

Innovate Finance and InChorus response to PRA, Bank of England and FCA DP2/21 – Diversity and inclusion in the financial sector – working together to drive change

Introduction

Innovate Finance is the independent industry body that represents and advances the global FinTech community in the UK. Innovate Finance's mission is to accelerate the UK's leading role in the financial services sector by directly supporting the next generation of technology-led innovators. Innovate Finance has over 260 members, spanning seed-stage startups, fast growing scaleups, established "unicorns", incumbent financial institutions and FinTech investors.

InChorus is a technology company designed to gather foundational data on inclusion, across industries and within organisations. InChorus' focus is on capturing the lived experience of all demographic groups, including all the protected characteristics including socio-economic factors. InChorus' methodology is grounded in the long studied field of micro-aggressions and micro-affirmations. InChorus gathers key behavioural trends and insights and are able to splice them by key demographics to see what is truly happening within any cultural group. InChorus is then able to measure the effect on those behaviours and experiences by any interventions put in place, e.g training or new policy. InChorus has worked with Innovate Finance, Level39, Fintech Alliance, Anthemis, and the FCA to launch and run Fintech For All - a charter to improve inclusion across the FinTech sector, that has circa 100 signatories - including small FinTechs right through to the likes of Checkout.com, PensionBee, PwC and Deloitte.

Innovate Finance and InChorus have been working as partners over the past two years on a number of diversity and inclusion (D&I) initiatives and have therefore collected insight and experiences throughout the FinTech ecosystem. As both organisations are small and have limited resources, Innovate Finance and InChorus felt it made sense to work together to respond to some elements of this consultation.

There remains much work to be done in all areas of diversity and inclusion in the FinTech industry. As some of these smaller organisations are experiencing rapid growth, it is vital that they are equipped with the right tools to implement even simple D&I policies and data collection/analytics mechanisms.

Despite work carried out by Innovate Finance and other organisations, women and people from ethnic minority backgrounds are still under-represented at senior management levels or indeed throughout organisational structures, and these groups receive significantly less funding than applications from those submitted by all white males.

It is well accepted that diverse workforces and therefore diverse thought are crucial to create innovative, new products and services that work within modern society. Thus, encouraging

entrepreneurs from diverse backgrounds can address the issues that surround gender, cultural/socio-economic and ethnic divisions in the provision of financial services.

Finally, Innovate Finance and InChorus think that the focus of most diversity and inclusion efforts have only focused on diversity, and that the inclusion side of things is not given appropriate thought, bandwidth, and budget. Both organisations believe that to improve diversity, inclusion must be understood, measured and addressed within the FinTech sector. This was the foundational reason behind the inception of the Fintech for All Charter: to measure inclusion, and then measure the impact of any initiatives rolled out to create greater inclusion, and thus working in a data-led and evidence based manner. This is an approach which Innovate Finance and InChorus believe the wider financial services industry ought to adopt too.

Q1.

Not responding.

Q2.

Not responding.

Q3. 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?

Collecting data, but more importantly, analysing the data to inform recommendations to improve D&I in the sector are both vital. FinTech by its very nature uses technology and powerful analytics tools to create new financial products and services, so it makes sense to leverage this with regard to data collection, monitoring and analytics for D&I.

Innovate Finance and InChorus are aware that some larger FinTech companies are already collecting D&I data for their workforce, however many of the smaller firms are not. Innovate Finance and InChorus are conscious that there is a lack of data in general within the FinTech sector, mainly due to it being such a new industry compared to traditional financial services. Innovate Finance and InChorus are keen to support any initiatives that look to improve this as measurement and monitoring will aid the industry to improve on the general track record of financial services.

Some Innovate Finance member companies were concerned about the issue of data privacy around collection.

As mentioned, Innovate Finance and InChorus have been working alongside other partners to establish a FinTech for All Charter, for the moment anonymously monitoring workplace culture (micro-aggression/bullying) linked to all the protected characteristics, to form a view on a sector-wide basis. This could be widened out to include D&I tracking, alongside monitoring of D&I initiatives in the FinTech industry, and indeed to include all financial services. One of the many benefits would be the ability to create benchmarks and baselines for companies to measure against.

Innovate Finance is also a signatory and supporter of the Women in Finance Charter and the Charter for Black Talent in Finance and the Professions. With regard to the Women in Finance Charter, some improvement has been seen, albeit at a very slow pace.

However, monitoring and reporting alone will not move the dial. Innovate Finance and InChorus feel strongly that the approach to D&I needs to be multi-pronged, with combined effort and collaboration between industry, trade associations, government and academia.

With regard to bullet 4.8 in the consultation paper: *“One of our potential expectations would be for firms to develop metrics that enable monitoring of their diversity and inclusion initiatives”:*

Innovate Finance and InChorus fear that this would be too much to expect of young and fast-growing firms and that it would be more beneficial to create a simple template or basic reporting/monitoring packs that they could draw upon, rather than create their own.

Innovate Finance and InChorus feel that a big drawback of allowing firms to develop their own metrics is that this will potentially result in many different mechanisms and responses, thus making it much harder to provide a clear, global picture of the situation.

On bullet 4.10 in the consultation paper, proposing a pilot data survey: While Innovate Finance and InChorus welcome this idea, both organisations are not confident that the smaller-to-medium sized businesses (and even some of the larger ones) would a) have the data at hand to contribute, and b) have the necessary mechanisms in place to collect and report the data to you.

Innovate Finance and InChorus would advise running a campaign ahead of the survey in order to create awareness of its aims and objectives and to give firms time to prepare for it.

Q4. Do you have a view on whether we should collect data across the protected characteristics and socio-economic background, or a sub-set?

As mentioned in the response to Question 3 above, Innovate Finance is aware that some of its member companies are collecting differing levels of data. Those who are collecting the data do this generally at point of entry to the business, but it is more complicated to ask existing employees to share this data – especially when it is not a mandatory requirement. It will need a concerted effort by internal communications teams to encourage their workforce to participate, and this assumes they already have the mechanisms/technology/know-how in place to collect/analyse responses.

Innovate Finance would be especially keen to see data collected on socio-economic background as the organisation is involved in the independent taskforce on socio-economic diversity, commissioned by the Treasury and Department of Business, Energy and Industrial Strategy and run by City of London Corporation.

However, Innovate Finance and InChorus recognises that this is a particularly difficult area to ask people to respond to, as well as decide upon the type of question to ask to establish socio-economic background, notably when a person has not grown up in the UK.

As part of the InChorus and Fintech for All work, many of the 100 signatories are being onboarded on to InChorus technology to use an anonymised reporting platform, built as a slackbot (so delivered right into existing workstreams), where individuals feel safe sharing any protected characteristics including socio-economics, if pertinent. These data points are shared when relaying an incident, a microaggression, which by definition requires declaring a protected characteristic. It may be that joined-up channels like this are the key to better, more usable data sets moving forwards. Fintech for All would be open to discussing sharing the datasets with the FCA, within reason, to help improve monitoring across the sector more widely.

Q5. What data could the regulators monitor to understand whether increased diversity and inclusion is supporting better decision making within firms and the development of products and services that better meet customers' needs?

Trying to measure this connection could be a 'wild goose chase'. What might be a better way to address this is to ensure that all demographics feel a sense of belonging in the industry, and safety in speaking up. If all the diverse voices in the sector feel they belong and feel comfortable contributing their point of view, in effect their voice is being captured, which, in turn, informs and improves decision making and product design and marketing. In other words, if you focus on measuring and improving inclusion, then you will get those desired outcomes.

Q6. What are your views on our suggestions to approach scope and proportionality?

Innovate Finance and InChorus are supportive of an approach that would allow reporting/monitoring of smaller firms and agree that using familiar thresholds will be helpful. Company size would probably be the preferred route.

Q7. What factors should regulators take into account when assessing how to develop a proportionate approach?

Regulators need to take into account the fact that financial services are already becoming embedded into other sectors and industries that do not necessarily fall under their regulatory

scope. As embedded finance is growing rapidly and likely to do so even more as Open Finance develops, Innovate Finance and InChorus do not see this phenomenon going away.

Consideration must be given to the additional burden that data collection/monitoring and analysing can put on small, fast-growing firms, which encompasses the great majority of Innovate Finance member companies.

Many FinTech firms are diverse by their very nature from the outset, but they may be on very different growth trajectories. When they start to scale and grow rapidly, for example moving from under 100 employees to 400+, they can regress in terms of diversity as they don't have formal programmes in place to monitor this and the senior-level talent pool becomes a lot smaller.

One of Innovate Finance's larger member companies (one which has made a conscious effort to establish a formal diversity programme) has seen great progress as they have grown subsequently.

Innovate Finance and InChorus would therefore like to see the regulators work closer with trade associations and other convening organisations to encourage smaller firms to start thinking about their D&I responsibilities from the earliest stage, so it is already established when competing priorities kick in during periods of high growth.

Innovate Finance and InChorus believe it would be beneficial for the regulator to provide guidance on what are the must-haves/should-haves for D&I, and for the regulator to consider working with existing initiatives that might provide simplified starter-kits, tool kits, and the like, for smaller firms.

On bullet 5.8 in the consultation document, concerning small firms & sole traders: While Innovate Finance and InChorus understand that it is unrealistic to expect sole traders and firms with only a few employees to provide detailed D&I information and to comply with expectations with regard to their products and services, Innovate Finance and InChorus feel that in order to do the latter, they need to at the very least have undertaken some form of awareness training.

Q8.

Not responding.

Q9. What are your views on the best approach to achieve diversity at Board level? Successfully achieving diversity throughout an organisation means undertaking a concerted effort that is led from the very top and trickles down through the executive. All should be accountable.

Firms should ensure their board members have received adequate training in this area. Regular audits should be taken on board composition and D&I should be systematically applied when assessing skills gaps at board level.

With regard to FinTech companies, Innovate Finance and InChorus believe investors should also have some form of responsibility when it comes to D&I. Investors are, more often than not, the initial board members of fast-growing firms and can play an important role with regards to educating their portfolio companies in this area. This could be linked to further funding rounds, so that the investors will only consider making follow-on investments in companies that it believes have made progress in relation to diversity and inclusion.¹

Asset managers, private equity and venture capital all have a role to play in ensuring that their investment capital flows into organisations that are optimising their investments by considering the people and culture aspects of their business plans. This could be as simple as ensuring the right policies, processes and tools are used. Innovate Finance and InChorus believe that it is best not to penalise the 'bad' D&I results, but reward the measurement and encourage the publishing of those results. The market can then decide whether those companies scoring badly on D&I measures are worth the investment.

For larger firms who make use of recruitment agencies, it is essential that they choose agencies who uphold their own D&I values and insist on diverse shortlists. Similarly, board talent panels should be equally diverse.

Q10. What are your views on mandating areas of responsibility for diversity and inclusion at Board level?

While Boards have ultimate responsibility, Innovate Finance and InChorus are keen to ensure that areas such as D&I are incorporated not only at a board level, but throughout an organisation – incorporating communication with its employees, shareholders and customers.

Some of Innovate Finance's member companies would like to see FCA take firmer action on poor behaviours / conduct in relation to poor performance in D&I, particularly as it has the ability to change the culture of an organisation.

¹ See example of Swedish investor Kinnevik's Diversity & Inclusion framework; UK organisation Diversity VC have also set up a new 'Standard' for VC companies.

However, thought needs to be given with regards to accountability. For example, it needs to be asked how organisations evidence and demonstrate that they have taken effective action to promote D&I. Too often D&I standards are seen as being optional. Innovate Finance and InChorus believe that organisations will value from a firmer clarity of expectation.

Q11.

Not responding.

Q12.

Not responding.

Q13. What are your views about whether all firms should have and publish a diversity and inclusion policy?

Innovate Finance and InChorus believe very strongly that every firm, whatever its size, should have a D&I policy. It should be public, accountable and a priority otherwise it is too easy for this to become a 'box-ticking' exercise. Please also see comments above with regard to investors.

Q14.

Not responding.

Q15.

Not responding.

Q16.

Not responding.

Q17. What kinds of training do you think would be effective in promoting diverse workforces and inclusive cultures?

Progressive firms believe that the days of one-training-fits-all are dead. Training ought to be grounded in the industry context, and even more critically, tailored to the outcomes from inclusion data. If data is captured on which behaviours are present or lacking, which demographics are being affected or are the perpetrators and which departments, teams or industry sub-sector is problematic then tailored training can be created based on what is actually happening on the ground.

Training should also be less about box-ticking and more about effectiveness. Research shows that shorter, more frequent training is more impactful versus longer, out-of-context and non-tailored training.

In summary, the right inclusion data is the key to better more effective training. Innovate Finance and InChorus have found this particularly the case amongst the more engaged companies within Fintech for All, and this is the kind of environment they are working towards within their organisations. The power of being data-led is not lost on FinTech companies.

Q18.

Not responding.

Q19.

Not responding.

Q20.

Not responding.

Q21.

Not responding.

Q22.

Not responding.

Q23.

Not responding.

Q24.

Not responding.

Q25. Do you agree that non-financial misconduct should be embedded into fitness and propriety assessments to support an inclusive culture across the sector?

Yes, emphatically, for organisations of the right size. Again, Innovate Finance and InChorus stress that this does not need to be cumbersome. Data capture and audits are ominous words but if there was a centralized way for employees to anonymously speak-up about their experiences (with the right tools, such as those used by Fintech for All) it is possible to capture problematic behaviours before they become more serious incidents.

Q26.

Not responding.

Q27.

Not responding.

Q28.

Not responding.

Q29.

Not responding.

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