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Equality in Employment: Gender, Diversity and Inclusion in the Financial Services Sector

"Responsible Remuneration and Director Diversity for Today's Boards"

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Check against delivery

Introduction

Good afternoon and thank you for inviting me.

We meet today, at an equality event, on International Women's Day, and I have been asked to discuss among other things, executive pay.

So as a white male, who has worked all his life in financial services, and sat on Boards mainly comprised of men, I am not sure whether to feel suitably experienced or perhaps slightly out of my comfort zone…

From the benefit of my 30 plus years' experience in business however, I have seen the difference between effective and ineffective Boards, and the impact they have on a business's performance.

Diversity of membership and open debate are key to better outcomes.

For both businesses and consumers.

The shape of current debate

A recent FT article contained the comment, ‘I would much rather watch MasterChef on television than go out and discuss women on boards, this most worn-out of subjects.’

The danger we face with the direction of travel of current governance debates, is that the message about the need for effective Boards, is getting dragged down into overly detailed arguments.

Arguments which lose sight of the long term value of good governance.

Arguments which look only at quotas of women on boards. Neglecting the need for boards to reflect a mix of minds around the table, be they male, female, people of different ethnic backgrounds, nationalities, experiences or skills.

Or arguments which look only at the size of one person's bonus. Neglecting the need to look at employee remuneration as a whole, against an organisation’s total capital position; and its business strategy and competitive positioning.

It is this sort of blinkered pack mentality that got UK plc into trouble in the first place.

And what is even more worrying about how some of these debates have developed, is that post financial crisis, we are seeing a touch of hysteria added into the discussion on Governance.

The lack of confidence in financial markets and services, among both the public and investors, remains palpable.

However, the ABI, and the insurance industry’s role hasn’t changed.

First, we provide consumers with financial protection should something unexpected happen in their lives.

And second, we invest our client assets in companies, driving growth in the wider economy. And ensuring that money invested now can make a good return over the long term.

At the heart of our investment role, is a very simple question: What makes for an effective Board?

We all know that there are many contributors which make some company boards better than others.

Strategy oversight, effective succession planning, managing and developing talent and risk management all contribute to company success.

And most importantly the effectiveness of the Chairman and her relationship with the CEO.

But today, I'm going to focus on the two most topical issues, given the day on which we meet and the recent company reporting round:

Responsible remuneration and diversity in the boardroom.

Responsible Remuneration

A key part of an effective board's role, especially in the current climate, is their policing of responsible remuneration.

The ABI have regularly published remuneration guidelines since the 1970s and engaged with companies privately on these issues.

But unlike the ABI in previous years, at this remuneration round we have been more vocal and where required, critical.

We have a duty to do this as responsible investors in the UK's biggest companies, owning around 15 per cent of the FTSE.

Our latest set of remuneration guidelines were published last September. These centre on the principles of simplicity, transparency and accountability.

For the first time, they also talked about what was expected of directors – and of responsible shareholders.

From companies:

- We support appropriate reward for exceptional performance;
- We want to see executive pay made simpler;
- we want to see more transparency about how pay packages are structured and earned;

- And greater accountability for the decisions that are taken.

We also want to see that packages are only paid out when the results of a person's contribution to company success has been proven.

We need to get tougher on payment for failure, and we have been encouraged by the use of clawback of bonuses in recent months.

So called 'golden parachutes' undermine the efficient running of a company and its reputation. We do not want to follow the United States down this path.

Since 2001, 20 U.S Chief Executives have left companies with golden parachutes of more than $100million each. A combined total of over $4billion.

The tools that Business Secretary Vince Cable wants to give shareholders should ensure these high levels of reward for failure are not part of the UK scene.

Of course, what pushes remuneration so far up the agenda, is the social policy aspect.

Last night I attended a dinner with Virginia Bottomley, who you have just heard from.

The topic was whether the concept of fairness is central to the remuneration debate?

It prompted a lively discussion, and reminded me of an article I read recently about a study by primatologist Frans de Waal.

He trained monkeys to work, to gather pebbles and give them to experimenters. In return, the monkeys got pieces of cucumber.

Some monkeys were better than others at the pebble gathering, so they got more cucumber. Such is the workplace as we know it too.

Then the scientists started giving out arbitrary bonuses –grapes in this case – to some monkeys but not to others.

At this, the monkeys went on strike.

They started throwing the pebbles - and the cucumber - at the scientists, and the monkey economy stalled.

Now, the monkeys didn't mind the differences in pay. Like us, if the rich deserve their riches, we don't complain.

But it is the unfairness of arbitrary bonuses – grapes – for little or no reason, or when these bonuses don't support the perceived bigger picture, that causes upset. And that sees people camped out on the footsteps of St Paul's Cathedral in protest.

For us, as institutional investors it is an issue of the investment case. And of enabling the insurance industry to meet our obligations as institutional investors, to drive growth in the economy.

Debates around the perceived issue of 'fairness' are for politicians, the media, and to a lesser extent, regulators.

The low growth new normal that we live in sets the agenda, and we need to adapt and evolve with the times we live in.

So quite simply, it could not be business as usual with the current remuneration round, for either investors or companies.

To that end, last December, I wrote to the Board Chairmen and Remuneration Committee Chairmen of the UK’s five biggest listed banks.

In a nutshell, I set out our concerns about how the balance between returns to shareholders, returns to employees, and capital retained to bolster solvency, had got out of kilter.

So our argument was – if you want us to continue to invest in your businesses, continue to support your development and growth – you need to demonstrate that you accept that in an environment where the prospects for return on equity are likely to be challenging, - you will take steps to move the balance of sharing value, to a more equitable and sustainable basis.

Remuneration must be seen as part of the bigger picture of capital management, supporting the growth of the business and paying out dividends to shareholders.

Over the next twelve months, we want to see this highly charged political debate evolve.

Moving on to a discussion about a sustainable approach to reward in companies and how that fits within good corporate governance.

One that is seen by all to be responsible and supported by businesses contribution to value creation in the economy.

We will continue to work closely with the Government.

Supporting the Business Secretary’s work to reform the way companies report and their pay practices.

With investors driving this reform process forward.

However, it is ultimately for boardrooms to create their own responsible remuneration policies, as part and parcel of their overall corporate strategy.

And it is not for the members of the ABI as investors to micromanage how this is done.

But it is the ABI’s responsibility to act as the voice of shareholders when those policies risk the long term viability of the business.

Promoting Long Termism – the Kay Review Interim Report

Just last week, Professor John Kay released his interim review into promoting long termism in the equity markets.

Professor Kay called for investors to resist the tyranny of quarterly earnings.

We agree with this view and the risk of short termism and the data deluge it promotes.

Another positive from the report is the point that fees of investment bankers are the principal cause of concern regarding the costs of financial intermediation.

However there is much to consider in the interim report and we will be discussing the report in detail with our members and engaging fully in the consultation which will unfold.

Director Diversity

My final issue today picks up on Virginia's talk on gender diversity and the role of women.

We view this issue more widely – our focus is on broader diversity in the Boardroom.

Increasing the representation of women on boards is a part of that, certainly. But equally, we want the right mix of minds sat around the table, representing different experience, of different industries, international expertise and skills.

We need diverse views to challenge the familiar. And avoid the dangerous group think that pervaded the City, Governments, Regulators, and analysts in recent years.

Financial Services is not unique in the challenge to get more women into work and up the ladder to our board room tables.

Indeed, this is not an issue limited to the business world, and there are similar difficulties among the judiciary, the police, universities and politics.

While progress is being made, the pace of change is too slow.

In the past year the number of all male boards has halved and the percentage of female board appointments to the FTSE 100 has doubled.

In the FTSE 250, 25% of board appointments, since March 2011, have been women.

But despite overwhelming support for increasing female representation on boards, it is likely the UK's largest companies will struggle to meet Lord Davis recommendation for one in four board positions to be held by women by 2015.

It seems to me there are two parts to this.

Firstly, Executive Director roles. A large part of the problem is supply – which itself is driven by a failure of the talent management and people development processes in companies to accommodate the inevitable differences in career paths for men and women.

But in my experience this has changed over the last decade and I'm sure we will see the benefits in the years to come.

The second part, is Non-Executive –or independent – board roles.

By looking more closely at talent management and getting more women moving up the ranks to senior manager level, we will see a positive knock on effect on the number of women available for independent, board level director roles.

Quotas

On Monday, EU Commissioner Reding announced plans to consult on quotas to increase the proportion of women on corporate boards.

Despite calling for binding targets, 24 of the EU's 27 employment ministers recently opposed the suggestion of gender quotas for company boards.

The Commissioner herself says she is not fanatical about them – but does like the results they bring about.

But while we all want to see a result of more women at the board room table, the outcome must not be merely numerical equality; it must deliver more effective company boards.

We need to be realistic.

Changes like getting more women into senior positions in companies will take time to come to fruition.

There are many examples across corporate Britain of companies moving in the right direction, which will see the current picture shift to a more balanced view between the sexes. I have chosen a couple from the ABI's Board Effectiveness report, published in September last year, alongside our remuneration guidelines.

Supermarket WM Morrison have committed to more than doubling the number of female senior managers, from 13 per cent to 30 per cent by 2014.

Mining company Rio Tinto have a five year programme to increase the representation of both women and those from under-represented nationalities in professional and leadership roles.

By 2015, they want women to represent 40% of their graduate intake and 20% of their senior management.

Astra Zeneca, Man Group, Tesco, Lonmin and BAE Systems are also examples in our report of companies who are seeking to understand the causes of a lack of women in senior positions and setting targets to fix the problem of their under-representation.

So the causes are being addressed. As I said, it will take time to translate action into effect, but I believe we will see the existing momentum build over the years to come.

So should we speed up the solution by introducing mandatory quotas on companies?

The ABI, and indeed the Government are absolutely opposed to set mandates for women on boards.

This challenge remains significant and the problems deep. The proportion of adult women in full-time employment has flatlined over the past two decades. In 2009 there were 53% of the world's women in work – unchanged since 1991.

Lord Davies is also calling for ministers to improve childcare, something he calls a 'serious issue'.

But diversity is not just about gender.

A quota with a bias to a specific gender, race or background is no guarantee to improving Board effectiveness and company performance.

There is no guarantee that women seated around the table will perform better than their male equivalents.

And we are concerned that imposing quotas would lead to tokenism in the boardroom.

Creating two tier boards at the expense of performance, whilst failing to address the issue of how women progress through organisations.

In Norway, for example, though quotas have increased the number of non-executive directors to 40%, they still only make up 2% of Chief Executives, and 10% of executive committee members.

Like all regulation, a quota would have unintended consequences, with knock on effects on other aspects of director diversity.

Writing in last week's Independent, 30% club co-founder and Investment Chief Executive Helena Morrissey, could not have put it better.

"Quotas are not just controversial but they don't work either, if we want better gender balance at all levels and better business outcomes. Business culture needs a revolution to avoid the problems of the recent past. Better balanced boardrooms are one aspect of that revolution."

Conclusion

Roger Carr, in the Telegraph today identifies steps we can take to move diversity forward.

He calls for a building of momentum, action to expand the 'supply side' of talent , effective shareholder engagement and the creation of the right climate in the Boardroom. He identifies the Chair as critical in that.

I agree.

We, the ABI, will continue to exercise our role as the voice of responsible investors.

But companies fail mainly because of poor strategies, weak execution and poor risk management.

It is the Board's responsibility to make sure they are taking the best possible actions to succeed.

Director diversity and responsible remuneration, with succession planning and realistic board evaluation go a long way towards making boards effective on a sustainable basis.

The ABI wants to see businesses thrive, not just survive.

We want UK companies to be on the front foot to deal with whatever the market throws at us next.

Be it Greek defaults, a downgraded credit rating, or perhaps even pebbles, cucumbers and grapes. Thank you.