CP23/20: Diversity and inclusion in the financial sector – working together to drive change.

CISI Response

The CISI is a charity, operating as a global membership body, under a Royal Charter. We welcome the opportunity to respond to this consultation. We, along with other respected chartered bodies, such as the Chartered Banker Institute and the Chartered Insurance Institute, are a founding member of the Chartered Body Alliance. We are also signatories to the Women in Finance Charter and Race at Work Charter.

Our 50,000-strong membership reflects those in capital markets, operations, risk and compliance, wealth management and financial planning, and we work with more than 50 universities to help prepare students for careers in finance through CISI qualifications and membership. Although we submit this as a single response, our response reflects matters of importance to our members: the tens of thousands of professionals currently working in the sector and the many aspiring to do so in the future.

Professional bodies have a key role in helping to address future skills demands for our sector. Through our collective work as part of the Chartered Body Alliance (Alliance), as well as individually, we support individuals from all backgrounds to navigate the breadth of roles in the financial services sector. At all stages of their careers, we help our members to develop and maintain their professionalism so they can achieve their full potential. We believe professionalism is comprised of knowledge, skills and ethical behaviour. As the Alliance we create opportunities for our members to share diverse views across different specialisms, whilst building on their core knowledge and skills.

To achieve the objective of increasing the talent pool in financial services, and ultimately achieve better outcomes for consumers and markets, a number of actions should be considered. We would ask that employers consider how training and development opportunities and funding, particularly at middle and senior management levels, are made available to more diverse talent across the financial services sector. To achieve this, together with our Alliance partner, the Chartered Banker Institute, and to better reflect the society our professional serves, we think it is essential that a pathway is set out to more firmly encourage socio-economic diversity, which should include a timetable for mandating the reporting of socio-economic diversity metrics.

Q1: To what extent do you agree that our proposals should apply on a solo entity basis?

We agree that the proposals should apply on a solo entity basis to ensure that progress is made at an individual firm level. To do otherwise might limit the quality of data and impede tracking and progress measurement.

Q2: To what extent do you agree with our proposed proportionality framework?

We agree with the separation of large and small firms, and agree that it is appropriate to establish a large firm threshold at 250 employees. Further clarification would be welcomed regarding how to account for part-time staff and employees that work across several entities within a group.

Q4: To what extent do you agree with our definitions of the terms specified?

We agree with the definitions of the terms specified. However, we note that the PRA differentiates between demographic diversity, cognitive diversity and diversity of experience and believe it would be helpful if the FCA offered similar clarity, since the proposals appear to place significantly greater weight on demographic diversity than other types of diversity.

Q5: To what extent do you agree with our proposals to expand the coverage of non-financial misconduct in FIT, COCON and COND?

We agree with the proposals to expand the coverage of non-financial misconduct. As a professional body, CISI requires all members to adhere to a code of conduct, which includes requirements to meet standards of personal accountability and to respect others and their environment. We believe that non-financial misconduct can affect an individual's ability to perform their job, and can impact the profession more broadly, damaging public confidence in the financial systems. As a professional body we consider disciplinary action in the event that members fail to adhere to the code of conduct and commit any acts likely to bring discredit to themselves, the CISI or the broader profession whether in the course of work or their personal life. As such, we welcome the FCA's proposal to expand the coverage of non-financial misconduct and believe this reflects best practice.

We have seen some concern from our members regarding subjectivities around what constitutes 'serious' conduct, and it would be helpful for the FCA to expand the case studies and guidance available to clarify what would be considered 'serious' non-financial misconduct.

Q6: To what extent do you agree with our proposals on data reporting for firms with 250 or fewer employees, excluding Limited Scope SM&CR firms?

We agree that the proposals on data reporting for smaller firms are proportionate and appropriate.

Q7: To what extent do you agree with our proposals on D&I strategies?

We agree that D&I strategies are a key tool to allow organisations to move from ad hoc initiatives to a more rounded approach to D&I. Setting minimum standards within a high-level framework, and allowing a sufficient degree of flexibility between firms, will help to encourage strategies that are fit for purpose without imposing onerous requirement on firms.

Requiring firms to develop an evidence-based strategy will also encourage robust data gathering, helping firms to get an accurate overview of their current diversity.

However, we think further guidance is needed regarding how the FCA may review firms' D&I strategies as part of its supervisory approach. For example, whether this would be considered in response to an identified lack of diversity by the firm, or might also be reviewed if other failings at firms were identified.

Q8: To what extent do you agree with our proposals on targets?

We think that progress on diversity has often required targets to ensure change, and that significant and lasting change takes time. For example, our membership data shows that the more senior members become, the lower the proportion of women there are in this category, reflecting the broader makeup of the financial services sector. It is, however, encouraging to note that the proportion of women who are CISI Chartered Fellows, our highest membership designation, has increased incrementally over the last 10 years.

We agree that targets should be set by the firms themselves in order to prioritise change in the weakest areas, and to allow for differences based on, for example, the geographical area in which they operate.

However, we also consider that focussing purely on demographic targets risks data becoming the main focus, rather than encouraging firms to create a diverse and inclusive workplace. We suggest that, in addition to developing diversity targets, firms should also be encouraged to develop inclusion targets, which will help to support and measure the success of their Diversity *and Inclusion* strategies. Section 5.64 already requires firms to report annually on inclusion measures; as firms will be gathering this data in any case, this could provide a basis to develop inclusion targets alongside their diversity targets.

Q9: To what extent do you agree with the date of first submission and reporting frequency?

The proposed initial first submission date appears arbitrary, and it would seem more appropriate, and administratively more straightforward, to apply a submission date in line with other reports made to the regulators. We agree that requiring reporting on an annual basis is appropriate.

Q10: To what extent do you agree with the list of demographic characteristics we propose to include in our regulatory return?

We agree with the proposed demographic characteristics. However, as per our response to Q4, we believe that the proposals as a whole should give greater weight to cognitive diversity, for which gathering demographic data is a means to an end, and this should be reflected in the guidance given to firms.

Q11: To what extent do you agree that reporting should be mandatory for some demographic characteristics and voluntary for others?

We agree that it is sensible to make reporting mandatory for some characteristics and voluntary for others when the proposals are introduced. Requiring mandatory reporting across all characteristics immediately is likely to prove onerous for firms. Encouraging voluntary reporting for some characteristics will also allow benchmarking and a better understanding of the current situation within firms and across the sector.

However, we think that socio-economic diversity presents one of the greatest challenges to creating a diverse financial services sector that reflects the society is serves, as evidenced by the Bridge Group research cited in the consultation paper. We therefore believe it is important that the introduction of mandatory reporting on socio-economic diversity is prioritised, and a timetable laid out for implementation of this.

Given the importance of measuring socio-economic diversity, we believe more consideration could be given to the question used to gather this data. The proposals identify the occupation of primary household earner during childhood as a key measure of socio-economic diversity, other questions should also be considered to provide a fuller picture, for example the type of school the employee primarily attended between the ages of 11-16.

Q12: Do you think reporting should instead be mandatory for all demographic characteristics?

We think it is sensible to allow firms time to 'bed down' the proposals and start with the characteristics for which the best data is likely to already be available. There is a risk that if firms are required to gather too much data too quickly, this will divert attention from achieving better D&I outcomes and data will become the end goal rather than a means to an end.

We also think that best practice would see mandatory reporting for all demographic characteristics introduced over a phased period of time, and suggest that reporting on socio-economic demographic data should be prioritised given the significant lack of socio-economic diversity in financial services.

Q13: To what extent do you agree with the list of inclusion questions we propose to include in our regulatory return?

We broadly agree with the list of inclusion questions proposed, but suggest that the following question is amended to measure whether individuals feel that they *or others* have been subject to such treatment:
they are subject to treatment (for example actions or remarks) that had made them feel insulted or badly treated because of their personal characteristics.

Q14: To what extent do you agree with our proposals on disclosure?

We would recommend disclosure is strongly encouraged rather than mandated (further detail is given in our answers to Q15 and Q16).

Q15: To what extent do you agree that disclosure should be mandatory for some demographic characteristics and voluntary for others?

We think a model which works towards eventual, phased mandatory disclosure of all demographic characteristics, in a gradual and measured approach, should be the aim. We do not believe that this should be mandatory at the point of introduction, as this would place a high burden on firms and is unlikely to yield high-quality data.

We also think that there are potential risks to mandatory disclosure that the proposals do not adequately address yet, namely:

1. A risk that publishing information leads to identifiability of individuals. We do not think that the proposals in 5.83 to combine responses will sufficiently mitigate this risk. Further guidance is also needed with regards to 5.84, which potentially places a significant burden on firms to make data protection assessments in certain circumstances.
2. There is a risk that mandated disclosure will ultimately discourage firms' employees from disclosing personal information, due to concerns around privacy, making it more difficult for firms to gather accurate information in the first place.
3. There is a risk that mandatory disclosure at an early stage will, as per our answer to Q12, divert firms' attention from achieving better D&I outcomes and instead become a 'box ticking exercise'.

Q16: Do you think disclosure should instead be mandatory for all demographic characteristics?

As in Q15, we consider aiming for eventual mandatory disclosure for all demographic characteristics, phased over time, is a proportionate and fair approach, if the profession is to commit to reflecting the society it serves. However, we believe that further work is needed to address the concerns laid out in our response to Q15 before this is implemented.

Q17: To what extent do you agree that a lack of D&I should be treated as a non-financial risk and addressed accordingly through a firm’s governance structures?

We support the concept that a lack of D&I should be treated as a non-financial risk and addressed through a firm’s governance structures.