A closed shop?

The pensions sector remains the preserve of those from higher socio-economic backgrounds, despite equivalent professions working to improve greater diversity in recent years. However, efforts to attract, and retain, people from lower socio-economic backgrounds are starting to increase, finds Laura Blows

Summary
- The pensions industry, and financial services generally, still mainly consists of people from higher socio-economic backgrounds, despite equivalent professions having made greater progress in improving their socio-economic diversity.
- Working-class people's lack of 'economic, social, and cultural capital', along with financial firms still typically hiring people from private schools and Russell Group universities, have contributed to the lack of socio-economic diversity in the industry.
- People from lower socio-economic backgrounds that are working in the financial services sector find that they earn less than their higher socio-economic peers, their careers progress slower and they are less likely to obtain senior-level positions.
- The profits of organisations focusing on social mobility can be 1.4 times higher than their competitors. Having people from a mix of economic backgrounds helps to minimise groupthink. Focusing on socio-economic diversity can also improve the mix of other diversity characteristics, such as gender or ethnicity.
- Collecting data to measure the scale of the problem is needed, along with applying techniques to recruit from a more diverse pool of candidates and fostering an open culture where working-class people feel supported within their organisations.
- Concerted efforts to improve the socio-economic diversity of the financial sector has ramped up in recent years, such as through the work of Progress Together and the Diversity Project, along with an increasing focus from organisations, such as The Pensions Regulator and the Association of British Insurers.

"The financial services industry remains a bastion of the middle classes."

Hardly shocking news from Association of British Insurers (ABI) director of policy, long-term savings, and executive sponsor for diversity, equity and inclusion (DEI), Yvonne Braun, as the sector has long had the reputation that it is the domain of rich, white, men.

Yet it is disappointing that this is still the reality, considering the efforts to facilitate DEI in the industry, and that other equivalent sectors are already seeing their efforts to shake off similar stereotypes yielding success. For instance, the legal profession's regulators already mandate data collection on companies' socio-economic diversity, and the Social Mobility Foundation's *Employer Index Report 2022's* top 75 employers list is dominated by legal firms.

Surveying the financial services landscape, the City of London's 2020 report, *Who gets ahead and how?*

Defining socio-economic backgrounds

The Social Mobility Commission places socio-economic backgrounds into three groups:

- *Professional backgrounds* – modern professional & traditional occupations; senior or junior managers or administrators.
- *Intermediate background*s – clerical and intermediate occupations; small business owners.
- *Lower socio-economic backgrounds [working class]* – technical and craft occupations; routine, semi-routine manual and service occupations; long-term unemployed.

The commission states that the key question for employers to ask when determining social background is the occupation of the main household earner when aged 14, followed by the type of school attended between 11-16, whether they were eligible for free school meals, and, for graduates, whether their parents also attended university.

Socio-economic background and career progression in financial services found that 51 per cent of respondents are from a higher socio-economic background *[see boxout for socio-economic definitions]* – a proportion, it says, that is higher compared with most elite professions in the UK.

For context, the Social Mobility Commission currently gives the class breakdown for England as 37 per cent professional, 24 per cent intermediate, 39 per cent working class.

But that's financial services generally; what about the pensions sector itself?

"The pensions industry in our view is much like the overall investment and savings industry and the financial services sector more broadly. Collectively, these industries are likely behind some other industries, such as professional services and the legal industry, which began to address the topic a little earlier," the Diversity Project (a cross-company initiative "championing a truly diverse, equitable and inclusive UK investment and savings industry") social mobility workstream co-lead, David Aulja, explains.

Whilst there are as yet no data points about socio-economic diversity in the pension industry, it stands to reason that this sub-sector of financial services doesn't look radically different, Braun says.

"And in some areas, little data is being collected to prove otherwise. In fact, The Pensions Regulator found that only 17 per cent of defined contribution schemes formally obtained and recorded any diversity data in relation to their trustees," she adds.

"Career progression all too often depends on attributes such as 'visibility', familial and education connections, shared cultural or social experience, and perceived gravitas"

The findings of Cardano's research earlier this year are even more stark, revealing that only 2 per cent of respondents said that their scheme/organisation collected socio-economic background data, Cardano Advisory CEO, Darren Redmayne, states.

However, in November last year, the ABI stated that 29 per cent of companies participating in its data collection are capturing some form of data on social mobility, and a further 20 per cent plan to do so.

Despite the lack of statistics for the pensions industry specifically, why does it, and the financial services sector generally, not seem so open to social mobility, compared to their peers?

Barriers

"One key barrier is the lack of capital. A mix of the lack of economic, social, and cultural capital is a significant factor too. Economic capital is a tailwind for those who have it, providing a safety net and more security as they seek careers in 'elite' industries. Social capital and the 'networks' that they provide access to means that awareness of such industries is higher and often routes to work experience and entry level roles are easier due to who you know. Cultural capital plays a meaningful role in the ability to 'fit in' as it means you are more likely to have common experiences," Aulja says.

He also gives the example of some selection processes that inherently perpetuate the status quo. "An example of this could be a recruitment focus on Russell Group universities. Lack of work experience and financial knowledge can also be additional barriers to successful entry to internships or graduate programmes, which again favour certain socio-economic groups," he explains.

Recruiting from Russell Group universities means entrants to the industry will only be as socio-economically diverse as those attending those universities.

The Social Mobility Foundation's *Employer Index Report* found that just 2 per cent of Russell Group students were eligible for free school meals. "In fact, young people from the most advantaged backgrounds are five times more likely to attend Russell Group universities than comparable peers," it stated.

Cardano's research highlights the dominance of university education within pension trustees, as 70 per cent of its respondents say that four out of every five board members have tertiary education. This 'closed shop' is also evidenced by trustees usually being "selected based on previous experience, including financial sector experience", Redmayne says.

In terms of recruitment, "it all depends on firms' vetting processes", NextGen (the membership body to encourage and promote younger voices within pensions) main committee member, Martin Wigfield, says.

"Firms that receive high volumes of applications will need a way of filtering them, and therefore will deploy pass/fail questions at the application stage. How far back they go varies, some may go as far back as GCSE results," he explains.

The impact can go even further back than GCSEs, to the start of secondary education.

The City of London's Socio-Economic Diversity Taskforce's August 2022 report, *Building the Baseline: Breaking the Class Barrier – Measuring socio-economic diversity at senior levels in UK financial and professional services* found that 19 per cent of all respondents and 26 per cent of senior-level employees had gone to independent or fee-paying schools, in contrast to the 7.5 per cent national benchmark.

More junior level respondents (20 per cent) attended an independent or fee-paying school compared to mid-level employees (16 per cent). "This is important because it affects the pipeline of talent moving to senior positions," it stated.

Based upon her experience of working alongside privately educated colleagues, Pinsent Masons partner, Christina Bowyer, says that private schooling "helps to bring out an innate confidence in many people, which I think is a key skill to have when working in a professional environment; state schools just don't instil that into pupils in the same way".

The lack of people in financial services from working-class backgrounds can also be attributed to the cost of education, even when attending a state school, she adds, giving the examples of the requirements for laptops and internet connection, "that not all can afford, even if they are earn enough not to qualify for assistance from the state or other organisations". The amount of debt accrued through student loans to attend university can be off-putting to working-class students too, she adds, knowing that they do not have family funds to assist and not wanting to risk creating extra financial strain to themselves or their families.

These monetary practicalities may result in working class people unable to afford to even attempt a career in financial services, particularly as the

Social Mobility Foundation's 2022 report was "disappointed" to find the financial services sector, among other professions, still have unpaid internships occur, meaning those that cannot afford to work for free have a barrier to entry.

"There is also the issue of 'sorting effects' where individuals either sort themselves into types of roles (as they don't see people who are similar to themselves in these roles already) or hiring firms may do this on their behalf," Aulja says.

Career progression

However, some areas within the pensions sector are more likely to see staff from a broader socio-economic background.

While Bowyer thinks that the legal and actuarial profession and the investment teams may largely consist of those from professional backgrounds, "pensions administration and consultancy teams may be more socio-economically diverse", potentially due to people being more able to access those professions straight from leaving school.

According to Progress Together, the not-for-profit membership body that aims to drive socio-economic diversity at senior levels in UK financial services (which was created as a result of the City of London's now-closed Socio-Economic Diversity Taskforce), there are also more people from working-class backgrounds within the lower levels of the financial services profession, but less so at senior levels.

Its head of strategy, Mona Vadher, says that financial services firms, including pensions companies, have done "an amazing job" at bringing people from lower socio-economic backgrounds into the industry, through degree-level apprenticeships, work experience programmes and access initiatives.

"However, unless there are processes in place to nurture and hold on to that talent, it is being lost," she states.

That support is currently lacking, as the *Building the Baseline* report found that working-class employees are 17 per cent less likely to have benefited from a senior level sponsor.

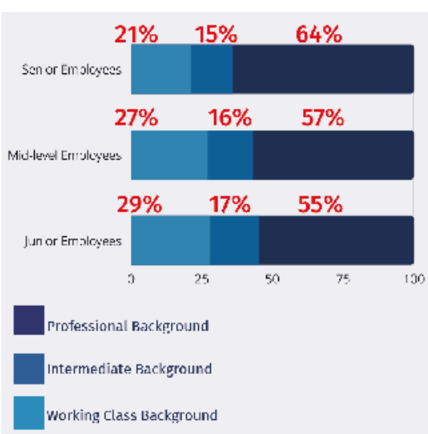
Also, the City of London's Socio-economic Diversity Taskforce's November 2022 report, *Breaking the Class Ceiling: Recommendations for Building a More Socio-Economically Diverse Financial and Professional Services Sector* found that, while around half of all employees in the sector are from non-professional backgrounds, these employees progress 25 per cent slower than their peers.

Only 36 per cent of working class and intermediate employees have progressed to senior levels, defined as board, executive committee, partner and two levels below, it reported. Employees from non-professional backgrounds are also likely to get paid up to £17,500 less per year – with zero link to job performance, it found.

According to Vadher, 89 per cent of people in senior roles within financial services are from higher socio-economic backgrounds, compared to 52 per cent for other comparable professions.

Braun cites the *Who gets ahead and how* research, which finds that opaque

Socio-economic breakdown of financial services industry workers



Source - Building the Baseline: Breaking the Class Barrier Measuring socio-economic diversity at senior levels in UK financial and professional services, City of London's Socio-Economic Diversity Taskforce, August 2022

processes exist around promotion, work allocation and senior level sponsorship. "This means career progression all too often depends on attributes such as 'visibility', familial and education connections, shared cultural or social experience, and perceived gravitas," she states.

The Diversity Project's report, *Socioeconomic Diversity in the Investment and Savings Industry; a study into the barriers and how they can be overcome*, highlighted the barriers faced by working-class people once in the industry.

"More diverse organisations lure better talent and improve their decision making, customer orientation and employee satisfaction"

These include the ongoing 'sorting effects', where access to more prestigious roles is often restricted to those with more privileged backgrounds, as assumptions are often made about what clients expect from a client-facing individual in terms of polish and confidence.

There is also the 'meritocracy myth', it said. "Many in the industry will argue that merit will win, while at the same time acknowledging the relationship between socio-economic background and career progression. The meritocracy myth goes unchallenged by those in the system for whom the status quo favours and who do not recognise the barriers those less privileged than themselves have to face," it explained.

Also highlighted in the report was a lack of 'belonging', with organisations being described as having hostile cultures for people with less privileged backgrounds, as the latter often do not share the same interests or experiences as the privileged majority, making it increasingly more difficult to build relationships and network within the industry.

Bowyer suggests that this may result in a lack of confidence, with people from working-class backgrounds potentially more likely to suffer from 'imposter syndrome'.

Accenture's report, *A fair chance to advance – The power of culture to break socioeconomic barriers in the workplace*, found that just 52 per cent of employees say they feel 'completely safe' being open about their socioeconomic background in the workplace and that 13 per cent do not feel safe.

In November 2022, the Sutton Trust, the foundation for social mobility, released its research into accents and social mobility. It found that for those in senior managerial roles from lower socio-economic backgrounds, 21 per cent were worried their accent could affect their ability to succeed in the future, compared to 12 per cent from better-off families.

Benefits of socio-economic diversity

While undoubtedly a shame for the individual from a lower socio-economic background, what effect does their lack of progression, or even entry into the industry, have on the sector's employers?

"A lack of socio-economic diversity in the industry is symptomatic of a broader issue, which is the 'mis-pricing of talent'. Outdated and simplistic notions of what constitutes talent in any given context are leading us to search in remarkably narrow talent pools. Exceptional talent is hiding in plain sight, right underneath our noses. It can be found in the council estates, tower blocks and middle-class suburbs up and down the country," Aulja says.

Quite simply, this lack of progression for working-class people within financial services is "driving down productivity, creativity and innovation", Braun states.

"The business benefits of greater

diversity at all levels of organisations should by now be well understood: More diverse organisations lure better talent and improve their decision making, customer orientation and employee satisfaction. As consultants McKinsey put it, diversity and inclusion are a 'powerful enabler of business performance'," she adds.

This is evidenced by Accenture's research, which finds that the profits of organisations focusing on social mobility are 1.4 times higher than their competitors.

"It doesn't just make good business sense; investors are increasingly interested in socio-economic diversity," Vadher says. "One asset manager told us that they'd seen a four-fold increase in enquiries from investors on this subject within the past 12 months."

Having a mix of people from differing socio-economic backgrounds can also help to minimise groupthink and promote diversity of thought, Bowyer adds.

The *Building the Baseline* report also found that socio-economic background can amplify other inequalities, particularly related to ethnicity and gender – diversity areas that the industry has typically focusing its attention. For instance, the report revealed that just 1 per cent of senior leaders are ethnic minority females from working-class backgrounds, compared to 45 per cent white males from professional backgrounds.

The *Breaking the Class Ceiling report* puts it strongly: "Companies should not, and cannot, continue to maintain the status quo. Lack of inclusion and barriers to progression for employees from working class and intermediate backgrounds poses a real risk to the future of the financial and professional services sector in the UK."

Case study: Aviva

As Aviva is the winner of the Pensions Age 2023 Diversity Award, *Pensions Age* spoke to its diversity, inclusion, and resourcing director, Jonny Briggs, to find out about its efforts to increase socio-economic diversity within its firm.

"Socio-economic diversity is a key part of our broader diversity, equity, and inclusion (DE&I) programme and is thought about at every stage of recruitment, training, and development. We have people from every walk of life working across our UK offices, including London, Norwich, Sheffield, and York," Briggs states.

"In our early talent programmes, we use blind CVs and often do not require a degree, to avoid bias and to level the playing field," he adds.

It has entered partnerships with organisations like Career Ready and upReach, which help to support those from lower socio-economic backgrounds to get paid internships, work experience, and to highlight opportunities at Aviva. Also, Aviva Internship is a dedicated programme for students from low social economic backgrounds.

"We believe progress is more of a widespread issue than recruitment and we work with Progress Together to help ensure those from lower socio-economic backgrounds progress at the same pace as other colleagues," Briggs says.

"We also provide non-inclusive behaviour training, which includes non-inclusive behaviours that may impact colleagues from lower socio-economic groups. For instance, we offer our people a corporate credit card for expenses, which recognises people might not have access to their own.

"It is important to us that we are always doing better for our people. We collect socio-economic background data, which is based on social mobility best practice, so we can monitor career progression and regularly understand how our people feel about working at Aviva," he adds.

Improving the socio-economic mix

So, what can companies do to improve the socio-economic diversity of their employees?

NextGen provides tips to improve diversity when recruiting staff. Its suggestions include working with local colleagues to find candidates, providing flexible working, being upfront with salary ranges, and to not to include niche requirements or qualifications unless necessary.

Meanwhile, the City of London's Socio-Economic Diversity Taskforce created a Five Point Pathway for employers to adopt to help them improve socio-economic diversity in senior levels of the workplace *[see table]*.

"Ultimately, employers should remove as many biases as possible from the processes associated with recruitment, and commit to looking where others are not," Aulja says.

"They should also heed these warnings when hiring and promoting internally, too. A huge amount of unlocked potential already lies within businesses – perhaps hiding in plain sight, either masking their true identities or yet uncaptured data points on a company's journey toward socioeconomic diversity," he adds.

Accenture's *A fair chance to advance* report recommends having role models, providing work structure flexibility, enabling openness and transparency for all employees to be their 'true self', incorporating anti-discrimination policies, and generating trust and responsibility to help lower socio-economic background employees progress.

People need to be able to 'see' themselves reflected back to feel comfortable in this environment, Bowyer says, suggesting mentorship schemes to help with this.

NextGen Research and Insights Committee head, Mark Ormston, highlights the need for the industry to be a 'safe space' for people to feel comfortable discussing their backgrounds and the challenges it may bring in their careers, which is where mentorships may help.

"We try to encourage people to get comfortable with getting uncomfortable, as we want people to share their stories and create a culture of communication. The more senior leaders that can be identified and transparent about their stories, the more you can create an open culture," Vadher states.

She also emphasises the importance of "fixing the process rather than the individual; not making them conform to these dominant cultures, as they waste a lot of energy doing so, which then makes them want to leave the sector".

A key issue with improving socio-economic diversity within the sector is that "it's not quantitative, so we tend to focus on issues that are easy to measure", Redmayne states.

This is an attitude that will need to change to improve socio-economic diversity. As, "ultimately, much of the future success (or lack of) in enhancing socio-economic diversity will be down to data and the ability to benchmark and measure progress", Aulja says.

The data collected needs to be granular enough to understand which type of roles are lacking in diversity, as it "can be the case that an organisation seems diverse from a socio-economic perspective but that the employees from a lower socio-economic background tend to be in lower-level administrative roles", he adds.

According to Braun, "first and foremost, organisations should start collecting diversity data to have a baseline".

Vadher warns that a culture of trust needs to be built when obtaining this data, to help minimise any discomfort in revealing this information, and to avoid 'diversity fatigue'.

"The collection of data is so important, as whilst it's easy to make assumptions about the industry's socio-economic make-up, what gets measured often gets done," she says.

"I would love more visibility, to see the scale of the socio-economic gap we are facing. Look at the gender pay gap; a few years ago, we didn't have the visibility or data to try and improve this and now that we do we're making progress," Vadher adds.

Tackling the problem

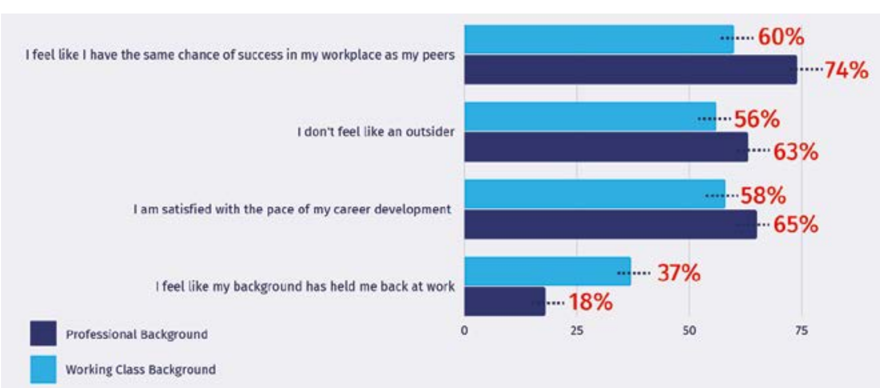
Societal and cultural shifts may also naturally improve socio-economic diversity within the sector. For instance, a consequence of the Covid-19 pandemic is the rise in remote working. This may help improve the socio-economic mix of people entering the industry, as they no longer have to move to London/Edinburgh, which is too expensive for many, Ormston says.

Recent years have also seen more proactive, and combined, efforts to improve socio-economic diversity within the pensions and financial services sectors.

"Financial services businesses are ultimately people businesses in the sense that their talent is their main asset. Companies within the sector are beginning to realise the importance of recruiting and nurturing talent and ensuring true diversity of thought. However, it is perhaps a two-speed phenomenon and there is more to be done around awareness and around practical implementation to get to where it needs to be," Aulja says.

"The good news is that in the past couple of years there has been a notable change within financial services and the issue of socio-economic diversity is now much more front of mind and moving up the agenda rapidly," he adds.

Feelings of 'belonging' in the financial services sector by socio-economic background



Source - Building the Baseline: Breaking the Class Barrier Measuring socio-economic diversity at senior levels in UK financial and professional services, City of London's Socio-Economic Diversity Taskforce, August 2022

Five-point pathway for employers to improve its company's socio-economic diversity

	Step 1: Leadership	Step 2: Assess	Step 3: Take action	Step 4: Set goals	Step 5: Publish
Employers	Assign clear **accountability and responsibility** to senior leaders.	**Collect data** on the socio-economic background of employees at all levels by end of 2024 (using questions recommended by the Social Mobility Commission)	**Take action** to increase socio-economic diversity at senior levels and monitor what works.	Set organisation **targets**– considering specific context for example, starting point, size, and subsector.	**Publish** data and what activities have worked.

Source: City of London's Socio-Economic Diversity Taskforce

For instance, between October 2021-March 2022, the City of London's Socio-Economic Diversity Taskforce conducted a socio-economic diversity in UK financial and professional services baseline survey report for the Institute and Faculty of Actuaries.

Since its launch 12 months ago, Progress Together's membership now represents more than 30 per cent of the UK financial services workforce.

"As the years go by, we will be able to make recommendations on the interventions that actually work, which will in turn improve socio-economic diversity in financial services. Our long-term aim is that the UK financial services sector is representative of the UK's working population," Vadher says.

Launched last November at its annual DEI Summit (with the next scheduled for October this year), the ABI's DEI Blueprint for the sector sets out a multi-year strategy and work plan to improve DEI within the insurance and long-term savings industry, across each stage of the employment journey.

This includes "using inclusive recruitment practices to attract the best talent from all backgrounds, to helping employees grow and progress their careers in the sector, and advancing understanding of what works to drive improvement", Braun explains.

Regulation is coming, she adds, stating that the FCA's "highly anticipated draft rules on improving diversity and inclusion across the financial services sector are expected to focus on gathering and using data to improve DEI".

The Pensions Regulator director of regulatory policy, analysis and advice, Louise Davey, states that the regulator believes diversity and inclusion is important to good governance and decision making and therefore to good saver outcomes and that diversity goes beyond protected characteristics.

"Our trustee diversity and inclusion survey *[which launched July 2023 and has recently closed to responses]* set out to build a clearer picture of trustee diversity, including in socio-economic background. The results of this work will help us build a picture of diversity on trustee boards so we can effectively measure our progress in promoting high standards of diversity and inclusion," she adds.

The survey is part of TPR's action plan, published in September 2022, which sets out its vision to support the trustee landscape to become more representative. In March 2023, TPR published equality, diversity and inclusion guidance for pension scheme governing bodies and employers.

According to the *Building the Baseline* report, in 2021, KPMG was among the first to voluntarily publish socio-economic pay gaps and also set a target for 29 per cent of its UK partners and directors to come from a lower socio-economic background by 2030.

Vadher also gives the example of Santander, which has "spent years tracking its data and has set a target of 35 per cent senior leaders from working-class backgrounds by 2030".

The *Building the Baseline* report called for 50 per cent of senior leaders in the UK financial and professional services sector to come from a working class or intermediate backgrounds by 2030.

"We will review this target in 2025 to ensure it remains representative and achievable by 2030. By this time, we expect all organisations in the sector to have started to collect data on the socioeconomic background of their employees, so as a sector we can have a better-informed baseline," it stated.

"We are under no illusions over the scale of the job in improving socio-economic diversity in a meaningful way," Aulja says. "However, we are optimistic that it can be achieved. The pensions sector, as a collection of asset owners, is very well placed to effect change within itself and more broadly amongst those whose services it employs, for example asset managers and investment consultants."

Its influence also extends beyond the financial industry itself. As Braun says: "The pensions industry has a really important social purpose: Helping people create a financially secure future. It is something that should speak to people from all walks of life as a great purpose for a career."

Written by Laura Blows

Social Mobility Day

Social Mobility Day is an initiative organised by Making The Leap, which exists to help raise the awareness of social mobility and encourage organisations to share their social mobility stories with the public. It launched in 2022 and takes place annually in June.

https://socialmobilityday.com/