European Banks Not Walking the Walk in Top Management Gender Diversification

Banks are no exception to the heightened investor focus on environmental, social and governance (ESG) factors across the investable universe. For banks the 'G' may be the most relevant aspect of ESG, as the quality and depth of governance are major factors informing on a bank's business and financial performance. Since the crisis, large European banks have generally become more forthcoming about their ESG approach, which is positive. This brief report, however, flags an area where the sector is sorely lagging: gender diversity at the top management level.

Talking the talk

Large European banks have become more public about their ESG approach, spurred by investors, by customers (increasingly demanding strong business ethics and norms of social responsibility) and, more recently, by bank supervisors. Banks' ESG themes range from details on sustainable lending policies (more to renewable energy, less to fossil fuels); impact on climate change and carbon footprint; adherence to the Equator Principles (ESG principles underpinning project finance and related transactions); to issuance of green and social bonds aiming to fund projects with environmental or social benefits.

With respect to governance, banks have made significant progress since the crisis. Stronger and more transparent governance is changing banks' culture for the better. A more suitable banking culture is leading to more responsible risk-taking, greater social, gender and ethnic awareness in employment policies and labour relations, as well as higher health and safety standards. In the post-crisis decade, European banks' "hunter" CEOs aggressively pursuing growth and diversification have visibly given way to "farmer" CEOs focused more on pruning, strengthening and optimising the organization's core businesses.

We view positively banks' commitment for better diversity in the workplace, a key component of their corporate cultures. Gender diversity is a critical aspect, and the number of female employees has been growing. We also note that bank supervisory authorities across Europe display visible gender diversity in their ranks.

Not walking the walk

Yet one weakness we continue to see in governance across the European banking sector is the lack of diversity in top management teams – primarily (but not only) gender diversity. For example, among the 29 European financial institutions publicly rated by Scope (see full rating list in Appendix 2) only two CEOs, one CFO, one COO and six CROs are women (Appendix 1). There is a slightly less lopsided situation regarding heads of human resources and regulatory affairs. And when it comes to Chief Communications Officers or Chief Sustainability Officers there is better female representation.

Gender diversification is also more convincing on the boards of large banks, but this stems mainly from women's more frequent presence as non-executive directors (with a limited role in steering the organisation).

Even with a proper governance structure in place, the lack of gender and other diversity within a bank's decision-making ranks creates the danger of groupthink, which we point out was one of the culprits behind the last crisis and which has clearly not waned. Too often there exists the misconception that being a team player and showing team spirit inherently implies agreement on most topics and decisions.

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Clearly, lack of meaningful gender diversification contributes to a potentially corrosive “club mentality” in top management teams.

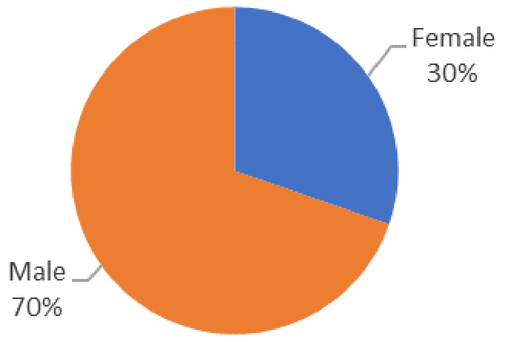
Showing diversity awareness and utilising progressive employment policies and practices at the level of the entire organisation but not implementing them in the executive suite is a structural deficiency. It suggests that, at least in this area, banks are not walking the walk.

Among the large European bank universe, Nordic groups display relatively less one-sided gender representation in top management. At the opposite end, we could point to the large-bank sectors in countries like the UK, Italy, France and (with one major exception) Spain.

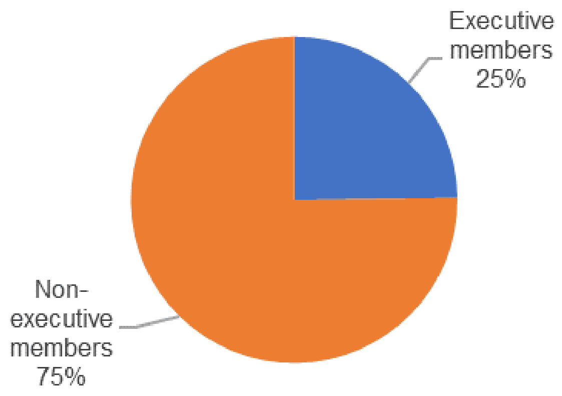
Against this state of affairs, we note that, in line with what has been happening in the other walks of life, European banks say they are aiming to broaden gender diversification in top management. We find this encouraging and will be looking for the successful implementation of these strategic goals.

Appendix 1: Gender diversity in top management (for the 29 banks publicly rated by Scope – 2017)

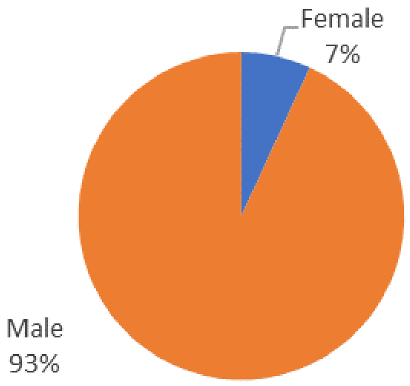
Board composition



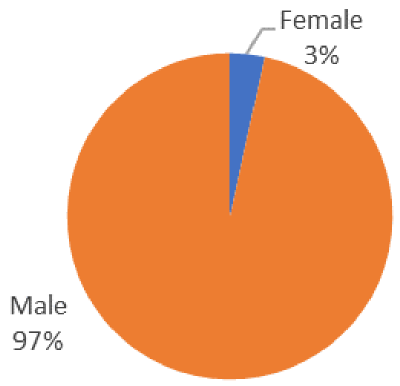
Female board presence



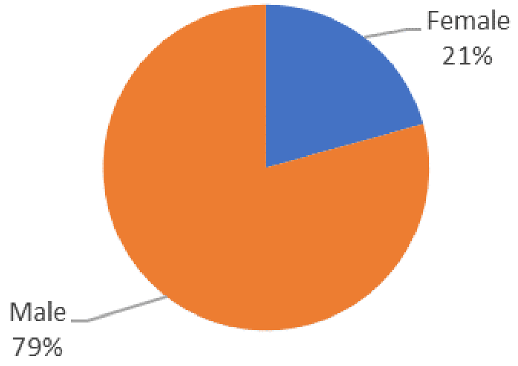
CEO diversity



CFO diversity



CRO diversity



Source: company data, Scope Ratings

Appendix 2: Scope's publicly rated banks

Bank ratings as of 08 March 2018	
Bank	**Issuer Rating**
Banco Santander SA	AA-
Bankia SA	BBB+
Banque Federative du Credit Mutuel SA	A+
Barclays Bank PLC	A+
BBVA SA	A+
BNP Paribas SA	AA-
BPCE SA	AA-
Cassa Depositi e Prestiti Spa	A-
Commerzbank AG	A
Credit Agricole SA	AA-
Credit Foncier de France SA [1]	AA-
Credit Suisse AG	A+
Danske Bank A/S	A+
Deutsche Bank AG	BBB+
DNB Bank ASA	AA-
HSBC Holdings PLC	AA
ING Bank NV	AA-
Intesa Sanpaolo SPA	A
KBC Group NV	A+
KfW [2]	AAA
Lloyds Bank PLC	A+
Nordea Bank AB	AA-
Rabobank Group	AA-
Royal Bank of Scotland PLC [3]	A-
Societe Generale SA	A+
Svenska Handelsbanken AB	A+
Sw edbank AB	A
UBS AG	AA-
Unicredit SPA	A

[1] Rating based on guarantee and solidarity mechanism w ithin BPCE Group

[2] KfW benefits from a guarantee by the Federal Republic of Germany

[3] RBS benefits from a one-notch rating uplift due to the UK government's majority ow nership

Source: Scope Ratings

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