Bank of England
Threadneedle Street
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FCA
Smaller Business Practitioner Panel

By email

30 September 2021

Dear Sir/Madam,

DP 21/2: DIVERSITY AND INCLUSION IN THE FINANCIAL SECTOR – WORKING TOGETHER TO DRIVE CHANGE

The Panel welcomes the opportunity to respond to this important consultation. We believe the business case for diversity and inclusion was made long ago and very much welcome the contribution of the regulators in driving this work forward. However, while the timescales for this work are admirable we have concerns that they are not manageable. This will be a long-term project, given the fundamental shift required in society as a whole.

The key issue for smaller firms is proportionality – the regulators need to be actively aware that what works for larger firms of thousands of employees, particularly in setting targets, will not necessarily work for the many firms with small workforces or even single person firms.

In response to your specific questions:

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?

The collection of data is valid but the regulators should be mindful of its impact on small businesses in terms of burden to deal with more data requests. People have the right not to disclose information about themselves, which we believe may be a societal issue, particularly in the current climate around discrimination, therefore data may be qualified to a degree.

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

Q7: What factors should regulators take into account when assessing how to develop a proportionate approach?

We caution against the use of specific targets, particularly in the context of smaller firms, as they may be less meaningful, or in practice impossible to apply, in firms with very few employees. In large firms percentages are broadly representative, in small firms this is absolutely not the case. An example of this is the approach taken by Women in Finance. One Panel member's firm had one female member of the leadership team leave for a promotion to an Executive Director role with another firm. This took their female percentage representation from mid-forties to low thirties - looked at in isolation this could give a misleading view of the firm's situation. We encourage a proportionate approach in such cases.

Q9: What are your views on the best approach to achieve diversity at Board level?

There should be greater customer representation on boards to properly understand fairness of, for example, products or language. Few Board members have ever had short-term credit, for example, which can result in a lack of direct understanding and experience.

Additionally, in addition to addressing diversity of representation we encourage D&I awareness and training amongst all Board members.

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?

We have concerns about targets and leadership KPIs which, if set by the regulators, could lead to token hires, resentment and positive discrimination. Our view is that guidelines, rather than targets set by the regulators, would be more effective.

Targets would have to be voluntary and set by individual firms especially as the availability of people from a wide spectrum of backgrounds may be limited in certain areas. Equally, there is a greater challenge of making financial services attractive to a wider audience. For example, one Panel member's business, based in the East Midlands, one of the most multi-cultural regions in the UK, with a large branch network, has had an objective and mission for some time to ensure its workforce reflects the communities it serves. Having tried a number of different approaches it is still unable to attract people from all backgrounds because the real societal challenge is trying to make financial services more attractive as an employer.

Q20: 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?

We agree that information disclosures and highlighting where the issues are in firms can be powerful. For example, highlighting sectarian imbalances in Northern Ireland in the 1980s-90s were solved by disclosures amongst larger firms and people changed practices quickly.

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?

The regulators could consider loosening the regulatory burden for firms which are more thoughtful about this topic and therefore have a more positive culture in all dimensions. This would be a more appropriate approach to a modern societal problem than remedies such as targets, board and nomination committees, and would take many years to tackle. There needs to be a review of rules, policies and working practices including recruitment within organisations and the regulators themselves.

We would be happy to discuss any of these points further.

Yours faithfully,

[Signed]

Marlene Shiels
Chair, FCA Smaller Business Practitioner Panel