



Bank of England  
Threadneedle Street  
London  
EC2R 8AH

By email

30 September 2021

Dear Sir/Madam,

**FCA Practitioner Panel Response to DP21/2: Diversity and inclusion (D&I) in the financial sector – working together to drive change**

The Panel welcomes this discussion paper as it believes this will be a defining issue of a generation, both in a moral as well as a business context, and that it is vital that the regulators should be involved in driving progress forward. There has been a fundamental shift globally towards social justice but there are questions about whether industry can respond to the challenge on its own. Having the regulators driving change will help to move the whole sector, rather than just the larger firms, and the tone should begin with an absolute assumption that diversity and inclusion are the right way forward, rather than a 'business case' approach.

The discussion paper is very broad in scope and the Panel's view is that realistically the regulators would benefit from focusing on specific areas, and extending timescales, in order to achieve realistic change. It will be very challenging to meet the timescale of one to three years – the Women in Finance advisory group, for example, also started with a short timescale which was not met. Timescales which are too short could drive kneejerk reactions, if firms are not able to react quickly enough, rather than long-lasting change. Care needs to be taken not to put rules in place that create the wrong outcome - it should always be the best person for the job, so the challenge is to put the right framework in place which gives opportunities to all participants.

Our view is that, given the huge societal shift involved, this is a long-term project, and needs to have appropriately long timescales attached to its objectives. We encourage the regulators to think broadly about how they address this issue, to think beyond the current regulatory toolkit.

We also wish to emphasise that D&I is often perceived to be about gender but it is essential to include all forms of protected characteristics within the remit of the work. With this in mind, thought should be given as to how this work links with other initiatives currently underway which are looking at certain characteristics such as the Hampton-Alexander (gender diversity) and Parker (ethnic diversity) Reviews.

In answer to specific questions our views are as follows:

*Q3: 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? And*

*Q6: What are your views on our suggestions to approach scope and proportionality?*

We support the collection of data to drive improvements, however, psychological safety is an important element of collecting data in this area. Collecting meaningful data in an organisation

could take huge amounts of work, building trust and working with networks, and can only be done with community support. One Panel firm's experience of data collection, for example, was that many people preferred not to provide answers at first, until their CEO made a video explaining why the data was important for the firm to become more reflective of society and to be more competitive. Purpose and clarity must therefore be embedded in the data collection process to ensure good results.

Issuing blanket data requests needs to be thought through carefully given the size of the challenge and the Panel suggests the regulators use good practice in this area to help shape them. Data can be quite targeted so the regulators should think about what they want the data for and how it will be used.

*Q14: Which elements of these types of policy, if any, should be mandatory?*

The Panel suggests the use of guidance, rather than rules, to encourage firms to share best practice and use of supervision to find out how it is working. A prescribed responsibility with financial incentives would drive all the wrong behaviours and undermine the broader vision – firms should be promoting D&I because they genuinely believe it is the right thing to do. Regulators and industry should learn from the experience of handling non-competitive issues such as cyber security to tackle issues around D&I with inspirational and expansive solutions.

*Q16: 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?*

There is a range of views among the Panel about the desirability of setting targets. One view favours the use of empowering targets, and another is that these can be limiting. Using remuneration to meet targets can drive the wrong outcomes so the framework needs to be thought through carefully. Another view, from experience, is that shifting targets was one tool that could be helpful in moving a population with enthusiasm. There are many different opinions about targets, but it would be unexpected for the regulator to set those targets. More focus should be placed on education, showing that diversity is essential to grow business. All the Panel agree that any targets should not be overly prescriptive in order to give firms flexibility of implementation, to ensure they are strategic and empowering and Boards can sign up to them.

*Q19: What are your views about developing expectations on product governance that specifically take into account consumers' protected characteristics, or other diversity characteristics?*

We would like to see more detail about what outcomes the regulators wish to achieve in terms of developing expectations on product governance that specifically take into account consumers' diversity characteristics. There are many different issues, from tailoring products to every individual in the country, understanding communications, to avoiding the use of postcodes in pricing for social/ethnic reasons. This is a very broad area and more information on the regulators' desired outcomes would be welcome.

*Q22: What should we expect firms to disclose and what should we disclose ourselves from the data that we collect?*

It would be constructive, in order to encourage participation, if data on D&I for the whole of the regulatory family was published.

*Q28: 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?*

Inclusion is primarily a culture issue and the FCA is already working on understanding firms' culture and how it could improve inclusion. Diversity is about representation and if this is the

regulators' aim then it should be clear that this is the outcome they are trying to achieve, and for it to happen faster.

Consideration should be given to whether there are tools not being used that could make a difference such as asking representation-related questions as part of the authorisations process. We recommend the use of case studies (both good and bad practice) to illustrate different approaches for firms trying to do the right thing and highlighting those that are not. This would help to signal that the regulators would use their powers to take action where firms do not have adequate approaches to improving D&I.

Yours faithfully,

[signed]

Paul Feeney  
Chair, FCA Practitioner Panel