

**OPENING STATEMENT  
OF  
CHAIRMAN MELVIN L. WATT**

**Subcommittee on Oversight & Investigations**

**“Diversity in the Financial Services Sector”**

**Thursday, February 7, 2008**

This is the second in a series of hearings by this Subcommittee about diversity issues in the financial services sector. Our first hearing, held last October, explored the role that minority-owned financial institutions play in our economy and the role that federal banking regulators play in preserving and promoting these institutions. Today’s hearing, which is also a follow up to hearings held in 2004 and 2006 by the Subcommittee when my Republican colleagues were in the majority, will focus on workplace diversity and especially on the recruitment, retention and promotion of minorities and women to mid- and senior-level management positions in the financial services sector. We continue the Subcommittee’s review of diversity issues in the

financial services sector because we believe that being proactive on diversity is legally required and necessary and because there is growing evidence that diversity is critically important to our global competitive advantage in the financial sector as well as in other business sectors.

In June 2006, the United States Government Accountability Office issued a report entitled, “Overall Trends in Management-Level Diversity and Diversity Initiatives, 1993-2004,” and the Subcommittee held a hearing to review that report on July 12, 2006. The report was requested after a July 15, 2004 Subcommittee hearing that reviewed challenges faced by the financial services industry in obtaining and maintaining a diverse workforce and challenges faced in getting access to capital by minority-owned businesses. The 2006 report examined workplace diversity trends for various sectors of the financial services industry and found that overall diversity at the management level did not change substantially from 1993 to 2004 and that the marginal improvements that had been made were not uniform

across various parts of the financial services sector or across racial and ethnic minority groups. Sadly, the GAO's follow up data for 2006 shows that diversity at the management level in the financial services industry has remained about the same as reflected in its 1993-2004 report. The GAO reports suggest that depository institutions, such as commercial banks and insurance companies, have generally been more diverse at the management level over the years than the securities sector and the holdings and trusts sector (which includes investment trusts, investment companies and holding companies).

There is some suggestion, as some witnesses testified at the Subcommittee's 2006 hearing, that even the modest growth reported in senior management-level diversity may have been overstated due to the fact that the "officials and managers" category used in the Equal Employment Opportunity Commission's EEO-1 form included lower and mid-level management positions that may have higher representations of minorities and white women. The Equal Employment Opportunity

Commission uses the EEO-1 form to collect demographic data annually from private employers with 100 or more employees and federal contractors who have 50 or more employees, and are prime or subcontractors on a government contract over \$50,000.

Effective with the 2007 reporting year, a revised EEO-1 form now divides the “officials and managers” category into two subcategories: (1) “executive/senior level officials and managers” and (2) “first/mid-level officials.” I am happy to have Mr. Ronald Edwards representing the EEOC today to discuss this revised EEO-1 form and to give a preliminary assessment of the utility of the new form in making a better assessment of diversity in management ranks.

We are fortunate that several groups and foundations in the private sector have also been conducting studies and research about diversity in corporate America and about diversity in the financial services sector in particular. DiversityInc, one such company, is perhaps best known for its annual “DiversityInc Top 50” list of companies. DiversityInc grades companies on CEO

commitment, human capital, corporate communications and supplier diversity. In addition to the “Top 50” list, there are “Top 10” lists for specific racial and ethnic groups, women and people with disabilities and other categories. In 2007, over 300 companies submitted questionnaires and other data to be considered for DiversityInc’s lists. I am proud that Bank of America, a financial institution headquartered in my Congressional District, was rated number one on the DiversityInc Top 50 for 2007 and I look forward to hearing from Ms. Geri Thomas, global head of diversity at Bank of America, about how they achieved that ranking.

Also testifying at today’s hearing is a representative of the Robert Toigo Foundation. Toigo conducts research into specific topics concerning diversity within the financial services industry. It completed a valuable study in November 2006, entitled *“Retention Returns: Insights for More Effective Diversity Initiatives,”* that focused on retention of minority finance professionals. The study concluded that retention is increased if

minority professionals receive visible, significant assignments that are valued at the firm, if they have genuine mentors and receive objective performance standards that are applied fairly and consistently and if they see visible commitments to diversity from the top which translate down to middle management.

Fostering a diverse workplace is critically important, not only for minorities and women, but for U.S. firms seeking to compete in the 21<sup>st</sup> century global market. With increased globalization, international firms with diverse workforces are competing vigorously with U.S. companies for revenues, profits and talent. Indeed, the European Commission issued a comprehensive study in September 2005 on the diversity efforts of leading financial and manufacturing firms in Europe. The European Commission study provides many important examples of innovative best practices in the areas of recruitment and retention of diverse staff and management. It is noteworthy that in the European Commission study, 83 percent of the respondents believed that effective diversity initiatives positively impacted the bottom-line. Among

the most important benefits they reported were enhanced employee recruitment and retention from a wider pool of high quality workers, improved corporate image and reputation, greater innovation and enhanced market opportunities. Similarly, the DiversityInc representative will testify that the “DiversityInc Top 50” regularly outperform the S&P 500 in terms of return on investment. In the final analysis, if we can’t make the legal, ethical and moral case for U.S. companies to pursue diversity aggressively, perhaps they’ll take note of the impact of diversity on the bottom line.