Progress Together, Social Mobility Foundation, and upReach – Written evidence (SCG0027)

Social mobility is poor in the UK compared to many other developed nations. Defined by the Social Mobility Commission; 'social mobility is the link between a person's occupation or income and the occupation or income of their parents'[1].

Goldman Sachs puts the UK third from bottom in its ranking of developed countries and social mobility[2]. And, according to the World Economic Forum, it would take a low-income family five generations to reach median income in the UK, assuming relative social mobility levels stay constant[3].

Socioeconomic background, which allows us to measure social mobility, is often described as the invisible social characteristic. Employers are aware of the barriers that can arise due to a person's gender, ethnicity, disabilities and other characteristics, as these are enshrined in the Equality Act. Socioeconomic background can create similar barriers but those from lower socioeconomic backgrounds are not protected at work by the Equality Act, so employers often overlook it as something that can create unique challenges for their workforce and impact the economic success of their business. Industry body Progress Together, have found that socio-economic background is more likely to impact a person's route to success in the financial services sector than gender or ethnicity. Women can face a 'double disadvantage', with those from working class backgrounds progressing 21% more slowly into senior roles than women from more advantaged families[4].

The problem in the financial services sector is especially stark. About nine out of every 10 senior roles in the financial services sector are held by someone from a higher socioeconomic background, this disparity has led to a class pay gap where those from lower socioeconomic backgrounds earn on average £17,500 less than their colleagues. That is the largest sector pay gap in the country[5]. Poor social mobility isn't just bad for individuals in the workforce but bad for the economy too.

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[1] https://socialmobility.independent-commission.uk/our-work/what-is-social-mobility/
[2] The Bigger Picture: UK Social Mobility - A Tough Climb, February 2022, pg. 3.
[3] The Global Social Mobility Report 2020 Equality, Opportunity and a New Economic Imperative, January 2020, pg. 10.
[4] https://www.progresstogether.co.uk/shaping-our-economy-data-report-launch/
[5] https://www.theguardian.com/business/2022/may/20/city-scheme-aims-to-close-financial-sectors-class-pay-gap and The Class Ceiling: Why it Pays to be Privileged, Daniel Laurison and Sam Friedman, 2020, Policy Press.

Businesses that are more socioeconomically diverse and that prioritise social mobility, are more profitable and competitive

There is now a lot of evidence to show that socioeconomic diversity can be a lever to gain competitive advantage; through access to a wide talent pool, improved innovation and customer understanding, and saving the costs associated with workforce attrition. This was explored extensively by a City of London taskforce, that aimed to improve socio-economic diversity at senior levels in UK financial and professional services. The taskforce concluded in 2022 and its business case[6] reported a number of findings:

- If you start from a financially stable place in life, the financial and professional services sector (FPS) works in a way that means you are 43% more likely to progress to a senior position compared to peers from working class or intermediate backgrounds[7].
- People from lower socio-economic backgrounds take 25% longer to progress, despite no link with poor or inadequate job performance.[8]
- Organisations that do not recruit those from all socio-economic backgrounds incur costs in the form of increased premiums for a smaller talent pool and the inability to hire the best employees. This is also the case when progressing and promoting employees.[9]
- Workforce attrition leads to high costs; on average £80,900 per employee. This is in addition to lost productivity from training new employees and from employees who are imminently leaving. Employees who don't feel represented in their workplaces are more likely to leave.[10]
- Businesses with highly engaged employees are twice as productive as businesses with less engaged staff. Motivated employees make companies more valuable, with a positive correlation between motivated employees and a company's stock price. This is because highly engaged employees are often more involved in, committed to and passionate about their work – therefore, they are more willing to go the extra mile.[11]
- Marc Teasdale, Director of Wholesale Supervision at the FCA highlighted the importance of a diverse workforce - "firms that seek out and welcome diverse and differing views are more likely to

[6] https://www.whogetsahead.co.uk/home/
[7] City of London Taskforce, The Business Case: The Time to Act is Now, 2022 pg. 2.
[8] Ibid., pg. 4.
[9] City of London Taskforce, The Cost of Wasted Talent, 2022 pg. 3.
[10] Ibid., pg. 4.
[11] Ibid., pg. 5.

> successfully identify and manage risks, be less susceptible to group-think, and generally make better decisions".[12]

Investors are also increasingly interested in socioeconomic diversity. Richard Oldfield, Group Chief Executive at Schroders, and a founding partner firm of Progress Together highlights this: "We have seen a significant increase in enquiries from investors about socio-economic diversity in the last 12 months. Importantly, our focus on broadening talent has positively impacted our culture within the firm. Everyone should feel they belong and that they can progress in their careers, regardless of their starting point in life."[13]

Without talented and motivated employees, businesses will struggle to be competitive. The Financial Services Skills Commission suggests that 260,000 highly skilled people are expected to leave the financial sector in the next decade[14]. The sector's reluctance to recruit and promote talent from all socio-economic backgrounds is going to impact its ability to replace this talent, making the sector weaker and less competitive if it doesn't change approach.

Looking more broadly at the economy and workforce beyond the financial services sector, a new Demos report published last month explains: 'lower social mobility means many people in the UK are not making full use of their talents and developing their skills, and that job-matching is not as strong as it could be. This acts as a drag on productivity and economic growth - both perennial challenges for the UK economy.'[15]

Considering the challenges the UK economy faces, it cannot continue to squander talent by privileging those with 'polish' and overlooking those who have potential, but who don't have the knowledge, confidence, cultural experiences or networks to pursue a professional career in the financial sector. Businesses that are more socioeconomically diverse have been found to be more profitable – 'the profits of organisations focusing on social mobility are 1.4x higher than their competitors. Put simply, companies which prioritise inclusion improve their talent pool: they broaden it, by bringing different attributes, skills and mindsets into the

[12] City of London Taskforce, Innovation, 2022 pg. 3.
[13] https://www.progresstogether.co.uk/shapingthesector/
[14] https://www.personneltoday.com/hr/financial-services-skills-2023/
[15] The Opportunity Effect: How social mobility can help drive business and the economy forward, Demos, 2024, pg. 9.

organisation; and they deepen it, by allowing more of their people, to be more productive, more of the time.[16]'

People from higher socio-economic backgrounds are more than twice as likely to be found in senior roles compared with those from lower socio-economic backgrounds, according to Progress Together[17], suggesting the leadership of many financial businesses is drawn from a limited pool of talent.

Demos' analysis also finds that; 'the economic impact of all businesses investing significantly in the promotion of social mobility in their workforce would be £19 billion to GDP, generating around £6.8 billion in yearly tax revenues and boosting profits by over £1.8bn a year.[18]' This builds on research from The Sutton Trust in 2017 which suggests that social mobility is positively related to productivity and that a modest increase in UK social mobility to the western Europe average, could be worth approximately 2% per year to the UK economy[19].

Measures to improve social mobility should be prioritised by the FCA and PRA to improve competitiveness and economic growth

Requirements on business are sometimes characterised as a burden and assumed to be a drag on economic growth. However, as the evidence above from the City of London Taskforce, Demos, The Sutton Trust, Accenture and others shows, employers that prioritise social mobility not only have stronger businesses, but their businesses are more profitable too. This focus on socioeconomic background, whilst less embedded in HR practice than other social characteristics, is becoming more common. Extending this focus to all financial services firms is an opportunity that the FCA and PRA should make the most of as part of their new remit to improve the competitiveness and long-term growth of the UK economy.

Many firms in the financial sector are already taking actions to improve social mobility, but progress needs to be faster and more widespread to capitalise on the opportunity to improve sluggish economic growth. Progress Together was set up to drive socioeconomic diversity at the

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[16] A fair chance to advance: The power of culture to break socioeconomic barriers in the workplace, 2022, pg. 14.
[17] Shaping Our Economy: Senior roles in financial services and socio-economic diversity, Progress Together, 2023, pg. 4.
[18] The Opportunity Effect: How social mobility can help drive business and the economy forward, Demos, 2024, pg. 6.
[19] Social Mobility and Success: How social mobility boosts the economy, Sutton Trust, 2017, pg. 14.

senior level in the UK financial services sector and this year has 34 members from the financial services sector. All of their members collect data on the socioeconomic diversity of their workforce and use this knowledge to drive changes in their organisations to improve social mobility.

In September 2023, the FCA and PRA opened a consultation called Diversity and inclusion in the financial sector – working together to drive change[20]. Their approach to socioeconomic diversity data collection was to suggest voluntary reporting for the sector, which effectively means maintaining the status quo. There was no incentive suggested to encourage those they regulate to collect this data, and as far as we're aware, some employers are actively deprioritising socioeconomic diversity as it is currently only likely to be a voluntary reporting metric. The FCA and PRA have already proposed that other characteristics be reported on a mandatory basis. We feel strongly that in order to make progress and capitalise on the opportunities within their remit for improving economic growth, socioeconomic diversity should be a mandatory reporting metric. The Labour party, before entering Government, made it clear in their Financing Growth Plan[21], that they would support the FCA in considering socioeconomic diversity within its Diversity and Inclusion guidance.

Collecting this data is not out of step with other professions that have a diversity problem. The Bar Standards Board is currently consulting on plans to make collecting socioeconomic background data mandatory. And, the Solicitors Regulation Authority, already require the firms they regulate to collect it. Introducing this requirement in 2015, hasn't negatively impacted growth in the legal sector. In fact, between 2016 and 2021 the legal sector in the UK grew by 5.7%, according to PwC[22]. Growth continued in 2023, when it grew by 8.3% compared to the previous year[23].

84% of Progress Together members agreed that regulators should compel employers to report data on the socioeconomic background of their employees[24]. It is not difficult to collect this data, as most businesses already ask their employees questions on areas of diversity. The Social

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20 https://www.fca.org.uk/publications/consultation-papers/cp23-20-diversity-inclusion-financial-sector-working-together-drive-change
21 https://labour.org.uk/wp-content/uploads/2024/01/Financing-Growth.pdf pg. 11
22 UK Legal Services Market Report 2022, PwC, pg. 9.
23 https://www.legalfutures.co.uk/latest-news/value-of-legal-services-market-to-hit-50bn-this-year
24 https://progresspioneers.co.uk/impact-report/

Mobility Commission has a number of toolkits for business designed to make data collection effective and consistent. The support is freely available to make this data collection widespread.

While clearly many in the financial services sector recognise the business case for attracting and promoting diverse talent - including diversity of thought, innovation, and improving profitability – we need more to do so. If the FCA and PRA are to meet their secondary growth and competitiveness objectives, they must move away from the status quo and lead the sector towards improving social mobility. This must start with mandatory socioeconomic background data collection for all financial firms they regulate above 250 employees.

29 November 2024