GlobalCapital

Banks given push on gender diversity

European and US banks are facing pressure to become more diverse, for reasons of business and ethics. One senior investment banker at UniCredit, which has implemented a far-reaching initiative in the area, said that the logic is clear.

By Jasper Cox *29 Aug 2019*

Heads of investment firms with gender focuses told *GlobalCapital* this week that the financial sector was severely lagging on diversity, but that there were opportunities for companies that become more progressive.

One bank attempting to shape up is **UniCredit**, which revealed in its 2018 pay gap report in London that women made up less than 10% of workers earning its highest quartile of hourly rate. In comparison, for **Barclays** men made up 71% of the top quartile in pay, and at **HSBC** it was 65%.

The Italian bank's action plan deals with issues involving recruitment, professional development, work-life balance, fair and transparent remuneration, and education of management.

"The business case for diversity is rock solid," said Supriya Saxena, head of financing and advisory for the Americas, who is also the US representative for the corporate and investment bank's inclusion and diversity council. "Now we are getting to a stage where everyone has woken up and understands that."

That business case is evident in the normal course of work for Saxena: "We have to look like our clients. And a lot of our clients are women. A lot of the Fortune 500 companies in the US are run by women, especially at the treasury and chief financial officer level."

She added: "I went to a pitch in the Mid-West [of the US] and the client remarked that it was fantastic to have so many women and a diverse set of people on the other side of the table." UniCredit was pitching a financing solution for the firm.

UniCredit is one of a number of banks to sign up to the UK government's women in finance charter and as part of that has a target to have 20% of senior leadership roles (executive vice president and above) held by women by 2022.

Think-tank New Financial found in July that 71% of signatories thought that signing the charter would drive permanent sustainable change in their organisation. The charter has four principles that all signatories are asked to apply: naming an executive accountable for improving diversity; setting internal targets for female representation in senior management; reporting progress against gender diversity targets externally; and linking pay to gender diversity targets.

Financial firms had a standing start. None of those four principles had already been met by the majority of signatories before they signed, according to New Financial. In particular, only a tenth already linked pay to gender targets.

And among the main challenges, firms listed maintaining stakeholder engagement and finding enough senior women. Respondents also felt that the perceived culture of the industry and its domination by men deterred women from entering in the first place.

With finance seen as lagging behind other industries, senior women in the industry talk of barriers like unconscious bias, a lack of strong networks and a lack of visible role models affecting their gender.

Kristin Hull, founder and CEO of Nia Impact Capital, a sustainability investment firm which aims to increase the participation of women and people of colour in investing, did not want to be "the face of a business". But she realised the value of being a role model.

"I didn't want recognition and yet I really wanted everyone to understand women can participate in this industry," she said.

In asset management, "there's not the same sort of network that has been established for women and minority fund managers", said Elizabeth Galbut, founding partner of SoGal Ventures, a venture capital firm investing in start-ups led by women or minorities.

The whole process

European investors, investment banks and financial regulators have led the way when it comes to sustainable finance initiatives. Part of this is due to the politicisation of climate change in the US.

But in the field of gender diversity, it is not clear how much further ahead European finance is. It appears that while European business as a whole is more focused on gender-friendly policies, in finance the picture is more mixed.

"It's much easier to do research on a European company," said Hull. "Diversity is often already met because many of the countries have quotas for women in leadership on boards. Now that doesn't mean that all the way through the pipeline and throughout the company all of the right practices are happening but Europe generally has a commitment to paid family leave in terms of family planning and maternity leave and the US isn't there yet."

But it is thought that for a bank in the US, gender diversity is seen as a more important goal; one example is the focus at **JP Morgan** on whether a woman or person of colour will succeed Jamie Dimon as CEO.

And when it comes to investing, public market gender lens strategies were "initially a US phenomenon" according to Veris Wealth Partners. Although it noted in a report last year that five strategies have been launched in Europe.

Nia and SoGal Ventures try to both take advantage of and change a capital allocation process that is skewed towards men all the way through. According to the Knight Foundation, firms owned by women and minorities manage 1.3% of assets in the asset management industry.

At the other end, when Boston Consulting Group looked at a number of start-ups, it found that those founded by men received more than $1m more funds than those founded by women, even though the latter generated 10% more in revenue.

"I call it a white space or arbitrage opportunity where these women and minority led start-ups are not getting the capital they need, but when they do get the capital they outperform start-ups that have all male leadership," said Galbut. "As a fund we want to take advantage of this investment arbitrage opportunity."

Nia's fund, Nia Global Solutions, invests in the equity of firms meeting certain requirements, including having women in leadership roles (this particular rule screens out half the firms it looks at). While it invests in one of the biggest companies by market capitalisation — Apple — none of the large banks meet all its requirements.

“There are some insurance companies that we are good with but mostly we found that the large banks are doing international loans to the fossil fuel industry,” said Hull. Instead, it invests in lenders like Resona Holdings from Japan.

“The fact that Resona Holdings has women in leadership and is also creating products for women to be able to access capital, that’s really important for us,” said Hull.

One-stop shop

The big banks will hardly be shaking in their boots at the sight of the odd investor like Nia screening them out.

But as interest in all aspects of sustainability ramps up, the business logic referred to by UniCredit’s Saxena may apply to other areas too.

Nia’s fund is available on eight platforms, one of which is run by **Morgan Stanley**. While it does not feel able to screen these platform providers on sustainability criteria now, it plans to do so in the future.

“We are too small at this point to say: ‘No, we won’t go on this platform because we don’t agree with your practice,’” said Hull. “Our theory of change right now is getting as many people exposed to the Nia Global Solutions portfolio as possible and then of course we want to help to change some of these platforms.”

And she says that banks could position themselves to win business from the burgeoning impact investment sector.

“Any one of these banks has the opportunity to become a one-stop shop for impact investors and I’m guessing it’s going to be a smaller bank, although they don’t necessarily have the infrastructure, and the big banks will have hurdles as far as being too big to change.”

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