

issue brief | november 2009

ANNUAL REPORT ON DIVERSITY ON BANK BOARDS OF DIRECTORS

Adam Briones

Program Manager, Community Reinvestment

Introduction

Last year, the U.S. government armed with taxpayer dollars, announced a series of unprecedented efforts aimed at “saving” the U.S. banking system. Federal Reserve Chairman Bernanke and Former Treasury Secretary Paulson crafted a bailout plan that created a \$750 billion bailout plan to stabilize the banking system. Since then, it has become evident that without these efforts, many banks might not exist today.

The government’s actions have made one thing clear, that the U.S. banking system is a key component of our economy and should be rescued by the taxpayers when it is in trouble. Using this logic, one could also argue that banking services are critical for the nation’s health and should be preserved and made available to all Americans.

Greenlining is issuing a report for the fifth consecutive year that examines diversity on the boards of the largest financial institutions in the United States. Our findings indicate that the top banks vary widely in their commitment to diversity at the top leadership level.

Diversity Leads to Effectiveness

Diverse boards produce greater innovation, are more effective, and are more independent than

homogenous ones. In May of 2008 CalPERS and CalSTERS, which together represent two of the three largest public pension funds in the United States, committed to strongly evaluating the diversity of boards of companies they consider for investments. This decision was based in part on a study that CalPERS commissioned that found that diverse boards help to produce, “higher performance and financial metrics such as: return on equity, return on sales, and return on invested capital.” (Virtcom, 2008)

People of color, now 30% of our nation, are a large and growing proportion of bank customers and will only become more important in the coming decades when they reach 50% of our population in 2050. In California, people of color already represent 60% of the population and will be 75% of the population by 2050. How will companies that fail to embrace diversity survive in the long-term with an increasingly diverse consumer population?

A 1992 Federal Reserve Bank of Boston report entitled *Closing the Gap*, recommended that “Hiring and promotion practices that foster racial and ethnic diversity can help a financial institution gain a competitive edge in cultivating business in underserved markets.”



THE GREENLINING INSTITUTE
1918 UNIVERSITY AVENUE, 2ND FL.
BERKELEY, CALIFORNIA 94704
T: 510-926-4001
F: 510-926-4010
WWW.GREENLINING.ORG

Contact
Preeti Vissa
Program Manager, Comm. Reinv.
T: 510-926-4006
E: preetiv@greenlining.org

Diversity of the Boards of Directors of the Ten Largest Banks in the United States

| Rank | Bank | African Amer. | Latinos | Asian Amer. | Total Number of Board Members | Total Board Members of Color | Percent Minority |
|------|-----------------------------------|---------------|---------|-------------|-------------------------------|------------------------------|------------------|
| 1 | Citigroup Inc. | 3 | 2 | 1 | 15 | 6 | 40% |
| 2 | Wells Fargo & Co. | 1 | 1 | 1 | 19 | 3 | 33% |
| 3 | MetLife Inc. | 2 | 1 | 1 | 15 | 4 | 26% |
| 4 | SunTrust Banks Inc. | 3 | 0 | 0 | 14 | 3 | 21% |
| 5 | Bank of America Corp. | 2 | 1 | 0 | 19 | 3 | 15% |
| 6 | U.S. Bancorp | 2 | 0 | 0 | 13 | 2 | 15% |
| 7 | Bank of New York Mellon Corp. | 1 | 0 | 0 | 15 | 2 | 13% |
| 8 | PNC Financial Services Group Inc. | 2 | 0 | 0 | 18 | 2 | 11% |
| 9 | JP Morgan Chase Bank | 1 | 0 | 0 | 11 | 1 | 9% |
| 10 | State Street Corp. | 1 | 0 | 0 | 13 | 1 | 7% |

Despite evidence that suggests diversity leads to greater effectiveness, financial institutions have been slow to embrace diversity. A 2006 United States Government Accountability Office (GAO) report found that from 1993-2004 “overall diversity at the management level in the financial services industry did not change substantially.”

Ranking the Banks on Board Diversity

As the chart demonstrates, only Citigroup, Wells Fargo, and MetLife’s board reflect the diversity of our nation. In particular, six of Citi’s fifteen members are people of color, including at least one African American, Asian American, and Latino. Of the other banks surveyed, only these three had at least one African American, Asian American, and Latino board member.

State Street Corp. of Boston was the least diverse bank surveyed, with 7% (1 out of 13) people of color on its board. JP Morgan Chase and PNC rounded out the bottom three with 8% and 11%, respectively. None of the three have any Latinos or Asian Americans on their boards. This is surprising considering the fact that there are 47 million Latinos and 15 million Asian Americans in the nation, and both populations are rapidly growing.

Recommendations: Adopt Citigroup’s 40% Model

- Federal Reserve Chairman Ben Bernanke and U.S. Treasurer Timothy Geithner should jointly call for an investigation that examines diversity on board and management of major financial institutions. They should immediately seek comment from major corporations detailing progress and efforts in diversity since 2005.
- Financial Services Chairman Barney Frank and Senator Chris Dodd should hold hearings on diversity in financial services, especially as it relates to TARP and “Too Big to Fail” discussions.
- The Federal Reserve Bank should have each of its 12 district banks adopt the Citi model of 40% people of color on their boards, including at least one person from each of the major ethnic groups.
- Major banks should voluntarily embrace the Citigroup standard of 40% minorities on their board of directors, including at least one person from each of the major ethnic groups.

Reference

Virtcom Consulting, “Board Diversification Strategy: Realizing Competitive Advantage and Shareholder Value.” Oct. 2008.

THE GREENLINING INSTITUTE is a national policy, organizing, and leadership institute working for racial and economic justice. We ensure that grassroots leaders are participating in major policy debates by building diverse coalitions of grassroots leaders that work together to advance solutions to our nation's most pressing problems.