

# *LCP's response to discussion paper "Diversity and inclusion in the financial sector – working together to drive change"*

**30 September 2021**

*This document sets out LCP's response to Discussion Paper DP21/2 published in July 2021 by the Bank of England, Prudential Regulation Authority, and the Financial Conduct Authority ("the regulators") addressing diversity and inclusion in the financial sector.*

## **Who we are**

Lane Clark & Peacock LLP ("LCP") is a specialist consulting firm with over 787 personnel in the UK, including 150 partners, 214 qualified actuaries and 92 part-qualified actuaries. We have offices in London and Winchester.

The provision of actuarial, investment and pensions administration advice, benefits, and directly related services, is our core business. About 90% of our work is advising trustees and employers on all aspects of their pension arrangements, including investment. The remaining 10% relates to insurance consulting and business analytics.

The firm is authorised and regulated by the Financial Conduct Authority and is licensed by the Institute and Faculty of Actuaries for a range of investment business activities.

Diversity and inclusion (D&I) is a priority for us as a firm, which we see as a collaborative effort across the industries in which we work. D&I forms the core of our internal people principles and is a key element of our business strategy. We have a range of publicly available information on our D&I work available [on our website](#).

## **Our high level comments**

We welcome this discussion paper and support the regulators' stated commitment to taking meaningful action to improve D&I in the financial services industry and meeting the diverse needs of customers. We agree that evidence supports improved outcomes and better decision making amongst groups who embrace D&I.

We propose that the regulators' priority should be to drive meaningful change in a timely manner. We hope that this paper leads to tangible action and welcome the focus on driving change without further time delay or consultations. We recognise that this may mean staggering or staging implementation, which reflects the approach we have taken internally at LCP to drive consistent change that builds over time.

Our other high-level comments on the discussion paper are as follows:

- There are several questions addressing scope and proportionality. Although we agree that this is important, we are keen that this does not result in prioritising some characteristics (eg gender) over others and that all diversity characteristics and firms are within scope. We would also expect the same principles to apply to all firms across the industry, although we appreciate that the implementation and requirements will need to be adjusted based on different circumstances.
- We would welcome more information on how the proposed actions by the regulators set out in the discussion paper form part of wider government strategy and action by other regulators and oversight bodies. We believe efforts should be consistent across all areas and not only addressed within particular sectors or industries in order to enact real change. This could also include considering wider challenges related to talent pipelines and challenges within education.
- Many of the questions have been addressed in previous reports and studies – a number are referenced in in the discussion paper and our response. We have found many valuable insights and practical suggestions in these reports and encourage the regulators to incorporate these findings where possible.

In the pages that follow, we provide our response to a selection of the questions in the discussion paper. We have focused on those questions where we feel we have specific experience to share, or something meaningful to add.

We are happy for LCP to be named as a respondent to the discussion paper and for our response to be in the public domain. We are happy for you to reference our comments in any response as long as you attribute them to LCP.

We look forward to seeing further action from the regulators in due course and trust our comments are helpful. We are happy to engage with the regulators further regarding our comments if that would be helpful.

*Jill Ampleford*  
*Partner*

+44 (0)20 7439 2266  
[jill.ampleford@lcp.uk.com](mailto:jill.ampleford@lcp.uk.com)

*Zoe Burdo*  
*Senior Consultant*

+44 (0)20 7439 2266  
[zoe.burdo@lcp.uk.com](mailto:zoe.burdo@lcp.uk.com)

### About Lane Clark & Peacock LLP

We are a limited liability partnership registered in England and Wales with registered number OC301436. LCP is a registered trademark in the UK (Regd. TM No 2315442) and in the EU (Regd. TM No 002935583). All partners are members of Lane Clark & Peacock LLP. A list of members' names is available for inspection at 95 Wigmore Street, London, W1U 1DQ, the firm's principal place of business and registered office.

Lane Clark & Peacock LLP is authorised and regulated by the Financial Conduct Authority and is licensed by the Institute and Faculty of Actuaries for a range of investment business activities. Locations in London, Winchester, Ireland, and - operating under licence - the Netherlands.

© Lane Clark & Peacock LLP 2021

<https://www.lcp.uk.com/emails-important-information> contains important information about this communication from LCP, including limitations as to its use.

**Question 1: What are your views on the terms we have used, how we have defined them, and whether they are sufficiently broad and useful, now and in the future?**

We welcome that the regulators are aware that language is important (and so ask this question). Our experience is that inclusive language can be a nuanced and complicated area with significant implications on the success or failure of D&I initiatives and policy.

Inclusive language, and how people define and describe their own identities, is constantly evolving. In our experience it is not possible to define terms that are “sufficiently broad...now and in the future”. People will self-identify in different ways over time and broader terms may be acceptable in some circumstances and not in others. An example of this is the term BAME (representing Black, Asian and minority ethnic), which though sometimes useful in academia or for data purposes, has received a lot of criticism in recent years for being too broad and failing to target the needs of different ethnicities.

The definition of diversity that has used in the paper effectively equates diversity to cognitive diversity. Although we agree that demographic diversity should lead to greater cognitive diversity, cognitive diversity is virtually impossible to measure. A focus on cognitive diversity could be used to justify the current status quo where boards and leadership are dominated by those who are male, white, heterosexual, cis-gendered, and able-bodied, on the basis that they may have differences in thoughts or opinion. Instead, we suggest the focus should be on improving demographic diversity (eg protected characteristics and identities) which will help bring different perspectives and therefore greater cognitive diversity as a byproduct.

Furthermore, our understanding of inclusion goes beyond “equal access to equal opportunities and resources” and includes not only access, but influence, promotion, and respect. Genuine inclusion requires more than just a “seat at the table” and will require cultural change across the industry and an acknowledgement from all stakeholders involved of the challenges that currently exist.

More generally, there are several areas that we would expect regulators to explicitly include that have not been raised in the discussion paper, including neurodiversity and intersectionality.

We suggest that the regulators employ a professional firm to review the terms in the discussion paper, if they have not done so already, as well as any subsequent communications or policies.

**Question 2: Are there any terms in the FCA Handbook, PRA Rulebook or Supervisory Statements or other regulatory policies (for any type of firm) that could be made more inclusive?**

As set out above, appropriate and inclusive language is constantly evolving. We have found from our own experience of reviewing internal policies and communications that terms need to be regularly reviewed.

Although we have not reviewed the referenced documents in detail, we would expect inclusive language to be gender-neutral and would encourage the use of the singular “they” as standard throughout the regulators’ publications. We would also suggest that any examples or case studies shared are representative of a range of identities.

**Question 3: Do you agree that collecting and monitoring of diversity and inclusion data will help drive improvements in diversity and inclusion in the sector? What particular benefits or drawbacks do you see?**

We agree that collecting and monitoring data will help drive change and view this as an integral part of any company’s commitment to D&I. As well as objective data, it is also important to collect more subjective data too – for example collecting views of people in an organisation via surveys – and use this together to inform views on an organisation’s approach to D&I.

This conclusion has been referenced in other reviews such as the [McGregor-Smith review](#). Collecting, monitoring and publishing data is one of the key criteria set out in the review and the review states: ‘No company’s commitment to diversity and inclusion can be taken seriously until it collects, scrutinises and is transparent with its workforce data’. Although the McGregor-Smith review focusses on ethnicity, the same principles can be applied more broadly.

We see the benefits of collecting this data are:

- It applies a level of accountability to an organisation;

- It allows the organisation to identify gaps, or understand where they lack representation, and consider what internal issues or barriers may be contributing to that; and
- It allows organisations to have an objective way of monitoring progress and comparing this progress between different organisations.

Requiring and collecting consistent data from all organisations across the financial sector will also extend these benefits at an industry-wide level. It should allow the regulators to collect, analyse and monitor data in aggregate, identifying gaps and representation trends at the sector level, and encourage industry peers to work collaboratively to address these.

Some of the drawbacks and challenges are:

- **Lack of employee engagement** – where data collection is carried out on a voluntary basis it can be hard for organisations to achieve sufficient engagement to collect a meaningful amount of data. To combat this, the McGregor-Smith Report recommends that all employers should consider taking positive action to improve report rates amongst their workforces. This should include clearly explaining how supplying data will assist the organisation in increasing diversity overall. **Having data collection mandated by the regulators would help combat this challenge as organisations could use this requirement to mandate engagement with data collection internally (even if individuals do not choose to share some characteristics under a “prefer not to say” option).**
- **Lack of standardisation** – if each firm collects the data in a different way, or under a different breakdown, then it may be hard to compare it. **A way to handle that is to provide a standard data collection template – for example the [Asset Owner Diversity and Inclusion Questionnaire, developed by the Diversity Project](#).**
- **Challenges with HR systems** - organisations will need to have appropriate systems in place to collect, store and report on data in a UK GDPR compliant way. **We also note that many organisations are already required to record and store information on gender for other uses, such as gender pay gap reporting. Ensuring consistent systems are in place will also set the precedent for wider reporting, such as ethnicity pay gap reporting.**

- **Lack of meaningful data** – smaller organisations may find that any analysis is very sensitive to a relatively small number of individuals and that it is hard to draw meaningful conclusions, particularly if looking at more granular, intersectional data. **Mandated data collection would allow for data to be aggregated. Meaningful conclusions could still be drawn at a sector level, even if individual organisations (eg those under a certain size) are not required to publicly report.**

We believe meaningful progress in this area will be driven by “normalising” the data collection process. As part of this, we note that it is critical for firms to create a culture where everyone feels comfortable disclosing their identities to enable firms to measure their performance in this area.

#### Question 4: Do you have a view on whether we should collect data across the protected characteristics and socio-economic background, or a sub-set?

We support the collection of data across all protected characteristics and socio-economic backgrounds. If this is not done there is a risk of prioritising focus on some characteristics over others. Having more granular data allows for better monitoring on an intersectional basis – for example, looking at representation and progression rates for women of colour. We know from our own experience that focussing on one area may not capture the full picture of diversity in the workforce and fails to pick up on a range of the barriers and challenges faced by different groups.

#### Question 9: What are your views on the best approach to achieve diversity at Board level?

This is something that has been covered quite extensively through the findings and recommendations of the [Parker Review](#). While the Parker review focussed on achieving diversity at Board level through the lens of ethnicity, the same recommendations can also be applied to achieving other forms of diversity.

#### Question 10: What are your views on mandating areas of responsibility for diversity and inclusion at Board level?

On balance, we believe that making diversity and inclusion at Board level the responsibility of a named person or committee is helpful.

However, we note that if the responsibility does not sit at Board level it will be important to ensure that the responsibility resides with a person or committee that can also realistically influence Board diversity to ensure that change can be effected (eg the Nominations Committee).

For LCP, where our structure does not include a Nominations Committee, we have a named person at Board level who co-leads our D&I steering group and the ultimate responsibility for diversity and inclusion at Board level is held by the significant equity holders of the firm.

### **Question 11: What are your views on the options explored regarding Senior Manager accountability for diversity and inclusion?**

Aspects around an organisation's culture are already included as part of the prescribed responsibilities (PRs) within the Senior Manager and Certification Regime (SM&CR), for dual-regulated firms. We believe that D&I is a key and integral part of a firm's culture and agree that an extension to the PRs to include D&I would be a natural evolution.

In addition, we also agree with the principle of including specific actions in Senior Managers' Statements of Responsibilities to ensure that accountability for D&I strategy is coherent and responsibility is not fragmented. It will be important to be clear on the meaning of accountability, and to be clear on how performance can be objectively measured to ensure that the regime encourages the desired behaviours, rather than becoming a tick-box exercise.

At LCP, we have a similar framework in place whereby our CEO and another senior partner sit on our D&I Steering group and have responsibility for ensuring that our D&I objectives are appropriate and that as a firm we make progress against these objectives over time. In addition, our D&I networks have partners who sit on their managing committees and are involved in setting the strategy and objectives of the networks. This is supported by a partner champion campaign, which has seen around half of our partners and principals participating to commit to supporting and promoting D&I throughout the firm.

In addition, as part of our performance appraisal framework, all of our people (including senior management), are required to agree at least one performance objective which is linked to people or D&I initiatives.

### **Question 12: What are your views on linking remuneration to diversity and inclusion metrics as part of non-financial performance assessment? Do you think this could be an effective way of driving progress?**

Part of the remuneration of those with some responsibility for D&I Strategy should be linked to the success of that strategy and that link should be proportionate to the individual's specific D&I responsibilities and ability to drive change.

In principle, linking remuneration to a sophisticated range of metrics could be effective at driving progress. However, it may be hard in practice, to develop sufficiently robust metrics to measure the success by metrics alone – not least due to challenges in the data outlined above - and such analysis may not give the full picture of the progress of an organisation's D&I.

Furthermore, metrics can be blunt instruments that encourage the wrong behaviour and so need to be used with care. For example, an organisation could improve their gender pay gap by hiring a greater proportion of men in junior or lower-paid positions. Although this could improve the metrics in the short term, this runs counter to the intention of improving representation and progression of women over the longer term.

It is therefore important to consider a suite of metrics that, as a whole, serve as a meaningful measurement of progress and is tested before this is linked to remuneration to prevent unintended consequences or short-termist behaviour.

### **Question 13: What are your views about whether all firms should have and publish a diversity and inclusion policy?**

We believe publishing a D&I policy is very important, and in line with the approach that we have taken at LCP. We would welcome regulators making this a requirement for all regulated firms, along with additional guidance around what the policy should include to ensure consistency across the sector.

Maintaining and publishing a D&I policy was one of the recommendations set out in the [Parker Review](#), which recommended that *"a description of the Board's policy on diversity should be set out in the company's annual report."*

In practice, many companies are already publishing their D&I policies. In our own experience, we have found that many prospective employees reference this policy before joining and a solid proportion of our graduate programme applicants reference LCP's D&I work in their applications. Based on our experience, the D&I policy and surrounding communications and information are important for recruitment of employees from diverse backgrounds.

It is important that these policies do not just pay lip service to the idea of D&I but are aligned with clear policies and actions within the workplace.

#### Question 14: Which elements of these types of policy, if any, should be mandatory?

In order for D&I policies to be comparable and meaningful, it would be helpful to have a number of core mandated elements. As a starting point, we would suggest that the following elements are included in all D&I policies as standard:

- Individual(s) and/or named group(s) responsible for diversity and inclusion;
- A description of how diversity and inclusion is defined by the firm;
- A statement of commitment to improving diversity and inclusion;
- Short to medium-term objectives and areas of focus;
- Long-term objectives, where these have been identified and set; and
- Signposting to any metrics that are available (eg gender pay gap report).

#### Questions 15 and 16: What are your views about the effectiveness and practicability of targets for employees who are not members of the Board? What are your views on regulatory requirements or expectations on targets for the senior management population and other employees? Should these targets focus on a minimum set of diversity characteristics?

It is important that there is D&I amongst senior non-Board individuals (and indeed all levels of an organisation) to ultimately support D&I at Board level. It is therefore important to have D&I data covering all levels in an organisation and have expectations about how the D&I profile should develop into the future.

We are aware of evidence showing targets have been used effectively by some organisations to drive change and indeed can be an effective way of driving change more quickly<sup>1</sup>. Within LCP we have not to date implemented any formal targets, however this is something that we regularly keep under review.

We have identified potential issues and practical challenges to implementing targets at a firm level in a standalone way, which may prevent them from working successfully. **We would welcome further thinking from the regulators on how targets may be implemented in a coordinated way across the sector, addressing the challenges we have identified to date.**

The challenges we would welcome further guidance and thinking on overcoming are:

- **Having the data available with which to measure against** - there are a number of diversity characteristics that are less visible than (say) sex, such as sexual orientation, neurodiversity, religion, socio-economic background, and which therefore need to be explicitly provided by employees. Whilst we are seeing more and more firms attempt to collect such data, there is still

---

<sup>1</sup> For example see McKinsey's [Diversity Wins: How inclusion matters](#) report which highlights strong improvement in gender and ethnicity representation amongst "Fast Mover" companies who have made "systematic moves including developing a bespoke business case with ambitious I&D targets"

some way to go before we see full employee engagement and disclosure across the industry.

- **Challenges faced by all but the largest employers** where it may be hard to have full representation of diversity characteristics and numbers are too low for statistics to be meaningful, or there are not enough people in senior management roles to practically achieve diversity across a number of characteristics simultaneously.
- **The risk of a “tokenistic” culture** ie employees feeling like they have not been hired or promoted based on their skills and ability, but rather to tick a “diversity” box for the firm – which ultimately demotivates the workforce and reduces business performance. Or those who have not been hired or promoted, believing a more “diverse” candidate has been prioritised over them.

We prefer not to prioritise some diversity characteristics above others (by having a minimum set of diversity characteristics being considered), however by not limiting it does exacerbate some of the challenges to targets set out above.

#### Question 17: What kinds of training do you think would be effective in promoting diverse workforces and inclusive cultures?

Two of the recommendations in the McGregor-Smith review are:

- **Ensure that unconscious bias training is undertaken** and
- **Tailor unconscious bias training to reflect roles.** For example, where individuals are directly involved in the recruitment process or have a leadership role in the organisation, more targeted training should be delivered to ensure that they are fully aware of how bias may affect their decision making and how to counter it.

We have found with various D&I and behavioural bias training we have implemented at LCP that this has been most effective where people receive training that is directly relevant to the work they do.

In extending our learnings to the population in scope for the regulators we would anticipate that, for example, an asset manager should understand how bias can affect their portfolio management and investment-decision making. Chairs should understand how groupthink and other group-related biases can affect the

effectiveness of a group’s decision making. This way, the training will be more directly relevant, and as a result is likely to be more engaging for the people receiving it.

#### Questions 20-24: What are your views on whether information disclosures are likely to deliver impact without imposing unnecessary burdens? Which information disclosures would deliver the biggest impact? How should our approach for information disclosure be adapted so that we can place a proportionate burden on firms? What should we expect firms to disclose and what should we disclose ourselves from the data that we collect? What are your views on how we should achieve effective auditing of diversity and inclusion? How can internal audit best assist firms to measure and monitor diversity and inclusion?

As noted above, we suggest that organisations disclose their D&I policies including the initiatives they have put in place to achieve them and the progress they are making.

Should disclosures be mandated, we hope it would be based on the sort of information that organisations would be looking to collect in any case to inform their own D&I policies and so not be unduly onerous. Data collection and ensuring sufficient data to be able to analyse and make useful judgements on is critical – disclosure requirements without meaningful data and robust collection processes could introduce a number of risks or unintended consequences.

As a first step, we welcome a focus on data collection and encouraging collection as discussed in Question 3 above. As part of this, we would welcome further guidance and communications on why the regulators consider greater information disclosure will lead to better outcomes for organisations and their customers in order to ensure greater engagement and robust data collection.

Once the data is available, it would be helpful if any mandatory disclosures were in a standardised format and there are at least a minimum number of standardised metrics so that comparisons between organisations are transparent.

Metrics being reported need to be meaningful to an individual organisation and helpful in driving the right kind of behaviours and change. Fundamentally, a flawed metric does little to deliver impact but can be very burdensome. Therefore we anticipate that whilst standardised reporting is helpful for comparisons it may not in isolation be what drives real change. Appropriate metrics are likely to differ between organisations.

As a starting point, we welcome action that encourages meaningful change and are open to the approach that additional metrics specific to an organisation's D&I policies, which they set themselves and are relevant to the improvements they want to see, are most appropriate for disclosure.

Third party D&I specialists could independently audit the data of firms (based on guidelines from the regulator on what poor / good practice looks like) and make recommendations for areas of improvement. Third party audit could also determine whether the right things are being measured and disclosed where firm-specific metrics are being disclosed.

Given the overall burden of data management and reporting, as well as the resources necessary to do it properly, we would anticipate that disclosure needs to be proportionate to the benefits that are going to be gained from it in order to encourage transparent and meaningful engagement. This is particularly relevant for smaller firms, when issues around granularity make it difficult to be transparent on anything other than top line data - which often doesn't give the full picture.

**Question 25: Do you agree that non-financial misconduct should be embedded into fitness and propriety assessments to support an inclusive culture across the sector?**

Yes, we agree that it is important that fitness and proprietary assessments must include non-financial misconduct – and in particular actions that undermine inclusivity should be called out and taken into account when considering the appropriateness of appointing Senior Managers.