



Banc Ceannais na hÉireann
Central Bank of Ireland

Eurosystem

Thematic assessment of Diversity & Inclusion in insurance firms

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Foreword

Ed Sibley, Deputy Governor, Prudential Regulation, Central Bank of Ireland

There is a compelling body of evidence that greater levels of diversity can improve decision-making, improve risk management, and reduce the risk of groupthink. In my experience, a lack of diversity at senior levels is a leading indicator of cultural issues in a firm. This puts diversity and inclusion firmly in the bailiwick of the Central Bank of Ireland. We will continue to push for improvements as part of our approach to achieving our vision of a financial services system that sustainably serves the needs of businesses and households across Ireland and beyond.

There are clearly issues affecting the functioning of the insurance sector¹ and the culture of firms within this sector. While causation is difficult to determine, the lack of progress on diversity and inclusion in many insurance firms is connected to these underlying issues. Improving diversity and inclusion at senior levels can play a part in improving the culture and

¹ See <https://centralbank.ie/news/article/address-to-the-insurance-ireland-deputy-governor-ed-sibley>

functioning of individual firms and the industry as a whole. This thematic review of the approach to diversity and inclusion across some of the largest insurers operating in Ireland should be seen in this context.

Some progress is being made in terms of insurers recognising the importance of diversity and inclusion. However, progress is too slow. The lack of join up between diversity and inclusion policies and decisions being taken at the most senior levels of firms is striking. While gender is only one aspect of diversity, it is an important and measurable one. There remains a serious imbalance in gender diversity across insurance, with low levels of women in senior leadership roles and also significant gender pay gaps across the firms sampled. The inadequate focus on diversity in all its forms in succession planning and the absence of plans to solve remuneration issues need to be addressed.

I welcome Insurance Ireland's commitment to diversity and inclusion and its view that it is '*fundamental to the future*'² of the insurance industry. Actions within insurance firms and across the sector need to match these words. The Central Bank will continue to hold the insurance sector to account on delivering this necessary change.

² Insurance Ireland, Diversity & Inclusion, June 2019. Available at: https://www.insuranceireland.eu/media/Publications/insurance%20ireland_diversity%20and%20inclusion%20report_2019_final.pdf

1. Executive Summary

The Central Bank has completed an assessment of the approach to diversity and inclusion (D&I) across a sample of insurance firms, including some of the largest insurance firms operating in Ireland. This report sets out the key findings and observations in relation to the D&I approaches adopted by the firms. The assessment considered:

- Firms' policies, procedures, practices and monitoring of D&I;
- Remuneration analysis by gender; and
- Analysis of pre-approved control functions (PCF)³ applications over the period 2012 – 2018.

The firms are at varying levels of maturity in the implementation of D&I policies and strategies. While not all of the issues outlined in this report arose in each firm assessed, they are representative of the findings across the sample. Specific findings have been provided to each firm and they are required to deliver action plans to address the issues and risks identified.

The Central Bank expects all firms to assess and address, where appropriate, the key messages arising from this Assessment.

Findings and Observations

1. **Most entities did not have a D&I strategy. Where there was a D&I strategy, it was not clear how this strategy was aligned to the overall company strategic objectives:** The absence of a D&I strategy aligned to the overall business strategy is a clear inhibitor to the necessary progress being made both at an individual firm level and across the industry. Moreover, there is a lack of join up between those D&I initiatives that were being undertaken and the strategic direction and decision-making within the firms.

³ The Fitness and Probity Regime applies to persons in senior positions, known as Controlled Functions and Pre-Approval Controlled Functions.

2. **Most firms are not sufficiently prioritising D&I:** Most firms have implemented some D&I initiatives. However, they are typically not tracking, monitoring or assessing the effectiveness of these initiatives. Furthermore, D&I was not frequently or actively discussed at Board or Executive Committees (ExCo) level, which indicates that directors and senior executives are not driving initiatives to D&I. The slow pace of change to date is likely to continue without clear strategies underpinned by clear and effective actions, which are tracked against delivery. This is also evidence of a lack of recognition of the importance of addressing D&I issues and awareness of the risks associated with low levels of diversity.

Most entities are not capturing, monitoring or tracking diversity related metrics. It was also unclear in many cases how D&I policies are implemented in practice and how adherence to policies is monitored. Without clear and robust measures to track D&I efforts and outcomes, there is a risk that D&I initiatives will not be effectively implemented.

3. **Considerations of diversity and the overall effectiveness of boards and senior executive teams is not sufficiently evident in senior recruitment and succession planning:** There is a lack of evidence of diversity in all its forms being sufficiently considered as part of board or executive recruitment. It is not sufficient to have a board diversity policy – it must be applied. Diversity of experience, backgrounds and views are critical to the overall effectiveness and functioning of boards and ExCos and should feature in recruitment decisions and succession planning.

Gender is only one aspect of diversity, albeit an important and measurable one. Despite firms broadly having an equal number of male and female staff at year-end 2018 (49% male, 51% female) female applicants accounted for only 21% of all applications submitted to the Central Bank for approval for the most senior roles within the firms between 2012 and 2018.

4. There is clear evidence of significant gender pay gaps in most firms:

The assessment examined aspects of the sampled firms' approaches to remuneration, focusing on gender related differentials and potential gender pay gaps. The causes of these gaps are not well understood within firms nor are there clear actions being undertaken to address them. Specific findings include:

- While women accounted for 51% of the total workforce, they represented only 24% of top 10 earners across the sample and accounted for 34% of the upper pay quartile;
- Six of the 11 entities had conducted a gender pay-gap analysis themselves – in only one of the firms were women equally represented in the top 10 earners;
- For average fixed remuneration, over a total of 50 individual grades, in 72% of cases, male employees earned more⁴ than their female colleagues at the same grade; and
- For average variable remuneration, over a total of 70 individual grades, in 69% of cases, male employees earned more than their female colleagues at the same grade.

⁴ Individual grades have been removed from this analysis where there was a 5% or less differential in average remuneration. Nonetheless, a range in remuneration variances was noted. The maximum differential for each individual grade has not been quantified within this report due to the varying grade structures across the firms and the varying number of individuals within each grade.

Follow-up with the firms

The Central Bank has issued a Risk Mitigation Programme to each of the firms requiring them to submit a detailed action plan to address the firm specific issues identified and to ensure these issues are appropriately resolved. We will assess the actions planned by the firms and the extent of progress towards meeting the Central Bank's expectations. The Central Bank expects all firms to:

- ensure both diversity and inclusion are strategic priorities aligned to their overall business objectives;
- ensure meaningful discussion and challenge at board and senior executive level on culture, policies, practices and initiatives which seek to deliver D&I at all levels within the firm;
- consider a range of measures of D&I in all its forms, while also considering what is required to identify and mitigate relevant risk factors;
- agree and implement a D&I plan which includes clear objectives, stretch measures and implementation targets;
- review the plan at least annually at board level while ensuring that its effectiveness is monitored against suitably ambitious outcomes and measurable goals, and regularly reported to the board and senior executives; and
- ensure D&I is embedded in the firm's approach to resourcing, succession planning and the recruitment process at all levels.

It is clear that much more needs to be done to enhance D&I, in all their forms, and this needs to be done with commitment, ambition and a sense of urgency. This is critical to improving decision-making, better risk management and improving the level of effective challenge in firms.

2. Background

The mission of the Central Bank is to serve the public interest by safeguarding monetary and financial stability and by working to ensure that the financial system operates in the best interests of consumers and the wider economy.

As it mitigates risks such as groupthink and ineffective decision-making, D&I should be a strategic priority for financial services firms and it should be expected that it would be a priority for the Central Bank also.

2.1 Why Diversity and Inclusion matters

“First, greater diversity always sharpens thinking, reducing the potential for groupthink. Second, this diversity also leads to more prudence, with less of the reckless decision-making that provoked the [financial] crisis. Our own research bears this out—a higher share of women on the boards of banks and financial supervision agencies is associated with greater stability.”

Christine Lagarde, President, European Central Bank and former Managing Director, International Monetary Fund⁵

D&I, in all their forms, are core to fostering an effective culture in a firm. **Diversity** of thought, which will come from having people with a range of different skills, experience and backgrounds, will help to create independent opinions and mitigate the risks of group-think and conformity and protect against over-confidence resulting in more effective decision making.

Diversity refers to the existence and acceptance of differences between people in whatever form they take.

⁵ Lagarde, Christine, 2018: Ten Years After Lehman - Lessons Learned and Challenges Ahead. Available at: <https://blogs.imf.org/2018/09/05/ten-years-after-lehman-lessons-learned-and-challenges-ahead/>

However, diversity alone is not enough. To harness the benefits of diversity, it is crucial to create an **inclusive** environment. Diversity must be supported by an inclusive culture, which facilitates and supports individuals to contribute, irrespective of their differences, so that diverse views are shared. An inclusive environment may help promote internal challenge and create a safe environment for people to speak up, encouraging critical challenge at all levels of the organisation and an openness to change where there is a 'no blame' culture. This in turn may drive more effective decision-making and improve governance and risk management within the firm.

Inclusion is about helping people feel involved and valued regardless of their difference and making the best use of diverse talent.

The importance of D&I should be reflected in the formal structures and observable artefacts of an organisation such as its diversity policy, succession planning, recruitment and promotion practices, remuneration, training and developmental programmes.

2.2 Regulatory focus on Diversity and Inclusion

The Central Bank has placed an increased focus on D&I in recent years, both within our own organisation and externally in our role as regulator. Reflections on the financial crisis, a growing body of research, and our own experience have helped us to appreciate better the benefits that different backgrounds and perspectives can bring to an organisation. A diverse workforce, supported by an inclusive culture, can support better problem solving, decision-making, risk management, governance, talent attraction, employee engagement and more. As a public sector body and central bank, we also want to do the right thing, be trusted by the public we serve and hold ourselves to the standards we expect of others.

Understanding and monitoring behaviours and cultures within the regulated firms and the impacts from consumer, conduct and prudential perspectives, are key elements of our evolving, forward-looking supervision.

The Central Bank has significantly increased its regulatory focus on D&I in recent years. This has included:

- An in-depth examination of Behaviour and Culture (B&C), which included D&I, in the Irish Retail Banks, published in 2018;⁶
- A thematic inspection of the F&P regime⁷ in both the insurance and banking sectors in H2 2019; and
- The annual demographic analysis of PCF data and trends across financial services. The most recent version of this report was published in 2020⁸.

The Central Bank views D&I as one of the cornerstones of creating an effective culture within an organisation. Financial services firms need to be financially sound, with a strong risk management framework and a positive conduct and consumer centric ethos. A key element of this is an openness to challenge, both internal and external, to new ideas and the wide range of views that comes from having a diverse and inclusive organisation.

Therefore, the Central Bank will continue to evaluate and assess whether firms are delivering on D&I as a strategic priority within their organisations and whether they are adequately representing the diverse customer base, which they serve. The Central Bank will also continue to monitor the retail banking and insurance sectors, where D&I assessments have been completed. In addition, we are considering performing similar assessments across other sectors.

⁶ Central Bank of Ireland (2018) [Report on Behaviour and Culture of the Irish Retail Banks](#)

⁷ The Fitness and Probity (F&P) Regime applies to persons in senior positions (controlled functions (CFs) and pre-approval controlled functions (PCFs)) within regulated financial services providers. All proposed appointments to PCF roles on or after 1 December 2011 require the prior written approval of the Central Bank.

⁸ Central Bank of Ireland (2020) [Demographic Analysis 2019: Applications for Pre-Approval Controlled Function \(PCF\) roles within Regulated Firms](#)

3.Objective, Scope and Methodology

This assessment is part of the Central Bank's continued commitment to measuring, monitoring and publishing information on the level of diversity within the financial services sector and represents the first stand-alone D&I assessment published by the Central Bank. While data limitations can mean a particular focus on diversity from a gender perspective, the Central Bank sees this as only one element of diversity.

The objective of this assessment was to assess the adequacy and maturity of the approach to D&I within a sample of insurance firms.

Eleven insurance entities were included within the scope of the assessment. The firms, comprising domestic non-life, life and reinsurance entities, were selected based on a combination of PRISM⁹ impact rating and the size of their customer base. Several of the firms are part of large international groups. The assessment was largely by way of a desk-based review entailing:

- *Review of documentation* - current policies, programmes and stated commitments in relation to D&I;
- *Diversity Analysis* of F&P PCF¹⁰ applications for the period 2012 – 2018 with regard to gender, age, geographical provenance and educational and professional background; and
- *Remuneration Analysis* - including the top ten earners and fixed and variable remuneration. This analysis focused on gender diversity.

The Assessment Team also held meetings with the firms to present the findings and to give firms the opportunity to respond and provide context, where necessary.

Further detail on the assessment methodology is available in Appendix 1.

⁹ The Probability Risk and Impact System™ (PRISM) is the Central Bank's risk-based framework for the supervision of regulated firms. Under PRISM, the most significant firms - those with the ability to have the greatest impact on financial stability and the consumer - receive a high level of supervision under structured engagement plans, leading to early interventions to mitigate potential risks.

¹⁰ All proposed appointments to PCF roles on or after 1 December 2011 require the prior written approval of the Central Bank. The process involves the PCF applicant completing an online Individual Questionnaire (IQ), which is submitted to the Central Bank for approval. The IQ contains information about the applicant, which is required to assess their fitness and probity to carry out that PCF role.

4. Overview of Findings and Observations

The key findings and observations from the assessment fall within the following themes:

1. Board and Executive Committee (ExCo) level ownership;
2. Strategic alignment;
3. Monitoring and assurance;
4. Remuneration; and
5. Senior appointments.

4.1 Key findings

All of the sampled firms have commenced initiatives to improve D&I. However, in the main, boards and management are not being sufficiently ambitious in meaningfully improving D&I in a timely fashion. Typically, there is a lack of diversity in the composition of boards and ExCos and a lack of focus on D&I by those bodies.

Some firms have positive practices and procedures in place. However, these are primarily related to diversity with all firms currently at an immature phase in their approach to inclusion. The PCF application analysis, and in particular the remuneration analysis, suggest that the majority of firms selected have a significant way to go in ensuring their organisations are sufficiently diverse and inclusive.

4.1.1 Board and Executive Committee level ownership

i) Board and ExCo Agendas

D&I was not frequently or actively discussed at Board and ExCo level, which on the face of it implies insufficient consideration of the need for

diversity and the potential risks that a lack of diversity within the entity may present.

The extent of meeting minutes submitted varied with a number of entities providing no evidence of discussion at Board or ExCo level. Where D&I was on the agenda at meetings, the minutes did not always detail substantive discussions. Where discussion was evidenced it was often limited to gender diversity.

The Central Bank expects to see evidence of:

- Discussion of the potential risks of lack of diversity and proposals as to how risks, such as 'groupthink', are managed and mitigated;
- A commitment and drive to embed D&I within the firm in an ambitious timeframe; and
- Diverse perspectives, including those that represent the customer base, being discussed and challenged at the board and executive level.

Risk

Inadequate discussion of D&I at board and ExCo meetings risks insufficient consideration of the potential risks that a lack of diversity within a firm may present, such as groupthink, ineffective decision-making, a lack of internal challenge, a resistance to change and an excessive resistance to external challenge.

ii) Recruitment and selection of board members

In the case of certain board appointments, there was reference to consideration of a *Board Skills Matrix* and the *Board Diversity Policy*. However, meeting minutes contained limited detail of substantive discussion of the particular elements of diversity that applicants would bring to the board. A number of entities provided no documentation to evidence how board appointments had encompassed diversity considerations or how the Board Diversity Policy informed the appointment process.

The Central Bank expects the appointments process to reflect consideration of the board's existing skills, expertise and perspectives and applicants' potential to provide broader and more varied views and experiences. Appointments should also clearly reflect meaningful consideration of, and adherence to, a firm's board diversity policy.

Risk

Insufficient consideration of diversity in the recruitment and selection process for board members may lead to an inadequate skills mix within the board and ultimately risks ineffective decision-making.

iii) Succession planning

In some cases, succession planning considered gender diversity, but there was little evidence of consideration of wider aspects of diversity. The Central Bank expects a broad perspective and consideration of the various elements of diversity to be part of the succession planning process. In addition, similar to the appointments process noted above, the Central Bank expects consideration of existing skills, expertise and perspectives and prospective candidates' potential to fill gaps identified and to provide a variety of views and experiences.

Risk

Inadequate consideration of diversity within the succession planning process may lead to a skills gap within a firm and risks poor decision-making, lack of challenge and other risks associated with a lack of diversity of thought within an organisation.

The assessment noted a number of **good practices**¹¹, which some firms are implementing, including:

Recruitment & Selection Process

- Creation of a set of objectives by the Nomination Committee for achieving diversity, which are subject to annual review; and
- Use of stretch measures and targets at the Board and ExCo level. For example, the implementation of a target of at least 30% representation of both males and females on the Board or ExCo.

Succession Planning Process

- Monitoring the gender balance of successors as part of the succession planning process;
- Implementing measures to improve the talent pipeline within the organisation, such as creating a career development framework or succession plan initiatives aimed at female talent; and
- Participation in Apprenticeship programmes.

¹¹ Please note that the good practices highlighted in this report were limited to a small number of firms. However, they provide useful insights into practices observed.

4.1.2 Strategic alignment

The assessment identified several cases where there was a D&I strategy in place, but it was difficult to see how the strategy was aligned to the overall company strategic objectives. Often D&I strategies were owned by HR departments, with little involvement or oversight by the senior executive team or board. In a number of entities, there was no evidence of a structured D&I strategy, nor was it clear what outcomes the D&I initiatives that were in place were seeking to achieve.

Risk

The absence of a D&I strategy aligned to the overall business strategy, risks a disconnect between what the business is *actually* doing and what it *should* be doing. Misalignment of a D&I strategy may lead to initiatives and policies not being prioritised or embedded in a firm and its culture.

The assessment noted a number of **good practices**, which some of the firms are implementing, including:

- Clear identification of D&I as an integral part of an organisation's strategy;
- D&I strategies, which had a clear focus on tracking progress, governance and regular reporting;
- Clear actions, deliverables and accountabilities incorporated into the D&I plan; and
- Senior leaders taking responsibility and accountability for delivering elements of the D&I plan.

4.1.3 Monitoring and assurance

There was limited evidence that entities are capturing, monitoring or tracking D&I related data and metrics or that inclusion is actively discussed, tracked and monitored beyond annual employee engagement surveys. Furthermore, it was often unclear as to what, if any, actions resulted from any employee engagement surveys.

The Central Bank expects that D&I strategies would be underpinned by appropriate methods of tracking and monitoring progress against clear objectives. The Assessment Team noted that where data was collected there was limited evidence of assurance of the data or monitoring by executive management.

In the majority of firms, D&I was not a key focus of Internal Audit reviews carried out in the previous 12 months, nor was it a feature of their audit universe. In addition, it was often unclear how D&I policies were implemented in practice and how adherence to policies is monitored. Tracking D&I metrics can present challenges from a privacy perspective, even for firms with sophisticated HR systems. However, it was notable that some organisations advised that their systems lacked the capabilities to collect and track even basic D&I metrics, making it very difficult to measure the impact of any initiatives.

The Central Bank expects firms to assess the effectiveness of D&I initiatives by ensuring reviews of implementation of policies and strategies including as part of the internal audit planning process.

Risk

Without clear and robust measures to track D&I efforts and outcomes, there is a risk that D&I initiatives will not be effectively implemented.

The assessment noted a number of **good practices**, which some firms are implementing, including:

- Elements of D&I embedded into a firm's audit universe and audits on key D&I elements with findings reported to executive management;
- Dashboards incorporating some elements of D&I that were tracked and monitored by HR and reported to executive management teams; and
- Tracking gender diversity within an organisation on a dashboard that is reviewed and monitored quarterly.

4.1.4 Remuneration

Female employees are notably underrepresented among the firms' top earners. Firms need to analyse and understand the 'drivers' behind their gender pay gaps and take steps to address the issues.

Overview

For the first time, as part of the Central Bank's D&I assessments, we included a gender focused analysis examining aspects of the sampled firms'

approaches to remuneration, specifically fixed and variable remuneration (in order to assess incentivisation) and potential gender pay gaps¹².

The assessment noted that five of the 11 sampled entities did not conduct any analysis on gender pay gaps. This is concerning particularly as many of the entities within our sample are part of an international group, which is already reporting under gender pay gap legislation in other jurisdictions, yet they did not take the initiative to do so in Ireland. The Central Bank expects all firms to perform regular pay gap analyses and understand the drivers for any pay variances. This is essential if they are to implement meaningful action plans to address gender pay gaps identified.

The observations below are on an aggregate basis. Certain criteria had to be applied to aid comparison across different grading and pay structures so some caution is warranted in drawing definitive conclusions from this analysis. Nonetheless, there are a number of interesting aspects, which should prompt all firms to consider their own circumstances, the underlying causes, and explore ways to achieve a better balance.

Appendix 2 provides further details on the criteria used in this analysis.

Key observations

Although, in respect of the year ended 31 December 2018, male and female employees were equally represented across the companies sampled, our analysis noted that:

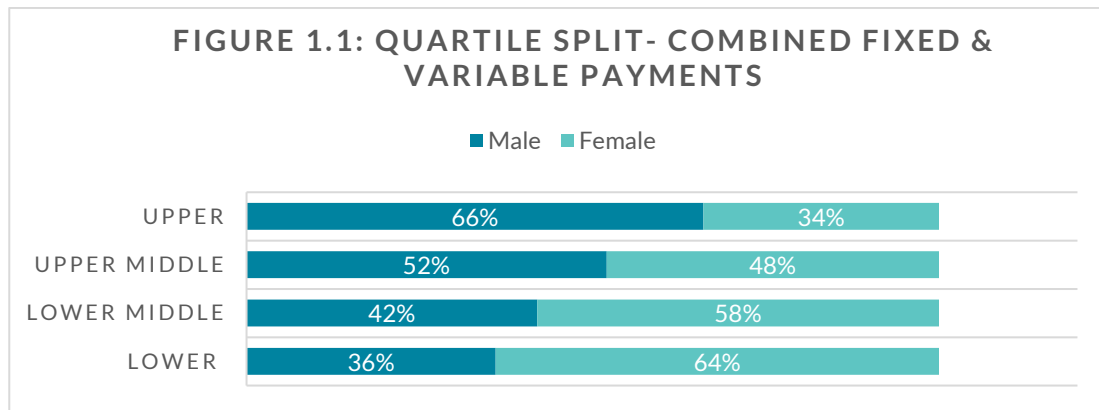
- Women represent 24% of the top 110 earners in the sample. In four of the 11 companies sampled there were no women in the top five earners;
- For average¹³ fixed remuneration, over a total of 50 individual grades, in 72% of cases, male employees earned more¹⁴ than their female colleagues at the same grade;

¹² Gender pay gap is the difference between male and female employees' average annualised base pay. A gender pay gap is not the same as unequal pay. Paying an individual less than a colleague for the same job (unequal pay), purely on account of their gender, is illegal and is outlawed by equality legislation.

¹³ The entities within our sample analysed their payroll data for average fixed remuneration and average variable remuneration. The data was organised by each entity's own individual grading structure.

¹⁴ For the purposes of this analysis, individual grades have been removed from the data where there was a 5% or less differential in average remuneration. Nonetheless, a range in variances was noted due to different organisational structures within the sampled firms.

- For average variable remuneration, over a total of 70 individual grades, in 69% of cases, male employees earned more than their female colleagues at the same grade;
- Male employees dominated the upper quartile for fixed and variable payments, while female employees dominated the lower quartile;
- In six of the entities within our sample, overall the number of female employees was higher than the number of male employees. However, in all of these entities, the number of males in the upper quartile was greater than the number of females in this quartile, for combined fixed and variable payments; and
- The aggregated upper middle remuneration quartile, for combined fixed and variable payments, was more balanced in terms of male and female representation. In fact, in this quartile for nine of the 11 entities within the sample, the number of females outweighed that of the male employees.



While all of the firms acknowledged the results of the remuneration analysis, there was generally a lack of understanding as to the underlying causes or drivers of such variances.

4.1.5 Observations in relation to the PCF analysis¹⁵

Overview

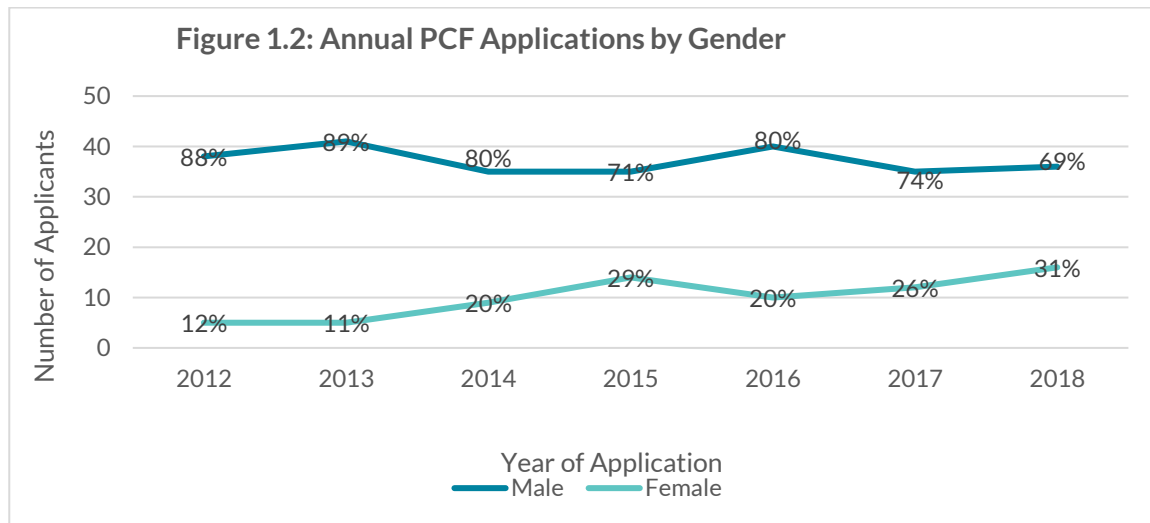
The PCF analysis comprised of an assessment of over 330 PCF applications, covering a six-year period from 2012 to 2018. See Appendix 3 for details of the criteria used in this analysis¹⁶.

¹⁵ Analysis was conducted on the sample firms' PCF applications submitted as required under the F&P regime. The extent to which appointments enhance diversity can only be viewed in the context of the organisation making the appointment.

¹⁶ Given the limitations of available data, it is not possible to draw conclusions regarding certain other aspects of diversity, such as ethnicity.

Key Observations

- Over the period 2012 to 2018, PCF applications from females, as a percentage of annual applications, increased from 12% to 31%. Female applicants accounted for 21% of all applications submitted;



- At 31 December 2018, across the 11 companies within the sample, there was an equal number of male and female staff (49% male, 51% female). However, this parity was not reflected on the boards or ExCos of the entities¹⁷. Across the 11 entities, there were 91 directors on the boards, of which 26% were female. Similarly, there were 118 executives across the ExCos, of which 25% were female;
- In terms of age, there was a diverse pool of applicants, ranging from 31 to 71 years of age. The 45-49 age grouping¹⁸ accounted for 19% of total applications and represented the largest age grouping across the sample;
- The majority of applicants had a business, science (including actuarial studies) or financial (including accountancy) background and the majority of applicants (94%) were deemed to be educated to third level (or equivalent);
- The majority of PCF applicants were Irish citizens; and
- 75% of PCF appointments between 2012 and 2018 were 'internal' candidates¹⁹ from within the entities or group. In the case of one of the

¹⁷ As part of our analysis, we reviewed the membership of the Board of Directors and Executive Committees, of each of the entities within the sample. The membership was noted as at 31.12.2018. However, in the case of one firm, for particular reasons, the membership of the Executive Committee was as at 31.08.2019. The Executive Committee, also referred to as the Senior Leadership Team, is deemed to be the body of Executives, below the Board, to whom the Board delegates the day-to-day running of the business.

¹⁸ Refer to Figure 1.3 in Appendix 3, showing ages from 40 to 69 were analysed in four-year groupings.

¹⁹ The assessment examined the professional experience of applicants based on their employment history. Using this data, the Assessment Team categorised the applicants as either 'internal' or 'external'. An applicant, who was currently employed by the Irish entity itself, by a group company or by a connected company, was deemed 'internal' for the purpose of this assessment.

11 companies within the sample, 100% PCF appointments were internal, given that the independent non-executive directors (INEDs) appointed during this period were also INEDs of group entities. The Assessment Team is cognisant that the majority of firms are actively engaged in training and developing their employees, with the ultimate aim of promoting from within their own organisations or groups. However, the majority of firms were not actively considering the potential risks of 'groupthink' associated with a high number of internal PCF appointees and implementing suitable risk mitigants.

5. Follow up with Firms

Following the assessment, each of the 11 firms was issued with findings specific to their firm and are required to submit an outcome focused strategy, supported by an implementation plan which mitigates the issues identified and which continues to enhance each entity's approach for the future.

The Central Bank expects, at a minimum, that the plan:

- includes clear objectives, stretch measures and implementation targets;
- considers a range of measures of D&I, while also considering what is required to identify and mitigate relevant risk factors;
- is subject to annual board review, with the effectiveness monitored against suitably ambitious outcomes and measurable goals, towards which the entity can strive; and
- enhances the approach to resourcing, succession planning and the recruitment process throughout the organisation.

The assessment noted that some entities were further along the maturity scale in their D&I implementation strategy than others. However, all entities have considerable work to do in order to embed D&I further in their organisations. Therefore, all of the entities are required to submit an implementation plan, which clearly sets out timelines, ownership and deliverables. While overall, the requirements for each plan were the same, each plan will be unique and will reflect the firm's progress in relation to D&I.

Appendix 1: Assessment Scope and Methodology -Further detail

Scope

The D&I assessments considered a range of elements of diversity.

However, there are limitations in the quantitative evidence available, which is confined to aspects such as gender, nationality and age. The scope of work focused on:

- The firms' approaches to diversity, including how it is prioritised; areas of focus, policies, procedures and action plans;
- The evidence of board, ExCo and management level focus on D&I initiatives;
- Current levels of diversity at board and executive level in the 11 insurance entities in terms of gender, educational background, experience, etc.;
- Commitments and targets to the extent they exist; and
- Opportunities for improvements.

Methodology

This assessment was a '*point in time*' assessment based predominantly on the information received following issuance of our initial information request letter in July 2019. The analysis was by way of a desk-based review focusing on:

- Minutes from board and ExCo meetings for the period July 2017 to July 2019;
- D&I frameworks, policies and procedures;
- Internal and external audit reports covering D&I for the period July 2018 to July 2019;
- Over 330 applications for PCF roles, which had been submitted by the entities to the Central Bank under the F&P Regime from 2012-2018;
- Remuneration data, including top ten earners and fixed and variable remuneration; and
- Any analysis conducted by (or on behalf of) the firms on gender pay gaps.

Appendix 2: Remuneration Analysis Criteria

The assessment team undertook an anonymised remuneration analysis, reviewing the gender breakdown of each firm's top 10 earners, the average fixed and variable remuneration, and the payment quartiles for combined fixed and variable remuneration. The key criteria used in the analysis of the data are outlined below.²⁰

- Data on remuneration was requested in respect of the year ended 31.12.18. In the case of variable remuneration, only remuneration, awarded for performance year 2018, was included.
- Each entity was requested to only include data for employees contracted to the Irish regulated entity. As such, employees seconded to other countries from Ireland were deemed Irish employees. Employees seconded from other entities working in the Irish entity, were not included.
- Non-Executive Directors were excluded from the analysis.

Top earners

- Each entity was requested to submit an anonymised breakdown of the top ten earners by gender.

Pay quartiles

- Each entity was requested to submit data for their combined fixed and variable payments, based on annualised FTE payments. Each entity was requested to organise the payroll data from lowest payment to highest payment, divide the data by four, with equal numbers of employees in each quartile and provide data on the number of males and females in each quartile.

Average remuneration

- Each entity was requested to submit data on fixed remuneration and variable remuneration based on: the individual grading structure within the individual entity; and annualised FTE salaries and bonus payments

²⁰ Please note that this is not an exhaustive list of criteria.

split by grade and by gender, highlighting the male and female average remuneration for each grade.

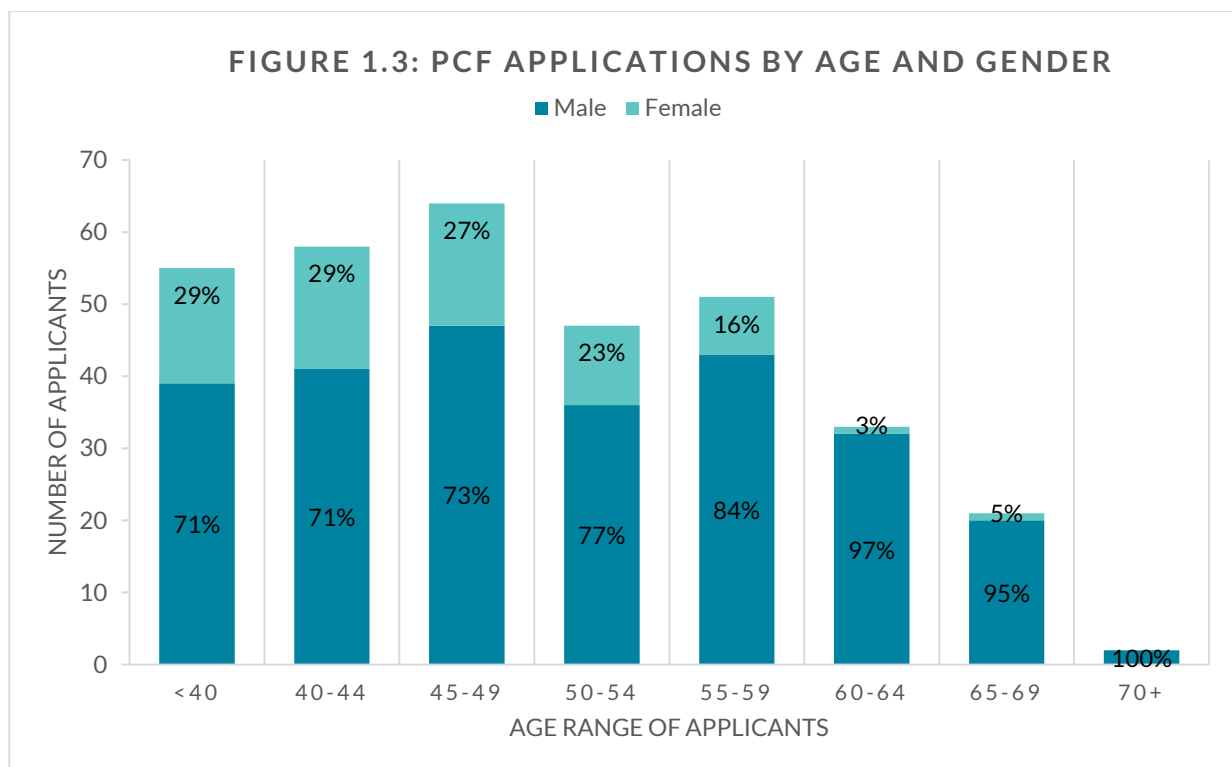
- Average variable remuneration includes bonus and commission payments.
- Average fixed remuneration is the contracted base salary.
- Data adjustments were required in a small number of cases. For example, grades with only one employee, or grades where there was only one gender present, were excluded from the analysis.

Appendix 3: PCF Analysis Criteria

The PCF²¹ analysis comprised of an assessment of over 330 PCF applications, covering a six-year period from 2012 to 2018. The applications were analysed under the headings: age, gender, nationality, educational background, and whether the applicant was 'internal or external' to the firm. The criteria used in the analysis of the data are set out below.

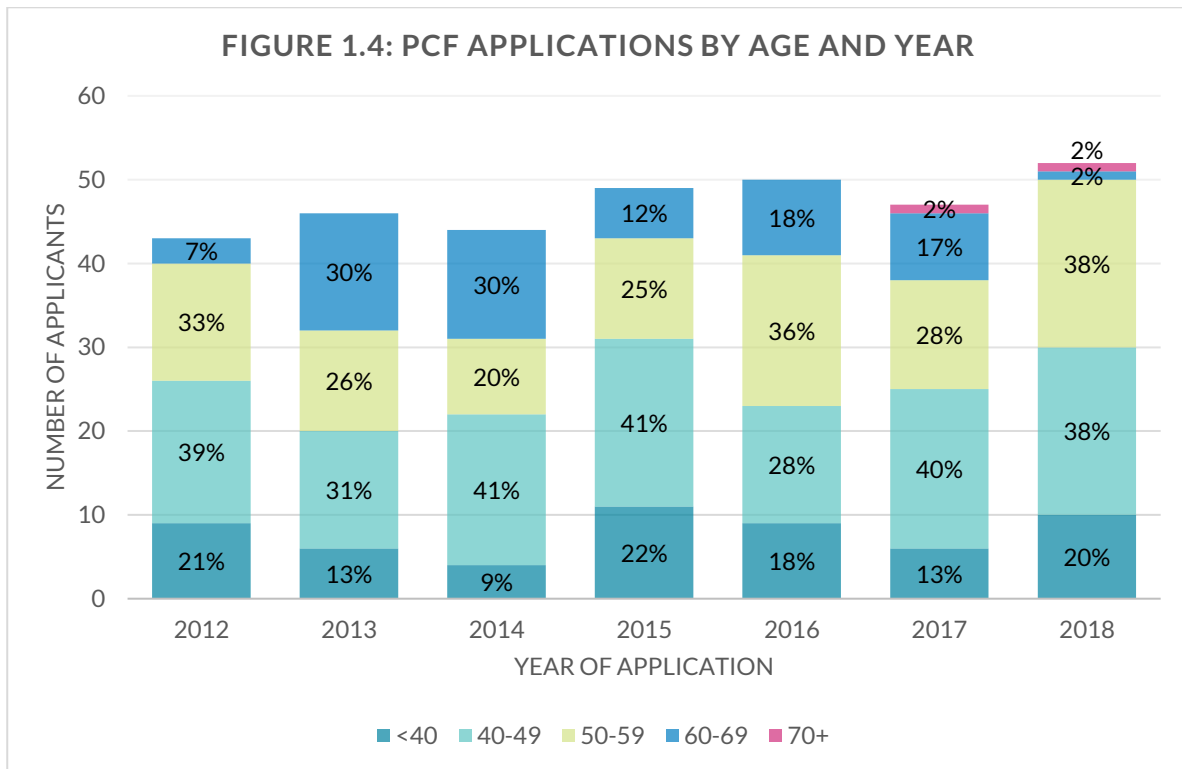
3.1 Age

Figure 1.3 below highlights the age category of applicants over the six-year period.



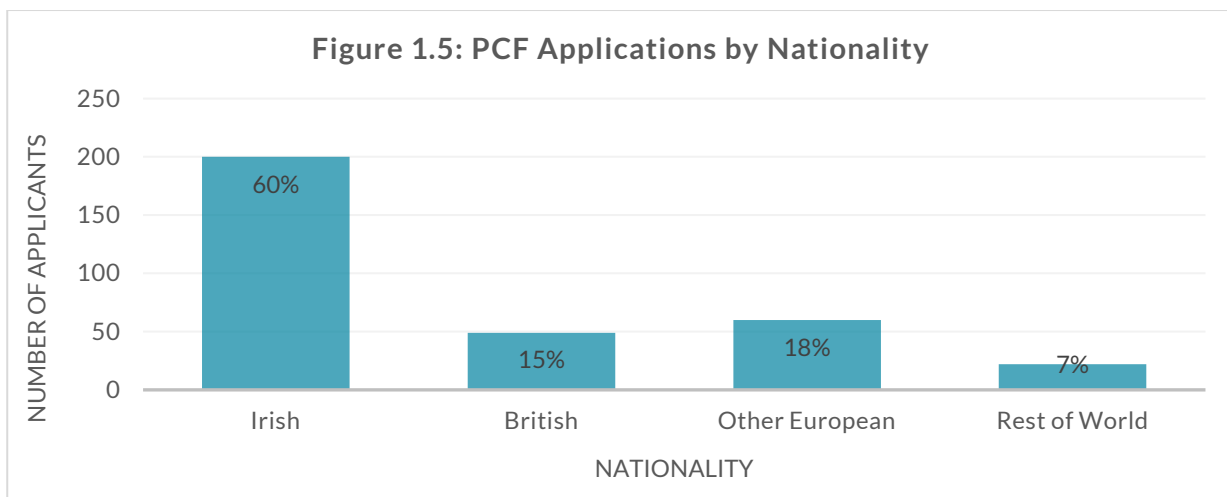
²¹ Examples of PCF role types include the following: Non-Executive Director; Executive Director; Committee Chair; Chair of Board; Branch manager; Chief Executive; Chief Risk Officer; Chief Operating Officer; Head of Actuarial Function; Head of Finance; Head of Claims; Head of Underwriting; Head of Compliance; and Head of Internal Audit.

Figure 1.4 below highlights the movement, by age, of the applicants over the six-year period.



3.2 Nationality

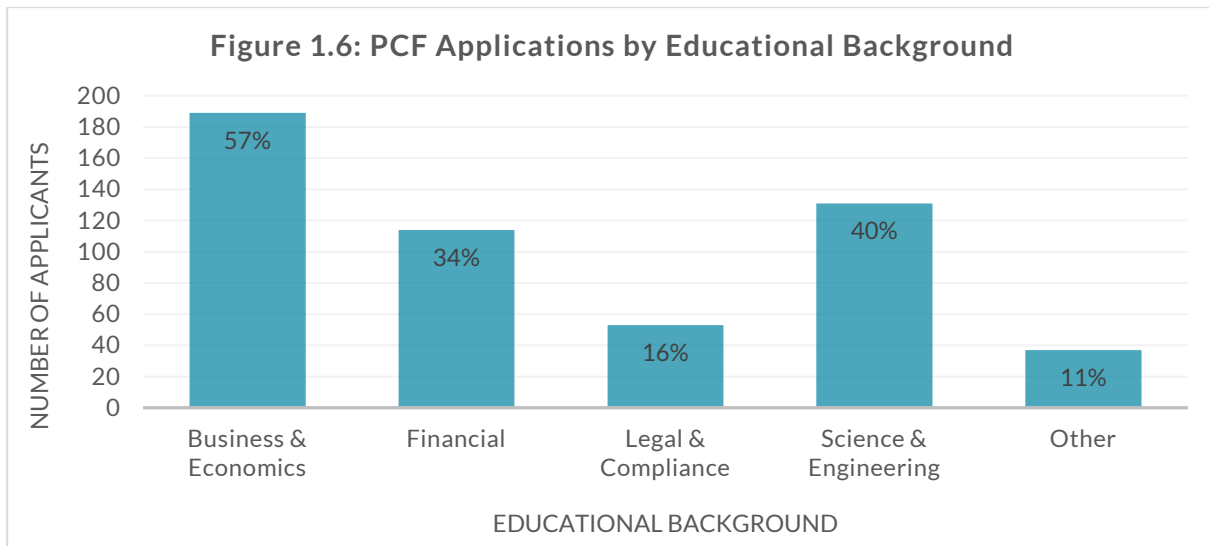
Figure 1.5 below depicts the nationality of the PCF applicants, the majority of whom were Irish.



The 'rest of the world' category is comprised of applicants from the USA, Australia, Canada and Mexico.

3.3 Educational background

An assessment of educational background was completed based on the information provided in the PCF applications. As applicants had varied educational backgrounds, for the purposes of this assessment, they have been grouped into the five headings displayed in figure 1.6 below.



The 'other' category, which accounts for 11% of applicants, covers a variety of areas such as arts education (where the particular subjects studied were not detailed), earth science studies and project management.

3.4 Criteria used in PCF analysis

All proposed appointments to PCF roles, on or after 1 December 2011, require the prior written approval of the Central Bank²². The Assessment Team reviewed each firm's online PCF applications submitted to the Central Bank during the period 2012 – 2018. As some individuals currently in PCF roles were in situ prior to 2011, this analysis does not present an analysis of current levels of diversity across PCF roles.

Approach taken to interpret the data:

- Each application was counted as a single application, regardless of the number of PCF roles being applied for. For example, an applicant may

²² Central Bank of Ireland. (2018) *Guidance on Fitness and Probity Standards 2018*. Available at: https://www.centralbank.ie/docs/default-source/Regulation/how-we-regulate/authorisation/fitness-probity/guidance-on-fitness-and-probity-standards.pdf?utm_medium=website&utm_source=CBI-footer&utm_content=43809

have submit one application for the role of both INED and Chair of Audit Committee. As a result, the number of PCF roles will be higher than the number of applications.

- Generally, the age of PCF applicants is their age at the date of appointment into the role (their PCF start date).
- It should be noted that one applicant might hold a number of qualifications and therefore the percentage allocation across the five categories in figure 1.6 above, will total in excess of 100%.

Appendix 4: Further Examples of Good Practice

Additional good practice examples identified, include the following:

- Extending senior leadership accountability so that an element of their evaluation and remuneration is based on D&I specific targets. However, alongside this practice it will be imperative that companies reinforce the message that everyone within the organisation is responsible for creating a more diverse and inclusive environment. The responsibility does not solely rest with the executives or with one function;
- Creating D&I Ambassadors or Champions throughout all levels of the organisation;
- Using technology to enhance the recruitment process in order to identify at what point (between initial application and the offer stage) candidates are exiting the process and seeking to understand why;
- Requesting that any service or outsourcing partners demonstrate a visible commitment to D&I;
- Training for employees at all levels (e.g. unconscious bias, inclusive leadership and autism awareness training);
- Use of Employee Resource Groups to help facilitate inclusion and the implementation of inclusive policies and procedures (e.g. flexible working arrangements, increased paid paternity leave allowances, transitioning at work guidelines);
- The use of group expertise by way of global communities of best practice;
- Conducting a diversity survey among staff, which resulted in clear action plans; and
- Additionally it was noted that the Insurance Practitioner Apprenticeships (in conjunction with the LIA)²³ are now in their fifth year of an 'earn and learn' degree programme, combining on-the-job training with academic study. The objective of the programme is to attract new talent into the insurance industry and over three years to provide them with the skills and competencies that they would need to further their careers in the industry.

²³ More information on the apprenticeships here, <https://www.iii.ie/apprenticeships>

Appendix 5: Challenges Highlighted by Firms

During the Assessment, the firms involved highlighted what they perceived to be key challenges in becoming more diverse and inclusive organisations. These included:

- Difficulties in recruiting diverse talent for roles, which are traditionally male-dominated, such as IT, Actuarial, Investment Management and Sales;
- Difficulties in collecting data on D&I, both in terms of the HR systems in place and concerns regarding the collection and processing of sensitive information;
- Limited diversity of the board candidate pool in Ireland; and
- The length of time required to create a more diverse and inclusive entity. Interventions put in place to remedy any gender imbalance take time to show results, not least because turnover at senior levels can be very low.



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