Diversity & Inclusion Assessments - Time To Be Proactive?

regulatory performance

Summary: Even though diversity and inclusion assessments are voluntary, it may be time to be proactive. We explain why.

When a train is about to move forward, it blasts its whistle two times. Good to know if you are traveling. But, it may be good to know what the signs are when regulators are moving forward on certain areas too.

These days, there are a few things happening within diversity and inclusion (D&I) that indicate signs of moving forward. Regulators and lawmakers are stepping up their call for financial institutions (FIs) to tell agencies how their D&I practices are faring.

Currently, FIs can voluntarily choose to file a D&I self-assessment with their respective regulator's Office of Minority and Women Inclusion (OMWI), per the 2010 passage of the Dodd-Frank Act. More FIs are now filing them than when the practice first started in 2011, according to the OMWIs' reports to Congress, but response rates still remain low. In 2019, the rate was 16.9% for FDIC-regulated institutions, 23.8% for those under the Federal Reserve Board, and 19.4% for FIs regulated by the Office of the Comptroller of the Currency.

Lately, the OMWI has been enlisting the help of FIs, trade groups, and other experts to urge the industry to increase the reporting of D&I self-assessments. Congress has also been prompted to review diversity within the largest banks. We give you an update and highlight the benefits of these self-assessments.

Learnings from big banks. In February 2020, the House Committee on Financial Services started reviewing and held a hearing on the D&I measures taken by big banks - assets of $50B or more. In their follow-up report, Diversity and Inclusion: Holding America's Large Banks Accountable, the committee found that there was little board member and executive diversity. It also found few investments with diverse firms. Still, some banks had diversity-focused policies and practices, especially in recruitment and connecting D&I to performance. Based on its findings, the committee suggested that Congress consider legislative actions to improve D&I at America's largest banks, including the requirement of sharing their D&I data with regulators and the public. While the committee's proposals haven't been approved yet, it is prudent to stay on top of the results.

Benefits of self-assessments. At the urging of regulators, trade groups and industry experts are reminding FIs why D&I self-assessments matter. By making sure their D&I practices are robust, FIs can promote a strong organizational culture that improves employee morale, becomes a competitive advantage in attracting and retaining top talent, and enhances the FI's overall reputation within their community. According to a BCG report, companies that have inclusive policies and practices find a 59% surge in innovation, creativity, and openness. There are several studies that show performance is boosted with diversity as well. D&I self-assessments could possibly foster even greater relationships with regulators, some experts say.

These assessments are still voluntary and they do take some time. However, they could be worthwhile for both your institution's morale and your bottom line. Furthermore, the day may be coming when they are required; other countries are already legislating D&I requirements in the financial services industry. So, make sure you stay informed and be prepared.

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