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To whom it may concern

Prudential Regulation Authority & Financial Conduct Authority – Diversity and inclusion in the financial sector

We welcome the opportunity to respond to this consultation. ABCUL is the primary trade association representing credit unions in England, Scotland and Wales with around two thirds of credit unions in mainland Great Britain affiliated to the Association.

Credit unions are co-operative societies who provide financial services – primarily savings and loans facilities – to their member-owners. They are registered as Co-operative Societies under the Co-operatives and Community Benefit Societies Act 2014 and the Credit Unions Act 1979. As deposit-takers they are dual-regulated by the Prudential Regulation Authority and the Financial Conduct Authority.

Credit unions have since their inception in Britain in 1964 been closely associated with anti-poverty and financial inclusion. They provide savings and loans facilities to those with limited or no access to financial services from mainstream providers, generally due to their low income and / or lack of a developed credit profile. They have been a central element of numerous government and philanthropic initiatives to extend financial inclusion and address the lack of adequate provision of affordable credit and secure savings facilities for large sections of the population. They are capped in the interest that they can charge at 42.6% APR under the Credit Union Act 1979 and provide credit in competition with high-cost lenders.

They are numerous, with 250 credit unions active in mainland Great Britain today and have 1.4 million members and £1.95 billion in assets under management. They range from mid-sized businesses of up to 50 staff to small voluntary organisations.

Response to consultation

We would first like to express that we support greater diversity and inclusion across the financial services industry, and that this is aligned with credit unions' co-operative and inclusion ethos. ABCUL and its members actively engage in discussion on how change can be driven across the credit union sector to ensure it is broadly and deeply inclusive, notably through the ABCUL Inclusivity Group (AIG).

Nevertheless, any regulatory changes to support diversity and inclusion must be necessary, effective, and proportionate to the organisation it applies. To sum our response to this consultation,

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we believe that any regulatory changes applicable to credit unions must consider the unique characteristics and requirements of the sector and where we currently stand in relation to the rest of the financial services sector.

There are many factors that differentiate credit unions from other financial services which impact the diversity and attitudes within the sector as well as the proportionality of applying regulatory measures to the sector. Credit unions are subscale and only have an average 7 paid staff each. Many credit unions are either supported or entirely operated by a team of volunteers. Staff are also generally recruited from a much smaller and more local pool of job candidates than with other firms, as a product of their legislative common bond restrictions and working in community spaces rather than major financial hubs. Further, recruiting board members can be challenging process for credit unions, as the vast majority directors in the sector are unremunerated volunteers, in stark contrast to the other financial firms.

However, these factors do not exclude credit unions from being diverse and should not prevent them from being inclusive. In our recent survey on the demographics of the credit union sector, answered by 40 credit unions, 60% reported that the CEO or equivalent role in credit union is held by a female - a figure that we are delighted to share and is up from 55% reported in 2017.

Whilst this is irreconcilable with the deeply inadequate 9.7% recorded elsewhere in financial services, we believe that the building of inclusive cultures is an ongoing process, requiring continued and open discussion on the matter. We have addressed questions 1-19, 21, 22 and 27, with our response to each question focusing on how diversity and inclusion can be appropriately supported in the credit union sector.

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?

We're agree with the terms used and their definitions. Our own ABCUL Inclusivity Group renamed itself from the Talent and Diversity Committee to acknowledge to reflect the need not only for diversity but for equity and inclusion. We agree with the importance of being able to speak freely and fully engage no matter your background.

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?

We agree with the replacement of the word 'chairman' to something more inclusive such as Chair or Chairperson. We note that there are a couple of references to 'chairman' in CREDS 2.2.48 and 11.6 of the PRA Credit Unions' Rulebook.

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?

We think that the collection and monitoring of diversity and inclusion data will help support and inform where improvements in diversity and inclusion in the financial services sector are necessary, but do not drive it. There needs to be widespread awareness and knowledge of inclusive working practices to drive diversity and inclusion in the sector, which is not achieved by simply collecting statistics on diversity and inclusion / exclusion.

Whilst data is useful for raising awareness for the level of diversity in the sector, we think there needs to consider the risk of firms box-ticking as a result and not tackling the root causes of practices and behaviours that exclude certain groups.

Q4: Do you have a view on whether we should collect data across the protected characteristics and socio-economic background, or a sub-set?

We support the collection of data across all the diversity characteristics at some level, to promote that all the characteristics are important to maintaining diversity across the wider financial services industry. In particular, the monitoring of potentially invisible characteristics is important in raising their awareness in the financial services sector.

However, the breadth and amount of data collected should be balanced with the burden on firms, and it should be carefully considered how data for each characteristic is collected and monitored. It is likely the case that for the smallest firms, such as small and medium credit unions, that the workload of monitoring a large range of diversity characteristics is disproportionate to the benefit.

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?

We believe that it would be unnecessary to monitor a causal link between these factors and outcomes for credit unions, given the size of their memberships and the complexity of monitoring this relationship. If the largest credit unions were to be monitored for such a causal relationship, we believe it would be best investigated via testimonial reports, as it would be highly difficult to monitor this relationship via quantitative data.

Q6 / Q7 / Q8: What are your views on our suggestions to approach scope and proportionality? What factors should regulators take into account when assessing how to develop a proportionate approach? Are there specific considerations that regulators should take into account for specific categories of firms?

We appreciate the mention of credit unions in the discussion paper as firms that would need proportionate treatment. There are several characteristics of credit unions that we feel make it difficult to apply a one size fits all set of requirements to the sector.

Firstly, credit unions are uniquely restricted by their common bond requirements. For credit unions with a geographical common bond, they are restricted by the Credit Unions Act 1979 to operating within an area with a maximum 3 million population. For reasons of future expansion and maintaining headroom within the cap (increased from two to three million in 2017) most credit unions operate well within this, whilst others simply offer services to a small and very specific group of people. Common bonds may be as small as a church group or cover wide swathes of the Scottish Highlands.

This alone makes it problematic to benchmark credit unions' diversity to the UK average as the talent pool available to a credit union that includes a branch on the Shetlands and an inner-city credit union are going to be very different. We also believe that for London-based organisations such as most of the financial sector using the UK national average would result in downplaying the reality of where most of their staff and boards are recruited.

It is these specific contexts that gives rise to anomalies in the financial sector such as all-female and all-black credit union boards and we would appreciate the regulators trying to understand how the common bond and the community driven nature of credit unions shapes board and staff at the individual credit union level.

Secondly, credit unions are subscale in comparison to other deposit-takers and as of the September 2020 had an average of less than 7 staff each, with some credit unions totally run by volunteers. Aside from the point acknowledged in the consultation that there is little to be gained from quantitative analysis or benchmarking, most credit unions have scant resource to carry additional regulatory burden. Credit unions may still differ from other low-staff firms in the financial resources that they have to bring in external expertise.

Thirdly, the vast majority of credit union non-executive board members are unremunerated volunteers, and which restricts the pool of directors to those willing to give up their own time to serve on the board, whilst still needing to meet fit and proper requirements. Credit unions in particular struggle to recruit younger board members who often have greater life commitments such as families and jobs. Clearly the depth of candidates willing to stand for election as a credit union board member and this can pose challenges to ensuring a certain make-up of the board even if this was the only criteria considered.

Finally, whilst the sector and society at large certainly can make significant improvements in becoming more inclusive the regulator has to recognise the irony in the regulator making a sector where women are *over-represented* in senior management roles pay for the recalcitrance of firms which have a fundamentally different corporate culture which hasn't historically supported inclusion.

We generally feel that there is a strong argument for implementing a cut-off based on staff numbers for most of the proposals. We would not object to other factors being considered but we would note that credit unions as deposit-takers are relatively asset rich for their overall size as a business so we would be keen to see multiple criteria being met for any size-banding that is used.

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

In general, the board room needs to be an inclusive and welcoming space for all potential directors. Boards need to modernise and leverage technology to reduce barriers of participation for all. For credit unions, they need to promote awareness of the activities of the board and further encourage participation in the democracy of the credit union. A focus on personal individual development can provide both stretch opportunities and further reason to participate.

Firms should also look at proactively engaging and upskilling the pipeline of possible directors and some credit unions have successfully implemented youth shadow board or implemented director academies, but this is not yet widespread.

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

We certainly feel that boards do have a responsibility to ensure that they are as inclusive as possible and consider where they can promote further diversity in their succession planning. We would feel that the regulator should make any requirements for credit unions as lightweight as possible.

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

We think that it is reasonable to make the link between the firm's culture, its diversity, and its inclusion. The Prescribed Responsibilities mentioned are already arguably sufficiently broad to cover this area so the clarification would be helpful for firms to be more certain about the scope of these Prescribed Responsibilities.

We note that credit unions are subject to a simplified Senior Managers Regime as are firms under £250 million assets so this wouldn't directly affect any credit unions immediately, but we support the proposal for larger firms.

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?

This may be helpful for larger firms. Credit unions are non-CRR firms and do not use this definition of material risk-taker. Credit unions as co-operatives do not have a bonus culture and generally do not have the structures in place for highly variable and metric-based remuneration.

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

We feel that this may be helpful for all firms, however, we feel that it should be possible for this to be a very simple document and scale appropriately down to very small, volunteer run firms.

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

The core values of promotion inclusivity, diversity of thought and an atmosphere of psychological safety may be a reasonable foundation of any policy. However, ideas such as clear objectives, realistic goals, and measuring progress may be more useful for firms that have consistently poorly performed in this area due to circumstances within their control. These would likely be a poor fit for credit unions who already have hit the quantitative diversity targets but may wish to focus on the qualitative experience felt by staff and board members.

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

For our sector, the practicability of some of these targets would be challenging for many of the reasons highlighted above. Credit union staffing structures are very flat compared to most firms and their small size makes it difficult to draw conclusions from a single new member of staff leading to an under or over-representation which may lead to perverse incentives affecting single recruitment events.

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?

We generally think that for the time being credit unions should set their own targets, considering that they appear to be generally more diverse and inclusive than other financial sectors without the level of scrutiny and pressure applied to more high-profile firms. We believe that credit unions should, if they perform below expectations, be afforded, the same escalation from softer pressures to more prescriptive measures as has been the case for larger and more visible firms.

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

We think that focussing the training primarily on the real business outcomes would not be the most effective way of promoting diverse workforces and inclusive cultures. This is for two reasons. First, a focus on the business case for having an inclusive culture will not help firms and their workforces understand how to build an inclusive culture. Second, for genuine inclusivity to be achieved, individuals should be made to feel that they are being included for much greater reason than as a means to improve business outcomes.

This does not, however, mean that the positive business outcomes should not be covered in training. we believe that effective training should focus on how to build an inclusive culture that will drive diversity and inclusion, giving the social reasons as well as the business case for inclusion, but also giving practical guidance on how people can actively be included, informed by diverse thought and experiences.

However, this is with the caveat that credit unions do not have the resources to provide such comprehensive training internally. Provision of training resources for firms to utilise on the subject would particularly benefit the credit unions that would be interested in providing and receiving training in this area but do not have the funds to do so.

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

Credit unions make great efforts to make their services accessible and tailored to their members' individual needs. However, there is always room for improvement and the sector would benefit from training resources from experts on this subject being made available for credit unions to utilise. We do not believe it is necessary to require credit unions to provide detailed training on this internally.

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

We believe that it would be unnecessary to provide further regulatory requirements on product governance specifically on diversity and inclusion in light of the upcoming consumer duty expectations to be introduced. If expectations must be introduced, they should be incorporated into the new consumer duty expectations and kept at a high level to not overburden credit unions. We believe any expectations should not add to the workload of the average credit union, given that the credit union sector already makes great effort in providing products and services tailored to the needs of their individual members.

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

It would be inappropriate to uniformly require credit unions to publicly disclose diversity data given their size. Due the workforce size of the average credit union, mandatory disclosure of diversity characteristic data would undermine the anonymity of individuals' personal information. Further, credit unions cannot pragmatically be expected maintain the same level of diversity of much larger firms – a firm with less than ten staff members cannot maintain the same breadth of diversity a firm with 100. As a result, the data disclosed by individual credit unions is not as beneficial nor meaningful as from larger firms.

Nevertheless, credit unions could be encouraged to voluntarily disclose the diversity data if they wish to. If information disclosure on the diversity of individual firms is to be made mandatory, it may be appropriate to have a threshold number of staff for this requirement to be put in place for firms.

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

For the same reasons as given for question 21, credit unions should not all be expected to individually disclose their diversity and inclusion data, but it is appropriate to invite credit unions to do so at their discretion. If data is to be collected across the sector, it would be valuable for the regulatory bodies to disclose this data as an aggregate of all credit unions and so the diversity levels across the wider sector can be assessed and areas for improvement identified.

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

Whilst we agree that evidence of a highly toxic culture might contribute the regulators decisions around the authorisation of a firm, we are somewhat sceptical of the assessing the firm’s non-financial resources based on physical characteristics rather than skills. We would be concerned that a credit union whose membership highly skews in one direction or another (we can lead to overrepresentation of certain minorities in some cases) might be judged as failing to meet the threshold conditions due to a poor understanding of the group the credit union serves and the talent poor available to it.

Please let us know if you wish to discuss this further.

Yours sincerely,

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