THE GENDER ROLE GAP

IN FINANCIAL SERVICES

A MERCER I KEPLER PERSPECTIVE

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Firstly we should dispel the myth that the UK Gender Pay Gap is all about "pay". We have had Equal Pay legislation in the UK for approaching half a century. It is unlawful for an employer to pay its staff differently for performing the same or similar work, or work of equal value on the basis of gender. We can expect the majority of companies to be compliant on Equal Pay. In fact, it is possible to have a material gender pay gap while at the same time being fully compliant with Equal Pay legislation, therefore we argue that it is a misnomer and should be renamed the "Gender Role Gap".

This is a "Gender Role Gap" reflecting the differences in the proportion of men and women in different roles working at different levels of seniority in companies. It is the Gender Role Gap which is responsible for the headlines. It is important to make this distinction.

Understanding the Gender Role Gap

With less than two weeks to go until the first UK reporting deadline c. 60% of 9000 companies have not yet reported[1]. This does not surprise us at Mercer. There are two simple reasons for this - (1) companies are fine-tuning their messaging to protect their reputation both with staff internally and with stakeholders externally; and (2) the reporting requirements are just very complex.

It is hardly surprising that the Financial Times is reporting a statistically improbable number of companies have a negligible Gender Role Gap - 13% of companies which have reported for the median pay gap[2]. Given the complexity of the regulations it is more than likely that many smaller employers are struggling to understand requirements – mean, median, quartiles and what to include in pay and bonus - source correct and accurate employee data and complete the analysis to meet the deadline.

Clearly, many of the Gender Role Gap outcomes being reported are deeply unsatisfactory. They throw the spotlight on a problem which starts in the classroom, continues with the choice of university subjects and is compounded in the workplace. Women are under-represented in STEM subjects with only 38% of Maths, 19% of Computer Science and 15% of Engineering graduates being women[3].

Nowhere is this more apparent than in financial services where there is a dependency on hiring graduates with numerate degrees. This is particularly true of the front-office revenue generating and sales roles. With their ability to generate revenue and drive value in the company, individuals in these roles typically command higher pay than middle (operations) and back office (central functions) counterparts.

At 39.5% the Gender Role Gap in financial services, prior to current reporting, is double the UK Gender Role Gap[5]. With six out of ten companies having not yet reported it is too early to provide a useful update on these figures but Mercer's review of key financial services companies which have reported to date indicates that there is no significant reduction in the Gender Role Gap.

There is a wide differential *between* companies and even *within* companies which is visible where multiple disclosures have been made. This is driven by the very different business models and workforce structures within financial services, the obvious example being the distinction between a high street retail bank and an investment bank. This explains the wide differential between high street banks and investment banks with a median pay gap differential of up to 30% across entities within the same group.

This differential widens with fewer women in financial services progressing to senior roles. The major companies represented in this report have a median percentage of women in the upper quartile of 33%. This reduces to 14% at executive level in financial services[6].

Initiatives underway to narrow the Gender Role Gap

Companies are introducing a plethora of initiatives to improve their position on the Gender Role Gap but until these initiatives improve the succession pipeline in the revenue generating roles they will only ever achieve partial success. For these initiatives to be successful there needs to be strong leadership from the top supported by cultural change cascaded through companies.

This does not detract from the initiatives which are underway and at the very least raise the debate and the focus of companies in resolving the Gender Role Gap. Initiatives which we are seeing include:

- **Pledges to future female leaders**
  In line with the Women in Finance charter, many companies have included a commitment for females to occupy a certain percentage of leadership roles by a future date, normally 2020. These range from 30% to 45-55%. The narrative also normally includes a focus on leadership development programmes.

- **Adaptable working**
  Most financial services companies are bolstering their options for flexible working and programmes for females to return to work after a period of time off, normally accompanied by training.

- **Gender diversity targets and balanced scorecard measures**
  Recently we have seen a number of companies introducing Gender and broader Diversity & Inclusion measures and targets in company KPIs and balanced scorecards. Since ‘what gets measured gets done’ this will focus efforts on narrowing the Gender Role Gap. This impact will be compounded since balanced scorecard metrics are often used in incentive plans.

Commentary on the reporting requirements

This is the first year of reporting the UK Gender Role Gap and it is worth highlighting some aspects of the requirement. Firstly, the reporting is confined to employees in Great Britain. For many international companies this only tells part of the story. One major FTSE bank with 96% of its headcount overseas has chosen to disclose the Gender Role Gap in a number of further geographies - but this is unusual.

The requirements only cover employees and therefore partners in, for example, private equity firms are excluded. Since these are the most senior individuals in their firms we are losing important information by this more limited disclosure. This was highlighted by Inga Beale, Chief Executive of Lloyds of London[7].

One area of the regulations which is unhelpful is that there is no adjustment for bonuses for part-time workers[8]. With women disproportionately represented amongst part-timers, this distorts the outcome since companies typically pro-rate bonuses for those who work part-time so as not to advantage part-timers compared to full timers and to recognise respective contribution. Mercer would suggest that this is one area where the regulations could usefully be amended.

Conclusions

As we have said, the Gender Pay Gap is a misnomer. We need to call the Gender Role Gap what it is - and then we need to address the succession pipeline starting in the classroom and continuing into the workplace and up the promotion ladder. Similarly, it is not acceptable to simply say that women make different choices. We need to make the workplace more attractive to women.

The new reporting requirements provide welcome transparency and annual reporting will help companies to maintain momentum in addressing the issue of the Gender Role Gap. Clearly, this is only part of the Diversity and Inclusion agenda but represents an important first step for career and pay equity. Importantly, we need to remember the business driver for this and the last word goes to the high street bank which points out that '50% of our customers are women'.

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