Policy Briefing

Chartered Insurance Institute

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The PRA and Diversity

Key Points:

- The PRA has proposed that all Solvency II firms should produce a diversity policy, to improve decision-making at board level;
- It is looking for comments from firms by the 22 September;
- Firms have an opportunity to tell the regulator how it can support effective initiatives to improve inclusion.

The Herd Instinct

Many of the most serious failures in insurance have stemmed from a lack of 'cognitive diversity' among decision-makers, leading to blind spots about key risks that affect the business.

As far back as 2002 a study into solvency problems in twenty-one European insurance firms found that poor management was at the root of all of them, with one key problem being 'uncritically following [the] herd instinct'.

The PRA's first step towards reducing this 'groupthink' is a proposal that would require all Solvency II and large non-directive firms to have a diversity policy, setting out how the firm will seek 'a broad set of qualities and competences when recruiting board members' and 'promote diversity among board members' (PRA Consultation Paper 8/17).

The PRA has stressed that it only wants to introduce measures that will result in better risk management, and that this is a genuine consultation – this measure will only be implemented if insurers believe that it will make a difference.

> International Monetary Fund: 'Knowledge intensive and high-technology sectors… seem to benefit significantly more from a higher share of women in senior management.'

Beyond the Boardroom

Under existing regulation, firms must have over twenty mandatory policies, covering topics from remuneration to outsourcing, so how much difference will another policy make?

Clearly, policies alone cannot create a diverse and inclusive management team.

Barriers to making diversity and inclusion a reality in insurance include a lack of diversity among key groups of experts such as actuaries. This is often exacerbated by firms and regulators prioritising the measurement of capital requirements over a wider approach to effective risk management, which in turn leads to an assumption that a high level of financial expertise is needed for everyone involved in overseeing Solvency II compliance.

Ways in which these challenges can be overcome include:

Greater clarity about job roles, so that, for example, the seniority of part-time roles is recognised properly and are not seen as less important than full-time roles that bear similar levels of responsibility.

Diversity and Inclusion: Some Common Mistakes

- Not developing a business case for diversity and inclusion
- Assuming there is a 'quick fix'
- Not making leaders accountable for diversity and inclusion
- Not using data to find out where real barriers lie
- Not measuring progress properly
- Assuming one approach fits across all cultures
- Treating diversity and inclusion in a silo
- Only addressing diversity and inclusion at leadership level
- Neglecting flexible working

Lessons from PwC's 'diversity journey'

Action to change culture in settings that are different from the usual business environment, such as the Lloyd's 'Dive In' festival, or informal careers-based events for both employees and prospective employees.

Appointing influential diversity champions, especially those who come from a background that allows them to speak credibly about the link between diversity and commercial performance

Encourage people to take responsibility throughout the organisation, for example through the 'HeforShe' initiative, in which people make personal commitments to promote diversity.

Use data to see what the real career journey is for different groups within the organisation – organisations that have done this have found key assumptions to be wrong. For example, it is often a myth that women leave the workforce to have families – the real reason why fewer female than male graduates progress to become senior managers is much more complex.

Promote awareness of non-western cultures through small details, for example, in the food that is available in the organisation's restaurant, or recognising holy days from faiths beyond traditional Christian days.

Mark Carney: 'Inclusiveness unlocks the true value of an organisation's diversity; through inclusion people can realise their full potential.'

Give the Regulator the Good News

It will be important for firms to communicate with the PRA about the work that they do to promote diversity and inclusion during this consultation.

The regulator is aware of the bureaucratic burden that has been imposed by Solvency II, and is keen to focus on positive outcomes rather than make-work activities. The Bank of England is going through its own diversity and inclusion programme, so it is aware of the challenges and pitfalls involved in achieving real change.

The PRA will be in a far stronger position if it can show that it is working with a sector that is promoting diversity in an energetic and innovative way, rather than simply imposing more rules, and it is willing to listen to what firms are doing.

Commercial Benefits from Promoting Diversity

Areas where more than 50% of CEOs have said their organisation has benefitted from a diversity and inclusion strategy:

- *Attracting talent*
- *Strengthening brand and reputation*
- *Collaboration and innovation*
- *Serving new and evolving customer needs*
- *Leveraging technology*
- *Competing in new industries and geographies*

Source: 18th PwC Annual Global CEO Survey