OLIVER WYMAN

women
in financial services

MARSH & McLENNAN COMPANIES

CONTENTS

FOREWORD

There have long been concerns about the lack of women at senior levels in financial services. Many have suggested that the excessive risk taking and mistreatment of customers in the pre-2007 boom were caused by the overwhelming masculinity of the industry; some have asked whether the crisis might have been avoided if Lehman Brothers had been Lehman Sisters.

That is not the whole story, of course. The crisis had many causes. And a lack of diversity has many consequences. But regardless, it remains clear that the sector is losing out in the "war for talent".

We have been unconvinced by the depth of some of the discourse on this topic. Individual anecdote and stereotyping predominates, and facts are too seldom brought to bear. At Oliver Wyman, we pride ourselves on applying our in-depth industry expertise to help our clients tackle and address their most challenging and difficult problems. But on this topic, we felt we had no credibility as the majority of Oliver Wyman's partners are men too. We were also losing the "war for talent".

So we have spent five years scrutinizing Oliver Wyman's own lack of gender diversity, and have launched ongoing initiatives to address it – some have been successful, some less so. Along the way we have been helped by our clients and friends across the industry. This report represents our attempt to return the favor.

We have tried to move beyond individual experience and anecdote to explore the questions: What stops women getting to the top in financial firms? And how can the industry improve?

To assemble a fact base for this report we have analyzed the gender mix of senior staff at over 150 firms internationally and surveyed over 1,000 current and potential financial services employees from five countries. And, for by far the most interesting part of our research, we interviewed over 60 senior women (and a few men!) from across the sector.

We were consistently inspired by the calibre, character and charisma of the women that we met. They are a diverse group, defying generalizations or stereotypes, and every one of them is passionate about encouraging and supporting more women to progress within their industry. We would like to thank all our interviewees for their time, thoughts and candor.

We have been surprised by some of the results, and our conviction that financial firms, and we, must do more to support women has only increased. We hope you will be equally interested and inspired by what we now plan to make an ongoing study.

Nick Studer
Managing Partner, Financial Services

Michelle Daisley
Partner, Financial Services
Lead author, Women in Financial Services

London, December 2014

WOMEN IN FINANCIAL SERVICES

FROM EVOLUTION TO REVOLUTION: THE TIME IS NOW

Visit your local bank branch or call centre and you are likely to encounter more women than men working there. But not if you visit the executive suites at head office. At 150 of the world's major Financial Institutions only 13% of Executive Committee (ExCo) members and 4% of CEOs are women. Over a third of ExCos are still entirely male. Looking at the current trend, this situation is not likely to change any time soon.

This is a problem for the financial services industry. Never mind social justice or corporate social responsibility. A lack of senior staff diversity is bad for business – bad for employee morale, bad for customer service and bad for shareholder returns.

"We're not taking advantage of all available talent. This is a huge drawback for the sector"

Veronica Augustsson, CEO, Cinnober

A growing body of research suggests that firms with diverse management teams make better decisions, being less prone to group think and more able to see issues from many angles[1]. This is especially important in a sector that has recently suffered scandals attributed to unchallenged leadership and group think. The financial services industry needs more diverse leadership.

"Decisions are better when people who have multiple experiences and points of view come together, because no one person, however intelligent they are, will have the answer"

Charlotte Hogg, Chief Operating Officer, Bank of England

1 For example, "Why Diversity Matters", July 2013, Catalyst Information Center

Diversity improves average staff calibre, and not only by making better use of half of the talent pool. A diverse and inclusive workplace is an important part of attracting and retaining the best talent, both male and female, and allows firms to understand their customers better.

This report contains eight short articles that discuss a range of gender-related issues in financial services. These articles are based on interviews conducted with senior women and men in the financial sector in several countries and a survey of 1,000 current and potential financial services employees (men and women) from around the world. It also draws on statistics we have collected concerning female representation within the financial industry. One article comes from outside Oliver Wyman: Emily Haisley of Barclays Investment Services contributes a fascinating perspective on women as consumers of investment services.

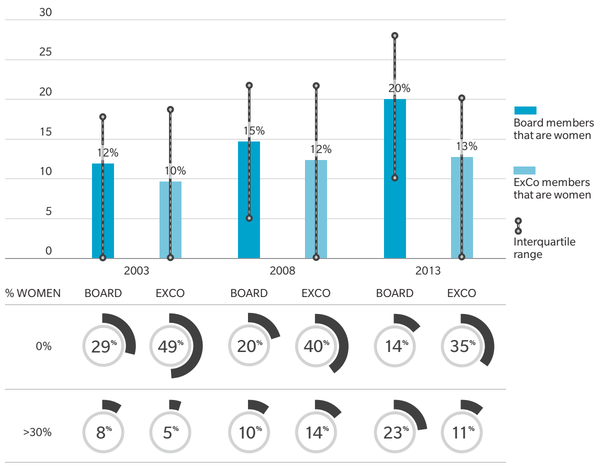
This introductory chapter looks at the position of women in financial firms and at changes over the past 10 years; it explores the reasons behind women's under-representation at senior levels; and it shares some innovative approaches that can increase gender diversity while serving the interests of all stakeholders: customers, employees, shareholders and society at large.

WOMEN IN THE FINANCIAL SERVICES SECTOR TODAY

How does gender diversity within the financial services industry look today and how has it evolved?

We have analyzed the number of women on Boards and ExCos at more than 150 major financial companies globally. Female representation on boards has increased by two thirds over the last 10 years. However, female representation at ExCo level remains much lower and is increasing more slowly (see Exhibit 1).

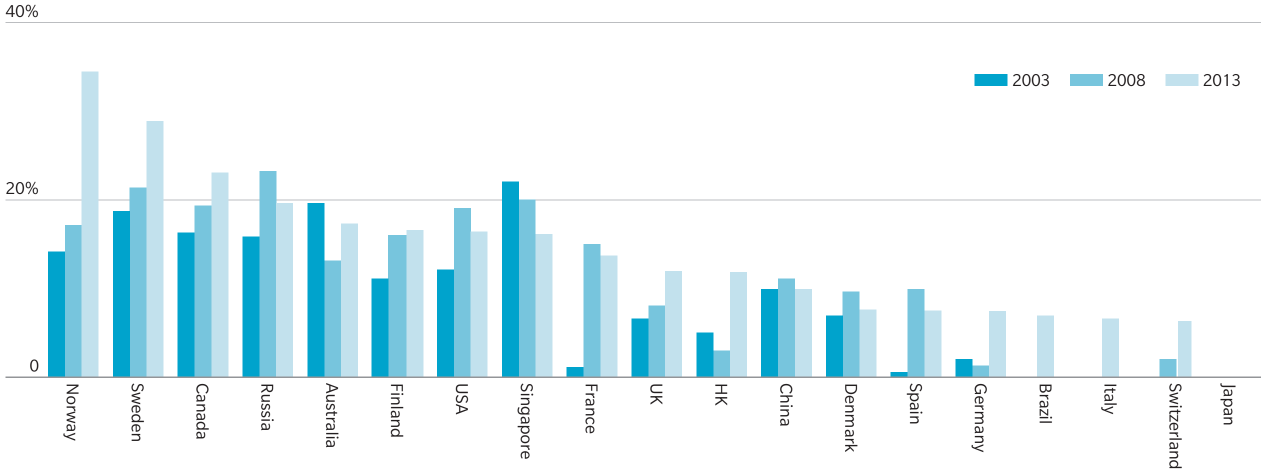
EXHIBIT 1: % OF BOARD AND EXCO MEMBERS THAT ARE WOMEN IN MAJOR FINANCIAL SERVICES FIRMS



Source: Oliver Wyman analysis of company disclosures

Beneath this overall modest improvement lies some significant variations by country and firm. Unsurprisingly, some countries are well ahead of others. Canada, Russia and the Scandinavian countries lead the pack in ExCo representation (see Exhibit 2 and our "Spotlight" articles). However, even in these countries we see variations between firms.

EXHIBIT 2: % OF EXCO MEMBERS THAT ARE WOMEN, BY COUNTRY



Source: Oliver Wyman analysis of company disclosures

Research suggests that when a minority's membership of a group reaches 30%, they come to be heard in their own right, rather than being perceived as "the voice of the minority" or feeling pressure to individually conform to the dominant group[2,3]. Only in Norway does the average ExCo have more than 30% women, the critical mass.

Women have been most successful in reaching ExCo-level positions in the support and compliance functions. On average, 13% of ExCo members are women but over a quarter of ExCo-level Heads of Audit, Legal, Compliance or Marketing are women. The Head of HR is more likely to be a woman than a man.

Support and compliance roles typically have more predictable hours of work than "P&L" roles, making them easier to combine with family commitments, which still usually weigh more heavily on women. Some interviewees have also suggested that in the past (when today's ExCo members were starting their careers) these functions were easier to break into on the basis of professional qualifications rather than "the Old Boys network".

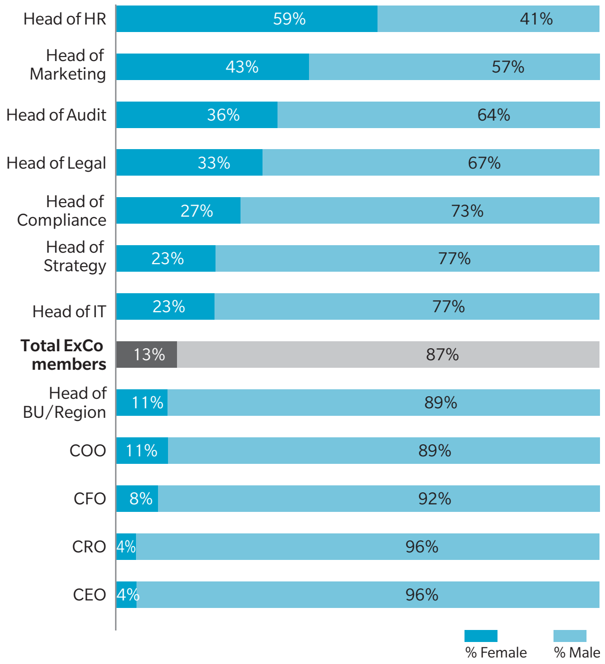
"Women feel more comfortable in [support and compliance] roles due to the confidence the required qualifications give them. General management positions [have] vaguer criteria ... If you're in a minority these qualifications give you the resilience you need to cope with all the very minor downers that you're going to encounter. It also buys you a bit of respect from the guys"

Rachel Lomax, Board Member, HSBC and former Deputy Governor of the Bank of England

2 Dahlerup, Drude. 1988. "From a Small to a Large Minority: Women in Scandinavian, Politics." Scandinavian Political Studies 11 (4): 275–98

3 Joecks Pull, Vetter "Gender Diversity in the Boardroom and Firm Performance: What Exactly Constitutes a "Critical Mass?"", Springer Science+Business Media Dordrecht 2012

EXHIBIT 3: GENDER MIX FOR VARIOUS EXCO ROLES AT FINANCIAL INSTITUTIONS (%)



Source: Oliver Wyman analysis of company disclosures

Only 4% of the CEOs of financial firms are women. There are also comparatively few female ExCo members leading profit-generating lines of business (i.e. Head or CEO of a Business Unit (BU), Division or Region), fewer female CFOs, COOs and CROs. At ExCo-level, these positions tend to be better paid than compliance and support function roles[4]. They are also the more traditional path to the very top of the leadership pyramid, i.e. CEO. Not surprisingly, CEOs tend to be recruited from the heads of the major business units because proven success in a P&L role is often a key hiring criterion. Only 6% of all S&P 500 CEOs previously held a non-P&L position before being appointed CEO[5] .

> *"A lot of women choose a more functional career path. If you don't get the P&L responsibilities early on it's very unlikely that you'll be able to make the jump to a CEO role"*
>
> ***Seraina Maag, President and CEO of EMEA region, AIG***

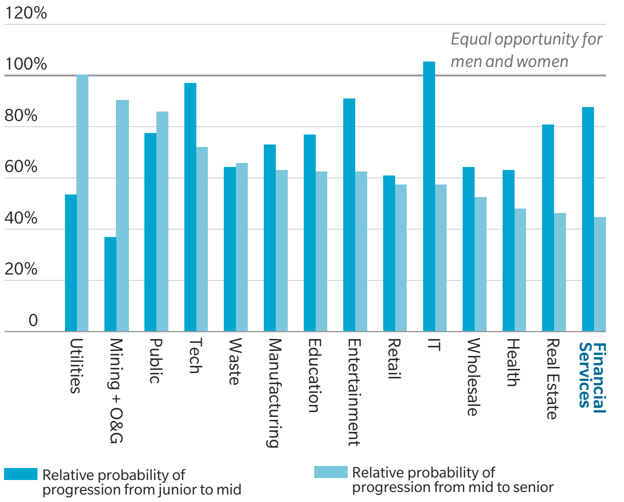
4 Source: OW analysis of company disclosures, ExCo member compensation in 2013 of 99 financial services firms from 14 countries (UK, US, Sweden, Norway, Denmark, Australia, Canada, France, Germany, Hong Kong, Italy, Japan, Spain, Switzerland)

5 Bloomberg Markets, Nov. 2014, "How women get side-tracked"

WHAT IS DIFFERENT ABOUT FINANCIAL SERVICES?

Financial services compares reasonably well with many other industries if you consider only the percentage of senior roles occupied by women. As noted above, 13% of ExCo members in financial services firms are women; this compares to an average of 13%[6] across all sectors. But this statistic can mislead. Many financial services firms have more women than men at junior levels[7].

EXHIBIT 4: RELATIVE PROBABILITY OF PROGRESSION* FROM JUNIOR TO MID-LEVEL AND FROM MID TO SENIOR LEVEL FOR WOMEN COMPARED TO MEN (US, 2013)

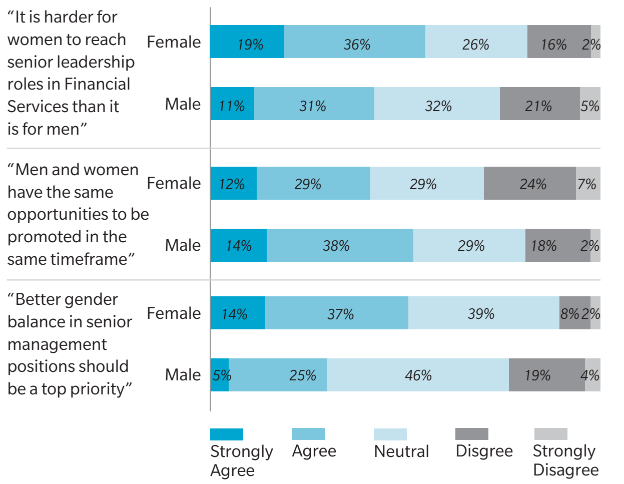


Source: U.S. Equal Employment Opportunity Commission (EEOC)
* The relative probability is the ratio of the probability that a woman will be promoted to the probability than a man will be promoted. I.e. if this ratio is 1 (or 100%), the probability of progression is equal across genders

Our analysis of US data reveals that women's probability of progression from middle to senior levels of management relative to their male counterparts is worse in financial services than in any other sector. In fact, the relative probability[8] of women making this step is only 45%. In other words, it is less than half as likely for a woman in financial services to progress from a middle to a senior level position as it is for a man. This is despite the relative probability of junior female employees reaching the mid-level being nearly equal to men (at 87%). For a smaller sample of 10 UK banks and insurers, the relative probability for female staff to progress to senior level is similarly low[9]. And the same story emerges across all roles, including those with a high proportion of senior women, in asset management and wholesale banking[10]. The glass ceiling appears to be largely intact.

In our survey of 800 professionals within the financial services industry worldwide, 55% of women agreed that "*it is harder for women to reach senior leadership roles in financial services than it is for men*". Awareness of the challenges faced by women in reaching the top appears to be lower among men, of whom only 42% agreed with this statement. Exhibit 5 shows that there are material differences in the perception and awareness of gender diversity issues in the industry between men and women.

EXHIBIT 5: OLIVER WYMAN SURVEY OF FINANCIAL SERVICES PROFESSIONALS



Source: Oliver Wyman survey

6 Credit Suisse Research Institute, Sep 2014, "The CS Gender 3000: Women in Senior Management"

7 Source: U.S. Equal Employment Opportunity Commission (EEOC), company disclosures and Statistics Sweden

8 "Relative probability" is the ratio of the probability that a woman will be promoted to the probability than a man will be promoted. I.e. if this ratio is 1 (or 100%), the probability of progression is equal across genders

9 Source: Company disclosures

10 Source: Robert Walters

So why are there so few women in senior roles at financial institutions?

The answer does not appear to be that overall the sector is a particularly "hostile environment" for women. Only 8% of female financial services professionals think that the industry is not a good place to work (the same proportion of men felt this way too). Many of our interviewees spoke passionately about the benefits of being in the industry – a professional and challenging environment, high investment in personal development, high calibre colleagues and diverse career opportunities.

At the extremes of behaviors, indicators such as sexual discrimination law suits are lower than for other industries too[11]. The senior women we interviewed confirm that the overt sexual harassment and discrimination that was present in the past is largely over, and not tolerated on the rare occasions that it does occur.

However, financial services may have an image problem amongst potential employees, especially women.

The idea that financial services is a macho, male-dominated industry has been perpetuated by the sector's portrayal by Hollywood (e.g. "Wall Street", "The Wolf of Wall Street") and reinforced by the "laddish" tone of some recent high-profile scandals.

"Before one day's forex fix, one trader commented in a chatroom: 'nice job gents'. After the fix traders commented: 'I don my hat', 'well done lads', 'bravo' and 'we fooking killed it right' [sic]."

Financial Times "Traders' forex chatroom banter exposed" (12th November 2014)

"Financial services tends to be a very meritocratic industry because performance is transparent. This allows performers, irrespective of gender, to advance and that should be seen as a positive"

Christiana Riley, Head of Corporate Strategy, Group Strategy (AfK), Deutsche Bank

" 'Old school sexism' used to be quite prevalent two decades ago, particularly in the sales and trading environment. It is much less about that direct 'old school sexism' now"

Anna Marrs, Group Head of Commercial and Private Banking Clients, Standard Chartered

"There's an image problem with our industry and we lack role models. So, if you're a young woman and ... you see all these guys walking around in suits, it doesn't really seem that appealing"

Seraina Maag, President and CEO of EMEA region, AIG

"There is a lot of testosterone in Wall Street firms and this has had a spill over effect to other financial sector firms"

Barbara Yastine, CEO, Ally Bank

11 In the US in 2010, only 0.05 sexual discrimination law suits per 10,000 employees were filed within the industry, fewer than the 0.09 per 10,000 employees across all industries in the same year. Source OW analysis, U.S. Equal Employment Opportunity Commission (EEOC) and IWPR/Wage Consent Decree Database 2010

When female students were asked about their perceptions of the culture within the industry the answers were more negative than those of their male counterparts (see Exhibit 6). "Political", "aggressive" and "arrogant" made it into the top 4. This poses a challenge for the industry in attracting high calibre female graduates.

EXHIBIT 6: MOST POPULAR RESPONSES TO THE QUESTION "WHICH WORDS BEST DESCRIBE THE CULTURE WITHIN THE FINANCIAL SERVICES SECTOR?"

TOP RANKED WORDS	FEMALE STUDENTS	MALE STUDENTS	FEMALE FS PROFESSIONALS	MALE FS PROFESSIONALS
1	Political	Political	Customer-oriented	Customer-oriented
2	Risk-taking	Intellectual	Risk-taking	Value-adding
3	Aggressive	Risk-taking	Value-adding	Risk-taking
4	Arrogant	Customer-oriented	Teamwork	Intellectual
5	Customer-oriented	Arrogant	Political	Teamwork

Source: Oliver Wyman survey

Barriers are no longer based on direct and overt hostility towards women. Instead, they are caused by deep-seated, possibly unconscious, biases about what it takes to perform at the top of financial firms: biases that disproportionally disadvantage women. These barriers are more subtle and therefore harder to identify and tackle than the overt misogyny of the past.

Until recently, the stereotypical image of a successful senior financial services executive has been someone willing to work long hours, who is dominating and hierarchical towards employees, ruthlessly "follows the money", thrives in an aggressive and "macho" working culture and takes excessive risks.

In our survey, the traits most frequently identified with successful leaders in financial services in the past were "Aggressive", "Dominant" and "Career-oriented". Such a person is not necessarily a man, but is likely to be. John Gerzema and Michael D'Antonio asked 32,000 respondents worldwide to categorize a set of 125 human behavioral traits as masculine, feminine or neither. "Aggressive", "Dominant" and "Career-oriented" were all identified as masculine traits[12]. In fact, of the seven leadership traits that were rated in our survey as most important in financial services in the past, six are perceived as masculine and one as neutral. No traits were viewed as feminine. This model for leadership excluded not only many women from making it to the upper echelons of financial firms but also many men who did not fit the "alpha-male" stereotype. Senior management thus lacked diversity in more respects than gender.

"There's still the 'hard man' image of a leader in banking, and that's the bias in the appointment process along the way. 'Can this woman manage these big animals in trading, banking?'"

Anna Marrs, Group Head of Commercial and Private Banking Clients, Standard Chartered

"Sometimes it's hard to define what competence actually is and which words to use – especially since some words are associated with more male traits rather than feminine"

Sofia Falk, CEO and founder, Wiminvest

12 The Athena Doctrine, April 2013, John Gerzema & Michael D'Antonio

The few women who got to the top during the 1980s and 1990s often did so by succeeding within the terms of a fundamentally male proposition. Given the disadvantages they faced, many adopted masculine characteristics to fit the dominant culture and demonstrate leadership traits believed to be essential for success.

A woman cannot give birth without taking some time off work. Long working days, late nights in the office and overnight business trips are also difficult to combine with parenthood, especially for the primary care-giver, a role which is still most often held by women. Many promising women have looked at the lifestyle of senior management and thought “that’s not going to work for me”. In our survey, only 35% of women and 33% of men agree that family obligations and activities outside of work are recognized and supported in the financial services industry in general.

Things have begun to change. Firms understand that they are missing out on the contributions of the entire talent pool of potential employees. Parental leave has been extended not only for women but for men. Paid paternity leave helps women with working husbands return to work earlier. State-funded pre-school childcare has been extended in many (but not nearly all) developed Western countries. And, in some countries, such as Norway, the law now imposes a minimum requirement for the percentage of corporate Board members who are women.

But the more important changes are those taking place inside financial firms. The traditional image of a senior industry executive is no longer appealing to employees or to shareholders. Excessive risk-taking, arrogance or group-think lie behind many of the problems that financial institutions have encountered in the recent past: not only the losses incurred during the financial crisis but the various scandals around poor conduct, mis-selling and other mistreatment of customers.

In our survey both men and women ranked “trustworthy” as the most important trait that will be required for the future leaders of financial services, signalling the shift in mind set and practice required.

“Getting a critical mass of women into the financial services industry will be crucial in changing the culture. In the current minority, women are forced to conform to the behavior of men”

Rachel Lomax, Board Member, HSBC and former Deputy Governor of the Bank of England

“Post the financial crisis, shareholders are looking for a different culture in financial services. Part of that cultural transformation will require a different model of leadership”

Anna Marrs, Group Head of Commercial and Private Banking Clients, Standard Chartered

HOW TO INCREASE DIVERSITY AT SENIOR LEVELS?

There is a growing consensus that financial firms' recent problems are partly due to the homogeneity of past leadership teams. This has reinforced the desire to make them more hospitable environments for a diverse group of ambitious men and women. Male domination of senior positions is a symptom of broader problems around overly narrow models for leadership, inflexible working practices and an inappropriate culture. Tackling these issues is therefore not simply "diversity for diversity's sake" but will generate important benefits for all employees, customers and investors, male and female.

Financial firms recognize this and most major firms have already invested significant time, money and senior management energy in gender diversity and inclusion efforts. Many have well-established women's networks, provide targeted training, coaching and mentoring to female employees and offer maternity and flexible working options that exceed local statutory requirements.

"Our growth is predicated on understanding diverse markets. Diversity is not just the right thing to do from a values perspective, it's also good business. It helps us to understand those segments of the population ... anticipate their needs and better deliver to them"

Shauneen Bruder, Executive Vice President, Operations, Personal & Commercial Banking, Royal Bank of Canada

"In some ways, financial services firms are a good place to be for a woman. They can invest in diversity programs, enhanced maternity schemes, etc. and are keen to get it right"

Senior female executive, Major European Investment Bank

Nevertheless, only 41% of the women and 49% of the men we surveyed feel that their firms are doing enough to attract and retain female employees.

However well-intentioned, many of these programs are badged as being "for women" and can carry something of a stigma. For example, part-time roles, flexi-time and job sharing are perceived to be of lower value than full-time positions, and are often informally referred to as the "Mommy Track". In a culture where face-time is valued, those who regularly work from home are disadvantaged.

While training and coaching on how to survive and succeed in a man's world can be useful, training women to be "Men in Skirts" is not going to be a sustainable or authentic long-term solution; it will not deliver the sought-after benefits of diversity. Some of these programs risk isolating women further, for example, by teaching women that their own style and approach will be ineffective in the world of financial services and that they must adopt more masculine behaviors to succeed. This sometimes leads women to opt out of such "Women's Initiatives", resulting in a lack of uptake, especially in male dominated areas where participation can actually harm a woman's professional image.

"Policies should apply equally to men. Real and perceived meritocracy should prevail"

Euleen Goh, Chairman of Singapore International Foundation and Board member at DBS Group Holdings Ltd, CapitaLand Ltd, SATS Ltd, Royal Dutch Shell plc and former CEO of Standard Chartered Bank Singapore

"Women's networking is pretty much a waste of time if none of the women are very senior. I mentor a lot of women informally. This is much more effective"

Carol Sergeant, Board Member, Danske Bank

"Some of the women I've spoken to state their abhorrence of "groups for women" – it's like being sent to remedial class. Separating the genders for training is segregation, and segregation and diversity do not go hand-in-hand"

Karen Wilson, CEO, Hoggett Bowers

"At a previous employer I had the experience of men making jokes about women's networks. Even if the networks say men are welcome, men generally don't attend and some seem quite suspicious of the whole thing!"

Sarah Pierce, Investment Director, Praesidian Capital and 2013 "Woman of the Future: Professional[13]"

"There is too much focus on trying to make females want to become leaders and too little focus on making structural changes and assessing the culture"

Marijo Bos, Global President, PWN

Gender diversity programs have often been owned by the HR department and have in the past been viewed as initiatives to help women better assimilate to the traditional financial services culture rather than providing competitive advantages for the institution. To get the benefits of greater gender diversity, firms should focus less on "fixing the women" and instead look to fix the institutional culture and business norms.

To make more rapid progress on gender diversity, change needs to be driven from the very top of the organization. This means leadership, ownership and accountability from the Board, CEO and ExCo, with HR playing a supporting role. All senior executives need to play an active role.

Our analysis reveals that while many sectors share the challenges faced by financial services in retaining and promoting high calibre women, there are some challenges, relating to the pervading culture, working practices and models for leadership, that are specific to financial services. Initiatives to improve gender diversity must therefore be tailored to address these particular issues.

What does this mean in practice?

The following pages outline six creative initiatives that can help financial institutions to improve diversity, many of which are already being pursued by some financial firms. We believe they should form the basis of a playbook for improving diversity. While our focus is gender diversity, these initiatives can support diversity more generally – not only in gender or ethnicity but also in background, character, experience and lifestyle.

13 http://womenofthefuture.co.uk/awards/2013-winners/

FIX THE INDUSTRY, NOT THE WOMEN

1

The biggest challenge lies in changing the stereotypes, assumptions and biases about what is required for leadership and success that permeate the culture of financial institutions. The senior management of financial firms have always been almost exclusively men and they remain the strongly dominant group.

This means that what is in fact a gender-based bias may be perceived by most senior managers to be no more than common-sense meritocracy. These assumptions relate to both day-to-day working practices and also the qualities required for leadership.

For example, a manager might assume that a young mother would not be interested in a role that requires long hours or travel, and offer the opportunity to someone else, rather than asking her about her interest in the opportunity and how she could be supported in taking on the additional responsibility.

Certain behaviors are perceived differently when exhibited by men and women. For example, an assertive man might be perceived as being a strong leader whereas a similarly assertive woman might be perceived to be "strident" or "bossy" (adjectives rarely applied to men). And as noted earlier, the character traits traditionally associated with leadership in financial firms have been typically masculine. These stereotypes often permeate role profiles, search criteria and performance evaluations. They may also deter women from seeking senior positions in the first place.

Our survey of financial services professionals revealed that ideas about what an effective leader looks like are beginning to change, and leaders of the future will need a more diverse combination of masculine, feminine and neutral traits.

"Men still hold the positions of power by and large and so the important thing is what their attitudes are to gender diversity. If men don't change their attitudes, it's going to be hard for anything to change"

Carol Sergeant, Board member, Danske Bank

"At some point you get to a management level where you can't avoid conflict anymore. While women can certainly handle conflict at this level, it tends to cost us both more emotional anxiety to gear up for the conflict, as well as generate more negative reactions from male counterparts as we engage"

Christiana Riley, Head of Corporate Strategy, Group Strategy (AfK), Deutsche Bank

"In every institution there's a model of what success looks like ... they're often inherently male-biased"

Charlotte Hogg, Chief Operating Officer, Bank of England

This longer list of traits is unlikely to exist within a single person. Senior teams will therefore need to comprise a more diverse mixture of people who can collectively demonstrate all these traits.

The first step in addressing these unconscious biases and assumptions is to get people to recognize and understand these in their own thoughts and behavior. Management may require some training to help them do this. Some firms, are taking measures to improve awareness of gender issues, using workshops and reverse mentoring, whereby more junior female employees share experiences of the challenges they face as women in the workplace with senior management. Because such engagement can be uncomfortable, however, it is not nearly as widespread as it should be.

The second, and perhaps the most important step in eliminating biases is ensuring that these assumptions about what it takes to be an effective leader do not influence hiring decisions, promotions, the allocation of career opportunities and performance evaluations. To bring this about, senior management should change their recruitment and promotion criteria and set targets for attracting and developing a diverse set of leaders.

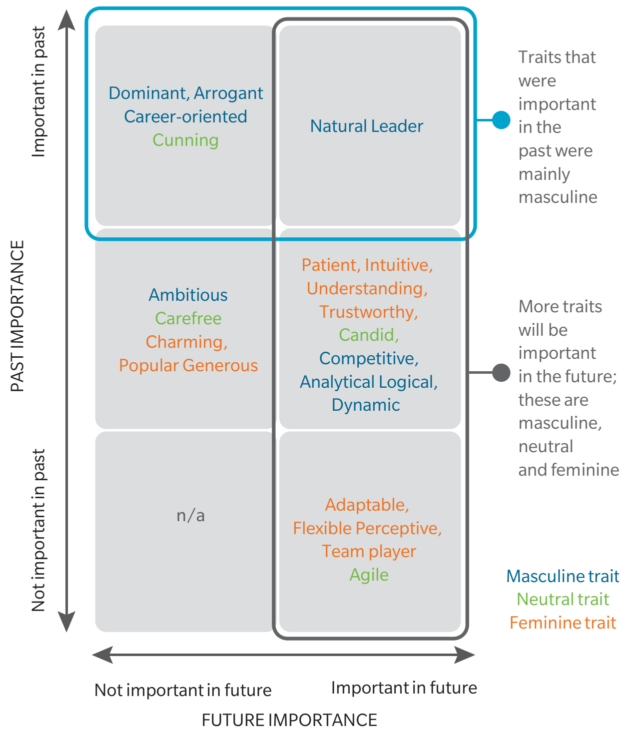
"The suitability criteria might not be right. It's about broadening our horizons when looking at candidates"

Sir Andrew Large, former Deputy Governor of the Bank of England and Founding Partner of Systemic Policy Partnership

"At Zurich we are aware that these biases exist. Acknowledging that ourselves and making our colleagues aware of these biases ensures they don't hinder and have no influence on people related decisions"

Cecilia Reyes, CIO, Zurich Insurance

EXHIBIT 7: SURVEY RESPONDENT VIEWS REGARDING PAST AND FUTURE IMPORTANCE OF LEADERSHIP QUALITIES WITHIN FINANCIAL SERVICES



Source: Oliver Wyman survey data; masculine / feminine / neutral trait classifications as per The Athena Doctrine, April 2013, John Gerzema & Michael D'Antonio

Many institutions have started to do this. In 2013 Deutsche Bank introduced "JustiFive", whereby every manager is asked to apply five tips on leadership behavior that have been identified as being most effective in getting top diverse employees to the next level[14]. RBC's diversity policy requires that hiring lists at all levels include diverse candidates or else explain why diverse candidates were not suitable or available and propose plans to rectify the situation.[15] Regulatory bodies appear to be ahead of the curve on this topic. To challenge unconscious biases, the UK FCA have standardized their recruitment process and interview approach and the ACPR in France have formalized promotion criteria to reduce subjectivity in promotion decisions. The Bank of England has set itself some challenging new targets for the next three years as it seeks to broaden the range of thought, skills and experience within the institution. This includes to have an equal split of men and women in the organisation at management level by 2017.

"We've created a robust recruitment framework that mitigates against unconscious bias creeping into recruitment and promotion decisions. Unconscious Bias training is mandatory at the FCA and we must map out the competencies required for job roles and use standardized questions at interview stage"

Jennifer Barrow, Head of Corporate Responsibility, UK Financial Conduct Authority

"We have formalized the different options/stages of career paths, clearly stating the fact-based criteria for promotion. Hence, there is reduced subjectivity when assessing the performance of an individual"

Frédéric Visnovsky, Deputy Secretary General, ACPR (French Banking Regulator)

14 Deutsche Bank, "Building for the Future: Human Resources Report 2013"

15 RBC Employment Equity Report 2012

2

EXCO LEADERSHIP MEANS P&L EXPERIENCE

As noted earlier, only 11% of ExCo members leading Business Units or Divisions are women. These roles are not only among the better paid ExCo positions but are also the traditional stepping stones to the position of CEO.

Unjustified assumptions about women and about what is required for P&L responsibility (with regards to both leadership traits and work life balance) can prevent female professionals putting their names forward or being promoted into these roles early in their careers. The men who do get such opportunities are, from that point, on faster and better-paid career trajectories. Financial firms must overcome these biases (see initiative 1) and position women in P&L roles early in their careers. This will prepare them for promotion to senior P&L and CEO roles later in their careers.

Placing high potential women into business line roles can be seen as part of a more general policy of designing career paths that rotate people between business lines and support functions. Such rotation has long been recognized as a good way of giving staff a broader understanding of their institution and the various dimensions of its business. However, care needs to be taken to avoid the perception of "tokenism".

Some banks, such as the Royal Bank of Canada[16], are now doing this as a way of enabling talented women to move into more male-dominated areas. As with other initiatives aimed at increasing gender diversity, we believe that role rotation will be more generally beneficial for firms, giving all their staff, both men and women, a more rounded view of their enterprise.

16 RBC Employment Equity Report 2012

3 ADOPT FAMILY-FRIENDLY PRACTICES, FOR ALL

Expectations about working hours and time spent at the office put working parents (and those with other caring responsibilities) at a serious disadvantage. Although men increasingly share parental and other domestic duties, surveys reveal that women still take on the majority of the burden and act as the "line of last defence" (for example, when childcare arrangements fail), even when they have full-time jobs outside the home.[17]

Employers who want to help women advance to the top must do more to make allowances for life outside of work. They must make sure that even ambitious and talented employees do not feel that they will have to work hours incompatible with a family life.

Moving away from a culture of long hours, office-based work and "face time" will not be easy. However, firms can take simple steps to start this change process. Many are investing in technological solutions to make working from home easier and less disruptive.

Managers are focusing more on outputs (i.e. deliverables) rather than inputs (e.g. hours spent in the office or billable hours) to assess performance, and realizing that "flexible working" does not have to mean "less work done".

For example, Zurich has launched initiatives to improve workplace flexibility. The principal driving its "Agile Working" approach cover both hours, place of work and the opportunity to mix part-time and full-time work with the flexibility to move to other offices around the globe. This makes them more attractive to a diverse workforce including mothers and fathers with family demands.

"I think technology will play a key part in the future workplace. Firms will need to figure out how to leverage technology to foster strong engagement and provide flexibility – in particular for women"

Seraina Maag, President and CEO of EMEA region, AIG

"It's important to stop the concept that you've got to be available 24 hours a day in all parts of the globe to succeed"

Rachel Lomax, Board Member, HSBC and former Deputy Governor of the Bank of England

"If I take three years out of work and return three years behind an equally able peer who stayed for those three years, I can accept that as fair. But if I was to take three years off and return five years behind an equally able peer or with limited career progression, I doubt I would accept that"

Sarah Pierce, Investment Director, Praesidian Capital and 2013 "Woman of the Future: Professional"[18]

"By having this flexibility we're able to retain and attract a diverse workforce. Some people are sceptical; this is a cultural and mind set change. We need to improve the skills of managers to work with employees who are not necessarily physically in the office all the time"

Cecilia Reyes, CIO, Zurich Insurance

17 Pew Research Center March 2013, Modern Parenthood, indicated that in the US on average women spend 32 hours a week on child care and housework while men only spend 17 hours a week.

18 http://womenofthefuture.co.uk/awards/2013-winners/

AXA have introduced an Employee Charter called "Working Better Together", to which the entire senior management team has signed up. This sets out expectations around working practices, for example, "I avoid sending emails late at night or during the weekend and if I do, I do not expect any answer until the next working day" and "I schedule meetings between 9:00am and 7.00pm".

It is not only female employees who benefit from such measures. Many men who could be effective senior leaders do not conform to the old stereotype either. They too appreciate and are motivated by flexible hours and the ability to work from home. What supports female employees also supports a workforce that is diverse in respects other than gender, such as religion, ethnicity, family responsibilities and idiosyncratic preferences.

Parental leave must become a standard expectation for men as well as women. Female employees who give birth can hardly avoid taking at least some maternity leave. To make it clear that doing so in no way signals a lack of commitment to the firm or career ambition, male employees should be strongly encouraged to take paternity leave and work flexibly. This would also help to mitigate the stigma currently associated with flexible working arrangements.

"Formalizing these 'unwritten rules' has helped to set expectations and facilitate transparent discussions about whether working late hours is really necessary"

Marine de Boucaud, Director, HR, AXA

"'Own the way you work' is a flexibility initiative not focused on gender but on the individual's need for flexibility, e.g. employees can pick up kids from school, work from home ... The result of the new flexible working conditions can have a significant increase in productivity and quality"

Alison Martin, Head of Life & Health Business Management, Swiss Re

"Women in senior roles who take leave for maternity or other family care can cause resentment amongst peers. It's not easy to fill leadership roles in the interim and people have to work hard to cover for them. If both women and men were doing this then it would become a 'parent / carer thing' rather than a 'gender thing'"

"It takes true bravery for a male CEO to be seen picking up the kids from school and working flexibly - but it has a very positive impact throughout the business when he does"

Karen Wilson, CEO, Hoggett Bowers

4 SUPPORT RETURNEES

One way to find experienced and skilled women for management roles is to help those who have previously left to return. A talented woman may have left her job at a financial firm to raise her children. When her children begin school a few years later, she may be keen to resume her career. Yet the prospect of returning to the workforce after five years away can be daunting. Very few job descriptions do not specify that recent experience in a particular field is required.

Financial firms are beginning to encourage women to return and help them through the "re on-boarding" process.

For example, "Return to Bay Street" is a Canadian industry collaboration which provides internships for senior female bankers returning to the workplace. In 2008, Goldman Sachs launched a "Returnships" program, a 10 week internship for experienced professionals. Like a traditional internship for graduates, former professionals are given the opportunity to explore a new area of expertise or to go back to areas they previously worked within, even though these might have changed significantly while they were away.[19] This year Credit Suisse launched "Real Returns"[20], a similar 12 week internship program, and Morgan Stanley launched a 12 week program called "Return to Work"[21].

In 2012 Bank of America chose a slightly different way of bringing women back by launching their "Returning Talent Program" together with the Mumsnet Family Friendly Program and The Executive Coaching Consultancy.[22] This comprises a full-day conference and a two day workshop with a focus on supporting the transition back to the workforce, covering CV writing, interview skills and insights on how to balance work and home life. The co-sponsors of the event also provide executive staff mentoring and coaching.

19 www.goldmansachs.com/careers/experienced-professionals/returnship

20 www.credit-suisse.com/us/en/careers/experienced-professionals/working-with-us/career-development/real-returns

21 www.morganstanley.com/about/careers/return-to-work

22 newsroom.bankofamerica.com/press-releases/community-development/bank-america-merrill-lynch-returning-talent-program-opens-app

5 SPONSOR FROM THE TOP

Up-and-coming male employees often benefit from informal mentoring, typically from a more senior male colleague with whom they strike up a close relationship. This informal mentoring support often creates a beneficial role model, as well as a 'sponsor' relationship, whereby the senior employee advocates on behalf of the junior employee in the allocation of promotions, projects and resources, and in performance management discussions.

The majority of up-and-coming female employees are less likely to strike up such relationships because most of the staff above them are men. Such a relationship can even be perceived as inappropriate. The paucity of accessible role models, mentors or sponsors makes it more difficult for women to navigate a challenging career path.

In addition, much internal and external networking is done informally in traditionally male-dominated places such as pubs, sports events or even, as in Russia, saunas[24]. This puts women at a further disadvantage.

To compensate for these structural disadvantages, financial firms should construct formal mentoring and sponsoring relationships for their talented women, ensuring they get the same kind of advice and guidance more readily available to their male colleagues. These male sponsors may also benefit from some of the training highlighted in initiative 1, to ensure they are aware of their own biases and how to manage them.

"I think it is not a gender issue per se but due to the unconscious bias, we tend to be more comfortable mentoring and providing feedback to those who are like us, as opposed to actively going out looking for people with different skillsets"

Sue Kean, Group Risk Officer, Old Mutual

"It's the classic example of men doing business down at the pub. Men meet with their suppliers, colleagues and business groups in certain places and times that are not always convenient for women. It's perfect for them since they've designed it for themselves but women get excluded"

Chris Sullivan, Deputy Group Chief Executive, RBS

"I was fortunate enough to have a couple of very good sponsors early in my career that put me into stretch assignments"

Seraina Maag, President and CEO of EMEA region, AIG

24 See "Spotlight on Russia"

Given the lack of female leadership at most institutions, particularly in P&L and CEO-pipeline roles, junior women have few senior role models. This can place a lot of pressure on the few women who have made it to senior positions to take on extra mentoring, promotion and other responsibilities. Such women are also highly visible, and often feel disproportionate pressure not to fail.

Many senior women are happy to play this role, but it can be time-consuming and is sometimes referred to as the "female tax". Firms must be careful not to disproportionately give responsibility for female mentorship to senior women.

Senior men must also foster future female leaders. Those that do often find the experience to be highly beneficial – not only do they build their own "followership", but they also gain startling first-hand insights into the challenges faced by ambitious women in their industry.

"Senior women in industry often gain a lot of media attention [more than equivalent men], not all of which is welcome or productive, and this can be distracting"

Dame Clara Furse, Board member, Nomura Holdings, Member the Bank of England's Financial Policy Committee and former CEO of the LSE

"When you're the only woman in the room, you feel like you're representing womankind"

Helen Rose, COO, TSB

"Female mentors do appear to have a larger number of people to mentor than the average senior man. It becomes a numbers game as female mentors are so few but it is also a great opportunity to make a real difference to our talent pipeline"

Angela Darlington, CRO, Aviva Life UK

"We have a 'Tandem' program, in which a senior executive will sponsor a high potential woman. For a lot of these senior men, hearing the women's personal stories really makes a difference, it's very powerful"

Marine de Boucaud, Director, HR, AXA

"Sponsoring our emerging female leaders has significantly raised my awareness of the challenges women face at work and at home; but has also made me much more sensitive to issues affecting all of us"

Nick Studer, Managing Partner Financial Services, Oliver Wyman

MEASURE PROGRESS… BUT WITH CARE

6

Finally, if financial firms are to make progress on increasing diversity, they cannot treat it as a side-line activity. Increasing diversity must be a priority for the most senior management in the firm and not merely for HR.

Crude targets and quotas can be counter-productive, posing the risk of "tokenism" and in extremis provoking resentment from some quarters. However carefully considered measures and metrics, added to scorecards and Key Performance Indicators (KPIs), do serve to track progress and focus management attention. Examples might include:

- ✓ % ExCo and Board members that are women
- ✓ % promotions to one and two levels below ExCo that are women, or % increase in representation of women at these levels
- ✓ Ensure all short-lists for key positions include at least x credible female candidates
- ✓ % of staff on "high flyer" or "fast track" programs that are women
- ✓ Ensure all ExCo members mentor and sponsor at least one high potential woman (with criteria in place to ensure that the mentoring and sponsorship is of sufficient quality and frequency)
- ✓ Increase retention rates for female staff at mid and senior management levels by x%
- ✓ % managers who have completed unconscious bias training

Performance against these targets should be reported at a senior level (for example, the Board Sustainability Committee) and included in the overall review of senior executives. It should influence compensation. This is especially important for an industry run on metrics.

"Some tend to hide behind the processes – 'we have the right promotion practices, the appropriate maternity policies' – but it is more about senior leaders making this a priority day in and day out"

Marine de Boucaud, Director, HR, AXA

"Companies need to gather more data on this topic to understand where the problems are, otherwise we won't get anywhere"

Carol Sergeant, Board Member, Danske Bank

"In financial services, to make a change we have to play the numbers game"

Helena Morrissey, CEO, Newton Asset Management and Founder of the 30% Club

CONCLUSION

This may all sound like a lot of hard work, especially when financial firms have much else to worry about, facing challenging market conditions and complying with new regulations in the wake of the largest financial crisis in 80 years. But firms that are apathetic about gender diversity and drag their feet will be making a serious mistake. At its core, increasing diversity in the senior ranks of financial firms is an important business matter. Legislators and regulators seek it and, increasingly, so do shareholders, employees and customers, for the sensible reason that it improves decision making, performance, sustainability, service and long-run profits. We firmly believe that for this to become a true and sustained normal, diversity must move from a nice-to-have HR project to a basic requirement for the leadership of all financial institutions.

The success of financial firms depends on the calibre of their staff and their corporate culture. The "alpha-male" dominated cultures of the recent past won't cut it any longer. Firms in "knowledge" and customer service industries need to draw on the full breadth of talent and perspectives relevant to their line of business.

Increasing diversity will create a virtuous cycle as more senior women not only provide role models but allow institutions to reach the critical mass at which senior women become a normal and influential part of the ExCo.

We are optimistic for the future. More than a third of our interviewees felt that the industry was approaching a tipping point, a revolution in gender balance rather than a gradual evolution. Investment is available, senior managers want to see change and the business case is clear. However innovative thinking and sustained pressure is required. The financial services sector should be leaders, not laggards, when it comes to gender diversity. The current pace of change is not fast enough.

The articles that follow look in more depth at particular facets of this challenge. They seek to add financial services-specific insights to various dimensions of the ongoing gender debate, to provide senior financial services industry managers with a deeper understanding of the issues and to suggest actions firms can take to successfully benefit from this opportunity. We hope they will provide interest and guidance for male and female readers alike.

"In today's war for talent, any organization that misses out on 50% of the talent of the world needs a wake-up call"

Euleen Goh, Chairman of Singapore International Foundation and Board member at DBS Group Holdings Ltd, CapitaLand Ltd, SATS Ltd, Royal Dutch Shell plc and former CEO of Standard Chartered Bank Singapore

"It is a classic question of competition driving quality: healthy gender diversity is healthy competition. More people competing for senior roles ultimately improves quality of professionals selected"

Sarah Al Suhaimi, CEO, NCB Saudi Arabia

"Until women achieve critical mass at leadership level, things will not truly change"

Laurence G Hainault, MD, Head of TMT France, Investment Banking, Credit Suisse

WOMEN ON THE BOARD: TOKEN OR TOTEM?

MICHELLE DAISLEY

The gender balance of Boards[1] has received much attention over recent years. Whether or not you agree with having quotas or targets for female Board members (and the jury is still out), they have clearly had an impact at major companies, including financial institutions. Our analysis of the Boards of over 150 of the world's leading financial services firms reveals that, on average, FS Boards were 20% female in 2013. This compares to 15% in 2008 and 12% in 2003. Only 14% of these Boards were entirely male in 2013, compared to 20% in 2008 and 29% in 2003.

"We've opened the lid on the cosy club"

Helena Morrissey, CEO Newton Asset Management and Founder of the 30% Club

To achieve this (and to avoid "tokenism"), corporations have needed to conduct more thorough and creative searches for credible female candidates. This has also had the benefit of increasing diversity in other respects – such as experience, skills and temperament – among male board members too.

This increased diversity has been particularly valuable for financial services, an industry where recent mistakes have been attributed to "groupthink", insufficient challenging of senior managers' ideas, and losing touch with customers.

"Companies are having to look further afield for competent female Board member candidates. These women, originally from non-FS industries, offer observations from different angles in the decision-making process, which can be really valuable"

Dame Clara Furse, Board member, Nomura Holdings, Member the Bank of England's Financial Policy Committee and former CEO of the LSE

However, as those efforts continue, the drive for diversity needs to be extended. We make four suggestions.

1 BROADEN THE IDEA OF DIVERSITY

Boards must continue to search for strong and diverse candidates. But diversity should not be understood simply as a matter of gender or race. Boards should be looking for candidates who have been successful in different fields and in different ways, going beyond those with the kind of corporate experience who now dominate boards. For example, they should look at entrepreneurs and at people who have held senior positions in the charity sector, trades unions or consumer associations.

"It's a question of looking at some of the non-typical paths to the Board, especially women and people with different backgrounds than the current norm for a board member. Boards should look at other professions such as the public and legal sectors, etc. where they could find more women"

Jane Fraser, CEO of Citi's U.S. Consumer and Commercial Banking and CitiMortgage

1 The Board of Directors under unitary-board structures; Supervisory Boards under dual-board structures

2 EQUIP CHAIRS AND BOARDS TO MANAGE DIVERSE GROUPS

Board Chairs need to be aware of the changed dynamics. Studies have shown that diverse groups can be more effective but can also be more difficult to participate in and to manage. What is more, diverse groups are not automatically immune from the uniform responses and unconstructive interactions that can dog homogeneous Boards. A skilled Chair can allow even a traditional, all male group to interact constructively with minimal posturing or groupthink, while a diverse group will not rescue a poor Chair.

"Diversity is less comfortable for everybody. It's more difficult, and that is one reason why it doesn't "just happen". You have to do things differently, and show a bit of empathy and imagination in dealing with other people. You cannot take things for granted in a mixed group, you have to work harder."

Rachel Lomax, Board Member, HSBC and former Deputy Governor of the Bank of England

3 PUSH DIVERSITY INTO MANAGEMENT ROLES

The recent uptick in female non-executives at financial firms has not been mirrored at the executive level. In fact, our analysis of major global FS firms revealed no correlation between gender diversity in the Board and in the Executive Committee (or Managing Board), even when taking into account a 10 year time-lag. Female Non-Executive Directors can, and do, invest time and energy in improving gender diversity among the management of their institutions, mentoring and sponsoring high-potential women and acting as role models (or "totems[2]"). However it is difficult for them to significantly increase the "pipeline" of senior women executives on their own. Board members are unavoidably remote from day-to-day operations and from most employees. To drive diversity into their organization they must press senior executives to meet their targets.

2 "Totems" are objects that are believed to have spiritual significance and that are adopted by groups as emblems. Here we use the term to refer to the way that female Board members are often emblematic role models for female employees

"At our Board, [the female Board Members] meet women in each office. They go around the world and these sessions are always packed. There is a real hunger for role models"

Jane Fraser, CEO of Citi's U.S. Consumer and Commercial Banking and CitiMortgage

"Gender diversity needs to be incorporated across all levels and whilst the current emphasis at Board level is great news I'm slightly concerned that the momentum won't extend further down the pipeline. Boosting awareness and participation at the top end would ideally have a knock on effect through the executive and management levels, but unfortunately we don't see much evidence of this at the moment "

Helen Crofts, The-Women's-Insurance-Net-Work (TWIN)

4 MEASURE AND PRESSURE

The success of the "Women on Boards" campaigns has been impressive, providing two valuable lessons for those tackling gender diversity lower down in the pyramid. It has demonstrated the merits of having clear and measurable goals, independent of any debate about quotas. And it has shown that scrutiny and pressure from investors and the media can galvanize effort. Given the increasing supply of talented and qualified women, a failure to increase the numbers of women in executive positions should be treated like any other kind of underperformance.

Women have been part of the work force in Western countries since World War II. But until the 1990s, women were typically expected to work only until they had children and hence to occupy only junior roles. These expectations are well and truly gone, yet women are still badly under-represented on the uppermost rungs of the corporate ladder. Campaigners and committed senior management need to keep pressing to achieve the diversity that (almost) everyone claims to seek.

WOMEN IN FINANCIAL SERVICES

SPOTLIGHT ON CANADA: A WEB OF SUPPORT FOR GENDER DIVERSITY

ALAN MCINTYRE
LISA QUEST

The statistics suggest Canada is one of the better countries to be a professional woman in the financial services industry. Female representation on the Boards and ExCos of its financial institutions is 25% and 23% respectively, making Canada the 3rd highest ranking country for Executive Committee gender diversity in our sample, behind Norway and Sweden. This high ranking of gender diversity of the Canadian financial services industry shows that it is pulling above its weight when compared to the overall Canadian society, which got a ranking of number 19 in the latest WEF Global Gender Gap Report[1].

There has yet to be a female CEO of a major Canadian financial institution, but with the strong pipeline of female candidates in senior "CEO pipeline" positions, it appears to be only a matter of time. Unlike other countries with many women in senior positions, more Canadian woman have also broken out of traditional female executive roles, such as HR and Marketing. Across, the top five Canadian banks, women now occupy almost the full range of C-suite positions including CFO, CRO, and heads of major business lines.

"If we really want to build leaders of the future, they better be in those roles that we think are going to be differentiators for the future success in the institutions"

Linda Mantia, Executive Vice President, Digital, Payments & Cards, Royal Bank of Canada

The gender diversity at the top of Canada's financial firms is explained by several factors:

- Long-established social policies that promote equal opportunity, including the Employment Equity Act of 1986, subsidized education, tax-funded healthcare and year-long maternity and paternity leave
- Open immigration policies that result in high levels of ethnic diversity, particularly in major cities. This diversity has forced Canada to confront and deal with a range of inclusion issues
- Industry associations, such as Women in Capital Markets, provide forums for sharing stories, create programs like 'Return to Bay Street' to attract women who have left the industry back into the workforce, and build networks for formal and informal mentoring
- Awards ceremonies, such as Canada's Most Powerful Women: Top 100, which recognize top female contributors in the industry
- Firm specific initiatives such as BMO Women's Day and "WISE" - Women in a Supported Environment, RBC's Women in Leadership program, Diversity@Scotiabank, and CIBC Women's Network which support and inspire female leadership and diversity
- New rules such as 'comply-or-explain' which is set to be implemented by the Ontario Securities Commission at the end of 2014. This rule, which will be applicable to over 1,000 corporations that trade on the TSX, requires companies to reveal the number of women on their BoDs, in their executive ranks and across their workforce. Companies will also be asked whether they have a formal policy in place for advancing women in their senior ranks. Compliance is voluntary, but those companies that choose not to divulge this information will be asked to explain why not [2]

While these factors are not uniquely Canadian, this web of reinforcing cultural, governmental, industry and institution-specific factors has provided opportunities to an inspirational group of female business leaders in Canadian financial services who are raising the level and tone of conversations on gender issues, demonstrating that diversity benefits the whole industry, and acting as role models for aspiring young women.

The signal that the industry values inclusion and diversity also fosters broader discussions about working patterns, management priorities and leadership styles that challenge conventional ideas about how the industry should be run. The diversity of opinions around the management tables of Canadian institutions may be one reason why they fared relatively well during the global financial crisis.

1 World Economic Forum, "The Global Gender Gap Report 2014"

2 http://www.lexpert.ca/magazine/article/gender-rules-proposed-2575/

"Senior Executives in Canada are tackling both conscious and unconscious bias as barriers to inclusion and progress, but Toronto is ahead of the pack because we are an extremely culturally diverse city which naturally brings different points of view to the table"

Jennifer Tory, Group Head, Personal and Commercial Banking, Royal Bank of Canada

However, there is little self-awareness within the industry of Canada's leading position in gender diversity. Particularly in Capital Markets, many non-executive female employees were unaware that Canada had higher than average female representation, being more aware of how far it still is from 50%.

"If Canada is leading I'd hate to see what the rest of the world is like!" and *"The boys' club on the trading floor is as alive as ever, some of the statements about women would be too shocking to publish"*

Mid-level investment bankers

Our conversations revealed that more still needs to be done to increase the number of women in senior positions and to change the perception that financial services favors traits that are inherently male. Failure to continue the good progress of recent decades will mean that financial firms fail to properly benefit from half of the talent pool, and fail to profit from their female staffs' full potential.

"As leaders of diversity and inclusion, we cannot become complacent. It's like holding a large rock on a hill, just standing still requires significant effort. Lose your focus and the rock starts to roll back on you – wiping out any progress with it"

Zabeen Hirji, Chief Human Resources Officer, Royal Bank of Canada

Senior Executives we have spoken with agreed that they must continue to push the diversity agenda at all levels of their firms. To this end, major Canadian financial institutions are pursuing plans to:

- ✓ Increase women's ability to re-onboard through industry internship programs, flexible working conditions and formal and informal mentoring for women. *"One of the most important things we can do is to help women see that there is an on-ramp back into the industry and support them when they take it. Bringing experienced women back to the industry is critical to building a pipeline for leadership roles"* - ***Jennifer Reynolds, President & CEO, Women in Capital Markets***
- ✓ Bring men more into the conversation and encourage them to take paternity leave and sabbaticals. *"Gender diversity issues will not be solved by only women. Men need to be (and want to be) brought into the conversation and given the same opportunities. For example, I told one of our group head's that he should be encouraging all of his guys to take paternity leave"* - ***Colleen Campbell, Vice Chair, Bank of Montreal***
- ✓ Increase flexibility and diversify traditional career progression paths. *"We focus on proactive coaching and mentoring of individuals with potential. We encourage early broadening moves and developmental activities including exposure to areas core to the organization (including client management, lending, risk management, and product management), cross-functional projects and external not for profit directorships."*- ***Shauneen Bruder, Executive Vice President, Operations, Personal & Commercial Banking, Royal Bank of Canada***

Not all the problems faced by women working in senior roles come from inside their firms. Demands on the time of a senior banker are significant and can impinge on life outside of work. Just as firms must accommodate the family and social lives of their employees, so must families and society accommodate the work life of senior women executives. Hence, the changes required here are not matters only for financial firms but also for policy makers and opinion formers more generally.

Given all of the attention that has been paid to the issue of diversity over recent years, and given the successes we have highlighted, we wondered: "When will the battle be over?" We got a characteristically understated and simple Canadian answer: *"When we don't have to talk about it [gender diversity], the battle has been won"* - ***Jennifer Tory, Group Head, Personal & Commercial Banking, Royal Bank of Canada***

RISK CULTURE: NO SILVER BULLET

MORE WOMEN ON THE TRADING FLOOR IS NOT THE ANSWER FOR IMPROVING RISK CULTURE

LINDSEY NAYLOR

WHAT CAUSED THE FINANCIAL CRISIS?

Many answers have been offered. One that has proved popular with the media is that too many senior bankers and trading room staff are men. Lehman Brothers would have fared better if it had been Lehman Sisters.

Nor is the idea popular only with journalists. For example, the UK Parliamentary Commission on Banking Standards has said that "More women on the trading floor would be beneficial for banks. The main UK-based banks should publish the gender breakdown of their trading operations and, where there is a significant imbalance, what they are going to do to address the issue ..."[1] European Union regulators have also claimed that banking would have a better "risk culture" if more of those working in it were women[2].

As an advisor to financial services firms, a specialist on culture in Wholesale Banking and a woman, I can tell you that the issue is not so simple. Creating a culture of responsible risk-taking is a complex challenge. No single answer, such as "More women!" will suffice.

Diversity in a firm's workforce helps to avoid "groupthink" and thereby improves its risk culture. But diversity is not a panacea. As this article explains, true diversity is just part of a more comprehensive approach that banks should take to creating a responsible risk culture.

WOULD MORE WOMEN MEAN LESS RISK?

The idea that increasing the number of women in banking would reduce risk has two main justifications. The first is that some academic research finds women to be generally more risk averse than men[3]. The second is that diverse groups are less inclined towards "groupthink", more likely to identify a wide range of risks and, thus, likely to make better decisions.

From these observations, many find it a small step to the conclusion that increasing the proportion of senior managers and dealing room staff who are women would create a more responsible risk culture at banks. In fact, it is big step. Much more is required to arrive at the conclusion that more women would mean less risk.

First, the idea that women are generally more risk-averse than men is subject to doubt. As mentioned, some academic papers support the thesis but others undermine it[4]. Despite the popularity of the idea in the media, the academic jury is still out. The views of the Senior Executives and FS professionals we have interviewed for this report are also inconclusive: some feel that their female colleagues often have another approach towards risk compared to men but others think that in terms of risk appetite there is no clear difference at all.

"Women generally tend to be more thoughtful in risk taking, not necessarily more risk averse"

Euleen Goh, Chairman of Singapore International Foundation and Board member at DBS Group Holdings Ltd, CapitaLand Ltd, SATS Ltd, Royal Dutch Shell plc and former CEO of Standard Chartered Bank Singapore

"Women are far more trusting of their own decisions and intuition, therefore are not afraid of calculated risk taking"

Jenny Knott, Strategic Advisor to Group CEOs, Standard Bank Plc

"I wouldn't say that there is any difference in risk aversion between men and women. I think it's quite equal in that perspective"

Gunnar Palme, Chairman of the Supervisory Board of Skandia Mutual Life Insurance Co.

1 UK parliamentary Commission on Banking Standards "Changing banking for Good", Volume 2, article 769.

2 DIRECTIVE 2014/65/EU OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL of 15 May 2014, Article53

3 National Bureau of Economic Research, 2009, Working paper 14713, L. Borghans, B. H.H. Golsteyn, J J. Heckman, H. Meijers, "Gender differences in risk aversion and ambiguity aversion".

4 Beckmann and Menkhoff (2008), "Will women be women? Analyzing the gender difference among financial experts".

Global Development and Environment Institute, working paper no. 12-05, J. A. Nelson (2012), "Are Women Really More Risk-Averse than Men?"

A. Hibbert, E. Lawerence, A. Prakash (2008), "Are women more risk-averse than men?"

Journal of Financial Research 26 (1), 1–18. (2003), Atkinson, S. M., S. B. Baird, and M. B. Frye, "Do female mutual fund managers manage differently?"

Second, there is no reason to assume that women who get to the top in banking or who succeed on the trading floor will resemble the average or stereotypical woman. As our interviewees pointed out, women who work on trading floors tend to be anything but average. Indeed, one senior executive pointed out that they had known "plenty of crazy, irresponsible risk-taking female traders" in their time!

The same point applies to avoiding groupthink through diversity. The diversity required is diversity in outlook, temperament, experience and education: in short, diversity of thought. "All women" is a large group and hence a diverse bunch, and so are men. There are billions of women and billions of men but only tens of thousands of people who work in risk-taking roles at banks. So there is no reason to assume that the atypical women who are drawn to work in these roles, and who are hired or promoted to occupy them, will have habits of thought that differ much from their (slightly less) atypical male colleagues.

Finally, a minority will be unable to change an organization's culture. And women are likely to remain a minority in risk-taking roles at banks. Women traders may simply be regarded as "the cautious ones in the corner" while the men continue to set the overall tone.

In short, simply increasing the number of women in senior positions and dealing rooms is unlikely to create the desired risk culture. Risk culture is too complex to be amenable to any such simple solution and thinking that it would, might delay the other key actions which are needed to improve the situation.

"If it were true that women on Boards never take risks or are more risk averse, I can't see how businesses driven by women would succeed. And yet they do."

Jane Barker, Chairman of the Board, Mercer UK

"If you had more diversity then you might have taken control of some of the more extreme views in a better way. But it is the diversity which is key, not just adding women"

Jane Fraser, CEO of Citi's U.S. Consumer and Commercial Banking and CitiMortgage

RISK CULTURE IS MULTIFACETED

A bank's risk culture arises from many influences. These include recruitment, training, incentive schemes, internal risk management practices, the external legal and regulatory environment, the behavior of competitors and the sophistication and expectations of customers, counterparties and investors. These influences may pull staff in different directions and only some are under the direct control of the bank's senior management.

Increasing the number of women in risk-taking roles can play a part in improving a bank's risk culture but it will only amount to a small change and is one of many relevant factors. To drive cultural change at banks, senior managers should take five interconnected steps. Hiring or promoting more women is consistent with each of them but it cannot suffice or substitute for them.

1

Set the tone from the top: Senior managers, right up to CEO level, have a critically important role in influencing a bank's risk culture. This requires them to engage with the issue, which few did before the crisis but most do now. Senior managers must communicate the desired approach towards risk-taking across the bank, including the value of diversity in managing risk, not simply through the policies adopted and messages sent to staff but through the example they themselves set.

2

Be clear about expectations: Translate cultural values into clear expectations for behavior. Staff must know what is and is not acceptable within the bounds of the desired culture. No "boys will be boys" or similar excuses should get people off the hook. Nor should good revenue performance. Nothing better communicates management's seriousness about risk culture than dismissing or disciplining a high earning transgressor.

3

Make sure staff are "living the values": Clarity about expectations is not enough. Actual behavior among risk-takers must be monitored so that senior management can be confident they are "living the values". To encourage transparency, staff must feel listened to and supported when raising cultural concerns.

4

Align incentives: The way employees are paid – and, most obviously, the way their bonuses are determined – must reinforce the desired risk culture. This goes well beyond the standard risk-adjustment of revenues generated by risk-takers. Variable compensation should be adjusted for conformity to the desired risk culture, perhaps measured by a behavioral scorecard.

5

Recognise the limits of culture: An organization with a sound culture can nevertheless contain individuals who fail to conform to it. Indeed, a sound culture creates opportunities for some of its members to "free ride". For example, it is easier to enter into fraudulent transactions when you represent a bank with a reputation for honesty. This means that success in creating the desired risk culture will not obviate the need for continued vigilance towards the inescapable risk of rogue behavior or simple sloppiness.

Cultures cannot be changed overnight. The idea that a responsible risk culture can be achieved simply by employing more women is a dangerous delusion. A healthy risk culture depends on much more than the ratio of men to women. Add women to a bank where senior managers send the wrong messages, where misconduct goes unpunished and where variable compensation rewards irresponsible risk-taking, and you will still have a bad risk culture.

To reform their risk-cultures banks require long-term programs led by respected senior executives. Change may be slow but, done this way, it should be systemic and sustainable. It's not sexy but it works.

SPOTLIGHT ON SWEDEN: GOING FROM GOOD TO GREAT

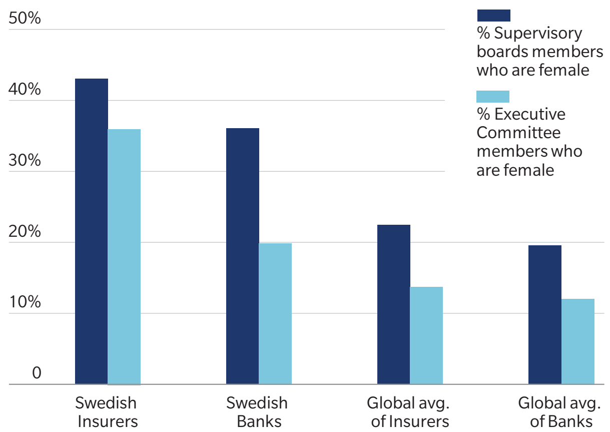
EVA-LOTTA NORDLING
KRISTIN SAMUELSSON

Financial firms in Sweden have succeeded in attracting women to their most senior positions. Women make up 35% of financial firms' supervisory boards (up by 32% in 10 years) and 29% of their executive management teams (up by 53%). By comparison, in Sweden's large cap listed firms – many of which are engineering based – 25% of supervisory board members are women and 18% of management teams. This makes Sweden a world leader in women's representation in senior FS positions (see Exhibit 1). Only in Norway, where the law requires 40% of supervisory board members to be women, are more senior positions at financial firms occupied by women.

"On our Supervisory Board we have a really diverse set of talents and it's fantastic; you almost fall off your chair! Not only are they all very talented, they have a range of different experiences."

Gunnar Palme, Chairman of the Supervisory Board of Skandia Mutual Life Insurance Co.

EXHIBIT1: WOMEN ON BOARDS AND EXCOS AT SWEDISH BANKS AND INSURERS VS GLOBAL AVERAGE (%)



Oliver Wyman analysis of company disclosures, global average of 150 firms

Sweden's success in getting women to the top in financial services is mirrored in the results of a recent World Economic Forum Gender pay gap report, which ranked Sweden fourth in the world for gender equality[1]. These results are unsurprising. Sweden is a small country with an egalitarian culture. Women gained the right to vote almost 100 years ago and, since WWII, Sweden has developed an extensive social welfare system. Several policies adopted since 1970 have been aimed at promoting gender equality:

- The tax advantage for married sole-income earners (typically men) was eliminated in 1971
- In 1973 maternity leave was replaced by parental leave. This now guarantees 13 months leave at 80% of the prior salary, capped at SEK 37,000 (USD 5,100) per month, paid by the state. An additional lump sum of SEK 13,500 (USD 1,900) is available to parents who divide parental leave equally amongst themselves. Firms commonly pay a parental salary on top of this[2]
- Subsidized child care is available from the day a child turns 1 year old if both parents are working, which is used by 98% of all children between 3 and 5 years old. Children aged from 6 to 13 years old also have the right to attend day care after the school day ends

"Men and women should take the same responsibility for housework and also have the same opportunity to care [for the family]"

Swedish Government[3]

1 World Economic Forum, "The Global Gender Gap Report 2014"
2 Sjögren Lindquist, G. och E. Wadensjö (2005)
3 Statistics Sweden, "Welfare" magazine, 2006

The men and women working within financial services in Sweden that we interviewed point out that unlike Sweden's industrial firms, which are export focused, FS firms are mainly domestic and therefore tend to require less travel, which perhaps helps managers combine work with family commitments.

Nevertheless, the situation for women in FS is still less than ideal. 53% of junior staff at Swedish financial firms are women. Yet CEOs and executives with P&L responsibility are still predominantly men. This suggests there is still room for improvement in moving women up through the ranks into senior positions.

Cultural changes are lagging government policy reforms. Swedes still expect women to take primary responsibility for domestic duties. Although men are taking more parental leave, they still take on average only 25% of the available parental leave[4].

Talented female employees often fail to advance into P&L leadership roles available to them because the opportunity arises at the same time as they are raising a family. The problem is exacerbated by the egalitarian Swedish culture, which strongly discourages hired household help.

Politicians can help to overcome this "paradox of egalitarianism" by no longer disparaging those who employ household helpers or the helpers themselves. These workers are not, as those oppose to a tax deduction on domestic services call them, "pigor" – the Swedish word for 19th Century farm servants who earned subsistence incomes.

"I do understand why it is a problem in the industrial exporting focused firms as senior executives need to travel much more"

Gunnar Palme, Chairman of the Supervisory Board of Skandia Mutual Life Insurance Co.

"You need to work with women earlier in their careers and give them P&L responsibilities early on. This type of knowledge is essential on an executive management team, so if we want women there, we need to prepare them for that"

Marie Ågren, Head of HR, Skandia Mutual Life Insurance Co

"This is hard for men. They want to be good fathers and to take 50% of the parental leave. However they still have trouble asking their employer, so they take extra vacation instead"

Young female professional, Swedish Financial Institution

"Swedish mothers feel guilty all the time. They should be ambitious and advance in their careers but they should also be good mothers, clean the house, pick the children up at school, cook and help with homework. They need to stop feeling guilty, break through the cultural pressure and buy help when needed. When I talk to my friends who are also mothers with careers, this is where we don't see how we can succeed in both roles"

Young female professional, Swedish Financial Institution

4 Försäkringskassan, The Swedish Welfare Insurance Government Entity

Despite some political support for the Norwegian approach, Sweden has not adopted legal requirements for women's representation. However, in May this year, the Corporate Governance Board[5] modified its Code[6]. According to the revised Code, good corporate governance is a matter of ensuring that companies are run sustainably and responsibly on behalf of their shareholders in order to gain the confidence of legislators, customers, employees and the general public. It stresses the importance of a broader recruitment base.

The Corporate Governance Board has also stated that the board nomination committees of listed firms should seek to ensure that on average 35% of board positions in large cap companies are held by women by 2017, and 40% on average for all listed companies by 2020. This statement is not part of the Code but is it clearly stated by the Corporate Governance Board as the timeline that firms should follow. In contrast to a law which, would immediately apply to all listed companies, the code enables a phased approach that considers specific industry differences. The Corporate Governance Board will also run a number of activities together with major shareholders and nomination committees, including meeting most of them to discuss the Board's gender initiative.

We expect the revised Code to influence nominations for supervisory board positions as soon as next year. We also expect it to increase the number of women appointed to senior executive positions. Not only does it send a message of intent from the Corporate Governance Board, but the members appointed to supervisory board positions are likely to exert influence. In Sweden, the CEO is appointed by the board and evaluated by the board. A CEO who fails to appoint women to senior executive positions is unlikely to satisfy the board.

Ambitious Swedish women are still restricted by social attitudes towards the role of mothers and hostility to paying for help in the home. Nevertheless, by international standards, Sweden is a "poster child" for gender equality in the workplace. Its egalitarian culture and social policies mean that Swedish women face fewer obstacles in getting to the top than women in other countries do, especially in the financial services sector. And the revised Code of the Board of Swedish Corporate Governance will further improve the prospects for women in listed corporates. Sweden can serve as a model for policy makers in other countries seeking to advance gender diversity in the workplace.

"Our board has gender balance in the scorecard for the CEO. It is about getting the numbers right: gender balance on all management levels and no salary difference between males and females holding same stretch in role and responsibility."

Member of the Supervisory Board
Swedish Financial Institution

"Improving the standing of women in companies goes beyond the election of directors to Boards. Many listed companies run ambitious gender equality programmes to broaden their recruitment bases for leading positions and directorships, and I hope more will follow suit."

Arne Karlsson, Chairman of the Swedish Corporate Governance Board

"What we don't talk about is the power of habit. Men are recruiting men but I do the same, I hire people similar to me"

CEO, Swedish Financial Institution

5 The Swedish Corporate Governance Board is a body of the Swedish Association for Generally Accepted Principles in the Securities Market which gets its mandate from Nasdaq Stockholm (the Swedish stock exchange) and industry associations (http://www.corporategovernanceboard.se/)

6 http://www.corporategovernanceboard.se/

MIND THE GENDER GAP: UNDERSTANDING WOMEN AS CONSUMERS OF INVESTMENT SERVICES

EMILY HAISLEY, PHD
BEHAVIORAL FINANCE
BARCLAYS WEALTH & INVESTMENT MANAGEMENT

Women make up a small portion of CEOs, executive board members, political leaders, and other positions of power. Even in Western countries women still earn about 20% less than men on average.

These disappointing facts can blind us to the extraordinary economic progress made by women over the last century. According to The Economist magazine, women's economic development is the biggest social change of our time. There are now as many female millionaires in the UK as male and, by 2020, 53% of UK millionaires will be women[1].

Financial services providers cannot afford to ignore the increasing financial independence and significance of women. They need to understand what differentiates women as investors in a financial services industry that was built around the preferences of men.

GENDER DIFFERENCES IN INVESTMENT

Gender differences exist. That is not in question.

For example, there is evidence that women display lower risk tolerance in the financial domain, both in their observed behavior and in their attitudes. Barclays find the same pattern with our Financial Personality Assessment, a diagnostic questionnaire used by Barclays' advisors to assess the risk tolerance and other relevant characteristics of our wealth management clients.

However, debates rage on in academic circles about whether these gender differences are innate or socialized. For example, new evidence shows that, unlike men, women do not display an enhanced physiological response when taking risk[2].

Women favor more risky, competitive incentive schemes in the Khasi matrilineal society in India (in which men are fighting for equal rights).[3] Anecdotally, female wealth managers agree that women do not enjoy risk for its own sake but argue that women are just as aggressive as men if there is clear evidence in favor of taking risk.

More dramatic than the difference in risk tolerance is the difference in perceived financial expertise as measured by our Financial Personality Assessment. Most women do not consider themselves as knowledgeable or confident in making financial decisions as most men do. We observe this trend even when looking at women who work in financial services. It is unclear whether men genuinely overestimate their expertise or simply over-stating their expertise, as when in the stereotypical case where the lost man refuses to ask for directions and insists he knows the way.

What are the implications of these behavioral tendencies or "biases"?

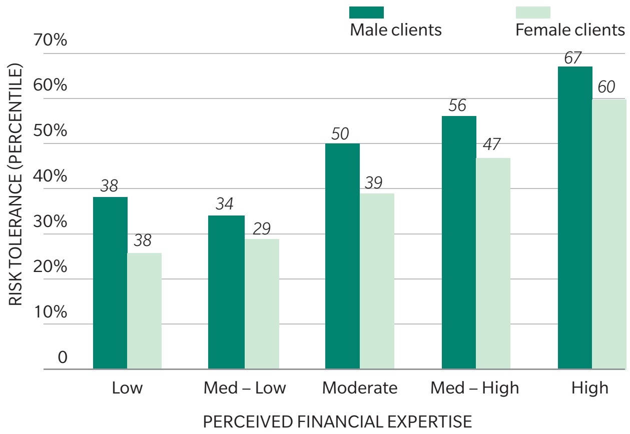
Men tend to invest first and ask questions later. Women place a greater value on financial education, feel the need to "go back to their research" and, anecdotally, push advisors with tough questions that challenge assumptions about risk. As Exhibit 1 shows, even women who have a great deal of confidence in their financial expertise still have a lower appetite for risk than equally confident men.

1 MDRC

2 Uberti, Pierpaolo and Lucarelli, Caterina and Brighetti, Gianni, Somatic Portfolio Theory: When Emotions Lead to Economic Efficiency (May 8, 2013). Available at SSRN: http://ssrn.com/abstract=2263137

3 Gneezy, Uri, Leonard, Kenneth and List, John (2009). Gender differences in competition: Evidence from a matrilineal and a patriarchal society. Econometrica vol 77(5).

EXHIBIT 1: RISK TOLERANCE BY LEVEL OF PERCEIVED FINANCIAL EXPERTISE: MEN VS. WOMEN (%)



Source: 9,400 Barclays Wealth high net worth client and prospect Financial Personality Assessments

A good financial advisor will be on the lookout for behavioral biases that may adversely affect a client's investment decisions. Our Financial Personality Assessment considers perceived financial expertise to identify overconfidence, a bias associated with excess trading that compromises returns. Women suffer from this bias less than men. However, women are more likely to suffer from under-confidence, a bias which may prevent them from entering the market to begin with and can be just as costly as over-trading.

Despite their low perceived expertise, women do not have a greater desire to delegate their decisions to a financial professional. Nor, as is often assumed, will women necessarily defer to their husbands when investing as couples. Advisors should be careful not to assume that the husband will be the default decision-maker.

Most online execution-only trading platforms are aimed at active traders with high perceived financial expertise and a strong taste for risk. In other words, they are aimed at a more characteristically male investor. Barclays is developing a service aimed at the intermediate-level investors which we hope will appeal to self-directed female investors. This service leads with financial education on basic investment principles, especially on understanding and managing risk through diversification.

Another difference is in the objective of the investments.[4] Rather than seeking returns for the sake of returns, women are interested in how their investment returns will help them meet their life goals. Moving the emphasis from beating the market to funding a lifestyle requires investment to be seen as part of holistic approach to financial planning. The right level of risk and liquidity of an investment portfolio cannot be viewed in isolation from the client's overall financial situation to ensure that she will have sufficient cash flow to meet her future expenses and ambitions.

IT'S A GOOD THING WE ARE DIFFERENT

While women's low level of financial confidence may look like a handicap, it can be an advantage. The confidence of male investors helps explain why they trade 50% more than women. But this trading incurs transaction costs and runs the risk of market mis-timing. As a result, one study found men earned an annual return 1.5% lower than women.[5] Married men have a lower trading frequency, suggesting that their wives are a moderating force.

More and more research is confirming the idea of a diversity premium. When people with different assumptions and behavioral patterns work together, results improve.

Investment clubs during the dot com boom that had gender or age diversity outperformed.[6] Over 2006 to 2011, hedge funds run by women or minorities outperformed by a margin of more

4 Hewlett, Sylvia, Moffitt, Andrea and Marshall, Melinda (2014), Harnessing the power of the purse: Female investors and global opportunities for growth, A Center for Talent Innovation report.

5 Barber, Brad M. and Terrence Odean (2001), Boys will be boys. Gender, overconfidence & common stock investment,Quarterly Journal of Economics, 116:261-289

6 Brooke Harrington (2008). Pop Finance – Investment Clubs and New Investor Populism. Princeton University Press.

than 4% per annum and have continued to beat hedge fund benchmarks in subsequent years.[7] Small businesses run by mixed-gender teams survive longer.[8] Several global studies find that companies employing women to their boards outperform their competitors on measures of financial performance such as Return on Equity and Price/Book Value[9,10]. Barclays has recently introduced an exchange-traded note that seeks to capitalize on this diversity premium by tracking an index of U.S. companies with gender-diverse leadership. The aim is to deliver a market-beating return with a social impact bonus.[11]

To understand why we observe this diversity premium, consider risk tolerance. In any setting, be it investing, entrepreneurship or management, the propensity for risk-taking will be helpful at some times and harmful at others. The key to long-run success is not to have male opinions or female opinions but to have diverse opinions that can help you see opportunities and threats in balance. Investors should be aware of their own individual propensity for risk-taking and surround themselves with people with different inclinations. That is how you earn a diversity premium.

CONCLUSION

The rise of the female investor is forcing financial firms to look at their offerings through a gender lens. This can do more than help them design propositions and service models better suited to women and to men who do not fit the typical male profile. Providing investors with statistically male and female perspectives can create a diversity premium on investment returns. As in other walks of life, men can benefit from the rise of women.

7 Strategic Consulting Analysis, May 2011 from the report Affirmative Investing: Women and Minority Owned Hedge Funds by Barclays Capital

8 Barclays SME Market Analysis and Advocacy Team Memorandum, June 2007

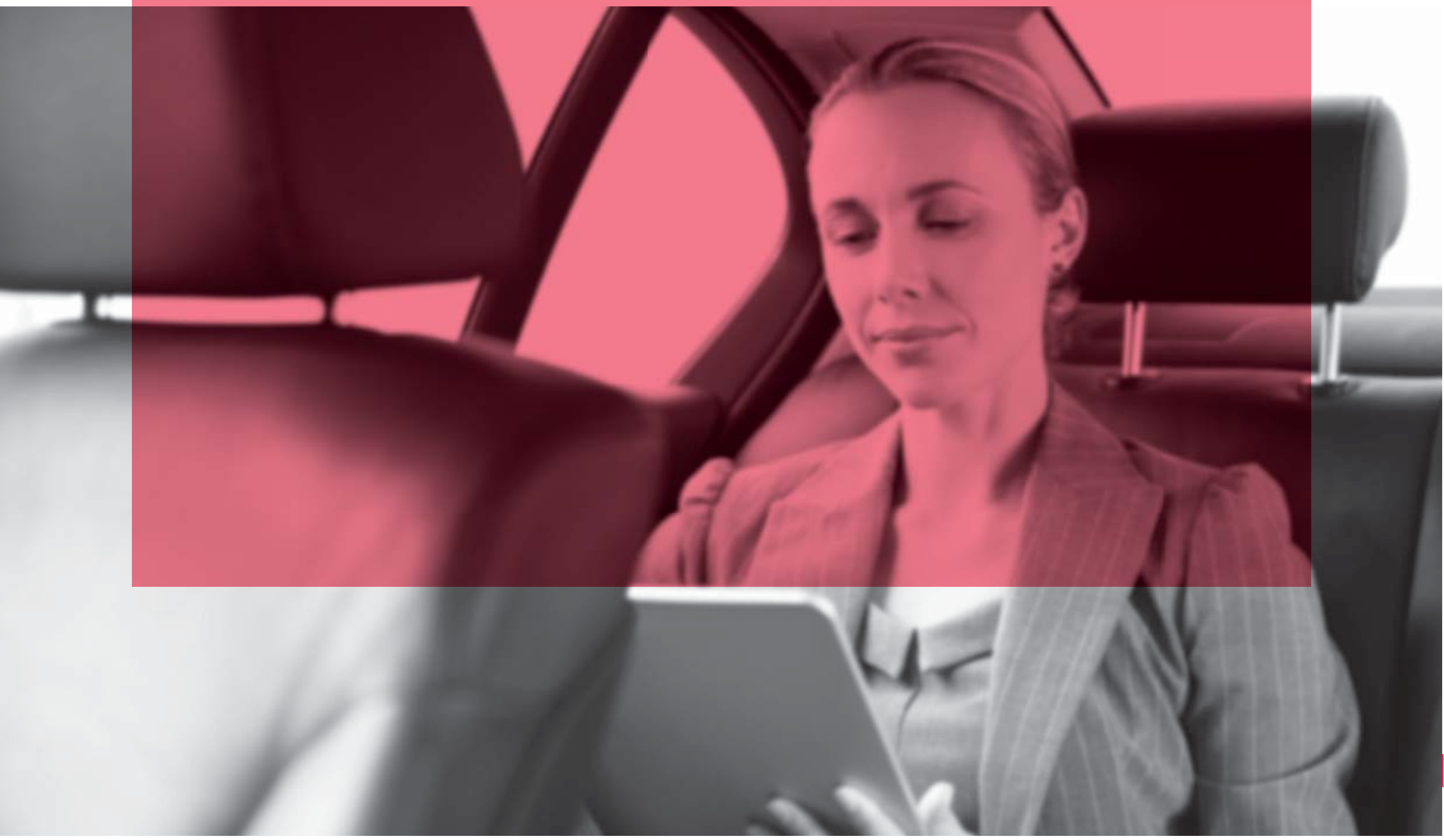
9 Credit Suisse, The CS Gender 3000 – Women in Senior Management, 2014.

10 Catalyst, The Bottom Line: Corporate Performance and Women's Representation on Boards, October 2007

11 http://fortune.com/2014/07/08/barclays-women-invest/

PICKING THE RIGHT BATTLE: LESSONS FROM THE GENDER DEBATE IN MOTOR INSURANCE

ARTHUR WHITE
RUPAL KANTARIA



In 2011 the EU surprised many in the insurance industry by severely restricting the use of gender in insurance rating models. Insurers were forced to revise their pricing and sales practices in motor, life and pensions.

The effect was most pronounced in motor, where gender had been such an important risk factor in pricing and underwriting that some firms had built brands around it, such as Sheila's Wheels and Diamond in the UK and 1st for Women in Australia. The ruling triggered shock and considerable resistance – some of the more intemperate reactions describing it as statistically illiterate.

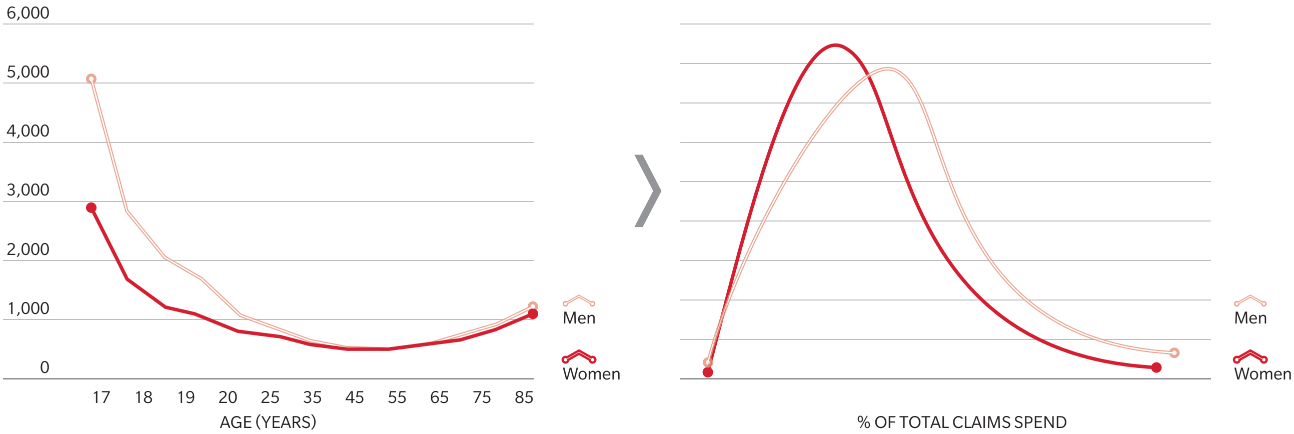
This accusation contained a grain of truth but it also missed the real point.

Motor insurers are in the business of predicting behavior – specifically, the driving behavior that causes damage. Like some other socio-demographic categorizations, gender is a predictor of driving behavior. Women are generally safer drivers than men. If you knew nothing else about an individual, gender would help you predict for the expected frequency of claims, particularly for young drivers. But it is an imperfect predictor. The spread within the gender groups still exceeds the difference between the averages of the groups.

EXHIBIT 1: DIFFERENT AVERAGE OUTCOMES CAN CONCEAL A BIG SPREAD

ESTIMATED AVERAGE PREMIUM BY GENDER (ABI 2011)

FREQUENCY OF TOTAL CLAIMS OUTCOME BY SIZE OF CLAIM (STYLISED)



It is a sign of how little insurers have historically known about their customers that they have relied so heavily on relatively crude proxies such as age, job and gender for predicting behavior. As better data and analysis become available, the importance of these old risk factors is waning. Insurers have already discovered better predictors for behavior. For example, it turns out that credit scores can help to predict behavior unrelated to borrowing. How people manage a credit line is a very good predictor of how they will drive or manage their household security. Indeed, when rescoring models in the light of the new data and modelling environment, one of our clients found that (adjusting for other factors) gender dropped a long way down the list of most significant factors.

"Risk technology" is also developing rapidly. For example, telematics allows insurers to observe customers' actual driving behavior – most importantly, the speed they drive and the rates at which they accelerate and brake (which can also be linked to driving conditions and location). If this technology comes into widespread use, insurers will no longer have to rely on predictors of driving behavior, and hence proxies such as gender will become increasingly irrelevant.

Organizations thinking about issues of gender diversity can learn from this episode in Insurance.

Initiatives aimed at increasing gender diversity in the workplace have triggered significant controversy and resistance in some quarters. Changes to recruitment procedures to encourage female applicants, gender targets and quotas for Board composition, changes to career progression expectations aimed at not disadvantaging women who choose to have children, or changes to working practices aimed at accommodating staff with family commitments (of which women still bear a greater share than men): all have attracted complaints about undermining meritocracy or being costly distractions from getting on with business.

We believe these complaints also miss the point. In the business of recruitment and retention, companies are interested in finding and keeping the widest possible pool of suitably talented staff. But it is not easy to "see through" to the underlying level of talent of prospective recruits, nor to know whether today's pool of talent in the firm is as good as it could be.

In the absence of a perfect metric of talent (or a technology-based fix as in motor insurance), firms must instead rely on predictors. We believe that a firm's ability to maintain gender diversity at all levels is exactly this: a key indicator for whether the firm is doing enough to recruit and keep a broad spectrum of talent of all types (not only women). A firm that can do better at finding and keeping talented women will become a more attractive workplace for its entire staff.

Organizations that work out how to avoid recruiting only "people like us", and avoid inadvertently selecting against women, will be better places to work and will have access to better talent. They will be more open to new ideas; they will expand the range of ways to be productive beyond the old template of "9 to 5 at a desk"; and they will not promote people only on the basis of their willingness to work 100 hour weeks. These firms will have a broader mix of talented and motivated staff, both male and female. Study after study has demonstrated this supports business performance, and will be increasingly important in the future.

In summary, in motor insurance gender has historically had some value as a scoring factor but only as a predictor of actual driving behavior. Despite some adjustment costs, the industry is now moving towards measuring this behavior directly, supported by new technology.

Unfortunately, in the business of recruiting and retaining high quality talent, there is no such technology based "quick fix". So predictors are still useful when building a firm's workforce. Gender diversity is a predictor of an effective workforce. Companies with little gender diversity should not be worried about gender per se. They should be worried because a lack of diversity is a strong indicator that they are failing to select, nurture and promote the best available talent – of any gender.

SPOTLIGHT ON RUSSIA

PHILIP GUDGEON
MAXIM BOGDASHKIN
NATALIA FOMICHENKO
NATALIA CHEBOTAR

By international standards, women are well represented in Russia's financial services industry. 16% of board members of Russian banks and 20% of executive committee members are women. By contrast, in Italy, Germany and Spain, women occupy less than 10% of Executive Committee positions in major financial firms. In Japan they occupy none.[1]

The success of women in Russian banking is an initially curious fact. Russia is unlike the other countries where women are well represented at senior levels in banking: namely Norway, Sweden, Canada and Australia.[2] These countries are wealthy and mature democracies, while Russia is a middle-income country and relatively new to democracy. Financial services outperforms other industries in Russia. Russia was only placed 75th in the 2014 World Economic Forum Gender Gap report but is in the top quartile of countries in our sample with regards to women on the ExCos of financial firms.[3]

What explains the surprising success of women in Russian financial services? The answers can in part be found in the country's 20th century history.

The USSR regime was keen to promote women's involvement in the workforce. In the early 20th century Russian women began working in industries that were still male preserves in the West. Today, more women than men attend Russian institutions of higher education; in 2012, 56% of Russian undergraduates were women[4].

The USSR destroyed commercial banking in Russia at a time when it was an exclusively male business in the West. Soviet Banking during the USSR regime was a "utility" business with no private ownership, profit or competition. Commercial banking is thus a new industry in Russia. Russian women confront no tradition of male commercial banking, if only because there is no tradition at all.

This feminist legacy of the USSR is reinforced by Russia's demographics. Russian men have a markedly shorter life-expectancy that Russian woman: 65 years for men compared with 76 for women.[5] This creates a dramatic gender imbalance. In Europe there are 93 men for every 100 women; in Russia there are only 85[6].

Banking and the role of women in society have distinctive histories in Russia. Yet the position of Russian women in banking may now differ little from the experience of women in other countries. They may face similar opportunities and similar barriers to getting ahead. To find out, we interviewed several senior female Russian bankers and conducted a survey of 200 professionals in Russia's financial industry.

Our survey shows that traditional leadership models for financial services in Russia are like those in the rest of the world: both consist of a narrow set of character traits that can be described as stereotypically masculine. This will have prevented talented employees from succeeding when they didn't fit the model and display these specific traits. However, ideas about leadership are changing, both in Russia and globally, with a longer list of more varied characteristics – including masculine, feminine and neutral traits – perceived to be necessary for success in the future.[7]

Our interviewees felt that Russian banking is a hospitable environment for women. Bella Zlatkis, the Deputy Chairman of Sberbank, told us that "if a woman is willing to build her career, she can do it; there is no glass ceiling in Russia". Ekaterina Petelina, Deputy President and Chairman of the Management Board of VTB24, said she has not encountered the sexual prejudice in the finance industry that she had experienced in the metals and mining industry, where she worked as a young consultant.

1 Company disclosures

2 Company disclosures

3 World Economic Forum, "The Global Gender Gap Report 2014"

4 Ratio of females enrolled in tertiary education, 2012, data.worldbank.org/indicator/SE.ENR.TERT.FM.ZS

5 Worldstat, 2012, Women - data.worldbank.org/indicator/SP.DYN.LE00.FE.IN, Men - data.worldbank.org/indicator/SP.DYN.LE00 MA.IN

6 Worldstat, 2011, Europe - http://en.worldstat.info/Europe, Russia - http://en.worldstat.info/Europe/Russian_Federation

7 Oliver Wyman survey data; masculine / feminine / neutral trait classifications as per The Athena Doctrine, April 2013, John Gerzema & Michael D'Antonio

This positive view of the financial services industry in Russia was also the consensus amongst the women Oliver Wyman surveyed. 85% of female Russian financial services professionals feel that it is a good industry to work in, whereas only 65% of female professionals share this opinion in the US and UK. 52% of Russian financial services professionals believe that there are already an adequate number of women in senior leadership roles within financial services, a view held by only 25% of female professionals in the US and UK.

Why then do Russian firms still fail to attract and retain enough women to have a gender balance closer to 50% at Board and ExCo level? And why do only 52% of all financial services professionals in Russia feel that men and women have the same opportunities to be promoted?

One female member of the Management Board of a major Russian bank believes that the lack of women in senior positions may be a result of Russian women's own preferences: "It is common within a traditional Russian family to want to give the best to your children, and many Russian families feel that giving the best includes having their mother's undivided attention. Not surprisingly, this can sometimes result in women preferring to focus on their family, at the expense of building a career."

One example may be that mothers pursuing financial services careers need flexible working hours and easily accessible childcare because the majority either have a husband who also works or are single parents. Without these measures, the pressure on Russian women to balance childcare duties and career aspirations may cause them to make compromises that hinder their career progression.

The female Board member also believes that building targeted state programs, that focus on creating flexibility for working women, could better enable women to continue working and build their careers. She also notes that employers could do more to provide the flexible hours and childcare required for women to advance. The Russian financial services professionals we surveyed agreed; only a third of male and female respondents felt that family obligations and activities outside of work are adequately recognized and supported by financial firms. Only 41% of Russian women surveyed feel that their firms are doing enough to attract talented women and only 35% feel that their senior managers promote a balanced lifestyle.

Other interviewees recognized that disadvantages for women are not purely caused by their family commitments. As in other countries, some informal business practices in Russia exclude women. For example, networking in pubs and saunas can be uncomfortable for women.

Russian banking and the women who work in it got to where they are today by a route quite unlike the route taken by Western banks and Western women. But the points they have arrived at are not all that different.

Western women have been catching up on the relative position of Russian women, who got a head start on account of demographics and communist feminism. And the absolute performance of Russian banking has been catching up with Western banking since the collapse of the USSR.

Just 25 years after the fall of the Berlin Wall, the prospects for a woman in a Russian bank are not all that different from the prospects of a woman in an American bank. Still not as good as they are for a man, but much better than they were 25 years ago.

CATCHING UP FROM THE BACK OF THE PACK: OLIVER WYMAN'S EXPERIENCE

AIMEE HOROWITZ

TAKING OUR MARK

In 2010 we thought Oliver Wyman was a meritocracy. Progression within the firm was based on objective criteria and all employees had equal opportunities to succeed. This model served us well as a small, entrepreneurial firm where many people knew one another well and were fairly similar.

But as we grew bigger, we realized that treating everyone the same does not create a level playing field. On the contrary, minimizing our differences with formulaic expectations was unintentionally giving an unfair advantage to those in the majority—in our case, men. To call ourselves a meritocracy, we needed to invest in our women and use the differences between all of us to perform better together. "Affirmative investment" said one leader, "not affirmative action."

We responded to this realization by commissioning two pieces of research: a retention study and a cultural audit. Combined, they helped us understand our situation and the steps required to become an inclusive and diverse firm.

CATCHING UP

In the last four years, we have embedded inclusion and diversity (I&D) in our business strategies and communications. It is now threaded it into our values and our purpose. Our senior leaders discuss I&D principles and ambitions at management meetings and in internal blogs and firm missives. With the help of our Employee Resource Groups, staff in every office learned about our goals and how they can help achieve them.

Besides these high-level efforts, we have taken measures to build I&D into the day-to-day operations of the firm:

- **Teamwork**: When deciding which consultants to assign to which projects, we now consider their ambitions and interests as self-identified through our Staffing Preferences Portal. Within teams, we have a standard practice of team check-ins and manager report-outs called the Way We Work during milestone moments of each project. When projects are completed, we now collect upward feedback on the team management
- **Leadership:** We created an Inclusion Council of line partners who direct and oversee our efforts. We also conducted Values-in-Action workshops in which participants share reactions to typical management dilemmas. This ensures that we are true to our values in the decisions and actions we take. Additionally, the director of our I&D Centre of Expertise routinely works with our Executive Committee to ensure follow through and visible stewardship of our various efforts
- **Talent management:** In the last year, we have rolled out far more objective and clear set of competencies to progress and we now train our senior partners as Challengers to ferret out any bias, ensure that feedback is actionable and help us become more diverse. Our staff evaluation criteria now include "I&D acumen". For example, we expect that a manager in our firm will "Actively works to increase the diversity of the firm at all levels, understanding that greater breadth of experience and perspective will drive higher firm performance". We are taking steps across each stage of the recruiting process to hire diverse entry-level talent, such as holding targeted diversity events, establishing standards of inclusive interview protocols, and ensuring candidates who are visibly different have a buddy that stays connected to them throughout the selection process

TRAINING THE TEAM

To create an environment in which everyone can excel, we first need to acknowledge that that world of business was built on outdated masculine traits and norms. We have responded by taking measures to embolden our women and better educate our men.

- **Targeted development for women:** This year we kicked off Inspiring Leaders, a new leadership development and sponsorship program designed to provide women with greater clarity and support on the path to becoming a partner at Oliver Wyman. We also have Women of Oliver Wyman (WOW), a global employee group that provides professional development and networking for our female staff. And our women participate in Influence to Impact, an enterprise-wide course that explores the dynamics of power and influence as important leadership competencies for women

- **Targeted education for men:** For four years, WOW has run a successful reverse mentoring program in which female staff share their experiences at work with their male colleagues. This increases awareness and understanding of the diversity dynamics at play in our business. We also conduct 1:1 I&D coaching intensives for our top 50 leaders to ensure they have a more concrete understanding and stronger commitment to our I&D goals

On Reverse Mentoring: "I found it astoundingly enlightening...what I particularly took away from the session was the many subtle barriers to effectiveness and progression that I just had not considered before."

FORGING AHEAD

Our cultural audit revealed that work-life balance had an important effect on engagement for all employees. Yet, due to societal norms, the effect on our women was disproportionally greater than the effect on our men.

We already had FlexOW, an innovative suite of offerings for those who wanted to work differently or temporarily perform different work. However, we needed to think about flexibility not merely as an individual accommodation but as an organizational tool that sustains an energized and engaged employee base:

- **Work re-design:** We have reframed the dreaded work-life balance issue as a project management issue and empowered teams to develop sustainable solutions that work as well for clients as they do for our staff. We provide the tools, resources, and training to conduct design labs – bold team management experiments to improve how we work – which we then showcase when teams get it right

- **Individual supports:** We provide counsel and support to colleagues in the throes of life changes through 1:1 coaching. The in-house advice, connections and creative solutions we provide helps our colleagues through often exciting and tumultuous times to stay with us for the long-haul

- **Transparent commitment:** Our leadership has drafted Work-Life Sustainability Norms that outline our ambitions and expectations about how we work. And staff share personal tactics with one another through a viral campaign called Flex Success Profiles. Open communications such as these have helped us showcase our values, demonstrate our commitment to work-life sustainability, and reinforce our value proposition to our people

On 1:1 Coaching: "What I really like about these discussions is that they feel very organic. It's not the seven steps you need to complete when you come back from maternity leave. It feels like talking to a knowledgeable friend."

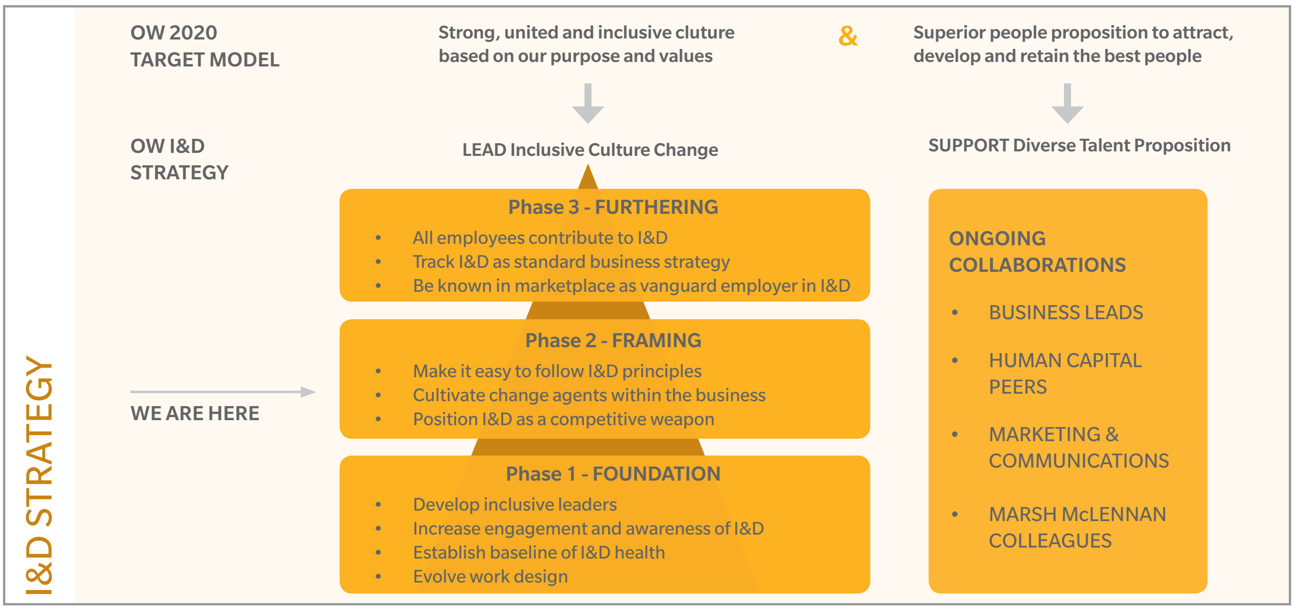
CULTIVATING A WINNING MIND SET

We firmly believe that what is good for our women is good for our business. The number and seniority of women in our ranks provides one measure of our success in attracting and retaining talented staff and in creating a diverse and intellectually stimulating workplace. Likewise, we believe when we get this right, we will be a firm where the smartest people want to work together to solve our clients' toughest problems.

Oliver Wyman seeks to deliver sustainable solutions to our clients, industries and society. Making Oliver Wyman a more inclusive and diverse firm is an important part of achieving this goal. It simultaneously strengthens the communities in which we work. Though this will take time, we are having confidence in our approach, our people and our potential to race ahead.

In my 20 years at Oliver Wyman, I have almost never run into someone sexist or closed-minded. But it is hard to deny that we have a strongly male-oriented culture, if only because the overwhelming majority of us are men ... However, we are making progress. While we don't always get it right, we are testing and refining the language we use, our success profiles, and the ways we work together. When we get it wrong there is challenge from both men and women, showing that most of us are now paying attention. This mind set will help us win

Scott McDonald, CEO Oliver Wyman



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We would like to express our gratitude to all the interviewees for their time in sharing their experiences and opinions. The views expressed in this report are their own and are made in a personal capacity only.

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Oliver Wyman is a global leader in management consulting that combines deep industry knowledge with specialized expertise in strategy, operations, risk management, and organization transformation.

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