

Bank of England Diversity and Inclusion in the Financial Sector Discussion Paper

LINK's response to the Bank of England's Diversity and Inclusion in the Financial Sector Discussion Paper published in July 2021

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Introduction

1. The Bank of England published its Diversity and Inclusion in the Financial Sector Discussion Paper - DP21/2, in July 2021 to all financial firms and parties with an interest in this issue, welcoming feedback by 30th September 2021.
2. The PRA and FCA intend to consult on more detailed proposals in early 2022. Given the different legal and supervisory frameworks for FMIs, the Bank will separately consider how to develop proposals to promote diversity and inclusion for FMIs (i.e. not on the same timescale as the PRA and FCA).

About LINK

3. As a Financial Market Infrastructure (FMI), LINK is responsible for the operation of the UK's largest cash machine network. Effectively, every cash machine in the UK is connected to LINK, and LINK is the only way banks and building societies can offer their customers access to cash across the whole of the UK. All of the UK's main debit and ATM card issuers are LINK Members.
4. The LINK Network is a fundamental part of the UK's payments infrastructure and cash machines are by far the most popular channel for cash withdrawal in the UK, used by millions of consumers every week.

LINK's Response to the DP21/2 Questions

5. LINK welcomes the focus that this DP brings to increasing diversity. This is an important objective for LINK, and it looks forward to engaging further with regulators on the matter. Detailed answers to the various questions are given below. Key to success will be the commitment shown by Boards to increasing diversity and inclusion. Also important will be allowing Boards to decide on what approaches are suitable for their own organisations, given their individual circumstances. LINK welcomes the support of regulators in doing that, believes that transparency is an

important principle for firms to follow, and generally does not favour externally mandated targets and processes.

Chapter 1: Overview, including context and desired outcomes

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?

1. LINK is in general agreement with the terms outlined in the DP and supports the focus on "diversity of thought" and actions for fostering inclusion.

Chapter 2: The role of the regulator

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?

2. LINK is not in a position to identify such terms but welcomes the intent of the question.

Chapter 3: Existing requirements and expectations

No questions are asked.

Chapter 4: Measuring progress

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?

3. LINK is in general agreement that the use of data could be useful for firms to baseline their current diversity and inclusion, better enabling them to assess and define long term development and succession planning. However, the assessment of any data collected should consider the demographic of the locality of the firm and data collection should not be the only tool to drive improvements. Diversity and inclusion should be embedded within the firm's culture and care, and proportionality should be exercised in the mandating of targets which could drive unintended consequences. For example, within small firms, just one or two individuals can generate a large percentage swing and inappropriate recruitment to roles in specialist sectors or business models to meet targets may introduce new or increased risk into businesses and potentially affect the long term resilience of a firm.

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?

4. LINK supports a view that data should be collected across all protected characteristics e.g., age, gender, sexual orientation etc., as well as socio-economic background, but that the data must be voluntarily provided as collection can only be successful within a culture of inclusion and consent.

Question 5: 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?

5. LINK considers that an approach that recognises, in particular, the different sizes of FMIs will be required. For example, LINK currently measures diversity and inclusion in areas such as staff engagement activity, Consumer Council outputs and Financial Inclusion Programme products. Data captured via cultural surveys is beneficial to understand the scope of, and to encourage, diversity of thought which can foster innovation of products.

Chapter 5: Driving and supporting change

Question 6: What are your views on our suggestions to approach scope and proportionality?

6. LINK considers that an approach that recognises, in particular, the different sizes of FMIs within the sector will be required and the scope should include all employees. Each FMI will be different in relation to size and scale, the uniqueness of its business model, etc. For example, LINK's Financial Inclusion Programme and products are unique to LINK and reflect diversity and inclusion in both geography and consumer groups.

Question 7: What factors should regulators take into account when assessing how to develop a proportionate approach?

7. LINK considers that an approach that recognises, in particular, the different sizes, as well as the range and diversity of operating models, of firms within the sector will be required. Each FMI will be different in relation to size and scale, the uniqueness of its business model, geographic location, and size in the FMI sector. Consideration should be given to firms' specific frameworks in place to support D&I, as well as the supervisory engagement and efficacy of Board and Senior Management in place. It will be important to allow Boards to decide what approaches are suitable for their own organisations, given their individual circumstances. LINK welcomes the support of regulators in doing that, believes that transparency is an important principle for firms to follow, and generally does not favour externally mandated targets and processes.

Question 8: Are there specific considerations that regulators should take into account for specific categories of firms?

8. In addition to LINK's answer to question 7 above, other considerations include the Treasury Consultation on SM&CR application which will support internal culture and fairness. Consideration should be given to commissioning support from specialist firms, such as the large professional services firms, which have the scale to introduce larger and specific interventions such as BAME accountancy internships, Women's Leadership Programmes, etc.

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

9. LINK places great importance on the Board and Senior Management's "tone from the top", being seen to "walk the talk" in their decisions, actions and communications, in demonstrating inclusion and encouraging diversity of thought. Achieving this requires a robust recruitment process, ensuring a wide sweep of the talent pool to identify diverse shortlists of candidates, including candidates who may not yet be fully Board ready, and selection processes that limit unconscious bias and assess unintended consequences of positive discrimination. Boards must be responsible for developing and delivering Board induction programmes and training that support selected candidates to be successful at Board level.

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

10. Yes, LINK is in agreement that responsibility for diversity and inclusion sits within the Board (aligned with any SM&CR framework in place within a firm).

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

11. LINK is in general agreement with the objective of reinforcing the oversight of the conduct of senior individuals within FMIs and the proposals to achieve this, as set out in the recent SM&CR CP.

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?

12. LINK considers this appropriate, potentially as part of a "balanced scorecard" approach, and it should be the responsibility of the Board and its relevant committees to put in place suitable arrangements appropriate to the circumstances of each FMI. LINK does not support externally set targets.

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

13. Yes, LINK agrees that firms should have and publish their diversity and inclusion policy.

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

14. The policy must include the firm's Diversity and Inclusion principles, such as fairness and tolerance, and that harassment and discrimination will not be accepted

Question 15: What are your views about the effectiveness and practicability of targets for employees who are not members of the Board?

15. LINK considers that any targets for employees should be proportionate to the size and scale of the FMI and the establishing of a baseline of the FMI's diversity better enables firms to assess and define long term development and succession plans at all levels. It should be the responsibility of Boards to set suitable targets.

Question 16: 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?

16. LINK considers that targets and characteristic set should be proportionate to the size and scale of the FMI and consideration must be given to any unintended consequences as noted earlier e.g., inappropriate recruitment to achieve targets. It should be up to Boards to set suitable arrangements and LINK does not support this being done as a regulatory expectation or target.

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

17. Training to promote diversity and inclusion should be integrated and continuous, with the focus on culture and "tone from top", built into the FMIs values and messaging reinforced through regular activity. Staff engagement events, mandated D&I modules within the scope of induction, and recruitment and ongoing personal development of employees all have a role to play.

Question 18: What kinds of training do you think would be effective for helping understanding of the diverse needs of customers?

18. To be effective, training must be in an inclusive environment and should include training formats where case studies, personas and customer insights bring to life the customer journey and how the experience differs for different types of customers to understand what works well and what can be done better. As an example, LINK's Financial Inclusion Programme shares its consumer research, analysis and outcomes through firm-wide knowledge events to help other parts of the firm understand needs across the customer spectrum

Question 19: What are your views about developing expectations on product governance that specifically take into account consumers' protected characteristics, or other diversity characteristics?

19. LINK fully supports and has embedded this within the organisation. LINK also continues to design and run products and services that specifically focus on protecting and ensuring fair access to cash for all consumers, with additional products designed to

support communities, including financially and socially vulnerable consumers, through its Financial Inclusion Programme of initiatives such as the Community Request an ATM.

Question 20: 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?

20. LINK considers that an approach that recognises, in particular, the different sizes as well as range and diversity of operating models for firms within the sector will be required. Each FMI will be different in relation to size and scale, the uniqueness of its business model, structure, and size in the FMI sector. Consideration should be given to firms' specific frameworks in place to support D&I, as well as the supervisory engagement and efficacy of Board and Senior Management in place.

Question 21: How should our approach for information disclosure be adapted so that we can place a proportionate burden on firms?

21. LINK considers that an approach that recognises each FMI being different in relation to size and scale, the uniqueness of its business model, and its structure and size in the FMI sector will be required. Consideration should be given to a firms' specific frameworks in place to support D&I, as well as the supervisory engagement and efficacy of Board and Senior Management in place.

Question 22: What should we expect firms to disclose and what should we disclose ourselves from the data that we collect?

22. In general, LINK favours transparency, but the collection of any data must be voluntary, as collection and therefore disclosure can only be successful within a culture of inclusion and consent. However, details of the approach to disclosure is subject to further consideration by FMI's following the work required to baseline their diversity and inclusion.

Question 23: What are your views on how we should achieve effective auditing of diversity and inclusion?

23. This could be achieved as part of the Bank's annual review process by supervisory teams.

Question 24: How can internal audit best assist firms to measure and monitor diversity and inclusion?

24. The adequacy of measurement of diversity and inclusion could be validated through internal audit activity but could be better achieved through feedback from staff and cultural surveys and engagement.

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?

25. LINK is in general agreement with the objective of embedding non-financial misconduct into fitness and propriety assessment, as set out in the recent SM&CR CP.

Question 26: What are your views on the regulators' further considering how a firm's proposed appointment would contribute to diversity in a way that supports the collective suitability of the Board?

26. LINK is in general agreement with regulators' consideration of how a firm's proposed appointment would contribute to diversity, as set out in the recent SM&CR CP.

Question 27: What are your views on providing guidance on how diversity and inclusion relates to the Threshold Conditions?

27. LINK has no view at this time as Threshold Conditions do not currently apply to LINK as it is not FCA or PRA regulated.

Question 28: Do you have any suggestions on which aspects of our supervisory engagement with firms that you think could be improved to help deliver and support greater diversity and inclusion?

28. LINK suggests a direct engagement with Board and Senior Management of FMI firms as part of the Bank's annual review process by supervisory teams. Consideration could also be given to a review of the outputs from Board Effectiveness surveys in accordance with the Corporate Governance Code.

Question 29: What impact do you think the options outlined in this chapter, alongside the FCA's proposals for a new Consumer Duty, would have on consumer outcomes?

29. The options outlined will collectively strengthen existing guidance and firms' actions to ensure fair treatment for all consumers.

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