Mark Carney: Opening remarks to the "Empowering productivity: harnessing the talents of women in financial services" report launch

Opening remarks by Mr Mark Carney, Governor of the Bank of England and Chairman of the Financial Stability Board, at the Gadhia Review launch, Bank of England, London, 22 March 2016.

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Good morning and welcome to the Bank of England. It's a pleasure for us to host the launch of the "Empowering productivity: harnessing the talents of women in financial services" report.

A series of transformations are sweeping financial services.

First, since the crisis, a comprehensive series of reforms have strengthened the resilience of banks. Capital requirements are now seven times the old standards for most banks. For global systemically important banks (G-SIBs), they are more than ten times higher. For UK banks, liquid asset holdings have tripled. Trading assets are down by a third and inter-bank exposures have shrunk by two thirds.

Second, the aftermath of the crisis exposed serious deficiencies in the conduct of many market participants.

Now, the tide of ethical drift is being reversed and trust in our institutions is beginning to be rebuilt as a result of the conclusion of the Fair and Effective Markets Review, the launch of the Banking Standards Board and the FICC Markets Standards Board, as well as the start of the Senior Managers Regime, and the embedding of new compensation regimes that better align rewards with risks taken.

Third, the disruptive possibilities of the fintech revolution are beginning to touch the core of the financial sector.

Now it is time for a similar transformation of the diversity of one of the most important sectors of the UK economy.

In many respects, Jayne-Anne Gadhia's report is long overdue. For too long the representation of women in middle and senior tiers of management has lagged that in other leading sectors.

For too long, results have fallen short of good intentions.

And for too long the financial sector has suffered the economic consequences of this inequality while society has borne the broader costs.

Greater diversity – in all its forms, cognitive, gender, background, ethnicity, religion – can help transform the financial sector.

Research has shown that companies with a significant proportion of women in senior management positions perform better in part because of some leadership behaviours that women exhibit more consistently than their male colleagues.[1]

In particular, women are found to excel at people development, participative decision making, presenting a compelling vision and acting as role models – all drivers of financial performance.[2]

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1 http://www.mckinsey.com/business-functions/organization/our-insights/why-diversity-matters.

2 https://hbr.org/2012/03/a-study-in-leadership-women-do.

Research on board membership has also shown that female directors enhance board independence, partly because women bring different perspectives and networks to the table, and partly because they are more likely to ask difficult questions.[3] There is also evidence of a point of critical mass – when there are at least 3 out of 10 women on the board.[4]

And it's well established that diversity encourages debate, leading to more creative thinking, and that heterogeneous teams are more successful at solving complex tasks, particularly when people have a shared goal.[5]

Almost all decisions in finance are taken under uncertainty. Even if there is a range of known plausible outcomes, distributions of these outcomes are unknown. This makes it especially important that decision makers are exposed to a range of views, with open debate that includes perspectives that challenge prevailing wisdom.

Moreover, when there are judgment-based responsibilities – such as assessing appropriate values and conduct – diversity is crucial.

The value of diversity permeates organisations.

Sustained emphasis on diversity in hiring and development programs promotes improved values throughout an institution and acts as a catalyst to sustained behavioural change.

In its first report on diversity and inclusion published in November, the BBA highlighted progress in the banking sector, driven in part by the Davies Review and important industry initiatives like the 30% Club.[6]

Encouragingly, the proportion of FTSE 100 female board directors has risen from 12% in 2007 to 26% in October 2015. The BBA rightly stressed, however, that more needs to be done to raise the number of female senior managers, and, more generally, tackle the reputation of the industry for "pinstripes and braces".

That is why Jayne-Anne Gadhia's report, brimming with practical recommendations, is potentially so valuable. To be clear, the report's recommendations are voluntary, they are not regulatory requirements. It is for institutions themselves to determine how best to take forward the findings. In this regard, I would like to commend the leadership of those here today who are committing to implement the steps recommended.

The principles, values and recommendations of the Report are familiar to us at the Bank of England. Two years ago, with the launch of our strategic plan, we made "diverse and talented" a central pillar of our efforts to promote the good of the people of the United Kingdom.

We recognised that, as a public institution, our workforce should reflect the diversity of this country. We saw that given our broad range of new powers and tremendous responsibilities, we needed to work more effectively and collaboratively across all aspects of One Bank. And we concluded that we needed to be more diverse and open to different ideas and strong internal challenge, not only to avoid the dangers of groupthink, but also to harness the best from all of our people.

Our focus on building diversity is paying off.

In June 2013 we had no women deputy governors and just one female Executive Director. Today, two out of five Deputy Governors, and four out of sixteen Executive Directors are

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[3] https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/31480/11-745-women-on-boards.pdf.

[4] http://www.catalyst.org/system/files/why_diversity_matters_catalyst_0.pdf.

[5] http://www.catalyst.org/system/files/why_diversity_matters_catalyst_0.pdf.

[6] https://www.bba.org.uk/news/reports/diversity-and-inclusion-in-banking/#.Vu_NbXJxqUk.

women. Within our senior management cohort, female representation has gone from 21% to 27%, and our graduate intake has gone from 26% female to 34%.

The direction of travel is encouraging, but we are far from satisfied. Diversity will remain a key pillar of the Bank's strategy. Our goal is to attract and inspire the best people to public service. We want people with diverse ideas, willing to challenge and debate, and we want them to feel empowered at all levels, to take the initiative.

To support these objectives, we have introduced diversity targets that for the first time are reviewed and challenged regularly by Court. We have two Bank-wide targets for gender.

The first is for 35% of our senior management staff to be female by 2020; a two thirds increase from its 2013 level. The second is to have an equal split of men and women in the organisation at all levels below senior management by 2020 (from our current 44%).

But achieving these goals isn't just going to happen. It requires:

- Focussed recruiting
- Active mentoring
- Consistent and comprehensive performance management, and
- A flexible work environment that values diversity of thought

Today, each division of the Bank knows where it stands and has plans in place to improve, where necessary. So in this sense, the Bank has implemented two of the Report's recommendations.

The Bank has also recognised the importance of executive accountability for diversity, another key recommendation of Jayne-Anne Gadhia's report. Charlotte Hogg, our COO, oversees the Bank-wide diversity initiatives under our Senior Managers' responsibilities.

The Bank's commitment to diversity cascades through the organisation. Our diversity goals now form an explicit part of the objectives of each Executive and the management of individual directorates.

Our recruitment process is open and transparent to all, including for senior appointments.

The Bank has also been focussing heavily on how to create the right environment to achieve these targets. We are looking closely at what drives performance, differentiates talent, motivates the right behaviours, and creates barriers to success.

We have made a strong commitment to flexible working at all levels of the organisation. Over 11% of our staff are employed on a formalised flexible working arrangement. In a recent survey, almost two thirds felt that they had a good balance between their work and personal life. Encouragingly three quarters believe that the Bank takes diversity seriously.

Our Women in the Bank network set up a mentoring programme, which is now in its second year. This is complimented by the work of some of our other thriving staff networks – our Bank of England Ethnic Minority (BEEM) network for example has established a "building bridges", reciprocal mentoring programme – designed to foster relationships, networks and understanding between senior management and more junior BAME colleagues. We also have an LGBT network working hard to promote understanding, increase awareness and break down barriers.

Our broader leadership training programme emphasises unconscious bias training to ensure diversity can flourish and progress.

This training is part of our broader focus on values. Values count heavily when assessing performance and reward. All managers – including myself – are assessed by colleagues on their values and behaviours – with direct and explicit feedback.

We are monitoring the effect of all of these changes, including through regular staff surveys. We are aiming for further significant improvement in how our staff perceive the Bank's support for diversity initiatives and goals over the next two years.

There is more to do to reach our medium-term target, but we are encouraged by the momentum that we've established, we believe we have the right plan in place, and are heartened to see that our approach chimes with the conclusions in today's report.

Finally, we are conscious that sustained effort across the financial service sector will be self-reinforcing; we will all benefit from each other's progress.

So without further ado, I will pass over to the Economic Secretary to the Treasury so that she may tell you more about the Report and the broader initiative it supports.