BANK OF ENGLAND

Speech

Why diverse markets need diverse talent

Opening remarks given by

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At Next Step FX: Promoting Career Opportunities for Women in FX, London

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Introduction

Thank you very much for the invitation to open this event today. Promoting greater diversity in capital markets is a subject of great importance to me, to the Bank of England, and – I believe – to the continued prosperity of the financial markets and economy as a whole. Let me say why.

The foreign exchange market is the nerve centre of the global financial system – settling some $5 trillion of transactions every day, supporting trade, travel and investment. And its heart is here in London, which has nearly 40% of the global market.

That's a big responsibility, and one we at the Bank of England take very seriously. We are active ourselves in the market every day, buying and selling currencies on behalf of the UK Government and other central banks, and managing the UK's foreign exchange reserves. I and my staff speak regularly to a wide range of market participants to gather insights on developments for the Bank's monetary and financial policy committees. I chair the London Foreign Exchange Joint Standing Committee. And the Bank, through the Prudential Regulation Authority, supervises the banks, insurance firms and broker-dealers active in financial markets.

Given the FX market's global importance, it is vital that it operates to the highest standards. Those standards fell unacceptably short in the years running up to, and following, the financial crisis. And that is why in 2015 the Fair and Effective Markets Review (FEMR), which I led, called for a new global Code, setting out principles to promote the integrity and effective functioning of the market. That Code was launched two years later, here in London, and is now overseen by a Global FX Committee, comprising public authorities and market participants from 18 countries around the globe.[1] As of mid-June, the Global Index recorded over 900 public commitments from organisations across all geographies and sectors of the market to abide by the terms of the Code[2].

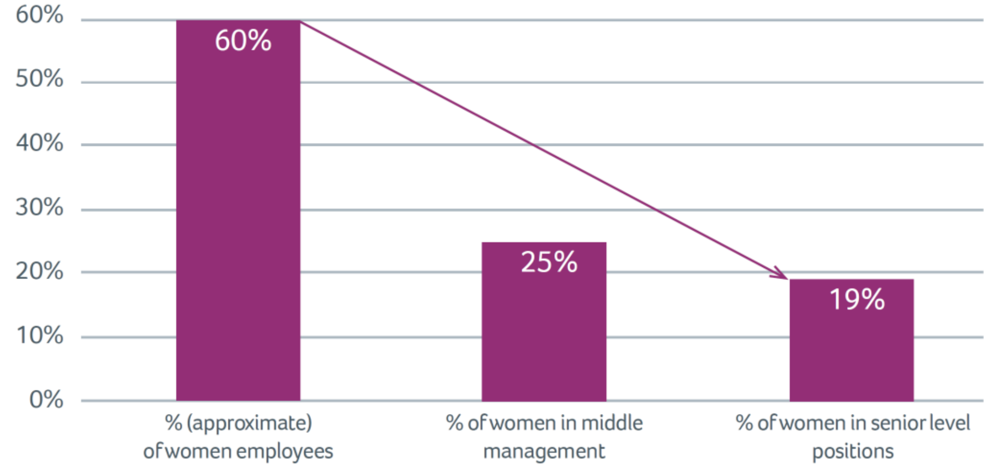
Perhaps the most depressing aspect of past FX abuse was the light it threw on historic behaviour in parts of the market, called a 'bro-culture' by some,[3] in which inappropriate, sometimes illegal, behaviour became the norm through a process of what we termed in FEMR 'ethical drift'. Groups calling themselves the 'A-team', the '3 Musketeers' or (perhaps more aptly) the 'Semi-Grumpy Old Men' attempted to pervert the multi-trillion dollar foreign exchange market on which everyone in the world in one way or another depended.

For some of those active in the industry at that time, the culture from which this extreme behaviour emerged may have seemed wearingly familiar. Lucy Kellaway, writing in the FT, described the toxic male environment she experienced on an FX trading floor early in her career.[4] Though many men were (and are) equally

[1] https://www.globalfxc.org/membership.htm
[2] https://www.globalfxc.org/global_index.htm
[3] https://www.ft.com/content/62001b10-90de-11e8-9609-3d3b945e78cf
[4] https://www.ft.com/content/511ad09e-6be2-11e4-b939-00144feabdc0

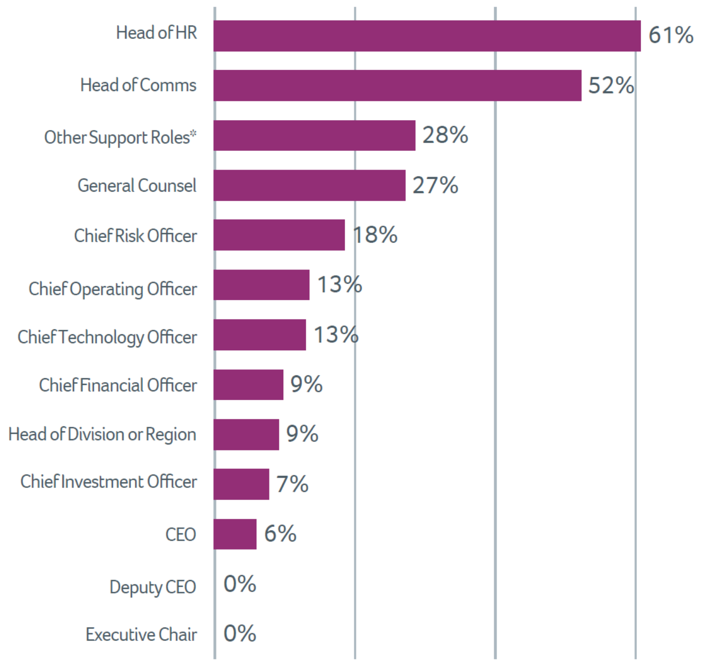
disgusted by such behaviour, it is unlikely to have been helped by the gender balance in the market. The 2016 Gadhia review[5] showed that, whilst women actually outnumbered men 60/40 in financial services as a whole, they were much less likely to be the managers or leaders who shaped the culture (Figure 1). And even when they were leaders, they were three times more likely to be running HR, communications or other support functions than serving in C-suite positions (Figure 2).

Figure 1: Average representation of women in Financial Services in 20 global markets



Source: PwC, Mending the Gender Gap: Advancing Tomorrow's Women Leaders in Financial Services, 2013 (data was collected in the US)

Figure 2: Proportion of Executive Committee functions held by women



* Includes central support functions such as Marketing, Strategy, Policy, Corporate Affairs, treasury, audit, compliance, excluding roles listed above.

[5] https://uk.virginmoney.com/virgin/assets/pdf/Virgin-Money-Empowering-Productivity-Report.pdf

Diversity is good for the bottom line

Disparities of this kind are unfair. They also make terrible business sense. Diversity improves financial performance: across the economy as a whole, firms with top-quartile executive-level diversity are 20-30% more likely to outperform their peers (Figure 3). And diversity reduces risk. Research at the University of Leicester found that an increase in the number of female traders in a market reduces the occurrence of crashes.[6] Firms with monocultures suffer a quarter more governance-related issues than their peers, according to the FCA.[7] And the IMF found that banks with higher shares of women leaders had higher capital buffers, lower nonperforming loans, and higher 'distance to distress'.[8]

Figure 3: Likelihood of financial performance above national industry median (%)

[1]Average earnings-before-interest-and-taxes (EBIT) margin, 2010–13 in Diversity Matters I and 2011–15 in Diversity Matters II.
[2]Results are statistically significant at p-value <0.10.
[3]Results are statistically significant at p-value <0.05.

Source: 'Delivering through diversity', McKinsey, January 2018.

[6] https://pdfs.semanticscholar.org/88c1/6ee1ff277cd71340dd15980537174658016f.pdf
[7] https://www.fca.org.uk/news/speeches/women-finance-keeping-pressure-progress
[8] https://www.imf.org/en/Publications/Staff-Discussion-Notes/Issues/2018/09/17/women-in-finance-a-case-for-closing-gaps-45136

There are several reasons for these findings:

- First, recruiting a more diverse team means you are fishing in a bigger talent pool – so you should be able to choose a better team.

- Second, more diverse teams make better decisions, because they have more ways to approach problems, and are better at self-challenge; and

- Third, diversity improves a firm's connection to, and empathy with its customers.

Within a trading environment, research suggests that adding more women to trading teams tends to improve risk management, increase average returns, reduce the incidence of 'over trading' (or trading for the sake of it), and improve a team's capacity to monitor for, admit to, and learn from past mistakes.

But if diversity is so great, why has it taken so long for FX and other markets to begin to embrace it? We can only speculate. Perhaps the cliques that existed in parts of the FX market in the past have proved more adept at self-perpetuation than might have been hoped, particularly where they extended across both sell- and buy-side. Or remuneration schemes may have continued to reward those who make particularly large profits – even if the same behaviour can also lead to particularly large losses – rather than those who deliver a higher average return with fewer fireworks.

Whatever the reason, times are changing in the FX market – and fast. And that's what makes me optimistic about the future, and the role all of you here today can play in it.

The FX market of tomorrow, and why embracing diversity will no longer be an option

I want to focus on three key drivers of change: technology; broadening market participation; and culture.

The most profound of these for the economics of the industry is **technology**. Technological advances have fundamentally changed the face of trading and revolutionised the structure of the FX market. These days, only a minority of FX trades involve people actually talking to one other. And a growing number don't even need someone to click a mouse, as algorithmic and high frequency trading techniques take over from manual trading. That is particularly true for vanilla flow trading. To take just one example, an estimated 70% of orders on EBS – a key inter-dealing platform for spot FX – are submitted by algorithms[9]. The increased speed with which these technological advances enable market participants to respond to developments is opening the door to deeper analysis, significant efficiency gains and new business models.

[9] https://www.bis.org/publ/mktc10.pdf

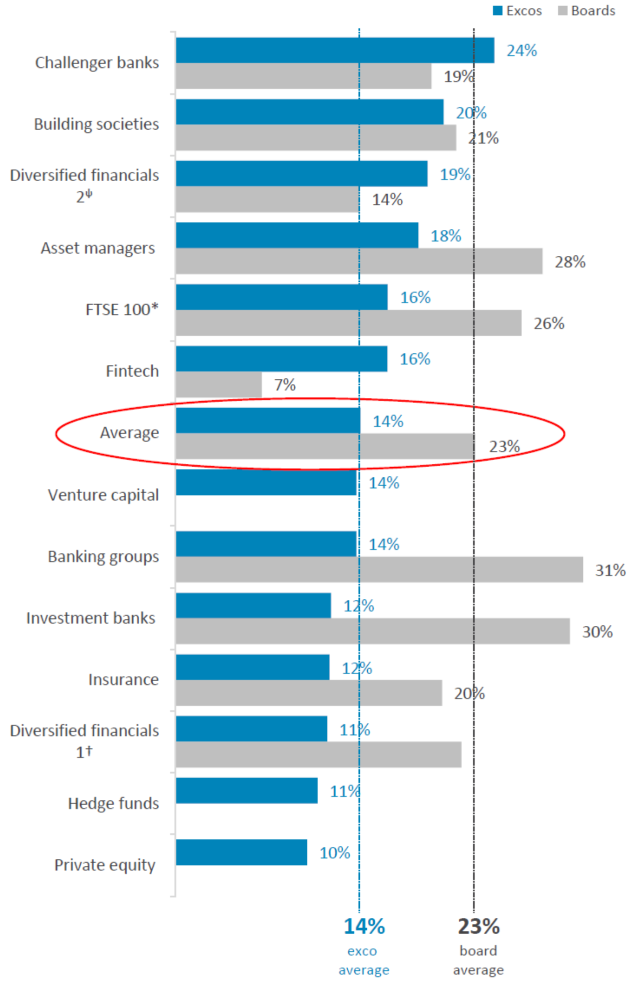
Such changes in technology inevitably also imply profound changes in the type of jobs, and skills, needed in the FX industry. Traditional manual execution roles, where traders place orders on behalf of customers or their own book, are disappearing fast – and with them the 'boiler room' trading environments they spawned. But as some roles disappear, others grow. The focus now is on exploiting creative ideas, knowledge of customer needs and risk management, strategic judgment and technological savvy to develop and maintain a competitive edge. And that is exactly the environment in which diverse teams are not only an advantage, they are a necessity – for all the reasons I stated a moment ago. The revenue-generating stars of the future will not be the big swingers of the past: McKinsey[10] argue that half of the value-added in wholesale banking will be created by just 10% of the future workforce, but none of those roles sit on today's senior teams.

If technology and innovation are transforming the FX products of the future, they are also transforming the way people work. Modern communication tools allow much more flexible working, in time and space: unheard of in traditional trading environments, but eminently feasible in a world of e-platforms and algorithmic trading, even in a market that trades 24/7. And that opens the industry to a much wider talent pool, with different skills and thought processes, improving productivity and retention. Companies that fail to offer flexible working arrangements underperform their peers.[11] And that is relevant to both men and women: 89% of those responding to a 2017 survey of British businesses[12] said flexible working was a key enabler for productivity.

The second key change is the profound **broadening in FX market participation**. In part that reflects a sharp reduction in the costs of entry to, and use of, the FX market, driven by those same technological trends I've just outlined. Retail banks, asset managers and corporates can now access the market directly. And there is a much wider range of service providers, stretching well beyond the traditional investment banks: indeed, some of the biggest, or fastest-growing, firms in the market were unheard of 5-10 years ago. The rapid development of previously emerging economies, and progressive capital account liberalisation, has also substantially increased the geographical reach of the foreign exchange market, bringing different customer needs and perspectives.

[10] https://www.mckinsey.com/industries/financial-services/our-insights/talent-in-wholesale-banking-building-a-sustainable-competitive-advantage
[11] https://www.ft.com/content/c8c79254-bb33-11e8-8274-55b72926558f
[12] https://www.ft.com/content/1c3e8d8a-6a70-11e8-aee1-39f3459514fd

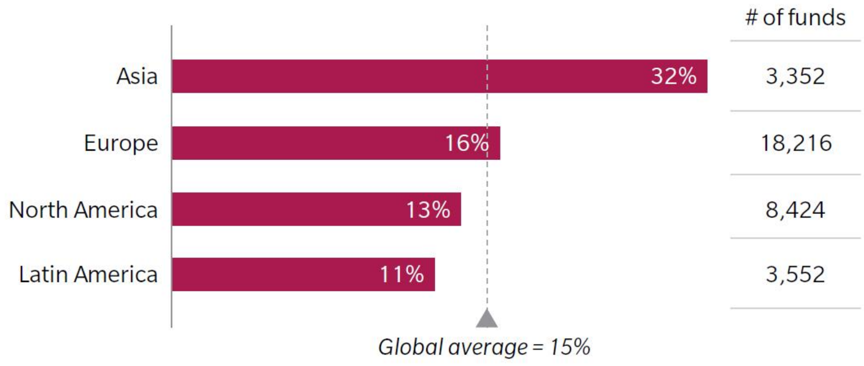
Figure 4: Average female representation across UK financial services[13]



More, broader, market participants means a wider range of potential employment opportunities for those keen to join the market. Workforce diversity differs across sectors (Figure 4) and across firms within sectors. But it also means that service providers need to get better at relationship management, investing more in understanding increasingly diverse customer needs. It is striking, for example, that portfolio managers in Asia are twice as likely to be female (Figure 5); and the gender mix of retail FX trading in Europe – a rapidly growing market segment – is approaching 50/50 (Figure 6). It would be too simplistic to say that service providers need to be as diverse as their customer base.[14] But recruiting from a broader diversity pool and hiring people with different life experiences helps firms understand the mindset of their clients better, improving customer engagement and ultimately increasing returns.

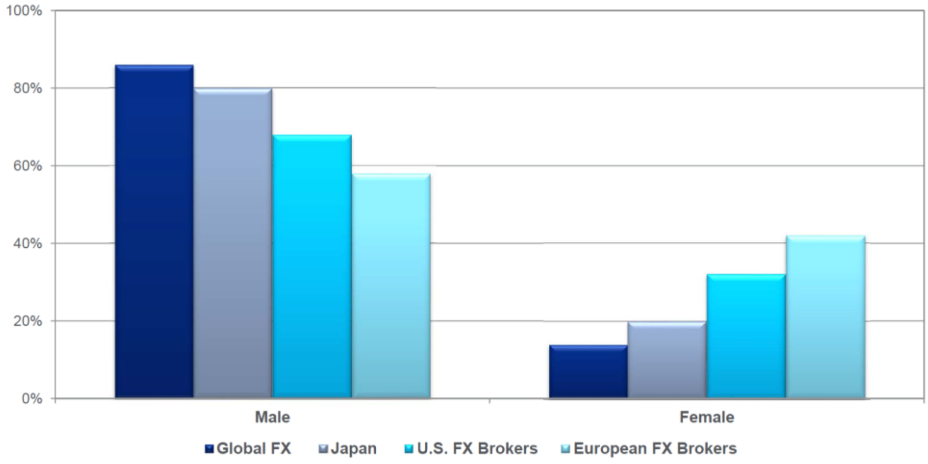
[13] https://newfinancial.org/wp-content/uploads/2016/06/Women_in_UK_finserv_2016_FINAL.pdf
[14] See for instance, p.11 of the 2016 CFA report on gender diversity in investment management at: https://www.cfainstitute.org/en/research/survey-reports/gender-diversity-report

Figure 5: Female representation in portfolio management by region[15]



Source: Morningstar data, Oliver Wyman analysis

Figure 6: Gender breakdown of retail FX traders[16]



My final point is on **culture**. Public authorities and firms right across the financial spectrum have put an enormous amount of effort into culture change in recent years. Painful fines and enforcement actions have led to intense scrutiny of internal conduct. Over 330 firms have signed the UK Women in Finance Charter, committing themselves to supporting the progression of women into senior roles, setting and publishing progress against gender diversity targets, linking senior executive pay to those targets, and appointing a named senior executive to be accountable for gender diversity.[17] And the FX Global Code that I mentioned earlier has introduced clearly defined standards demonstrating which behaviours are no longer acceptable, rebuilding trust in the market and removing obstacles to open, non-biased recruitment. These higher ethical standards will make the sector more accessible and inclusive, improving the number of opportunities, but also strengthening the appeal of working in the FX market.

[15] https://www.oliverwyman.com/our-expertise/insights/2016/jun/women-in-financial-services-2016.html
[16] From 2014 report by CitiFX, available at:
https://www.ecb.europa.eu/paym/groups/pdf/fxcg/2301/Retail_FX.pdf?8b9766f1bbf56797757c4c2cb391f305
[17] https://www.gov.uk/government/publications/women-in-finance-charter

Culture change takes time and sustained commitment from leaders. But these initiatives, coupled with the profound technological and economic changes that I have been discussing, will leave the FX market of 5-10 years' time in a very different place to where it was in the pre-crisis era. There has never been a better time to get involved.

What is the Bank of England doing?

Just as diversity is essential to the continued success of the FX market, it is also fundamental to the delivery of the Bank's public mission: promoting the good of the people of the United Kingdom by maintaining monetary and financial stability. As a public institution, we must aim to reflect the diversity of the public we serve. And the wide range of policy challenges we face in the years ahead means we need those business advantages of diversity just as much as you. Choosing the best talent, wherever it comes from, with the broadest set of problem-solving skills, and the greatest capacity to engage in constructive challenge and creative thinking, helping to avoid groupthink and bias, and hence deliver the best possible public policy decision making.

Promoting diversity and inclusion is therefore a top strategic priority for us, as the Governor recently set out in his remarks to the Women in Banking and Finance Annual Awards.[18] We have signed the Women in Finance Charter and introduced a career returners programme in partnership with Women Returners. We have set stretching diversity targets, aiming for at least a 35% female senior management by 2020, and 50% female representation below senior management. Our BAME targets are to increase representation in senior management to 13% by 2022, and 20% below senior management by 2020. And we have a comprehensive internal inclusion strategy bringing together our initiatives on diversity, wellbeing and community with the goal of building an inclusive culture where colleagues can provide their best work. As part of this, I and my fellow Executive Directors sponsor individual female and BAME staff to support their progression into senior management – something I have personally found particularly rewarding.

As we strengthen diversity internally, we are also doing more to improve the diversity – in its broadest sense – of our external engagement with market participants. A key part of my team's role is to act as the Bank's 'eyes and ears' in the financial markets: gathering the best possible intelligence on market developments to support the decisions of our Monetary and Financial Policy Committees. As those markets evolve, so too we must adapt and change those we engage with to keep our finger on the pulse. Different and broader types of firm, using different technology. Different people within firms, as those who matter for decision making change. And a different and more open style to that engagement, more open to challenge and different perspectives on what makes markets tick. Just as embracing diversity is no longer a choice for success in your business, so it is no longer a choice for us in ours. Unless we ensure we are speaking to a broad, diverse set of market participants who are truly reflective of the diversity in the market, and feeding that input into our policy decisions, we will not be doing our job.

[18] https://www.bankofengland.co.uk/speech/2019/mark-carney-women-in-banking-and-finance-22nd-annual-awards

To deliver on that goal, we are working with a wide range of financial market stakeholders and external networking organisations. Ensuring diversity of market segments and individuals is explicitly considered when identifying members for roles on our external-facing committees, including the London Foreign Exchange Joint Standing Committee. Further expanding our intelligence network to embrace all the benefits diversity can bring to our understanding of financial market developments. And engaging more actively at events like this, where diversity is an explicit theme or topic of discussion.

But I would say this: finding new and insightful contacts across the market is not always easy. So we need your help as we ramp these efforts up over the coming year: to identify people earlier in their careers, and the new generation of up-and-coming leaders of tomorrow, and bring them to our attention so we can ensure their views help support our policymaking for the whole of the country.

Conclusion

The foreign exchange market is one of the biggest, most geographically dispersed, efficient and technologically advanced financial markets in the world. It touches every economy and financial system. And it's changing fast, with new products and players appearing every day, drawing in some of the smartest people, working to develop better ways to meet customers' needs.

The culture and working patterns are changing too – not just because there is a moral imperative to do so, but because it makes hard business sense. Diversity is not an option in FX – it's an imperative. And actually that's what gives me greatest optimism that we will succeed – because if I had to choose one market to epitomise that hard-edged business instinct, it would be foreign exchange, where ultimately good ideas thrive and objective results speak louder than anything else.

So to all of you interested in a career in the FX markets, I say: come and get involved. It's exciting, important and changing fast. The things that might have put you off in the past are being dismantled – and what's left is a vibrant and vitally important market where you can really make a difference, both in shaping the future, and in supporting the vital underlying economic activity that relies on it. We need your talent and your skills to help drive change further. I look forward to meeting many of you later, and to hearing from some of the great role models speaking in the later panels.

Thank you.