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SLOW PROGRESS: GENDER PAY GAP IN BANKING & FINANCE

ANALYSIS OF THE CHANGE IN THE GENDER PAY GAP DATA & FEMALE REPRESENTATION IN UK FINANCIAL SERVICES

November 2021

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> *Our unique analysis of the gender pay gap data at more than 400 firms from across the financial services industry highlights the slow progress made in tackling its large pay gap and the lack of women in the highest paid roles*

2) INTRODUCTION

What this report is about

In April 2018, for the first time, all UK companies with more than 250 staff were required to report to the government on their gender pay gap - the difference in average hourly pay for men and women – and on the representation of women in each quartile of the workforce measured by pay. We analysed that data to produce a detailed report on the pay gap and female representation at a senior level across more than 400 firms at an aggregate and sector level.

This report looks at the latest round of gender pay gap reporting in October 2021 and analyses how much progress the financial services industry (and specific sectors within it) have made in addressing the gender pay gap and increasing the representation of women.

Our analysis does not name and shame individual firms but instead measures the changes in the pay gap and representation of women at different levels of pay in different sectors of banking and finance. While the industry and the majority of individual firms have made progress on both counts over the past few years, our main conclusion is that the pace of change is painfully slow and that a surprising number of firms have stood still or gone backwards.

This report addresses the following questions:

- How big is the gender pay gap and the bonus gap in different sectors of the financial services industry? How does the industry compare to UK business more widely?
- What is the level of representation of women in senior roles across the industry and in different sectors?
- How has the pay gap and representation of women changed between 2017 and 2020 across the industry and in different sectors?

Methodology

This report compared the data for 2017 reported by 10,417 companies as of April 2018 and data for 2020 reported by 9,783 companies as of October 2021. The gender pay gap reporting rules require the following four data points:

1) Mean and median hourly pay gap between men and women
2) Mean and median bonus gap
3) Percentage of men and women receiving a bonus
4) Gender balance in each quartile of the workforce as measured by pay

We identified 413 financial services firms from the full list of organisations that reported. We allocated these firms to nine different sectors: asset management (42 firms); banks (45); building societies (11); consumer finance (55); diversified financials (43, including payment systems, credit cards, exchanges, brokers and trading platforms); insurance (123); investment banks (29); pensions (10); and wealth management (35, including private banks and private client stockbrokers). We also gathered data on three further sectors as comparators: financial information providers (16); professional services (45) and public bodies (7).

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New Financial is a think tank and forum that believes Europe needs bigger and better capital markets to help drive its recovery and growth.

We believe diversity in its broadest sense is not only an essential part of running a sustainable business but a fundamental part of addressing cultural change.

We provided data to the government-backed Gadhia review of senior women in financial services, *Empowering Productivity*, and we are HM Treasury's data partner monitoring the progress of signatories to the HM Treasury Women in Finance Charter.

New Financial's current diversity research topics include Innovations in Hybrid Working, a Diversity Toolkit for Investors, and a thought paper series on Radical Actions to drive a step change in diversity across financial services.

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SUMMARY

Fig.1 **Slow progress**

Key gender pay gap metrics in financial services industry, 2017 and 2020

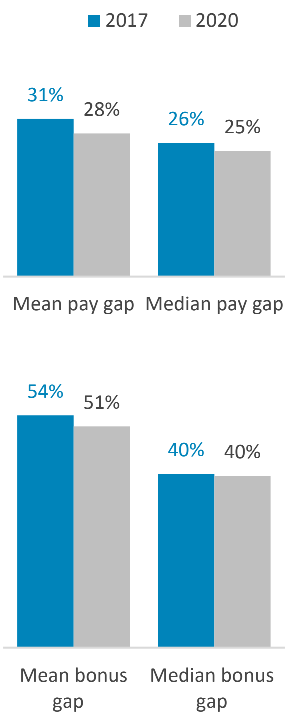
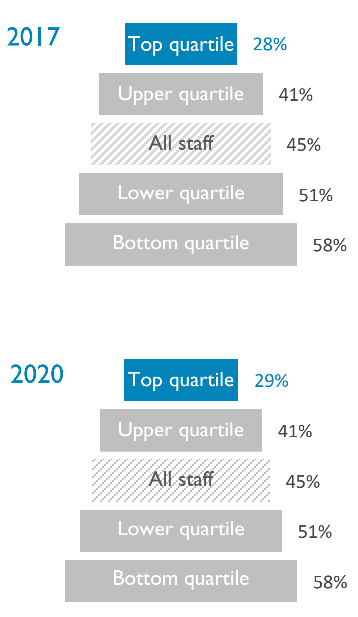


Fig.2 **Spot the difference…**

Representation of women in financial services by pay quartiles, 2017 and 2020



1. **Slow progress:** The financial services industry is making slow progress in improving its gender pay gap, despite political and social pressure on the industry and its public commitment to diversity. From 2017 to 2020, the mean gender pay gap improved by three percentage points from 31% to 28%.
2. **Spot the difference:** The reason progress is slow is because of the very small increase in representation of women in more senior (and higher paid) roles. Between 2017 and 2020, the distribution of women at different levels across the industry flatlined, with the only difference being a one percentage point increase in female representation in the top pay quartile from 28% to 29%.
3. **Playing catch-up:** As a sector, financial services is still far behind the national average. The mean gender pay gap in financial services (28%) is twice the national average (14%). If the financial services industry continues improving the pay gap at its current pace, it will reach the national average in 2034.
4. **A wide sector spread:** The high gender pay gap within financial services disguises the differences between sectors. While most sectors hover around the average for financial services, investment banks and wealth managers are major outliers with gender pay gaps of more than 35%.
5. **Mixed progress:** Every sector of the industry improved its pay gap, but the rate of change varies. While the gender pay gap at banks improved by five percentage points, the improvement in wealth management, consumer finance and diversified financials is effectively a rounding error (one percentage point over three years).
6. **A steep pyramid:** Women remain underrepresented at the top end of the industry compared with the rest of the UK economy. Women represent just 29% of staff in the highest pay quartile (compared with 40% in the wider economy) and 35% in the top half (versus 43%). Women account for less than a quarter (24%) of the highest paid staff in asset management and less than a fifth (17%) at investment banks.
7. **Low representation:** This problem is exacerbated by over representation of women at the bottom end of the pay scale. Nearly 60% of staff in the financial services industry in the bottom quartile are women.
8. **A collective push:** In positive news, the gender pay gap and senior female representation (by pay) improved in every sector. Roughly two thirds (65%) of all firms improved their gender pay gap and nearly two thirds (63%) improved representation of women in the top pay quartile.
9. **Leaders and laggards:** At roughly a third of all financial services firms that reported, the gender pay gap stayed the same or widened, and the representation of women stayed the same or fell. At one fifth of firms, both metrics deteriorated.
10. **A clear correlation:** The most effective way of tackling the pay gap is to increase representation of women at the top – 75% of the firms that improved their gender pay gap also improved the representation of women in the top pay quartile, and 77% of firms that improved the representation of senior women also improved their gender pay gap.

Playing catch up

The financial services industry is a long way behind the rest of the UK economy on every gender pay gap metric (see Fig.3). The gender pay gap and bonus gap is significantly higher than the wider economy, and female representation is significantly lower than the national average in the top pay quartile.

Both the mean and median gender pay gaps are roughly double the UK average. The mean gender pay gap in financial services is 28% compared to 14% in the wider economy, the median gender pay gap is 25% compared to 13%.

The bonus gap is much greater than the rest of economy: the mean bonus gap within financial services is 51% compared to the national average of 20%. This is of particular concern given the relatively large proportion of staff that receive a bonus within financial services compared to the rest of the economy.

A big factor in the wider gap in financial services is the combination of very high pay at the top end of the pay scale combined with a low proportion of women in the best paid jobs. Women represent just 29% of staff in the top quartile by pay in financial services industry compared to 40% in the rest of the economy.

The high gender pay gap in financial services disguises a wide range between different sectors and within them (see Fig.4). While most sectors hover around the 28% average for the industry, investment banks and wealth managers, are clear outliers with pay gaps of more than 35%.

On the other hand, more retail-focused sectors like insurance, consumer finance and diversified financials tend to have a lower pay gap than the industry average. As comparators, professional services firms (such as law firms and accountants) have an average pay gap of 21%, which is better than the financial services industry but still far worse than the national average.

Fig.3 Financial services in the context of the UK economy

How key gender pay gap metrics compare between the financial services industry and the wider UK economy

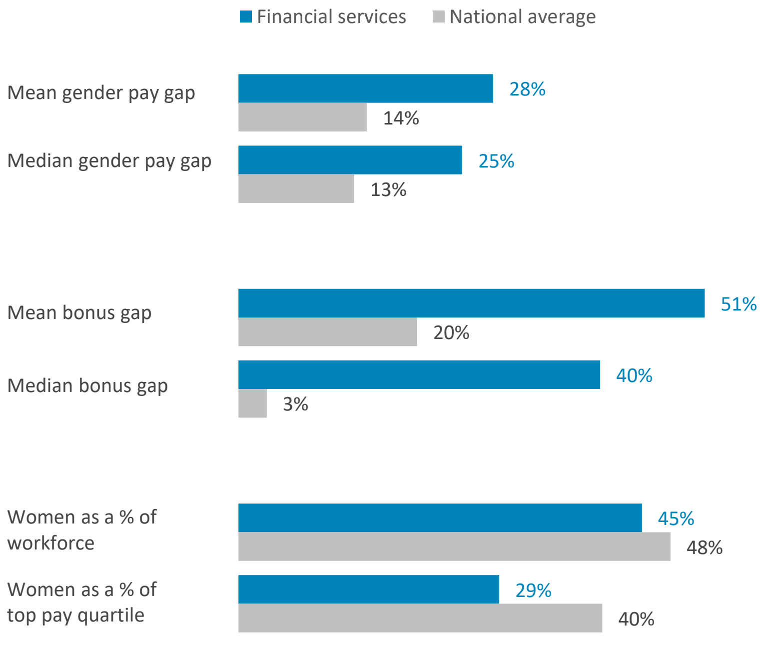


Fig.4 A wide sector spread

The gender pay gap in different sectors of the financial services industry % XX% figures represent the mean of the mean pay gap in each sector; the red bars show the interquartile range in each sector

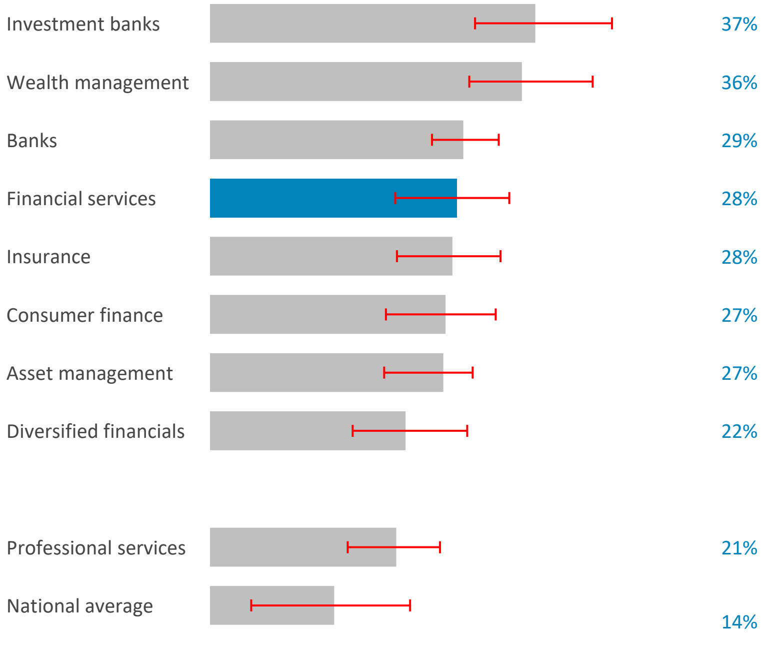
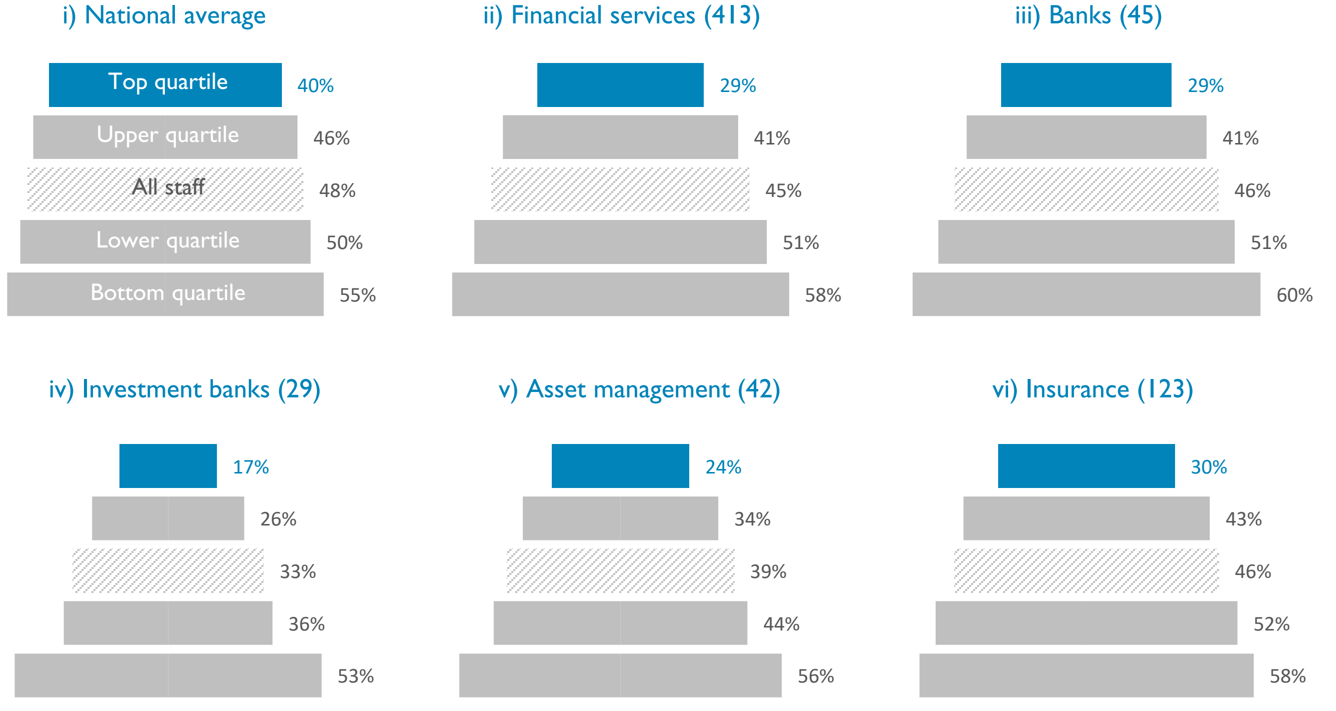


Fig.5 Female representation in different sectors of the financial services industry

Women as percentage of staff in each of the four pay quartiles and across the whole workforce in different sectors, %
(number of firms in brackets)



A steep pyramid

While most of the coverage of gender pay gap reporting focuses on the stark pay and bonus gap numbers, it often misses out the main factor driving those numbers. Firms also have to disclose the level of female representation at different levels of their organisation, enabling us to measure the representation of women in the top pay quartile. Given the skew in pay and bonuses in financial services to the highest paid staff, without improvement in the representation of women at the top the gender pay gap will continue to be wide.

Fig. 5 maps this distribution across the industry and for selected sectors in 2020. The pyramids show the underrepresentation of women in higher paying positions and overrepresentation of women in lower paying positions.

Women are underrepresented across the workforce in financial services, with 45% of the entire workforce being women in financial services compared to 48% in the wider economy. This underrepresentation of women is driven by the top half of the pyramid: on average just 29% of staff in top pay quartile in financial services are women (compared with a national average of 40%) and 41% of the upper middle quartile (national average: 46%) are women. The underrepresentation of women in higher paying role is endemic across the sectors of the industry: every sector of financial services trails the national average when it comes to the representation of women across its workforce and in the top two pay quartiles.

However, the gap in some sectors is wider than others. At investment banks less than one in five staff (17%) in the top pay quartile and just 22% of the top half of staff by pay are women. This helps explain why investment banks have the highest gender pay gap in the industry at 37%. Larger and more retail-focused firms in banking, insurance and consumer finance have a higher proportion of women in both the top and upper middle quartile. In asset management, less than a quarter (24%) of the highest paid staff and less than a third (30%) of the top half of employees by pay are women.

Slow motion

Companies first disclosed their gender pay gap and representation numbers in 2018, using data from 2017. With updated data from 2020, it is possible to analyse how much progress the industry has made over the past three years. The answer is not a lot (see Fig.6).

In positive news, the gender pay gap in financial services has decreased slightly in the past three years. Between 2017 and 2020 the overall mean pay gap in financial services decreased from 31% to 28% and the median gap fell slightly from 26% to 25%. The mean bonus gap dropped from 54% to 51%, but the median bonus gap was effectively unchanged.

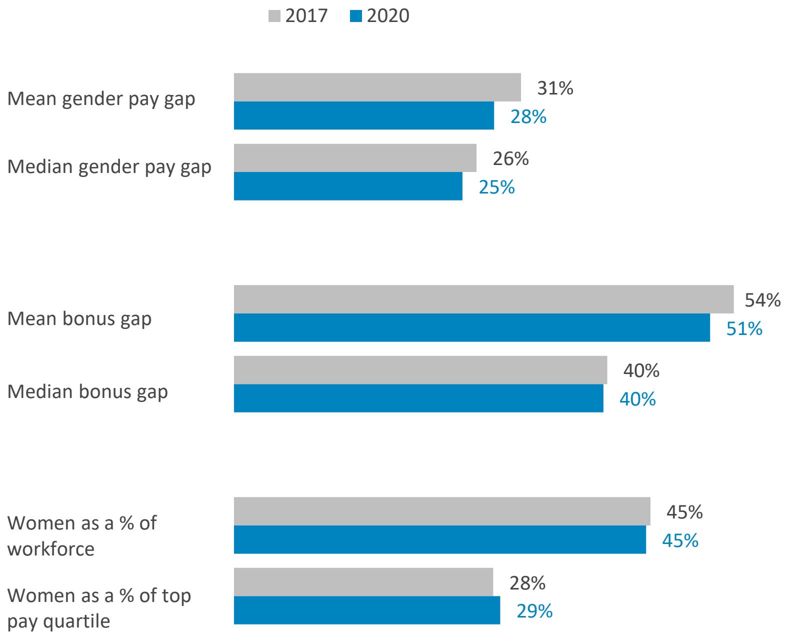
In terms of representation, the change is even slower. The proportion of women in the entire workforce remained constant at 45%, while the representation of women in the top pay quartile has only increased by one percentage point from 28% to 29%. This highlights the challenge that many firms have faced in attracting, retaining and promoting women across the industry, compounded by the Covid pandemic.

While the industry has made some progress on the gender pay gap, it is moving at a very slow pace. Fig.7 shows how long it would take different sectors of the financial services industry to reduce their pay gaps to the current national average of 14%, assuming they continue to progress at the same rate as the past three years. It makes for depressing reading: the financial services industry as a whole will reach 14% in 2034, investment banks in 2043, and wealth managers in 2064.

*Note: The firms that comprise the financial services sector are different in 2017 compared to 2020 – 42 firms that reported in 2017 did not report in 2020 (for example, they no longer had a minimum headcount of 250 staff, or have undergone a merger or acquisition), and there are 68 new firms reporting in 2020 that did not report in 2017. However, analysis of the data including only firms that reported in both periods yields similar results to the full sample.

Fig.6 A small improvement

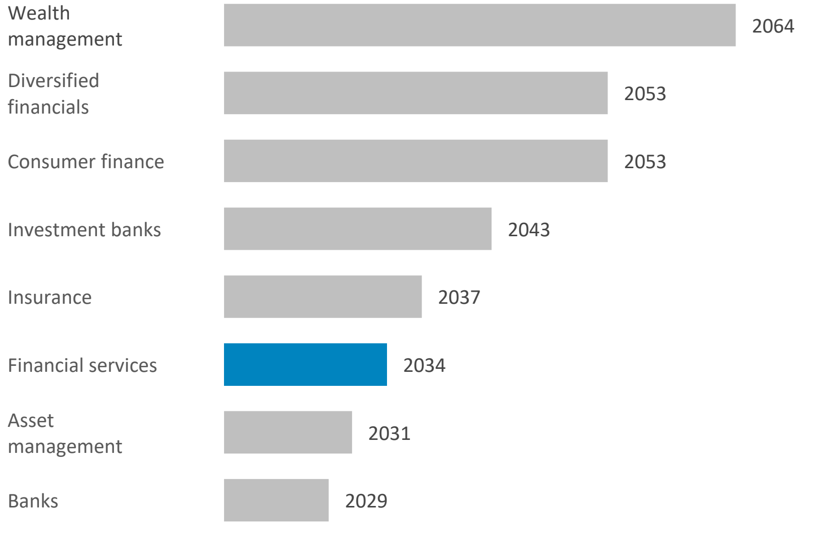
The change in key gender pay gap data from 2017 to 2020 for financial services*



Note: We have not included sector data for building societies or pensions as there are less than 20 in each sector, however they are included in the financial services average

Fig.7 Still a long way to go

The year that different sectors in financial services will reach an average pay gap of 14% (the current national average) at their current rate of progress



Slowly closing the gap

By comparing the change in the gender pay gap at a sector level between 2017 and 2020, we are able to look at the progress (or lack of it) across the industry in more detail.

The good news is that the pay gap improved in every sector of the industry between 2017 and 2020. The bad news is that this progress is moving at a slow pace across the industry. While the pay gap is improving across the industry at a faster rate than the national average (which actually increased slightly) it still has a long way to go.

The overall mean pay gap in financial services improved from 31% in 2017 to 28% in 2020, a rate of one percentage point per year. Investment banks and asset management firms improved their pay gap at the same rate. But in some sectors like wealth management, consumer finance and diversified financials the pay gap is virtually unchanged: a one percentage point improvement over three years is effectively a rounding error.

On a more positive note, banks improved their gender pay gap by a significant margin, with the gap falling five percentage points from 34% to 29%.

The picture is even more mixed when looking at the proportion of firms that improved their gender pay gap in different sectors (see Fig.9). Overall, roughly two thirds of firms in financial services (65%) improved their pay gap, while it stayed the same or widened at just over third of firms (35%).

There are significant differences between the best and worst performing sectors. While more than 80% of firms in banking and asset management have improved their pay gaps between 2017 and 2020, only half (50%) of the investment banks in our sample managed to do the same and across diversified financials it was only just above half (55%).

Fig.8 The change in the gender pay gap

The change in the mean gender pay gap between 2017 and 2020 in different sectors of financial services

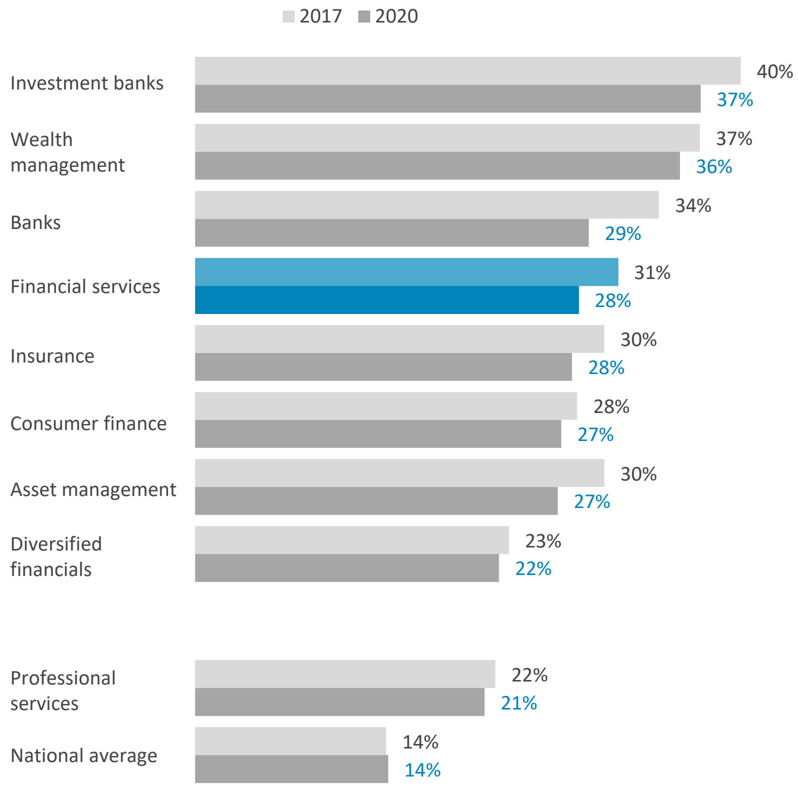
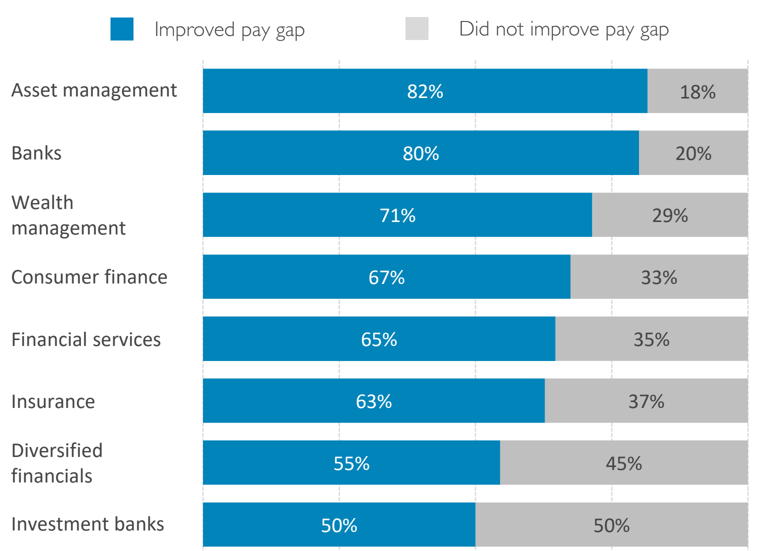


Fig.9 Percentage of firms that have impoved their pay gap

The percentage of the 345 firms on which we have data for both periods who have improved their pay gap by sector



A steep climb

The main reason given by firms in banking and finance for their stubbornly wide gender pay gaps is the under-representation of women in the most senior and high-paid jobs. Our analysis of the change in the representation of women in the top quartile by pay shows that they are making heavy going of improving that imbalance (see Fig.10).

Between 2017 and 2020, the financial services industry as a whole increased the representation of women in the top quartile by pay from 28% to 29% (although when we only compare firms that reported in both 2017 and 2020 the increase doubles to 2%). As with the gender pay gap, it is encouraging to see that representation of women in the top pay quartile improved (marginally) in every sector, although in most sectors this amounts to a rate of change of just one percentage increase over three years.

The only sectors that managed to increase senior representation at a significantly faster rate of one percentage point a year were asset management, banks and investment banks – but both asset management and investment banking started from a particularly low base. The representation of women in the top quartile of investment banking increased from 14% to 17%, and at asset managers from 21% to 24%.

Fig.11 shows that just under two thirds (63%) of all firms improved representation, ranging from 68% for asset managers down to 58% for consumer finance (see Fig.11). However, more than a third (37%) of firms have decreased the representation of women in the top quartile.

Fig.10 Quiet at the top

The change in the representation of women in the top pay quartile by sector of financial services

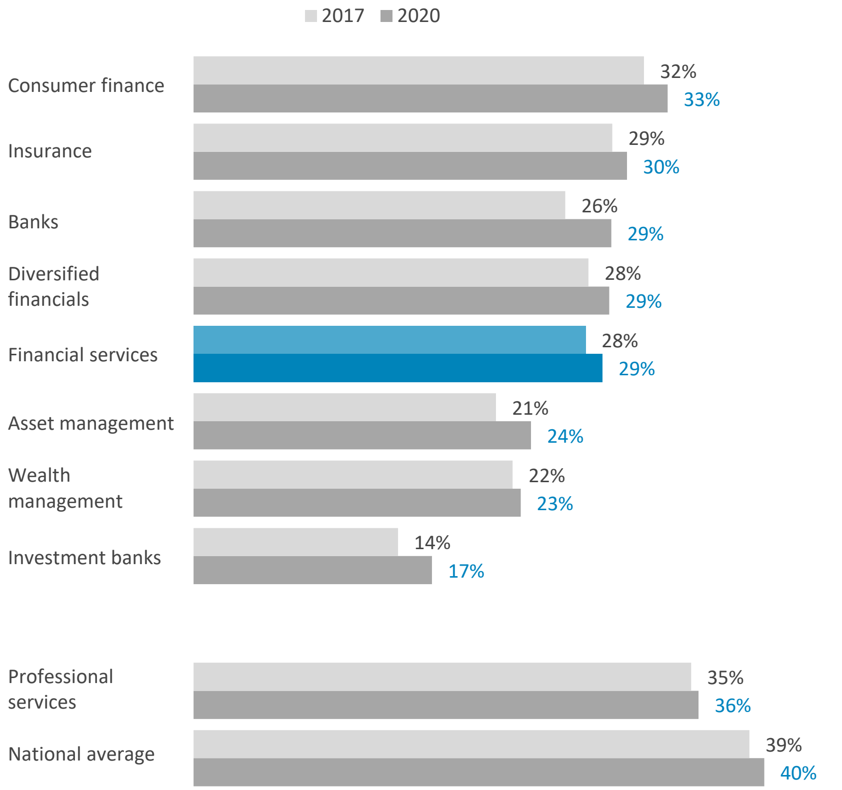
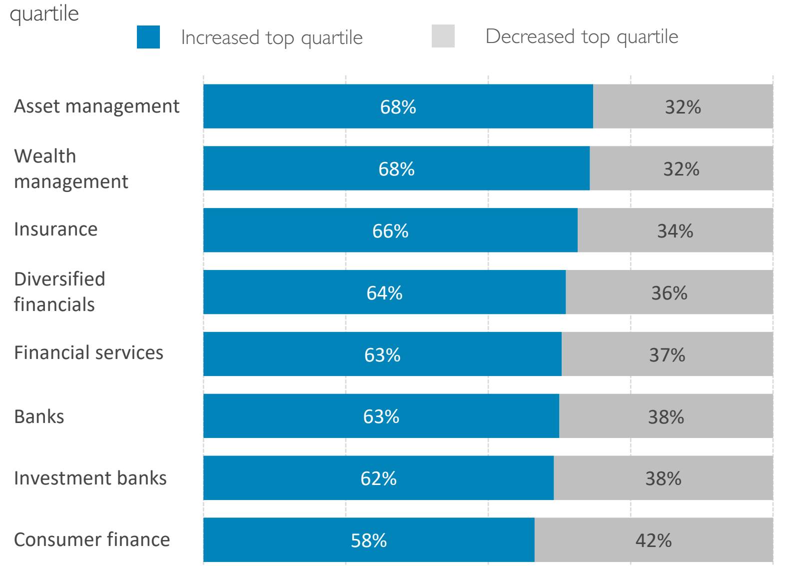


Fig.11 Percentage of firms that increased their top quartile

The proportion of firms who improved the representation of women in the top quartile



A clear correlation

Most firms in the financial services industry are aware that in order to address their stubborn gender pay gap they will need to improve the representation of women in high-paid and more senior roles. So it is perhaps surprising how few firms managed to achieve both between 2017 and 2020.

Fig.12 maps the progress made by different sectors of the industry on these two metrics. The blue bars show the percentage of firms that improved their gender pay gap, and the grey bars show how many firms did not. Each group is divided into two: the dark blue bars show firms that improved both their pay gap and senior representation. It is encouraging to see that across the industry 48% of firms improved both their pay gap and female representation, and a further 16% improved their pay gap but didn't manage to improve levels of representation.

The flipside of this is the grey bars: the dark grey bars show firms that improved representation but not the pay gap, and the light grey bars show the proportion of firms that failed to improve either. It is concerning to see that a fifth of firms across the industry (21%) have failed to make progress on either count, despite the political and social focus on diversity and (often) their public commitment to change. It is also worrying that one in seven firms (14%) have improved representation but not dented their pay gap.

However, this analysis underlines that the most important step in reducing the gender pay gap is to increase representation of women in senior roles. Of the firms that improved their gender pay gaps, three quarters of them (75%) also improved the proportion of women in more senior roles (see Fig.13i). And of the firms that improved the representation of women in the top quartile by pay, over three quarters of them (77%) also improved their gender pay gap. In other words, it's very hard to move the dial on pay without moving the dial on representation.

Fig.12 Heavy going

The progress made by firms in different sectors from 2017 to 2020

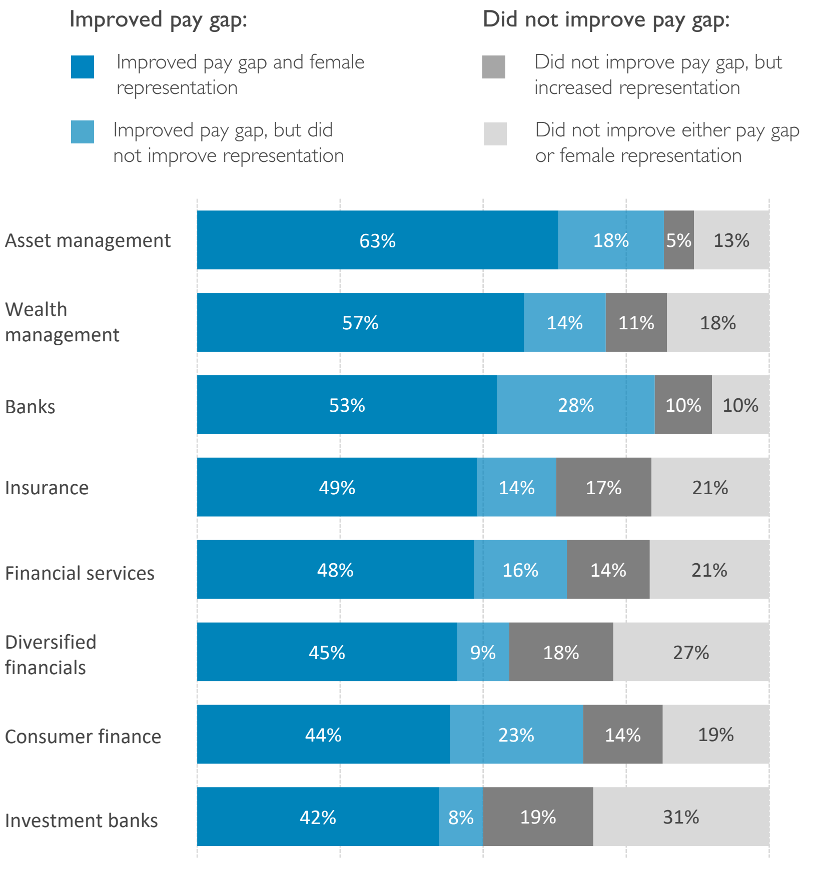


Fig.13 Driving change

The relationship between improving representation of women in the top quartile and improving the pay gender pay gap