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Testimony of

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Chairwoman Beatty, Ranking Member Wagner and Members of the Committee, thank you for the opportunity to discuss diversity and inclusion in America's large banks.

My name is Gail Greenfield. I am a Senior Principal in Mercer's Workforce Strategy & Analytics practice, specializing in diversity and inclusion analytics. Prior to joining Mercer in 2000, I was an assistant professor of economics at The College of Wooster. More recently, I worked as a senior program officer for The National Academies of Sciences, Engineering, and Medicine as a part of the Board of Higher Education and Workforce. I have 20 years of experience conducting research and consulting to organizations. I received my PhD in economics from Claremont Graduate University and my bachelor's degree in business economics from the University of California, Santa Barbara.

Mercer is a business of Marsh & McLennan, the world's leading professional services firm in the areas of risk, strategy and people. Headquartered in the US, the Company's 76,000 colleagues advise clients in over 130 countries. In addition to Mercer, Marsh & McLennan's businesses include Marsh, Guy Carpenter and Oliver Wyman. Collectively, we employ 24,000 colleagues in the US.

Today I will discuss the current state of diversity and inclusion in the financial services industry, where the industry appears to be headed and how financial services companies can use analytics to build more diverse and inclusive workforces. My comments will focus on evidence gathered through Mercer research and consulting assignments, as well as research conducted by others.

Business Case for Diversity and Inclusion

Historically, the rationale for organizational diversity and inclusion efforts focused on the legal and compliance justification, coupled with the moral imperative that "it's the right thing to do." More recently, however, the focus has shifted to the business case for diversity and inclusion. The business case is clear. An extensive body of trusted research has demonstrated the value of a diverse and inclusive workforce. The nonprofit organization Catalyst reviewed 30+ research studies on the connection between diversity and business outcomes, demonstrating that diversity—for example, women in leadership, board positions, or workforces; racial and ethnic diversity; and LGBT+ inclusion—is positively associated with important business outcomes.[1] The word cloud in Exhibit 1 summarizes Catalyst's findings. Specifically, a business outcome appears in the word cloud if a study shows a relationship between diversity and that outcome. The greater the number of studies that show a link between diversity and an outcome, the larger the relative size of the outcome in the word cloud. Most notably, numerous studies show that diversity is positively related to return on equity, financial performance and employee satisfaction, as well as innovation, creativity and knowledge formation and patents. Evidence suggests that organizations interested in improving their financial performance, better leveraging their talent and increasing innovation need to make diversity and inclusion a priority.

[1] Catalyst. Diversity Matters, 2014, available at http://www.catalyst.org/knowledge/diversity-matters.

Exhibit 1

Business Case for Diversity

Source: Mercer graphic based on Catalyst's review of the research (http://www.catalyst.org/knowledge/diversity-matters).

Mercer's Point of View

Mercer's point of view is that workforce diversity is an outcome that organizations ought to actively manage. In our experience, an organization's diversity and inclusion strategy is more likely to be effective if it is evidence-based. The key is understanding what type of workforce an organization has created, where it's headed, where it wants to go, and focusing on interventions shown to be most effective in building a diverse workforce. Diversity can only be sustained, however, if it is supported by an inclusive culture. An organization's culture reflects its values, norms, behaviors, leadership and organizational practices.

In developing an evidence-based diversity and inclusion strategy, Mercer recommends organizations focus on the following four key measures of diversity and inclusion:

(1) Representation: This measure helps an organization understand the workforce that it currently has (i.e., the current state of diversity). For example, what proportion of an organization's workforce are women and people of color?

(2) Talent flows: This measure helps an organization understand where it's headed (i.e., the future state of diversity). For example, based on an organization's recent talent dynamics (i.e., recent hiring, promotion and turnover trends), how are the representation of women and people of color expected to change over the next 5 to 10 years?

(3) Employee experience: The first two measures focus on measuring diversity. Measuring the experiences of the employees in an organization—through such things as interviews, surveys and focus groups—enables an organization to measure the inclusiveness of its culture.

(4) Pay equity: A key component of an organization's diversity and inclusion strategy is regularly assessing pay equity to ensure there is no pay inequity by gender or race/ethnicity and proactively remediating any issues identified.

Representation and Talent Flows in the Financial Services Industry

With these four measures of diversity and inclusion in mind, first I'll share information on representation and the flow of talent in the financial services industry. To do that I want to introduce you to the concept of the internal labor market. Every organization has an internal labor market—either by design or default. People are selected in to the organization and they advance, perform, stay or leave in response to an organization's unique mix of workforce management practices. Internal labor market dynamics constantly shape an organization's workforce. An internal labor market map (or ILM map) is a "system-at-a-glance" descriptive summary of key aspects of an organization's internal labor market dynamics. An ILM map can be used to understand how talent is distributed across career levels and the rates at which people are hired into the organization, promoted within the organization and exiting the organization.

What do we see in terms of representation in the industry?

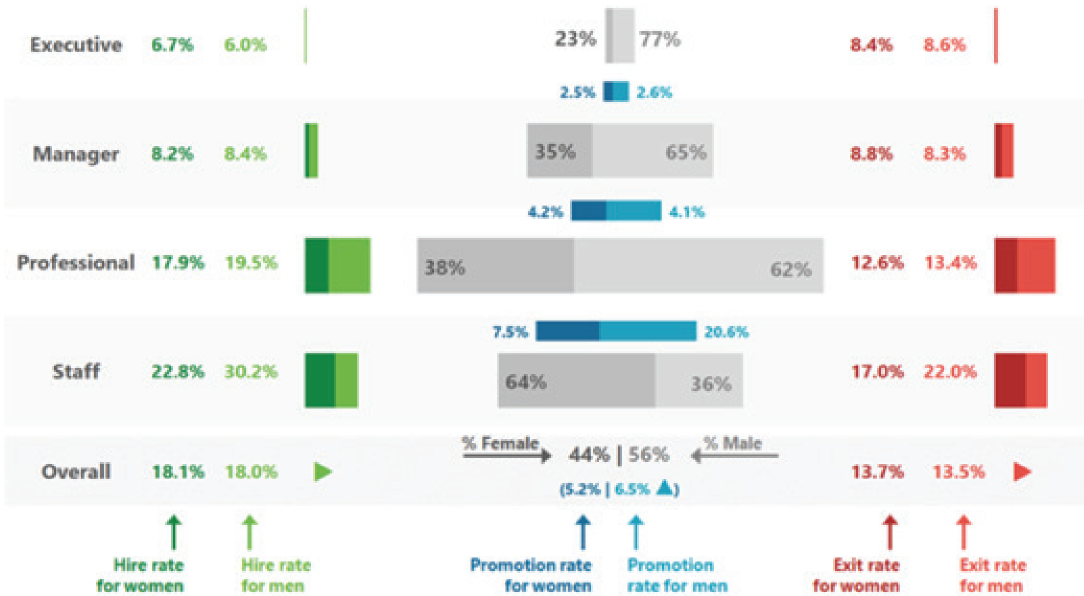
Based on recent research conducted on behalf of financial institutions,[2] Mercer created ILM maps for the financial services industry by gender and by race/ethnicity. Exhibit 2 shows the industry ILM map by gender. Overall female representation in the industry is 44%, with representation declining as one moves up the hierarchy. The highest representation is at the Staff level, which is roughly two-thirds female (64%). Representation drops below 40% at the Professional (38%) and Manager (35%) levels, and fewer than one in four Executives are women. Exhibit 3 shows the industry ILM map by race/ethnicity. People of color collectively make up 32% of the overall industry workforce in the US.[3] People of color representation hovers in the thirties at the lower levels, dropping to one-quarter at the Manager level and 14% at the Executive level.

[2] The research was conducted in 2018 and includes more than 500,000 employees working in the financial services industry. The research includes those working outside the US, although US-based employees constitute more than 75% of the employees covered by the research. The average number of employees across the participating organizations is roughly 20,000. Note that the research excluded employees in consumer, commercial and transaction banking.

[3] People of color includes US-based employees classified as Hispanic or Latino, Black or African American, Native Hawaiian or Other Pacific Islander, Asian, American Indian or Alaskan Native or Two or More Races.

Exhibit 2

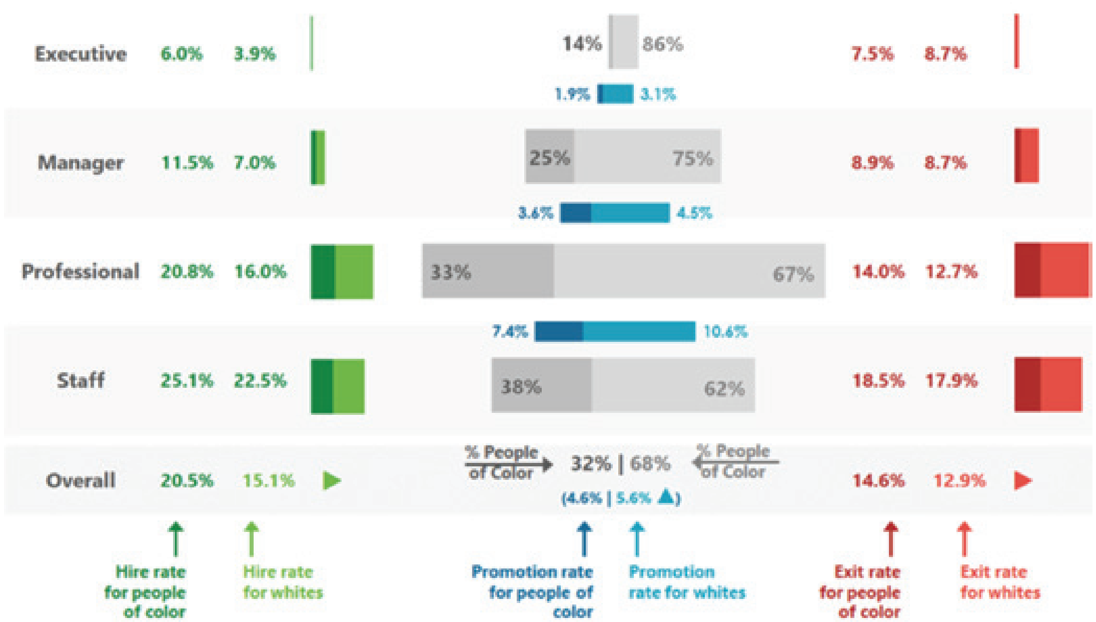
Internal Labor Market Map by Gender for Financial Services Industry



Source: Mercer, 2018

Exhibit 3

Internal Labor Market Map by Race/Ethnicity (US only) for Financial Services Industry



Source: Mercer, 2018

What do we see in terms of talent flows in the industry?

In addition to representation, Exhibit 2 shows hire rates, promotion rates and exit[4] rates for women as compared to men in the financial services industry. We observe lower rates of hire for women as compared to men at all levels except the Executive level. The differences are most notable in the lower career levels, particularly at the Staff level where there is more than a seven percentage point difference between the hire rates of men and women. These results suggest that the industry is focused on recruiting senior-level female talent, with less focus on the pipeline of future female leaders. Looking at promotion, we observe comparable promotion rates between men and women at all levels, except for promotions from the Staff level to the Professional level, where the promotion rate for women is less than half that of men. Are women concentrated in roles that are not associated with upward progression or are they in similar roles to men but less likely to be promoted out of those roles? This remains an open question. Looking at exits, we observe that exit rates are lower for women as compared to men at all levels, except at the Manager level where the rate is slightly higher.

Exhibit 3 shows hire rates, promotion rates and exit rates for people of color as compared to whites in the financial services industry. Hire rates for people of color are notably higher than that of whites at each career level, suggesting concerted efforts by organizations to recruit people of color. On the other hand, promotion rates are lower for people of color as compared to whites at all levels, with the largest gap at the Staff to Professional level (as we saw with women). Exit rates are higher for people of color as compared to whites at all levels except for the Executive level.

What is the expected future state of diversity in the industry?

Exhibit 4 shows how the representation of women and people of color in the financial services industry at senior levels (i.e., the Manager level and above) is projected to change over the next decade. For women, assuming current industry workforce dynamics persist—that is, assuming hire rates, promotion rates and exit rates for women versus men remain unchanged over the next 10 years—we expect to see a three percentage point increase in the representation of women at senior levels, from 33% in 2018 to 36% in 2028. The projected increase is notably larger for people of color, where we expect an 11 percentage point increase in the representation of people of color at senior levels, from 23% in 2018 to 34% in 2028. As part of the research, we also identified areas of strength and areas of opportunity for further increasing the representation of women and people of color in the industry. For women, retention is an area of strength, while hire and promotion are areas of opportunity. For people of color, hiring is an area of strength, while promotion and retention are areas of opportunity. For both women and people of color, the key lever to increase the representation of women and people of color at senior levels is to ensure women and people of color are being promoted at comparable rates to their male and white counterparts.

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[4] Exits include employee exits from financial institutions included in the research study (voluntary or involuntary), but do not imply that the employee left the financial services industry.

Exhibit 4

10-Year Projections of the Representation of Women and People of Color in the Financial Services Industry

	Women	People of Color (US only)
Current Representation (Manager+ level)	33%	23%
Projected Representation in 10 years (Manager+ level)	36%	34%
Hire rates	🟠	🟢
Promotion rates	🟠	🔴
Retention rates	🟢	🔴
Key lever (to increase representation at Manager+ level)	Promotion	Promotion

Key:
- 🟢 Rates tend to favor women/POC or are equitable
- 🟠 Mixed results, rates favor women/POC at some levels and men/whites at others
- 🔴 Rates tend to favor men/whites

Source: Mercer, 2018

Employee Experience in the Financial Services Industry

As I mentioned earlier, organizational diversity can only be sustained if it is supported by an inclusive workplace culture. The cultural inclusiveness of an organization or industry can be measured by examining the employee experience. Unfortunately, there is limited information publicly available on the perceptions of those currently employed in the financial services industry. However, we can glean some insights from a research study Mercer conducted on behalf of the Financial Services Pipeline (FSP) Initiative. In 2013, Chicago-based financial institutions joined forces with The Chicago Community Trust to form the FSP Initiative. FSP members represent more than 30,000 leaders and professionals in the Chicago-area financial services industry—close to 50% of the area's industry workforce. The Initiative's goals are to increase representation of Hispanics/Latinos and Blacks/African Americans, at all levels, and improve overall cultural competency within the Chicago-area financial services industry. The study[5] included a survey of 10,000 individuals working at FSP member organizations to learn about the experiences and perceptions of Hispanics/Latinos and Blacks/African Americans in the industry as compared to their white counterparts. Key findings include:

- Fairness with regard to access to opportunities, the distribution of rewards and the application of employer policies are important to all groups. However, the experience of fairness by Blacks/African Americans and Hispanics/Latinos is less positive than that of whites.

[5] Financial Services Pipeline Initiative. Bridging the Diversity Gap, 2017, available at: https://www.fspchicago.org/about-us/our-research/bridging-the-diversity-gap/.

- Blacks/African Americans and Hispanics/Latinos are less likely than whites to feel there is a racially and ethnically diverse mix of role models in their organizations and are less likely to perceive a leadership commitment to diversity and inclusion.

- Blacks/African Americans report higher levels of job insecurity. At the most senior career level, intentions to leave the industry are more prevalent among Blacks/African Americans and Hispanics/Latinos as compared to whites.

Pay Equity in the Financial Services Industry

As I mentioned earlier, an important part of an organization's diversity and inclusion strategy is regularly assessing pay equity and proactively remediating any issues identified. Mercer's *When Women Thrive* research[6] found that having a strong pay equity process is associated with greater current and projected future representation of women at senior levels. Specifically, the research revealed that an organization's pay equity process should rely on a robust statistical approach (e.g., multiple regression), the organization should have a formalized remediation process to address identified pay equity risks and the organization should have a team assigned that is responsible for pay equity assessment. Mercer's recent research conducted on behalf of financial institutions found that more than 80% of companies in the study agree or strongly agree that their pay equity process relies on a robust statistical approach, more than 80% agree or strongly agree that they have a formalized remediation process and more than 90% agree or strongly agree that they have a team that is formally responsible for assessing pay equity.

In terms of the current state of pay equity, PayScale recently released a report[7] revealing that the raw gender pay gap across industries is 21 cents, with women earning 79 cents for each dollar earned by men.[8] After accounting for job type, seniority, location, industry, years of experience and other "compensable" factors, the pay gap falls to two cents, suggesting that women with the same job and qualifications as men earn 98 cents for each dollar earned by men. I refer to this figure as the "unexplained" gender pay gap because it is not explained by legitimate compensable factors.

While the raw pay gap has improved by roughly five cents over the past five years, the unexplained pay gap has remained virtually unchanged. Looking at the gender pay gap in the finance and insurance industry, the PayScale study finds that the raw pay gap is 26 cents, with women in the industry earning 74 cents for each dollar earned by men in the industry. The unexplained pay gap in the industry is three cents, suggesting that women in the industry with the same job and qualifications as men earn 97 cents for each dollar earned by men.

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[6] Mercer. When Women Thrive, Businesses Thrive, 2016, available at: https://info.mercer.com/WWT-Full-Report.html.

[7] PayScale. The State of the Gender Pay Gap 2019, available at: https://www.payscale.com/data/gender-pay-gap.

[8] Raw pay gap is based on a comparison of median salary for women to median salary for men.

Mercer also compiles information on unexplained pay gaps.[9] Among the financial services companies for whom Mercer conducts pay equity assessments, we find the average unexplained gender pay gap is less than one cent, with women in the industry earning 99.1 cents for each dollar earned by similarly situated men. Unexplained pay gaps by race/ethnicity in the industry are also less than one cent for Blacks/African Americans (as compared to whites) and for Hispanics/Latinos (as compared to whites). We find a positive unexplained pay gap for Asians (as compared to whites) of slightly more than a cent.

These studies reveal that raw pay gaps are driven mainly by compensable factors, with a smaller portion driven by unexplained pay inequities. Mercer's experience in conducting pay equity assessments for its clients indicates that the single most important compensable factor determining an employee's pay is their career level or salary grade (that is, where they sit in an organization's career hierarchy). Thus, closing raw pay gaps will require organizations to ensure women (and people of color) gain access to more senior, higher paying roles. I caution organizations, however, not to be deceived into thinking that a small unexplained pay gap does not deserve attention. For one Mercer client with an unexplained gender pay gap of 2.4%, we estimated that this seemingly small unexplained pay gap translated into a loss of more than $90 million each year for women at the company. These are the findings for just one organization. One can imagine the collective impact of even a one cent unexplained pay gap on a single industry or the entire US economy. A back-of-the-envelope calculation suggests that a one cent unexplained pay gap translates into lost wages for women in the US economy of roughly $500 million each week.

What Financial Services Companies Can Do to Advance Diversity and Inclusion

Based on our experience, there are some fundamental things financial services companies can do to advance diversity and inclusion. First, companies should build a business case to understand where diversity and inclusion issues may be impeding achievement of business objectives. Second, companies should understand the current state of diversity in their organization and develop diversity projections to see where their organization is headed. Third, companies should identify the cultural dynamics that may be posing a risk to their organization's culture of inclusion. Lastly, companies should regularly conduct pay equity assessments using a rigorous, statistical approach and remediate issues identified.

[9] Figures in this paragraph are based on 2018 salary data.