation not only across region but types of industries.

Mr. GONZALEZ OF OHIO. Okay. Great.

And then a second question, kind of in the same vein. When this has been done well and when folks have kind of achieved meaningful outcomes in diversity, what best practices are you seeing, or did you not go into that much in the reporting?

Mr. GARCIA-DIAZ. We did consult with firms and industry groups to identify what seemed to be promising practices. You mentioned some of them in your remarks. Those include mentoring programs.

We also, to add to some of the items that you mentioned, family-friendly policies are especially is useful for women to be able to stay in the organization long enough so that they can get promoted to the higher levels.

Mr. GONZALEZ OF OHIO. Great. Thank you.

And I yield back the balance of my time.

Chairwoman BEATTY. Thank you.

The gentlewoman from California, the chairwoman of our full Financial Services Committee, is now recognized for 5 minutes.

Chairwoman WATERS. Thank you very much, Madam Chairwoman.

I do have a question that I would like to raise about recruiting. Mr. Garcia-Diaz, since 2005 this committee has asked the GAO to review diversity in the financial services industry. In multiple reports, GAO has continued to emphasize that, and I quote: "Without a sustained commitment among financial services firms to overcoming challenges to recruiting and retaining minority candidates, limited progress will be possible in fostering a more diverse workplace." Unfortunately, GAO's conclusions are correct.

Now, what barriers, if any, exist that prevent financial services firms from increasing minority recruitment? What more could financial services firms do to improve their recruitment practices? What can Congress do to hold them accountable?

Mr. GARCIA-DIAZ. In order to make that recruitment more effective than it has been, financial services institutions need to look beyond their traditional sources of talent—and we identified just looking beyond the typical schools, academic programs, and things like that—to identify new sources of diverse candidates for their recruitment.

In addition, firms can do more in terms of reaching out to the communities, to schools, to get students and potential candidates connected and realize that this is a potential career path for them and to start that process of stimulating interest in the industry.

Chairwoman WATERS. I think you have indicated in your report that the talent pools from which financial services firms could hire individuals are diverse. Specifically, you found that one-third of the persons obtaining graduate or undergraduate degrees between 2011 and 2015 were racially or ethnically diverse. However, this level of diversity is not at all reflected in the financial services industry.

Many of them tell us they go to the colleges and universities and they are all telling us they go to Georgia and they are recruiting, but it is not reflected in their pool of workers. So what is happening between the time that they recruit, so-called, and the fact that they are not hired and they don't show up in their workplace? What do you think happens?

Mr. GARCIA-DIAZ. Well, there is the other problem. Even if you are doing the recruitment in the right area, if the candidates are looking at the firm and they are finding that the firm is not as diverse as it could be, that itself can act as a barrier.

And so whenever we look at any of these approaches, it is not just one thing. It is not just go to one school and try to recruit there. It has to be a combination approach which includes more extensive outreach and education about what they do for those students, because the academic programs that we have nationwide are extremely diverse.

Minority candidates and women are not hiding. They are out there. They are available. But a lot of times it is making the case, and making it convincing, that this is a possibility for them.

Chairwoman WATERS. Can you think of any incentives?

Mr. GARCIA-DIAZ. I'm sorry?

Chairwoman WATERS. Can you think of any incentives?

Mr. GARCIA-DIAZ. For?

Chairwoman WATERS. Incentives that could be offered to the firms, the financial firms on Wall Street, that would be interesting?

Mr. GARCIA-DIAZ. The leadership of the firms have to put pressure and incentives for managers to really take this responsibility seriously and to heart. It is not a check-the-box activity. It is a more substantial commitment that is required.

And so that goes back to what I think is kind of the fundamental part, which is making sure that middle managers in the organization who are doing the interviews and the recruitment are held accountable, that they are, in fact, doing the best job they can to share information with potential candidates and recruit them.

Chairwoman WATERS. That is an interesting idea, incentives to management who have the responsibility for hiring, and that could be done in any number of ways and perhaps in their annual reviews and some other kinds of things.

Mr. GARCIA-DIAZ. Yes. That is the kind of accountability mechanisms that you can have, that it is part of their performance review. Potentially, it is a consideration in pay and bonus. And even just reporting requirements and being subjected to scrutiny is another powerful tool.

Chairwoman WATERS. Well, thank you so much.

And I yield back the balance of my time.

Chairwoman BEATTY. Thank you.

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

Mr. STEIL. Thank you.

Mr. Garcia-Diaz, thanks for coming today.

I want to follow up on the question that my colleague, Mr. Gonzalez, had. As I looked at your report, I noticed that diversity trends in the financial services industries are not uniform across some of the subgroups. So, for instance, banks and credit unions tended to be more diverse than, say, insurance companies.

Do we observe any common features in more diverse industries and companies? Or what leads one industry to have a more diverse workforce than another, based on your research?

Mr. GARCIA-DIAZ. Yes. To speak to those specific trends, I think is a little bit challenging, given the data that we have. However, in doing the research, we did identify studies where there are certain types of jobs in the financial industry that may be perceived as being less welcoming of women, let's say. So certain areas would be like trading in the securities business and, in fact, you see that the securities representation line is relatively low compared to other sectors.

Mr. STEIL. Less welcoming on the entry-level side, is that what you mean by less welcoming, or less welcoming across-the-board?

Mr. GARCIA-DIAZ. No, I am talking about at the management-level side.

Mr. STEIL. Management. Okay.

Mr. GARCIA-DIAZ. We heard from experts that there are certain types of responsibilities and occupations that may be perceived as being more male-dominated and less welcoming in that sense.

And we also heard at least, and we can't tell this from the data, but we heard that sometimes in the management figures that we are looking at, it is unclear whether the minority employee or the woman employee is working kind of in the business-forward side of the business as opposed to, say, accounting, human resources, and things like that.

So that is an interesting area, again, that if there were data to explore that just because they are in the financial services industry, just because they are in banking or insurance, we don't really know what their occupation, the specific occupation is that they are doing under that rubric.

Mr. STEIL. Got it. Thank you.

I want to shift gears slightly over to the education side. Education is a powerful tool that allows people to get that first step up as they head towards a higher-level management position in some of these industries.

I served on the University of Wisconsin Board of Regents prior to coming to Congress and was proud of the fact that we put in place policies to control the cost of education. So if a student was going to UW-Madison and was from a family that made less than $56,000 a year median income in the State of Wisconsin, the tuition and fees of the University of Wisconsin-Madison is free, it is covered. And so that gives individuals an opportunity to get a step up.

You mentioned in your testimony that some of the financial services firms surveyed told research they had broadened the list of schools that they had gone to recruit from, from beyond just a handful of maybe elite schools on the East Coast. Can you share any information as to how successful those efforts may have been?

Mr. GARCIA-DIAZ. Yes. Only sort of in terms of what we heard from the folks that we interviewed.

Mr. STEIL. Please.

Mr. GARCIA-DIAZ. And generally, they were positive about those efforts in expanding beyond the normal circle of schools that they recruit from. And in particular, it is stated as a challenge when managers kind of focus on a few schools and trying to get them to actually think more broadly and expand beyond what they are accustomed to is one of the challenges that some of the folks we interviewed cited.

And so while I can't speak to what is happening nationally, but at least anecdotally, folks are reporting back that it is a promising practice.

Mr. STEIL. Thank you. That is helpful.

I yield back the balance of my time.

Chairwoman BEATTY. Thank you.

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

Ms. GARCIA OF TEXAS. Thank you, Madam Chairwoman. And it is, indeed, an honor for me to serve with you and try to tackle some of the issues that are in front of us today.

Before I begin, I just wanted to say that I served as the elected city controller in Houston from, oh, 1998 plus 5 years, till 2003. And probably one of the most disheartening things for me was dealing with the financial world, not because I couldn't handle the work, but because of who I faced sometimes.

It seems like any meeting that I went to, whether it was to negotiate a depository contract or a banking contract or select investment bankers for a bond deal or anything that I did, it really was still a man's world and it was also very White. I still remember when they took me up to the floor when they were trading with our first pricing. I didn't see anything but, quite frankly, blond, blue-eyed men in white shirts and ties.

I am happy now that the last time I spoke to a public finance group, it has changed a little bit. But we haven't really quite done enough, it seems.

So what you said earlier today caught my ear, when you said that diversity is interpreted differently in different areas.

Is there a way to get a better handle on what diversity really is and set real goals and timetables for some of the people in the financial services industry? Because it seems to me that we are not even quite there yet. And it is more than diversity, it is also inclusion and really a commitment to it.

So what else can we be doing in this arena?

Mr. GARCIA-DIAZ. I think that is the significant challenge ahead of us, is what does it look like and then what do we need to do to get there. And, as I mentioned before, there is really no easy answer to that question.

But I think there are steps that firms can take to really enhance their diversity management in their organization, but first you have to commit to it, you have to see this as a priority, and then do other things that we highlight in our prior work, practices that help organizations achieve the kind of diversity that they are hoping to achieve.

And what informs that, in terms of what does that diversity look like, is really looking at who your customer base is, where are you located, what does your community look like.

Ms. GARCIA OF TEXAS. Right. Because I have always thought that the easy answer is that your workforce should look like the people that you are serving.

Mr. GARCIA-DIAZ. That you are serving, yes.

Ms. GARCIA OF TEXAS. So that is easy enough. I just sometimes get really baffled that they make it so hard.

I will move on to another question related to that. We have focused on the services. Have you seen any studies or have you all done any studies on them looking at the access to those institutions?

Mr. GARCIA-DIAZ. Access by?

Ms. GARCIA OF TEXAS. By the customer, the consumer?

Mr. GARCIA-DIAZ. I don't have any information on that. I'm sorry.

Ms. GARCIA OF TEXAS. You don't at all? It is just the diversity and inclusion of the workforce in terms of the studies you have done so far?

Mr. GARCIA-DIAZ. Yes, part of it. We have done—the agency has done work in terms of looking at, in a very specific area, looking at business activities and contracting with and conducting business with minority organizations to support minority- or women-owned businesses, if that is what you are referring to.

Ms. GARCIA OF TEXAS. Right. So what service have you actually done just on inclusion? You had diversity—you know, coincidentally, I also was an EEOC hearings examiner, and they tend to just look at the numbers, look at the percentages, and look at the EEO profiles of the companies. But you can have someone—again, I will use my experience when I was controller.

If a minority or a woman came in with the investment banking team, it was usually the one who was carrying the presentation books and was never really included on being part of the presenters. They just carried the books.

And I used to sometimes just have to look at the person and say, "Well, you know, Mary Sue, you haven't said anything. What do you think?" I would have to ask to get them included.

So how do we really look at inclusion, making sure that they are really part of the company, given training, given opportunities to grow within that particular company?

Mr. GARCIA-DIAZ. That is the cultural shift that has to happen. And one of the things we identify is the education and training component to make people aware of the consequences of the kind of behavior you described just now.

Ms. GARCIA OF TEXAS. Thank you.

Thank you, Madam Chairwoman.

Chairwoman BEATTY. Thank you.

The gentleman from West Virginia, Mr. Mooney, is now recognized for 5 minutes.

Mr. MOONEY. Thank you, Madam Chairwoman.

So, Mr. Garcia-Diaz, thank you for coming and for providing your expertise. I really appreciate it.

We can all agree that efforts to increase diversity can always be improved, but it is important to point out that diversity and inclusion are two different factors. That is why this committee has two different names for that.

So in the Harvard Business Review study researchers have found that diversity in the workforce will not succeed without the inclusion factor. The study cited Verna Meyers, a noted diversity advocate, who stated, "Diversity is being invited to the party; inclusion is being asked to dance."

So, Mr. Garcia, inclusion is the driving force to make lasting impacts on the diversity of a workforce. So if that is the goal, what has the data shown are the most crucial factors affecting inclusion?

Mr. GARCIA-DIAZ. Yes. And you are absolutely right, I think a lot of the research does point to the importance of inclusion as—diversity is not enough in a lot of ways, and that you do need that inclusiveness to make sure that people are making meaningful contributions in the firms that they work for.

In terms of the data, our data doesn't necessarily speak to that, at least the data analysis that we did of EEOC information that is reported by financial firms. And so it is hard to kind of take the temperature, in a sense, of the firms and to see to what degree they are embracing and incorporating inclusion.

But in our conversations with experts, again, they highlight that is a necessary condition to have a longstanding and effective management of your diverse workforce, is the inclusion part. And that can actually help with even the notion of addressing kind of retention issues and making people feel that they are part of the organization and they are willing to stay there long enough so that they can rise in the organization.

Mr. MOONEY. Fair enough.

My next question has to do with the issue of government regulation, rules, mandates, laws versus an industry or a business on their own taking initiative for their corporation, taking into account their unique circumstances to promote diversity and inclusion.

Because sometimes I feel that the one-size-fits-all government regulations may actually have an adverse effect. When you try to apply it to every business the same way it may actually have a counter-balancing effort as people worry about the regulations and start making laws to that.

So apart from government efforts, what are some of the organic solutions that the firms have come up with on their own to address the diversity and inclusion challenges?

Mr. GARCIA-DIAZ. Again, when talking to experts in the area, they repeatedly say there is no single solution that works for everyone. And so there has to be flexibility, there has to be innovation occurring. But in order to make that effective, there has to be sufficient information-sharing. Venues like this, the kind of work the subcommittee will do, will contribute to that.

But whether it is Federal agencies, through their OMWI offices, or the private sector and what they are doing, sharing information about practices that have been effective in their case and also reporting on any assessments that they have done is critical to getting information out about the range of options that are available to promote diversity and inclusion.

Mr. MOONEY. And so the promoting diversity and inclusion across multiple businesses, or is this more of a financial services sector issue?

Mr. GARCIA-DIAZ. Well, it really does apply to everything. It applies to us as Federal agencies. It applies to the financial sector and other professional services organization.

Mr. MOONEY. All right. I have a minute left here, but I will try one more question.

The GAO report that you authored describes the need to improve recruitment and retention. Those two factors will lead to the most lasting solutions to the diversity and inclusion problems. What did the data show to be the most effective and proven solutions in those two categories?

Mr. GARCIA-DIAZ. As far as we can tell, it is hard to pinpoint just one. Everything we have heard has emphasized the multiplicity of action to address both the recruitment and the retention question.

Mr. MOONEY. Okay. Well, thank you for your time and testimony.

And thank you, Madam Chairwoman, for having this hearing today. I yield back the balance of my time.

Chairwoman BEATTY. Thank you very much.

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

Mr. CLAY. Thank you, Chairwoman Beatty.

Let me say that, Madam Chairwoman and Ranking Member Wagner, I appreciate you embarking on a new course by leading this new Subcommittee on Diversity so that diversifying America's workforce will no longer be mere lip service.

And as the Chairman of the Federal Reserve indicated in this morning's Humphrey-Hawkins hearing, it is time to move past the Rooney rule so that not just one minority candidate is interviewed for the purpose of window dressing, and we will now refer to that new rule as the "Beatty-Wagner rule."

America is made better by its rich diversity. Our institutions of higher learning are enhanced when more voices are included on campuses. Our religious institutions grow and prosper when the congregations are not segregated. Our athletic fields are more interesting when people from all walks of life are able to participate together. And our apartment buildings, neighborhoods, and co-ops are more comfortable to inhabit when not everyone looks the same, speaks similarly, or has identical neighbors on every floor.

Mr. Garcia-Diaz, let me ask you, during your research for this report were you able to determine what percentages of financial firms provided training on unconscious bias? And did any firms note that some forms of training were found to be more successful than others, such as in-person training versus online training?

Mr. GARCIA-DIAZ. Yes, sir. We don't have any figures on the frequency of the use of that kind of training to address unconscious bias. In our interviews with industry representatives and advocacy groups that was definitely one of the tools to use and to address the issue of unconscious bias. Training can't do it by itself, though, and it has to be in culmination with other efforts. But, yes, that is—

Mr. CLAY. But you and I will agree that that is one of the major impediments, major barriers to diversifying workforces in financial services, or in any other industry in this country.

Mr. GARCIA-DIAZ. Yes. That would be a significant concern, and not just in the financial services industry but broadly speaking.

Mr. CLAY. But broadly, sure.

Mr. GARCIA-DIAZ. Yes.

Mr. CLAY. And so can you offer any suggestions on how we attack that?

Mr. GARCIA-DIAZ. I think just the question that you asked of how frequently, how prevalent is this type of training, how is this being used. And also the different varieties. As you just pointed out, you can do it online, you can do it in person, you can do it in different formats. And so having more information, obtaining more information on the variety of options for training and what seems to work more would be something that is needed to really advance the ball.

Mr. CLAY. And regarding retention, could you comment on what workplace inclusion practices can improve companies' minority and women retention rates?

Mr. GARCIA-DIAZ. Yes. And I will start off with one that I think is very important. It is holding management accountable for the organization's diversity goals, ensuring that their work, their performance, and their ability to take these matters seriously aligns with their leadership's own commitment to diversity and inclusion.

Other kind of steps, practices that would be helpful for retention includes employee engagement, obtaining a lot of qualitative information about what their experiences are in the firm that may not be reflected necessarily in just straight numbers.

Mr. CLAY. All right. And my time is up. Thank you, Madam Chairwoman. I yield back.

Chairwoman BEATTY. Thank you.

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

Mr. GONZALEZ OF TEXAS. Thank you.

And, thank you, Mr. Garcia-Diaz, for being here today.

I have a question. Has the GAO looked at promotions separately from new hires? In other words, are we promoting more minorities from within? And is the rate at which minorities are promoted to management positions different from the rate that minorities are hired into management?

Mr. GARCIA-DIAZ. Yes. And, unfortunately, one of the limitations of the EEOC data is that it doesn't allow us to see people's movement within the organization, like in the case of promotion. We just see these balances, how many people in its account.

But in the report, in our 2017 report, and in testimony, we look at the potential pipelines that feed into these promotions outside of the management level. And so we have statistics that there is quite a bit of diversity in sort of professional jobs that are non-management, sales jobs that potentially the firm can draw from to promote into the higher management levels.

Mr. GONZALEZ OF TEXAS. So the answer is, we don't know.

Mr. GARCIA-DIAZ. We don't know.

Mr. GONZALEZ OF TEXAS. And finally, in my district, we have about an 80 or 90 percent Hispanic population, but we still struggle with inclusion in upper management for non-minority-owned businesses. Can you advise if the GAO could get a better handle on challenges faced in the hiring of a diverse workforce if, for example, the data was looked at on a State-specific scale or on a regional scale?

Mr. GARCIA-DIAZ. Yes. In our 2017 report we include some statistics on the State level based on the EEOC data. But the emphasis still falls on effective recruitment strategies that firms should be adopting, again, looking broadly and doing intentional recruiting of minorities, identifying the pool, draw them in, so that they have the opportunity to be interviewed, to be considered for the job.

At the end of the day, it is the talents and what you bring to the table that will hopefully lead to a job. But they need to first show up at the interview. And firms have to do an effective job to draw those candidates in for consideration.

Mr. GONZALEZ OF TEXAS. Very well. I yield back the balance of my time.

Chairwoman BEATTY. Thank you.

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

Mr. LAWSON. Thank you, Madam Chairwoman.

And, Mr. Garcia-Diaz, welcome to the committee.

I worked in the financial services area for 36 years, and during my tenure there what I have found out is that in most cases in the financial services industry when they do recruit minorities into the area, oftentimes, which is not discussed, is they don't really last, because they don't have the support that is needed in the area because sometimes it is the new entrances, whereas in the majority population, where some of these individuals or students are exposed because of family connection and the jobs that they have in college and so forth, they have more of an appreciation on how it works and how they can move through the system.

And my question would be, for example, I have Florida A&M University, one of the Historically Black Colleges and Universities (HBCUs), in my district that has a great school of business and engineering. And do many of the companies, are they still, from your knowledge, are they going around to recruit at the universities a couple of times a year to make sure that they can attract some of the students into the financial industry to improve our diversity?

Mr. GARCIA-DIAZ. Yes. And I think one of the important points is when you are drawing folks of different backgrounds, different experiences, everyone relies to some extent on some sort of mentoring. It may be family because they have been in the business, so they know it. Others don't have that.

And so a forward-looking organization will be setting up either mentorship programs or some sort of sponsorship program for employees coming in to ensure that they understand how to navigate through the organization, how to progress in your career, and those are critical parts to addressing actually the retention issue.

Sometimes it might be easy to get someone in the door, but then to keep them is a whole different matter. And, particularly, you want to set up folks for success. And so programs, and they are out there and they exist, and we have been told that they have been quite effective in assisting folks in their career.

Mr. LAWSON. Sometimes, when I am back in the district, I do banking on Saturdays because it is open from 9 until 12. And in the banking area, and this is, I am just going to say, this is with Bank of America, what I have noticed is the trend has been, because a lot of the Hispanic members, individuals go into banking now, I have seen where they have increased the number of Hispanic-speaking individuals in the banking industry so they can deal with all of the customers who come in.

But over the last couple of years, when I have gone into those institutions, I haven't been able to see whether there has been an increase in minority, African-American representatives like they have done on the Hispanic areas in that financial institution. But I thought it was great what they did for Hispanic because sometimes there is a language barrier that some of the people can help with a little bit more.

I have always viewed diversity as something that should be a part of the American way of life, because the whole population in America has been changing. In your dealings and in the research that you have, how do you all approach these institutions about trying to create more diversity in the workforce?

Mr. GARCIA-DIAZ. I think one of the important components is for, whether they are banks or securities or insurance companies, whatever they are, is that they have institutionalized kind of the thinking behind diversity and inclusion in their operations and to do it consistently across all levels, whether it is the entry level teller kind of jobs in the bank, but thinking about how people can progress through the organization all the way to the top.

And so we have identified some key practices that are essential. I mentioned a few before, like leadership commitment and accountability. But other things include data analysis, knowing what the shape of your workforce looks like, where are you losing candidates for potential promotion, what is their composition and makeup. Those are critical parts for an organization to become self-aware about how they stand, how they are doing in terms of diversity and inclusion.

Mr. LAWSON. Okay. Thank you. I yield back.

Chairwoman BEATTY. Thank you.

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

Ms. DEAN. Thank you, Madam Chairwoman. And I thank you for this hearing and the focus of the hearing.

And thank you, Mr. Garcia-Diaz, for being here and for offering us your expertise and your guidance.

I, too, echo my colleagues' sentiments about diversity being our strength. And it is not just a pretty sentiment. We actually know that it works in industry, in the financial services industry, and in all industries.

As we diversify, as the research shows that as we have people of different ethnicities, gender, backgrounds, experiences, geography, ethnicity, the enterprise does better because they get better ideas.

I represent Montgomery County and Berks County in Pennsylvania. I am a newly elected Member. I have to admit that I have been so proud of the mentorship that senior Members have offered us incoming freshmen, regardless of our age. And so I want to talk to you about the idea of mentorship.

As I visit my area high schools, I want to talk about the talent pool and making sure that that talent pool knows of the opportunities, whether it is in financial services or other industries. So I noticed, for example, in the GAO 2017 report, one suggestion for overcoming recruiting challenges was to offer programs to increase awareness of financial services.

So to follow along on the line of questioning you were just having, could you describe in detail—and I am going to give you specifics on the ground. Montgomery County is considered the third most affluent county in Pennsylvania, but there are pockets of great need, terrific resources and opportunity, but educational unevenness, economic unevenness.

So I visit my Norristown area high school students. They don't know all the opportunities in front of them. And this is literally what we talked about. We need mentors in these schools at the high-school level, if not even earlier.

Can you describe some of these relationship-building, mentorship-building programs, how can I get them, tap into them in the financial services industry in my Fourth Congressional District? What does the curriculum look like? How are they implemented?

And are there certain literally training programs for students so they can come visit financial services institutions? Can you give us some sense on how I can access it for my students?

Mr. GARCIA-DIAZ. While we didn't look at specific types of programs that are out there, there are a lot of groups that are trying to generate these kinds of partnerships between, say, a bank and a school or the large local employer with the schools to reach out to students. And it is something just in our conversations that we have had when we were doing the 2017 report.

We can certainly share names of certain organizations that can kind of facilitate that and help thinking. They tend to specialize more on those type of efforts than we do.

But that holds a lot of potential. And it is not only important for firms to engage their own employees; it is also important that they engage their community because that is going to be their future workforce. And how do they bring them in through the door, how do they make sure they are aware.

Because sometimes it is just: Is this a possibility for me? Is this something that I could do? Conveying that clearly to certainly young folks and going in school right now would be very helpful. But we can get you some information on the types of organizations that can help with those kind of partnerships.

Ms. DEAN. And if you could provide that to the committee.

Mr. GARCIA-DIAZ. Oh, yes.

Ms. DEAN. I think it would help across the country to know about things like that.

Are there any best practices you can share, and/or are there any, among those programs, are there any scholarship opportunities? What can you say about those two ideas?

Mr. GARCIA-DIAZ. We can look into it and get back to you on that. There are, I know, a lot of efforts, for instance, like in the financial literacy area where financial institutions are engaging schools and trying to incorporate financial literacy in the curriculums and things like that, which, even though it is not directly related to this, but it does get at the partnerships that exist out there that can be leveraged to have school-age children sort of recognize this as a possible career path.

Ms. DEAN. And I am going to ask a very broad question really late in my time here and probably it has been discussed. But what is the secret to, not out to maybe the talent pool, but at the retention and hiring time and promotion, what is the secret to changing the trends that we see?

Mr. GARCIA-DIAZ. I think the secret, if there is one, but I am going to venture a guess here—

Ms. DEAN. Unleash the secret, yes.

Mr. GARCIA-DIAZ. —is really that it has to be intentional, it has to be strategic, and it has to be sustained. If you don't have it, if you don't do that, it will fall apart.

Ms. DEAN. Thank you.

Thank you, Madam Chairwoman.

Chairwoman BEATTY. Thank you.

I would like to thank our witness, Mr. Garcia-Diaz, for your testimony today.

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

This hearing is adjourned.

[Whereupon, at 4:42 p.m., the hearing was adjourned.]

A P P E N D I X

February 27, 2019

United States Government Accountability Office

GAO

Testimony
Before the Subcommittee on Diversity and Inclusion, Committee on Financial Services, House of Representatives

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FINANCIAL SERVICES INDUSTRY

Representation of Minorities and Women in Management and Practices to Promote Diversity, 2007-2015

Statement of Daniel Garcia-Diaz, Director, Financial Markets and Community Investment

GAO Highlights

Highlights of GAO-19-398T, a testimony before the Subcommittee on Diversity and Inclusion, Committee on Financial Services, House of Representatives

Why GAO Did This Study

The financial services industry is a major source of employment that affects the economic well-being of its customers and the country as a whole. As the makeup of the U.S. workforce continues to diversify, many private sector organizations, including those in the financial services industry, have recognized the importance of recruiting and retaining minorities and women in key positions to improve business or organizational performance and better meet the needs of a diverse customer base. However, questions remain about the diversity of the workforce in the financial services industry.

This statement is based on GAO's November 2017 report on changes in management-level diversity and diversity practices in the financial services industry. This statement summarizes (1) trends in management-level diversity in the financial services industry, (2) trends in diversity among potential talent pools, and (3) challenges financial services firms identified in trying to increase workforce diversity and practices they have used to address those challenges.

View GAO-19-398T. For more information, contact Daniel Garcia-Diaz at (202) 512-8678 or GarciaDiazD@gao.gov.

February 27, 2019

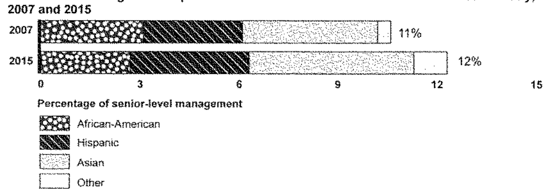
FINANCIAL SERVICES INDUSTRY

Representation of Minorities and Women in Management and Practices to Promote Diversity, 2007-2015

What GAO Found

In November 2017, GAO reported that overall management representation in the financial services industry increased marginally for minorities and remained unchanged for women from 2007 to 2015. Similar trends also occurred at the senior-level management of these firms. For example, women represented about 29 percent of senior-level managers throughout this time period. As shown below, representation of minorities in senior management increased slightly, but each racial/ethnic group changed by less than 1 percentage point. The diversity of overall management also varied across the different sectors of the financial services industry. For example, the banking sector consistently had the greatest representation of minorities in overall management, whereas the insurance sector consistently had the highest proportion of women in overall management.

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



Source: GAO analysis of Equal Employment Opportunity Commission data. | GAO-19-398T

Note: The "Other" category includes Native Hawaiian or Pacific Islander, Native American or Alaska Native, and "two or more races."

As GAO reported in November 2017, potential employees for the financial services industry, including those that could become managers, come from external and internal pools that are diverse. For example, the external pool included those with undergraduate or graduate degrees, such as a Master of Business Administration. In 2015, one-third of the external pool were minorities and around 60 percent were women. The internal talent pool for potential managers included those already in professional positions. In 2015, about 28 percent of professional positions in financial services were held by minorities and just over half were held by women.

Representatives of financial services firms and other stakeholders GAO spoke to for its November 2017 report described challenges to recruiting and retaining members of racial/ethnic minority groups and women. They also identified practices that could help address those challenges. For example, representatives from several firms noted that an effective practice is to recruit and hire students from a broad group of schools and academic disciplines. Some firms also described establishing management-level accountability to achieve workforce diversity goals. Firm representatives and other stakeholders agreed that it is important for firms to assess data on the diversity of their employees but varied in their views on whether such information should be shared publicly.

Chairwoman Beatty, Ranking Member Wagner, and Members of the Subcommittee:

Thank you for the opportunity to discuss diversity trends in the financial services industry at the first hearing of the newly established Subcommittee on Diversity and Inclusion. The financial services industry is a major source of employment that affects the economic well-being of its customers and the country as a whole.[1] As the makeup of the U.S. workforce force continues to become more diverse, many private sector organizations have recognized the importance of recruiting and retaining minorities and women for key positions to improve their business or organizational performance and better meet the needs of a diverse customer base.

I will discuss trends in management representation of minorities and women and diversity practices in financial services firms from 2007 through 2015. Specifically, I will discuss (1) trends in management-level diversity in the financial services industry, (2) trends in diversity among potential talent pools, and (3) challenges financial services firms identified in trying to increase workforce diversity and the practices they have used to address those challenges. My statement is based on the findings from our most recent report on the subject from November 2017.[2] For that report, we analyzed 2007–2015 workforce data from the Equal Employment Opportunity Commission's (EEOC) Employer Information Report (EEO-1). Data for 2015 were the most current available at the time of our review. We also summarized challenges that the financial services industry faced in increasing workforce diversity and practices for improving workforce diversity by reviewing relevant literature and interviewing representatives from financial services firms and advocacy organizations. More detailed information on our scope and methodology can be found in that report.

[1]Equal Employment Opportunity Commission (EEOC) data we obtained and analyzed showed that financial services firms employed more than 3.2 million people in 2015.

[2]GAO, *Financial Services Industry: Trends in Management Representation of Minorities and Women and Diversity Practices, 2007-2015*, GAO-18-64 (Washington, D.C.: Nov. 8, 2017). Prior reports on this topic include GAO, *Financial Services Industry: Overall Trends in Management-Level Diversity and Diversity Initiatives, 1993–2004*, GAO-06-617 (Washington, D.C.: June 1, 2006); GAO, *Financial Services Industry: Overall Trends in Management-Level Diversity and Diversity Initiatives, 1993–2008*, GAO-10-736T (Washington, D.C.: May 12, 2010); and GAO, *Diversity Management: Trends and Practices in the Financial Services Industry and Agencies after the Recent Financial Crisis*, GAO-13-238 (Washington, D.C.: Apr. 16, 2013).

The work on which this statement is based was performed in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Background

Most private employers subject to Title VII of the Civil Rights Act of 1964 with 100 or more employees, and all federal contractors who have 50 or more employees and meet certain other requirements, must submit data to the EEOC on the racial/ethnic and gender characteristics of employees by occupations for a range of industries, including financial services.[3] Employers are required to submit these data to EEOC every year using the EEO-1 report.

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 provide protection against financial risks to policyholders;
- Funds and trusts, which include investment trusts and holding companies; and
- Monetary authorities, including central banks.

Beginning in 2007, EEOC changed its requirements for reporting data on managers. Specifically, employers were required to report separately on

[3]Consistent with the methodology we used in our previous reports, we obtained and analyzed data from EEOC only for private employers with 100 or more employees. Consequently, the analysis included in our November 2017 report and this statement may not match the analysis found on EEOC's website, which also includes federal contractors with 50 or more employees.

senior-level management positions rather than combining data on senior-level managers with data for first- and mid-level managers, as had been the practice until 2007. Employers are required to review EEOC guidance describing the two management positions and determine how their firm's job positions fit into these classifications.

In a January 2005 report, we identified a set of nine leading practices that should be considered when an organization is developing and implementing diversity management.[4] They are (1) commitment to diversity as demonstrated and communicated by an organization's top leadership; (2) the inclusion of diversity management in an organization's strategic plan; (3) diversity linked to performance, making the case that a more diverse and inclusive work environment could help improve productivity and individual and organizational performance; (4) measurement of the impact of various aspects of a diversity program; (5) management accountability for the progress of diversity initiatives; (6) succession planning; (7) recruitment; (8) employee involvement in an organization's diversity management; and (9) training for management and staff about diversity management. In 2017, we reported that industry representatives confirmed that these nine practices are still relevant.[5]

[4]GAO, *Diversity Management: Expert-Identified Leading Practices and Agency Examples*, GAO-05-90 (Washington, D.C.: Jan. 14, 2005). We defined diversity management as a process intended to create and maintain a positive work environment that values individuals' similarities and differences, so that all can reach their potential and maximize their contributions to an organization's strategic goals and objectives.

[5]GAO-18-64.

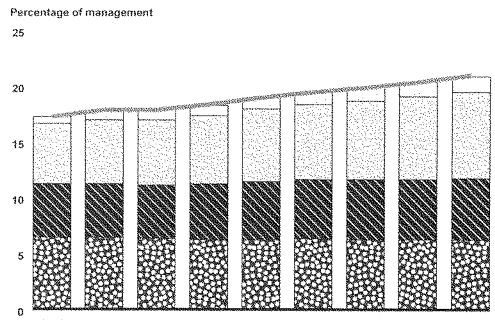
Management-Level Diversity Trends in the Financial Services Industry Showed Little or No Increase from 2007 through 2015

Since 2007, Management-Level Representation Increased Marginally for Minorities and Remained Unchanged for Women

As we reported in November 2017, 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 (see fig. 1).[6] Specifically, minorities' representation in overall management positions increased by 3.7 percentage points. Asians had the largest gains since 2007, increasing their representation among managers from 5.4 percent to 7.7 percent. Hispanics made smaller gains; their representation among managers increased from 4.8 percent to 5.5 percent. In contrast, the proportion of African-Americans in management positions decreased from 6.5 percent to 6.3 percent.

[6] We use the term "overall management" to refer to both first- and mid-level managers and senior-level managers.

Figure 1: Representation of Specific Races/Ethnicities in Overall Management Positions in the Financial Services Industry, 2007–2015



	2007	2008	2009	2010	2011	2012	2013	2014	2015
Total minority	**17.3**	**17.9**	**17.9**	**18.4**	**19.0**	**19.5**	**19.9**	**20.4**	**21.0**
Other	0.6	0.8	0.9	0.9	1.0	1.1	1.2	1.3	1.4
Asian	5.4	5.7	5.8	6.1	6.5	6.7	7.0	7.4	7.7
Hispanic	4.8	4.8	4.8	5.0	5.2	5.3	5.4	5.4	5.5
African-American	6.5	6.5	6.4	6.3	6.3	6.4	6.3	6.3	6.3

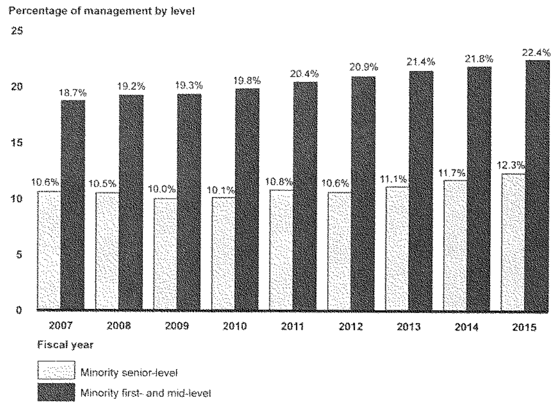
Source: GAO analysis of Equal Employment Opportunity Commission data. | GAO-19-398T

Note: The "Other" category includes Native Hawaiian or Pacific Islander, Native American or Alaska Native, and "two or more races."

Representation of minorities also increased between different levels of management from 2007 through 2015 (see fig. 2).[7] Minority representation among first-and mid-level managers increased by 3.7 percentage points. In contrast, representation of minorities among senior-level management increased at a slower pace during this period (1.7 percentage points). Minority representation among senior-level managers remained considerably lower than among first- and mid-level managers.

[7]The pool of senior-level managers is smaller than the pool of first- and mid-level managers. In 2007, EEOC data for the financial services industry reported over 89,000 senior-level managers and almost 440,000 first- and mid-level managers. In 2015, there were over 81,000 senior-level managers and over 504,000 first- and mid-level managers.

Figure 2: Representation of Minorities in First- and Mid-Level Management and Senior-Level Management Positions in the Financial Services Industry, 2007–2015



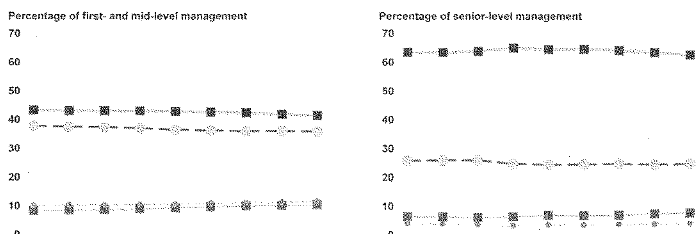
Source: GAO analysis of Equal Employment Opportunity Commission data. | GAO-19-398T

Among first- and mid-level managers, representation of Asians experienced the largest increase from 2007 through 2015 (2.6 percentage points). Hispanic representation increased by less than 1 percentage point, while African-American representation slightly decreased by 0.3 percentage point. In addition, among senior-level managers, representation of each racial and ethnic group changed by less than 1 percentage point.

We also reported in November 2017 that representation of women at the overall management level had generally remained unchanged. From 2007 through 2015, women represented about 45 percent of overall management. Representation of each racial and ethnic group varied by gender during this time period. For example, among minority women, African-American women consistently had the highest representation in overall management (about 4 percent of managers per year). Among minority men, Asian men consistently had highest representation in overall management (3.1 percent to 4.6 percent of all managers).

The proportion of men and women within various levels of management remained unchanged from 2007 through 2015, though there were some increases in the representation of both minority women and minority men. During this timeframe, women represented around 48 percent of first-and mid-level managers and about 29 percent of senior-level managers. Among first- and mid-level management positions, the representation of minority women increased by 1.6 percentage points and the representation of minority men increased by 2.2 percentage points (see fig. 3). Among senior-level management positions, representation of minority women and minority men increased by smaller amounts (0.3 percentage points and 1.5 percentage points, respectively).

Figure 3: Representation of Minority and White Women and Men in Management Positions in the Financial Services Industry by Management Level, 2007–2015



Percentage of first- and mid-level management

	2007	2008	2009	2010	2011	2012	2013	2014	2015
White men	43.4	43.2	43.2	43.1	43.0	42.7	42.5	42.0	41.6
White women	38.0	37.6	37.5	37.1	36.6	36.3	36.1	36.2	36.0
Minority men	8.4	8.7	8.8	9.1	9.5	9.8	10.1	10.3	10.6
Minority women	10.2	10.5	10.5	10.6	10.8	11.1	11.3	11.5	11.8

Percentage of senior-level management

	2007	2008	2009	2010	2011	2012	2013	2014	2015
White men	63.6	63.5	63.9	65.1	64.6	64.7	64.2	63.5	62.7
White women	25.9	26.0	26.1	24.9	24.6	24.7	24.8	24.7	25.0
Minority men	6.5	6.5	6.2	6.5	7.0	6.9	7.1	7.6	8.0
Minority women	4.1	4.0	3.8	3.5	3.8	3.7	4.0	4.1	4.4

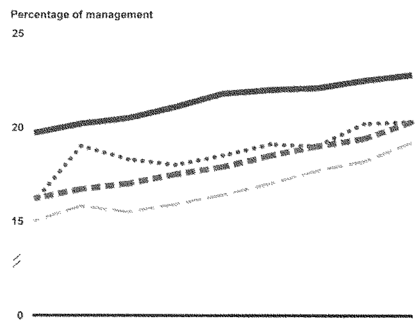
Source: GAO analysis of Equal Employment Opportunity Commission data. | GAO-19-398T

Certain Financial Sectors Are More Diverse Than Others

In November 2017, we reported that management-level diversity varied across sectors within the financial services industry.[8] Minorities' representation in overall management increased in all four sectors of the financial services industry (see fig. 4). For example, representation of minorities in the banks and other credit institutions sector increased by 3.1 percentage points and 4.3 percentage points in the funds and trusts sector. Also, the representation of minorities in overall management was consistently the greatest in the banks and other credit institutions and lowest in the insurance sector.

[8]As previously mentioned, EEOC data for the financial services industry covers five sectors: banks and other credit institutions; securities and other activities; insurance; funds and trusts; and monetary authorities. We did not include the monetary authorities sector in our analysis. In the United States, the monetary authorities sector includes the Federal Reserve Banks of the Federal Reserve System. While the Board of Governors of the Federal Reserve System is an independent federal agency, the Federal Reserve Banks are federally chartered corporations. We have previously reported on diversity trends in the Federal Reserve System. See GAO-13-238 and *Federal Reserve Bank Governance: Opportunities Exist to Broaden Director Recruitment Efforts and Increase Transparency*, GAO-12-18 (Washington, D.C.: Oct. 19, 2011).

Figure 4: Representation of Minorities in Management Positions in the Financial Services Industry by Sector, 2007–2015

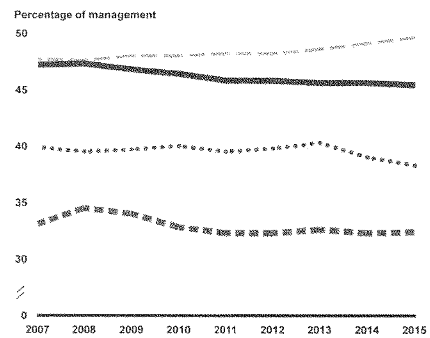


	2007	2008	2009	2010	2011	2012	2013	2014	2015
Banks and other credit institutions	19.7	20.2	20.5	21.1	21.8	22.0	22.1	22.5	22.8
Securities and other activities	16.2	16.7	17.0	17.5	17.9	18.5	19.0	19.4	20.3
Insurance	15.0	15.8	15.5	15.9	16.4	17.0	17.7	18.2	19.2
Funds and trusts	16.0	19.0	18.3	18.0	18.5	19.1	19.0	20.2	20.3

Source: GAO analysis of Equal Employment Opportunity Commission data. | GAO-19-398T

The representation of women in overall management also varied by financial services sector (see fig. 5). The insurance sector consistently had the highest proportion of women in management positions, followed by banks and other credit institutions. The proportion of women in management decreased in each sector except for the insurance sector where it increased by 1.9 percentage points from 47.7 percent to 49.6 percent.

Figure 5: Representation of Women in Management Positions in the Financial Services Industry by Sector, 2007–2015



	2007	2008	2009	2010	2011	2012	2013	2014	2015
Banks and other credit institutions	47.2	47.3	46.8	46.4	45.8	45.8	45.6	45.6	45.4
Securities and other activities	33.1	34.5	34.0	32.8	32.3	32.3	32.6	32.3	32.4
Insurance	47.7	47.6	48.0	48.0	48.2	48.2	48.6	49.1	49.6
Funds and trusts	39.9	39.5	39.7	40.0	39.5	39.8	40.3	39.0	38.3

Source: GAO analysis of Equal Employment Opportunity Commission data. | GAO-19-398T

Management-Level Representation of Minorities Increased with Firm Size

Our November 2017 report found that the representation of minorities in overall management positions increased as firm size (number of employees) increased, whereas the representation of women in management generally remained the same across firm size.[9] More specifically, in 2007, the representation of minorities in overall management was nearly 5 percentage points greater in firms with 5,000 or more employees compared to firms with 100–249 employees. By

[9]According to EEOC, in 2015, there were approximately 52,000 managers in financial service firms with less than 250 employees; 78,000 managers in firms with 250-999 employees; 122,000 managers in firms with 1,000–4,999 employees; and 333,000 managers in firms with 5,000 or more employees. Additionally, there were 1,872 financial services firms with 100–249 employees; 1,204 firms with 250–999 employees; 369 firms with 1,000–4,999 employees, and 119 firms with 5,000 or more employees.

comparison, in 2015, the representation of minorities in overall management was about 6 percentage points greater in firms with 5,000 or more employees compared to firms with 100–249 employees. Across firms of different sizes, the representation of women in management positions in 2015 was generally the same as it was in 2007.

Financial Services Sector Trends Have Similarities and Differences Compared To Professional Services and Overall Private Sectors

Our November 2017 report found that from 2007 through 2015, representation of minorities in all levels of management increased in the financial services sector, the professional services sector, and the overall private sector.[10] However, among first- and mid-level managers, representation of minorities increased at a lower rate in the financial services sector during this time period (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) .

In addition, the financial services sector generally had a greater proportion of women in management compared to the overall private sector and professional services sector. For example, women represented 36.7 percent and 38.2 percent of first- and mid-level managers in the professional services sector and overall private sector, respectively, in 2015. As previously mentioned, women represented about 48 percent of first- and mid- level managers in the financial services sector from 2007 through 2015.

External and Internal Potential Talent Pools for Financial Services Positions Are Diverse

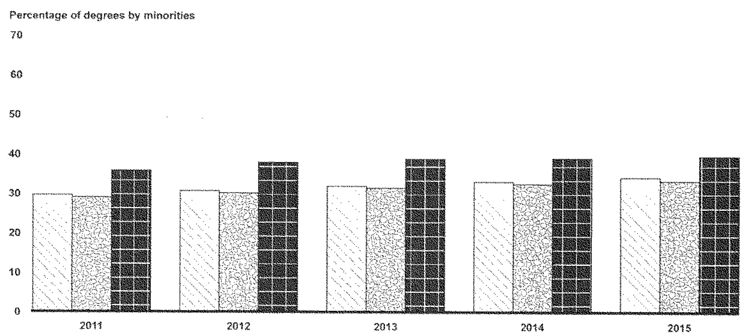
Potential employees for the financial services industry can come from a range of academic and professional backgrounds. Financial firm representatives we spoke to for our November 2017 report told us that undergraduate or graduate degrees are an important consideration for employment. Some firm representatives also told us that while graduates with Master of Business Administration (MBA) degrees are an important pool of talent, firms seek students with a variety of degrees.

We also found that from 2011 through 2015, about one-third of the external pool of potential talent for the financial services industry—that is,

[10]The professional services sector is comprised of establishments that specialize in performing professional, scientific, and technical activities for others. This sector includes jobs in legal services, accounting, consulting, and advertising, among other services. In our analyses, we excluded the financial services sector when using data on the overall private sector.

those obtaining undergraduate or graduate degrees—were racial/ethnic minorities (see fig. 6). Additionally, rates of attainment of bachelor's, master's, and MBA degrees by racial/ethnic minorities all increased during this time period. For example, minorities' representation among those who attained an MBA increased from 35.6 to 39.2 percent. Furthermore, from 2011 through 2015, minority women consistently earned a greater proportion of master's and MBA degrees compared to minority men.

Figure 6: Percentages of Undergraduate and Graduate Degrees Earned by Minorities, 2011–2015

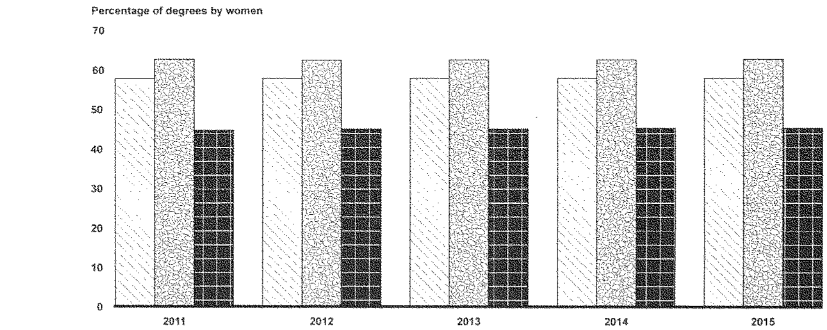


	2011	2012	2013	2014	2015
Bachelor's	29.4	30.5	31.7	32.8	33.9
Master's	28.8	29.9	31.2	32.2	33.0
Master of Business Administration	35.6	37.7	38.5	38.7	39.2

Source: GAO analysis of Department of Education data. | GAO-19-398T

Additionally, we found that from 2011 through 2015, a majority of those obtaining undergraduate or graduate degrees have been women (see fig. 7). For example, women consistently earned about 58 percent of bachelor's degrees, just over 60 percent of master's degrees, and about 45 percent of MBA degrees during this time period.

Figure 7: Percentages of Undergraduate and Graduate Degrees Earned by Women, 2011–2015



	2011	2012	2013	2014	2015
Bachelor's	57.6	57.6	57.6	57.6	57.6
Master's	62.5	62.2	62.3	62.3	62.4
Master of Business Administration	44.5	44.8	44.8	45.0	45.0

Source: GAO analysis of Department of Education data. | GAO-19-398T

As we reported in November 2017, the internal pool of potential talent for the financial services industry is known as the "internal pipeline" of staff that could potentially move into management positions. There are two nonmanagement job categories in the financial services sector that are considered to be part of the internal pipeline: professional and sales positions.[11] From 2007 through 2015, EEOC data show that minorities' representation in professional and sales positions had changed over time, but had generally been greater than minorities' representation in overall management positions.[12] Similarly, EEOC data over the same timeframe

[11] Equal Employment Opportunity Commission, *Diversity in the Finance Industry* (Washington, D.C.: 2006). Professional positions can include credit and financial analysts, personal financial advisors, financial examiners, and loan officers. Sales positions can include those in securities, commodities, financial services, and insurance.

[12] EEOC data are derived from annual reports that show firms' workforce composition in a single point in time and therefore do not allow for analysis of the extent to which firms promote staff internally. However, the data do provide some insights into the potential internal pipeline.

show that representation of women in professional positions in the financial services industry had generally been greater than women's representation in overall management. For example, from 2007 through 2015, women consistently represented about 50 percent of all employees in professional positions and about 45 percent of overall management. The percentage of women in sales positions in the financial industry had generally been lower, at about 40 percent.

Financial Services Firms and Others Described Workforce Diversity Challenges and Practices to Address Them

Representatives from financial services firms and organizations that advocate for women or racial/ethnic minorities who we spoke to for our November 2017 report described a variety of challenges to recruiting a diverse workforce for the financial services sector.[13] These challenges included negative perceptions of the financial services industry that might discourage potential candidates and a lack of awareness of career paths in the industry. Research we reviewed and representatives we spoke with identified several practices believed or found to be effective for recruiting women and racial/ethnic minorities, which included:

- Recruiting students from a broad group of schools and academic disciplines. Representatives from three firms stated that they were increasingly hiring and interested in recruiting students from a variety of academic disciplines, such as liberal arts or science and technology. 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.
- Offering programs to increase awareness of careers in financial services. Several representatives of financial firms told us that they had established relationships with high school students to expose diverse students to the financial services field. For example, representatives from one firm described a program that pairs high school students with a mentor from the firm. Additionally, a 2016 consulting firm report on women in financial services organizations in 32 countries found that a majority of asset managers who were

[13]We previously reported on challenges to recruiting women or racial/ethnic minorities in GAO-06-617, GAO-10-736T, and GAO-13-238.

interviewed thought it was important for financial services firms to educate students about careers in financial services.[14]

Financial services firms and other sources also noted challenges to retaining women and racial/ethnic minorities.[15] For example, some representatives of financial firms noted that employee resistance, particularly from middle-managers, poses a challenge to diversity efforts. In addition, officials from some organizations we interviewed noted that unconscious bias can negatively affect women and minorities.[16] As we noted in our November 2017 report, according to reports on diversity, representatives from financial services firms and other stakeholders, certain practices that may help improve the retention of women and racial/ethnic minorities, included:

- Establishing management-level accountability. Representatives from three financial services firms told us that management should be held accountable for workforce diversity goals. For example, two representatives discussed the use of a "diversity scorecard," which is a set of objectives and measures derived from a firm's overall business strategy and linked to its diversity strategy. Additionally, one firm representative noted that tying senior managers' compensation to diversity goals had been an effective practice for retaining women and minorities. Researchers have noted that efforts to establish

[14]Astrid Jäekel and Tom Moynihan, *Women in Financial Services* (Marsh & McLennan Companies, 2016).

[15]We previously reported on these types of retention challenges in GAO-06-617 and GAO-10-736T.

[16]As an example, managers may give hiring or promotion preferences to persons who have hobbies or educational backgrounds similar to theirs. Furthermore, the authors of a 2014 report on women in senior management at financial and nonfinancial organizations across 40 countries suggested that unconscious bias against women can result in a "reluctance to promote women in the expectation that they will eventually put family first." The report stated that this bias can trigger a self-fulfilling prophecy, as lack of promotion is one of the top reasons cited by women for leaving their jobs. Julia Dawson, Richard Kersley, and Stefano Natella, *The CS Gender 3000: Women in Senior Management* (Zurich, Switzerland: Credit Suisse Research Institute, 2014).

organizational responsibility for diversity have led to the broadest increases in managerial diversity.[17]

- Assessing Data on Workforce Diversity. Financial services firms and organizations we talked to generally agreed that assessing demographic data to understand a firm's diversity is a useful practice. All of the financial services firms we interviewed agreed on the importance of analyzing employee data. Several firms stated that it is important for organizations to understand their progress on workforce diversity–and, if data trends indicate problems, such as retention issues, they then can take steps to address them. Representatives of firms and organizations that advocate for diversity differed on the benefits of making demographic data public. Representatives of one organization said requiring businesses to be transparent about their workforce data creates incentives to improve the diversity of their workforce. However, representatives of two financial firms expressed concerns that publicly disclosing firm-level employee characteristics would not be beneficial to businesses. For example, one representative noted that publicly disclosing that firms are not diverse could damage their reputation and make improvement of workforce diversity more difficult.

In closing, I would like to thank you for the opportunity to discuss trends in management-level diversity in the financial services industry. I look forward to working with this subcommittee on these important issues.

Chairwoman Beatty, Ranking Member Wagner, and Members of the Subcommittee, this concludes my prepared statement. I would be pleased to respond to any questions that you may have at this time.

[17] Alexandra Kalev, Frank Dobbin, Erin Kelly, "Best Practices or Best Guesses? Assessing the Efficacy of Corporate Affirmative Action and Diversity Policies," *American Sociological Review*, vol. 71, no. 4 (2006). The authors studied the presence of three types of diversity approaches: (1) organizational responsibility, such as having an affirmative action plan, diversity committee, and diversity staff; (2) efforts to reduce managerial bias, such as diversity training; and (3) efforts to reduce social isolation of minority groups, such as networking and mentoring programs.

GAO Contact and Staff Acknowledgments

For further information on this testimony, please contact Daniel Garcia-Diaz at (202) 512-8678 or GarciaDiazD@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this statement. GAO staff who made key contributions to this testimony are Lisa Moore (Assistant Director), Christine Ramos (Analyst in Charge), Kay Kuhlman, Jill Lacey, Tovah Rom, Jena Sinkfield, and Tyler Spunaugle.

Related GAO Products

Financial Services Industry: Trends in Management Representation of Minorities and Women and Diversity Practices, 2007—2015. GAO-18-64. Washington, D.C.: November 8, 2017.

Investment Management: Key Practices Could Provide More Options for Federal Entities and Opportunities for Minority- and Women-Owned Asset Managers. GAO-17-726. Washington, D.C.: September 13, 2017.

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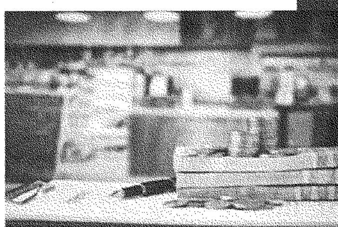

White Paper

How FinTech is Addressing the Financial Needs of the Underserved

VOLUME III | January 2019

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White Paper

How FinTech is Addressing the Financial Needs of the Underserved

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Executive Summary

One of the goals of our financial system is to provide high quality, affordable financial services for the broadest possible set of consumers. Over the past decade, financial institutions ("FIs") and financial technology companies have transformed the financial landscape through the introduction of new technologies that expand financial offerings for consumers, lower costs, improve financial management, and increase transaction security. These products and services – often referred to as "FinTech" – have also expanded, and are continuing to expand, financial opportunities for underserved consumers.

In this White Paper, the Electronic Transactions Association ("ETA") highlights the many ways in which its members are using technology to address the financial needs of underserved consumers. ETA published the first volume of the White Paper in July 2016; this volume expands upon the last volume and includes additional products and services that have come to market for consumers. These efforts, discussed in greater detail below, include:

- Prepaid Products – Provide cost-effective, convenient, and innovative payment options for millions of consumers, including those that may not have access to traditional financial accounts.
- Cashless Challenges – How companies are providing innovative solutions in a changing economy.
- Financial Literacy & Readiness Programs – Empower consumers to take control of their finances and prepare for the future.
- Mobile Banking Services & Innovations in ADA Compliance – Provide financial independence and security for those demographic groups that lack easy access to physical FI branches, such as consumers in rural areas, the elderly, or persons with disabilities.
- Mobile Payments – Provide an exciting alternative to cash and checks that allow consumers to pay for goods and services in an efficient, cost-effective, and secure manner.
- Peer-2-Peer Payments – Enable consumers to send money to each other via mobile applications.
- Expanded Internet Access – Expands affordable access to the internet in underserved communities domestically and abroad by improving infrastructure and reducing costs so that more people can connect to the web-based world.
- Online Small Business Lending – Expands access to credit for small businesses seeking capital to grow their businesses.

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- Interactive, Automated Tellers– Transform traditional FI branches by making them economically sustainable in previously underserved communities.

The unprecedented recent advancements in technology highlighted in this White Paper continue to show great benefits for underserved consumers, as well as the broader economy. ETA and its members support an inclusive financial system that provides high quality, secure, and affordable financial services for the broadest possible set of consumers. ETA member companies touch, enrich, and improve the lives of underserved consumers while making the global flow of commerce possible. A goal of ETA member companies is to continually enhance the electronic payments and financial ecosystem so that it is accessible for all consumers, while ensuring their transactions can be completed securely, efficiently, and ubiquitously. A key driver to achieving such a system is the development of new technologies that allow the underserved to access FI and FinTech company financial products and services.

ETA Message to Policymakers

ETA member companies are creating innovative offerings in financial services, revolutionizing the way commerce is conducted with safe, convenient, and rewarding payment solutions and lending alternatives that are available to a broader set of consumers. As the leading trade association for the payments industry, ETA and its members encourage policymakers to support these efforts through policies that encourage innovation and the use of technology to improve financial inclusion for all consumers.

ETA urges policymakers to remain thoughtful and forward-thinking in how to best support the industry's on-going efforts to provide opportunities for all consumers and small businesses to access and benefit from innovative financial products and services. Efforts by policymakers to regulate financial products and services should be done collaboratively and with careful consideration. We encourage the government to be sensitive to the risk that applying a uniform regulatory framework to all products and services, without any appreciation of differences in products and services and consumer needs, will likely stifle creativity and innovation in the market. Such an outcome would harm consumers, particularly at a time when new technologies, products, and services are providing the underserved with unprecedented access to FI and FinTech company financial products and services.

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Understanding the Financial Services Needs of the Underserved

One of the goals of our financial system is to provide high quality, affordable financial services for the broadest possible set of consumers. An inclusive financial system is one that provides consumers and businesses with access to a variety of financial products and services. A key driver of financial inclusion is the development of new technologies that allow the underserved to access FI and FinTech company financial products and services. Technology not only creates new products and services, but also broadens the availability of existing ones by making them more accessible and lowering costs.

As addressed in this White Paper, ETA's[1] members are at the forefront of using technology to broaden financial inclusion for underserved consumers. FinTech is building an inclusive financial system that addresses the needs of "underserved" consumers by providing increased access to ATMs for persons with disabilities, helping the elderly or rural population deposit checks remotely, assisting parents in sending funds instantly to their children in college, or helping small businesses get loans. Products and services like prepaid cards, mobile banking, peer-2-peer payments, electronic payment systems, expanded access to the internet, and alternative lending sources for small businesses address the needs of underserved consumers by providing the following benefits:

- Access – Allowing consumers to access funds and financial services wherever and whenever needed.
- Affordability – Ensuring consumers have the ability to select from various affordable products and services. Technology is increasing competition and driving down the cost of goods and services, which makes products more affordable, and thus accessible to more consumers.
- Convenience – Providing consumers with multiple payment options that save time and money.
- Security – Protecting consumer funds from physical and electronic fraud or theft.
- Control and Financial Management – Helping consumers gain better control over their finances through financial literacy and various financial management tools.

[1] The Electronic Transactions Association is the leading trade association for the payments industry, representing more than 500 companies worldwide who offer electronic transaction processing products and services. ETA's membership spans the breadth of the payments industry to include independent sales organizations (ISOs), payments networks, FIs, transaction processors, mobile payments products and services, payments technologies, and equipment suppliers. ETA also has members that are engaged in online lending for commercial enterprises, primarily small businesses, either directly or in partnership with other lenders.

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The following section outlines in greater detail the many ways in which ETA member companies are using technology to address the financial needs of underserved consumers and small businesses.

Deploying Technology to Benefit the Underserved

Major advancements in technology in the last decade, particularly the explosion of high-speed, wireless internet, have allowed FIs and technology companies to expand new products and services to more consumers than ever before – and they are able to do so efficiently, securely, and at a low cost. This section discusses a number of products and services that ETA member companies are deploying to benefit the underserved.

Prepaid Products

Many ETA members offer prepaid products, which provide cost-effective, convenient, and innovative payment options for millions of consumers, particularly for the approximately 68 million consumers with limited or no access to other financial services.

There are two main categories of prepaid products: 1) closed-loop, and 2) open-loop.

- Closed-loop products are limited to purchases from a single company or at a designated location, such as a gift card to a specific retail store that can be purchased in-store or from a kiosk at another retail location.
- Open-loop products are those that can be used at virtually any retail location or business. Examples include a general reloadable gift card or a general-purpose reloadable card that is network branded and can be used to make purchases and obtain cash from ATM machines.

According to the Federal Deposit Insurance Corporation ("FDIC"), 27 percent of households, either do not have an account through an FI or use alternative financial sources in addition to their bank accounts.[2] In particular, open-loop prepaid cards are popular with many types of consumers seeking to manage or protect their finances, including college students, low-income individuals who may not have access to a traditional checking account, and consumers traveling internationally. In fact, the federal government utilizes open-loop prepaid cards as an alternative to paper checks for benefit programs. A recent partnership between MasterCard, the U.S. Treasury and Comerica Bank, provides several million Americans with a safe and reliable way to receive federal benefit payments electronically on a Mastercard prepaid card.[3] Many of the consumers who use this product do not use mainstream financial services. One of the goals of this product is

[2] Federal Deposit Insurance Corporation. (2018). *FDIC National Survey of Unbanked and Underbanked Households.*
[3] Andrew Gillen, *Using Mobile Technology to Drive Financial Inclusion with Direct Express ®*, BEYONDTHETRANSACTION, (April 28, 2016), http://newsroom.mastercard.com/2016/04/28/using-mobile-technology-to-drive-financial-inclusion-with-direct-express/.

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to increase the use of the card as a payment tool, rather than simply a way to access cash, so that consumers have a more secure way to manage money.

Prepaid cards have shown demonstrable benefits for the underserved, particularly those who use open-loop products. Providing America's underserved consumers with access to prepaid cards makes their money safer and also helps move them into the increasingly important world of online transactions. For example, Netspend prepaid debit cards offer direct deposit and online bill-pay,[4] features that used to be reserved for customers of FIs. Now, debit cardholders can open savings accounts and budget their money in ways that open the door to financial security and stability.

Netspend cardholders also have access to optional overdraft protection with built-in safeguards that prevent abuse and help consumers meet their emergency needs. This optional, opt-in feature, provides a great service to Netspend customers by helping consumers bridge their financial gaps and achieve stability when they experience an unexpected expense.

Through its reloadable, prepaid card, JP Morgan Chase has helped more than a million people gain access to mainstream banking. The Chase Liquid Card carries no overdraft fees, has robust transaction capabilities, and allows consumers to pay their bills online. As of December 2016, nearly 80 percent of Chase Liquid customers were new to Chase, and JP Morgan Chase estimates that half of those had never used traditional banking services, did not have a current bank account or were otherwise underbanked prior to opening their Chase Liquid Card.[5]

Cashless Challenges
There are billions of people globally who are faced with inconvenient, time-consuming and prohibitively expensive systems to complete simple actions like cashing a paycheck or sending money to a loved one. In the United States alone, 85 percent of today's transactions are still happening in cash and checks.[6] In this era of mobile technology and advanced software platforms, the FinTech sector can serve this underserved group who are using financial services to help people around the world manage, move and spend their money through consumer choice.

According to the FDIC, only 7.2 percent of unbanked households have a credit card, compared with 60 percent of underbanked households and 76.3 percent of fully banked households.[7] The FinTech sector is well positioned to provide non-traditional financial services to those whose are being underserved and underbanked. ETA member companies, such as Amazon and PayPal, provide a safe, secure, and convenient way for consumers to add cash directly to their accounts.

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[4] About Netspend | Netspend Prepaid Debit Cards. (2017). Retrieved from https://www.netspend.com/about_netspend.
[5] JP Morgan Chase. *Promoting Financial Health.* Retrieved from www.jpmorganchase.com/financialhealth.
[6] Expert Insights | Mastercard Data & Services. (2015). Retrieved from https://www.mastercardservices.com/en/expert-insights
[7] Federal Deposit Insurance Corporation. (2018). *FDIC National Survey of Unbanked and Underbanked Households.*

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In 2017, Amazon launched Amazon Cash, a service that allows consumers to add cash to their Amazon.com balance by showing a barcode at a participating retailer, then having the cash applied to their online Amazon account. Amazon Cash is available at brick-and-mortar retailers across the U.S., including CVS Pharmacy, Speedway, Sheetz, Kum & Go, D&W Fresh Market, Family Fare Supermarkets, and VG's Grocery.

Similarly, PayPal has featured new ways to add money to individual PayPal accounts. PayPal has introduced the PayPal Cash Mastercard and PayPal Cash. The PayPal Cash Mastercard is free to sign-up for, with no monthly fees, and no minimum balance requirement. The card will let users access the money in their PayPal account to shop online or in stores anywhere Mastercard is accepted or users can withdraw cash from ATMs worldwide, including over 25,000 free MoneyPass® ATMs nationwide.

PayPal Cash is a feature that allows consumers to load money into their PayPal account at more than 20,000 retail and convenient store locations, including 7-Eleven, CVS, and Rite Aid to do activities like shop or pay their bills online. PayPal also allows individuals to directly deposit their paycheck into their PayPal account for free, so consumers can enjoy the benefits of spending their PayPal balance anywhere. These funds are protected with FDIC Insurance, and there is no minimum balance required.

These services provided by PayPal and Amazon gives a pathway to the underserved and unbanked community and allows them to participate in the digital economy.

Financial Literacy & Readiness Programs
Financial literacy empowers consumers to take control of their finances and prepare for the future. There are a number of product and service offerings made by ETA companies to help expand financial literacy to consumers.

Combining innovative technology, analytical data, and responsive design, these companies organize historical financial data to helping financial institution and FinTech developers provide financial guidance that consumers can act on across a spectrum of devices, user interfaces and platforms.

First Data, a global leader in commerce-enabling technology, launched a multichannel content marketing campaign to help Money Network cardholders "Up Their Financial Literacy Game" in 2018. First Data's initiative focused on financial literacy, which is of major concern since 40 percent of Americans would not be able to come up with $400 in an emergency and on average, people answer fewer than three out of five basic financial literacy questions correctly, with lower scores among those who are less comfortable managing their retirement savings.[8] First Data is working to ensure retailers are considering different payroll options as a way to cater to Millennials and Gen Z employees as they enter the workforce and are forced to face financial literacy deficits. First Data created an online quiz to help Money Network cardholders identify what their financial profiles are, so they could serve up customized educational content to them. Five personas were created, including "Check to Check Cycler" (just getting by), "Eager Investor" (investing with an eye on retirement), "Lives for the Moment" (propensity to impulse buy) and "Autopilot Saver" (saving automatically). Once employees completed the survey, they were driven to a microsite with written and video content tailored to their persona. Employees could also sign up for e-newsletters, to keep the education process ongoing. Money Network partnered with Jean Chatsky, an award-winning financial journalist and the financial editor of NBC's Today Show, to provide financial tips that take the complicated world of money and explain it in ways people could easily understand. Newsletters included tips for what users can do in the Money Network app, such as create "piggybanks" where the employee's money could be moved into to save for needs later in the year, like back-to-school time or the holidays.

Money Network's largest client reported strong results from the campaign. Almost 40,000 new piggybanks were created in the initial phase, signaling that employees were taking advantage of the app. More than 160,000 hits logged into the campaign's landing page as well.

By focusing on democratizing financial services through technology, Plaid gives consumers control over their financial data, so they can use it to power the apps and services they prefer regardless of where or how they bank. Plaid's technology makes for a more inclusive financial services ecosystem, creating a way for all people to use their financial data to access the best financial tools and services in order to better manage their financial lives. Many of their customers have developed products on the Plaid data platform to help the unbanked and underserved, including Dave, Earnin, Even, Digit, MoneyLion, LendUp, Upstart, Stilt, and Tally. These Plaid-enabled services have allowed millions of consumers use their own data to budget better, from using prediction tools to manage their account balances and avoid overdraft fees to analyzing their cashflow to calculate how much they can afford to save, then automatically setting that money aside every day. Plaid also allows consumers who are new to credit or have a limited credit history to share their data and demonstrate their creditworthiness with lenders. Borrowers who already have loans can share their data with lenders to offer lower rates with better data. The Plaid data platform helps consumers easily and safely leverage their data to access these innovative services.[9]

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[8] Consumer and Community Development Research Section. (2018). *Report on the Economic Well-Being of U.S. Households in 2017*. Federal Reserve Board. Retrieved from https://www.federalreserve.gov/publications/files/2017-report-economic-well-being-us-households-201805.pdf
[9] "Company | Plaid." *Homepage - Plaid*, plaid.com/company/.

In 2013, Discover was the first major credit card issuer to provide FICO® Credit Scores for free to cardholders on-line and on monthly statements. Other card issuers have followed suit by offering some form of a credit score to their cardmembers. In May of 2016, Discover announced it would offer FICO® Scores for free through its Credit Scorecard program for all consumers, even those that are not Discover cardholders, to help educate them about credit, the various factors that go into creating their credit score, and how their credit score is used.[10] The ability to access personal credit scores for free allows more consumers to be aware of their financial standing. Particularly for underserved consumers like college-aged students, or those with little to no credit history, this valuable tool provides a foundation for building financial health.

In addition to the Credit Scorecard program, Discover launched its Discover it® Secured Credit Card for consumers looking to build or rebuild their credit. The card requires applicants to provide a security deposit, which Discover holds as collateral for a credit line that is equal to the deposit amount (minimum of $200; maximum of $2,500 based on creditworthiness). After one year as a cardmember, Discover will begin to review Discover it® Secured Credit Card accounts each month to see if cardmembers can transition to an account that does not require a security deposit. A unique feature of the Discover it® Secured Credit Card, is that it reports to all three major credit bureaus, enabling cardmembers to build a personal credit history with use of the card.

JP Morgan Chase provides a number of solutions for customers to manage their daily finances and long-term goals. Developing and bringing affordable, innovative financial products and services designed to meet consumers' needs and support their financial health: One of those products offered by JP Morgan is the Chase Slate® credit card. Customers can enroll in the Slate Credit Dashboard, which provides a monthly credit score, information on factors impacting the score, a summary of their Experian credit report, and tips for managing credit health. Following the success of Credit Dashboard — more than 3.7 million customers have enrolled to date.[11]

One of the most significant challenges for the underbanked and underserved population is that many have several income sources and/or are being paid infrequently, which can make budgeting a challenge. In 2017, Wells Fargo announced the Greenhouse℠ experience, a standalone mobile banking app that helps consumers manage day-to-day spending, pay bills on time, spend confidently, and start to build savings. Greenhouse customers won't bank overdraft fees when using the new app. Their goal for Greenhouse customers is to never authorize a purchase or

[10] Rob Berger, *Discover Now Offers Free FICO Scores to Everybody*, FORBES (May 20, 2016, 09:55 AM), http://www.forbes.com/sites/robertberger/2016/05/20/discover-now-offers-free-fico-scores-to-everybody/#1631bab244ac.

[11] JP Morgan Chase. *Promoting Financial Health*. Retrieved from www.jpmorganchase.com/financialhealth.

payment if the account doesn't have enough funds. The Greenhouse app is now available in a 7-state customer pilot for iPhone users.[12]

Another public service offered by Wells Fargo is Hands on Banking. Hands on Banking, is a free, engaging, non-commercial program that provides people with the knowledge and skills to help them take control of their financial future. In 2017, the program was enhanced to include a greater focus on financial capability. For example, the website features new content addressing financial needs in various stages of life, including interactive tools that enable users to practice their skills and gain confidence in their knowledge of a topic. The Hands on Banking program also aligns with Common Core State Standards for English language arts and math that many K-12 school districts follow. Well Fargo partner's with school districts, government agencies, and nonprofits to drive awareness of the Hands on Banking program, with a focus on reaching underserved communities. Also, in 2017, they expanded their collaboration with the National Council for Negro Women, National Disability Institute, 100 Black Men of America, Thurgood Marshall College Fund, and other organizations to provide workshops and webinars to individuals and entrepreneurs. As a result, participants increased their knowledge of managing expenses by 21.7 percent; 48.7 percent indicated they would begin to save for emergencies; and 40.3 percent reported increased confidence in their ability to gain control of their financial situation.[13]

Barriers to financial services are complex and expanding access to the unbanked and underserved requires a multi-layered approach. By collaborating with companies, governments and non-governmental organizations, Visa is helping clients provide relevant and cost-effective solutions for the unbanked and underserved, partner with organizations that have relationships with the underserved, and advocate for an enabling that encourages investment and innovation.

Visa partnered with Filene Research Institute, to initiate the Reaching Minority Households Incubator, a program that worked with 40 credit unions across the U.S. and Canada to identify and test financial products and services designed to address the needs of minority communities who are often unnecessarily labeled as too risky to serve. With Visa's support, Filene Research Institute launched this "think and do" project to develop scalable solutions that meet the needs of minority populations.

As a result of this partnership, from June 2016 to December 2017, the Incubator worked with financial institutions across North America to issue loans to more than 58,000 households, totaling close to $85 million. To facilitate the scaling of one of the most successful programs tested, the

[12] Wells Fargo. (2017). *Living our Commitment: Corporate Social Responsibility Report*. Retrieved from https://www08.wellsfargomedia.com/assets/pdf/about/corporate-responsibility/2017-social-responsibility-report.pdf. *Id.*
[13] *Id.*

ITIN Lending Implementation Guide was released in October 2018 and regional workshops will be conducted in 2019 to train financial institutions on the ITIN methodology.

Providing underbanked minorities with formal financial products and services designed for their unique needs contributes to greater financial inclusion and financial health. In turn, banks and credit unions investing in these programs can tap into new markets. Ultimately, this work aims to refine and replicate these new models with hundreds of credit unions and community banks in the U.S. and Canada.

Additionally, Visa partnered with the Center for Financial Services Innovation (CFSI), a leading advocate for financial health to conduct consumer and industry research seeking to understand how secured cards can better serve "credit invisibles," especially among immigrant, minority, rural and military populations. Through extensive consumer surveys, focus groups and market research, CFSI and Visa tested innovative approaches to meeting consumer saving, spending and borrowing needs through secured cards. Outcomes of the project highlight how secured credit cards have the potential to be an effective way to help consumers build their credit score, while at the same time helping providers attract or retain customers.

As a result of extensive research, Visa and CFSI have identified key strategies to support the credit invisibles which include tailoring outreach and offerings specific to the needs of targeted segments; developing a clear strategy for cardholders to graduate to unsecured credit; and effectively communicating that plan and leveraging the collateral deposit to jumpstart the savings habit. This research has been shared throughout the industry to increase access to credit-building products such as secured credit cards and Visa continues to work with select issuers on improving their program offerings.

Another ETA member company, NCR, has launched a robust financial management tool for its customers, with the long-held belief that that financial literacy is a critical stepping stone to expanding access to financial services. Expanded broadband availability and high rates of adoption of mobile phones at all income levels have created the opportunity to create user-friendly, easy-to-understand financial management tools and put them directly in the hands of customers.

NCR's FinanceWorks puts powerful family financial management tools right at a person's fingertips. It allows a family to track its spending and budget, view a graphical display that breaks down spending by category, and gain valuable insights into spending behaviors. It also allows individuals to establish a budget, create savings goals and set up automatic deposits to savings accounts. For the financially underserved, fees associated with financial accounts have long been a serious impediment to financial health. Highly intuitive solutions like FinanceWorks allow families to stay on top of their finances and avoid unnecessary fees. Research has shown that individuals who use FinanceWorks access their financial information 51 percent more frequently than those who don't, helping them gain more control over their budget and finances.

ETA member companies view financial literacy as a priority across all participants in the payment's ecosystem. In today's world, with threats of cybercrime, companies and customers must be vigilant in understanding and properly protecting the personal financial information that they share. An important tool in facilitating trust in electronic transactions is ensuring that transactions can be made securely. UL is a company that specializes in identification, authentication, and authorization of digital payments and transactions. Establishing trusted identities is crucial in an interconnected and cashless world - from using your identity to travel, pay or seek medical care to building the digital trust essential for authenticating and authorizing these electronic exchanges. UL's identity management solutions support a more secure and streamlined identification process while safeguarding convenience and user-friendliness. Building on their security and identity management expertise, they support financial technology companies by ensuring that with every technological disruption they are able to meet the security demands of today and tomorrow. UL is driven by its global safety mission, which promotes safe living and working conditions for people everywhere through the application of science to solve safety and security challenges.

Mobile Banking Services and Innovations in ADA Compliance

The internet has allowed for the creation, deployment, and adoption of mobile banking services among many different demographic groups. These services have given the underserved more financial independence and security.

The most recent study conducted by the Pew Research Center found that 95 percent of the U.S. adult population has a mobile phone, and that 77 percent of mobile phones are smartphones, a steady increase from previous years.[14] Twenty-two percent of consumers in the study were underbanked, meaning they had an account through an FI and had used one or more alternative financial services (typically from a FinTech company) within the past year. Seventy percent of the underbanked were smartphone owners, and 17 percent owned a feature phone. Among the underbanked with mobile phones, 55 percent used mobile banking.[15]

One example of a demographic that has benefited immensely from the emergence of mobile banking is persons with disabilities. For example, touch screen-only accessibility features on phones and other devices allow a visually-impaired individual to single tap on any portion of the screen to hear an audible description of the button they are touching, and then to double tap to activate that button.

The latest generation of accessibility solutions are designed to work across multiple platforms so that persons with disabilities have access to a single accessibility system when accessing financial

[14] Demographics of Mobile Device Ownership and Adoption in the United States. (2018). Retrieved from http://www.pewinternet.org/fact-sheet/mobile/

[15] Consumer and Community Development Research Section, Division of Consumer and Community Affairs, Federal Reserve Board, Consumers and Mobile Financial Services 2016 2 (2016), http://www.federalreserve.gov/econresdata/consumers-and-mobile-financial-services-report-201603.pdf.

services through an ATM, tablet, or smartphone. The ability to learn one accessibility system and use it across multiple devices is an important advancement that helps people with sight, hearing, or other disabilities from having to learn multiple formats. As a result of these features, people with disabilities are now able to use the same simple and effective system whether they are performing a remote digital check deposit with their phone, transferring money on a tablet, or withdrawing cash at an ATM. This broader range of devices with highly effective accessibility features is making a range of financial services more available to people with disabilities.

Improvements and innovations focused toward underserved populations have occurred with in-store transactions as well. FinTech organizations are at the forefront of innovation and deployment of new technologies to help ensure compliance with the Americans with Disability Act (ADA). There has been special equipment developed for payment terminals so that merchants can better serve customers with impairments. Roughly fifty-seven million U.S. citizens with varied forms of disabilities engage in commerce, and it is important for merchants to have the tools they need to meet the needs of their customers – including the ease of paying with secure and expeditious forms of payment.

These technologies that have been developed and deployed include: ADA TITLE III compliant POS terminal dismount and release mounting stands, tactile PED, auditory, and visual aids at the payment point of sale.

Mobile Payments
Mobile payments are an exciting and secure alternative to cash and checks that allow consumers to pay for goods and services in a convenient, cost-effective manner. ETA member companies including Apple, Google, Samsung, PayPal, Stripe, and Chase are leaders in mobile payments, offering the secure tool to consumers, as well as encouraging merchants to accept mobile payments at checkout.

The adoption rate of mobile payments by consumers and merchants is on the rise. Seventeen percent of U.S. consumers now regularly use their smartphone to pay, up from 6 percent in 2014.[16] A recent survey of over 800 merchants revealed that since 2013, merchants who earn half of their total revenue through mobile payments has increased from 2 percent to 10 percent of all global merchants. Another 26 percent of all merchants believe that mobile payments will represent more than half of their revenue within the next two years. It is projected that U.S. in-store mobile payments will reach $75 billion in 2017 and $503 billion by 2020.[17]

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[16] Shirley Inscoe, Global Consumer Survey: Consumer Trust and Security Perceptions (Aite Group LLC) Feb. 2017, https://www.aciworldwide.com/-/media/files/collateral/trends/2017-global-consumer-survey-consumer-trust-and-security-perceptions.pdf.
[17] Kount, The Fraud Practice, Card Not Present.com & Braintree, 5TH ANN. MOBILE PAYMENTS AND FRAUD REPORT, 2017.

Most recently, on Cyber Monday in 2018, more than a third of all online sales were made on mobile devices. Cyber Monday drove $7.9 billion in online sales, including 36 percent – or $2.83 billion – made via mobile devices. The numbers represent significant year-over-year growth for e-commerce on Cyber Monday, with total sales increasing 19.3 percent over 2017.[18]

Cross River, a trusted financial services company that was founded in 2008, combines the expertise of a bank with the innovation of a FinTech company. Through its API connectivity infrastructure, Cross River provides a broad range of best-in-class payment products and services as a unique banking-as-a-platform solution, enabling its next-gen partners to benefit from same-day ACH transfers, expedited wire transfers, efficient debit card disbursements and money transfers, back-office support and compliance framework solutions.

By partnering with most other networks including Visa and Mastercard, Cross River's platform empowers the consumer with immediate access to their money and optionality in how they receive it, helping them manage their day-to-day cash needs more efficiently and effectively. The delivery time is the client's choice, whether it be same day, next day or at a later time.

Most recently, Cross River announced its partnership with Stripe to help those in the marketplace economy – such as workers in ridesharing, food delivery and other freelance occupations – by providing them with quicker access to their earnings through push-to-card payments.[19]

ETA is encouraged by this favorable trend and sees value for consumers in the access, ease, ubiquity, and security of mobile payments. When using mobile wallets for in-store payments, both customers and merchants are protected by the latest and greatest in payments security. Through technologies like tokenization and encryption, a customer's payment credentials are demonetized and transmitted securely as to reduce or eliminate the risk of fraud.

These payment solutions are especially helpful for smaller businesses who have a high traffic volume of credit and debit card transactions and want to move customers quickly. Mobile payments are fast and easy, and most importantly secure, so businesses can rest assured their customer's payment will be completed securely. By enabling mobile payments via smartphone or other connected device, merchants and their customers can access technology features beyond the capabilities of plastic cards, including loyalty programs, location-based offers, and other capabilities that enhance the point-of-sale experience.

Peer-2-Peer Payments

Peer-2-Peer payments (P2P) technology, which enables users to securely send money to each other in minutes via mobile applications, is transforming the way millennials engage in financial

[18] Adobe 2018 Holiday Predictions. (2018). Retrieved from http://adobeenterprise.lookbookhq.com/adi2018.

[19] Cross River Bank Partners with Stripe to Power the Marketplace Economy with Push-To-Card Payments. (2019). Retrieved from https://www.prnewswire.com/news-releases/cross-river-bank-partners-with-stripe-to-power-the-marketplace-economy-with-push-to-card-payments-300775260.html

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transactions. In most cases, the transfer of payment is free for the user, and comes directly out of his or her bank account or credit card (which they have linked to the mobile application). P2P, first popularized by PayPal, has since been offered by Google, Venmo, and others.

The primary uses for P2P among millennials is to easily split the cost of goods or services rather than relying on cash or check for reimbursement. PayPal's P2P app, Venmo, has carved out a niche among younger consumers in the U.S. In 2017, total transaction volume reached $35 billion. Venmo continues to see explosive growth, reaching a record $10.4 billion in transactions in the fourth quarter of 2017 alone.[20]

Venmo can also integrate a user's Facebook account with their bank accounts, allowing them to make payments to other friends in their Facebook social network.

In June of 2018, PayPal announced an additional service through Venmo that would speed up money transfers between Venmo and users' bank accounts for those with supported Mastercard and Visa debit cards. This new "instant transfers" service is available at a rate of $0.25 per transaction, and will deliver funds in a matter of minutes, instead of the day or so it typically takes when using PayPal or Venmo.[21]

Square introduced its own P2P product – Cash App. The Cash App allows users to get started without a bank account and get a Cash Card, which is a free Visa card that provides them with real-time access to the funds they store in their Cash App. Cash Card also allows people who aren't able to sign up for a credit card to get "credit card rewards" - style benefits for free. As December 2017, Square recorded 7 million active individuals using the Cash App.[22]

Expanded Internet Access

In the last decade, financial services have expanded into our growing internet-based economy. Access to the internet, often through multiple devices, has become essential for American families in many facets of their lives, including commerce, recreation, work, and education. In many instances, low-income and rural populations access the internet primarily or solely through their smart phones. And, as previously discussed, there has been a rise in mobile banking among these demographics. ETA member companies are working to expand affordable access to the internet in underserved communities both domestically and abroad by improving infrastructure and reducing costs so that more people can connect to the web-based world.

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[20] PayPal Reports Fourth Quarter and Full Year 2017 Results." *Business Wire*, 31 Jan. 2018, www.businesswire.com/news/home/20180131006195/en/PayPal-Reports-Fourth-Quarter-Full-Year-2017.
[21] Sarah Perez, *Instant bank transfers are coming to PayPal and Venmo*, TECH CRUNCH, (Jun. 20, 2017), https://techcrunch.com/2017/06/20/instant-bank-transfers-are-coming-to-paypal-and-venmo/.
[22] Del Ray, J. (2018). Square's Venmo competitor — the Cash app — had more than seven million customers in December. Retrieved from https://www.recode.net/2018/2/27/17059182/square-cash-app-monthly-active-users-customers-seven-million-december-venmo

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T-Mobile, for example, serves a high number of "smartphone dependent" customers (meaning those who own a smartphone but lack home broadband)[23] and has recognized that mobile internet access and unlimited data is crucial to making sure that consumers are not left behind in this new economy. That is why T-Mobile introduced its affordable unlimited data plan, T-Mobile ONE, which includes unlimited talk, text, and data, along with other features such as the "kickback" benefit that provides up to a $10 bill credit for customers that use 2GB of data or less in a billing cycle.

T-Mobile has also partnered with The Department of Housing and Urban Development ("HUD") as a national stakeholder of the ConnectHome Nation Program. Led by HUD's national non-profit partner, EveryoneOn, ConnectHome Nation is a public-private collaboration to narrow the digital divide for families with school-age children who live in HUD-assisted housing. ConnectHome initially launched in 27 cities and one tribal nation and has expanded into more than 100 communities across the nation, connecting 350,000 people with the support they need to access the Internet at home. Through the ConnectHome Nation program, T-Mobile offers devices to low-income communities that increase broadband access and support technical training and digital literacy programs.

Likewise, T-Mobile has demonstrated its commitment to providing a broad range of accessible product offerings and complementary service plans that support customers with specialized communications needs, including consumers with hearing loss, vision impairments or limited mobility. These offerings range from data-only plans, 411 credit assistance, and alternate billing formats, to handsets with accessibility features. T-Mobile also extends several of the benefits associated with its standard plans (unlimited data plans, no contracts, Smartphone Equality, visual voicemail and others) to customers utilizing these specialized plans and devices. In addition, T-Mobile's trained representatives provide accessible customer care and support for wireless network and billing inquiries.

In a global economy, access to the internet is a critical driver of economic growth. With more people connected to the web-based world, the affordability, ease-of-use, and security of electronic transactions helps power the economy. Likewise, the benefits of expanded affordable internet access are prevalent in underserved communities within the United States. Moving consumers into a more secure financial system are one of the many benefits that expanded access to the internet provides.

[23] Aaron Smith, U.S. Smartphone Use in 2015, PEW RESEARCH CENTER, (Apr. 1, 2015), http://www.pewinternet.org/2015/04/01/us-smartphone-use-in-2015/.

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Online Small Business Lending

Small businesses are the backbone of the American economy, creating more than 60 percent of net new jobs and employing approximately half of the workforce in the private sector.[24] Unfortunately, many small businesses are unable to access traditional credit for purposes of growing their businesses due, in part, to high search, transaction, and underwriting costs.[25] Fortunately for small businesses, ETA's members and other new and innovative technology companies are expanding access to credit and offering attractive alternatives to traditional loans.[26]

Online small business lenders are willing to provide small businesses with smaller loans (typically less than $250,000) and shorter terms[27] that are well suited for their day–to–day operating needs or short-term use cases. Using sophisticated, data-driven algorithms to assess the creditworthiness of potential borrowers, lenders are able to reach funding decisions quickly and efficiently and provide access to capital to approved borrowers expeditiously,[28] in some cases within 24 hours.

A new report on small business lending in the United States reveals that some of the nation's largest FinTech small business lending platforms funded nearly $10 billion in online loans from 2015 to 2017, generating $37.7 billion in gross output, creating 358,911 jobs and $12.6 billion in wages in U.S. communities.[29]

According to the study, nearly one-third of online small business borrowers are located in underserved communities and about 24 percent of these borrowers are microbusinesses with less than $100,000 in annual sales and two-thirds have less than $500,000 in annual sales. About 42 percent of small businesses borrowed between $10,000 and $50,000 from the five online small business lenders with the average amount being $55,498.

These data-based processes are creating new opportunities for borrowers and lenders. The platforms are agile, nimble, scalable, and can work in tandem with related financial service offerings. For example, online small business lending programs can be synced with payment platforms to assist in underwriting decisions in nearly real-time, and also provide convenient

[24] Federal Reserve Banks of New York, Atlanta, Cleveland and Philadelphia, Joint Small Business Credit Survey Report, 2014 at 4 (released February 2015) ("Joint Small Business Credit Survey Report"); Karen Gordon Mills, Brayden McCarthy, The State of Small Business Lending: Credit Access During the Recovery and How Technology May Change the Game, Harvard Business School Working Paper 15-004 (July 22, 2014) at 3 ("State of Small Business Lending").
[25] 80 Fed. Reg. 42866, 42867 (July 20, 2015).
[26] In 2014, almost 20 percent of small business applicants sought credit from an online lender. *Id.*
[27] *Id.*
[28] State of Small Business Lending at 6-7; Scott Shane, Why Small Businesses Are Turning to Online Lenders (April 15, 2015), available at http://www.entrepreneur.com/article/245075.
[29] Pham, N., Triantis, A., & Donovan, M. (2018). *The Economic Benefits of Online Lending to Small Businesses and the U.S. Economy*. ndp | analytics. Retrieved from https://hollandfintech.com/wp-content/uploads/2018/06/OnlineLendingMay252018.pdf

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repayment options for small businesses. FinTech platforms have also been used by Community Development Financial Institutions ("CDFIs") and other non-profit community lenders and development organizations to help increase efficiency in the lending process and identify creditworthy small businesses.[30]

OnDeck, for example, announced in September 2015 an expansion of its partnership with the Association for Enterprise Opportunity ("AEO"). OnDeck is licensing its technology platform to AEO's community lending partners who participate in a program called TILT Forward that improves access to capital for small businesses owners in underserved communities. The expected impact will be an increase in the number of CDFI's participating in the program, and a facilitation of $10 million in loans to small businesses across the country.[31]

In addition to partnerships with CDFI's, online small business lenders are partnering with FIs to service small business loans. Because online platforms and systems are often more efficient and cost-effective for underwriting small dollar loans, companies like OnDeck are able to provide a valuable service to FIs in order to expand their market reach. For example, JPMorgan Chase uses the OnDeck digital platform to service its small business customers. The loans are Chase-branded, held on the FI's balance sheet, and made using JPMorgan's underwriting criteria.[32] What was once a process that could take up to one month for approval now is digital and takes on average just one day. This reduction in processing time is a valuable benefit for Chase customers who need quick and affordable access to capital to grow their small businesses.

OnDeck has also partnered with the SCORE Foundation, a non-profit organization comprised of more than 11,000 volunteer mentors who provide free and confidential small business mentoring and advice. As the sponsor of SCORE's Financing Center for Excellence, OnDeck provides all small business owners who apply to OnDeck with special access to mentoring and advice from SCORE through a dedicated online experience. OnDeck has commitment to small business credit education by launching their Business Loans platform, an online resource dedicated to explaining business financing and helping small businesses understand their business financing questions.

In late 2013, PayPal, Inc. and WebBank launched a unique online small business lending platform called PayPal Working Capital ("PPWC"), which enables PayPal merchants to apply for and obtain closed-end loans quickly. These loans charge a single fixed fee, have no periodic interest or maturity date, no late payments, and are repaid through a percentage of the merchants' PayPal sales. In 2017, PayPal announced that the product had reached $3 billion in funding to

[30] See the AEO's Tilt Forward initiative as an example, http://www.tiltforward.com/our-partners/.
[31] https://investors.ondeck.com/press-and-events/press-releases/press-release-details/2015/OnDeck-Powers-Community-Lenders-by-Licensing-Technology-and-Improving-Small-Business-Access-to-Capital/default.aspx.
[32] Kevin Wack, *Chase Quietly Launches Its Online Small-Business Loan Platform*, AMERICANBANKER, (April 12, 2016), http://www.americanbanker.com/news/marketplace-lending/chase-quietly-launches-its-online-small-business-loan-platform-1080382-1.html.

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entrepreneurs in the U.S., United Kingdom, and Australia. Nearly 35 percent of PPWC loans go to low and moderate-income businesses, compared to 21 percent of FI loans, and more than 61 percent go to entrepreneurs and businesses owned less than five years. What's more is that nearly 25 percent of PPWC loans were disbursed in the 3 percent of counties that have lost ten or more banks since the 2008 financial crisis, illustrating a direct benefit that this product has on underserved populations.[33]

Traditionally, lenders have been reliant primarily on business owners' personal financial history and credit scores to underwrite small businesses for funding, oftentimes taking weeks or months to reach a decision. Through the use of improved technology, Kabbage is able to reach a decision for customers nearly immediately based on real-time business data, which positively impacts the percentage of businesses approved for funding.

Kabbage, which launched in 2011, is an online small business lending platform that provides short-term lines of credit to its customers and serves the loan needs small and mid-sized businesses. Kabbage utilizes an automated data and technology platform to underwrite businesses in as little as minutes based on real-time data and extends access to more than 1,400 small businesses every day through its lending platform.[34] By its own estimation, more than 40 percent of its customers are either woman or minority owned businesses. Applicants securely connect third-party channels to provide data such as transactional information, vendor payments, accounting information, social data, online reviews and shipping records, giving Kabbage a complete, accurate and up-to-the-minute view of the health of the business.

Another way Kabbage eases the loan process and management for small business owners is through its mobile app experience. Through the app, small business owners can complete the application process, receive a decision, and begin using their lines of credit immediately. Once approved, customers can withdraw funds, make payments and manage their accounts anytime, anywhere through the app. The Kabbage app addresses business owners' need to securely access funds quickly, and on-the-go. The mobile access to their loans assists business owners when they need to negotiate pricing, cover an unexpected expense or take advantage of a timely opportunity.

[33] Usman Ahmed, Thorsten Beck, Christine McDaniel & Simon Schropp, *Filling the Gap: How Technology Enables Access to Finance for Small-and Medium-Sized Enterprises, vol.* 10, number 3/4 innovations, MIT Press, 35-48, 2016.
[34] Kabbage, Inc. (18, October 24). *Small Businesses Access More Than $10 Million Per Day with Kabbage®* [Press release]. Retrieved from http://www.prweb.com/releases/small_businesses_access_more_than_10_million_per_day_with_kabbage/prweb15815859.htm.

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Since 2017, Kabbage has seen a 68 percent increase in the total amount of working capital accessed via Kabbage on mobile devices.[35]

Likewise, the Kabbage Card lets users withdraw the exact amount of funding they need from their lines of credit at the point of purchase anywhere Visa is accepted. Kabbage has seen a 283 percent growth in adoption of the Kabbage Card since 2017. By building solutions designed to remove the friction small businesses face when seeking funds, the amount of dollars accessed via Kabbage totals more than $5.5 billion.[36]

Beginning in 2015, Kabbage made its platform available so other organizations can leverage the technology to power SMB and consumer loans. By utilizing the Kabbage Platform, financial institutions can better serve their small business customers in a cost-effective and highly scalable way at a fraction of the cost.

Small business owners typically work during traditional banking hours, FinTech companies, such as Kabbage, have seen an increase in the need for working capital outside of those conventional hours. The total number of dollars accessed through Kabbage outside of typical banking hours increased more than 6,000 percent between 2011 and 2018. The growth illustrates small business owners are increasingly comfortable accessing capital online, and they rely on the convenience of managing cash flow needs any time of day, particularly outside of open business hours for most banks. Sixty-four percent of after-hours lending was accessed during the work week, totaling $754 million. The remaining 36 percent occurred on Saturdays and Sundays, totaling $429 million.[37]

Square's lending arm, Square Capital, began offering merchant cash advances to its customers in 2014. Since then, Square Capital has shifted away from offering merchant cash advances and now partners with Celtic Bank to offer the Square Capital Flex Loan. Square Capital has facilitated $3.5 billion in combined merchant cash advances and loans to more than 200,000 small-business customers. By lending between $500 - $100,000 businesses of all sizes are eligible for a Square Capital loan.[38]

Technology and data have allowed Square to better serve the needs of underrepresented populations—56 percent of loans issued through Square Capital went to women-owned businesses, compared to 18 percent of traditional loans and 36 percent of loans through Square

[35] Kabbage, Inc. (18, June 28). *Small Businesses Access More Than $1 Billion of Working Capital During Non-Banking Hours through Kabbage* [Press release]. Retrieved from https://www.kabbage.com/pdfs/pressreleases/After-hour Lending Press Release_FINAL.pdf. *Id.*
[36] *Id.*
[37] *Id.*
[38] Square. Grow Your Company with Our Small Business Loans. Retrieved from https://squareup.com/us/en/capital/access

Capital went to minority-owned businesses, compared to 27 percent of traditional loans.[39] Square has also been able to offer capital at amounts far lower than what has been available to small businesses from traditional lenders—Square's average small business loan size is approximately \$6,000.[40] Furthermore, 80 percent of Square's small business loans are made outside of major metropolitan areas, exactly where they are needed most since small business loans in rural communities has declined 50 percent since 2004.[41]

In October 2018, Square launched a service called Square Installments that enables some customers of its small-business sellers to pay for purchases in installments. With Installments, Square simultaneously helps consumers make big purchases with the option to pay overtime and helps small business owners grow their sales by giving their customers more purchasing flexibility. Consumers can use Installments to make purchases between \$250 and \$10,000, and they can choose from 3, 6, or 12-month installment plans priced between 0-24 percent APR. Square also lays out the exact cost of the repayment plans in absolute dollars, not just APR, to best inform the consumer's choice.

Another company that participates in online small business lending is Lendio. Since 2011, Lendio has provided a free online service that connects businesses with lender options from its marketplace (like Kayak, AirBnB, or Yelp) based on information provided by the small business. Small business owners fill out one application and it gives them access to multiple loan products from over 75 lenders including online lenders like Kabbage and Fundbox as well as large institutions like Bank of America and American Express. Lendio handles the customer experience from start to finish, compiling offers for the borrower to compare rates, terms, and payment amounts, and providing expert advice to help them select the ideal loan for their business.

Lendio's use of technology makes small business lending simple for the business and the lender by decreasing the amount of time and effort it takes to secure funding. Lendio has facilitated more than \$850 million in small business loans which has fueled an estimated \$3 billion back into the U.S. economy. Through their Lendio Gives program, they have funded more than 5,000 Kiva microloans that has provided more than \$130,000 in loans to underserved business owners in 78

[39] Square Capital statistic: Based on an April 2018 survey of 6,397 respondents who have accepted a loan through Square Capital. Traditional loan statistic: SBA 7(a) Lending Statistics for Major Programs as of 7/13/2018.
[40] According to the 2017 Survey of Terms of Business Lending, the average small business loan size from large national banks is approximately \$593,000.
[41] Simon, R., & Jones, C. (2017). Goodbye, George Bailey: Decline of Rural Lending Crimps Small-Town Business. Retrieved from https://www.wsj.com/articles/goodbye-george-bailey-decline-of-rural-lending-crimps-small-town-business-1514219515

countries.[42] Lendio Gives allocates over 90 percent of total funds donated to loans for females or female groups in the developing world and beyond.[43]

Lendio's marketplace model allows small business borrowers to shop the most small business loan options in the world for free. There are nearly 30 million small businesses in the U.S. and 80 percent of them want small-dollar loans. The typical loan size granted through Lendio's marketplace is $40,000, and the industries best represented include retail, restaurants and construction. Lendio's marketplace is a faster, easier way for these small business owners to get financing including credit cards, lines of credit, short-term specialty loans and long-term traditional loans.

Lendio's technology not only makes the application process fast and easy, it puts capital in the hands of small business owners much quicker than a traditional FI. Each borrower is assigned a funding manager that is consultative and there to answer questions from the moment an application is submitted until the loan closes—and even after. Getting access to Lendio's marketplace and technology, comprehensive training, branded markets tools and national advertising, partnerships, and support team allows them to reach a segment of borrowers who are cautious about applying for lending exclusive online.

By providing a highly-secure, fully compliant and innovative banking platform, Cross River, enables its partners to deliver innovative financial solutions and offer traditional banking products to customers while ensuring consumer protection and regulatory compliance. By utilizing Cross River's platform, consumers have access to specific banking APIs on which they can run their services, leveraging best in class banking technology coupled with compliance excellence in a safe and sound environment. By increasing access to a wide range of banking services, Cross River, is helping to expand active participation of underserved communities in the financial ecosystem.

Partnering with leading marketplace lending platforms (such as Affirm, RocketLoans, Upstart and Best Egg), Cross River provides consumers access to responsible and affordable capital, while maintaining their compliance, risk, credit, and underwriting criteria. Cross River has funded nearly $20 billion in loans and more than 7 million consumers have benefited from access to affordable and responsible capital. Cross River not only originates loans but owns the end-to-end process and life cycle of each loan, all while ensuring consumer protection and compliance remain a top priority.

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[42] Lendio. (2019). Lendio Provides More Than 5,000 Kiva Loans to Support Women-Owned Businesses Around the World. Retrieved from https://www.lendio.com/press-releases/lendio-provides-5000-kiva-loans/
[43] Check out the impact we've made on Kiva!. (2019). Retrieved from https://www.kiva.org/team/lendio_gives/impact

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Interactive, Automated Tellers

In 2013, the number of federally insured FIs fell to 6,891 - the lowest number of retail FIs in the U.S. since 1934. The financial services industry is continuously looking for innovative ways for consumers to access financial services. In addition to mobile banking services, FIs are deploying a new generation of technology to transform traditional branches and make them more economically sustainable in previously underserved communities. By harnessing these new technologies, FIs are establishing a new model where branches have smaller physical footprints but offer a wider range of services at more convenient times.

For example, NCR has deployed a new technology referred to as the interactive teller. By incorporating video and networking capabilities into an advanced automated teller machine, the interactive teller transforms a traditional ATM with a limited range of services into a full-service facility. Customers are able to speak live to a teller on the video screen 24 hours a day and receive face-to-face assistance with virtually any service the FI offers. Incorporating interactive teller technology allows an FI branch to operate with a significantly smaller physical footprint. A branch's 2,500 square foot area can be reduced to as little as 500 square feet, yielding substantial cost savings. In addition, the services offered can be expanded at little or no cost. An interactive teller enables 24-hours-a-day availability of assisted banking, often times in multiple languages.

Technologies like interactive tellers allow FIs to operate branches with more services and at lower costs, reaching more communities than was previously possible.[44] The 24-hour interactive service makes banking accessible to consumers who may have found it difficult to access these services in a more traditional manner. Those that benefit from these innovative products and services include low-income consumers who work non-typical hours, those living in rural communities, and persons with disabilities. Small businesses are changing the ways they engage with financial services. By simplifying the financial life of small business owners, ETA members can make sure their services remain a viable option and not require them to fit traditional banking hours.

Conclusion

ETA and its members support an inclusive financial system that provides high quality, secure, and affordable financial services for the broadest possible set of consumers. ETA member companies touch, enrich, and improve the lives of underserved consumers while making the global flow of commerce possible. A goal of ETA member companies is to continually enhance the electronic payments and financial ecosystem so that it is accessible for all consumers, while ensuring their transactions can be completed securely, efficiently, and ubiquitously. A key driver to achieving such a system is the development of new technologies that allow the underserved to access FI and

[44] Abha Bhattaral. *Banks turn to video tellers to cut costs*, The Washington Post, (April 20, 2014), https://www.washingtonpost.com/business/capitalbusiness/banks-turn-to-video-tellers-to-cut-costs/2014/04/18/a7b28e7c-bb59-11e3-9a05-c739f29ccb08_story.html.

FinTech company financial products and services. ETA encourages policymakers to support these goals through policies that support innovation and the use of technology in financial products and services.

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If you have questions regarding the White Paper, or would like more information about ETA, please visit www.electran.org, or contact Scott Talbott, SVP of Government Affairs, at stalbott@electran.org, or Jeff Patchen, Manager of Government Affairs, at jpatchen@electran.org.