

The Drive For Diversity

Diversity within an organisation can no longer be seen as a “nice to have” selling point. It is now an issue of regulatory concern as the Central Bank of Ireland (“CBI”) considers a lack of diversity to be a leading indicator of cultural issues within a firm. Muireann Reedy looks at some recent diversity and inclusion assessments which the CBI has carried out and recommends that diversity should be high on board agendas.

Why the concern?

The CBI has said that it considers diversity and inclusion to be important components of well-managed, financially resilient and strategically-minded firms, and therefore relevant to its mandate of safeguarding stability and protecting consumers. The CBI believes that improving the approach to diversity and inclusion will contribute to improving the cultures of financial services firms, mitigating the risks of groupthink, poor risk assessment, and insufficient challenge. The CBI is interested in diversity in all its forms including a mix of gender, skills, experience, nationalities, age and background, so as to help foster independent opinions and better decision making.

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Strategic Plan

The CBI’s Strategic Plan for 2019-2021 states that improvements in diversity and inclusion are one of the key actions which the CBI will focus on to drive improvements in the governance and risk management of regulated firms. However, the first public indication that the CBI was starting to focus on diversity came in 2017, when it published a report on the gender breakdown of applications for pre-approval controlled function (“PCF”) roles in regulated firms in the period 2012 to 2016. The CBI’s data showed a significant gender imbalance in the



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submission of PCF applications, with males accounting for approximately 80% of the applications received in the relevant period. The CBI noted that this suggested a continued lack of diversity at the most senior levels of regulated firms. Since then the CBI has published annual reports looking at the levels of gender, nationality and age diversity in PCF applications.

Sectoral Focus

In July 2018 the CBI published a report on “Behaviour and Culture of the Irish Retail Banks” (the “Report”) arising from issues uncovered as part of the Tracker Mortgage Examination. The Report summarised the outcome of a series of behaviour and culture reviews which were undertaken by the CBI at the five main Irish retail banks, in collaboration with the Dutch Central Bank. Interestingly, the CBI conducted separate diversity and inclusion assessments at each of the banks and a whole chapter of the Report is devoted to those findings.

The Report highlights shortcomings in some of the diversity and inclusion measures which were implemented by the banks, such as a failure to assess

the effectiveness of the relevant actions which were taken, and a lack of ambition in the targets which were set for diversity at board level. The Report also sets out the CBI’s expectations on measures which should be taken by all banks to ensure that they move beyond a “minimum compliance-driven approach”. These include active consideration by the board and senior management of the composition of the board and key committees to identify actions which would improve diversity. The CBI said it would expect each action plan to include clear expectations, stretch measures and implementation targets, and to consider a range of diversity measures, as well as what is required to mitigate relevant risk factors. The CBI also stated that it expects banks’ boards and senior management to approve diversity and inclusion policies and that these should be subject to annual review and regular discussion.

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More recently the CBI has turned its attention to diversity and inclusion in the insurance sector, publishing detailed findings in July 2020 of a thematic assessment (the “Thematic Assessment”) which it carried out on diversity and inclusion on a sample of eleven insurance firms operating in Ireland. The CBI found that most of the firms sampled did not have a diversity and inclusion strategy, and even where such a strategy was in place, it was not

clear how it was aligned to the company's overall strategic objectives. Similar to the findings in the Report, the CBI found that where diversity and inclusion initiatives had been implemented, they were often not tracked to monitor their effectiveness. Remuneration also formed an element of this assessment, with the CBI noting that there was clear evidence of "significant gender pay gaps" in most firms, with women comprising only 24% of the top ten earners across the sample, although accounting for 51% of the total workforce. All of the firms were issued with Risk Mitigation Programmes, requiring them to submit detailed action plans to address the issues which were identified in their assessment.

The CBI has confirmed in its Annual Performance Statement for 2019-2020 that it will continue to monitor and challenge the levels of diversity of the most senior appointments in the Irish financial services sector. While the CBI's focus to date has been particularly on retail banks and on

insurers, the CBI's Governor confirmed in March of this year (in the CBI's 2019 "Demographic Analysis of Applications for PCF Roles within Regulated Firms") that the CBI would be turning its attention to diversity and inclusion in the asset management and investment-banking sectors.

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Recommended Actions

The CBI has made it clear that it expects boards and executive committees to drive the diversity agenda, so diversity and inclusion should be a feature of board discussion, particularly where senior appointments are being proposed and discussed. The importance of diversity and inclusion should also be reflected

in firms' formal structures and processes, including in diversity policies, recruitment and promotion practices and succession planning. It should also be an element of firms' training and developmental programmes.

The Report and the Thematic Assessment contain useful commentary from the CBI on weaknesses which it found in firms' diversity and inclusion initiatives, as well as the types of measures it expects to see. Therefore firms may find it useful to review these documents to benchmark their own diversity and inclusion initiatives against the CBI's commentary. While the CBI's focus on this area is relatively recent, it is clear that it is one of its priorities as it considers it a key element in risk management. Firms therefore should be ready to show how diversity is embedded within their organisation.

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