



DIVERSITY AND INCLUSION IN THE FINANCIAL SECTOR

WORKING TOGETHER TO DRIVE CHANGE, DISCUSSION PAPER DP21/2

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UK Finance is the collective voice for the banking and finance industry. Representing almost 300 firms across the industry, we act to enhance competitiveness, support customers and facilitate innovation.

General Comments

We welcome the opportunity to respond to the Financial Conduct Authority ('FCA'), Bank of England ('BoE') and Prudential Regulation Authority ('PRA') discussion paper DP21/2 'Diversity and inclusion in the financial sector – working together to drive change' ('the DP'). We are also grateful for having had the opportunity to meet with representatives of the FCA, BoE and PRA to exchange views and perspectives on the DP.

As an industry, we fully acknowledge the necessity and benefit, for financial services and society in general, of a diverse and inclusive culture. We accept the onus on our industry to address the gap more strategically and systematically between our aspirations and our progress towards diversity and inclusion. As such, we welcome the regulators' joint efforts to clarify their expectations in relation to these matters and their commitment to listen to and work with stakeholders on measures to increase diversity and inclusion across the financial services industry in an incremental and sustainable way.

It is necessary to acknowledge from the outset that financial services firms are at varying stages of maturity of their diversity and inclusion journey. While it is understandable that the regulators are keen to prompt firms "to do more – more quickly – to improve diversity and inclusion", it is important to recognise that business change and transformation is complex, and that some interventions may not yield demonstrable results in the near term. It is also important to recognise the pipeline challenges faced by firms and the importance of building a better understanding of the work and value of the financial services industry, particularly to highlight the variety of rewarding jobs available within the industry, irrespective of background. We believe that an opportunity created by regulatory intervention is the possibility of building a shared understanding of interventions that might be helpful, sharing best practice, and ultimately reaching a point at which the diversity and inclusion efforts of organisations of a similar scale can be compared on a like-for-like basis.

We are encouraged, from our discussions, that the regulators appreciate the need for coordinated action. Whether internationally, with other financial service regulators, or domestically, with the government, other regulated industries and stakeholders such as the Socio-Economic Diversity Taskforce and the Advisory, Conciliation and Arbitration Service (ACAS), it is important that alignment and coherence is considered. Such coordination recognises that UK-based Financial Services firms do not operate in a vacuum but are part of a much larger ecosystem.

SPECIFIC QUESTIONS

Chapter 1: Overview, including context and desired outcomes

1. What are your views on the terms we have used, how we have defined them, and whether they are sufficiently broad and useful, now and in the future?

We understand the association of a lack of diversity and inclusion with the challenge of ‘groupthink’ and attendant issues with risk management, conduct, culture and innovation. We are uncertain, however, whether the focus on ‘cognitive diversity’ or ‘diversity of thought’, will necessarily address the “serious inequalities and lack of inclusion between different groups” referenced in the foreword of the DP.

A practical concern is whether ‘cognitive diversity’ may be overly broad. For example, cognitive diversity could mean diversity of career experience (not limited to one sector or employer) or diversity of career status. While these may well be intended to be included within the concept, we believe that further articulation and elaboration will be required to be instructive.

If ‘Diversity of thought’ or ‘cognitive diversity’ are to be the industry definition of diversity, then more guidance will be required, for example, how different ‘perspectives’ or ‘information styles’ are to be identified and measured. As a starting point, however, we think it may be more helpful to focus attention on measurable aspects of diversity – and use them as a proxy for diversity of thought – until such time as it is appropriate to develop and agree a more sophisticated data set to measure diversity of thought. We suggest that a helpful starting place might be to consider referencing diversity of background experience as well as diversity of personal characteristics, which might reasonably cover the nine protected characteristics plus socio-economic background. While comparability is important, so too is the need to recognise the challenges faced by multinational organisations that encounter a wider range of definitions of protected characteristics and demographic classifications than

those derived from UK legislation. In the absence of a globally agreed set of classifications, it will be necessary to strike some kind of balance between practicability and comparability. As such, in the immediate term, firms may need latitude in selecting the specific strands that will form the focal point of their diversity and inclusion efforts.

We also understand from the term ‘diversity of thought’ that it is the product of combining difference in people (diversity) with an environment which enables that diversity to flourish (inclusion). We consider that further elaboration on inclusion would be beneficial, in particular how inclusion can be consistently measured.

Chapter 2: The role of the regulator

2. Are there any terms in the FCA Handbook, PRA Rulebook or Supervisory Statements or other regulatory policies (for any type of firm) that could be made more inclusive?

We appreciate that inclusive language is evolving as society continues to explore and invest in its inclusivity. The process of updating these documents will therefore be dynamic. We would welcome the ongoing opportunity to influence the language used by our regulators, including consideration of how accessible and clear language and guidance is too. When the regulators use appropriate language it trickles down, enabling firms to replicate and apply learnings within their organisations.

UK Finance has also recently considered the matter of inclusive language, partnering with EY and Microsoft to co-author the report, ‘Use of Non-Inclusive Language in Technology and Cybersecurity and Why It Matters’¹. Through the report, and specifically through the lens of technology and cybersecurity, we have sought to explore non-inclusive language that may have become institutionalised. Through dedicated research, industry insights and discussions with UK Finance members, we hope the report provides a useful source of information to help build an understanding of the impact that non-inclusive language has on society, the financial services industry and individuals.

Members have identified the use of some terms that have appeared in regulatory materials that we consider might warrant attention, such as: ‘Chairman’, ‘Strawman’, ‘Grandfathering’, ‘master’. The FCA Handbook contains many references to ‘he’ and ‘his’, as does the PRA Handbook which also uses masculine references regardless of gender. Some examples are below, but we’d expect the regulators to review their handbooks for similar terms as the list below is not exhaustive. In addition, new legislation should ensure it uses inclusive language. For example, the term BAME (which has been used recently in reports by the CMA on the ethnicity pay gap² is not seen as the most appropriate terminology when describing ethnic groups given the difference in diversity of the people encapsulated by that definition.

Specific examples include:

- SYSC 21.1.2 G 09/12/2019 “(1) A Chief Risk Officer should: (c) have sufficient authority, stature and resources for the effective execution of his responsibilities;”
- SYSC 2.1.2 G 01/05/2011 RP “The role undertaken by a **non-executive director** will vary from one **firm** to another. For example, the role of a **non-executive director** in a **friendly society** may be more extensive than in other **firms**. Where a **non-executive director** is an **approved person**, for example where the **firm** is a **body corporate**, his responsibility and therefore liability will be limited by the role that he undertakes.”
- 6.1 01/01/2016 “An actuary appointed under this Part must be objective in performing his duties.”
- 6.2 01/01/2016 “An actuary appointed under this Part must take reasonable steps to satisfy himself that he is free from bias, or from any conflict of interest from which bias may reasonably be inferred. He must take appropriate action where this is not the case.”
- 6.3 01/01/2016 “When carrying out his duties, an actuary appointed under this chapter must pay due regard to generally accepted actuarial practice.”

Members have additionally queried whether the online handbooks and rulebooks are sufficiently accessible such that people with different disabilities can access them.

Members would additionally welcome further dialogue about encompassing customer inclusion within the scope of ‘Vulnerable Customers’.

Chapter 3: Measuring progress

3. Do you agree that collecting and monitoring of diversity and inclusion data will help drive improvements in diversity and inclusion in the sector? What particular benefits or drawbacks do you see?

It is important to not only focus on quantitative data but on qualitative evidence too, which can help generate ideas and socialise good practice. Notwithstanding this point, we agree that collecting and monitoring of diversity and inclusion data will help organisations to understand the fabric of their business and will help to drive improvements as organisations will be able to flex their diversity and inclusion strategies in light of the insights gained. It is important to note that some organisations may find it challenging to gather this data at least in the near to medium term, which we elaborate on below.

Not all colleague protected characteristics are readily documented and some protected characteristics are Special Category Personal Data under the General Data Protection Regulation (GDPR) and should only be collected where there is a clear employment need or explicit consent. Sharing of this information must remain voluntary for colleagues in the workplace and, often, not all colleagues are willing to share this information. This can be overcome to a degree by collecting the data on a pseudonymised basis. However, to ensure all colleagues are bought in to sharing their information, there will be a need for clarity on how the data will be used internally and by the regulators to benefit them. Firms will need to nurture a culture where colleagues feel comfortable and empowered to share their diversity information. Until such time, the data collection efforts may not yield the scope and detail of data that may be required. Any policy mandating the collecting and monitoring of diversity and inclusion data should align with any existing or planned statutory requirements, and to the extent the requirements extend beyond statutory obligations, they should factor-in appropriate timescales and be realistic about completion rates, which may take several years to reach a level where analysis of data is possible.

2. <https://www.gov.uk/government/publications/ethnicity-pay-gap-report-april-2019-to-march-2020/ethnicity-pay-gap-report-1-april-2019-to-31-march-2020>

Building a data series is also important. A data series may show whether a firm is not only diverse but inclusive. There is probably more work to be done in clarifying how the regulators plan to measure inclusion. Whilst noting the guidance in Appendix 2, it would be helpful if the industry were using similar categories. Measuring inclusion is more subjective (what employees think, rather than hard fact) but in large numbers and for comparison purposes may be useful.

To understand the role that targets might play in the diversity and inclusion drive, it will be essential for the regulators to expand upon their anticipated end goal for other diverse characteristics aside from gender and ethnicity, and we would welcome further information on this. Whilst targets do ensure representation, they do not, in isolation, create lasting change for the employee and the employer. We believe that it is important to maintain confidence that all appointments and progression continue to be based on ability, experience and values. We see broader benefits in ensuring equality of opportunity for all colleagues within an organisation, which can be monitored through its investment in development programmes, early careers strategies, recruitment, talent management and performance management and senior leader sponsorship programmes. In this way, we can hopefully prevent inadvertently disengaging those who do not identify with the underrepresented groups, and without whose support, our progress would be limited.

Potential Benefits:

- Ability to baseline the “as is”, compare and benchmark across firms in the industry and quantify improvements and focus areas over time.
- Firms will have a better understanding of the people within their organisation.
- Firms may be able to integrate data into employee engagement surveys to identify differences in sentiment between those that do/do not identify with a particular diversity strand.
- Firms may be able to integrate data into other people/customer/supplier process reporting to identify areas for improvement and uncover and remove inclusion barriers e.g. understanding failures in talent progression.

- Setting diversity and inclusion (looking at visible and non- visible characteristics) as an organisational priority.
- Initiatives can be introduced to support colleagues.

Potential Drawbacks:

- Colleagues may not want to share personal information for a variety of reasons.
- Data collection will be voluntary for many of the characteristics, therefore depending on the size of the firm, there will not be representative / proportional data for teams.
- Non-standard data, not readily available in HR systems – thus, timeline and cost implications.
- GDPR issues and the need to ensure firms have the right legal framework to be able to analyse data at more granular level.
- Consistency of definitions.
- Poor analysis/understanding of data generated – is data interpreted and used meaningfully.
- Challenge of achieving high / meaningful disclosure rates.
- Risk of “bundling” very diverse people together for convenience – e.g. all non-white minorities.
- Data privacy considerations regarding the declaration, access, control, use and public disclosure of diversity and inclusion data.
- Employment and legal risks that may arise, e.g. if the data paints a challenging picture and/or improvement is slow.
- System challenges relating to configuring existing HR/ Customer/ Procurement systems to capture new diversity and inclusion values.
- Time and effort needed to establish a robust approach to collecting and monitoring data.

4. Do you have a view on whether we should collect data across the protected characteristics and socio-economic background, or a sub set?

While members are in agreement that they should collect data across the protected characteristics and socio-economic backgrounds, they are unsure whether it would be appropriate for the regulators to gather a complete dataset, particularly in light of the issues outlined above in the response to question three. Rather members would urge regulators to consider focusing on engagement and understanding the company position, its strategy and relevant data

rather than collecting a complete dataset of flat numbers without the necessary context.

If regulators do intend to collect this data, there would need to be a clear purpose under GDPR as to why all protected characteristics would be captured if there were to be a need for employers to strongly encourage and drive-up self-identification; for example, with gender and ethnicity, we can see clear representation gaps and the need to report enables us to manage and measure progress. A similarly clear rationale on the other protected characteristics, socio-economic background and inclusion metrics would be needed. More specific guidance would also be needed on capturing socio-economic background, which, if captured at all, is currently recorded differently by different organisations. In addition, such data would potentially be difficult to measure consistently to include employees who come to work here from outside of the UK.

It should also be considered that it will take time to build towards a complete dataset and that, in the near term, diversity and inclusion data may be misleading without further contextual evidence. To this end, members consider that it will be important to capture the declaration rate, including the ‘not disclosed’ rate, as well as the self-identification rate.

5. **What data could the regulators monitor to understand whether increased diversity and inclusion is supporting better decision making within firms and the development of products and services that better meet customers’ needs?**

For the reasons articulated in response to question three, we consider that it may be challenging to build the dataset to evidence “better decision making”, and firms may particularly struggle to isolate the diversity and inclusion elements of decision making that may or may not lead to successful outcomes. In the immediate term, a principles-based approach that considers, for instance, the existence of inclusion principles in product/service design and development may be more feasible.

As and when regulators move to data monitoring, we think it will be important to understand the base level first before assessing decision making within firms. Any monitoring must be meaningful and

consistent, which may be difficult in this area. For instance, we consider that it may be difficult to both collect and divulge diversity and inclusion data about customers other than at total population level. It would perhaps make sense to start with longitudinal data, which would be broader than just within firms but across the FS market. In due course, we consider that an approach could be developed along similar lines as to how the FCA obtains confidence on other items of principle e.g. Conduct and Treating Customers Fairly.

In the alternative, the regulators could consider the percentage of colleagues from protected characteristic groups at different levels of the organisation, combined with staff survey results, such as the diversity and inclusion data overlay from the Financial Services Culture Board survey. This would show the views of colleagues from protected characteristic groups on the approach to products and services, giving their perspectives from within organisations.

Chapter 4: Driving and supporting change

6. **What are your views on our suggestions to approach scope and proportionality?**

We agree that the scope should be implemented across the entire financial sector. We also agree that it will be important to use defined and familiar thresholds (e.g. the Companies Act), to allow meaningful analysis, comparison and benchmarking. Even if a firm does not meet thresholds, there should be encouragement to follow best practice to build diversity and inclusion into the firm’s culture, leadership, and activities. This will instil good practice at early stage and prevent firms hitting a cliff edge growth threshold, when diversity and inclusion would suddenly become a priority for regulatory reasons.

We further agree that it would be challenging to implement a “one size fits all” approach. A firm’s structure may be relevant, for instance, if it has a flat hierarchy and therefore does not have much movement. In such circumstances it may be challenging to effect change in short timescales.

While the effects of hybrid-working models are yet to be fully tested and understood, in the recent past

a firm's local demographics have had implications for the available talent pool that can be accessed by the firm. While London's labour market has a plentiful supply of skilled labour, drawn from both domestic and international talent pools, this is not the case for all regions of the UK. While firms must be held accountable for their cultures and practices, there also needs to be recognition and proportionality as a new equilibrium, post-pandemic, is found.

7. What factors should regulators take into account when assessing how to develop a proportionate approach?

UK Finance members have considered that the following factors would be relevant:

- Size of company / Headcount
- Size of Board
- Size of company/ total number of customers supported by the business
- Sub-sector
- Location(s)
- Maturity of company
- Starting point

8. Are there specific considerations that regulators should take into account for specific categories of firms?

UK Finance members have identified the following relevant considerations:

- Potentially B2B vs B2C – look at diversity of customer base or customer targeting.
- Legal entity structure in a specific country may mean that firms have to report data for multiple entities while it would be more meaningful to report on the aggregate level. The legal entity structure may also have an impact on potential reference populations (e.g., "senior management" may have a different definition depending on whether we assess a subsidiary or a branch).
- It is important to allow flexibility in how a firm defines "senior management" to align to approaches taken by other bodies, such as Women in Finance Charter. Being overly prescriptive will create an unnecessary burden on some companies. It will be important to explore, through the data survey pilot and

later discussions, how to arrive at a meaningful approach which allows for benchmarking across firms.

- Data privacy considerations should be made for firms who provide services to the UK but are based outside of the jurisdiction. For example, it will not be lawful or culturally acceptable to capture certain diversity data in some countries.

9. What are your views on the best approach to achieve diversity at Board level?

Firms should utilise board and director-level assessments to determine what professional backgrounds, skills, and experiences are needed in the boardroom and whether such needs are being adequately met by the board's current members. A challenge in the immediate term will be in increasing the diversity of the pool of candidates with sufficient knowledge and experience. Firms should recruit from new talent pools and venture beyond using board member networks and historical recruitment practices to help identify diverse director candidates who lack ties to incumbent directors and management and can share new views and perspectives with different and innovative approaches to problem solving. Firms should ensure they have appropriately qualified and diverse candidate slates, and carefully review a candidate's background and life experiences and have in-depth discussions with the candidates and the candidates' referees to determine whether they are cognitively diverse from other members of the board. Alternatively, a gap analysis could be completed for boards to enable them to identify in which areas they should focus attention to ensure the appropriate balance in composition.

For global organisations, the Board will likely consist of non-UK members, who wouldn't have the same level of diversity data captured on them due to their locality and the terminology should be more flexible to recognise this.

Many firms suggest it will be easier to deliver internally recruited and trained candidates into executive director roles on Boards, rather than seeking to deliver the required outcome through direct recruitment to Board level on the basis of the relatively limited pool of available candidates. As

such, creating and maintaining a diverse executive talent pipeline is key, which would entail providing appropriate development, network-building and sponsorship opportunities for those from under-represented groups, with the focus placed on the robustness of succession planning (at all levels of the firm up to Board level), and the inclusiveness and support for diversity that succession planning affords, rather than setting targets for percentage representation or deadlines for achievement per se. Members have also indicated that it may be necessary to consider different Board roles, such as ‘apprentice directors’ to build experience, or contemplate roles where people are Board participants but without the same level of requirement as board directors.

The role of the Nominations Committee will be a key factor in increasing representation and improving inclusion at Board level. It will be necessary to ensure that the skills and knowledge of the Nominations Committee are equal to the task of proactively managing diversity and inclusion of the Board and supporting succession planning.

10. What are your views on mandating areas of responsibility for diversity and inclusion at Board level?

Most employees do not have ready access to the Board. While the Board can sponsor, guide, and have responsibility for reporting and setting targets for diversity and inclusion, the responsibility for ensuring a culture is diverse and inclusive should be on every job description in the firm and leadership of diversity and inclusion really needs to span a diverse, visible and accessible level of senior management and across all departments in the business to ensure true integration and success.

A firm’s diversity and inclusion strategy should therefore be the responsibility of its most senior decision-making body (Executive Committee) and should be overseen by its Board. The Board should be accountable for ensuring that the firm’s diversity and inclusion strategy is fit for purpose, specific to the firm’s purpose, strategy and values and importantly is helping to build a more sustainable business which will contribute to a more resilient financial services sector. As such, we do not support mandating areas of responsibility for diversity and

inclusion to the Board, although we consider that the Board’s strategy for diversity and inclusion should be shared with regulatory supervisors and should form part of regular regulatory discussions, with the focus on progress.

11. What are your views on the options explored regarding Senior Manager accountability for diversity and inclusion?

We consider that existing prescribed responsibilities under the Senior Managers & Certification Regime (SM&CR), which specifically relate to culture (H and I), could be expanded to include diversity and inclusion rather than developing new ones. This would encourage SMF best practice sharing to support each other in making progress and demonstrate where progress is being made or isn’t.

Whilst we understand that regulators are interested to identify key contacts within firms that bear ultimate responsibility for diversity and inclusion, we are of the view that until data issues are resolved, it will be challenging to manage an explicit allocation of responsibility for progress and effective consequence management in relation to diversity and inclusion.

12. What are your views on linking remuneration to diversity and inclusion metrics as part of non financial performance assessment? Do you think this could be an effective way of driving progress?

UK Finance members broadly accept the principle of including diversity and inclusion metrics as part of a suite of non-financial metrics linked to remuneration. The use of diversity as a non-financial criterion influencing pay decisions is already common practice among many financial services firms. However, they are strongly of the view that this should not be quota driven, which may be too formulaic in approach. Further there is a concern that quotas may lead to poor outcomes to the extent that remuneration should not be the driving force behind delivering a broader behaviour and culture change. Members would therefore urge that guidance in this area is principles based rather than specifying how metrics should be assessed as part of non-financial performance assessment, which would also recognize that diversity and inclusion is only one factor to be taken into account when considering non-financial performance.

13. What are your views about whether all firms should have and publish a diversity and inclusion policy?

UK Finance members are generally supportive of the publication of diversity and inclusion policies and strategies, advancing the view that transparency is critical when building an inclusive culture, and that readily accessible diversity and inclusion materials would underpin this. However, members are also of the view that the regulators should not be too prescriptive about the policy or strategy, noting the issues with a one-size-fits-all approach addressed in question six.

14. Which elements of these types of policy, if any, should be mandatory?

While the publication of an overarching statement and policy might appropriately be mandatory, and that might require the firm to define diversity and inclusion, as well as a strategy for how the firm aspires to achieve its diversity and inclusion goals, as well as zero tolerance to discrimination and harassment, any additional elements should be optional at the discretion of the firm.

15. What are your views about the effectiveness and practicability of targets for employees who are not members of the Board?

We believe it is a requirement of the senior management committee to set the firm's diversity and inclusion strategy and policy, and to implement and monitor its progress. The expectations are that the Board should oversee and challenge progress on diversity and inclusion, including holding management to account. Diversity and inclusion should be enunciated in some form on every job description and measured in respect of behaviours, and company culture; it does not necessarily need to be 'targeted' though. If there are to be targets for employees who are not members of the Board, we would again urge clarification of whether regulators intend that there should be a representation goal for all characteristics? For instance, is the intention that each firm should seek to measure the current footprint on all characteristics and then increase it for each?

Practically, the issues outlined in question three, relating to data collection and monitoring would present challenges for the introduction of targets for employees who are not members of the senior management committee. The issues of proportionality, outlined in question six, would also need to be factored in. For instance, for smaller firms, diversity and inclusion metrics could be skewed by small employee movements, whilst location and access to a diverse, local talent pool may be relevant to other firms.

There should also be recognition that, in the extreme, the setting of targets and any impression that they should be met at all costs, could incentivize behaviours which lead employers to exposure to unsubstantiated claims of discrimination. It will be important to ensure that positive action is not perceived as being at the expense of merit.

16. What are your views on regulatory requirements or expectations on targets for the senior management population and other employees? Should these targets focus on a minimum set of diversity characteristics?

For the reasons outlined above, a proportionate, scalable and attainable approach to targets should be pursued, which would vary according to type of business, location etc. In order for comparisons to be made across firms, "senior management" must be clearly defined as a term and must capture comparable populations, while enabling consistency across approaches taken by other bodies, such as Women in Finance Charter, where the definition of "senior management" is defined by each organization within limits.

It is our view that a sensible immediate term expectation would be the ability to show progress relative to the individual organisation. If there is a minimum industry standard to be set, it should be a principles-based approach, such as a requirement to have a published statement or policy, having appropriate processes and a strategy in place etc. Such an approach would establish a baseline, while recognising that all firms/areas will have different starting points, different strategies, different resourcing ability. Firms should be encouraged to set their own targets but held accountable through

dialogue with regulators. It might be helpful for the regulators to share best practice of how some firms have set targets against additional diversity characteristics other than gender.

17. What kinds of training do you think would be effective in promoting diverse workforces and inclusive cultures?

As detailed elsewhere in this response, member firms have diversity and inclusion programmes that are at various stages of maturity and are appropriate to the size and structure of the organisation. Training is generally considered to be best when it is outcomes focussed. Many members have volunteered their own perspective on the hallmarks of effective training to promote diversity and inclusion, including the following:

- An overview of a firm's approach to diversity and inclusion together with behavioural expectations for employees and leaders should be shared with all new joiners as part of an induction process.
- Determine individual needs, learning preferences and goals.
- Meaningful and interactive, using relative working examples and the opportunity to draw out the experiences and perspectives of colleagues without fear of judgement.
- Equipping colleagues with practical skills, leadership techniques and resources to support a diverse and inclusive working environment, particularly management training on driving and practising the right behaviours (i.e. inclusive leadership training).
- Highlight the benefit to the business and overall society as well as linking to how it aligns to the culture and strategy of the business. Connecting employees with a firm's unique diversity and inclusion business case is also important.
- Provide easier access to materials by creating a curated hub for diversity and inclusion-related resources.
- Targeted training and development for under-represented groups can help create an equitable environment for progression.
- Distinct manager training for active and emerging managers
- Start with learned background and values, enable senior leaders to have confident conversations

to understand different experience – some mature leaders may have developed an approach of avoiding certain subjects, for fear of offending. Therefore, helping people to understand where they are starting from and how to make progress is critical – recognising people are human first, and job role second.

- Training should be refreshed after a period of time for all staff across the organisation.
- For Digital teams, training on accessibility should be considered.
- Rather than having a stand-alone diversity and inclusion training program, firm's should integrate inclusion principles and content into the design of new and existing leadership development programmes and other learning curricula.

18. What kinds of training do you think would be effective for helping understanding of the diverse needs of customers?

Many members have volunteered their own perspective on the hallmarks of effective training to promote an understanding of the diverse needs of customers, including the following:

- We believe that training that brings the session to life will resonate the most with the learner. Real examples that show the benefits and effects of successfully or unsuccessfully meeting the needs of our customers and, the positive and negative impacts it can have on the business and the employee and in some instances the wider environment. Internally we would aim to try and tap into people core beliefs and shared values to help identify commonalities and create unities and form allies.
- Undertake customer surveys – use this to inform and educate and build into product marketing and development.
- Training around general respect for others and how to recognise inappropriate behaviour that could lead to exclusion, or a sense of harassment or discrimination.
- Adding focus groups, roundtables and white papers to raise awareness and share experiences.
- We'd suggest getting leaders in front of groups of customers to understand them and their needs – to hear directly about their lives and their priorities.

19. What are your views about developing expectations on product governance that specifically take into account consumers' protected characteristics, or other diversity characteristics?

We are supportive of product governance considering the needs of customers' protected characteristics subject to GDPR considerations and client consent, as per protected characteristics for employees. Firms already undertake market research and engagement surveys to try to understand and respond to the needs of diverse customers and to promote an inclusive approach (for example seeking to ensure digital platforms are accessible to different groups). However, firms do not routinely collect protected characteristic data from customers unless they choose to share vulnerable customer information with them, giving their explicit consent to this. As an industry, we may need to invite customers to share this information. As such the industry would need very clear regulatory guidance on how such requests might be positioned with clients and on the rationale and tangible benefits, given that clients are increasingly sensitive about sharing personal information for no perceived added value. Regulatory guidance on how and when to use proxy data would also be helpful. Such data will be critical to assessing whether consumers' protected characteristics are adequately taken into account.

20. What are your views on whether information disclosures are likely to deliver impact without imposing unnecessary burdens? Which information disclosures would deliver the biggest impact?

Views on the value and potential impact of diversity and inclusion information disclosures are divergent. While some firms credit mandatory public disclosure of gender pay gap data with advances in closing the gender pay gap, others have suggested that in the immediate term the disclosures perpetuated the problem for those firms that initially performed poorly. There is some risk therefore that mandatory diversity and inclusion disclosures could perversely impede the progress of the very organisations that need to attract a diverse talent pool. On a practical level, as outlined in the answer to question three above, the availability of complete and reliable data may be the main challenge.

Comparability of data will also be challenging. We would urge regulators to consider qualitative disclosures for companies to report on diversity and inclusion practice and outcomes, or in the alternative, suggest the selection of one or two mandatory disclosures linked to a specific company threshold. If the latter, we would urge alignment with other international standards including World Economic Forum International Business Council ('WEF IBC') common metrics, Sustainability Accounting Standards Board ('SASB') standards, Global Reporting Initiative ('GRI') standards and US and EU regulatory requirements e.g., Sustainable Finance Disclosure Regulation. We would request for the regulators to ensure that firms are not required to disclose anything that they are not legally allowed to collect and share e.g. anything that conflicts with data protection / privacy rules.

21. How should our approach for information disclosure be adapted so that we can place a proportionate burden on firms?

A template approach may not paint a clear picture of the nuances in structure and demographics for each firm, therefore a similar proportional application, as discussed in response to question six, should be considered. Finding a way to score different business models using an overarching methodology has to be considered. If there is a template, it should align with data that is readily available to the companies via their HR and financial records and can be audited back to source. Expectations of the reporting should be surveyed beforehand amongst participating firms to establish feasibility of data production and should be implemented through a phased approach e.g. as the FCA is doing for Taskforce on Climate-related Financial Disclosures (TCFD) reporting requirements. Such an approach could be based on the type of listing a firm has, starting with premium listed companies or based on number of employees starting with larger employers which would be in line with some of the European reporting requirements.

22. What should we expect firms to disclose and what should we disclose ourselves from the data that we collect?

We would anticipate that disclosure to the regulators would be a part of continuous and ongoing dialogue.

We consider that it might be helpful for the regulators to publish aggregated data, potentially broken down by type of firm, and show strategies being used so that the industry could compare and contrast and use as a guide to benchmark or for good practice. Where available, trend data should also be disclosed to demonstrate degree of progress. Regulators should disclose summary analysis of the disclosures which could highlight best in class cases.

We would request that the regulators seek to align any requirements to existing and developing international standards such as WEF IBC, GRI, SASB and EU and US regulatory requirements. In particular, we would request that regulators do not require more or different granular detail than other standards.

23. What are your views on how we should achieve effective auditing of diversity and inclusion?

A lack of diversity is an organisational risk, and audits should focus on whether that risk has been assessed and what plans are in place to address the risk, which could form part of a broader culture assessment. Audits should assess the policies, procedures and practice in support of diversity and inclusion, as well as looking at how diverse teams are within the organisation and who is responsible for the decision making. Careful consideration should be given to the collation and analysis/integrity of diversity and inclusion data and how this could be benchmarked across other organisations. It may also be appropriate to include formulation and monitoring of Key Performance Indicators (KPIs). In future, audits should focus on progress reporting and strategy development.

24. How can internal audit best assist firms to measure and monitor diversity and inclusion?

Internal audit can support firms by evaluating policies, processes and procedures relating to diversity and inclusion and culture. The regular audit of diversity and inclusion policies, processes and procedures and management information can help the organisation to identify areas for improvement and successfully measure the tangible benefits of its activity and interventions. Internal audit can also assist with identifying gaps in best practice against industry benchmarks. Internal Audit can

speak to a range of internal stakeholders, extending beyond senior management to include employee representatives and leverage Employee/Business Resource Groups. Once any diversity and inclusion data is published, internal audit can verify this data back to source records.

Internal audit teams can also assist firms to measure and monitor diversity and inclusion by:

- Expanding their focus beyond employees to customers and suppliers; and
- Working closely with diversity and inclusion teams pre-Audit to agree an approach and importantly, upskill themselves on current practices historical context, and external market best practice.

25. Do you agree that non financial misconduct should be embedded into fitness and propriety assessments to support an inclusive culture across the sector?

We understand the intention to incorporate adverse findings in relation to an individual's conduct with respect to diversity and inclusion into the non-financial misconduct strand of fitness and propriety assessments. This will be an area that will be potentially problematic to implement in practice, as the High Court case of *Ryan Beckwith v SRA* [2020] EWHC 3231 (Admin) and the recent case of *Jon Frensham v The Financial Conduct Authority* [2021] UKUT 0222 (TCC) demonstrate. As such, expansive conduct rule guidance will also be critical.

26. What are your views on the regulators further considering how a firm's proposed appointment would contribute to diversity in a way that supports the collective suitability of the Board and senior management?

The example set by the board/senior management committee is important to the culture of an organisation. If it is not both diverse and inclusive, it may lack credibility with management, employees, customers, investors and other stakeholders. UK Finance members consider that it is important, therefore, to holistically consider how an individual will contribute to increased awareness and representation of diversity and inclusion at board/senior management committee level.

But, notwithstanding the above, the ability of a firm to justify an individual's appointment on diversity grounds is potentially difficult and the need for necessary skills and experience of board members may supersede the need for individual diversity in certain circumstances. Perhaps a better measure may be in relation to assessing colleagues' commitment to supporting diversity and inclusion (backed up with a track record of related leadership actions), with this considered as a required skillset for relevant senior appointments.

Should regulators decide to proceed to regulate board /senior management committee diversity, UK Finance members are strongly of the belief that it should only be regulated at the collective level and not at the point of approval of individuals.

27. What are your views on providing guidance on how diversity and inclusion relates to the Threshold Conditions?

We consider that, in the longer-term, incorporating certain diversity and inclusion requirements into the Threshold Conditions may be appropriate as part of firms' culture and conduct efforts, with a focus on policies and practices to promote inclusive behaviour and to prevent and sanction discriminatory behaviour.

28. Do you have any suggestions on which aspects of our supervisory engagement with firms that you think could be improved to help deliver and support greater diversity and inclusion?

Firms should be responsible for setting and tracking their own diversity and inclusion agenda, which should be shared with regulatory supervisors and should form part of regular regulatory discussions, with a clear focus on progress. We would propose discussions at least once per year with member organisations that are an open and exploratory discussion about diversity and inclusion, ideally set in a wider cultural context.

If firms start taking a more holistic approach to diversity and inclusion, beyond just focussing on employees (e.g. retail and wholesale customers, intermediaries, suppliers, community partners etc.)

supervisors of that activity will require the skills and awareness to understand what good looks like. This means understanding data insights across difference strands, inclusive product and service design capability, potential cross-organisational risk, governance etc.

Additional suggestions proposed by UK Finance members include:

- A clear articulation of regulatory expectations.
- Practical ideas to improve diversity and inclusion.
- Diversity and inclusion steering groups with representatives at all corporate grades within the organisation.
- Diversity and inclusion thought leadership.
- Sub-sector views.
- Share best practice, e.g. through benchmarking.
- Partner organisations.
- Outreach ideas.
- An inclusive approach, recognising that engagement will be incremental.
- Convening subject matter experts to provide guidance and explore best practices and sample use cases on sharing diversity data in a meaningful way that will help us drive progress and doesn't contravene GDPR rules.

29. What impact do you think the options outlined in this chapter, alongside the FCA's proposals for a new Consumer Duty, would have on consumer outcomes?

Our view is that improving diversity and inclusion in financial services will bring higher standards of conduct and behaviour, a cultural change that is already in progress through the SM&CR requirements. Whilst the industry has voiced its concerns around elements of the FCA's Consumer Duty proposals and the potential for unintended impacts on the financial sector and the customers it serves, we do support the overall aim of raising the standard of care for all consumers. In that regard, there is a clear link to diversity and inclusion, as any work to strengthen diversity and inclusion practices within financial services will have a positive impact on conduct and improve customer outcomes.

For the reasons articulated above, there may be a difference between the improvements delivered and those capable of being measured to demonstrate the progress that the industry has made and will make over the short, medium and long-term. It will be necessary for regulators at the outset to encourage and foster apparently modest incremental changes to drive continuous improvement.

If you have any questions relating to this response, please contact Sarah Wulff-Cochrane, Principal (sarah.wulff-cochrane@ukfinance.org.uk)

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