**Key points**

It is important to articulate and demonstrate strong organisation values. While it is appropriate for these to be backed by a diversity and inclusion policy, we believe the focus should be on demonstrating progress against the initiatives and outcomes, since a policy could be produced with relatively little effort and could result in a culture of box-ticking and paying lip service.

Board responsibility is appropriate but we believe that executive accountability and embedding the ambition and commitments throughout the organisation is as important.

We agree that disclosed targets relating to key aspects throughout an organisation, e.g. broader recruitment, development and progression, are appropriate, provided they have defined timeframes and are backed by initiatives with committed investments clearly set out in business plans. Remuneration linked to progressing these targets and underlying initiatives is appropriate.

We believe that the actuarial profession can play a role in the analysis of customer data to explore diversity characteristics and product governance through a diversity lens. Actuaries could also play a role in identifying appropriate methodologies to use to construct diversity metrics.

Neuro diversity is a particular focus for the actuarial profession, and we would consider that to be an area that warrants explicit mention in any requirements or guidance. An inclusive culture with diversity of thought is a prerequisite to having a good risk management culture.

We see the area of training as both key and the most difficult in terms of delivering the desired outcomes. As such this is an area that warrants significant attention and support from regulators. They should work to develop a climate of cross firm collaboration, shared training and awareness sessions.

We believe prescription should be limited to a purely UK context, given the complexities where non-UK jurisdictions are involved. We would welcome the development of regulatory guidance on non-financial misconduct, which we would consider reflecting in our DEI strategy to support consistency across our profession and the industry.

**General comments**

1. The Institute and Faculty of Actuaries (IFoA) welcomes Discussion Paper DP21/2 issued jointly by the Bank of England, the PRA and the FCA*.* In particular, we support the regulators’ intention to use their powers to help achieve positive change on diversity and inclusion issues.
2. The IFoA’s response has been led by our Diversity Action Group (DAG), which is a member-driven, volunteer-led team committed to supporting the IFoA in developing, delivering and evolving its strategic diversity objectives.
3. The IFoA’s own engagement with diversity and inclusion work in recent times includes:
	* Launching a campaign named ‘Count Me In’, in a broader effort to promote greater diversity and inclusion in actuarial careers.
	* CEO Stephen Mann is one of 30 cross-sector leaders from the financial and professional services industry who were this year appointed to an independent socioeconomic diversity taskforce, launched by HM Treasury and BEIS and run by the City of London Corporation. The group’s mission is ‘to boost socioeconomic diversity at senior levels’, with anticipation that the task force’s work will lead to targets for key employers.
	* Partnering with the National Autistic Society to develop resources and communications to promote awareness and understanding of the unique abilities of people with autism.
	* Undertaking targeted communications and engagement around DEI at all levels of the organisation e.g. governing bodies.
4. The IFoA has recently initiated a review of its Diversity Equity and Inclusion Strategy, and expects to publish the new strategy in 2022.

**Detailed comments**

**Chapter 1: Overview, including context and desired outcomes**

Q1: What are your views on the terms we have used, how we have defined them, and whether they are sufficiently broad and useful, now and in the future?

1. We consider the terms used to be reasonable.
2. Neuro diversity is a particular focus for the actuarial profession, and we would consider that to be an area that warrants explicit mention in any requirements or guidance. Caring criteria are likely to be increasingly important and also warrant explicit mention. We note from the case study in the DP (4.23) that the Solicitors Regulation Authority has been tracking this.
3. The Discussion Paper makes a strong case that having an inclusive culture with diversity of thought is a prerequisite to having a good risk management culture. Diversity and inclusivity issues are therefore relevant to prudential and conduct regulation. Diversity of thought could help ensure the right balance of focus between the short term (e.g. quarterly results) and the long term (e.g. climate change). It could help contribute to the stability of the financial system by avoiding, for example, having the same individual on multiple boards across different companies, which could result in the systemic risk of group think and herding.
4. While diversity of thought is essential, it should not distract from the necessity of ensuring equity between different demographics and the absolute considerations of diverse representation.
5. Acknowledging and addressing the existence and legitimacy of those that fall outside a perceived disadvantaged or minority group, and anticipating potential counter views and resistance (albeit hidden) to D&I efforts is key to ensuring traction and long-term success.

**Chapter 2: The role of the regulator**

Q2: Are there any terms in the FCA Handbook, PRA Rulebook or Supervisory Statements or other regulatory policies (for any type of firm) that could be made more inclusive?

1. Care and consistent use of the terms ‘race’ and ‘ethnicity’ is suggested.
2. We note the DP’s approach to identifying and eliminating gendered and other problematic language. It would be helpful to know if this is a potential area for regulatory requirements.
3. Significant issues and complexities exist where non-UK jurisdictions are involved. We believe prescription should be limited to a purely UK context. We would note that any differentiation between UK firms and UK branches of overseas firms creates a risk of regulatory arbitrage.

**Chapter 4: Measuring progress**

Q3: Do you agree that collecting and monitoring of diversity and inclusion data will help drive improvements in diversity and inclusion in the sector? What particular benefits or drawbacks do you see?

1. We agree with this position, which will support our endeavours in monitoring implications for our members and our profession through our members’ firms.
2. The regulatory framing may give an added lens to be used in encouraging employees/staff to comply. Despite this, employees may be reluctant to disclose information unless they have faith in the security and anonymity of the data collection process.
3. Wide scale disclosure of data and availability of industry wide data should help to raise ambition and outcomes overall as it introduces a benchmarking and even competitive element.
4. Issues may arise if data collection is incomplete – likely given the voluntary nature of the data ask – or if numbers are small. In both cases this may result in poor statistical significance and/or flawed analysis and conclusions. It may also result in compromised anonymity, in the case of small volumes of data.
5. As noted in relation to question 2, there are significant issues and complexities where non-UK jurisdictions are involved.

Q4: Do you have a view on whether we should collect data across the protected characteristics and

socio‑economic background, or a sub‑set?

1. A wide range of data collection should be encouraged as far as possible. We recognise however that too many categories may make the task more challenging for both those completing the data and those using the data, for all but the larger firms. Too much granularity may also compromise the anonymity of the data.
2. As mentioned above, collecting data on race vs ethnicity, neurodiversity and caring should additionally be considered.

Q5: What data could the regulators monitor to understand whether increased diversity and inclusion is supporting better decision making within firms and the development of products and services that better meet customers’ needs?

1. We would suggest that this is best observed and monitored at a macro level across the industry and over a significant period of years. There is sufficient research already which supports the premise, and at an industry level over time, it could be beneficial to produce further data to assess this.
2. The sorts of data and metrics that could be observed include:-
* Diversity profile of the teams carrying out the work in question
* Inclusion measures related to those teams and the relevant governance/decision making bodies for identified customer considerations
* Output from employee surveys/focus groups (standardisation of employee survey questions on diversity across the industry would be helpful for understanding the responses given by under-represented groups), culture/behavioural analyses, customer focus groups
* Track key adverse metrics relative to diversity and Inclusion measures e.g. risk events/breaches
1. In terms of potential future regulatory data capture, our experience is that it takes time (potentially years) to build up completion rates, even with significant encouragement and campaigns. Regulators should be mindful of this and perhaps this itself could be a focus for attention and priority for firms.

**Chapter 5: Driving and supporting change**

**Proportionality**

Q6: What are your views on our suggestions to approach scope and proportionality?

Q7: What factors should regulators take into account when assessing how to develop a proportionate approach?

Q8: Are there specific considerations that regulators should take into account for specific categories of firms?

1. Consistency is desirable, hence we would suggest as far as possible applying the same requirements across the sector, particularly if there is an intent to provide a view across the sector.
2. The main aspect of proportionality is in regards to smaller firms. As with disclosures relating to gender, a cut-off in terms of firm size may be appropriate, or reduced granularity for smaller firms.

**Tone from the top - Governance**

Q9: What are your views on the best approach to achieve diversity at Board level?

Q10: What are your views on mandating areas of responsibility for diversity and inclusion at Board level?

**Tone from the top – Individual accountability**

Q11: What are your views on the options explored regarding Senior Manager accountability for diversity and inclusion?

**Tone from the top - Remuneration**

Q12: What are your views on linking remuneration to diversity and inclusion metrics as part of non‑financial performance assessment? Do you think this could be an effective way of driving progress?

1. Disclosed targets (relating to Board, pipeline, and key aspects throughout the organisation, e.g. broader recruitment, progression) are appropriate with defined timeframes, backed by initiatives with committed investments clearly set out in business plans. Remuneration linked to progressing these targets and underlying initiatives is appropriate.
2. Regulatory guidance on key areas could be helpful in defining good practice and setting standards. The IFoA and other professional bodies are well-placed to help to promote such guidance, particularly to individual actuaries with key regulated roles.
3. Board responsibility is appropriate but not sufficient. Indeed, we believe that executive accountability and embedding the ambition and commitments throughout the organisation is as important. It is also important that all employees feel empowered to speak out if they have concerns about diversity and inclusion issues, and that such employees feel supported both by the organisational culture and by the necessary governance structures.

**Firm-wide policies and practices – Firm diversity and inclusion policies**

Q13: What are your views about whether all firms should have and publish a diversity and inclusion policy?

Q14: Which elements of these types of policy, if any, should be mandatory?

1. We believe it is important to articulate and demonstrate strong organisational values. It is appropriate for these to be backed by a diversity and inclusion policy. However, we believe the focus should be on initiatives and outcomes rather than the mere existence of a policy, which could be produced with relatively little effort and could result in a culture of box-ticking and paying lip service. To that end, the requirement should be focused around demonstrating progress against stated initiatives and objectives and the observed/anticipated outcomes.

**Firm-wide policies and practices – Progressing diverse representation**

Q15: What are your views about the effectiveness and practicability of targets for employees who are not members of the Board?

Q16: What are your views on regulatory requirements or expectations on targets for the senior management population and other employees? Should these targets focus on a minimum set of diversity characteristics?

1. To support any targets, there should be robust data. Data capture should be identified as a primary requirement with a good focus on progressing increased and high-quality data capture. That said, this should not be a blocker to progressing targets or initiatives. In the absence of sufficient firm-specific data, firms should reference industry data to progress efforts whilst developing in-house data in tandem.
2. Any targets and initiatives should extend beyond the Board. Pipeline and the wider organisation population, plus the customer base, should feature prominently.
3. To avoid quick fixes or purely tactical solutions, there should be sufficient focus on a consistent and prevailing strategic approach. We believe that this is a long-term and potentially generational endeavour, and the approaches and targets should reflect this.
4. That said, there should be good use of flightpaths, milestones and progress checks.
5. We believe that effective and practical targets and initiatives that cover the breadth of the organisation should be achievable with the appropriate amount of focus and drive. This will vary by organisation and it is appropriate to allow this flexibility by firm.

**Firm-wide policies and practices - Training**

Q17: What kinds of training do you think would be effective in promoting diverse workforces and inclusive cultures?

Q18: What kinds of training do you think would be effective for helping understanding of the diverse needs of customers?

1. Training and education is an important part of the required activity to ensure the mindset and behaviours of an organisation match up to its values of diversity and inclusion. Whilst critical, it is not sufficient of itself. Bad behaviours cannot be trained away. Mindsets cannot be changed overnight.
2. We see the area of training as both key and the most difficult in terms of delivering the desired outcomes. As such this is an area that warrants significant attention and support from regulators and other third-parties. We also support the idea that this should be a collective endeavour rather than a sole pursuit. We would like to see greater industry wide collaboration. Dive-In is a great example of this and firms should work to develop a climate of cross firm collaboration, shared training and awareness sessions. We would advocate CPD for firms of D&I training and awareness with a focus on take-up within a firm, evidence of collaboration/sharing and identified outcomes.
3. We believe that some creativity is necessary when it comes to training with explicit emphasis on the business aspects. It is perfectly possible that such training will not immediately be obvious as D&I training. Themes related to customer innovations, vulnerable customers, reputational risk, and data ethics all fall into this category.

**Firm-wide policies and practices - Products and services that meet the needs of real customers**

Q19: What are your views about developing expectations on product governance that specifically take into account consumers’ protected characteristics, or other diversity characteristics?

**Firm-wide policies and practices - Disclosure**

Q20: What are your views on whether information disclosures are likely to deliver impact without imposing unnecessary burdens? Which information disclosures would deliver the biggest impact?

Q21: How should our approach for information disclosure be adapted so that we can place a proportionate burden on firms?

Q22: What should we expect firms to disclose and what should we disclose ourselves from the data that we collect?

**Firm-wide policies and practices – Diversity and inclusion audits**

Q23: What are your views on how we should achieve effective auditing of diversity and inclusion?

Q24: How can internal audit best assist firms to measure and monitor diversity and inclusion?

1. The IFoA acknowledges that it is only able to implement its diversity equity and inclusion strategy directly in areas where it has substantial control of the outcomes – chiefly with colleagues and volunteers, but also with members at key stages of their education, qualification and regulation. We have a clear appetite, however, to seek to influence and direct others to also support the outcomes of the strategy. This could involve a range of approaches, standards and commitments, including seeking commitments from all employers and recruiters in the actuarial space.
2. We believe that actuaries can play a role in firm-specific and also industry-wide analysis of customer data to explore diversity characteristics and product governance through a diversity lens. This would require careful data protection considerations, including discussion with the regulators as to how this support could be effected. Actuaries could also play a role in identifying appropriate methodologies to use to construct diversity metrics, i.e. KPIs.
3. It is appropriate for Internal Audit functions within firms to apply existing audit approaches in the context of diversity & inclusion with a minimum frequency e.g. yearly, every two years.
4. Consideration should be given to setting out minimum requirements i.e. focus areas. These could stem from a range of sources, such as themes emerging from data gathered across the industry by the regulators, benchmarking, consideration of plans (including committed investment and timeliness), training, employee engagement or complaints.
5. We believe that disclosure of progress against targets/metrics/initiatives (as determined by firms) plus benchmarking should be mandated. We support the existing mandated disclosures including the gender pay gap and would consider roll-out of the ethnicity pay gap an important next step. Disclosure of data capture efforts would also be beneficial in driving up standards and quality of analysis.
6. Appropriate proportionality should be afforded to smaller firms, but with the expectation that disclosure of approach and progress should still be a requirement, alongside benchmarking against industry levels.
7. Any disclosures should be subject to appropriate internal governance and audit

**Regulatory measures – Fitness and propriety**

Q25: Do you agree that non‑financial misconduct should be embedded into fitness and propriety assessments to support an inclusive culture across the sector?

**Regulatory measures – SMF approval**

Q26: What are your views on the regulators further considering how a firm’s proposed appointment would contribute to diversity in a way that supports the collective suitability of the Board?

**Regulatory measures – Threshold conditions**

Q27: What are your views on providing guidance on how diversity and inclusion relates to the Threshold Conditions?

**Regulatory measures - Embedding diversity and inclusion into existing supervisory practices**

Q28: Do you have any suggestions on which aspects of our supervisory engagement with firms that you think could be improved to help deliver and support greater diversity and inclusion?

Q29: What impact do you think the options outlined in this chapter, alongside the FCA’s proposals for a new Consumer Duty, would have on consumer outcomes?

1. We would welcome the development of regulatory guidance on non-financial misconduct including examples of the behaviour which we would consider reflecting in our DEI strategy to support consistency across our profession and the industry.

If you would like to discuss any of the points raised in this response, please contact Matthew Levine, Policy Manager (matthew.levine@actuaries.org.uk) in the first instance.