Financial Services Consumer Panel
AN INDEPENDENT VOICE FOR CONSUMERS OF FINANCIAL SERVICES

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Dear Sir/ Madam

Consultation Paper – CP8/17 Strengthening accountability in banking and insurance: optimisations to the SIMR, and changes to SMR forms

The Financial Services Consumer Panel welcomes the opportunity to respond to the proposed amendments to the Senior Insurance Managers Regime (SIMR), which will require Solvency II insurers and large non-Directive firms (NDFs) to take steps to encourage board diversity.

It is not sufficient to require insurers simply to consider a broad set of qualities and competencies when recruiting board members, and to promote board diversity. Boards and senior leadership are mainly homogenous. They lack challenge to the business models and operations that have a profound impact on the day to day lives of consumers. More policies will not do the trick.

There needs to be stronger regulatory intervention to ensure that firms' decision making is subject to robust challenge and debate. This is the bedrock of good corporate governance. Boards should not just be diverse in ethnicity, age, gender and other protected characteristics under the Equalities Act, but members should also possess a broad set of skills, competencies and life experiences. This is necessary to avoid the 'groupthink' that led to the 2008 financial crisis[1].

We urge the PRA and FCA to move beyond soft touch approaches which simply require firms to put in place more policies. Firms should be required to have targets that reflect the 'real world' in which they operate.[2] This is imperative for better consumer outcomes. As an example, we propose that boards and executive committees of financial institutions should have [x%] of individuals who have experience in promoting the consumer perspective and [x%] women and ethnic minorities with wide range of skills and experience. This means changing the approach to recruitment. We often see advertisements for board members of financial institutions which require "prior experience in similar roles." This approach means that key roles are filled by the same set of individuals who lack the capacity to represent views that are different from the current majority. A commitment to diversity must be institutionalised in approach and in practice, in the boardroom and throughout the organisation so that there is a pipeline of talent prepared to move into leadership roles.

The need and objective rationale for diversity among management, executive and senior leadership has been the topic of many initiatives and reports such as the HM Treasury Women in Finance initiative[3], the Parker Review[4] and the FRC UK Corporate Governance Code[5]. Having diagnosed 'groupthink' as a real risk to the protection of consumers and policy holders, we are concerned that regulators have not done more in this area, which would help mitigate the risks of another crisis. We are disappointed by the lack of progress towards examples of

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[1] Financial Reporting Council's 'UK Corporate Governance Code': www.frc.org.uk/Our-Work/Codes-Standards/Corporate-governance/UK-Corporate-Governance-Code.aspx - "The problems arising from "groupthink" have been exposed in particular as a result of the financial crisis. One of the ways in which constructive debate can be encouraged is through having sufficient diversity on the board."

[2] Parker Review [A Report into the Ethnic Diversity of UK Boards] November 2016: "...we believe it is important to highlight that only about 1.5% of all FTSE 100 Board directors are UK citizen people of colour. This compares with people of colour comprising approximately 14% of the overall population in the UK."

[3] https://www.womeninfinance.org.uk/5015687c-1847-4929-bf73-c812ee4b1dfa

[4] Parker Review [A Report into the Ethnic Diversity of UK Boards] by Sir John Parker, The Parker Review Committee, 2 November 2016

[5] Financial Reporting Council's 'UK Corporate Governance Code': www.frc.org.uk/Our-Work/Codes-Standards/Corporate-governance/UK-Corporate-Governance-Code.aspx

leadership within institutions that represent the population of the UK, despite regulators continuously reminding firms of their obligations to promote diversity. The pace of change in the insurance industry has not been sufficient since the implementation of CRD IV, which required firms to put in place policies promoting diversity, and the PRA's letter of August 2016 to firms reminding them of their obligations.

In our view, the lack of a consumer voice in the board room means that those responsible for developing and executing business models lack the perspective necessary to consider the impact on end users. This means poor conduct is rife, and the costs of conduct regulation spiral as regulators play 'catch up' with practices that firms could, and should, prevent in the first place.

There is compelling evidence that diverse teams make better decisions[6]. Firms should welcome diversity as good for business. They don't because those in power recruit in their own image. Diversity will not guarantee board effectiveness but it will provide a board which has the depth and breadth of insight and perspective that a non-diverse board is unable to achieve because of the damaging risk of "groupthink."

Yours sincerely

Sue Lewis
Chair, Financial Services Consumer Panel

[6] McKinsey & Co., Diversity Matters, Vivian Hunt Dennis Layton Sara Prince, February 2, 2015