FINANCIAL CONDUCT AUTHORITY (FCA)

CP21/24: DIVERSITY AND INCLUSION ON COMPANY BOARDS AND EXECUTIVE COMMITTEES

OCTOBER 2021

Fair By Design welcomes the invitation to respond to the FCA's consultation on diversity and inclusion on company boards and executive committees.

Please note that we consent to public disclosure of this response.

For more information about this response, please contact Martin Coppack: m.coppack@barrowcadbury.org.uk

ABOUT FAIR BY DESIGN

Fair By Design is dedicated to reshaping essential services, such as energy, credit and insurance, so they don't cost more if you're poor.

People in poverty pay more for a range of products including energy, through standard variable tariffs; loans and credit cards with higher interest rates; and expensive insurance premiums, by living in postcodes considered higher risk. This is known as the poverty premium.

We collaborate with industry, government, and regulators to design out the poverty premium.

Our Venture Fund provides capital to help grow new and scalable ventures that are innovating to make markets fairer.

The Barrow Cadbury Trust runs our advocacy work, and Ascension manages the Venture Fund.

OUR APPROACH TO THIS RESPONSE

On this occasion, we are not responding to every question individually.

As an organisation dedicated to ending the poverty premium, our principal concerns relate to extra costs of financial services including credit and insurance, which do not feature prominently in the policy consultation.

OUR RESPONSE

Targets and data

We are supportive of the FCA's proposal to require in-scope companies to disclose publicly whether they meet specific board diversity targets relating to gender and ethnicity on a 'comply or explain' basis.

We are also supportive of firms publishing standardised data on the composition of their board and most senior level of executive management.

As per our response to the FCA's Discussion Paper on diversity and inclusion in the financial sector[1] increased transparency is beneficial for helping to ensure that firms are serious about increasing diversity and inclusion. We also believe all firms should have and publish a diversity and inclusion policy.

We agree with the proposed targets on gender and ethnic diversity representation at board-level of companies.

However, the FCA should also consider additional/different targets at board-level.

For instance, we know that people from lower socio-economic backgrounds experience worse outcomes in many areas of financial services, including paying more for being poor or being excluded altogether.[2, 3]

Fair By Design's own commissioned research[4] demonstrates how the more of certain protected characteristics a person has, the more likely they are to be in poverty – and paying a poverty premium. Intersectionality plays a large role here.

As such, firms should therefore have targets across the protected characteristics and socio-economic background.

We agree with the FCA that greater diversity "may have wider benefits in terms of the…performance of such companies" through "reducing group think and improved …decision making." Greater diversity in thought will help in understanding and serving a diverse range of customers, including those on low incomes, for example.

Boards can also take steps now if they are not yet diverse in their membership. In addition to targets, we are supportive of the FCA's suggestion, in its Discussion Paper on diversity

[1] https://fairbydesign.com/policy/diversity-inclusion-financial-services/
[2] Financial Conduct Authority, Occasional Paper No. 17: Access to financial services in the UK (2016)
[3] Financial Inclusion Commission, Improving the financial health of the nation (2015)
[4] University of Bristol, The Inequality of Poverty (2021)

and inclusion in financial services, that Board succession planning needs to happen within the context of diverse representation. This can include greater positive engagement with recruitment firms to ensure diversity is at the heart of future recruitment, as well as greater engagement and consideration when it comes to supporting the 'executive pipeline.'

Different perspectives can be provided through 'shadow' boards made up of non-executive staff with certain demographic characteristics, for example, younger employees. This approach has been used to some success in industries ranging from hospitality to fashion but also in financial services, as trialled by insurance firm Beazley.[5] Speakers can also be invited to meetings for relevant agenda items, but Boards should also directly engage with their consumers, and be exposed to people 'not like them.'

As the FCA has acknowledged, progress-to-date in diversity, especially in senior roles, has been slow or even reversed.[6] As such, **in addition to board-level measures, we believe the FCA should consider requiring similar numerical data reporting for the level below the executive management team. There is merit in targets for employees who are not members of the Board or senior managers, for example, those employed in product development and those in customer-facing roles.**

Greater diversity in the workforce is more likely to result in the development of markets that meet all varieties of need and demographic characteristics. There is also a commercial consideration for firms to increase their diversity, as consumers are more likely to choose firms that can offer services that can better recognise and respond to their various needs.

Inclusive design

While we support increasing diversity of firms, so that they reflect society and the customers they serve, diversity targets are a *first step* on a journey to inclusivity. Diversity can be thought of in terms of *numbers* whilst inclusion is more of a change in *behaviour.*

Put another way, diversity is *who* we are and inclusion is what we *do*, the result of which is – in addition to better informing shareholder engagement and investment decisions – more equitable outcomes for consumers.

This is because people in firms (even if they possess certain demographic characteristics) are not necessarily representative of consumers – especially low income and/or vulnerable consumers – in terms of (1) knowledge of financial services and (2) their needs and expectations of the market. As the FCA recognised in CP21-13, "different customers will have diverse needs, and their needs may change."

As such, developing diversity and inclusion of the workforce at all levels is part of developing an organisation that can meet expected standards of care, such as the FCA's guidance on the fair treatment of vulnerable customers.

[5] https://www.standard.co.uk/business/shadow-boards-how-young-executives-are-running-corporates-a4318861.html
[6] FCA DP/21/2: Diversity and inclusion in the financial sector

To that end, Fair By Design, in partnership with the Money Advice Trust, has created two guides on inclusive design:

One for firms.

One for regulators.

As well as profitability, there is an even clearer dividend of applying the principles of Inclusive Design. It will help lead to a market where "all products and services that are sold to consumers [are] fit for purpose[7] and "consumer harms [such as the poverty premium] do not occur in the first place."[8]

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[7] Financial Conduct Authority CP21/13: A new Consumer Duty

[8] Ibid