



FINANCIAL INSTITUTIONS CAN HELP BREAK THE CYCLE OF RACIAL INEQUALITY

By Veronica Chau, Adrian Mitchell, and Kedra Newsom

IN THIS MOMENT IN time, we see our nation at an inflection point. The crushing social and economic burden of the COVID-19 pandemic has fallen disproportionately on Black American communities. At the same time, the killing of George Floyd and the resulting civil unrest have heightened awareness, unleashed outrage, and mobilized a shared national imperative to address and eradicate racial disparity.

There's long been a need for action. The time for that action is now. And we see financial institutions as uniquely well positioned to act—and to catalyze further action in corporate America.

By innovating radical new ways to invest in Black customers, institutions can transform the financial realities of these individuals, their businesses, and communities—as well as the local, state, and US economies.

As lenders, they can provide greater access to capital. As shareholders, they can hold

businesses accountable. As influencers and stakeholders, they can elevate policy. As employers, they can advance diversity and inclusion as well as pay equity in their own workplaces.

The Enormous Wealth Gap—and a Promising Wealth Wave

In US society, income inequality and financial insecurity are foundational to structural racism: while family median net worth is nearly \$171,000 among white families in the US, for Black families it is just \$17,600, according to the Federal Reserve's 2016 Survey of Consumer Finances.

Across more than 10 million Black families, this wealth gap translates into several trillion dollars and massive underinvestment in communities of color.

Consequently, many Black families lack the means, illustrated in Exhibit 1, to move themselves into safer housing, better jobs, higher pay and standards of living, and greater stability. This disparity

perpetuates and amplifies across generations.

We highlight some of the most pronounced inequities in Exhibit 2.

Yet even in the face of these systemic barriers and pressures, Blacks Americans

have been able to accelerate their rates of education attainment, entrepreneurship, and stock market participation. That is, although the overall numbers of degrees and businesses among Blacks remain below levels attained by other groups, Blacks are making strides in these areas at rates that outpace whites. (See Exhibit 3.)

EXHIBIT 1 | A Wealth Creation Journey Leverages Existing Assets, Takes Risks, and Builds Equity



Source: BCG analysis.

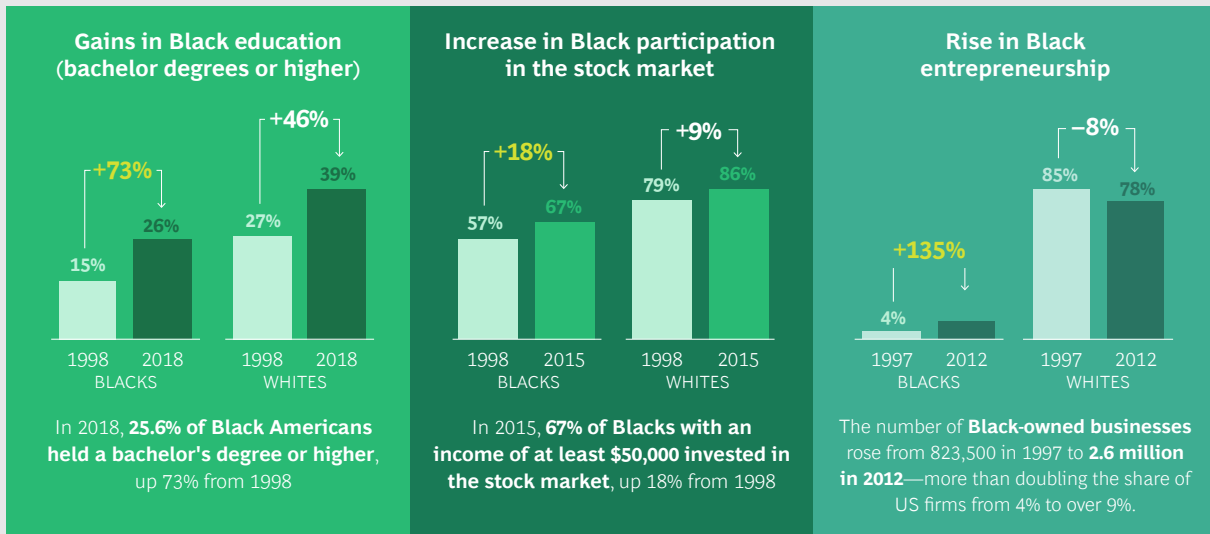
Note: List of financial products and services is not exhaustive. SMEs = small and medium-sized enterprises.

EXHIBIT 2 | The Wealth Gap Creates Major Disparities

<h1 style="font-size: 48px; margin: 0;">3x</h1> <p style="font-weight: bold; margin: 10px 0;">White families transfer wealth between generations 3 times more often than Black families do.</p> <p style="font-size: 12px; margin: 10px 0;">While 26% of white families reported receiving inheritance, just 8% of Black families did, according to the Federal Reserve.</p> <p style="font-size: 12px; margin: 10px 0;">This puts many Black families at a disadvantage out of the starting gate.</p>	<h1 style="font-size: 48px; margin: 0;">~2x</h1> <p style="font-weight: bold; margin: 10px 0;">Black households are nearly twice as likely to lack access to credit.</p> <p style="font-size: 12px; margin: 10px 0;">About 28% of Black households were deemed “credit invisible” or unscorable, compared to about 16% of white households, the Consumer Finance Protection Bureau reported.</p> <p style="font-size: 12px; margin: 10px 0;">This prevents the socioeconomic mobility achieved through mortgages and business loans.</p>	<h1 style="font-size: 48px; margin: 0;">2x</h1> <p style="font-weight: bold; margin: 10px 0;">Black-owned businesses get turned down for bank financing twice as often as white businesses do.</p> <p style="font-size: 12px; margin: 10px 0;">They also seek it out at rates twice as high, according to a Federal Reserve report.</p> <p style="font-size: 12px; margin: 10px 0;">This starves Black-owned businesses of capital needed to grow or achieve the financial resiliency to recover from major setbacks.</p>
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Sources: Federal Reserve; Consumer Finance Protection Bureau.

EXHIBIT 3 | A Promising Wealth Wave Has Emerged Within the Wealth Gap



Sources: US Bureau of the Census; Ariel Investments; Charles Schwab.

How Financial Institutions Can Lead Corporate America in Moving from Empathy to Action

It is critical that this promising trajectory does not collapse under the burdensome weight of the COVID-19 pandemic and the latest eruption of racial tensions. But this is not a public- or social-sector issue alone.

We see the private sector as well positioned to forge the novel solutions needed to resolve longstanding problems. In particular, financial institutions are poised to lead the charge, advantaged by:

- Their role as product developers, brokers, and providers of the vast majority of capital and leverage provided to US individuals and organizations
- Their powerful influence over organizational decisions and focus as a majority investor in the market as well as their prominence in industry research and analysis
- Their sizable muscle in shaping and effecting policy including federal financial regulations as well as more local policy tables

Closing the wealth gap demands radical disruption in how financial institutions prioritize, target, and invest in Black consumers. We see four primary ways these organizations can change the game for Black customers and their businesses.

INNOVATE TO PROVIDE INVESTMENT AND ADVISORY SOLUTIONS THAT BOOST WEALTH AND EQUALITY

Financial institutions can put their core businesses to work to:

- **Develop and scale products and advisory services that are designed to build wealth and encourage savings.** Offerings that nudge consumers into regular savings habits build a base of clients with financial resiliency. Embedding financial education into customer-relationship processes—through both digital and in-person advisory channels—drives customer loyalty in powerful ways.
- **Shift product KPIs from those that create deeper indebtedness among clients to those that measure the overall financial wellness of a client.** This strategy builds relationships on the shared objectives of establishing and

increasing assets, creating credit history, and achieving financial goals.

- **Partner with large employers to increase the share of American workers who have access to 401(k) matching funds.** Making retirement savings vehicles accessible to a wider share of American workers, especially Black workers, is a critical lever for closing the wealth gap.
- **Embrace innovative models that reach the previously marginalized.** For example, consider proof of employment—possibly through employer-provided institutional offerings—in lieu of established credit histories or scores to help those who might currently struggle as “credit invisible.” Access to credit makes amassing wealth possible.
- **Expand retirement savings opportunities.** Identify and develop products tailored to those who are not well served by existing employer-based models.

DEVELOP STRATEGIES TO BETTER ATTRACT AND SERVE THE NEXT GENERATION OF BLACK INVESTORS

Drawing on consumer insights and industry connections, organizations can:

- **Use advanced analytics to create personalized offerings for the many growing segments of Black investors.** The next generation of Black American wealth is on the move. Wealth managers that are able to deploy a mix of advanced analytics and use advisory offerings to create more personalized experiences will command a greater share of this growing market segment.
- **Diversify the entire value chain in wealth and asset management.** Champion efforts to drive diversity and inclusion across financial advisors, investment managers, brokers and dealers, and other actors. Invest in efforts that help financial advisors overcome unconscious bias that

may be limiting the full potential of the relationships with their clients.

INCREASE INVESTMENT IN BLACK-OWNED BUSINESSES, BLACK NEIGHBORHOODS, AND COMPANIES LEADING IN RACIAL INCLUSION

Taking the lead as a conduit to investment, financial institutions can:

- **Launch and scale initiatives that close racial gaps in financing for small and midsize enterprises (SME) and growth companies.** Banks can better serve clients with high-growth potential through programs that blend practical business advisory services with access to capital. Partnerships with local organizations that support Black entrepreneurs can be a channel for a dynamic new client base.
- **Maximize the impact of catalytic capital deployment in Black communities.** Work with community leaders, local business people, and philanthropic partners to identify strong community-led concepts, ensure support for developments throughout the investment journey, and arrange flexible capital structures.

- **Create asset management products that enable investors to steer capital toward leading companies in racial inclusion.** Partner with ratings providers and social-sector organizations to develop investment products—such as funds or platforms—that enable investors to align their capital with their values.

LEVERAGE INFLUENCE AS A SHAREHOLDER, LENDER, AND STAKEHOLDER

In their diverse roles at the fore of the industry, these institutions can:

- **Promote the topic of racial inclusion through investment stewardship functions.** Use shareholder status to champion racial inclusion. Advance the adoption of standard disclosure requirements for diversity and inclusion among companies—including their own.

- **Support broader efforts that address the structural roots of racial inequality.** Now, more than ever, stakeholders expect that corporate leaders will take a stand on issues that matter. Financial institutions should use their influence and voice to condemn racism. And they should use channels such as their philanthropic arms to support efforts that drive lasting change.
- **Use their seat at the community table to shape and change local behaviors and policies and invest in community leaders and organizations driving immediate action.** Branch networks serve as powerful sources for financing within their communities. And financial executives should play an outsize role in driving community efforts and municipal agendas, leading the boards of local nonprofits, and funding local philanthropy.

tion nearly 250 years ago. Yet we incur a huge risk if we wait to act on this front until after the COVID-19 pandemic is resolved or the next election is decided.

Fortunately, some of the approaches we've outlined here are already taking shape at a few institutions—and we will be sharing more insights in the months ahead on how to embrace these steps.

First and foremost, the current public focus on racial tensions should be channeled to drive engagement and innovation on this problem. And any ground lost to delays now will not easily be regained.

In addition, if we drop the focus on advancing the upward trajectory in Black education and entrepreneurship, we risk the possibility that these gains could lose momentum or even backslide.

Finally, systemic change and cultural transformation are long and nonlinear processes. But they only advance with sustained and intense investments and relentless pressure. This is our moment.

A Major Opportunity That Requires Urgent Action

Racial disparity is an intractable problem that has plagued our nation since its incep-

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