Commentary

Gender Diversity at European Banking Boards: Still a Long Way to Go

DBRS Morningstar
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Summary

Gender diversity has become an increasingly important issue for the banking sector, particularly as ESG factors have grown in importance for investors when evaluating banks. Despite recent changes, women still represent less than a third of board membership at European banks. Representation is especially low at the Chief Executive position, with only 6 women at the helm of a sample of 53 banks across Europe. In order to accelerate representation at the highest level, some countries have introduced country-wide board-level quota legislation, whilst other geographies have found more success in implementing bank-specific policies aimed at improving representation at the individual institution.

Whilst quotas may go some way to reducing inequality, in isolation they are unlikely to be sufficient. We believe that progress will continue to be hindered unless regulatory efforts are compounded by effective and measurable internal bank policies.

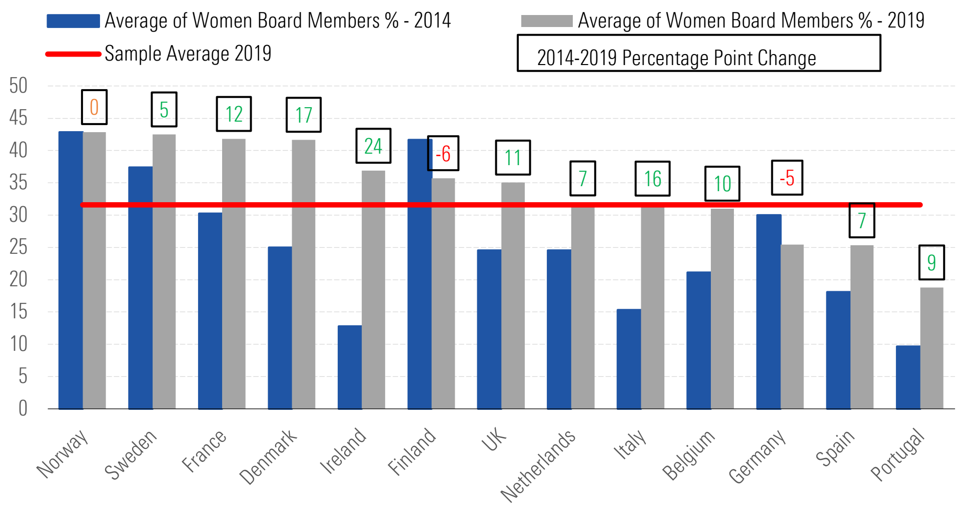
This research forms part of DBRS Morningstar's ESG analysis, encompassing both the credit risk factors and also the sustainability factors relating to ESG. With increased scrutiny from regulators and investors on gender diversity, DBRS Morningstar considers banks face reputational risk and the possibility of future regulatory pressure, if they fail to progress in this area.

Low Levels of Female Board Representation in Banking Industry

Whilst there have been increases over the past 5 years, women remain significantly underrepresented on banking boards. On average in our sample of 53 European banks, women represent 32% of board membership, as opposed to 22% in 2014. Boardroom parity would be reached by c. 2030, if we were to assume the average 2014-2019 growth rate remains steady. Portugal lags significantly behind the average at 19%, whereas Norway and Sweden reported the highest female representation at board level (Exhibit 1).

Norway and Sweden are also among the few countries in our sample with female representation at the Chief Executive level. Out of the 53 banks, only 6 have a female Chief Executive: DNB ASA (Norway), Svenska Handelsbanken (Sweden), NatWest Group (UK), Bank of Ireland (Ireland), Banca Nazionale del Lavoro (Italy) and Bankinter (Spain), whilst just three, DNB ASA (Norway), Banco Santander (Spain), and Banca Monte dei Paschi (Italy) have a female Chairperson. This is in contrast to the 51% female representation on average at the workforce level in 2019, and shows the bottleneck at the upper levels of management.

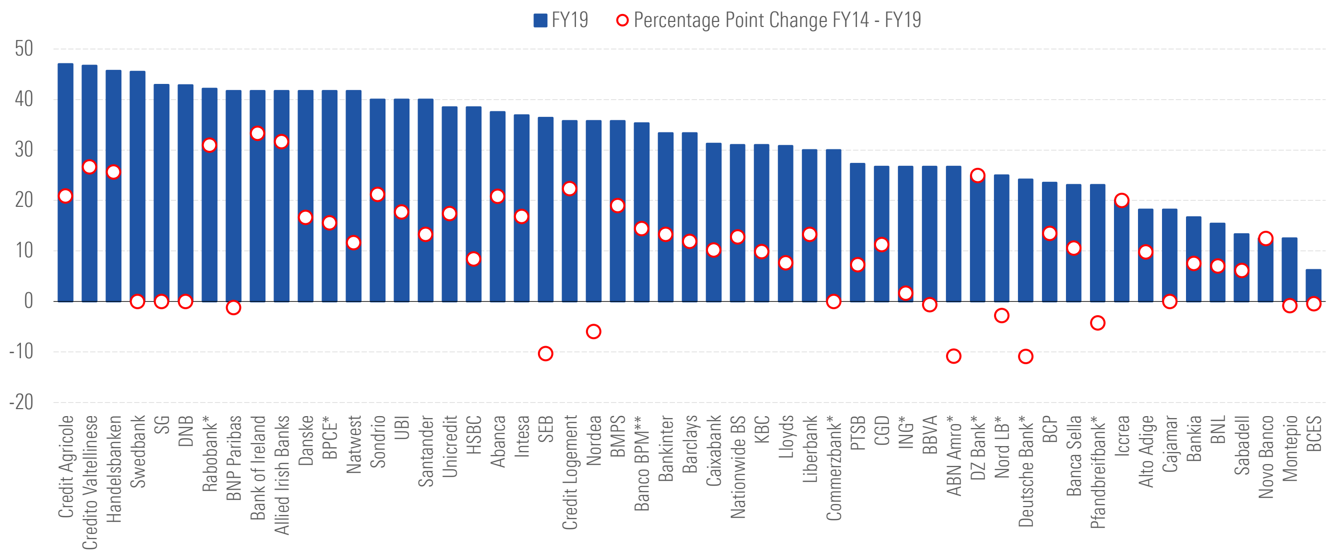
Exhibit 1 % of Women at Board Level per Country



Source: DBRS Morningstar, Company Documents.

Denmark and Ireland, as well as being two of the countries with the highest levels of female representation in FY19, were also amongst the jurisdictions with the largest increases over this period, with increases of 17 percentage points (p.p.) and 24 p.p. respectively (Exhibit 1). Bank of Ireland and Allied Irish Banks saw the highest increases over the analysed period, with increases in excess of 30 p.p. (Exhibit 2). And the 3 banks in our sample with highest levels of female representation, Crédit Agricole, Credito Valtellinese and Svenska Handelsbanken, all had increases in excess of 20 p.p. (vs. the sample average of 10 p.p.). The least gender diverse boards in 2019 were largely comprised of Portuguese and Spanish banks.

Exhibit 2 % of Women at Board Level FY19 & Growth vs. FY14



Source: DBRS Morningstar, Company Documents, * Supervisory Board data used in conjunction with Management Board data; ** Banco Popolare used as proxy for FY 2014 data.

National Legislation & Individual Country Experiences

International banking regulators have largely avoided setting punitive diversity legislation, instead focusing on setting diversity targets in action plans. In February 2020, however, the European Banking Authority (EBA) published a report[1] on diversity in credit institutions and investment firms. The results showed low representation of women in management bodies (15% as of 2018), and stated that 2/3 member institutions had executive directors of only one gender. The EBA report included a call for more measures to be taken at a national and institutional level to improve gender diversity, as they believe a more diverse workforce aids with "decision-making regarding strategies and risk-taking by incorporating a broader range of views, opinions, experiences, perceptions, values and backgrounds".

One of the legislative measures used at a national level has been the imposition of gender quotas for boards[2]. Of the top 5 most gender diverse countries in our sample, two have imposed quotas, those being France and Norway. The origins of the Norwegian board quotas stem from similar policies enacted in Norwegian politics, which has served to increase female participation. Summaries of these quotas, amongst others, can be seen below:

Table 1 Examples of Board Level Quotas

Country	Implementation Year	Requirement	Potential Penalty
Norway	2008	Listed companies to have at least 40% female directors	Potential penalty of dissolution
France	2011; Revised in 2014	Requires companies with 500+ employees and revenues over EUR 50 million to have a minimum of 40% of females on their board of directors	Noncompliance risks voided appointments
Spain	2015	Listed companies with 250+ employees to have at least 40% female directors	Risk losing public contracts and/or Government Subsidies
Germany	2016	30% female participation on supervisory boards of large, publicly listed companies	Vacated board seats may remain vacant until filled by a woman
Italy	2011	Requires listed companies to have at least 30% female representation on their boards	If the quota is not met within a four month grace period, companies can be charged a fine of up to €1,000,000
Netherlands	2013; Revised in 2020	In 2013, large companies were to set an optional target of 30% of the seats of the company's management and supervisory boards to be women. This was made mandatory for listed Dutch companies in 2020.	Vacated board seats may remain vacant until filled by a woman

Source: DBRS Morningstar.

The mechanism of quotas allows for internal targets to be set at a specific, numerical level, and reduces the possibility of overly broad objectives. Whilst this has gone some way to reducing gender disparity at senior levels, the imposition of gender quota type legislation suffers from two main weaknesses. Firstly, gender quotas are often unenforced, and usually do not carry sanctions for noncompliance. By treating this as a "soft" law, companies have reduced incentives to improve.

[1] https://www.eba.europa.eu/eba-calls-measures-ensure-more-balanced-composition-management-bodies-institutions.

[2] For geographies with two-tier banking systems, the regulatory point of reference is generally the supervisory board, as opposed to the management board.

Secondly, the imposition of quotas is concerned with the result, as opposed to the means behind it. By setting a fixed threshold, quotas do not address the reason behind the inequality.

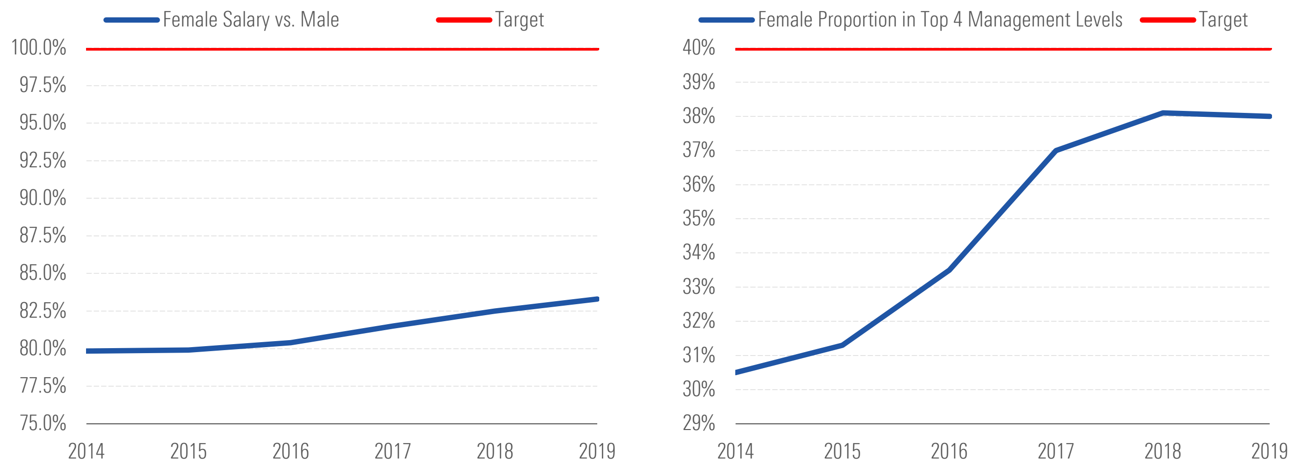
Unlike other Scandinavian countries, neither Finland nor Denmark impose quotas on board membership. Instead, the Finnish Government funds programs that help develop the skills of female members of the workforce, and to further prepare them for potential board membership. The Ministry of Social Affairs and Health also implements an action plan for gender equality. Meanwhile, Denmark requires its largest companies to maintain policies on how they will attain executive management-level gender diversity. These policies require companies to report their own achievable target of board composition in a 4 year timeframe. The reports must also indicate current progress and describe measures taken to achieve their target.

Both of these approaches address the issues outlined in the February 2020 EBA report of female underrepresentation in management. This is done through a focus on career development, and sustainable growth of female representation at senior levels, as opposed to focusing on the end result.

Example of Bank Policies: DNB ASA

DNB ASA (DNB) has a target of 40% of the top 4 levels of management being comprised of women, and having pay parity. These efforts are tracked and updated annually, whilst also being supported by internal talent development. In addition, DNB has changed their hiring practices to try to eliminate some of the disparity between sexes, including a requirement to have the final two candidates for a position to be male and female. Policies such as this have aided DNB in reducing the gender pay gap and gender disparity in management, with both metrics narrowing since 2014 (Exhibit 3).

Exhibit 3 DNB Progress vs. Gender Targets



Source: DBRS Morningstar, Company Documents.

ESG Factors in DBRS Morningstar Rating Analysis

DBRS Morningstar evaluates and incorporates 17 ESG credit risk factors in the assessment of its credit ratings across Governments, Financial Institutions, Corporate Finance, and Structured Finance. DBRS Morningstar's Financial Institutions Group considers 12 of these factors in its assessment of credit ratings. DBRS Morningstar considers how ESG risks affect the issuer and transaction-specific ratings during the life of the transaction/rating. As with all of DBRS Morningstar’s credit analysis, evaluation of the factors’ impact is forward looking—relevance reflects the factors’ impact in the future, which may not necessarily be the same as it might have been in the past.

This is relevant for gender diversity, as whilst this may have been a less prominent concern for regulators and stakeholders in the past, its importance has grown. DBRS Morningstar considers gender diversity within banks' boards to fall under the Governance ESG factor, particularly under the "Corporate Governance" factor, alongside the Social ESG Factor. We consider an institution's relation to its community of stakeholders as key in maintaining reputational standards, particularly as calls grow for more diverse workforces. A stronger reputation can enhance a financial institution's franchise, while a lack of progress could eventually lead to a loss of clients.

Related Research

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April 22, 2020 Illustrative Insights: Earth Day 2020
April 22, 2020 ESG Government Risk Factors: The Environment and COVID-19
March 10, 2020 DBRS Morningstar's Approach to Environmental, Social, and Governance Risk Factors in Credit Ratings

European Banks List by Country
Belgium
KBC Group NV
Denmark
Danske Bank A/S
Finland
Nordea Bank AB (publ)
France
Groupe BPCE
Crédit Agricole Group
Société Générale SA
BNP Paribas SA
Crédit Logement
Germany
Commerzbank AG
Deutsche Pfandbriefbank AG
Deutsche Bank AG
DZ Bank AG
Norddeutsche Landesbank Girozentrale
Ireland
Permanent TSB Group Holdings plc
The Governor and Company of the Bank of Ireland
Allied Irish Banks, p.l.c.
Italy
Banca Sella Holding SpA
Banco BPM SpA
Banca Monte dei Paschi di Siena SpA
Credito Valtellinese SpA
Intesa Sanpaolo SpA
Unione di Banche Italiane SpA
UniCredit SpA
Banca Popolare di Sondrio S.C.p.A.
Banca Popolare dell'Alto Adige S.p.A.
Banca Nazionale del Lavoro SpA
Iccrea Banca SpA
Netherlands
ABN Amro Group NV
ING Groep NV
Coöperatieve Rabobank U.A.
Norway
DNB ASA
Portugal
Banco Comercial Português, S.A.
Caixa Geral de Depósitos, S.A.
Novo Banco, S.A.
Caixa Económica Montepio Geral
Spain
Abanca Corporación Bancaria S.A.
Bankia SA
Bankinter SA
Banco Bilbao Vizcaya Argentaria, S.A.
Caixabank SA
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Nationwide Building Society

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