

# The changing mirror image of UK pensions



## Summary

- The Pensions Regulator is set to introduce new guidelines for trustees on achieving diversity and inclusivity.
- The Financial Conduct Authority is also placing a greater emphasis on firm culture, with diversity and inclusion a major part.
- Trade bodies are being proactive in this area, with the PLSA aiming to coordinate work across the industry.
- Consultants are incorporating measures and assessments of diversity and inclusivity in their manager selection processes.

**➤ Nick Reeve examines the efforts taken by the pensions industry to represent its increasingly diverse range of savers**

**W**ith auto-enrolment now fully up and running across the UK, the population of pension savers is continuing to grow – and it is more diverse than ever.

In addition, the increasing focus on social and governance issues in investment strategies has put more emphasis on culture, diversity, and inclusivity across the corporate landscape.

Given these major societal shifts, how has the pensions sector reacted? And how can it ensure it best reflects and

represents its membership?

UK regulators have been placing a fresh emphasis on corporate culture within financial services in recent years to improve outcomes for consumers, with diversity and inclusivity playing a major role. The Financial Conduct Authority (FCA) has put culture at the heart of its asset management reforms, while The Pensions Regulator (TPR) is expected to publish a set of new guidelines for trustees imminently, including a number of recommendations and expectations related to diversity and equal opportunities.

Cicero executive chairman of consultancy group, Iain Anderson, says the FCA's focus on culture has been a major driver of behaviours. He points out that Christopher Woolard, recently appointed acting chief executive of the FCA, has been a vocal proponent of diversity and inclusion in the UK's financial services sector.

Customer demand is another major driver that providers cannot afford to ignore, Anderson adds. "Part of this is allied to the wider ESG agenda," he says. "On the 'social' side, pension savers are asking questions of their pension provider, such as where is the money invested? How do you run your business? Is it diverse? They're asking questions that their parents never asked."

### The PLSA

The Pensions and Lifetime Savings Association (PLSA) intends to lead by example, according to the association's policy lead for investment and stewardship, Caroline Escott.

It published a 44-page report – *Breaking The Mirror Image* – in 2017, featuring contributions from industry experts encouraging more support for female representation. The trade body now highlights on its website that its senior management team is balanced 50-50 in terms of men and women, while 58.8 per cent of its policy board, 37.5 per cent of its main board and half of its

independent directors are women.

At its conferences it now aims to achieve a 50-50 split between male and female speakers. Last year's PLSA Trustee Conference saw 20 women and 17 men address delegates during the day. (The balance is not easy to keep, however; the trade body's Investment Conference, taking place in Edinburgh in March this year, at the time of writing, has 31 men and 18 women due to speak, according to the PLSA website.)

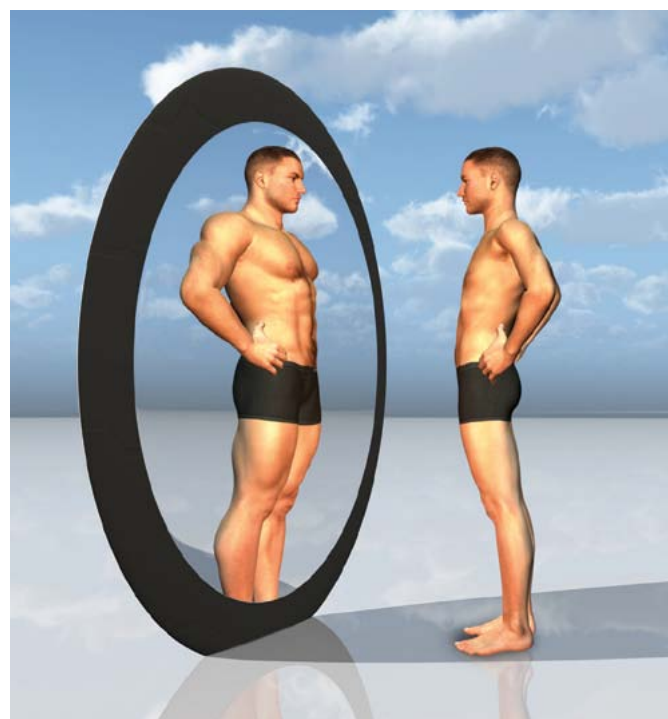
"Generally, the pensions industry is lagging on a number of key diversity indicators," Escott says. "That's something we're particularly interested in changing. Auto-enrolment has brought a huge number of new savers into the sector, and many of those will be younger first-time savers. I think it's really important that trustee boards are as equipped as possible to be able to respond in an appropriate fashion to the particular needs of this new cohort of savers."

### Investment diversity

Investment consultancy Willis Towers Watson has made diversity and inclusion an important factor in its manager selection process. Its head of manager research, Chris Redmond, says adopting measures of how diverse an asset manager's workforce is has led to some investors making different selections during tenders.

"We have got to the point where we've changed our mind based upon an assessment of culture, and diversity and inclusion is wrapped up in that," Redmond says. "We think there is significant information in this about the quality of an investment process."

The Investment Association – the



trade body for the UK's £7 trillion asset management sector – has published several reports highlighting ways in which managers can address the gender pay gap and improve the opportunities for underrepresented groups. Among these is *Investment 20/20*, a recruitment project aimed at broadening the intake of the investment sector and breaking down the stereotypical view of the industry as accessible only to those from top-level universities.

However, progress has not been equal across the financial services sector. The FCA in 2018 highlighted a 220 per cent increase in reports of 'non-financial misconduct', including bullying, homophobia and sexual harassment. It has targeted firms' diversity and inclusivity as a key indicator of culture as it monitors the way firms operate outside of traditional financial metrics.

EY UK life and pensions leader, and the consultancy's lead on diversity and inclusion, James Tufts, says improving diversity and inclusion will not be straightforward: "Cultural change as we all know takes time, as well as strong

leadership to succeed. It can be uncomfortable for some at times.

“When you’re going through cultural change, I think it’s quite easy to have some good progress early on and see some good results. But then you hit barriers that can be quite hard to overcome, and they require more effort, more resource, more leadership and more time.”

EY runs training programmes for senior managers, aimed at providing them with a ‘toolkit’ to help support underrepresented groups and break down communication barriers. So far, they have covered topics related to gender, ethnicity, LGBT+, and disability.

“It’s really about giving a bit more of an understanding of the lived experience of people in those groups,” Tufts explains. “It also provides a toolkit to help our leaders be more comfortable about talking to someone that’s not ‘the same’ as them.”

“Most people in life want to do the right thing, and want to encourage diversity, and in many cases the challenges that present time and again happen because people don’t have the right language. This is about giving people the confidence to have those conversations well from the start.”

### Trustee boards

While larger, well-resourced service providers can dedicate time and effort to addressing diversity-related issues, smaller schemes may struggle.

However, diverse boards can lead to better results and less groupthink, so it is vital for the sector to address its lack of diversity. For instance, a PLSA survey in 2017 found that 83 per cent of pension fund boards were male, while a poll by Aon in 2016 found that just 2.5 per cent

of trustees were aged under 30.

Redington chief operating officer, Lee Georgs, believes trustees can look to the wider financial services sector for examples of how to address a lack of diversity.

“I don’t think it’s dissimilar to the challenge that we as an industry face, where if you’re always fishing from the same pond, you’re always going to find the same kind of candidates,” she says. “I don’t think that’s any different for a pension fund trustee board.”

“Of course, you need people on that board who have experience and understand the challenges that a pension trustee board will face, but that doesn’t mean, when you have an opening on that board, that you ought not to look in a slightly different place for people to contribute to those decisions.”

At March’s investment conference, the PLSA will launch a recruitment guide for trustee boards, in cooperation with law firm Travers Smith. Escott says it will provide “step-by-step guidance and some handy tips and techniques” for all kinds of trustee boards.

The guide will help “achieve the kind of diversity of thought I think the industry badly needs in order to reflect the changing needs of an increasingly diverse pool of savers”, she adds.

Just appointing new faces will not be enough without ensuring those people can contribute properly, Georgs warns.

“If your decision-making structure ultimately rests with the same individuals in that room, if you don’t have equal opportunity across the different board members, then it probably doesn’t matter whether you’re diverse or not,” she says.

The PLSA plans to work closely with other trade bodies and industry organisations to coordinate strategies and “amplify” their efforts, Escott says. The association already works closely with NextGen Now, a working group set up to encourage a more diverse intake of new recruits to financial services. Escott is a member of its committee, alongside

Smart Pension’s Michael Watkins and LCP’s Laura Myers, both of whom also sit on PLSA committees.

It has also forged close links with the Diversity Project, a multi-national group working to promote all forms of diversity, inclusion and equal opportunities, and has signed the Women in Finance charter. The Investment Association also supports both projects.

Achieving positive change may take many years, but it is clear the UK pensions sector is on the right path.

For Georgs, the industry’s next challenge is making sure that achieving diversity does not become a box-ticking exercise.

“The real challenges now are in how you ensure that, once you have someone from an underrepresented group at the table, how do you make sure that they have a voice?” she says. “You have to make sure that you have fostered the kind of environment, culture and values that will allow that person to feel like they can contribute, and they can bring their whole self to the table.”

“We were all fishing from the same pond of talent for so long that I think it was easy to say, ‘the talent’s not out there.’ Now that we’ve broadened our definition of what a good candidate looks like, and where we can find them, that becomes a bit less of an issue. But we still have a lot of work to do to make sure that everyone at the table feels like they have an equal opportunity to speak, to be heard, and to be represented.”

According to Tufts, there fundamentally has to be cultural change led by leadership and informed by data and academic thought.

“Firms need to create an environment where everyone can have a positive experience, feel they belong and are supported, and that work is a safe environment where they don’t have to hide aspects of themselves,” he concludes.

**Written by Nick Reeve, a freelance journalist**