

UKSIF Response: House of Commons Treasury Committee inquiry, Sexism in the City

About UKSIF

- 1.1 The UK Sustainable Investment and Finance Association (UKSIF) is the UK's leading membership organisation for sustainable finance, committed to promoting a financial system that works for the benefit of the environment, society, and us all.
- 1.2 UKSIF represents a diverse range of financial services institutions and investors committed to these aims, and our more than 300 members, representing over £19trn of global assets under management (AUM), include investment managers, pension funds, banks, financial advisers, ESG data and research providers and NGOs, among others. For more details, visit our website: uksif.org.

Introduction

- 2.1 A wide range of environmental, social, and governance (ESG) factors- including gender diversity and representation, gender pay gaps, and workforce treatment more broadly- are now recognised as financially material issues for our members to consider when making investment decisions. In recent years, there has been a strong focus on the “E” in ESG, with climate change risks and environmental issues increasingly making their way into mainstream financial decision-making and reporting by our members. We have been very supportive of this trend in the investment industry and more widely, and we think it is crucial that the “social” and “governance” factors of ESG are not neglected, which can be key drivers in determining the long-term value of a company and ultimately the wider economy.
- 2.2. The need for all businesses and financial services firms to actively consider and address social factors, such as human capital and diversity, has been receiving rising recognition in recent years, in part due to regulatory pressures and society's expectations. For example in terms of regulation, we have seen the introduction of legislation to allow investors access to relevant 'social' information, such as the human capital disclosure rule introduced in the U.S. by the Securities and Exchange Commission (SEC). Gender equality represents a key element of human capital, and we know that progress here can have the potential to lead to significant economic benefits for all companies.
- 2.3 For example, a report from the McKinsey Global Institute indicated that by advancing women's equality, \$12 trillion could be added to global GDP by 2025. It considered a 'full potential' scenario in which women participated in the economy identically to men, concluding that this would add up to \$28 trillion, or 26 percent, to annual global GDP by 2025 compared with a 'business-as-usual' scenario.¹
- 2.4 We very much welcome the Treasury Committee's focus on addressing the barriers faced by women in financial services today. We believe that the inquiry offers an opportune moment for government, financial services firms, investors, businesses, and wider stakeholder groups to reflect on recent progress towards gender parity and representation in finance in recent years, and what further action should be taken to address particular material gaps. As part of this, we would support the Committee exploring the effectiveness of recent government intervention and industry initiatives to date - including the 'Women in Finance Charter'- and where significant obstacles remain. This includes the representation of women at the level below boards, diversity at the entry-level, and workplace sexism in the finance industry.²

Gender pay gap reporting and disclosures

- 3.1 As we enter the seventh year of mandatory gender pay gap reporting in the UK, the success of this regime remains mixed, we believe. Now that mandatory reporting has been reinstated, following a relaxation of the regime in light of the Covid-19 pandemic, we are seeing some businesses struggle to catch-up to their pre-pandemic upwards trajectory towards more equal gender treatment. In

¹McKinsey Global Institute, "How Advancing Women's Equality Can Add \$12 Trillion to Global Growth" (2015), <https://www.mckinsey.com/featured-insights/employment-and-growth/how-advancing-womens-equality-can-add-12-trillion-to-global-growth>

²UKSIF's response is informed by our membership, though this does not necessarily reflect the views and perspectives of our entire membership, either individually or collectively.

particular, analysis carried out by one of our members-PwC- showed that the UK's banking sector, compared to other industries, continues have one of the highest mean hourly gender pay gaps.³ It noted that the average pay gap stands at 26.6% for the financial services market, significantly higher than the 12.1% seen in the wider UK market.

- 3.2 We firmly believe that, in addition to requiring UK companies with more than 250 employees to publish their gender pay gap reporting, that large employers should be accurately disclosing in detail the underlying reasons for any gender pay gap, and any measures being taken to reduce these gaps. Communicating any actions across all levels of an organisation will be important to demonstrate a company is prioritising a more inclusive working environment, and seeking to promote greater fairness among its workforce. Full transparency on gender pay gap reporting should be one important pillar forming part of a company's wider sustainability strategy. Businesses that are taking active steps to improve gender equality and practices internally need to also look at their supply chains and hold them to the same standard, which would be an effective tool with which to extend their positive impact in this area.
- 3.3 Encouraging all companies (regardless of their size) to go further in these respects would assist them in formulating further steps to address workplace inequalities. Greater standardisation of companies' gender pay gap reports could enable investors, and wider stakeholders, to better compare companies' performance and ambitions, allowing this to become a more decision-useful metric in investment decision-making.
- 3.4 There is a prospect that policymakers should be attuned to that gender pay gap reporting, for some companies, may become more of a 'tick-box' exercise, without tangible change taking place and ensuring good governance practices are truly embedded throughout a business. This is a particular possibility given the lack of rules, and clear incentives in place, for those companies failing to improve on their pay gaps. One potential solution to minimise risks of a compliance-focused mentality would be to encourage companies to consider linking executive and senior management remuneration to progress against diversity pay gaps. There will be some risks of company management setting out 'easy to achieve' targets, and therefore the right category of KPIs will need to be set.⁴
- 3.5 Finally, the recent lack of enforcement in the UK to gender pay gap reporting has sent negative signals to UK companies, our members, and wider stakeholders. Government policymaking should ensure that rules can strengthen effective action on social, not only environmental issues, and are then appropriately enforced following implementation, given social issues are often a core driver in the value of a company. One challenge is that gender pay gap reporting requirements arguably have little 'teeth' by virtue of not having financial penalties for non-compliance, which may warrant further review by policymakers. More broadly, government should seek to undertake a comprehensive review in future of gender pay gap regulations to enhance accuracy of reporting, as well as comparability across companies and their effectiveness.⁵

Industry and policy initiatives on gender diversity and pay gaps

- 4.1 There are various existing finance and business-led initiatives to improve gender parity and equality beyond the gender pay gap alone. We believe that now is the time to build on the success of some of these initiatives, such as the Hampton-Alexander review and the FTSE Women Leaders review, as well as commitments made via the government's 'Women in Finance Charter'.
- 4.2 Existing initiatives should continue to consider the introduction of fresh and more ambitious targets; for example, we would encourage HM Treasury in due course to review and refresh the pledges and objectives of the 'Women in Finance Charter', to ensure these remain relevant and to ensure that signatories remain firmly focused on their gender equality objectives. Separately, new initiatives could be considered by policymakers, specifically with a focus on tackling those issues

³PwC, "Gender Pay Gap and Diversity reporting in the Financial Services sector in 2021/21" (2022) - <https://www.pwc.co.uk/services/human-resource-services/gender-pay/gender-pay-gap-and-diversity-in-financial-services.html>

⁴In our recent [response](#) to the FCA's Discussion Paper, *Finance for Positive Sustainable Change*, we highlight the case for, and possible risks to, linking remuneration to company's sustainability-related objectives.

⁵Sustainalytics, "Gender equality in supply chains: An opportunity to increase positive impacts" (2021) - <https://www.sustainalytics.com/esg-research/resource/corporate-esg-blog/gender-equality-in-supply-chains-an-opportunity-to-increase-positive-impacts>

that have received less recognition in recent years, such as representation of women on the level below boards, workplace sexism, and diversity at the entry level.

- 4.3 Separately, government guidance should encourage firms (financial and non-financial) to utilise the information they are already receiving as a result of gender pay gap reporting, and set tangible KPIs to improve on gender imbalances across a range of targets. Currently, published ESG frameworks by companies tend to focus on 'environmental' targets, though as previously highlighted in our response all businesses should be further encouraged to disclose specific KPIs in relation to targeting barriers faced by women in the workplace, and embed these within their existing sustainability frameworks. There may be a role for industry groups and associations, such as UKSIF, to collate current good practice from across the finance industry, which could build a base of good guidance and encourage businesses which are lagging behind to improve upon their practices.
- 4.4 While targets and goal-setting are a very useful starting point, headline targets alone by businesses will not deliver lasting progress. Financial services firms have experienced particular issues in attracting diverse entry-level talent and a wider talent pipeline needs to be fostered. Utilising diversity-focused methods of recruitment, such as 'blind CVs' and changes to hiring processes, could be encouraged more widely.
- 4.5 It is interesting to note that where businesses have achievements in other gender parity objectives, beyond pay alone, this has not necessarily resulted in a marked reduction to the gender pay gap. An analysis by one of our members stated that organisations with 40% female board representation do have a higher share of women employees, but do not necessarily have a smaller pay gap.⁶ Businesses cannot rely on focussing on one or two factors, and trust that an improvement in the gender pay gap will necessarily follow.
- 4.6 Broadly speaking, there is a need for a supportive policy environment in the UK which would bolster effective actions on social issues from businesses and our members. We were delighted to see the launch of the UK's Taskforce on Social Factors (TSF) earlier this year, and we look forward to seeing how this body will support and provide guidance to the pensions industry in better managing social issues in investments. We encourage the TSF to consider gender equality further in its upcoming work, and where possible common data metrics to help measure company performance against various aspects of gender diversity as an objective within its scope of work.
- 4.7 We would be supportive of consideration by the Treasury Committee of how we can further promote the effectiveness of companies' governance structures, ensuring the right checks and balances are in place to encourage gender equality, as well as improving corporate culture which can have a significant impact on how women are treated in the workplace. The allegations against the CBI in April of this year highlighted the serious adverse impacts which may occur when a toxic culture and poor governance practices exist within companies.
- 4.8 Finally, our view is that investors should also help to shape and improve the approach which companies take to achieving gender parity and representation. Diversity and inclusion issues should continue to become more prominent engagement and voting issues for shareholders. Investors can exercise significant influence in this respect, using their voting rights to drive positive change within their investee companies.
- 4.9 We would encourage shareholders to consider escalating their concerns to company management should a company's existing diversity targets not be met over time, including potentially committing publicly to voting against the re-appointment of a company chair, or head of a nomination committee. We support a voting policy to be in place to encourage companies to meet the Parker Review target of at least one BAME board-level director, and policymakers could send stronger signals to help encourage a shift. Information on a company's approach to social issues, including in regards to diversity and human capital broadly, can often inform our members' stewardship activities, and crucially collaborative investor engagement initiatives. This includes the work of the 30% Club to promote greater diversity and inclusion in companies from across the world.

⁶Clarity AI, "Board gender diversity and corporations' gender pay gap" (2023) - <https://clarity.ai/research-and-insights/board-gender-diversity-and-corporations-gender-pay-gap/>

Conclusion

- 5.1 Promoting gender diversity and representation of women in finance should continue to be a critical consideration for the UK's financial services industry and wider business community. Gender pay gap reporting has encouraged businesses to review their internal processes, encouraged discussion on the issue of the gender pay gap, and allowed comparisons by investors (and wider stakeholders) between different sectors, as well as between competitors in the same field.
- 5.2 We remain in support of this reporting regime, though note that there needs to be a far greater impetus for entities to set meaningful targets (both short and long-term), and take tangible steps to meet these. Business-led initiatives, such as the Women in Finance Charter, have had some positive impact in this regard, though further support from governmental and regulatory bodies is required to achieve positive change across the financial sector and businesses, and ultimately realise the considerable long-term benefits that improved gender diversity and representation can bring to all companies.
- 5.3 We look forward to supporting the Committee's important work in this area, and we would be pleased to convene a select group of our members to discuss the themes raised in your inquiry.