



Financial Services and the Competitive Advantage of Racial Equity

How Advancing Racial Equity Can Create Business Value

EXECUTIVE SUMMARY

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FOREWORD

Despite decades of progress, people of color still suffer worse outcomes in health, education, career, and access to financial services than their White counterparts. This racial inequity is not inevitable; it is a product of structural racism, the explicit and implicit policies and practices embedded in “business as usual” that were designed to serve a majority White population and economically exclude people of color. Yet, a majority of youth today are of color, and, within 25 years, the majority of Americans will be people of color. For corporations, this means that the needs and experiences of their shareholders, employees, and consumers will shift rapidly. To compete successfully in the markets of tomorrow, business leaders must adapt their products and operations to respond to this dual challenge of historical racial exclusion and future demographics. This is not only a matter of social responsibility; it is also a competitive necessity.

Racial equity and competitive strategy have generally been two separate areas of research. For two decades, PolicyLink has been a national leader on equity, while FSG has counseled multinational corporations on the competitive advantage of positive social impact. Working together, we have combined our expertise to explore the economic consequences of racial inequity for corporations operating in the United States.

In 2017, we jointly published a report entitled **The Competitive Advantage of Racial Equity**, citing a growing number of companies that have found new sources of growth and profit by driving equitable outcomes for employees, customers, and communities of color. This new two-part report deepens that work by focusing on two specific industries with some of the most severe racial inequities: health care and financial services. Our research has identified key strategic actions and internal catalysts that can help companies in these industries prosper by addressing the distinctive needs of customers of color. Each report includes case studies of companies that are offering innovative new products and services—or

even influencing government policy—to expand their markets and better position themselves for the demographic shift already well underway.

Diversity and inclusion efforts remain important. However, diversity and inclusion practices at most companies today are peripheral to corporate strategy, product development, and operations, and this limits their ability to address many critical aspects of racial inequity. This research highlights the importance of strong diversity and inclusion practices as a *catalyst* that can enable companies to acknowledge and identify opportunities to advance racial equity through their core business. As exemplified in our case studies, an intentional approach to identifying and solving the challenges faced by communities of color that goes beyond trainings on cultural competency, multicultural campaigns, or merely being “race blind” is essential to both overcoming structural racism and improving a company’s economic performance. And, those corporate leaders who pursue this approach will often find that the innovations they develop to meet the needs of people of color actually benefit all of their customers and employees.



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In the United States today, people of color^a—regardless of education and career—have significantly less income and wealth than their White counterparts. This is not by accident. Historically, public policies in America supported by private-sector financial institutions intentionally restricted people of color from buying homes in predominately White neighborhoods where property values rose over time. These policies and practices contributed to the disproportionate home ownership and appreciation in White neighborhoods compared to Black neighborhoods. Disparity in home ownership has been the biggest single contributing factor to the present-day racial wealth gap. Other factors have also contributed to this inequity. For example, labor market discrimination has forced Black people into fewer and less advantageous employment opportunities than their White counterparts. Many such policies and practices and their inequitable impacts are rooted in structural racism. Deeply entrenched in America's history, *structural racism* is the system by which public policies, institutional practices, cultural representations, and other norms work in various, often mutually reinforcing ways to perpetuate racial inequity.

Even today, while banks and other lenders are legally restricted from discrimination and exclusions may be rare or less overt, there is stark evidence that, intentionally or unintentionally, people of color have less access to credit and pay higher interest rates. Implicit biases associate race with risk, stifling consumer and business loans to people of color and leaving a market of unbanked customers estimated at \$141 billion. This has profound implications for the U.S. economy and, in particular, for the financial services sector as the country becomes a majority nation of color over the next 25 years. If the future repeats the past, over the next three decades White household wealth will increase by \$46,000 to an average of \$186,900, while Latinx household wealth will increase only \$3,400 to a median of \$9,700 and median Black household wealth will decrease by half to a mere \$1,700.

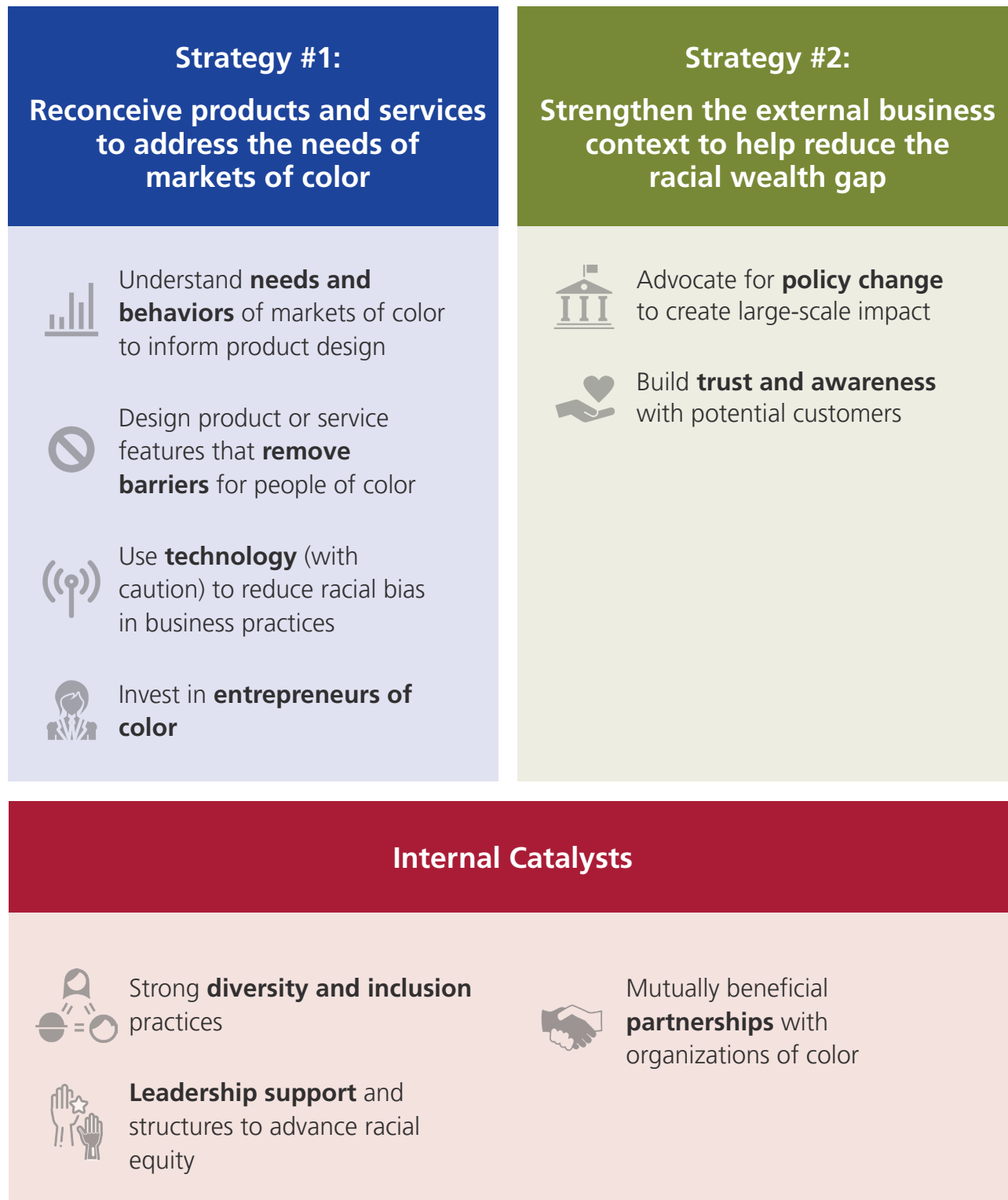
a. In this paper we use the phrase 'people of color' to refer to people of nonwhite race or ethnicity, including Latinx or Hispanic people.

The relationship between financial institutions and consumers of color is one of interdependence. The success of financial institutions depends on consumers investing in them and borrowing to purchase homes or grow businesses. Yet, financial institutions historically have not served—and still do not serve—markets of color effectively or fairly. “Race-blind” practices, designed to eliminate discrimination in the financial services sector, have not been sufficient to overcome the legacy of structural racism. It is essential to intentionally change both business practices and public policy if the financial industry wants to benefit from serving the growing population of consumers of color.

In our 2017 report **The Competitive Advantage of Racial Equity**, we concluded that advancing racial equity is not only a moral imperative but also an economic opportunity to enhance every company’s bottom line. This report focuses specifically on opportunities in the financial sector to create business value by using credit, savings, and investment products to address the unique challenges faced by consumers of color. The companies featured in this report—**Citi, Oportun, OneUnited Bank, Prudential Financial**, and **Impact America Fund**—exemplify the opportunities available to companies engaged in consumer and small business banking, retirement services, and venture capital. By addressing barriers that prevent full financial access for consumers who have been historically excluded, such as consumers of color, these companies are also discovering benefits to their entire customer base.

The companies featured in this report have found competitive advantage through corporate strategies that create new opportunities to serve communities of color. Specifically, these companies *reconceive products and services* to better meet the needs of people of color. They also leverage their public policy arms to *strengthen external conditions in the business environment*. In each case, a strong and diverse internal enabling environment is necessary to act as an internal catalyst for these strategies (see Figure 1).

FIGURE 1. STRATEGIES AND INTERNAL CATALYSTS



Broad improvements to the financial situation for people of color will require structural changes beyond improved access to financial services, including changes in tax policy, consumer protection, education, and wages. However, as the case studies profiled in this report suggest, financial institutions can play critical roles both by using their political and market influence to change policy and by strengthening the communities in which they operate.

These five examples represent only a sliver of the opportunity that lies ahead for financial institutions. The financial returns and social impact are likely to be significantly greater when more mainstream companies authentically pursue racial equity strategies. While we are encouraging companies to lean in and be the forefront of change, we also recommend a cautious approach that does not inadvertently repeat the mistakes of the past. If today's financial sector business leaders want to succeed in the America of tomorrow, they must begin to acknowledge the structural racism that created the racial wealth gap and commit to authentically partnering with and learning from organizations led by people of color. With these lessons in mind, financial institutions will need to modify internal practices, redesign the products and services they offer, and support a policy environment that creates financial security and builds economic prosperity for all.

Disparity in home ownership has been the biggest single contributing factor to the present-day racial wealth gap.

DOWNLOAD THE FULL REPORT AT:

<https://www.fsg.org/publications/financial-services-and-racial-equity>

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About FSG

FSG is a mission-driven consulting firm supporting leaders in creating large-scale, lasting social change. Through strategy, evaluation, and research we help many types of actors—individually and collectively—make progress against the world’s toughest problems.

Our teams work across all sectors by partnering with leading foundations, businesses, nonprofits, and governments in every region of the globe. We seek to reimagine social change by identifying ways to maximize the impact of existing resources, amplifying the work of others to help advance knowledge and practice, and inspiring change agents around the world to achieve greater impact.

As part of our nonprofit mission, FSG also directly supports learning communities, such as the Collective Impact Forum, the Shared Value Initiative, and Talent Rewire, to provide the tools and relationships that change agents need to be successful.

Learn more about FSG at www.fsg.org.

About PolicyLink

PolicyLink is a national research and action institute advancing racial and economic equity by Lifting Up What Works[®]. Engaging the wisdom, voice, and experience of people in local communities, PolicyLink has found, is essential to finding solutions to the nation’s challenges.

Learn more about PolicyLink at www.policylink.org.

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