KPMG

Inclusion spotlight:

Black Heritage Talent Initiatives

in Financial Services

An insight-led report to share best practice and initiate culture change

Foreword

At a glance: the report in summary

We all want to feel included at work. And most large employers want the same for their employees, which is why many have acted to create more inclusive cultures and support minority groups.

They've launched an array of programmes, initiatives and interventions, aimed at specific groups of people who share a particular characteristic: for example, gender, race, sexual orientation or neural diversity. This tailored approach helps them identify and eliminate the barriers and inequalities faced by these communities.

Since the murder of George Floyd and the Black Lives Matter protests in 2020, many firms have focused on the experiences of their Black heritage employees.

In the UK, Black heritage staff are under-represented at all levels of organisations, especially in senior roles. A business in the Community report found they hold just 1.5% of top management posts in the private sector. According to the Chartered Management Institute, 71% of employees from a Black background feel overlooked for career opportunities due to their ethnic identity.

The Financial Services perspective

In Financial Services (FS), the aftermath of Floyd's death prompted public acknowledgement – possibly for the first time – that the proportion of Black heritage talent in the sector is very low.

With this in mind, we interviewed a section of the industry to see how they recruit, develop, promote and retain employees with a Black background. We spoke to 15 organisations employing 770,000 people, with our interviews covering five key themes:

1. The equality ecosystem

2. IDE ownership structures

3. The career lifecycle

4. Data disclosure

5. Regulation

Foreword cont.

Our research provides helpful insight into how these organisations have evolved their diversity and inclusion (D&I) strategies and plans since 2020. Here's a summary of what we found:

- **There has been progress.** It's encouraging to see that all the companies we interviewed are taking the issue seriously, and have implemented numerous initiatives and programmes since 2020.

  What's more, their efforts tend to be strategic in nature. They're aimed at driving cultural and tactical change; and increasing the numbers of Black heritage employees at all levels, and especially in senior roles.

- **More commitment is still needed**. Despite the promises and good intentions, Black representation has not significantly improved in FS since 2020. In fact, in some parts of the industry, it has actually shrunk. In the Insurance sector, for example, Ethnic Minority representation is overall down from 10% in 2019, to 9% in 2021 (according to ABI Data Research).

  Only half of the firms we spoke to have specific targets in place for Black Heritage representation – and most don't publish them. Among those that do, targets average a 4-5% for senior management level, and 6-13% firmwide. Without targets and a laser-sharp focus on them, progress can't be monitored.

- **Targeted action is key.** A community that has been historically and systemically disadvantaged requires sustained and dedicated support. D&I teams need a mandate from the top, sufficient budget and the authority to set KPIs, if they're to deliver an end-to-end strategy for Black heritage talent.

  Almost all the companies we interviewed hold the Executive Committee (Exco) and board to account for achieving inclusion, diversity and equity (IDE) targets. And in some firms, up to 25% of remuneration for the CEO's direct reports depends on hitting these targets.

- **Firms are educating the decision-makers**. More companies are introducing mandatory D&I training for senior leaders. Done right, this will enhance their understanding of the challenges their Black colleagues face, and of how to foster a more inclusive environment.

  But given the low representation of Black heritage staff, organisations can't rely only on training alone to bring about behavioural change. They'll also need to provide platforms for dialogue and active support – for example, through sponsorship and allyship programmes.

Introduction

From our day-to-day conversations with FS leaders, we know they're making a priority of IDE. And we know they want to drive meaningful change in their organisations.

We also know that their efforts to support Black colleagues in particular took on new impetus after the murder of George Floyd by a Minneapolis police officer in 2020.

Despite this, the Black community remains underrepresented in the FS industry. Only six CEOs and 12 other executive directors across the FTSE 100 come from a minority ethnic group. At the time of the print of this report, none of them had a Black heritage background.

According to the 2022 Parker Review 94% of companies in the FTSE 100 have a board member of an ethnic minority background, however, the representation of Black Talent is estimated to be very low. The report concluded that Black communities face greater barriers than some of the other ethnic minority groups and that it will assess this issue in the future. **(Source: 2022 Parker Review**.

At a recent KPMG event on IDE for senior leaders, FS attendees called for insight on how to successfully recruit, retain and develop Black talent. Especially given that FS firms will need to report as of 2023 whether they meet the minimum requirements, set by the Financial Conduct Authority (FCA) Policy Statement 22/3, on their boards and executive management teams' diversity. In response, we decided to examine how FS firms are supporting Black heritage colleagues, and the impact their efforts are having. We surveyed IDE leaders (Heads of IDE and HR leaders) on the initiatives, processes and systems they have in place to:

- ☑ Promote dialogue about race and equality

- ☑ Bring about cultural change

- ☑ Make leadership accountable for IDE

- ☑ Develop Black employees' skills and careers

- ☑ Create a robust pipeline of Black leaders

- ☑ Collect essential IDE data

- ☑ Meet regulatory IDE requirements

We surveyed 15 institutions, ten of them headquartered in the UK. These comprised of 9 banks, 4 insurance companies and 2 asset management firms with a combined workforce of approximately 770,000 globally.

This report summarises our findings, and offers insights into the challenges financial institutions come up against. And it provides recommendations for FS leaders on how to embed a culture that truly values and promotes Black heritage talent.

Sources: [1] ABI Data Research 2022

1. The equality ecosystem

For many FS organisations, the death of George Floyd was a turning point: a catalyst for change in how they support Black talent.

Since that moment, many of them have put significant emphasis on fostering a respectful environment that champions inclusion and equality.

We asked their IDE leaders about the strategies and programmes they've put in place to encourage dialogue and culture change; and to promote inclusion and equal opportunities for Black heritage employees.

We found that many firms have launched activities to bring about conversations on race – for example, listening sessions and reverse mentoring. Some have made pledges or signed commitments, such as Black Action Plans and Race at Work Charter. A third have opened speak-up channels and hotlines, where staff can raise issues and open a dialogue on race.

Yet surprisingly, very few had developed long-term programmes and interventions specifically for their Black employees. In most cases, measures were clustered together as activities to support ethnic-minority staff generally.

Still, what emerged from our conversations was an ecosystem of activities aimed at improving inclusion and equality. This is principally made of four elements:
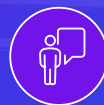
Platforms for dialogue

Learning and development

Allyship and mentoring

Employee networks and forums

Platforms for dialogue

According to IDE leaders, platforms for open and honest dialogue are the most effective way to spark conversations about race.
Many firms have introduced listening circles, forums and events to understand and address Black employees' experiences of, and concerns about, the culture they work in. Listening sessions have proved particularly important: 60% of institutions have implemented these for Black colleagues.

Many respondents noted the importance of bringing IDE matters to senior leaders' attention, by facilitating discussions between them and Black heritage staff. One firm records anonymised interviews with Black employees about their workplace experiences, and plays them back to senior executives.

Activities like these, where real stories are shared, improve people's understanding of the challenges Black colleagues face. This better equips the leadership team to create a supportive environment.

> **Listening sessions have proved particularly important: 60% of institutions have implemented these for Black colleagues.**

Learning and development

IDE training also helps to increase understanding, and to generate dialogue about difficult topics like privilege and bias. For example, immersive learning modules on allyship, micro-aggressions and anti-racism have encouraged conversations and supported an inclusive culture.

These tend to run in parallel with more generic activities, such as seminars, webinars, and talks with guest speakers through the year (and especially during Black History Month).

Leadership teams are generally encouraged to take part in inclusivity courses. That gives senior figures – who aren't always comfortable starting discussions about race – a deeper understanding of their Black colleagues' experiences.

In addition, some institutions have introduced leadership courses for Black heritage employees.

Allyship and mentoring

Allyship programmes see Black staff paired with individuals who are more senior, and of non-Black heritage. The senior colleague acts as the Black employee's sponsor, mentor or coach.

Respondents described allyship programmes as highly effective at driving real change. Such schemes directly address an underlying barrier to progress for people of Black heritage: a lack of sponsors to champion their progression.

Due to the lack of internal sponsors, some organisations have brought in external ethnic or Black leaders and career development programmes that involve sponsorship and mentoring.

Employee networks and forums

Most financial institutions have set up networks for under-represented communities in their workforces. These are often general employee networks, focused on inclusion for all colleagues rather than specific groups. Employee network groups (ENG), or employee resource groups (ERG) foster a sense of belonging for communities within the organisations, allowing them to offer a listening ear for employees, provide peer support and promote career progression.

While two thirds of firms have created such networks, only half have forums providing the opportunity specifically focused on Black heritage employees, or ethnic minority colleagues more generally to discuss related issues at regular intervals. These networks are a great platform to share knowledge and exchange employee experiences, however, they often fly under the management radar and have limited official impact to change internal HR policies or enforce targets.

Creating groups to explore Black employees' experiences – such as looking at Black career pathways and having race advisory panels – has also proved effective at elevating Black talent into key leadership roles.

Best practice recommendations

- Educating leaders is crucial to developing awareness across the organisation of the issues faced by Black colleagues.

- By combining education with sponsorship and mentoring schemes for Black employees, senior leaders become advocates for Black heritage talent.

- Providing open forums for discussion, and for the exchange of thoughts and experiences, has proved one of best ways to promote dialogue. These are particularly effective when senior leaders are involved.

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2. IDE ownership

Our study looked at who's typically accountable for ensuring that Black heritage initiatives are delivered, diversity targets are set, and progress is tracked.

Leadership responsibility

Setting the right tone and example at the top is critical to implementing change.

In most institutions, ultimate accountability for IDE sits with the CEO and ExCo. In some, up to 25% of remuneration for the CEO's direct reports depends on them hitting their IDE targets.

However, the extent to which leaders at this level are actively involved in ethnicity-focused IDE activity varies between firms.

Some leaders break down their IDE goals and targets, and cascade ownership of them to divisional and functional heads. This helps ensure that practical action is happening on the ground.
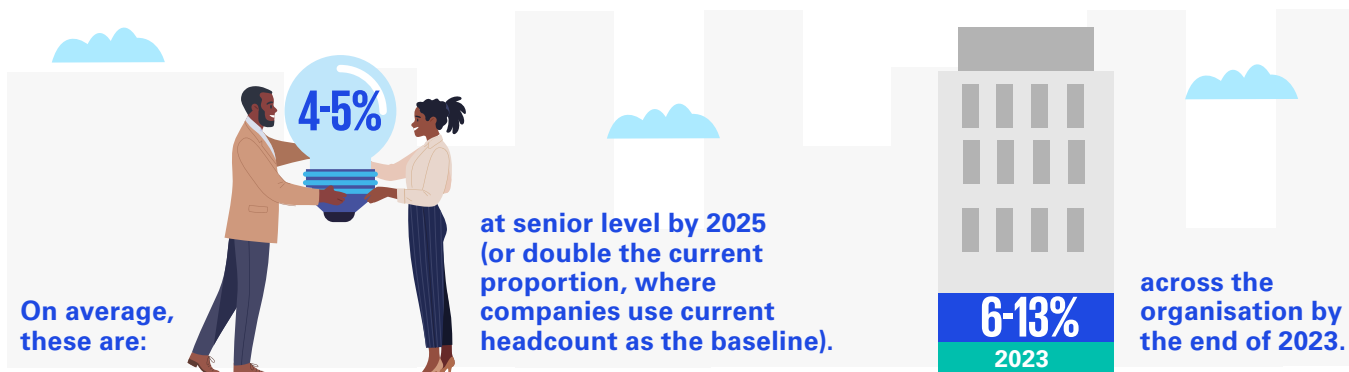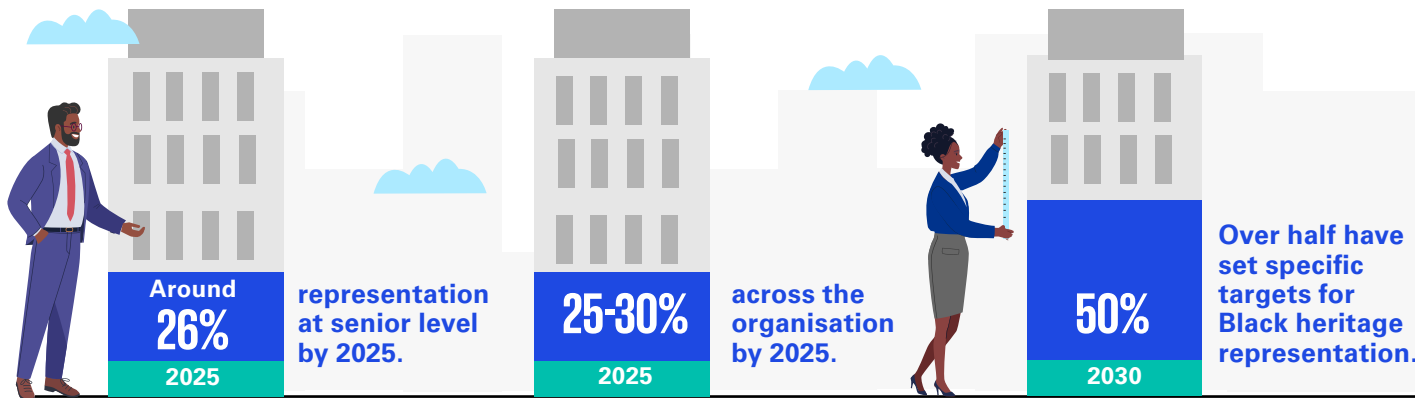
> **In some, up to 25% of remuneration for the CEO's direct reports depends on them hitting their IDE targets.**

IDE targets

All the institutions we spoke to have signed the Race at Work Charter. This features five calls to action, aimed at ensuring that ethnic-minority employees are represented at all levels of the organisation. Although the charter itself doesn't set targets, it encourages firms to track progress through targets and make them public.

Three quarters of firms have targets for ethnic minority representation. On average, these equate to:

Around 26% 2025 — representation at senior level by 2025.

25-30% 2025 — across the organisation by 2025.

50% 2030 — Over half have set specific targets for Black heritage representation.

On average, these are: 4-5% at senior level by 2025 (or double the current proportion, where companies use current headcount as the baseline).

6-13% 2023 — across the organisation by the end of 2023.

But does this go far enough?

To achieve a step-change, all FS businesses will need to set specific targets for Black heritage representation. And they should challenge themselves to aim higher.

This can be difficult in global organisations, however. They may find that they can't set IDE targets across borders, due to different requirements in different geographies. Only around a quarter of the firms we spoke to have targets in place globally, or at least regionally (e.g. at EMEA level), rather than country by country. Organisations should have a global vision and translate their goals into regional meaningful and tangible targets.

Holding to account

Middle management are key stakeholders who should be held accountable for IDE. But at the same time, they're at the level where the challenge most often lies. As the people 'on the ground' that interact with colleagues on a day-to-day basis, they have a major influence on people's experience in the workplace.

Around three quarters of firms have aligned the individual performance goals and measures of their managers and leaders to organisational IDE targets. Executive committee, senior leaders and managers on all levels are evaluated against these as part of each individual's annual review.

Meanwhile, two in five link the compensation of their leaders to IDE performance, and more are exploring the possibility. We're also seeing performance targets specific to Black heritage representation being brought into bonus decisions. Measures like these are vital to ensuring that progress is measurable.

Organisations yet to link remuneration to IDE performance may be held back by low rates of diversity data disclosure among employees (see section 4 for more on this). That prevents them from adequately assessing IDE performance.

Supporting IDE owners

Financial institutions have introduced a range of measures to help leaders and managers meet their IDE responsibilities. These include:

- Creating IDE toolkits for leaders, which they can roll out to their teams

- Providing mandatory anti-racism, inclusive leadership, and in-depth race education and training for senior managers and line managers

- Partnering with third parties to challenge ways of working, and formulating strategies for leaders and managers to support Black colleagues more effectively

- Introducing a panel approach to the recruitment of Black talent (instead of leaving hiring managers to act alone).

Best practice recommendations

- Setting specific targets for Black heritage representation helps to focus your efforts, which is particularly important to address the significant barriers that people of Black heritage can face.

- Linking compensation to performance against IDE targets will incentivise your ExCo to ensure that targets are met, rather than them being merely a figurehead for IDE.

- Break down IDE targets and cascade them to divisional and functional level.

- Review IDE performance regularly, so as to drive action and accountability throughout the organisation.

3. Career lifecycle

The employment lifecycle is complex and multifaceted. Without the right measures, each stage could inadvertently see Black employees – and other minority ethnic staff – placed at a disadvantage.

Companies must focus on more than recruiting talent from a Black heritage background. They also need to bring Black talent on through the organisation, and into leadership roles.

With this in mind, we asked FS leaders how they support Black employees throughout the cycle.

Diverse recruitment

Only one of the organisations we surveyed has a ratio in place to promote the recruitment of Black talent. This operates only at leadership level, with a target between 1.5% and 3% of Black heritage individuals in senior leadership roles.

That said, all firms do have initiatives to recruit Black talent.

Just under half of these are aimed at entry and early-career level. They include Black talent apprenticeship programmes, and internship and graduate schemes. Many involve partnerships with organisations focused on the Black community, such as BYP Network and 10,000 Black Interns.

Around half of firms set clear expectations with recruitment agencies on the need for diverse candidate lists. Some use specialist recruiters for this purpose.

To recruit Black talent in greater numbers, four in ten organisations have upskilled their hiring managers through guidance and training (such as on unconscious bias). A couple have gone further, appointing diversity ambassadors or champions to support hiring managers when recruiting, and ensuring that their end-to-end recruitment process is inclusive.

Promotion practices

We also asked respondents how they ensure that their talent mapping process and promotion decisions are fair, unbiased and free of discrimination.

Just over half said they rely on data analytics to maintain objectivity. For example, one firm studies the proportion of Black candidates at each stage of the employment lifecycle, in each division, to identify barriers to promotion for Black colleagues. The results feed into a dashboard, which is reviewed quarterly by senior management.

Other mechanisms include best practice guides and promotion decisions being made through interview panels rather than through an individual decisionmaker. One organisation takes a 'comply or explain' approach internally, where a good reason must be given if shortlists for promotion aren't sufficiently diverse.

Of course, recruitment and promotion are just two key touchpoints within the employment lifecycle. Our respondents highlighted a number of initiatives to help Black heritage staff at various stages of the lifecycle. They include:

☑ A UK Black talent mentoring programme, which matches Black heritage employees with a managing director

☑ Joint sessions with competitors to share stories, and to mentor and inspire colleagues – so as to benefit from cross-industry role models

☑ Targeted Black leadership programmes run in partnership with external consultancies

☑ A 'mentoring extra' scheme, which runs sessions and events on specific topics for Black heritage employees – such as networking opportunities and career progression

☑ Career development programmes run by employee networks for their members

These measures aren't always specific to Black heritage employees, however many are intended to support ethnically diverse colleagues more generally.

Best practice recommendations

- Partnering with an external third party to work with Black talent can help to foster a safe environment for honest career conversations. An independent, outside perspective will also uncover 'blind spots', and identify key areas to focus on.

- Mentoring and sponsorship is especially important to promotion. Sponsorship helps Black talent establish strong relationships with senior leaders, who become more aware of the career challenges Black employees face. Leaders can then become advocates for the colleagues they sponsor when it comes to promotion discussions and decisions.

4. Data considerations

Financial institutions live and breathe data analytics. They recognise its importance in understanding diversity within their organisation, now and over time.

Our study explored the challenges businesses face when gathering diversity data, and how they go about overcoming them.

Data collection challenges

Most organisations encourage as many employees as possible to voluntarily share their diversity information.

Diversity data disclosure rates

| Of the **10** firms willing to divulge their disclosure rates | **7** were achieving **80%** or more | and the remaining **3** were achieved upwards of **70%** |

However, standing in the way of pushing these rates higher is a series of common – and interlinked – challenges:

Lack of trust

The main barrier to disclosure is a lack of trust among colleagues.

Staff may have concerns about how their data will be used; whether declaring their background might hold them back; and whether disclosure will make any difference.

This mistrust can arise due to inadequate communication about the importance of diversity data to building an inclusive workplace. Issues may emerge if employees are asked for their diversity information – potentially several times a year – without being told why.

Missing information

When communication is limited, people make their own assumptions.

At one institution, colleagues with a majority background thought that their diversity data wasn't required as part of the data collection process as they weren't representing a minority group. When of course, it's vital that all individuals, from all backgrounds, share their information.

Another assumption is that once people have submitted their data, they don't need to do so again. But gathering and analysing data regularly is key to assessing the impact IDE initiatives are having.

Data logistics

The user experience when providing data has a big influence on disclosure rates. Employees will be put off if the platform doesn't allow them to input their data in a quick, efficient and user-friendly way.

Privacy regulation also affects data collection. Global institutions may find that different definitions in different countries make life difficult; or that they're not actually allowed to ask for employees' ethnicity data in some jurisdictions.

Once disclosed, data can itself be a powerful tool for change, if firms use it to enhance trust and confidence through transparency. With this in mind, some firms communicate the progression rates of Black (and other minority ethnic) colleagues to the workforce.

Best practice recommendations

- Running communications campaigns to promote the importance of diversity data; explain how individuals' information will be used; and clarifying the benefits of disclosure, helps to boost disclosure rates.

- Where possible, embed two critical success factors identified by our research into these campaigns:

  – Active involvement from diversity-related employee networks

  – A storytelling element – e.g. encouraging staff to share their stories and experiences, to change perceptions of data use.

- Make sure you have the right technology platforms in place to gather data, and that disclosure is as convenient as possible. For example, make it part of an existing 'business as usual' activity, or a general data-collection exercise.

5. Regulation and reaction

Regulation is one way to increase diversity – though it should be a last resort.

We spoke to leaders about their efforts to comply with Policy Statement 22/3 from the FCA. Whilst we welcome the Policy as a step in the right direction, we also recognise that we won't change directly the level of Black representation in the industry.

Regulatory targets

In April 2022, The FCA published its Policy Statement 22/3: Diversity and inclusion on company boards and executive management.

This requires those FS businesses in scope to state in their annual financial reports whether they've met specific board diversity targets – on a comply-or-explain basis.

The targets are:

☑ At least 40% of board members are female

☑ A woman is in at least one senior board position – i.e. Chair, CEO, independent senior director or CFO

☑ At least one member of the board is from a minority ethnic background

Compliance track record

Of the 15 institutions surveyed, 5 aren't required to comply with the policy, as they're not UK-headquartered. 6 of the remaining 10 firms have met the targets.

As a rule, the UK is a useful indicator of the future for other European countries where diversity is concerned. Though it should be noted that direct comparisons are difficult due to the lack of diversity data in some European countries. That's due to data privacy laws restricting the collection of data and preventing organisations from requesting diversity statistics in the same way the UK does.

It's also worth pointing out that the experience of our interviewees isn't typical. Across the FS industry generally, only a small fraction of the firms affected by Policy Statement 22/3 have complied.

In the last reporting round of the FTSE Women Leaders Review, only 49 companies had achieved 40% female representation on their boards. The figures are slightly better for ethnicity: the most recent The Parker Review issued in 2022 reported 217 companies among the FTSE100 and 250 with ethnic minority representation on their board.

Response to the policy

Overall, the FCA's policy has been positively received. It's seen as introducing a welcome level of consistency to how the industry goes about reporting on diversity, role-modelling underrepresented communities and attracting diverse talent.

However, IDE leaders feel that the regulator's targets should be seen as a minimum requirement, not a 'quality mark'. A truly inclusive organisation shouldn't have to wait for a regulator to mandate diversity.

In fact, respondents believe that the authority should demand more diversity, and be more ambitious. One way to do that would be to focus on all levels of the firm, not just the board. It can be difficult to find diverse senior talent if it isn't being fostered and brought up through the organisation's hierarchy.

Trying to enhance diversity at board level in isolation is too late, and the talent pool will be too small if people aren't developed throughout their careers. That's why some firms we spoke to are using succession planning to increase board diversity. They start the process many years ahead of time, to ensure that the right candidates will be in place when needed.

Another concern was that the policy shouldn't be too complex from a compliance standpoint. Reporting should be kept simple, especially as IDE teams are often small and have limited budgets, even in large global organisations.

Best practice recommendations

- IDE shouldn't be measured just at board level, but across all levels of the organisation. A steady pipeline of talent needs to be brought up through the ranks.

- Adopting something similar to the Women in Finance Charter would help firms to co-create initiatives tailored to their individual sectors, regions or organisations, that support the progression of Black talent into senior roles.

- Respondents were surprised that Ethnicity Pay Gap reporting hasn't been made mandatory, at least for companies of a certain size. Gender Pay Gap put a spotlight on gender inequalities; reduced pay disparities; helped to increase representation; and improved the seniority of roles that women are in. Introducing Ethnicity Pay Gap reporting, provides an opportunity to see similar results for Ethnic Minorities.

In conclusion

As they focus on inclusion and equality of opportunity, how can financial institutions improve the experiences of Black heritage colleagues?

We've given recommendations throughout this report. But it's worth underlining some of the key learning points for FS firms from our survey:

- Organisations must ensure that all staff – and particularly senior leaders – are educated about, and aware of, the challenges Black colleagues face.

- Allyship schemes go a long way to achieving this. Sponsorship and mentoring programmes are crucial to helping Black heritage talent to be given more visibility and progress in their careers.

- There should be initiatives focused exclusively on the Black employee population, in addition to the general initiatives for ethnic minorities and other underrepresented groups, given the particular disparities that people of Black heritage face.

- Platforms for an open dialogue on race are essential, as are opportunities for senior leaders to sponsor Black heritage talent.

- At the same time, firms mustn't concentrate only on Black representation on the board and senior leadership team. A pipeline of Black employees must be consistently brought up through the ranks of the organisation.

- Regularly tracking progress is crucial. Targets must therefore be set against which to measure success.

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Further information

KPMG's Inclusion, Diversity and Equity experts can help financial institutions understand the challenges Black employees face; and implement initiatives that will make a real difference.

What's more, our own efforts to support Back heritage talent are bearing fruit. With more than 1,000 participants, our Cross-Company Allyship Programme helps us all to learn from each other, and matches Black talent to sponsors. Our Black Leadership development programme has underlined the need for an unrelenting focus on, and commitment to, IDE from the top. We have made a commitment to sharing our experiences and learnings with our clients so that they too can benefit. Please get in touch to see how we can help transform the experience of your people.

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