Written evidence submitted by the Financial Conduct Authority

We are the conduct regulator for the UK's financial services industry.

In our view, more diverse and inclusive firms can support better outcomes for both firms and customers. Firms lacking in diversity and inclusion may be more likely to experience groupthink. This can lead to weak governance and risk management, impacting market integrity, and a failure to act in consumers' best interests. More diverse firms may also be better placed to understand and respond to the needs of a broad range of customers. This supports good consumer outcomes and advances our consumer protection objective.

To create a financial system that supports the competitiveness of the UK, firms must be able to draw on the best talent and design products and services that meet the diverse needs of society. Talent is not reserved to one section of society or to people from a particular type of background. Evidence that women and men are not yet near parity at all seniority levels of financial companies could indicate that recruitment and promotion is not yet based entirely on the talent of candidates and current employees.

Firms that do not foster an inclusive culture, recruit right across the diverse range of talent available in the UK, and ensure that the best people are promoted, regardless of gender or other demographic characteristics, are unlikely to perform as well as possible.

Culture is also critical. If staff do not feel comfortable voicing concerns and providing challenge, then misconduct may also pass unchallenged. In some cases, that misconduct may be so serious as to pose a risk to consumers or undermine public confidence in the sector or even amount to criminal behaviour.

It is worth noting here that evidence points to the fact that ethnicity also impacts on the experiences women have in the industry. The Financial Services Culture Board found wide divergences in the experience of White women and women from ethnic minorities and this may be one area that the Committee may wish to consider in more depth.

We take very seriously the Committee's comments about regulators role modelling the right outcomes. The FCA was one of the first signatories to the Women in Finance Charter in 2016 with a target of securing gender parity in our senior leadership team by 2025 (approximately our top 150 leaders). We have met that target this month (September 2023), significantly ahead of deadline. We believe this makes us one of the largest organisations signed up to the Charter to have reached this milestone. Our Board comprises 4 women and 5 men and our Executive Committee comprises 5 women and 4 men. Following changes to our pay and reward system, effective from April 2022, we are making progress in reduction of our gender pay gaps. The median gender pay gap fell by over 5% between 2021-2022 to 2022-23. We expect significant progress this coming year. We now want to achieve greater gender parity in our middle management layers, as well as increasing the number of female colleagues from minority ethnic backgrounds and attracting more men into professional support roles.

1) Removing the barriers to women entering and progressing their careers across the financial services industry.

The Women in Finance Charter initiative has shown slow but steady progress for women in senior roles in the financial services industry.[1] Their 2022 review notes that women's representation in senior management reached 35%, up from 33% in 2021. However, progress has been slow and uneven across sectors, with building societies achieving 43% representation and UK banks 39%, while global/investment banks trailed at 28%. Just 12% of portfolio managers in 2022 are women, a figure that has risen only from 10.3% in 2016.[2]

In 2022, we worked with 12 large firms to understand their approaches to diversity and inclusion.[3] This multi firm review found some firms had undertaken analysis to understand at what level in the organisation women stop progressing at the same rate as men. Where they had done so, all the firms we spoke to have found that this happens at a relatively junior level, with the proportion of women in middle management and technical roles only slightly higher than in senior management.

An article by the Financial Services Culture Board (based on 2020 data from UK banks and building societies only) showed a more even decline in female representation with women making up 56% of those without line management responsibilities, 47% at middle management level and 30% of senior managers.[4] The article also highlights significant divergences in outcomes by ethnicity, especially for women.

Most firms that we engaged with focused on senior level representation (e.g. setting targets) and did not have good evidence of the reasons for the failure of women to progress in the organisation. As a result, they often recruit women from other firms who are already at a relatively senior level. In our view, firms need to understand the issues limiting progression better and to focus on building the "pipeline" from more junior levels.

2) The impact of the Treasury's Women in Finance Charter and any other Government and Regulator initiatives.

As well as the Women in Finance Charter, the FCA and Bank of England have taken steps to improve diversity and inclusion in the financial sector, including better representation of women.

- Based on our observations, the Women in Finance Charter has had a significant positive effect. Signatories that we have spoken to have taken their commitments seriously and have worked towards achieving their targets. However, as noted above, many firms have focused on senior level targets and paid insufficient attention to the pipeline of women. This could limit progress in the future.
- The FCA and Bank of England published a Discussion Paper on diversity and inclusion in 2021, with the aim of engaging financial sector firms and other groups to accelerate the pace of meaningful change on diversity and inclusion in the sector.[5] In it, we discussed the current state of diversity and inclusion in the industry, set out the case that more progress advances our objectives, and proposed some areas for potential policy intervention.
- Our 2022 multi firm review found that firms had various initiatives underway but that many firms' strategies were generic and lacked a clear articulation of purpose. Actions were not always oriented to achieving their goals and firms were

[1] https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1142828/HMT_WIFC_Review_2022.pdf
[2] https://uk.citywire.com/Publications/WEB_Resources/alpha-female/alpha-female-2022-dollars.pdf
[3] https://www.fca.org.uk/publications/multi-firm-reviews/understanding-approaches-diversity-inclusion-financial-services
[4] https://financialservicescultureboard.org.uk/a-balanced-gender-picture-conceals-a-multitude-of-differences-and-even-more-so-when-ethnicity-is-taken-into-account/
[5] https://www.fca.org.uk/publication/discussion/dp21-2.pdf

not making full use of the data available to them. Very few firms seemed to have understood diversity and inclusion as a fundamental culture issue.

- We published rules in 2022 requiring listed companies to report information and disclose against targets on the representation of women and ethnic minorities on their boards and executive management, making it easier for investors to see the diversity of their senior leadership teams.

3) The FCA's progress on implementing the Treasury Committee's 2018 recommendations

Since March 2023, we have reached parity between female and male representation in our senior leadership team, well ahead of our target. We are one of the few financial organisations of our size to have done so ahead of the commitment signed in the Woman in Finance Charter.

Our employees are the key to our success as a regulator. We aim to foster a diverse and inclusive workplace environment, that's free from discrimination and bias, celebrates difference, and supports colleagues to be their authentic selves at work. We believe this empowers our people to fulfil their potential and results in better decision making in the public interest.

In 2016, we were in the first group of organisations to sign up to the Women in Finance Charter. In line with the Charter, we set targets for our senior leadership team (SLT) for gender parity (50%) by 2025. At the same time, we set targets to improve senior representation for minority ethnic individuals. SLT includes Heads of Department, Directors, Executive Directors, the Chief Executive and the Chair.

After reviewing progress against our targets in 2021, we expanded our gender and ethnicity targets to Manager, Technical Specialist, Lead and Senior Associate levels.

Improving diversity at these levels is vital, not least because individuals in these roles are the pipeline for our future senior leadership. When we signed the Women in Finance Charter in 2016, our female SLT representation was 39%. At the time of reporting for our 2021/22 Annual Diversity Report, our SLT female representation had risen to 45.2%.

In the last financial year we saw further progress towards our 2025 target:

- 48.0% of our SLT identified as female on 31 March 2023.
- The figure excluding the Payment Systems Regulator (PSR) is 47.3%.

We're making some progress towards our pipeline grade targets. On 31 March 2023:

- 43.6% of the Manager population is female
- 31.6% of the Technical Specialist population is female
- 48.1% of the Lead/Senior Associate population is female
- the figures excluding the PSR are 43.0%, 32.0% and 48.1% respectively

This represents an increase of 2.8 percentage points for SLT, a small increase of 0.2 percentage points at Manager level, an increase of 1.3 percentage points for Technical Specialists, and a decrease of 0.7 percentage points for Senior Associates.

Our pay gap data for 2023 covers the reporting period 1 April 2022 to 31 March 2023. This year we have seen improvements in our gender pay gaps, and we continue to identify and address the underlying issues we know still exist.

Table1: Pay and bonus gap figures for the years 2023, 2022 and 2021

		Median			Mean		
		2023	2022	2021	2023	2022	2021
Gender	Pay gap	14.3%	19.8%	20.1%	13.1%	15.6%	16.3%
	Bonus gap	19.0%	33.3%	23.5%	15.2%	16.4%	20.2%

4) *The progress on removing gender pay gaps in financial services and in implementing measures to address such gaps.*

The gender pay gap remains very high in the financial services sector and is the highest of any sector 31.2%, and compares with 14.9% for the economy as a whole. An analysis of large firms we undertook in preparation for our 2022 review found exceptionally high gender pay gaps in investment banking, and to a somewhat lesser extent in asset management, with several investment banks exceeding 40% and some with gaps greater than 50%. These figures do not include bonus gaps, which are frequently even larger.

Whilst gender pay gaps can be a helpful indicator, we use them with some caution. For example, firms with relatively few women at any level will have lower gender pay gaps than those with many women at junior levels and few at higher levels. We also found that firms with very low gender pay gaps did not typically have more advanced diversity and inclusion strategies.

We have observed firms to be taking some positive action, including:

- Supporting career progression for staff returning to work (e.g. after maternity), including carrying forward performance grades
- Encouraging parental leave for men as well as women
- Mentoring and sponsorship
- Setting specific business area targets
- Diverse shortlists
- Diverse interview panels
- Anonymised CVs
- Mandatory training
- Employee resource groups/network groups

There is good evidence for the effectiveness of some of these interventions and some look likely to be helpful, even if statistical evidence is lacking. Others are not well supported by evidence and may be only marginally helpful. We also found that actions had not generally been selected based on information about the issues that needed to be addressed.

Firms tend to focus on recruitment rather than progression within the organisation and overall, we have found little action to foster inclusive cultures.[6]

[6] https://www.fca.org.uk/publications/multi-firm-reviews/understanding-approaches-diversity-inclusion-

5) The role of the Government and financial regulators in:

- ***Acting as role models for good gender diversity practices***

The FCA has been publishing a diversity report since 2013. This reporting includes summary demographic data, progress against targets, our pay gap reporting, and other information about our approach to Diversity, Equity and Inclusion at the FCA. Via this reporting we aim to be transparent about both our challenges and our successes

We are a signatory of the Women in Finance Charter and a member of the Women in Finance Charter Board.

- ***Ensuring appropriate data is collected and published***

There is a large gap in diversity data across the industry. Voluntary initiatives have improved the collection and availability of data on gender but it remains inconsistent and largely undisclosed. We believe collecting good quality diversity data is the starting point of any D&I initiative. Data allows firms to understand their starting point, target interventions and measure progress. We recognise the challenges in collecting good quality data but we believe firms need to proactively build trust with employees so they can feel comfortable sharing their personal data. We also believe in the value of collecting data across a range of demographic characteristics to enable an intersectional analysis of outcomes.

In our Discussion Paper, we set out some ideas for policy around data collection, reporting and disclosure. We will provide an update on these proposals shortly.

- ***Ensuring firm cultures, policies and practices support women's aspirations and progress.***

Culture is a central element of our supervisory framework, and we seek to ensure firms uphold high standards of workplace culture. We emphasise the importance of inclusive firm cultures, where everyone can progress regardless of their background. Through our supervisory work, we review and challenge firms on the progress they are making.

Targets can play an important role in driving progress on D&I. Research shows that women progress at a slower pace than men between the junior and middle grades and that in turn impacts the representation of women at senior grades. We encourage firms to take a holistic view of their firm when developing targets across their employee populations, in addition to senior levels. Our report from our multi firm review also emphasised the importance of developing a sustainable pipeline of talent. Through our 2022 multi-firm review, firms also told us about structural barriers that women in the workplace face. For example, childcare and flexible working arrangements, and how certain (client/customer facing) roles were less suited to flexible working arrangements.

We found that some firms had adopted inclusive parental leave policies, including equal parental leave that supported the retention and progression of women. Many firms also have a range of mentoring and sponsorship programmes to support women's aspirations and progress. Firms also have returner programmes to support women returning to the workplace after an extended leave. We believe these policies and practices, implemented at scale have the potential to create an inclusive environment for women to progress.

We will shortly be announcing proposals seeking to address some of these challenges, again taking a proportionate approach based on what market participants have told us.

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We are not alone in seeking to drive forward progress on D&I. A number of international initiatives have sought to address diversity at board level. The EU recently adopted a law aiming to achieve gender balance on corporate boards. By 2026, large listed companies will be expected to ensure that the 'underrepresented sex' makes up 40% of non-executive directors and 33% of all directors. Similarly, the Australian Securities Exchange has recommended that S&P/ASX 300 entities set measurable objectives for achieving gender balance on corporate boards. By 2026, large listed companies will be expected to ensure that the 'underrepresented sex' makes up 40% of non-executive directors and 33% of all directors. Similarly, the Australian Securities Exchange has recommended that S&P/ASX 300 entities set measurable objectives for achieving gender diversity on boards.

6) The role of, and progress of, firms, Government and financial regulators in combatting sexual harassment and misogyny in financial services, and offering effective ways to escalate concerns about sexual harassment.

Our letter to the Committee dated 3 July 2023 sets out our position on non-financial misconduct, including sexual harassment.[7]

In our role as the conduct regulator, we recognise the important role we can play in setting standards for individuals working in this industry. Although most firms already consider non-financial misconduct within our existing regulatory framework, feedback to our discussion paper (21/2) indicated that industry would welcome further guidance on how non-financial misconduct interacts with and should be considered in line with our rules. We will shortly clarify how firms should treat instances of non-financial misconduct when carrying out an assessment of fitness and propriety, and the type of conduct that would amount to a breach of our conduct rules.

Fit and Proper requirements result in ongoing assessments of individual fitness and propriety and apply to Senior Manager Function holders (SMFs) and certified staff. All individuals (except ancillary staff) working at regulated firms are also covered by our Conduct Rules. As set out in Megan Butler's letter to the Women and Equalities Committee,[8] sexual harassment and other forms of non-financial misconduct can amount to a breach of our Conduct Rules, which include the requirement to act with integrity. All firms are required to report conduct rule breaches that result in a disciplinary action to us, and where they involve an SMF, firms are obliged to report to us within 7 business days.

As set out in our letter, whilst we are not an alternative to the police, individuals are able to raise concerns with us. We would expect firms to have independent processes for dealing with concerns or complaints in relation to their employees. We also ask firms to think about the impact of such issues on the culture in their firms. How firms respond to and react to these issues can impact their culture, and tolerance of inappropriate behaviours can lead to cultures where people do not feel safe to speak up and raise issues.

We would expect firms to treat issues that arise in their firms seriously, investigating and, where appropriate, acting through their internal disciplinary processes. We expect firms to uphold good standards of behaviour and professionalism, and to nurture healthy cultures where staff are treated with respect and can feel safe to raise concerns without fear.

[7] committees.parliament.uk/publications/40749/documents/198516/default/
[8] https://www.fca.org.uk/publication/correspondence/wec-letter.pdf

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