Sexism in the City: Time for a change in financial services

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What matters

In the context of recent proposals by the FCA and PRA to strengthen their non-financial misconduct rules, the Sexism in the City inquiry urges firms to increase the pace of cultural change in financial services sector.

What matters next

The current direction of the regulatory environment in the financial services sector indicates that firms which do not take action to fix the “old boys’ club” mindset will suffer reputational and financial hits. The recommendations in the article seek to help financial services firms navigate this environment.

The Sexism in the City inquiry was set up to establish what progress has been made in tackling sexism in the financial services sector. We discuss the findings and offer advice for those in the sector trying to navigate the current regulatory landscape.

The financial services industry is crucial to the UK economy. It employs more than 2.5 million people across the UK, produces £278bn (12%) of the UK’s economic output, and contributes £100 billion in tax that helps fund public services.[1] However, the sector also possesses the largest gender pay gap of any sector in the UK economy, a disproportionately high prevalence of sexual harassment and bullying complaints and a 17% higher rate than other industries of non-reportage by workers that encounter sexual harassment or bullying in the workplace.[2] As such, there have been persistent concerns about how well the sector works for the women it employs or might employ in the future.

In 2018, the Women in Finance inquiry reported on a range of barriers faced by women in financial services.[3] Five years on, the Sexism in the City inquiry was launched to establish what progress had been made. The inquiry’s report, published on 8 March 2024, produced a number of findings and recommendations. Whilst noting some incremental improvements, the inquiry was ultimately disappointed at the slow progress in tackling sexism in the financial services sector. It found only small improvements in the proportion of women holding senior roles and only a small reduction in the average gender pay gap. The inquiry also revealed a "shocking" prevalence of sexual harassment and bullying in financial services, and that firms handle allegations of these behaviours poorly.

Why so little change?

The report highlights some key factors which have contributed to the lack of change:

- **A box-ticking approach**: Evidence suggested that improving diversity and inclusion was not treated by most firms as a core business priority and was viewed more as a “nice to have”, with some describing firm-level initiatives on diversity and inclusion as “box-ticking” exercises and “virtue-signalling”.
- **A lack of cultural change**: Many described the culture in financial services firms as still being an “old boys’ club” in which recruitment and promotion decisions were biased against women. The cultural barriers were even worse for women with disabilities and women from ethnic minorities. The report found that various challenges experienced by women in financial services, whether related to pay, harassment or maternity leave, will persist unless this cultural deficit is addressed.
- **A failure to handle bullying and sexual harassment allegations**: Several contributors to the inquiry highlighted that allegations were often not taken seriously or investigated properly. There was a widespread view that male perpetrators of harassment and abuse suffered few consequences for their behaviour, whereas outcomes for women who reported harassment were usually negative.
- **Abusive use of non-disclosure agreements (NDAs)**: NDAs were found to be widely used in sexual harassment cases to protect firms from reputational damage and to make problems "go away". NDAs were found to have the effect of silencing the victim of harassment while protecting the perpetrator and leaving them free to continue their career.

Recommendations

Whilst recognising there is no “silver bullet”, the inquiry made a series of recommendations which it hopes will increase the pace of change towards a diverse and inclusive financial services sector:

- **A zero-tolerance approach**: Firms should adopt a zero-tolerance culture towards sexual harassment and take concrete action to embed this approach within their organisations. This zero-tolerance approach also needs to apply to the ‘softer end’ of abusive behaviour and “microaggressions” against women.
- **Cultural change**: Firms need to create a psychologically safe environment where employees feel safe to share ideas and speak up where they see issues. Firms should consider what steps they can take to achieve this, including the use of appropriate training on concepts such as unconscious bias and active bystander behaviour.
- **Robust investigation processes**: Defined investigation and escalation procedures are key to properly investigating allegations of harassment. Such procedures should include controls to ensure, as far as possible, the confidentiality of the person raising the issue and that there are no adverse effects to them coming forward.
- **Ownership in leadership**: The responsibility for tackling these issues and driving much-needed cultural change must sit with the senior leadership and boards. Firms should consider whether there is a need to establish a separate, independent body that reports directly to the senior leadership or board on these issues.
- **A holistic approach**: The inquiry recognises the important role that investors in firms can and should play in pushing for change and holding firms to account for their performance on diversity and inclusion. For instance, voting rights can be used to drive positive change within investee companies. The role of the government and regulators in helping to drive this change is also key.

- **The gender pay gap**: On its current trajectory, it was calculated to take another 70 years for the gender pay gap to close in financial services. An introduction of laws requiring salary bands to be included on job adverts was recommended as well as bans on employers asking about salary history during recruitment.
- **Tackling the misuse of NDAs**: The inquiry recommends introducing legislation to ban the use of NDAs in harassment cases and that the regulator collects data on the extent of their use in financial services. The FCA has already taken steps towards this. In February 2024, it wrote to various regulated firms seeking statistics on non-financial misconduct, including whether the outcome involved entering into an NDA.

What does the future hold?

The Sexism in the City inquiry runs parallel to recent proposals by the FCA and PRA to strengthen their non-financial misconduct rules and enhance their ability to act against individuals in sexual harassment cases. According to the FCA's publicly expressed view, they consider that non-financial misconduct is misconduct. Individuals' conduct for issues such as, but not limited to, bullying, sexual harassment, and discrimination whether in or outside the workplace now appears to lie squarely within the FCA's remit.

The expected incoming amendments to the regulatory rules are likely to provide a firmer basis on which to enforce higher ethical standards within financial services. As such, there is likely to be an increase in the number of investigations relating to non-financial misconduct opened by the FCA.

The Worker Protection (Amendment of Equality Act 2010) Act 2023, which is expected to come into force in October 2024, will also introduce a duty on employers to take reasonable steps to prevent sexual harassment of their employees. Employment Tribunals will be empowered to award up to a 25% compensation uplift if employers are found to have breached this duty. This further demonstrates that sexual harassment is very much in the spotlight.

The current direction of the regulatory environment in the sector indicates that firms which do not take action to fix the "old boys' club" mindset will suffer reputational and financial hits. It is therefore imperative that both firms and individuals understand the regulators' expectations in relation to non-financial misconduct, both in and outside of work, and take necessary steps to mitigate risk by improving culture, advancing diversity and inclusion and implementing clear, actionable strategies for handling complaints.

[1] State of the sector annual review of UK financial services 2023 (publishing.service.gov.uk)

[2] Sexism in the City (parliament.uk)

[3] Women in finance (parliament.uk)