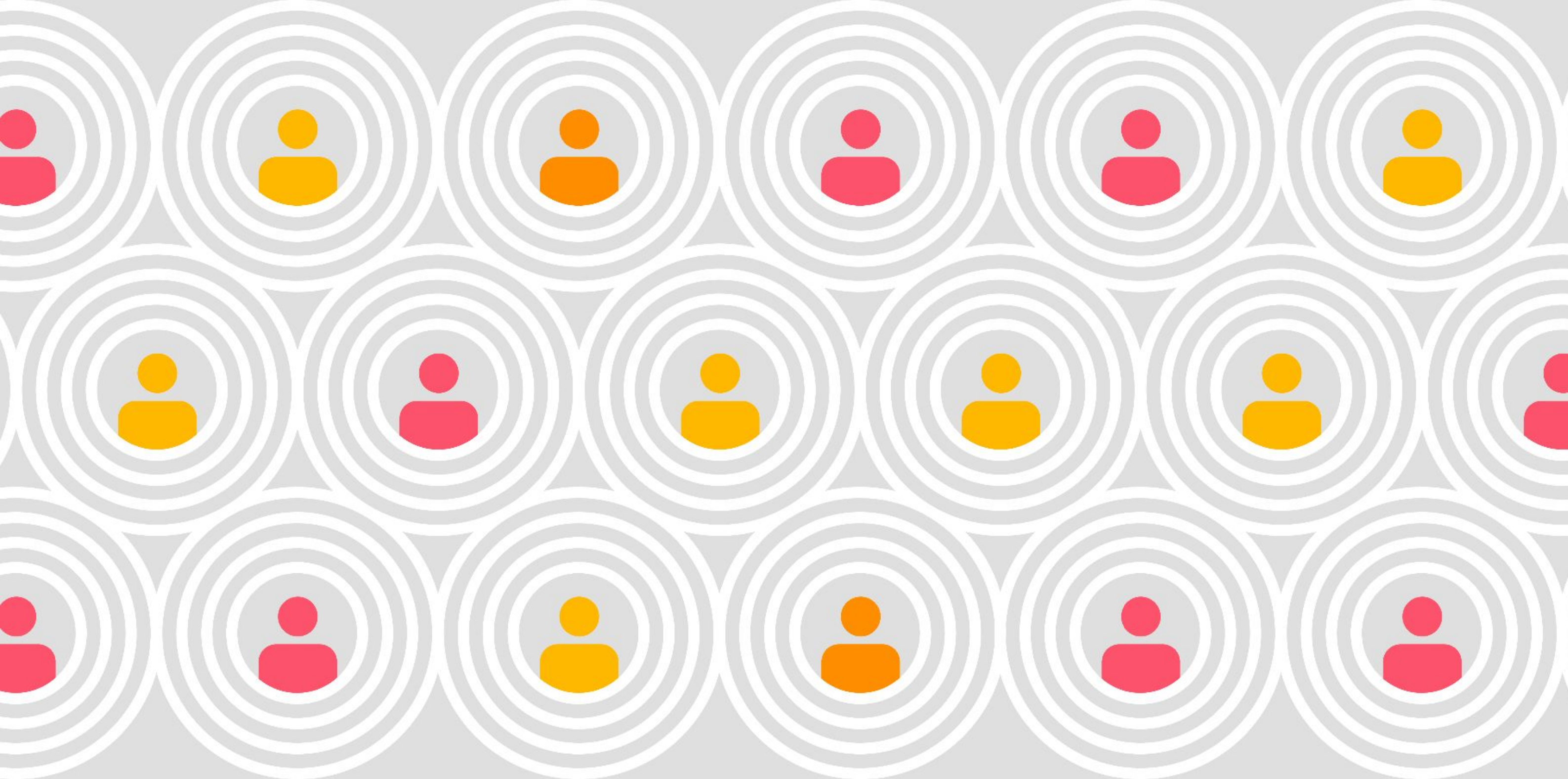
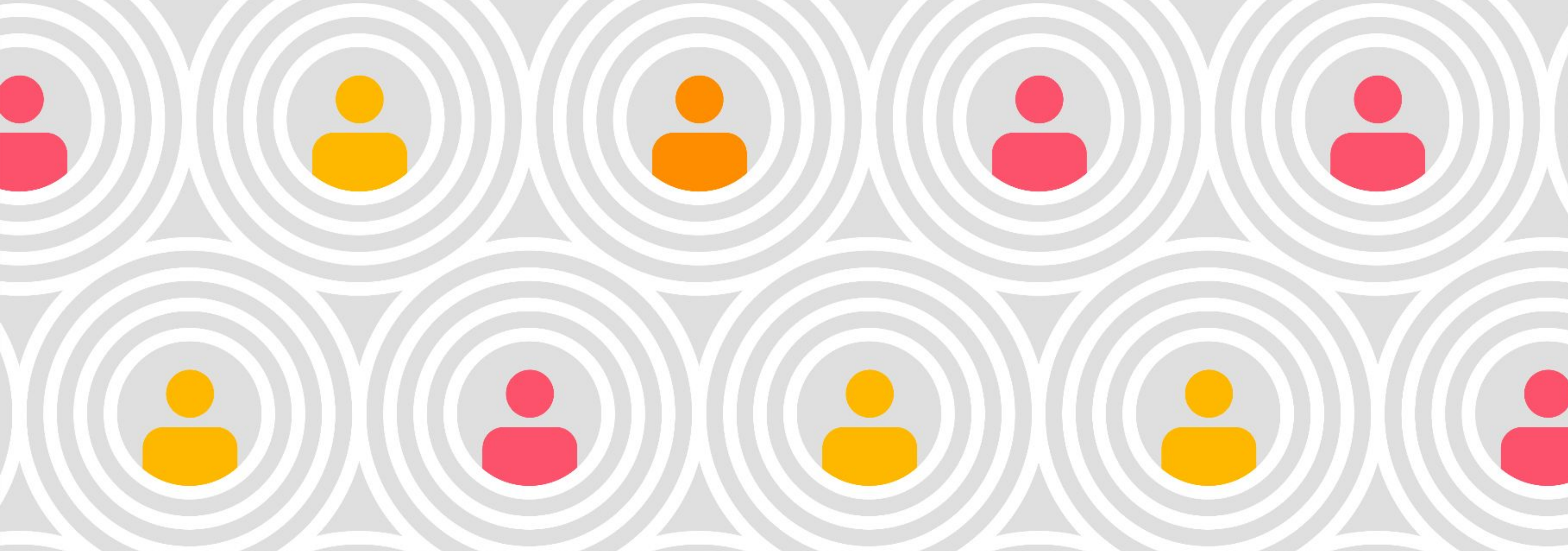


Gender pay gap and diversity in financial services

What's changing?

Updated year 4 Gender pay gap reporting 2020/21

March 2022



Slow progress in financial services

The focus placed on inclusion, diversity and fairness in a business and pay context has been accelerated by the COVID-19 pandemic, Black Lives Matter movement and increasing public scrutiny and awareness of the fairness agenda as part of Environment, Social and Governance ('ESG') . This has increased the need for businesses to address issues regarding pay, leadership representation and workforce culture. A continued focus for the financial services sector on brand and reputation, combined with increased regulatory pressure, means that these pressures are even more acute for many financial services organisations.

In the UK, mandatory gender pay gap reporting acts as an easy to access and high profile measure of diversity for companies with more than 250 employees in the UK. Although it provides only a snapshot of data on a certain aspect of diversity, it is widely seen as a proxy for progress across the inclusion, diversity and fairness agenda.

While there is progress occurring in most industries, the financial services sector has one of the **highest pay gaps of all UK sectors** and progress being made in closing this gap since reporting requirements began has been slow.

26.6%

Median average pay gap for Financial Services in 2020

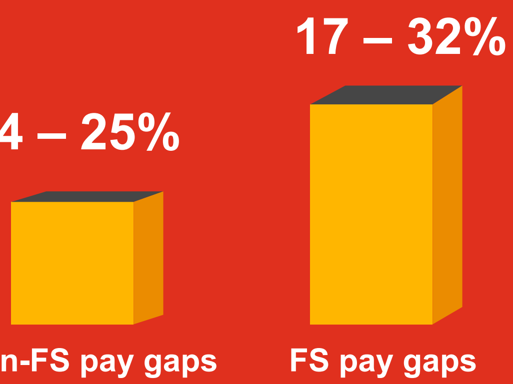
Compared to 12.1% across all other UK sectors

-3%

Movement in Financial Services' pay gap over the last 4 years.

A cross sector problem

Financial services sub sectors hold the 5 largest mean gender pay gaps



The range of mean pay gaps in FS vs non-FS

Key themes and market pressures

A growing focus on ESG

As the environmental, social, and governance (ESG) agenda grows in importance for organisations, there is an increased desire for ESG metrics to be reported on and used to measure progress and performance. **Recent PwC research** showed that 60% of Financial Services companies in the FTSE 100 include an ESG measure in executive pay. Metrics focused on diversity and inclusion and workplace fairness made up around one third of the average total weighting of ESG metrics used in FS.

Heightened regulatory scrutiny

The Financial Conduct Authority (FCA), Prudential Regulation Authority (PRA) and Bank of England (BoE) published a joint discussion paper on D&I in the financial sector on 7 July 2021 (DP21/2).In this paper, the regulators propose the introduction of reporting requirements on D&I data, as well as a range of other policy measures. These include board representation targets, senior accountability, links to remuneration, and the public disclosure of D&I data and policies. In addition, the latest European Banking Authority (EBA) guidelines on remuneration include additional requirements in respect of equal pay. As this regulatory focus continues, we expect to see a greater burden placed on organisations in relation to both transparency and action on diversity.

Increasing remuneration committee involvement

In many organisations, the remit and scrutiny of the Remuneration Committees is also broadening, as committees look at wider questions of fairness in the workforce. This includes diversity, but also reviewing pay structures and policies to ensure overall fairness in the way pay is designed and decisions on pay are made.

Slow progression

Despite these factors and the wider market emphasis on equality and fairness, there are still significant gender pay gaps in financial services, and progress in closing these gaps seem to be happening at a slower pace than other sectors. This indicates the need for further discussion, action and accountability. Luckily this is already underway in financial services, with key bodies and firms leading with action based initiatives and working collaboratively on the issue of diversity, representation and inclusion.

Gender pay gap reporting best practice examples

It's important to remember that ultimately gender pay gap statistics provide a point in time snapshot of progress on one set of measures. Impactful reporting and true transparency goes beyond this and we see the best organisations thinking carefully not just about the reporting figures, but how these numbers are explained and contextualised:

Analytics to inform your narrative

Analysing inclusion and diversity data enables companies to better understand the drivers behind pay gaps, looking at seniority, talent flows and representation across jobs. Data analytics can be used to reveal insights that are not evident from mandatory reporting figures. This can then be used to create a narrative that is rooted in evidence and tells a story specific to your organisation.

Reporting beyond gender

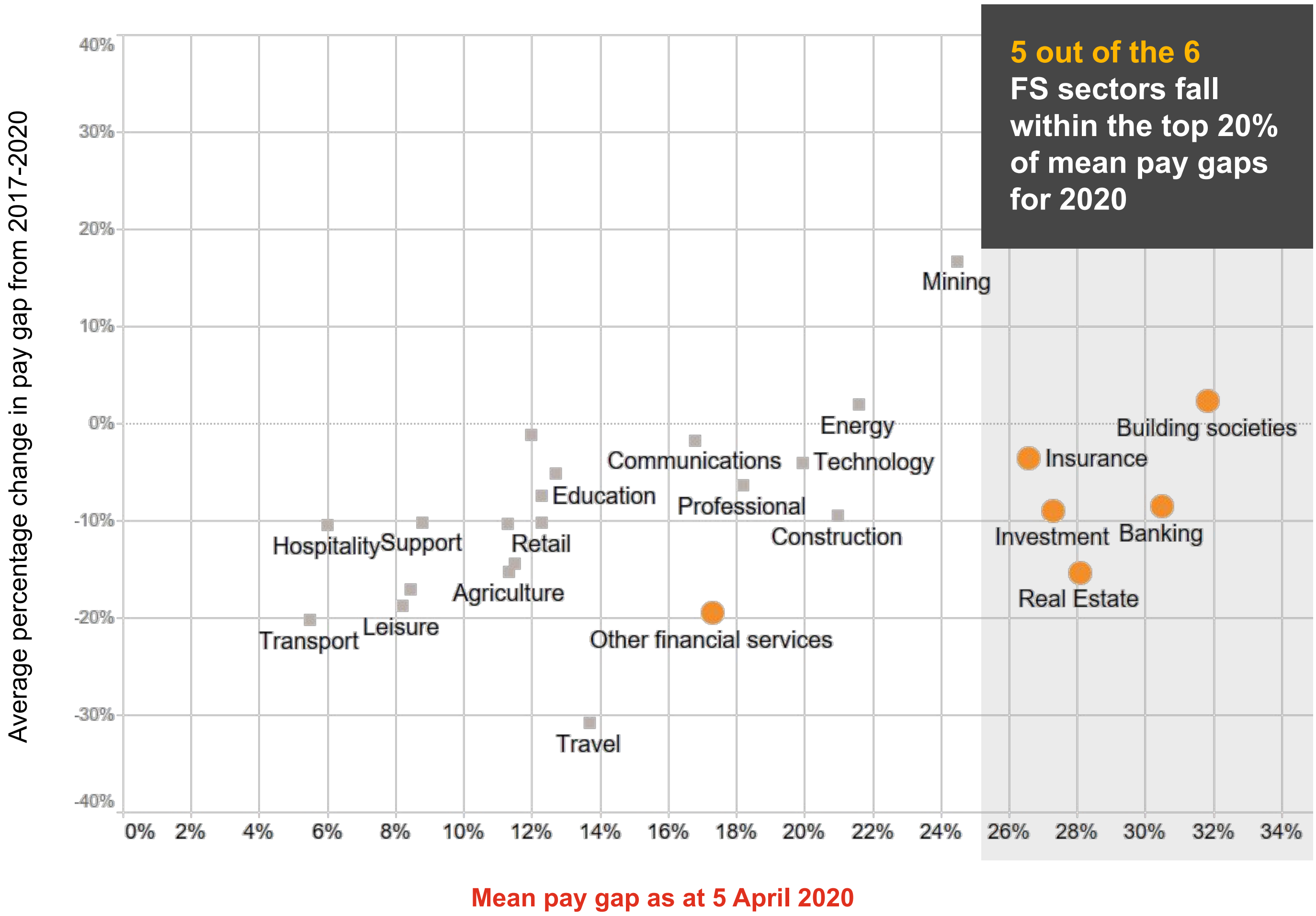
A number of businesses have voluntarily reported on other pay gaps such as ethnicity, disability, and sexuality. As more characteristics of diversity are analysed, a more granular picture of equality and diversity can be understood and used for future planning purposes.

Combined, this makes actions, target setting and decision-making evidence based and forward looking.

Comparison with the wider market

When we look across industries, Financial Services remains the area where we see the highest reported pay gaps. The chart below compares levels of progress made by different sectors in closing their gender pay gap and their current gap.

Financial Service Sectors have some of the highest gender pay gaps in the market



The above scatterplot shows the current mean average gender pay gap by sector; positioned against the relative change in gap from 2017.

What does this mean?

Nearly all sectors have made progress in reducing their gender pay gap figure since reporting began; including Financial Services. However, initial gaps within Financial Services exceed any other sub-sector. Gaps remain high; movement has been relatively slow and there is work to be done.

Progress is slower than many would have anticipated; especially given the large gaps. This poses an opportunity for Financial Services organisations to be more proactive, really understand where the issues are coming from and drive positive change on workforce fairness and building a culture of inclusion.

Financial services – how far has the sector come?

Although some progress has been made, it is minimal. The chart shows the mean pay gap quartiles within Financial Services and the change in position over time.

Gradual decrease in the median to upper quartile

Over the 4 years of mandatory disclosure, organisations with the most significant gaps have made progress in decreasing this high position. This represents a reduction in the upper quartile of 3.1%.

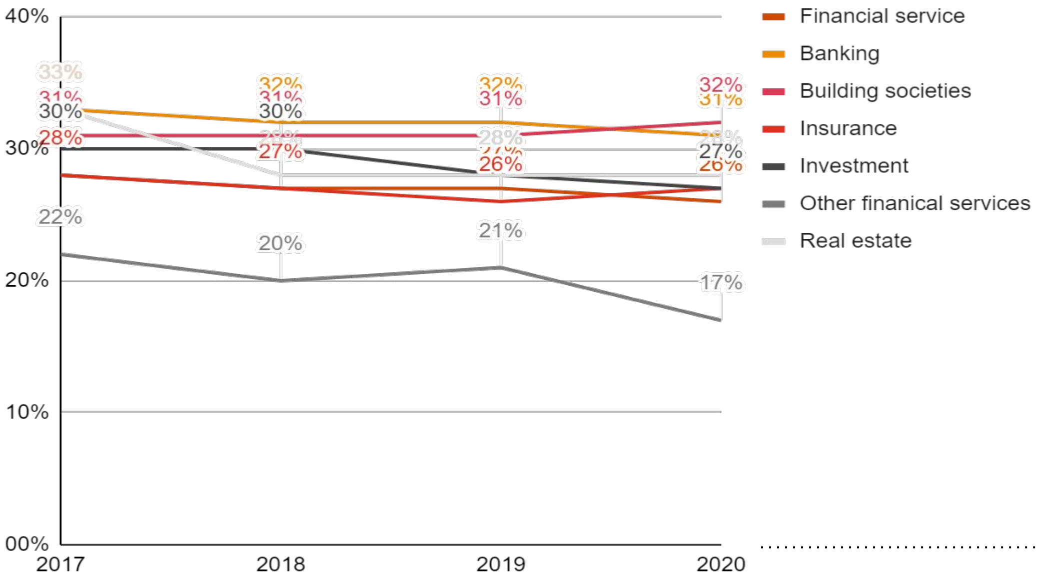
No change in median gap

Whilst those with the highest gaps within Financial Services have succeeded in reducing their gender pay gap, the median of the sector has remained relatively stagnant over the same period. The overall change in median is less than 1%.

***Note that the analysis presented on this page and the next is based on those financial services companies who have reported up to and including 5 October 2021 and have reported in both 2017 and 2020.**

Financial services – analysis by subsector

Broken down, each sub sector of Financial Services also have minimal movement. The graphs and table below detail the current mean gender pay gap change over time for each Financial Services subsector



In the first year of disclosures, banking had the **highest mean gender pay gap at 33.4%** and remains one of the highest in 2020 at 30.5%.

Whilst most sub-sectors have demonstrated some improvement, the mean pay gap at building societies has **increased** from 31.2% to 31.9%.

Comparison with prior year

Based on 2020 reporting, Other financial services has the lowest pay gap of all financial sub-sectors at 17.3%, however it is still over **5% higher than the mean pay gap in the wider market at 12.1%.**

The sub-sector demonstrating the greatest absolute reduction in mean pay gap is **Real estate;** decreasing from 33.2% to 28.1%. However this figure, on an absolute basis, still remains high.

Whilst the time graph reflects the reductions in gaps made by most Financial Services subsectors, the overall movement is still relatively small on an absolute basis when considering the high initial positioning.

Sector	Median reporting figures by sub-sector	
	2019	2020
Financial services	**27%**	**26.2%**
Banking	32.1%	30.5%
Building societies	31.1%	31.9%
Insurance	26.4%	26.6%
Investment	27.5%	27.3%
Other financial services	21.0%	17.3%
Real estate	28.0%	28.1%

What does it mean for your organisation?

Although there has been some progress, change has been slow and Financial Services remains the sector with **the highest gender pay gaps**.

The value placed on inclusion, diversity and fairness by companies, prospective employees, shareholders and wider society **is greater now than ever before**. This trend is increasing the need for change to happen faster and with greater magnitude; progress observed in Financial Services is **too slow**.

Ultimately, while many stakeholders accept that changes in workforce diversity take time, the change seen over the last four years suggests that **actions may not have been sufficient enough** to drive true cultural and workforce change. Organisations need to **demonstrate they are doing more** to address this.

At the same time, **increasing interest in diversity from the regulators, investors and governing bodies** means that scrutiny is increasing, with greater expectations for disclosure and calls for a deeper understanding of drivers behind a lack of diversity.

What can your organisation do?

Use data analytics to identify where action will be most impactful and monitor progress

Successful companies embed data and evidence into their action plans to improve gender diversity. Analytics can help identify the causes of the gap, providing insight for more specific narrative reporting. Critically analytics can also help identify where actions and interventions will truly close the gap.

Communication and transparency

A critical element of managing gender pay is to be transparent in the steps taken to achieve greater fairness and equality which will have a positive effect on the workforce, indicating the organisation's prioritisation of inclusion. This is not just about explaining the actions taken to address the gender pay gap, but framing this within the wider inclusion and diversity and increasingly ESG strategy.

Creating and maintaining an inclusive culture

Successful companies are looking beyond pay as a key indicator, and using other areas of focus to assess inclusion and diversity such as policies. This means a wider and deeper dive into some fundamental areas that can be improved and supplementing this with more qualitative understandings of culture and behaviour to create and sustain a truly inclusive culture that will allow diversity to thrive.

Driving accountability through targets and pay alignment

Companies can use diversity pay gaps alongside representation as a basis for Executive and senior management target setting. Modelling the impact of different scenarios (based on recruitment, progression and retention) can help organisations set achievable but ambitious targets based on input actions within the control of senior leaders.

Looking beyond gender

While current mandatory disclosure focuses on gender, other aspects of diversity are equally as important. Many companies are incorporating data on ethnicity, disability, sexuality among others into their pay gap data and wider diversity data analysis and target setting. This can create a more holistic view of the wider workforce and highlight further areas for improvement to enhance workforce equality and fairness.

Grading and workforce structure

Pay gap reporting can highlight issues within pay and workforce structures as well as inclusion and diversity. Therefore consideration should also be given to workforce dynamics; employee numbers and composition between grades and how this interacts with pay distribution and diversity metrics. When doing this, employers should also consider any equal pay implications and whether employees performing potentially comparable roles are paid differently.

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