BANK OF ENGLAND

Speech

Finance by all, for all

Speech given by

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It is an honour to join you today to celebrate this special occasion.

The Women In Banking and Finance (WIBF) network is a place to connect with colleagues, share knowledge and like today, celebrate success.

In that spirit we have already connected at the reception and will conclude by celebrating your success, so let me take up a bit of the middle to share some knowledge that the Bank has gained as it seeks to improve diversity and inclusion at the heart of finance.

Let me start by reflecting on the state of the UK financial services industry. Over two million people across the UK work in the sector. It makes up over 10% of the economy and runs a trade surplus of £72 billion, greater than all other exporting industries combined. Financial services contribute enough taxes to fund the NHS.[1]

Most fundamentally, finance serves households and businesses at home and abroad. Last year, the UK financial system channelled £300 billion in finance to UK businesses and helped 700,000 households to purchase homes. Finance insures the contents of 20 million homes and provides pensions to 21 million people.

Finance offers so much, but it still doesn't offer enough for women. Jayne-Anne Gadhia's review of gender diversity in finance shows that female representation on boards is less than a quarter and a mere 14% on executive committees. And these executive roles tend to be in corporate and support functions, such as HR and legal, as opposed to corporate leadership roles such as the CEO and CIO.[2]

This is especially striking as more women than men start out in financial services, only for their representation to diminish steadily through the ranks.

The value of diversity

This is an enormous missed opportunity.

Research on the value of diversity is abundant. For example, McKinsey finds that companies in the top quartile of gender diversity are 15% more likely to have financial returns above their industry median.[3] According to Credit Suisse, companies with more diverse boards outperformed peers by 26% and had higher return on equity, lower leverage, and higher average net income growth.[4]

[1] The City UK, Key Facts about UK-based financial and related professional services (April 2017). Available at: https://www.thecityuk.com/assets/2017/Reports-PDF/54c0ebf2b5/UK-Key-Facts-2017-updated.pdf
[2] Empowering Productivity: Harnessing the Talents of Women in Financial Services (June 2015). Available at: https://uk.virginmoney.com/virgin/assets/pdf/Virgin-Money-Empowering-Productivity-Report.pdf
[3] Mckinsey & Company, Diversity Matters (February 2015). Available a: https://assets.mckinsey.com/~/media/857F440109AA4D13A54D9C496D86ED58.ashx
[4] Credit Suisse, Gender Diversity and Corporate Performance (July 2012). Available at: https://www.credit-suisse.com/corporate/en/media/news/articles/media-releases/2012/07/en/42035.html

The Bank of England values diversity for three reasons. First, it is the right thing to do; a public institution should reflect the people it serves. Second, diversity can build the trust required to deliver our remits, as people are more likely to trust people they recognise, reducing misperceptions that we are experts making esoteric decisions in ivory towers for the benefit of others.[5] Third, diversity leads to better decision-making, more creative thinking and reduces the risks of groupthink and bias.[6]

This last point is critical. Almost all decisions in finance are taken under uncertainty, making it especially important that decision makers are exposed to a range of views, and engage in open debates with people whose perspectives challenge the prevailing wisdom.

Articulating why diversity and inclusion are important has helped the Bank move the dial.

When I joined the Bank, only 17% of senior managers were women, so we set an ambitious target to reach 35% by 2020. The Bank is on track to achieve this: today, 32% of senior management are female, considerably above the 14% industry average. Our pipeline of future leaders also looks healthy: 46% of colleagues below senior management are women.

This didn't just happen. Reaching this point has required a deliberate, concentrated effort throughout the organisation. The power of organisations like the WIBF is that they help such approaches permeate through the industry. I hope that sharing the Bank's experience will reinforce the current initiatives you may have in your organisations and perhaps even trigger some new ideas about what more we all can do to achieve gender equality in the industry.

Lessons from the Bank's diversity and inclusion initiatives

Diversity is not a one hit wonder: focus on the whole process from recruitment to development to promotion

The Bank recognises that how it recruits affects whom it recruits. From school leavers to career returners, the Bank has programmes to attract diverse talent at each stage of life.

To help develop the next generation, the Bank is working with schools to encourage a more diverse set of students to study economics and finance. We provide free classroom materials for students aged 11-16 to equip them with the analytical skills to make informed financial decisions, using real-world examples, captivating videos and accessible case studies.[7]

By the end of 2018 we had reached 90,000 students through our "EconoMe" programme, one quarter of all state secondary schools in the country. In an attempt to inspire children into finance, over the past year we have also made more than 300 school visits, of which 75 were by the Bank's policy committee members.

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[5] Farmer, H, McKay, R, Tsakiris, M, Trust in Me (2013): "Trust in Me: Trustworthy Others Are Seen as More Physically Similar to the Self", Psychological Science.
[6] Kahneman, D (2012) "Thinking Fast and Slow", London. See also Sunstein, C.R, Hastie,R (2014), "Making Dumb Groups Smarter", Harvard Business Review, December.
[7] See: https://www.bankofengland.co.uk/education/econome.

That being said, an economics education is certainly not a prerequisite to a career in the Bank. The Bank offers on the job training for all ages to entice diverse talent.

Our Future Capability programme is aimed at pupils keen to get their careers started after leaving school. Almost 90% of our 2018 Future Capability intake were from a state school and over half were female.

Historically, one impediment to improving diversity in central banking has been the lack of diversity among economics graduates. Just under a third of students studying economics to A-level and undergraduate level in British Universities are female.[8,9] To enable the Bank to hire from a broader set of disciplines and train them as economists and technical specialists we have introduced an in-house Central Banking Qualification (CBQ), in which graduate hires can earn a Masters Degree in Central Banking. This means that only half of our graduates study economics, with the remainder plucked from the sciences, business and the humanities.

In recent years, our graduates have come from 40 different universities, a six-fold increase in the past decade. In the Bank's September 2019 intake, we expect that almost half – 46% – of graduates will be female. This is the most diverse outcome since we began recording the diversity of graduate intakes.

Last year, the Bank won the TARGETjobs 'Most Popular Graduate Recruiter in Banking, Insurance and Financial Services' for the second year running. This year, Barclays pipped us to the post but in the spirit of sharing knowledge, we look forward to learning about the initiatives that have worked for them.

The Bank is also focusing on mid-career recruitment and last year almost half of our experienced hires were female. To attract diverse candidates we review all job adverts to ensure they use only gender-neutral language to avoid alienating or discouraging prospective applicants.

During the selection process, CVs are anonymised of all personal data, fostering a more objective assessment of a candidate's skills. At the interview stage, we ensure that panels are diverse in order to mitigate affinity effects and unconscious biases. To make these initiatives a success, all our managers are required to undertake unconscious bias training before recruiting.

Of course, not all talent develops on a linear career path; some people choose to take career breaks and may require support to return to the workplace. Recognising this pool of untapped talent, the Bank successfully piloted a Career Returners programme last year. The Bank offered a six-month placement to 16 people, with coaching and training support and fifteen women went on to take up permanent positions. Bolstered by this success, we are rolling out the programme across the institution.

Recruitment is only the first step. As Jayne-Anne Gadhia observed in her review of gender diversity in finance, a layer of "permafrost" sets in at middle management, where women get either stuck or leave the sector.

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[8] Joint Council for Qualifications, 2017 GCSE and A-Level results, available at: https://www.jcq.org.uk/examinationresults/gcses/2017/gcse-full-course-results-summer-2017/gcse-full-course-results-summer-2017.

[9] HE student enrolments by subject of study 2016/17 available at: https://www.hesa.ac.uk/data-and-analysis/students/table-9.

Once the right people are through the door they need to be developed and the culture needs to be supportive. For the Bank that means identifying a pipeline of future leaders with a diverse and broad set of experiences and pushing them in order to prepare themselves for bigger roles.

Last year for internal appointments, the Bank introduced pooled (or co-ordinated) recruitment for senior appointments. Governors and Executive Directors come together to assess the roles available with the candidates that have applied to try and find the best fit for each team, and for the institution as a whole.

This allows us to take a birds-eye view of diversity, rather than appointing in isolation, which risks reinforcing homogeneity in our senior appointments. Pooling our appointments makes everyone realise how their decision impacts the diversity of the whole organisation and helps to highlight the characteristics and skills that may be missing or overrepresented in the senior leadership. And it provides real time feedback if someone’s career is being held back by gaps in their experience or training. Pooled recruitment catalyses the creation of essential development plans that prepare colleagues for future roles.

Since its inception, over half of the 15 promotions to Head of Division level between May 2018 and February 2019 using this pooled recruitment were women.

An important aspect of successful job applications and interviews is being able to demonstrate personal development. For too long at the Bank, the opportunities to broaden skills and experience were granted on an informal basis to those who either knew about the opportunity or were recommended by a colleague. This tended to further reinforce homogeneity in senior leadership. In 2017, to level the playing field we launched an internal “opportunities” board. This connects people who need help with a short-term project to those able to offer it. Since we launched the site two years ago, 700 opportunities, from speech research to short-term holiday cover have been advertised across the organisation.

The Bank has also created a ‘high potential’ talent pipeline, which has 50% female representation, and coupled this with new approaches to development support. Our new sponsorship programme connects a high potential candidate and senior colleague to help sponsees identify assignments and opportunities to hone their skills and increase their experience. The pilot consisted of 19 colleagues, 84% of whom were female at the scale just below senior management. Building on this success, we have extended the programme and 80% of colleagues in the second phase are female.

As well as sponsorship the Bank recognises that mentoring (both formal and informal) can have a positive impact on an individual’s confidence to progress their careers. That’s why we launched our One Bank Mentoring Scheme in 2017 and ensured it is open to all staff. Between June 2018 and February this year we had 477 mentee applications, of whom 60% were women.

Culture change takes time: align incentives and provide support at all layers to embed change

One of the problems that reviews such as the Treasury Committee's Women in Finance Enquiry have highlighted is the delta between a board's progressive, longer-term thinking on diversity and the actions of middle managers who often tend to recruit on a safe, short-term basis.

That is why executive leadership and communication on diversity is important. At the Bank, our Chief Operating Officer, Joanna Place has the prescribed responsibility for diversity under the Senior Managers Regime. She is accountable for organisation-wide progress against the Bank's diversity targets and each and every Deputy Governor is expected to get involved with diversity initiatives.

Changing culture requires both leadership and embedded structural change. When the most senior people in the Bank demonstrate our core values - inclusive, collaborative, empowering, decisive and open - in their everyday work, it becomes easier to make the required changes in all layers of the organisation. With our senior leadership stepping up and both promoting and living the diversity agenda, we have been able to embed these values directly into the performance assessments and pay of all colleagues.

As you may have experienced, one of the problems in finance can be bonus cultures based on self-promotion rather than objective metrics, a culture of presenteeism over flexible working, and de facto penalties imposed for maternity leave.

Let me explain how the Bank addresses each of these in turn.

First, the Bank has implemented a performance management process that promotes objectivity. Colleagues are invited to have conversations with managers ahead of performance evaluation meetings. The Bank has also disposed of fixed distribution curves for performance ratings, making the process less adversarial. We also published clear guidelines internally on what is used to assess and reach a judgement on performance and how pay is awarded against different measures.

Second, an inclusive culture recognises that work can be done in many ways; and that our best ideas can occur at any time and in any place. 14% of our staff are employed on a formalised flexible working arrangement, including remote working. And more men and senior management (almost one in five) than ever before have taken up flexible working arrangements at the Bank. We have also recently completed a technology update to enable more ad-hoc flexible working arrangements for all colleagues.

This approach has proved its worth as two thirds of colleagues at the Bank agreed in our survey last year that there was a good balance between their work and personal life, five percentage points higher than the national average. This is especially important as nearly two fifths of university graduate cite good work life balance as the main thing they look for in an employer.

Third, the Bank encourages shared paternity leave and over the last year, 59 colleagues took up the offer, compared to 187 people on maternity leave. We have a generous pay package of six months at full pay and three at statutory pay. Colleagues are given ten Keep In touch (KIT) days and are offered IT equipment to take home during maternity leave to enable them to maintain contact with the Bank and ease their eventual return to work. The Bank has been successful in retaining female talent, with the Bank's maternity returner rate at almost 90% over the past few years.

What gets measured gets managed: be transparent about progress

Building an inclusive culture is impossible without transparency.[10]

In recent years, important strides have been made on transparency around the gender pay gap. Transparency delivers accountability and in making this information public, the sector must acknowledge the work it has to do to close the gap. In the financial sector, the average mean pay gap at banks and building societies is 35% and 31% in insurance companies.

For the Bank, the mean gender pay gap is better than the industry average at 20%. The gap is driven by the difference between male and female representation at senior levels. This is not an excuse. As I hope I have demonstrated, the Bank is making strides to close this gap in a fair and sustainable manner that empowers all colleagues at the Bank. Nonetheless, the disclosure helps everyone to track progress and hold the Bank to account.

To that end, HR publishes diversity metrics by division every quarter. The internal committee of Governors as well as the Court of Directors (the equivalent of our Board) regularly review and discuss the Bank-wide and divisional figures to identify areas for improvement.

In 2018 we were also one of the first organisations to conduct and publish a special Cognitive Diversity Survey to gain a better understanding of how our colleagues feel about working at the Bank. The survey measured seven inclusivity metrics including interpersonal interactions, flexible working, communication with leaders as well as recruitment and promotion, and results are cut across twelve different aspects of diversity.

Our results indicate colleagues are generally positive about inclusiveness at the Bank on every metric measured by the survey. 80% of colleagues in our annual employee survey reported that the Bank takes diversity seriously, seven percentage points higher than the UK average. And 87% of Bank colleagues say they are treated with respect as an individual, six percentage points higher than the UK average.

These survey results and the progress against our targets are encouraging, but there is always more to do.

And diversity is, of course, about more than gender, including ethnicity, age, disability, sexual orientation and socio-economic background. The steps that we have taken to improve gender diversity and the lessons we learn from the industry are supporting the Bank's approach to increase diversity and inclusion more broadly.

[10] Women in Finance, House of Commons Treasury Committee, Fifteenth Report of Session 2017 – 19. Available at: https://publications.parliament.uk/pa/cm201719/cmselect/cmtreasy/477/477.pdf.

Conclusion

I hope that these positive examples leave you in the right mood for the final part of today: celebrating success.

Without delaying the awards any longer, let me leave you with three reflections that sum up what the Bank of England has learned from its experience of promoting diversity and inclusion.

First, in a world of division, fusion will bring breakthroughs. Diversity delivers value, but it is also, quite simply the right thing to do. So select your teams wisely and recognise that while diversity is a reality, inclusion is a choice that we should all take.

Second, developing the right people requires a culture of inclusion that values diverse ideas, encourages open debate, and empowers people at all levels to take initiative. These efforts must be purposeful and coordinated.

Third, we're all in this together. Share your experiences; if something has worked well in your organisation afford others the opportunity to try it in theirs.

Finally, we should take opportunities to celebrate successful achievements of women in finance and of the men and women who have given their time and effort as we strive to achieve equality. These are the role models for the next generation.