September 2021: Diversity Project and LGBT Great Response to the UK Regulators 'Diversity and inclusion in the financial sector – working together to drive change'.

About the Diversity Project:

The Diversity Project is a cross-company initiative championing a more inclusive culture within the Savings and Investment profession. We believe that we have an extraordinary opportunity to press the re-set button in our industry: to recruit, nurture and retain the first truly diverse generation of Savings and Investment professionals. That generation will themselves perpetuate diversity in our industry; we are looking to break one cycle and create another. If we are successful, in the next four years:

1. Our businesses will better reflect both society at large, and the individuals who trust us with their money.

2. Our people will create better financial outcomes to benefit our diverse savers and investors.

3. We will attract more interest in the industry, with a pipeline of diverse talent.

Diversity is not only our social obligation, it's a business imperative. The Diversity Project currently has 86 corporate members including asset managers, asset owners and investment consulting firms. Please click here to see a list of our members.

About LGBT Great:

LGBT Great is a corporate membership organisation that specialises in developing diversity and inclusion within the global financial services industry. Our vision is for our industry to become the most trusted sector of choice for LGBT+ talent, clients and investors with every firm advocating visibly.

We believe in a data driven approach to diversity and inclusion. Our Inclusion Index Benchmarking Tool (iiBT) is an industry specific LGBT+ benchmarking tool which measures across ten different diversity and inclusion indicators. These metrics are designed to provide an industry-focussed framework to measure, role model and recognise success. Project 1000 is our five-year drive to recruit one-thousand LGBT+ and ally role models within the industry and has attracted support from over one-hundred firms globally.

LGBT Great works by supporting 38 corporate members to better understand LGBT+ specific and intersectional diversity and inclusion issues, like diversity data, through our innovative insights, visibility and outreach programmes. Please click here to see some of our members.

Unless otherwise stated, these responses are the combined views of the Diversity Project (DP) and LGBT Great (We/Our) and from an investment and savings sector (Sector) perspective. 'Firms' means any company that is regulated by the FCA and/or PRA (the Regulators).

The contributors to this Response:

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Groups consulted on this Response:

- Advisory Council and Steering Committee of the Diversity Project
- Executive Sponsors and Member Leaders of LGBT Great
- Disability Workstream of the Diversity Project
- LGBT+ Workstream of the Diversity Project
- Neuro-Diversity Workstream of the Diversity Project
- Race & Ethnicity Workstream of the Diversity Project
- Social Mobility Workstream of the Diversity Project

1: What are your views on the terms we have used, how we have defined them, and whether they are sufficiently broad and useful, now and in the future?

We welcome the Regulators shining a light on the link between Firms' inclusion and diversity (I&D) and customer alignment/outcomes and believe that requiring Firms to include I&D on their strategic business risk register will help to shift the level of attention it receives.

We agree with making I&D explicit in regulatory requirements and standards and believe that the I&D targets[1] the Regulators set can also help to shift the dial. We note that to optimise Firms' decision-making capabilities, there needs to be a balanced approach across all aspects of diversity, including lived experience and thinking preferences. To achieve these targets, Firms need to have a level playing field for hiring and to create a feeling of belonging within their workforce, which requires behavioural change. Whilst, if done well, training can be supportive, robust systems and processes are essential for good talent management decisions.

The use of neutral, clear, concise language is important for all employee and client communication. We think that the Regulators can help. We would also welcome the opportunity to simplify customer documentation.

We encourage the Regulators to engage with other authorities to identify and address any unintended consequences/myths surrounding regulations; such as the Information Commissioner's Office (ICO), about GDPR, which seems to inhibit the collection/storage of voluntary personal information in the Sector. We hope that the Regulators become role models of what they expect of Firms by sharing and amplifying success stories.

2: Are there any terms in the FCA Handbook, PRA Handbook or Supervisory Statements or other regulatory policies (for any type of firm) that could be made more inclusive?

Our recommendations are that the Regulators:

1. Clarify how Firms can avoid unintended consequences of absences of more than 12 weeks.

2. Use gender-neutral terms; they/theirs rather than he/his.

3. Facilitate the simplification of all customer communications.

4. Include I&D in individual conduct rules, for example adding the following wording: *'you must treat colleagues with respect and behave in a way that fosters diversity and an inclusive culture'.*

[1] The Diversity Project has already set some diversity targets for its members that can be found here.

Further thoughts:

1. The 12-week rule: the handbooks sensibly state that controlled positions must be filled by an authorised alternate if there is an absence of 12 weeks or more. However, this can lead to some people being decertified[2], with the following consequences:

    - They are removed as the named portfolio manager for at least the period of their absence, affecting their track record, status, and employment stability.
    - People feeling forced to return to work before they want to or should do.
    - There can be problems or delays on the return to work.
    - Firms may be forced to find replacements quickly which can make it more difficult to find diverse candidates.
    - This results in firms reverting adopting a 'what we know' approach where they seek familiarity in a candidate profile.

2. Language: the handbooks repeatedly use 'he/his' rather than gender-neutral terms like 'they/their'.

3. Regulators need to review their thoughts on what roles they expect to be done from an office.

<u>3: Do you agree that collecting and monitoring of diversity and inclusion data will drive improvements in diversity and inclusion in the sector? What particular benefits or drawbacks do you see?</u>

Yes, We agree[3]. The effective collection and slicing and dicing of granular I&D data relative to each other enables Firms to understand patterns and trends across their business. The key benefits of Firms collecting and monitoring I&D data include:

1. **Business:** demonstrating good diversity data practices and meeting the increasing diversity data requirements of asset owners[4] and investment consultants. Providing this data is likely to become a hygiene factor; those who cannot may lose business as a result.

2. **Reputation:** by understanding and addressing internal I&D issues, Sector Firms can more legitimately advocate for better people practices within investee companies (the 'S' in ESG).

3. **Talent:** fully understanding their I&D issues and how to address these.

4. **Commitment & Accountability:** helps to demonstrate, commitment and willingness to hold yourself accountable to customers.

[2] This can happen in a number of circumstances, including: parental leave, mental and other health absences and sabbaticals, none of which should lead to discrimination.
[3] LGBT Great and the Diversity Project. Holding Up The Mirror: Diversity data in the investment, wealth management and saving industry.
[4] The Asset Owner Diversity Charter.

The potential challenges to the collection and monitoring of I&D data include:

1. Our research identifies the following factors as barriers to data collection:

   - Disjointed efforts in the Sector.
   - Legal and operational uncertainties for Firms with a global presence.
   - Lack of well-defined roles and accountabilities.
   - Lack of understanding of what is at stake.
   - Inadequate HR systems and technology.
   - Employee distrust and apathy.

2. Accountability[5] for data collection is attributed to employees and HR professionals and is either not being done well or not being done at all[6]. As discussed in Q10, the CEO needs to be accountable for I&D as part of the overall business strategy. This could be a challenge if the CEO is reluctant to be so.

3. The CEO could assign responsibility for data collection to somebody outside HR if they felt that to be appropriate. Either way, if data is not currently being collected, more resources may be needed.

4. I&D as a strategic business risk will require procedural changes[7] in many Firms.

4: Do you have a view on whether we should collect data across protected characteristics and socio-economic background[8], or a sub-set?

Gender identity[9] and caring responsibilities are also very important and need to be added to the above list. Please see Question 22 for the specific data We recommend collecting. We also feel that greater recognition should be given to neurodiversity which, at a 15% prevalence rate in the wider population, is the largest diverse category after gender yet receives relatively little attention in the Sector.

Our recommendations are that the Regulators:

1. Encourage firms to have a 'prefer not to say' option, which Firms and Regulators can use as a measure of trust in the process. Provide a text box where people can say why the 'prefer not to say option' has been used to help identify the issues.

2. Encourage firms to start each job posting with a succinct note from the CEO making clear the purpose of collecting the data and who has access to it.

[5] Responsibility is the ongoing duty to complete the task in hand. Accountability is taking ownership of and reporting on the results after the task has happened.
[6] Holding Up The Mirror, 80% of HR leaders say that diversity data collection should be a priority, but 83% say that data sharing is currently average, poor, or very poor.
[7] Holding Up The Mirror, 75% of firms said that DE&I is not currently monitored via internal risk or within their risk assessment models.
[8] We agree that data on socioeconomic backgrounds is very important and note that the 2010 Equality Act requires government and public bodies to have due regard for "reducing the inequalities of outcome which results from socio-economic disadvantage"; their 'socioeconomic duty. However, many financial services firms emphasise recruiting from the so-called 'best' universities, which has an instant filtering effect. Interview processes that emphasise competencies such as leadership, confidence and public speaking favour people from higher socioeconomic backgrounds. This 'poshness test' excludes many people. Social mobility is also a barrier to career progression.
[9] Increasing numbers are seeking recognition and evidence of support for transgender and non-binary people. This goes beyond the protected characteristics of sexual orientation and gender reassignment defined in the 2010 Equality Act.

5: What data could the regulators monitor to understand whether increased diversity and inclusion is supporting better decision making within firms and the development of products and services that better meet customers' needs?

Our recommendations are that the Regulators ask firms to capture the following data points:

- **Inclusive culture:** monitor inclusion based on the Financial Services Skills Commission's[10] (FSSC's) inclusion measurement guide, metrics of:
    - Leadership.
    - A safe, speak-up culture.
    - Systems and processes.
- **Client orientation:** require companies to periodically add the following question to the employee pulse surveys, 'are potential customer outcomes sufficiently factored into product and service development decisions?'
- **Service-profit chain:** monitor the correlation of diversity, discussed in questions 4 and 22, and employee sentiment/inclusive culture metrics with customer Net Promoter Scores® (NPS) and other client satisfaction metrics.

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

We have made some suggestions with regards to proportionality in our response to Question 22.

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

Our recommendations are that the Regulators consider the following factors when assessing how to develop a proportionate approach:

1. Size of organisation (defined by number of employees in the UK). For example, publishing detailed diversity data is much more difficult for smaller firms where it is easier to identify individuals. We provide more suggestions on this topic in our answer to Q22.

2. Maturity of organisation: it takes time to introduce best in class inclusion and diversity practices and programmes.

3. Regional and global organisations: many firms in Financial Services are regional or global in nature. While the regulatory guidance will relate to UK operations, many firms have regional or global boards or management teams. In addition, legal restrictions on what diversity data can be collected varies around the world making this a challenge for international businesses with cross-

[10] FSSC, inclusion measurement guide.

border teams, boards and executive teams. However, We are strongly of the view that UK subsidiaries and UK boards should abide by UK regulatory requirements.

4. Evidence of progress: it will take time for Firms to implement any new regulatory guidance and We suggest that, in the interim, Firms should be asked to demonstrate positive progress rather than being required to implement new processes quickly with the risk of failure. For example, it takes time to build up trust amongst employees so that they are willing to share personal information. However, Firms can demonstrate how they are working to build that trust and how they are communicating with employees.

5. Principles-based approach rather than a rules-based approach: each Firm should agree what success looks like give their circumstances and work towards that. This would allow Firms of different sizes and operating in different countries to apply solutions that work for them.

8: Are there specific considerations that regulators should take into account for specific categories of firms?

- The regulators should take into account the issues of proportionality as it relates to the number of employees. Our responses focus specifically on the investment and savings sector.

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

We welcome Regulators being clear about their I&D expectations as this may move the dial, in a similar way to the 30% Club and Hampton-Alexander Review targets[11]. As pipelines lack diversity, unless otherwise stated, the following recommendations apply to Firms overall, as well as their board.

Our recommendations are that the Regulators should consider[12]:

1. Engaging with institutional investors to evolve the thinking around diversity. The goal should be diversity of lived experience and thinking preferences, which may not map neatly onto identity characteristics.

2. Being explicit that they are interested in candidates' potential and that they have an open view of career paths and 'experience' when considering candidate suitability.

3. Running I&D forums/roundtables for boards, including executive directors (EDs), to collectively discuss its importance at all levels, what good looks like[13] and how to achieve it. The goals are improved decision-making capabilities within Firms and a level hiring playing field; only then can Firms be true meritocracies. Topics of conversation could include that:

[11] The increase in the number of women and improvement of ethnic representation on UK boards over the past decade shows that voluntary change is achievable, but there is still a way to go. This progress needs to be broadened beyond gender and deepened into organisations' talent pipelines. However, women make up almost half FTSE100 NEDs but hold just 6% of CEO roles. As set out in Green Park's Business Leaders Index 2021, when it comes to black people holding top roles, the UK is regressing: for the first time since Green Park began its analysis in 2014, there are no black Chairs, CEOs or CFOs and the proportion of black executive leaders is just 0.6%, unchanged over eight years.

[12] Regulators may want to include behaviour science specialists in these sessions, such as: Applied, which was spun out of the Behavioural Insights Team (BIT) (which is owned by the UK Cabinet Office and Nest), the Mind Gym (MG) and the NeuroLeadership Institute™ (NLI).

[13] Regulators may want to provide an inclusion maturity curve to support this discussion.

- I&D helps Firms uncover blind spots.
- Contrary to (some) perceptions, there are plenty of suitable diverse candidates out there, but overly long lists of candidate success criteria and narrow searches are getting in the way of them being accessed/selected. Firms need to identify the top five/six key candidate success criteria for each role and insist that search companies look beyond their existing contacts to produce diverse shortlists. Previous like-for-like experiences should not be one of the key candidate success criteria.
- To level the playing field, there needs to be a robust assessment process that includes structured interviews with independent evaluations.
- Nomination Committees need to aim for more diverse talent in P&L roles.
- Shadow boards can be useful for boards to gain different perspectives and give up-and-coming talent relevant insights and experience.

4. Requiring boards to put I&D on their strategic business risk register and the second/third lines of defence to monitor and report on it.

5. Requiring Firms to report annually on their:

    - I&D goals and progress. The aim is for workforces to be comparable to the relevant regional adult demographic. For example, a target that at least 50% board directors reflect a range of diversity dimensions.
    - Their up-to-date succession plans. The goal is for a long-term[14] perspective of competencies, perspectives, thinking styles and personalities that would be additive to the culture.

6. Evaluating whether Chairs[15] across the Firm are inclusive leaders who ensure that everyone gets a chance to speak and draw out all views, especially from those who have not yet found their voice because they are new to that decision-making body or from an underrepresented group.

The Regulators' I&D goals need to be ambitious and balanced[16] [17].

[14] A long-term perspective of the firm's talent needs can help to shift the recruitment success criteria, away from cost/time to hire and volume of candidates, to candidate quality/tenure and workforce balance. It also gives the chance to build a balanced bench of talent that they know, and who knows their business. This is particularly helpful for attracting and recruiting people from demographics that are currently underrepresented in the firm, as they can take longer to feel comfortable to join if they cannot see many people like them in the organisation.

[15] Boards needs to function as a unitary group in which different perspectives are actively sought, this means being inclusive.

[16] Former BoE Chief Economist Andy Haldane set out the importance of the context of appointments in his 2016 speech 'The Sneetches', reminding us that the best candidate is the one who brings something new to a team. This may mean considering other aspects of suitability than identity characteristics, since those map in a complex and unclear way onto character, capabilities and how someone might approach challenges. However, it would be problematic if someone was rejected purely on the basis of their identity characteristics

[17] In 'The Difference: How the Power of Diversity Creates Better Groups, Firms, Schools and Societies,' Dr Scott Page talks about the 'subtle and mysterious' link between identity diversity (gender, ethnicity, sexuality, socioeconomic background etc.) and diversity of thought. 'No one can claim to predict the sources of inspiration, nevertheless, all else being equal, we should expect someone different – be their differences in training, experiences or identity – to be more likely to have that unique experience that leads to the breakthrough.'

10. What are your views on mandating areas of responsibility at Board level?

As well as being diverse themselves, the board needs to collectively and individually underscore the importance of I&D by holding the CEO accountable [18], and identify who will be responsible for I&D as part of the overall business strategy. If the CEO is reluctant, boards need to consider if they have the right person for the job.

Furthermore:

- If I&D is integral to corporate strategy, progress will be under constant monitoring by the board.
- All NEDs[19] should engage with employees on I&D issues. Diverse NEDs need to be good role models and also speak at staff events, such as employee resource groups (ERGs).

Sector NEDs could use the Asset Owner Diversity Charter Toolkit questionnaire to develop a checklist of questions to ask their CEO. It also shows the type of questions that clients and consultants are/will be asking their asset managers.

11. What are your views on the options explored regarding Senior Manager accountability for diversity and inclusion?

Our recommendations are that the Regulators:

- Include I&D in individual conduct rules, for example adding the following wording: *'you must treat colleagues with respect and behave in a way that fosters diversity and an inclusive culture'* to Statements of Responsibilities.

12. What are your views on linking remuneration to diversity and inclusion metrics as part of non-financial performance assessment? Do you think this could be an effective way of driving progress?

We agree that I&D should be considered when setting remuneration[20]. Firms need to establish appropriate individual I&D metrics for their staff, which are applied robustly/proportionately.

The potential impact on pay should be both positive and negative eg an increased bonus for role-modelling, a decrease for poor behaviour or a lack of effort to improve diversity. Examples of poor behaviour would include bullying, misogyny, everyday sexism, inappropriate language, not calling out poor behaviour of others, organising team events (work-related or social) which exclude some people, favouring some individuals over others for stretch-assignments etc.

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[18] Responsibility is the ongoing duty to complete the task in hand. Accountability is taking ownership of and reporting on the results after the task has happened.
[19] I&D messages have more impact when they come from somebody who is not seen to have a vested interest.
[20] There are precedents for behavioural issues being taken into account when setting remuneration – for example, poor attitudes to compliance and risk impacting bonus payments. Furthermore, signatories to the Women in Finance Charter should have an intention to link the pay of senior executives' performance against internal gender diversity targets. After five years, progress is finally being made. The most recent 2020 report marks: *'a step change in the quality and quantity of signatory reporting on the link between pay and diversity targets. Nearly half (49%) said the link is effective, while 47% said it is too early to tell. There is an increasingly granular approach to implementing the link to pay, and greater expectation that senior leaders will deliver.'*

Our recommendations are that the Regulators:

1. Add 'you must treat colleagues with respect and behave in a way that fosters diversity and an inclusive culture' to the SM&CR individual conduct rules, as discussed in Q11.

2. Encourage the UK government to widen pay gap reporting requirements and/or set out their expectations for pay gap reporting for financial services companies.

3. Firms link remuneration to the following I&D metrics:

   - Numeric data – for executives and senior managers, who the Firm judges have sufficient control over diversity metrics. This assessment needs to be over the medium-term, to avoid positive discrimination or unfair penalisation if suitable diverse talent cannot be sourced.
   - Inclusive behaviours – for executives and departmental heads, 360-degree reviews and departmental inclusion scores. For other staff, 360/180-degree reviews.

<u>13: What are your views about whether all firms should have and publish a diversity and inclusion policy?</u>

Our recommendations are that the Regulators:

1. We believe that all Firms should have both a Diversity and Inclusion Policy and a Diversity and Inclusion Strategy.

2. The Policy should set out high level principles on how the Firm ensures that it will not discriminate in anything that it does. The Strategy should set out the Firm's goals around diversity and inclusion and include key actions to achieve those goals.

3. In addition, all other Policies should be reviewed to ensure that they incorporate diversity and inclusion and do not, unintentionally, discriminate.

4. The Firm's overall Business Strategy should also embed diversity and inclusion strategic goals.

<u>14. Which elements of these types of policy, if any, should be mandatory?</u>

We prefer I&D to be embedded in all policies but not necessarily mandated. Our recommendations are that the Regulators include these elements included:

- Long-term, holistic workforce planning to give time to find diverse candidates.
- Anonymised CVs.
- Approximately five/six candidate success criteria, to increase the available talent pool.
- Wide and varied talent searches.
- Structured interviews and independent, uncorrelated evaluations.
- Reasonable adjustments are offered as standard and cover requirements for employees who do not have a disability, such as neurodivergent people.

- Flexible and smart working for all roles, with only a few exceptions[21].
- Conduct requirements to include, 'you must treat colleagues with respect and behave in a way that fosters diversity and an inclusive culture'.
- Structured processes around:
    - work allocation
    - performance management
    - promotions
    - pay and bonus decisions
    - other talent management activities eg learning and development opportunities.

15. What are your views about the effectiveness and practicability of targets for employees who are not members of the Board?

We believe that targets/goals, objectives that fall between 'an expectation' and internal 'quotas,' can be practical and effective at all levels of a business. If used in the right way, they raise awareness, focus attention and provide metrics for measuring progress; this is discussed further in 12 above.

Whilst the long-term goal is to achieve diversity at all levels that is broadly in line with the general adult population, We would not expect diversity targets to be met in all cases and at all times as the path will be bumpy, but it is important to understand the root causes of any setbacks. Reporting on the progress being made in each part of the business can promote social accountability, the desire to look fair-minded, and help to shift behaviours. When Firms target underserved customer groups, such as LGBTQ+ or certain ethnic groups, they may have more employees from those groups. If so, they should still aim for a balanced workforce across other diversity characteristics.

Systems/processes across Firms must not create advantages/disadvantages for particular groups, for example:

- Application websites should have built-in spellcheck and copy/paste function so that dyslexic applicants are not disadvantaged.

- Quiet work areas in the office and the option to work from home as a norm can help ADHD or autistic people who may be disadvantaged in a crowded, noisy office; affecting their performance and promotion chances.

- Some initiatives, such as fast-tracking certain demographic groups, can create disadvantages for others. Inviting people to apply for roles and using a transparent, robust hiring process provides a level playing field.

[21] A SMART Working Manifesto for change in the investment and savings industry.

16. 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?

Ideally, Firms would have targets for all diversity dimensions and use them for candidate longlists as well as their workforce.

17. What kinds of training do you think would be effective in promoting diverse workforces and inclusive cultures?

Done well[22], training can play a part in creating an inclusive culture, but it needs to be supported by robust systems/processes, such as: structured interviews with independent evaluations carried out by diverse interviewers and performance measurement that links compensation to clear behavioural standards, discussed in Q12.

The following can help to build an inclusive culture:

1. Being inclusive and not focusing programmes on stereotypical assumptions about the career progression of under-represented groups.

2. The C-suite role modelling inclusive leadership: having a growth mindset, being kind, treating people fairly, and using their advantages to help others who are disadvantaged. They actively listen to others' life experiences and talk about their lifestyle boundaries and advantages/disadvantages.

3. Inviting people across the business to help to create an inclusive culture by participating in ongoing 'conscious inclusion' workshops[23] that focus on desired inclusive behaviours that are linked to the Firm's core values. They are used to develop collective and individual action plans to build a culture where everybody feels that they belong and there are no blind spots that could impair customer outcomes.

4. As well as being voluntary, to have a long-term positive impact, the workshops need to be fun, inspiring, varied and practical; when people feel good about themselves, they are more open-minded. Story-telling and experiential approaches are more likely to lead to increased empathy and behaviour change than plain-vanilla unconscious bias training.

5. Supporting and equipping line managers to be inclusive leaders. Regularly bringing them together with a facilitator to reflect on, question and discuss what inclusive leadership is and how to achieve it. These cohorts can provide a safe space of support, challenge, sounding boards and peer feedback loop to help them learn and develop as managers[24].

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[22] Mandatory one-off unconscious bias training (UBT) can be counterproductive and cause feelings of exclusion and isolation and even perpetuate biases. I&D training is often ineffective and does not lead to cultural change.
[23] These could use World Café and Appreciative Inquiry type approaches
[24] https://diversityproject.com/resource/role-line-managers-creating-inclusive-culture

6. (Reverse) mentoring can help to foster an inclusive culture by developing a better understanding of what it is like for others to work for the organisation, providing different perspectives and strengthening empathy. Mentoring programmes[25] are also linked to improving diversity.

7. Long-term positive effects start to happen when at least 25% have been trained/participated in a workshop. This helps to build a shared understanding and language. Participants become more comfortable interacting with colleagues, which builds trust. This shift in participants' behaviours influences others.

18. What kinds of training do you think would be effective for helping understanding of the diverse needs of customers?

The key to understanding the diverse needs of all customers lies in a detailed, current understanding of end-to-end client journeys[26] that make up their overall client experience (CX); this needs to be a central business activity.

Recommendation: that the Regulators:

1. Could consider collectively running annual surveys of financial services sector clients to provide them and sector Firms with a collective understanding of the differing requirements across the UK population[27].

2. Seek regulatory reporting on how these insights are being used to inform product/service design.

3. Review the current regulatory guidance on the content of client documents as We are concerned that they lead to too much fine print, which is confusing for customers.

Holistic CX should inform all product and service design, and customer communications/accessibility. It leads to a crossover from being siloed to having a truly holistic customer-centric business. This can be done through activities, such as running workshops[28] of diverse employees from functions across client journeys, including champions of specific diverse groups[29] [30]. Some workshops may include actual/potential client focus. This can be supplemented with external expertise[31]. Such granular understanding of clients aims to prevent perpetuating stereotypes, such as' all women are risk-averse'. How Firms communicate with their customers and the options they give them to communicate back, impacts their outcomes[32]. Communications

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[25] The Government Equalities Office and The Behaviour Insights Team report on reducing the gender pay gap and improving gender equality in organisations found mentoring to be a promising action: one that require further research to improve the evidence on their effectiveness progression and how best to implement them. Research published in the Harvard Business Review also found a positive link between mentoring programmes and diversity.

[26] The 2021 study, 'A New Frontier: LGBT+ lens investing for the 2020s' found that 90% of the LGBT+ community said that an LGBT+ friendly approach to investing was important to them, but only 32% of professional investors said that their firm was supportive of this.

[27] For example, LGBT+ people are less likely to be prepared for retirement. They also have a different set of financial requirements and needs.

[28] These could use World Café and Appreciative Inquiry type approaches

[29] Over 7.7m people of working age in the UK have a disability or health condition (source: Department of Work and Pensions). 80% of us will acquire a disability during our working life with visual, hearing, motor and cognitive being the most common disabilities.

[30] 15-20% of the UK population could be neurodivergent (ND). This includes people with dyslexia, dyspraxia, autism spectrum disorder (ASD), attention deficit hyperactivity disorder (ADHD). Having to operate in a neurotypical world can have a disabling impact but this does not mean that they have a disability.

[31] For example, complying with the Web Content Accessibility Guidelines (such as GAAD).

[32] For example, the: use of pronouns, ability to change titles and gender and availability of gender neutral titles

need to be succinct and precise using neutral, inclusive, simple language[33] without jargon or acronyms. Training on how to do this would be helpful.

<u>19: What are your views about developing expectations on product governance that specifically take into account consumers' protected characteristics, or other diversity characteristics[34] [35]?</u>

Our recommendations are that the Regulators:

1. As discussed in Q18, Regulators could consider running annual surveys of financial services sector clients to provide them and Firms with a collective understanding of the differing requirements across the UK population.

2. Require reporting on Firms' CX activities and how these impact product and service design, customer communication (please see below) and accessibility.

3. Challenge the use of processes that perpetuate stereotyping, such as AI recommending low-risk options to women

4. Use Firms' Net Promoter Scores® (NPS) and ombudsman complaints to identify any failures to meet the needs of specific customer groups.

5. Consider providing direct guidance or recommend specialist organisations that advise on issues, such as; accessibility[36], vulnerabilities[37], and use of language.

6. Review the current regulatory guidance on the content of client documents. We are concerned that they lead to too much fine print, which is confusing for customers.

7. Provide translations and alternative formats of materials they issue.

8. Avoid:

    - Requiring companies to request diversity data from customers. Doing so can be off-putting, cause resentment, raise concerns about information security, and slow processes down.
    - Overly bureaucratic processes with limited impact, such as equality impact assessments.

[33] More readable writing consists of: paragraphs of 3 or fewer sentences, sentences of 8-10 words, shorter words, reduced use of adverbs, use of first/second person (we/our, you/your), and 3-7 bullet points. Hemingway's work is understood by 11-12 year-olds.
[34] We note that this question links with current consultation paper on consumer duty.
[35] Different groups of customers may seek assurance that their money would not be invested in causes or companies that would be harmful to them. For example, companies with racist, homophobic, transphobic or sexist practices. They may be looking for organisational advocacy on human rights issues, such as, LGBT+ and gender equality. However, this is not felt to be with the scope of regulation.
[36] For example, complying with the Web Content Accessibility Guidelines (such as GAAD).
[37] For example, LGBT+ people are less likely to be prepared for retirement. They also have a different set of financial requirements and needs.

20: 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?

Gathering the information suggested above will help Firms to understand their I&D maturity and barriers and decide the steps needed to improve maturity. The inclusion questions are likely to have the biggest impact as an inclusive culture is both diverse and equal.

21: How should our approach for information disclosure be adapted so that we can place a proportionate burden on firms?

Our recommendations are that the Regulators:

1. That all Firms be required to collect I&D data and report it to the Regulators, irrespective of their size or complexity. However, reporting requirements should be proportionate to the number of UK based employees. Our view on the detailed data to be collected for different sized Firms is laid out in 22 below.

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

Our recommendations are that the Regulators:

- Require Firms to report their I&D data described below. Regulators should publish Sector level I&D data, but not (as yet at least) name/shame individual Firms.

- In our view the regulators should encourage regulated firms to collect diversity data where GDPR is not a significant impediment from so doing.

- It should be noted that all diversity data disclosure from employees is given on a voluntary basis and it is important to offer the option to disclose across all diversity dimensions.

Firms should recognise that there are multiple opportunities to collect diversity data eg during recruitment, as part of employee engagement surveys, when employees update HR records or request leave and as part of a diversity data drive led by senior management.

To explain what data could be expected from firms, we have challenged some assumptions in this Discussion Paper and set out the below supporting points:

1. This Discussion Paper assumes that broader diversity of identity characteristics will overall lead to more diversity of thought.

2. Whilst people from different diversity identities can think differently this is not always the case.

3. There is a risk that teams and businesses could have diversity of identity but not necessarily diversity of thought.

4. In our view, a balanced approached to how these two different aspects of diversity intersect must be considered.

5. This presents an opportunity to hold all Firms (including smaller and less complex Firms) to account on diversity and inclusion issues.

6. We think of diversity dimensions as diversity of identity and diversity of thought although these are not mutually-exclusive:

    - Diversity of identity: protected characteristics, socioeconomic background and gender identity.
    - Diversity of thought: default cognitive thinking styles and preferences. This will be influenced in part by innate qualities and upbringing but also by lived experiences and accumulated knowledge hence overlaps with diversity of identity.

7. We have set out our thinking to ensure all Firms with UK based employees have some regulatory accountability for reporting with one, or more of the below four I&D categories:

(A) Data Capture
(B) Employment Sentiment
(C) Diversity of Identity
(D) Diversity of Thought

8. We have suggested the data to be reported on for each of these four categories in the **attached Appendix**.

9. We suggest the following categorisation of Firms for reporting purposes:

    - **Firms of 251 employees or more:** data for A, B in addition to C and D for all employees.

    - **Firms of 250 employees – 51 employees:** data for A and B in addition to C and D for Executive Leadership and the Board only.

    - **Firms of 50 employees and fewer:** data for A and B in addition to C and D for approved persons only.

23: What are your views on how we should achieve effective auditing of diversity and inclusion?

Our recommendations are that the Regulators require their Firms to annually self-attest to their I&D maturity, supported by the assessments from their second and third lines of defence. We understand that certain companies are required to have an annual independent review of their compliance with pay regulations.

This is carried out by their internal audit function or external consultants and made available to the regulator. We believe that the Regulators could adopt a similar approach for I&D, to highlight to them and the Firms the areas for improvement. I&D should also be part of board effectiveness reviews.

24: How can internal audit best assist firms to measure and monitor diversity and inclusion?

Our recommendations are that the Regulator require Firms to treat I&D as a strategic business risk and embed it into their enterprise risk management (ERM), which is monitored by their second and third lines of defence. Areas for comment include: granular I&D patterns/trends, cognitive diversity in decision-making and all policies and/or procedures across the Firm, not just HR policies. We encourage regulators to role model these best practices.

The second and third lines of defence teams need to be diverse and inclusive. The level of diversity data sharing is an indication of the culture of the Firm, as are grievance numbers and Glassdoor comments, amongst other things. Inclusion measurement surveys should be part of the fieldwork for culture internal audits and the data sliced and diced in relation to diversity data, such as retention rates and promotions, to build a picture of any patterns, trends and high/low scoring areas across Firms.

UK companies should adopt diversity data gathering best practices, but We note that it can be a challenge for global organisations to determine what is appropriate diversity on boards and committees. For example, what does an appropriate representation of ethnic diversity look like? Does it matter if most decision-makers are located in a particular country? We also note that in assessing the diversity of regional offices outside of London, recognition should be given to the relevant regional population rather than to a country-wide or London-centric comparison.

25: Do you agree that non-financial misconduct should be embedded into fitness and propriety assessments to support an inclusive culture across the sector?

Our recommendations are that the Regulators make it explicit that non-financial conduct is part of the requirements and standards of the regulatory system, including fitness and propriety assessments, to reinforce the principles set out in Megan Butler’s 2018 letter to the Women and Equalities Committee. Examples of non-financial misconduct would include sexual or racial harassment or discrimination and bullying.

As well as linking I&D to remuneration, explicitly including non-financial conduct in fitness and propriety assessments can be expected to encourage individuals’ I&D maturity.

Also, Senior Managers already have a responsibility to ensure the 'business of the Firm for which they are responsible in their controlled function complies with the relevant requirements and standards of the regulatory system'. It would be helpful if the Regulators could also include in their handbooks some examples of non-financial misconduct that could impact on Conduct, the fit and proper assessment or firm culture, possibly including permitting the inappropriate or excessive use of Non-Disclosure Agreements.

26: What are your views on the regulators further considering how a firm's proposed appointment would contribute to diversity in a way that supports the collective suitability of the Board?

We agree that Regulators should consider diversity, but this should not be a formulaic approach to identity characteristics. This requirement also needs to be balanced against the increasing demand by the Regulators for greater individual accountability and specialist skills on the Board which can lead to a relatively narrow group of largely financially-trained individuals being considered suitable for Board positions.

Our recommendations are that the Regulators take a balanced view of diversity across Firms, not just boards.

27: What are your views on providing guidance on how diversity and inclusion relate to the Threshold Conditions?

We think that providing guidance based on Our recommendations in other responses is sensible.

28: 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?

We have made suggestions throughout our responses above, to which we add the suggestion that Regulators review the approval process for Approved Persons.

The current approval process can be protracted and painful, with the level of challenge particularly intimidating to people from underrepresented groups.

29: What impact do you think the options outlined in this chapter, alongside the FCA's proposals for a new Consumer Duty, would have on consumer outcomes?

We think that the recommendations We have made above will encourage Firms to become more customer-centric and deliver good customer outcomes.