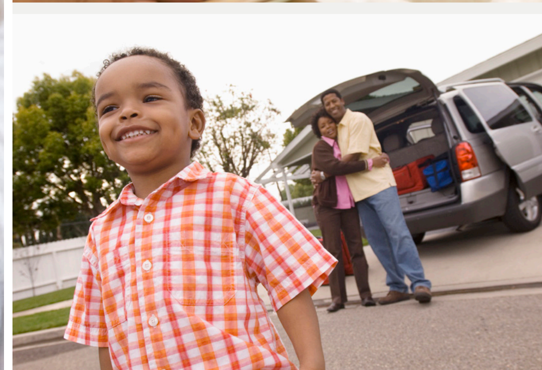

Financial Services and the Competitive Advantage of Racial Equity

How Advancing Racial Equity Can Create Business Value

LAKSHMI IYER AND DASHELL LARYEA

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.

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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.

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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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EXECUTIVE SUMMARY

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.[1] 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.[2]

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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).

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

FIGURE 1. STRATEGIES AND INTERNAL CATALYSTS

Strategy #1:

Reconceive products and services to address the needs of markets of color

- Understand **needs and behaviors** of markets of color to inform product design
- Design product or service features that **remove barriers** for people of color
- Use **technology** (with caution) to reduce racial bias in business practices
- Invest in **entrepreneurs of color**

Strategy #2:

Strengthen the external business context to help reduce the racial wealth gap

- Advocate for **policy change** to create large-scale impact
- Build **trust and awareness** with potential customers

Internal Catalysts

- Strong **diversity and inclusion** practices
- **Leadership support** and structures to advance racial equity
- Mutually beneficial **partnerships** with organizations of color

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.

INTRODUCTION TO THE CHALLENGE

The problem of the racial wealth gap is real, pervasive, and growing.

In the United States today, people of color—regardless of education and income—have significantly less income and wealth than their White counterparts.[b] White households have 13 times the wealth of Black households and 10 times that of Latinx households.[3] Asian American families have 68 cents for every dollar of wealth a White family owns.[4] Attending college does not help close the racial wealth gap—the median Latinx adult who attended college has similar wealth to the median White high school dropout.[5] Full-time work also does not guarantee a solution—the median Black household with at least one full-time worker has $10,800 in wealth, compared to the $82,400 held by the median White household.[6] This gap is only growing. Over the past 30 years, the average wealth of White families has grown by 84 percent, 1.2 times the growth rate for Latinx families and three times the growth rate for Black families.[7]

The racial wealth gap matters because it threatens the economic well-being of the nation. Less wealth translates into fewer opportunities for upward mobility and an inability to invest in retirement savings for oneself or an endowment for future generations. It is often compounded by income volatility, which contributes to challenges in recovering from unexpected setbacks.[8]

Before we step into the solutions, it's important to understand how we got here.

This is not by accident. Structural racism—a system in which public policies, institutional practices, cultural representations, and other norms work in various, often

b. Note: White people in America experience poverty as well. According to **research from PolicyLink**, 48 percent of all economically insecure people in the US are White. This report focuses on people of color because Black and Latinx residents are *disproportionately* economically insecure. People of color make up about 38 percent of the total U.S. population, but account for 52 percent of those living in economic insecurity.

mutually reinforcing ways to perpetuate racial inequity—has created obstacles to people of color building wealth.[9] For example, federally institutionalized practices of redlining intentionally restricted people of color from buying homes in particular neighborhoods with greater appreciation that are largely populated by White families. This has resulted in Whites becoming the primary home-owning class in America,[10] and research shows that lower rates of home ownership among Black families is the biggest contributing factor to the wealth gap between Black and White households.[11] Further, even when Black families own homes, lack of investment in schools, transportation, and walkability in Black neighborhoods contributes to a lower home value. Homes in majority Black communities are valued at half the amount of homes in communities with no Black households, which has led to a loss of $156 billion in wealth for Black households.[12]

Structural racism is still visible in exclusionary practices and implicit biases exercised by both large national banks and smaller community banks.[13, 14] For example, research shows that the minimum opening deposit is substantially higher in communities with majority Black populations ($80.60) and in communities that are more racially diverse without a White, Black, or Latinx majority ($97.00) when compared to majority White communities ($68.50).[15] Entrepreneurs of color pay interest rates that are on average 32 percent higher than those paid by their White counterparts.[16] Further, implicit racial bias, through which people internalize or associate risk with race, leads to discrimination against people of color and can drive decisions that further exacerbate inequity. For example, research shows that individuals perceive neighborhoods with high percentages of Black residents as more dangerous, regardless of actual crime levels.[17] Technology companies have identified that bias is baked into the computer algorithms that determine insurance rates for consumers.[18] As a result of implicit bias, many people of color find it challenging to access traditional financial services with the same ease and at the same cost as their White counterparts.

Financial institutions can play a role in addressing the problem—and are missing a business opportunity if they do not.

Financial institutions are critical in helping build wealth for their customers. It is through financial services that workers are able to save and invest their wages, families are able to secure loans to purchase their homes, entrepreneurs are able to secure capital to grow their businesses, and households are able to save for retirement, as well as to pass on wealth to the next generation.

Financial institutions are simply not effectively reaching and serving markets of color. Today, 18 percent of Black and 16 percent of Latinx consumers do not have an account in a mainstream commercial bank, compared to only 3 percent of Whites.[19] Only 1 percent of U.S.-based startups that raised venture funding in seed or series A were led by Black entrepreneurs, and only 0.2 percent of venture-backed deals went to Black female founders.[20] Among families with retirement account savings, the median amount is $22,000 for Black and Latinx families, compared with $73,000 for White families.[21]

Financial institutions are leaving significant value on the table by not effectively reaching these markets of color. Given that by 2040 the majority of Americans will be people of color, the communities that have historically been marginalized from the mainstream financial system hold the greatest power to drive our economy forward. The shift has already begun. For example, Black purchasing power is expected to reach $1.54 trillion by 2022, and the growth of this market will continue to outpace the growth of the nation's total buying power.[22]

18% of Black and 16% of Latinx consumers do not have an account in a mainstream commercial bank, compared to only 3% of Whites.

More recently, there has been a focus by both traditional players, such as U.S. banks, and newer financial players, such as PayPal, to expand offerings to the unbanked and underbanked as part of their financial inclusion strategies.[23, 24] Roughly 35 million unbanked and underbanked individuals—many of whom reside in communities of color—spend approximately $147 billion annually on high-cost alternative financial services that are often predatory and under-regulated.[25] However, our research shows that these efforts assume the unbanked and underbanked market is homogenous and do not take into account differences in the ways structural racism affects distinct communities of color.

During this research, financial institutions highlighted many barriers to specifically advancing financial inclusion for people of color. For example, the Fair Credit Opportunity Act makes it unlawful for any creditor to discriminate against any applicant on the basis of race and color, among other factors. Originally meant to remedy past exploitation of people of color, it has caused banks to shy away from designing products specifically for people of color. Further, there is still an underlying misperception among individuals within financial institutions that these markets may be unprofitable.[26] Another barrier is the lack of diversity within financial institutions, which leaves critical market perspectives out of product formulation and design processes. Although financial institutions are trying to increase diversity within their organizations, their efforts remain insufficient. For example, a study by the Government Accountability Office on the financial services industry found that although representation of minorities at management levels increased between 2007 and 2015, Black representation decreased from 6.5 to 6.3 percent.[27] Only 3.5 percent of all Certified Financial Planners are people of color.[28]

These barriers also prevent the financial sector from addressing the unique needs of middle- and higher-income people of color.[29] For example, the wealthiest 5 percent of Black Americans are more likely to invest in more "conservative" investments, such as savings accounts, life insurance, and real estate, compared to their White counterparts, who hold more assets in stocks, bonds, and business equity, which provide higher rewards for taking on more risk.[30] A Nielsen study showed that Black customers are avid consumers of digital financial services, and, in fact, they are 22 percent more likely to use these services than the U.S. population average.[31] Financial institutions have yet to effectively tap into such differentiated and growing business opportunities. According to a 2016 report released by the Center for Global Policy Solutions, the financial services sector is also largely missing out on servicing over 1.1 million businesses owned by people of color.[32]

DEFINITIONS

- **Racial equity:** Racial equity is defined as just and fair inclusion into a society in which all people can participate, prosper, and reach their full potential.[c]
- **Structural racism:** Complex system in which public policies, institutional practices, cultural representations, and other norms work in various, often mutually reinforcing ways to perpetuate racial inequity.[d]

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c. "**The Equity Manifesto**," PolicyLink, 2015, accessed April 10, 2017.

d. "**Glossary for Understanding the Dismantling Structural Racism/Promoting Racial Equity Analysis**," Aspen Institute, accessed October 24, 2018.

STRATEGIES FOR FINANCIAL INSTITUTIONS

As described in the *Harvard Business Review* by Michael Porter and Mark Kramer, shared value is created when companies achieve a competitive advantage that drives growth and profitability through their positive social impact.[33] In this paper, we feature five companies—**Citi**, **Oportun**, **OneUnited Bank**, **Prudential Financial**, and **Impact America Fund**—that have created business value through distinctive efforts to improve the financial lives of vulnerable populations that are disproportionately people of color. They exemplify the broader opportunities available to other companies engaged in consumer and small business banking, retirement services, and venture capital.

Companies featured in this report primarily operate at two levels in creating shared value. First, these companies reconceive products and services in ways that benefit markets of color—for example, by offering alternative lending products or ATMs in underserved communities through partnerships with minority depository institutions. Second, companies are strengthening the external business context by leveraging their public policy arms—for example, by pushing for regulation that excludes predatory lenders. Our research suggests that a strong and diverse internal enabling environment is a necessary "internal catalyst" for companies to embrace those two strategies. These findings are summarized on the following pages.

Financial institutions featured in this report recognize that a "race-blind" strategy is not sufficient to reach new and growing markets.

Strategy #1:
Reconceive products and services to address the needs of markets of color

Understand needs and behaviors of markets of color to inform product design.
Data on the financial lives, behaviors, and decisions of people of color are rarely collected or used by business unit leaders in the product design stage. Interviewees highlighted many reasons for this—a misperception among business leaders that populations of color have the same needs as the White population or that serving populations of color is not very profitable and hence may not require a unique set of products. As described earlier, regulations also restrict banks from creating products that specifically target people of color. Instead, many companies resort to multicultural marketing campaigns to reach customers of color. Such campaigns do not address the unique needs of populations of color; instead they tailor advertising to promote a generic product made for a mass market to specific populations of color.

Financial institutions featured in this report recognize that a "race-blind" strategy is not sufficient to reach these new and growing markets. For these companies, reaching people of color is not an afterthought but an intentional business strategy. They proactively and systematically gather and listen to the perspectives of consumers of color and incorporate these into strategic business decisions related to product design and marketing. For example, at Prudential, some research on the financial needs of communities of color is conducted in-house, while additional research is conducted in partnership with experts, such as UnidosUS, which have a deep understanding of the behavioral patterns of Latinx communities. Investing time and resources to understanding the unique challenges faced by consumers of color allows companies to discover innovative and differentiated strategies that can confer a competitive advantage in serving a broader population.

Design product or service features that remove barriers for consumers of color.
The playing field does not start out equally for people of color—therefore, offering undifferentiated products and services does not necessarily produce equitable results. Financial products made for the majority populations (which until recently have been White populations) are not sufficient to overcome the legacy of structural racism. We recognize that anti-discrimination laws may constrain the ability of banks and other lenders to market products and services as specifically designed for specific racial or other subgroups. That said, banks and other lenders can conduct more careful market analysis to understand the discrete needs of all the populations they serve (as described above) and can leverage insights from this research to create more relevant and effective products and services in

their portfolio of offerings. Those unique offerings will likely benefit customers of all races and will enable financial institutions to more effectively serve a broadening customer base while also generating more equitable outcomes. For example, when Citi found that lower-income market segments that are disproportionately people of color were discouraged by real and perceived banking fees it created Access Accounts, simple checking accounts with no or low monthly charges which can be waived by setting up online bill payment or direct deposit. The product has also proven popular with a range of consumer segments such as retirees and millennials, demonstrating that addressing needs of populations who are often most excluded can lead to benefits for broader swaths of the customer base.

Use technology (with caution) to reduce racial bias in business practices. Research shows that implicit biases influence whether someone is granted a mortgage to buy a home or a loan to grow their business.[34] Innovative companies like Oportun have developed alternative ways to assess credit worthiness of individuals with low or no credit scores and have embedded that thinking in their technology. Their platform has helped overcome implicit biases which are often inherent in lending decisions made by humans. Additionally, Oportun supplements this technology with culturally appropriate personal support for customers. This intentionality is essential—otherwise technology could exacerbate inequities by reflecting or further ingraining human prejudice.[35] A combination of evidence-based research, data-driven decision-making, and diverse teams is essential when it comes to leveraging new technologies to reduce racial bias.

Invest in entrepreneurs of color. Entrepreneurs in the U.S. are increasingly coming from communities of color and also finding innovative products and services to meet the distinctive needs of communities of color.[36] Financial services companies—from small business lending institutions to venture capitalists and private equity firms—can help these entrepreneurs to access loans, investments, advisory services, and business partnerships to fuel their growth. Impact America Fund is intentionally investing venture capital in high-growth businesses that are using technology to create economic opportunity for underserved communities in America. Its nine Fund I portfolio companies—more than half of which are led by Black or Latinx founders—have raised a combined $60 million of additional capital since Impact America's initial investment.

Strategy #2:
Strengthen the external business context to help reduce the racial wealth gap

Advocate for policy change to create large-scale impact. Sometimes, federal regulations and bank policies intended to protect consumers can have negative unintended consequences and further perpetuate inequities. Prudential invested in research and found that people of color, who are predominantly employed in small businesses, have the least access to retirement savings for many reasons—most of which are due to the lingering impacts of structural racism. Complicated regulations and limitations on pooled multi-employer plans discourage small businesses from offering retirement savings plans to their employees; this disproportionately impacts communities of color (because half of all private-sector employees, and a majority of employees of color, work for small businesses). Prudential used its lobbying arm to work with coalitions that expanded retirement savings to employees of small businesses, with the clear understanding that it would allow the company to offer its retirement solutions to an expanded pool of consumers who were locked out in the past.

Build trust and awareness with potential customers. Due to historical and modern-day discrimination against Blacks and Latinx customers by financial services institutions, many in these communities are less trusting of the traditional financial system than White customers.[37] This lack of trust can be costly to financial institutions, which may perceive the total addressable market size to be smaller than it actually could be. This lack of trust can also be costly to the end consumer, as these individuals may rely on alternative and often predatory financial institutions. The #BankBlack movement, a campaign galvanized through social media, asked consumers to deposit their money into Black-owned and operated banks. The movement, supported by OneUnited Bank, has led to increased revenue and entry into new markets. Since July 2016, advocates estimate that more than $50 million has moved into Black-owned banks.

Internal Catalysts

Our research shows that leading companies have three internal catalysts that enable them to implement innovative strategies and ensure that these strategies thrive:

Strong diversity and inclusion practices. Leading companies recognize that their diversity and inclusion strategies must be closely linked to their core strategy and business goals. For example, it is essential to attract and retain diverse employees who mirror their customers at all levels and across departments. An inclusive work culture allows employees to bring a wide range of perspectives to a firm's day-to-day operations. In addition to diverse perspectives, it is important that employees have the ability to connect the dots between systemic social problems (such as the impact of racial wealth gaps) and the business to innovate and address systemic problems effectively. Companies like Oportun have made an intentional decision to ensure that their retail workforce mirrors the diversity of their customers. This allows customers to connect more deeply with employees and helps employees better understand customer needs. Oportun even moved their engineering headquarters and physical retail locations to communities where their future customers live.

Leadership support, mindset, and structure that advance racial equity. Oftentimes, employees with deep knowledge of racial inequities and the business potential of markets of color are siloed in diversity and inclusion or corporate social responsibility departments. A few leading companies are finding innovative ways to infuse that thinking into C-suites and boards so that they can re-examine conventional business assumptions and influence others such as the product design teams. For example, Prudential organizes an Inclusive Markets Summit every year for its business leaders to systematically educate them on topics such as Latinx financial security. Impact America Fund educates its limited partners, as well as the broader investment and corporate ecosystem, on untapped market opportunities that empower underserved communities while driving financial returns.

Mutually beneficial partnerships with organizations of color. As described above, leading companies engage in long-term, mutually beneficial partnerships with a cross-sector of organizations that work with communities of color to better understand and respond to their needs. Leveraging the deep expertise of these organizations is essential for both creating more appropriate products and also for reducing overall risk by ensuring that new products and overall corporate practices do not inadvertently harm consumers of color. As noted earlier, Prudential partnered with UnidosUS to better understand Latinx communities' retirement needs. Partnerships with local universities have helped Oportun to source, train, and hire diverse engineering and technical talent. By partnering with minority depository institutions, Citi was able to leverage its footprint to expand access to trusted community institutions and the clients they serve. Finally, movements like #BankBlack, in partnership with OneUnited Bank, have allowed businesses to enter new markets.

Case Studies of Leading Innovative Financial Services Institutions

In the next section, we provide case studies of five financial services institutions that are creating solutions that improve the financial lives of people of color: Citi, Oportun, OneUnited Bank, Prudential, and Impact America Fund. These organizations represent a broad swath of the financial services industry, including consumer and small business banking, retirement services, venture capital, and private equity.

It is not surprising that two of the examples featured in this report, Oportun and OneUnited Bank, are Community Development Financial Institutions (CDFIs). CDFIs have a focus on and expertise in serving economically diverse communities by providing access to capital, supporting the development of affordable housing, financing small and medium-sized businesses, and, ultimately, building the wealth of traditionally disinvested customers and communities of color. According to Brookings Institute research, CDFIs have proven that financing nontraditional customers—specifically women and minority business owners—"is not only possible but profitable."[38] By profiling these examples, we hope that large conventional banks lean in and learn from their CDFI peers to prioritize and serve economically diverse customers of color who have been historically ignored. This is particularly imperative since CDFIs are still small by capital market share and susceptible to federal budget cuts.[39]

Retail lending, commercial loans, retirement savings, and venture capital are distinct businesses, yet our research has uncovered examples in each line of business where innovative practices have expanded the market in ways that promote more equitable outcomes that both meet the demands of customers of color and confer a competitive advantage to the business.

Case Study #1

Industry: Retail Banking

Strategy 1:

Understand needs and behaviors of markets of color to inform product design

Design product or service features that remove barriers for people of color

Internal Catalysts:

Mutually beneficial partnerships with organizations of color

Citi Inclusive Finance is a unit within Citi that collaborates with Citi's businesses globally to develop solutions that enable the bank and its clients and partners to expand access to financial services in underserved markets. As Jasmine Thomas, senior vice president and relationship manager for Citi Community Development, explains, "Citi aims to develop products and services that are inclusive by design and build platforms that can reach underserved populations often in partnership with trusted intermediaries. By creating innovative programs and collaborations, we aim to deliver scalable solutions that build financial resilience for individuals, families, and communities across the country."

In the United States, two examples of Citi's products and programs—the Access Account and the Citi® ATM Community Network, respectively—stand out for their outsized impact in advancing the financial lives of the underserved as well as driving customer value.

HOW CITI IS MOVING TO ACTION

Understanding needs and behaviors of markets of color to inform product design

Citi believes that in order to create inclusive solutions for those who are on the margins of the traditional financial system, it is critical for the business to have nuanced insight into the day-to-day financial behaviors of those customer segments. In 2011, Citi Community Development convened the Asset Building Policy Network (ABPN), a coalition of civil rights organizations committed to expanding economic opportunities for low-income members of communities of color. Long-term partnerships like these have been critical in informing new product development decisions. For example, the ABPN's **Banking in Color** report found that when making banking choices, lower-income consumers and consumers of color were most sensitive to the proximity of a branch or an ATM to home or work, followed by low account fees or minimum balance requirements.

As a follow-up to the report, Citi conducted a national survey of U.S. consumers (not limited to Citi customers) in 2014 to better understand consumer behavior. Among those surveyed, 53 percent said they avoid writing paper checks whenever they can, and 25 percent of respondents with incomes of less than $30,000 said that a fee from an overdrawn account could lead to financial trouble.[40] These insights reinforced decisions that shaped new products and approaches taken by Citi, such as the launch of its Access Account; and its efforts to expand financial access through a new collaboration with other financial institutions such as the Citi® ATM Community Network, which includes minority depository institutions. See below for more detail about these efforts.

Designing products that remove barriers (Access Accounts)

Given its deep, evidence-based understanding of the market, Citi saw an opportunity to create the Access Account—a checkless banking account with no overdraft fees and no or low monthly charges that can be waived by setting up an online bill payment or direct deposit or by maintaining a $1,500 minimum balance. Citi developed this product to specifically remove barriers to banking for expanded customer segments. By creating a solution that is simple and flexible, the Access Account is one example of how Citi is building viable solutions that benefit a wide range of consumers, including often-overlooked portions of the United States market such as people of color, immigrants, and those with lower incomes. These individuals are entering the financial mainstream and are able to build more positive financial futures by opening checking accounts, building savings, and establishing banking relationships. Citi was the first major bank to scale these "safe" accounts in alignment with the Federal Deposit Insurance Corporation's (FDIC) Model Safe Account standards.[41] The accounts are also an important source of future growth—Citi's Access Accounts represent roughly 23 percent of all newly originated accounts.

Citi

"Access Accounts" represent roughly 23% of all newly originated accounts.

INTERNAL CATALYSTS

Developing partnerships to expand reach (Citi® ATM Community Network)

When research found that proximity to a physical branch or ATM was an important factor for consumers, including people of color, Citi decided to partner with trusted intermediaries, namely minority depository institutions (MDIs) and community development credit unions, to offer surcharge-free access to Citi's branch ATMs in the United States and extend their physical footprint. As defined by the FDIC, minority depository institutions are predominately owned by and/or serve minority groups.[42] Citi's relationship with these institutions across cities nation-wide has been a low-cost, high-growth, customer-centric way to add value in traditionally underserved communities—providing support for both these trusted community institutions and the clients they serve.

The Citi® ATM Community Network enables partners to offer customers surcharge-free access to Citi's network of 2,300 branch ATMs in the United States. Minority depository institutions and community development credit unions are able to extend their footprint by leveraging Citi's infrastructure and network to provide services their customers expect and depend on. Further, customers are able to access money where they live and work without interchange or transaction fees, allowing them to keep more of their hard-earned money. Through the Citi® ATM Community Network, Citi has deepened relationships with 25 MDIs and community development credit unions across six key cities and expanded financial access for more than 440,000 clients of participating institutions.

Case Study #2

OPORTUN

Industry: Consumer Lending

Strategy 1:

Use technology (with caution) to reduce racial bias in business practices

Design product or service features that remove barriers for people of color

Internal Catalysts:

Strong diversity and inclusion practices

Founded by Latinx entrepreneurs in 2005, Oportun provides affordable, high-quality, small-dollar loans to low-to-moderate income (LMI) communities. Oportun started with a particular focus on Latinx customers but has expanded its focus to include the estimated 100 million consumers in America who are credit invisible due to their limited credit history.[e, 43]

Today, Oportun is operating in 12 states with over 300 locations that have disbursed over $6.4 billion in loans to over 1.4 million customers. In 2015, Oportun began to turn a profit on revenue of $195 million. The company continues to grow at a fast pace—it originated $1.4 billion in loans and generated $361 million in revenues in 2017, demonstrating a compounded annual growth rate of 28 percent in loan originations and 36 percent in revenues over 2015.

Oportun has also created significant business impact. Nearly 90 percent of its customers are from LMI communities, and approximately half of its first-time customers did not have a FICO score when they came to Oportun. Since 2005, Oportun has been able to help over 700,000 first-time customers who did not have a FICO score to begin establishing a credit history. The company's customers have already saved an estimated $1.4 billion by choosing Oportun loans instead of one of the other alternatives widely available to individuals with limited credit history.[44] For these accomplishments, among others, TIME Magazine named Oportun as one of its 2018 Genius Companies That Are Inventing the Future.[45]

"At Oportun, we are dedicated to providing inclusive, affordable financial services that empower our customers to build a better future," says Raul Vazquez, the company's CEO. "By lending money to hardworking, low-to-moderate income individuals, we help them move forward with their lives, demonstrate their creditworthiness, and establish the credit history they need to open the door to new opportunities."

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e. According to the 2016 **CFPB study**, there are 45 million consumers who are credit invisible (i.e., they lack credit history with a nationwide credit reporting company) or credit unscorable (i.e., they have insufficient credit history). In addition, Oportun believes that 55 million consumers are mis-scored by credit bureaus.

HOW OPORTUN IS MOVING TO ACTION

Using technology (with caution) to reduce racial bias in business practices

Oportun developed its credit scoring model by analyzing data accumulated from more than 6.5 million customer applications, 2.9 million loans, and 57.3 million customer payments. Drawing on this resource, its proprietary lending platform processes large amounts of alternative data, such as how long a person has had the same job or home address, along with traditional credit bureau data, and uses machine learning to assess customers' creditworthiness.

By leveraging technology in this way, Oportun can establish an individual's creditworthiness independent of biases in credit reporting that result from structural racism—thereby expanding its own market while reducing costs for its customers. According to research commissioned by Oportun and conducted by the Center for Financial Services Innovation, small dollar credit options typically available to people with limited or no credit history are on average at least four times more expensive than Oportun's loans.

Oportun

Leverages technology to establish creditworthiness independent of biases in credit reporting that result from structural racism.

Designing product or service features that remove barriers for people of color

Although Oportun's product is technology-based, it prioritizes creating a high-touch, quality service that dignifies the experience of a lower-income customer. Unlike traditional banks, which are reducing their physical presence, Oportun has opened more than 40 branch locations each year for the past several years, making it one of the fastest expanding financial institutions based on brick-and-mortar footprint in LMI communities.

Open seven days a week, retail service locations are designed to be welcoming and approachable in contrast to the bulletproof glass service windows of payday lenders or the perceived formality of traditional banks. Oportun's marketing strategy is also user-centered. Many customers come to Oportun by word-of-mouth referrals from local community members and partner organizations with the intent of establishing their credit scores.

Oportun aims to help its customers, many of whom have limited or no credit history, establish and build credit scores. The company's product design has many features that help customers repay their loans responsibly. For example, Oportun right-sizes its products for different customer segments. There are no balloon payments or pre-payment penalties, and loan payments are accepted via phone, ACH, or in cash, making the process inclusive for customers without bank accounts. Finally, Oportun reports loan payments to national credit bureaus to help customers establish their credit scores and move into the mainstream financial system over time.

INTERNAL CATALYSTS

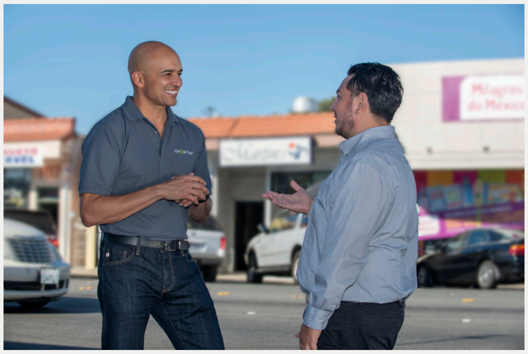
Strong diversity and inclusion practices

Oportun's hiring practices ensure that employees mirror its customers. Over two thirds of Oportun's 1,400 employees in the United States are people of color. Customers can interact in English or Spanish with the company's 1,000 bilingual retail employees, and, because many of its retail employees share the lived experience of the customers they serve, they are able to provide culturally competent service.

Oportun also creates job opportunities in the communities it serves. For example, in Modesto, California, the company recognized that a lot of diverse engineering talent felt pressured to move to the Bay Area. Seeing Modesto as an important market with many customers of color, Oportun established a regional engineering headquarters in Modesto and developed a partnership with UC Merced to create a pipeline program in that community to train diverse engineers.

STORY OF IMPACT: OPORTUN

When Willian Rivera graduated from high school, he started working at a pizzeria, but had to ride a bike to work. Willian needed $500 to buy a car, so he applied for a loan to a traditional bank. Willian was working and had a consistent median-wage salary—all of which was visible to the bank—yet Willian was denied because he didn't have a credit score. Walking into an Oportun branch a few days later, Willian was immediately offered a loan. To Oportun, Willian was not a high-risk investment but a prime candidate with opportunity to grow. Oportun trusted Willian and gave him the chance to be financially secure as he started out his career. Willian now offers the same opportunity to potential clients as a Customer Loyalty Representative at an Oportun retail location. The bank that originally denied Willian has since given him two loans.[46]



Willian Rivera with Oportun CEO Raul Vazquez.

Case Study #3

Industry: Retail Banking

Strategy 1:

Design product or service features that remove barriers for people of color

Strategy 2:

Build trust and awareness with potential customers

OneUnited Bank is the largest Black-owned, commercially chartered financial institution in the U.S. It competes with large national banks, regional financial institutions, credit unions, mortgage companies, and small community banks. As of December 2017, the bank's assets totaled approximately $658 million. Since 1997, the institution has been a certified Community Development Financial Institution (CDFI) with a focus on expanding credit availability, investment capital, and financial services in predominately low- to moderate-income urban communities of color.

OneUnited Bank has provided low-rate mortgage loans for the past 18 years and financed over $750 million in multi-family properties with near-zero default rates.[47] This success contrasts the reality that while Black consumers represent approximately 13 percent of the general population, they are granted only 1 to 2 percent of loans nationwide, in large part because other bankers have identified these loans as too risky.[48, 49] According to the 2014 Home Mortgage Disclosure Act, OneUnited Bank was ranked 20th of 225 lenders in the assessment area of multi-family mortgage loans.[50]

Besides being financially profitable, the bank has had a positive impact on consumers of color. The 2016 Community Reinvestment Performance evaluation verified that according to 2010 U.S. Census data, 295 census tracts where OneUnited Bank granted multi-family loans were low-income, and 70 percent of the residents self-identified as people of color. These loans provide access to quality homes and stabilize communities, benefiting even those community members who may not bank with OneUnited directly. OneUnited Bank inspects all property prior to financing and periodically during the financing period to ensure that the borrower provides quality property maintenance to tenants. In 2016, these multi-family loans funded the development of approximately 415 units, which helped residents stay in their communities despite gentrification in surrounding neighborhoods.[f]

f. Anti-discriminatory legislation has made it challenging to match property ownership to racial identity, meaning we could not verify the race of the OneUnited Bank borrowers. However, investments in good quality housing have improved conditions in areas where significant communities of color reside.

HOW ONEUNITED BANK IS MOVING TO ACTION

Designing product or service features that remove barriers for people of color

OneUnited Bank creates a range of products targeted at communities of color—one example of which is the multi-family loan. The bank is one of the largest lenders in the country that works with owners of residential multi-family properties with below-market rents. By financing residential properties, the bank helps low- to middle-income families stay in their homes and stabilize communities struggling to keep up with gentrification.

Some lenders provide financing based on market-based rents that exceed actual rents being charged, which means the borrower can obtain a larger loan amount but must then raise rents to pay back the loan. OneUnited Bank does not engage in this practice. Instead, the bank provides financing based on actual rents in order to avoid incentivizing rent increases. OneUnited Bank also inspects all properties prior to financing and periodically performs site visits to ensure that the borrower provides quality property maintenance to tenants.

OneUnited Bank

Has provided low-rate mortgage loans for the past 18 years and financed over $750 million in multi-family properties with near-zero default rates.

Building trust and awareness with potential consumers

OneUnited is a lead sponsor of the #BankBlack grassroots movement, an online effort that aims to raise awareness of Black banks and attract Black millennials to banking.[g] By providing information on Black banks and their product offerings as well as tailoring outreach to millennials in particular, this movement has encouraged thousands of people of color to deposit their assets, totaling $50 million to date, into Black banks across the nation. OneUnited Bank has also created products like the Amir, Doonie, and Justice Visa® debit cards to highlight Black consumers in solidarity with the #BankBlack movement.[51] Since the beginning of the #BankBlack movement, thousands of new OneUnited Bank accounts have been originated by individuals under the age of 30.

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g. Bank Black USA is a grassroots organization that supports financial and economic health, opportunity, and stability for Black people and communities. Black Bank USA manages the #BankBlack online movement.

Case Study #4

Prudential

Industry: Retirement Services

Strategy 1:

Understand needs and behaviors of markets of color to inform product design

Design product or service features that remove barriers for people of color

Strategy 2:

Advocate for policy change to create large-scale impact

Internal Catalysts:

Leadership support and structures to advance racial equity

Nearly two-thirds of households of color in the U.S. do not have any retirement savings in a 401(k) or IRA account, and three-quarters have total retirement savings of less than $10,000.[52] Prudential Financial, one of the world's largest financial institutions with more than $1 trillion of assets under management, is using its core business as well as its philanthropic and policy departments to help thousands of Americans, especially those in communities of color, improve their financial lives and boost their retirement savings.

Prudential found that more than 80 percent of small businesses in the U.S. do not offer a retirement plan or access to a 401(K) due to concerns about costs, complexity, and fiduciary liability.[53] At the same time, half of all private sector employees, and a majority of employees of color, are employed by small businesses, and small business ownership and employment in the U.S. are growing fastest among people of color. Prudential saw the disproportionately lower access to retirement savings of customers of color working for small businesses as an opportunity to create shared value.

HOW PRUDENTIAL FINANCIAL IS MOVING TO ACTION

Understanding needs and behaviors of markets of color to inform product design

Prudential regularly conducts in-house and outsourced research to better understand the lived experiences of minority groups and explore how the business can serve their needs. In 2015, Prudential Retirement conducted **research** on the importance of Multiple Employer Plans (MEPs), a type of employee benefit plan in which two or more unrelated employers participate. The report found that the lack of coverage by small employers is critical because these employers provide jobs for a vast swath of the American population, and particularly women and multi-ethnic groups.[54] The report highlighted that people earning between $30,000 and $50,000 per year are 16.4 times more likely to save for retirement if they have access to a workplace plan.[55] Finally, it found that legislative and regulatory actions are crucial to broadening access to MEPs for small employers. The Corporate Social Responsibility team bolstered this research by partnering with UnidosUS (previously NCLR), a nonprofit partner with deep experience in the Latinx community. The resulting report, **Enhancing Latino Retirement Readiness in California**, captured detailed behavioral insights on retirement security trends among communities of color, and particularly Latinx communities, making the potential for social and business impact even more evident.[56, 57]

Advocating for policy change to create large-scale impact

Prudential saw that MEPs offer a promising means of narrowing the retirement coverage gap. However, current tax law and ERISA rules primarily limit MEP sponsorship to trade associations, professional employee organizations, and select large employers.[58, 59] Prudential's government relations team works with organizations and policymakers on both sides of the aisle to broaden access to MEPs for small businesses. To that end, the team has been rallying support on Capitol Hill for the Retirement Enhancement and Security Act. The legislation is broadly supported by lawmakers on a bipartisan basis and by leading retirement experts. Many believe the bill has a strong chance of passing into law later this year or early next year, which would significantly expand access to retirement plans for small business employees.

Prudential

Commissions research with organizations focused on people of color to inform product design.

Designing product or service features that remove barriers for people of color

Prudential also uses its research to inspire the creation of new products that can solve newly uncovered needs. For example, Prudential's American Workers Survey showed that many workers forgo saving for retirement, even when their employers offer retirement plans, because they are concerned that penalties for withdrawing funds would prevent them from meeting unexpected emergency expenses.[60] In response, Prudential worked with Prosperity Now, a Washington, D.C., nonprofit organization, to design a supplementary emergency savings feature tied to the workplace retirement plan that is funded by after-tax payroll deductions. Prudential Retirement is now piloting this feature to plan sponsors as part of a holistic workplace financial wellness package that is inclusive and accessible to both low- and high-income earners.[61]

In 2016, The Prudential Foundation made a three-year $5 million commitment to partner with the Aspen Institute's Financial Security and Economic Opportunity Programs in support of an initiative that addresses the systemic and interrelated barriers that thwart economic opportunity and undermine financial security for millions of Americans.[62] The partnership explores the role that employers can play in helping people achieve financial wellness.

INTERNAL CATALYSTS

Leadership support and structures to advance racial equity

Prudential is exploring ways to elevate equity and inclusion as a key driver of business success. Since 2017, the Corporate Social Responsibility (CSR) team has been reporting directly to the C-suite. CSR staff work internally to create unique partnerships with external stakeholders and influence the development of products and tools that drive societal and commercial value. For example, the CSR team collaborated with Prudential's business leaders to create the Inclusive Markets Summit, partnering with outside experts to expand Prudential's addressable markets. The Inclusive Markets Summit includes a wide range of business leaders who share a common belief that the company can create measurable business value by helping underserved consumers to increase their long-term financial security. Last year, the Inclusive Markets Summit focused on the company's commitment to financial wellness and provided business leaders with a deeper understanding of the complexity of consumers' financial lives.

As the CSR team continues to broker these types of internal and external partnerships, it has the potential to simultaneously create societal value and unlock strategic growth for Prudential. Collaborations such as the Inclusive Markets Summit and partnerships with nonprofits such as Prosperity Now and The Aspen Institute bolster Prudential's evolving customer-centric business strategy, challenge preconceived notions, and generate innovative ideas that will help the company prosper while achieving its goal of increasing financial security for all.

THE POWER OF AUTHENTIC, INNOVATIVE PARTNERSHIPS

How financial institutions can partner with nonprofit experts such as UnidosUS to inform product design, expand markets, and reduce risk.

UnidosUS, the largest national Latinx civil rights and advocacy organization, is helping banks serve the Latinx market nationwide by sharing important research and leveraging its affiliate network of community-based organizations to act as distribution channels for financial products and services.

UnidosUS has partnered with major banks by providing housing counseling to borrowers, effectively serving as a "risk reduction strategy" for banking partners. The UnidosUS Homeownership Network delivers a range of counseling services from pre-purchase counseling to foreclosure prevention for Latinx families across the country. The network has provided counseling to over 90,000 families, helped more than 30,000 people purchase their first homes, and saved more than 90,000 families from losing their houses in foreclosure.

UnidosUS has also partnered with financial services institutions to provide financial coaching to customers who have not met underwriting eligibility criteria for consumer loans. Instead of simply rejecting customers, lending partners refer them to UnidosUS's financial coaching services to help them improve the likelihood that they will receive future loans. The UnidosUS call center has fielded hundreds of referrals and has helped nearly a quarter of these customers begin an ongoing financial coaching program since December 2017.

UnidosUS has also created tools for market expansion, including an online referral platform called Fuente Credito. This tool enables affiliate organizations to proactively screen potential borrowers for small dollar credit products and match them to affordable lending partners. The system, currently in pilot mode, has served as a lead generator for over 200 loan referrals while reducing the originator cost for the business and streamlining the user experience for the customer. A third of those referred have successfully received loans and, of those, none have defaulted as of September 2018.

UnidosUS publishes research studies on the financial behaviors and needs of the Latinx market which have been used by companies like Prudential and Citi for product design insight. For example, the paper *Banking in Color: New Findings on Financial Access for Low- and Moderate-Income Communities* provides findings from a survey of low- and moderate-income communities of color and explores themes of bank account ownership, how people use alternative financial services, and technology in banking.[63]

UNIDOSUS
STRONGER COMMUNITIES. STRONGER AMERICA.

Case Study #5

IMPACT AMERICA FUND

Industry: Venture Capital and Private Equity

Strategy 1:

Invest in entrepreneurs of color (by having an intentional, inclusive investment thesis)

Internal Catalysts:

Strong diversity and inclusion practices

Leadership support and structures to advance racial equity

Impact America Management ("Impact America") is a venture capital firm with $30 million in assets under management, founded in 2014 by entrepreneur Kesha Cash. Impact America invests in scalable, technology-driven companies that support the basic needs of low- and moderate-income Americans who traditional investors overlook often due to a lack of cultural competency in these markets. The firm specializes in micro-cap investments in early-stage companies, ranging from $250,000 to $3 million.

Impact America is unique in its intentional investment in high-growth companies that are using technology to scale products and services that meet the needs of low- and moderate-income communities in America.[64] Specifically, they invest in business models with what the firm calls "inherent impact," whereby the social impact outcomes drive financial performance and the financial performance determines the scale of impact. According to a 2017 Annual Impact Investor Survey by JPMorgan and the Global Impact Investing Network, although there are $114 billion assets under management globally targeted towards impact investing, only 3 percent of those funds are targeted at seed and series A investments.[65] Today, Impact America is filling this void by occupying a segment of the economy overlooked by traditional capital and technology.

The founders of Impact America's portfolio companies are 60 percent people of color and 40 percent women (in the broader landscape of venture funding, just 2.7 percent of funds go to female founders and less than 1 percent to Black founders). While being a founder of color or a woman of any race and ethnicity is not an investment criterion for Impact America, the mission and nature of the companies it invests in correlate with the advancement of racial equity. Impact America's nine Fund I portfolio companies—more than half of which are led by Black or Latinx founders—have raised a combined $60 million of additional capital since Impact America's initial investment to fund their growth. Impact America's investments have preceded later-stage backing by top-tier firms. For example, Impact America introduced one of its portfolio companies, Mayvenn (described in Box 2), to Andreessen Horowitz, which led a $10 million investment round along with others including Trinity Ventures, Core Innovation Capital, Apple's Jimmy Iovine, and tennis star Serena Williams. In 2018, Mayvenn raised $23 million in a new round of funding from Essence Ventures.[66] As of September 2018, Impact America's Fund I portfolio companies have generated a combined revenue of nearly $100 million and employed 175 people.

HOW IMPACT AMERICA IS MOVING TO ACTION

Having an intentional, inclusive investment thesis

Impact America is investing in early-stage entrepreneurs who target underserved communities with a thesis that there are billion-dollar opportunities in these markets. Impact America's mission is to "bridge the cultural and capital gap to catalyze entrepreneurs who are transforming the economy and paving the way toward a more just and equitable future." This compelling vision attracts a robust network of limited partners, co-investors, and entrepreneurs interested in the firm's vision.[67] For Impact America's limited partners, the firm's commitment to economic justice, inclusion, and agency provides a vehicle to translate a shared mission into desirable, outsized impact and business returns. Kesha Cash says, "Low- and moderate-income communities represent billion-dollar market opportunities to create shared value for investors, workers, and the underlying community at large."

Including diverse perspectives to reach diverse markets

Investors tend to invest in problems and markets they understand, which is also true for Impact America. The difference is that Impact America's team and leadership have a range of identities and perspectives that reflect the breadth of experiences of their investees and contribute to better assessment and insight. Kesha Cash was born in a small rural town in South Carolina and raised in Orange County, California, where her family's household income was supplemented by welfare benefits including Section 8 housing vouchers and food stamps. Kesha went on to attain an advanced degree and worked as a mergers and acquisitions analyst, an operational consultant to inner-city small businesses in Los Angeles, an impact investment associate in the UK, and a co-founder of a minority-focused impact initiative at a global family office in New York. Other members of the investment team have similarly multifaceted backgrounds, nuanced understandings of traditionally overlooked market segments, and a mission-driven focus to find and back entrepreneurs from traditionally underserved backgrounds who are solving big problems in even bigger markets.

Impact America Fund

Founders are 60% people of color and 40% women.

Peer education to change mindsets

Impact America sources deal flow from non-traditional networks that conventional investors may not seek out or immediately recognize. Impact America often functions as a bridge, contextualizing opportunities hidden in plain sight for later-stage co-investors with deeper pockets and broader scale. The organization provides capital and guidance to entrepreneurs looking for investors who understand the complexities and challenges of their markets and share a similar commitment to the communities they serve. Not only does Impact America invest catalytic capital and provide strategic advice at critical early stages, it also provides connections to the broader investment ecosystem in order to help scale ventures.

STORY OF IMPACT: MAYVENN

Mayvenn is an e-commerce beauty supply platform for independent hairstylists and one of Impact America's portfolio companies.

Kesha Cash, founder and CEO of Impact America, says she knew that Mayvenn had the opportunity to capture a significant share of a multibillion-dollar market opportunity when she first met the founder in 2013. Given Kesha's previous business consulting work in Los Angeles with a well-known celebrity hairstylist, she immediately understood that Mayvenn had the potential to reshape the Black hair industry. While Kesha had prior knowledge about hair extension supply chains and the billions of dollars spent in the Black hair care market, she was shocked to learn from Mayvenn's founder, Diishan Imira, that 95 percent of African American hair salons have no retail capacity to carry or sell hair extensions due to minimal credit and cash balances.

Kesha was impressed by Diishan's nuanced understanding of the market opportunity, his entrepreneurial beginnings selling hair products out of the trunk of his Toyota Corolla, and his commitment to building a large-scale business that would empower hairstylists. When Impact America made its initial investment in Mayvenn in 2014, the 2-year-old company was already demonstrating tremendous growth, with 20,000 hairstylists subscribed to the platform and annual revenue pacing toward eight figures. Notably, Mayvenn had achieved this level of traction with a team of only 12 people and less than $3 million of seed capital.

Through the Mayvenn platform, independent hairstylists who cannot afford to hold inventory are able to lead clientele to an online portal where they can purchase products, and the stylists receive a commission. The business model has a built-in subscription (customers receive products on a recurring cycle), a marketing channel (sales representatives), and a distribution channel (hair salons). The success of Mayvenn's business is aligned with the success of the stylists, who are able to capture more financial upside for their skills and customer base. Mayvenn has paid out a total of $20 million in sales commissions to active hairstylists on its platform, and the company has its sights on expanding into ancillary verticals that will create even greater economic opportunity for its stylists. Mayvenn hairstylists earn, on average, an extra $200–$300 a week (a significant sum given that the average hairstylist makes approximately $24,000/year).

By keeping capital from leaving their communities through the foreign-owned beauty supply chains that are a mainstay in Black neighborhoods, Mayvenn's stylists are recycling the Black dollar in an industry in which Black women over-index in spending while participating in very little of the $9 billion supply chain. This is important in a country in which, according to the NAACP, a dollar circulates for less than six hours before leaving a Black community.

Impact America invested in the company's pre-Series A round in 2014 and made sizable follow-on investments to grow its equity stake. Impact America introduced the founder to Andreessen Horowitz, which led Mayvenn's $10 million Series A round in 2015. More recently in 2018, Mayvenn raised $23 million in a new round of funding from Essence Ventures.[68]

CONCLUSION

The racial wealth gap is one of the greatest challenges we face today. It prevents millions of households of color from fully participating in the economy, prospering, and reaching their full potential, and has deep roots in historical policies in the United States. At the same time, national demographics are changing. Younger generations are already far more racially diverse than the U.S. population at large. The majority of Americans under the age of 30 will be people of color within the next decade, and the majority of K–12 students in the U.S. are already people of color. This shift will have a profound impact on companies as the needs of employees, customers, suppliers, and shareholder demands shift.

The current moment presents a prime opportunity for the private sector at large and financial institutions in particular to recognize that providing quality financial services to people of color and addressing the racial wealth gap can yield competitive advantage. The financial sector must move quickly now to transform its business practices to serve the rapidly growing customer base comprised of people of color. The moral imperative of racial equity has also become an economic imperative.

To get started, leaders of financial institutions must begin by working with organizations of color to fully understand the unique needs and barriers to financial health faced by consumers of color. Companies must authentically partner with these institutions to develop solutions that enable historically marginalized individuals to achieve financial security and build wealth. With a deeper understanding of the impacts of structural racism

To get started, leaders must begin by working with organizations of color to fully understand the unique needs and barriers faced by consumers of color.

and the resulting needs of communities of color, companies can avoid one-size-fits-all approaches to product and service development and serve expanded markets. Authentic partnerships are also essential in enabling the financial sector to rebuild the trust of these communities in traditional financial systems.

Improving the financial lives of people of color requires both policy and regulatory change and innovative business models that embed equity as a core corporate value alongside profitability and growth. Seeing results at scale will require patience and a long-term perspective. Financial services companies featured in this report are seeing that designing products and services that meet the needs of markets of color ultimately improves outcomes across the board. We hope that the product innovations and internal catalysts highlighted in this paper demonstrate how the financial services industry can find new economic opportunities in an increasingly diverse society and contribute to closing the racial wealth gap.

With a deeper understanding of the impacts of structural racism, companies can avoid one-size-fits-all approaches to product and service development and serve expanded markets.

METHODOLOGY

The analysis by FSG and PolicyLink is the result of a review of over 50 articles (grey literature and peer-reviewed articles), secondary research of about 10 companies, and interviews with over two dozen experts from various sectors interested in advancing financial wellbeing for people of color.

INTERVIEWEES

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Executive Vice President / Chief Lending Officer

Marsela Pecanac
Amalgamated Bank
Director/SVP

Michael Ibarra
Amalgamated Bank
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Angie Garcia-Lathrop
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Disclaimer: All statements and conclusions, unless specifically attributed to another source, are those of the authors and do not necessarily reflect those of any individual interviewee, advisor, or funder.

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