THE INVESTMENT ASSOCIATION

TACKLING THE CLASS CEILING

Recognising potential over polish

September 2019

ABOUT THE IA

The Investment Association is the trade body that represents UK investment managers, whose 250 members collectively manage over £7.7 trillion on behalf of clients.

Our purpose is to ensure investment managers are in the best possible position to:

- Build people's resilience to financial adversity
- Help people achieve their financial aspirations
- Enable people to maintain a decent standard of living as they grow older
- Contribute to economic growth through the efficient allocation of capital

The money our members manage is in a wide variety of investment vehicles including authorised investment funds, pension funds and stocks & shares ISAs. The UK is the second largest investment management centre in the world and manages 37% of European assets.

Investment Association (IA) members hold in aggregate, one third of the value of UK publicly listed companies. We use this collective voice to influence company behaviour and hold businesses to account. More information can be viewed on our website.

CONTENTS

1. FOREWORD

LOOK AT MY PICTURE AND YOU MIGHT NOT BE STRUCK BY A BEACON OF DIVERSITY. I AM WHITE, MALE, MIDDLE-AGED AND – THESE DAYS – DECIDEDLY MIDDLE-CLASS.

When I grew up on a council house estate in West Yorkshire in the 1970s and 1980s many of my teenage peers were looking ahead to life working in the pits at a local colliery. I was fortunate enough to receive a grant and became the first in my family to go to university. While there I was handed a leaflet – 'How the City Works' – which included details of two days' work experience in London. It opened my eyes and, when I graduated, it opened doors that I'd always thought were closed to someone like me.

Today, diversity is at the forefront of the minds of many working in investment management and the wider financial services industry. Great initiatives exist to promote ethnic, gender and LGBT+ diversity. As custodians of £7.7 trillion invested by millions of people from the UK and beyond, and with three-quarters of UK households using the services of an investment manager, we know we need to look more like the people whose money we manage.

Since the global financial crisis in 2008, and through the Brexit referendum in 2016, there has been a widely held view that the success of the sector is not felt by all and that it risks being seen as part of an elite. If this image persists it won't just be bad for the reputation of our industry but will have a direct impact on our relationship with customers and our ability to attract talent.

The reality is that, whatever your background, if you don't see people who look and sound like you thriving in an industry, it can be hard to think that it will be possible for you either. And while diversity and inclusion have rightly been increasingly in the spotlight it is fair to ask if socioeconomic difference – or class – is still somewhat taboo.

The UK Government's Social Mobility Commission concluded in its 2019 State of the Nation report that social mobility in the UK has remained completely stagnant for the last four years, with people from better-off backgrounds still 80% more likely to find their way to a professional job than those from working class backgrounds.[1]

PEOPLE FROM BETTER-OFF BACKGROUNDS ARE STILL **80% MORE LIKELY** TO FIND THEIR WAY TO A PROFESSIONAL JOB THAN THOSE FROM WORKING CLASS BACKGROUNDS

This lack of mobility suggests that inequality is becoming entrenched in our society and, unhappily, gives people from working class backgrounds good cause to doubt whether they will reap any reward from working hard and taking risks.

The collieries where I grew up are now closed. A teenager with a similar background to me definitely won't work in the pits and they're a lot more likely to go to university. But still a barrier exists which too often prevents progression for working class people from university to a quality job.

The Investment Association's early-careers service, Investment20/20, was set up to do something about this and last year we launched Think Investments as the latest initiative to help state-educated students from diverse backgrounds to apply for jobs and trainee roles at investment management firms.

These are just two industry initiatives which are getting us thinking about class. Diversity of background is essential to providing the diversity of thought which our industry needs to thrive. A change of approach will offer new opportunities to talented people and ensure that our industry better reflects the people we serve.

Chris Cummings

Chief Executive, The Investment Association

[1] Social Mobility Commission, State of the Nation 2018-19: Social Mobility in Great Britain, 2019

2. SOCIAL MOBILITY – WHY IT MATTERS

For many, social mobility is a simple matter of fairness; people should be rewarded in life on the basis of merit. The consequence of entrenching inequality in society should nonetheless be clear. If it is harder for people to change their economic circumstances then it is equally hard for people to improve their living standards and more likely that they will suffer broader negative effects on their health and wellbeing.

With 32.75 million people in work in the UK and an unemployment rate of 3.8%, there has never been a point where more people in the UK have been in work and unemployment is at its lowest rate since 1974.[2] At the same time, the Joseph Rowntree Foundation estimates that four million workers in the UK are in poverty, a figure which has risen by half a million over the last five years. Where there has been any increase in in-work benefits and real earnings over the past decade it has been slow and we now find ourselves in a situation where a working-age adult in poverty is more likely to be in a working family than a non-working family.[3]

Pay is just one element which contributes towards somebody's economic wellbeing. The Living Wage Foundation has also highlighted the impact that insecure work can have. Their research shows that one in six of all people working in the UK (more than five million people) earn less than the Living Wage and are in a form of insecure work such as a short-term contract or a contract with unpredictable pay and hours.[4]

[2] Office for National Statistics, Labour market overview, UK, July 2019
[3] Joseph Rowntree Foundation, UK Poverty 2018
[4] Living Wage Foundation, Living Hours, 2019

PEOPLE FROM WORKING CLASS BACKGROUNDS WILL EARN **A QUARTER LESS EACH YEAR** THAN PEOPLE FROM PROFESSIONAL BACKGROUNDS

The prevalence of insecurity and underemployment in the UK, which has been accompanied by the emergence of the 'gig economy' and an increase in self-employment, will also mean that many workers will not have the right to sick pay, maternity leave or employer pension contributions to put towards a comfortable retirement. Insecurity is also concentrated among groups such as women, black and ethnic minority workers and people in poorer regions of the UK who already face disadvantage in the labour market.[5]

[5] TUC, The Gig Is Up, 2017

WHEN THEY LEAVE SECONDARY SCHOOL, PUPILS IN ENGLAND FROM DISADVANTAGED BACKGROUNDS WILL BE **18 MONTHS** BEHIND OTHER PUPILS

To take just one impact on people's wellbeing, two-thirds (66%) of employees told a survey for Business in the Community that their mental health and wellbeing are affected by their personal job security and just over one-third (34%) said that their financial situation negatively impacts their mental health.[6]

More broadly, people from working class backgrounds will earn a quarter (24%) less each year than people from professional backgrounds, are more likely to experience unemployment over their working lives and are less likely to own their home.[7]

At every stage in someone's life up to young adulthood, from early childhood to school through further education or university, people face the threat of having inequality entrenched.

When they leave secondary school, pupils in England from disadvantaged backgrounds will be 18 months behind other pupils and the Education Policy Institute estimate that at the current rate of change it will take 560 years to close this gap.[8] Once they leave school, disadvantaged adults with the lowest qualifications are the least likely to access adult training and to develop the skills that they most need to advance in work.[9]

[6] Business in the Community, Seizing the Momentum: Mental Health at Work, 2018
[7] Social Mobility Commission, State of the Nation 2018-19: Social Mobility in Great Britain, 2019
[8] Education Policy Institute, Education in England: Annual Report, 2019
[9] Social Mobility Commission, The adult skills gap: is falling investment in UK adults stalling social mobility?, 2019

BLACK BRITISH WOMEN FROM WORKING-CLASS BACKGROUNDS ARE LIABLE TO EARN AN AVERAGE OF **£20,000 LESS** THAN WHITE MEN FROM MORE PRIVILEGED BACKGROUNDS

Different areas of disadvantage intersect – what the Social Mobility Commission calls 'double disadvantage' – meaning that people from working class backgrounds will find social mobility even harder if they have a disability, are from an ethnic minority, or are female. Downward social mobility is a greater threat for women and ethnic minorities than it is for white males. One-fifth (21%) of working class people with disabilities enter professional occupations, compared with two-fifths (43%) of disabled people from professional backgrounds.[10] It has been estimated that a pay gap of 60% exists between the least advantaged women and the most advantaged men with black British women from working-class backgrounds liable to earn an average of £20,000 less than white men from more privileged backgrounds.[11]

Discussion around social mobility often dwells on 'rags to riches' stories while overlooking the value of gradual improvements in people's economic circumstances. As the Social Mobility Commission states, "social mobility is not just about children from council estates becoming CEOs… Social mobility is securing the first stable job when your family has experienced generations of worklessness."[12]

[10] Social Mobility Commission, State of the Nation 2018-19: Social Mobility in Great Britain, 2019
[11] Sam Friedman and Daniel Laurison, The Class Ceiling, 2019
[12] Social Mobility Commission, State of the Nation 2018-19: Social Mobility in Great Britain, 2019

3. BARRIERS TO MOBILITY

There are a range of ways in which people can be helped to move from precarious and poorly paid work to more stable situations. The Government understandably focuses on early-years and school age education policies and funding. For most responsible employers wishing to promote social mobility, who have little involvement in the school system, a different tack will be necessary.

Analysis of higher professional occupations in the UK National Statistics socio-economic classification of jobs has shown that while people from upper middle class backgrounds make up just one third of the population, they account for half of people working in the top jobs. By contrast, just 10% of white British people from working-class backgrounds attain high-status jobs.[13]

Only a limited number of people who start life experiencing disadvantage find themselves at the country's top universities by the age of 18. Black people are one group that is disproportionately represented among those from lower socio-economic backgrounds. Freedom of Information requests to Cambridge and Oxford universities by the Labour MP David Lammy revealed that 1.5% of the offers they made to A-level student in 2015 were to black British candidates. By contrast we know from census data that around 4% of 18-24 year olds in England and Wales are black, and 8% of the UK university population in 2018 was black.[14] If industries wish to promote and support social mobility then they will need to recognise that they cannot just compete for a small pool of Oxbridge graduates from diverse backgrounds.

Even where employers manage to attract graduates from that small talent pool they risk missing out on the diversity of thought and challenge to groupthink which can stem

[13] Sam Friedman and Daniel Laurison, The Class Ceiling, 2019
[14] Census 2011 and Higher Education Statistics Agency
[15] Social Mobility Commission, An Unequal Playing Field, 2019
[16] Social Mobility Commission, Socio-economic Diversity in Life Sciences and Investment Banking, 2016

from hiring from diverse backgrounds. Companies should challenge themselves to recruit from a broader range of backgrounds and reflect on whether the profile of their ideal candidate remains restrictive and if they allow for the fact that supporting social mobility will mean recruiting candidates who don't all dress the same, display typical soft skills and have the same extracurricular interests. Evidence tells us that students from low socio-economic backgrounds are less likely to take up extra-curricular activities.[15]

A 2016 study for the Social Mobility Commission[16] looked at the expectations and perceptions that people working in banking had when hiring new recruits to the industry. They found that a range of economic and cultural issues were potentially counting against candidates from different social backgrounds and prohibiting social mobility in the process. While there are many operational and cultural differences across financial services sectors, it is likely that some of the challenges that exist in banking are also present in investment management.

COMPANIES SHOULD CHALLENGE THEMSELVES TO RECRUIT FROM A **BROADER RANGE** OF BACKGROUNDS

Economic capital

As we have already seen, children growing up in low-paid families are likely to be at a disadvantage at school and to attain lower grades. We also know that high achieving pupils from poorer backgrounds will often choose local universities to save on the cost of living away from home. Some top universities also discourage evening and weekend jobs which help supplement the cost of education but take up time that could be used for study. All of this will limit choice and if students find themselves at a 'non-target' university for employer outreach then it is likely that they will miss out on the university activities such as networking events and skills training which are intended to help students find their way in to desirable jobs. Even when they get the grades needed to go to the top universities, students from non-privileged backgrounds are thought less likely to be aware of the potential career advantages that come from selecting one university over another.

Many employers also highly value Masters degrees when recruiting and, again, particularly value those attained at elite universities. Masters degrees typically come with an upfront cost which will be easier to manage for those from more privileged socio-economic backgrounds.

Whether it is a Masters or undergraduate degree, choosing a low paying internship over a full-time job, or the cost of living away from home for study or a first job, it is likely that anyone who can rely on wealthier parents – the Bank of Mum and Dad – will be in a position of advantage.

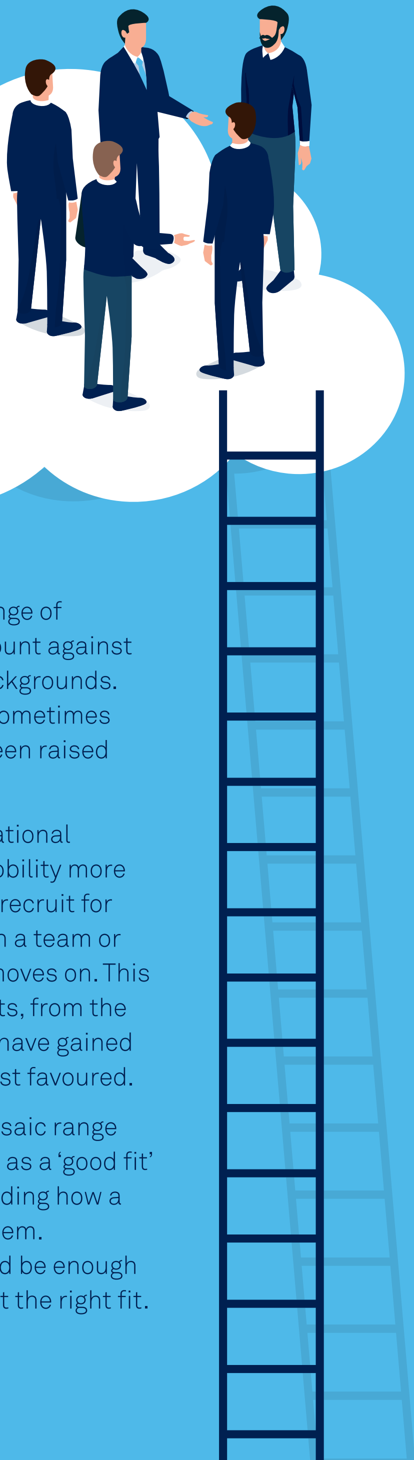
ACCESS TO SOCIAL NETWORKS AND FAMILY CONNECTIONS **INCREASE** THE CHANCES OF SUCCESSFULLY LANDING A GOOD JOB

Social capital

The Social Mobility Commission study also found that access to social networks and family connections to banking increased the chances of successfully landing a job in the industry. In its most direct form this might be down to nepotism with people working in the industry offering opportunities to gain work experience, internships or interviews for graduate jobs to their family or the family of social and professional connections.

But there is a broader way in which 'social capital' can give people from more privileged backgrounds an upper hand when applying for jobs. This includes the simple knowledge when entering your first year at university that undertaking certain internships or extracurricular activities throughout your time in higher education will place you at an advantage when entering the world of work. People from more privileged socio-economic backgrounds are more likely to have the networks who will give them the advice and guidance that will help them choose a preferred career and gain the skills and experience that are valued by employers.

EMPLOYERS MAY HAVE A DESIRE TO RECRUIT FOR **FAMILIARITY OR SIMILARITY**



Cultural capital

The Social Mobility Commission also identifies a range of factors – which they call 'cultural capital' – which count against candidates from less privileged socio-economic backgrounds. These are ill-defined behavioural codes which are sometimes difficult for people to understand if they have not been raised with them.

On one level these reinforce the challenges of educational attainment and social capital which make social mobility more difficult to achieve. Employers may have a desire to recruit for familiarity or similarity in order to create cohesion in a team or make a like-for-like replacement when somebody moves on. This carries the risk that candidates with shared interests, from the same elite schools and universities, and those who have gained internships at familiar organisations, will be the most favoured.

For those who make it to interview a much more prosaic range of factors will determine whether somebody is seen as a 'good fit' in the organisation. Matters of personal image including how a candidate dresses or speaks could count against them.
A different accent or the wrong colour of shoes could be enough for some employers to decide that a candidate is not the right fit.

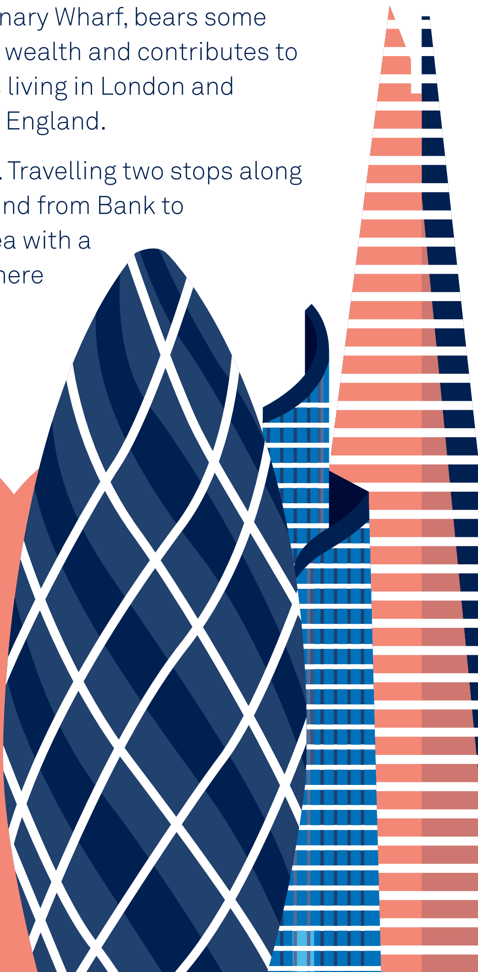
4. THE INVESTMENT MANAGEMENT INDUSTRY

In 2017, the UK contained eight out of ten of the regions in northern Europe with the lowest GDP per person. In contrast two UK regions were in the top ten: Inner East London and Inner West London.[17] Statistics like these contribute to the sense that there is gross inequality within the UK with London – and Londoners – benefitting.

The financial services industry, with its heavy concentration of high value activity in the City of London and Canary Wharf, bears some responsibility for this disparity in regional wealth and contributes to the relative personal wealth of individuals living in London and commuting from across the south-east of England.

Even within London vast differences exist. Travelling two stops along the Central Line on the London Underground from Bank to Bethnal Green would take you from an area with a life expectancy at birth of 86 to an area where the residents can expect to live to just 78 years old.[18] Such inequalities exist across London.

THE UK CONTAINED **EIGHT OUT OF TEN** OF THE REGIONS IN NORTHERN EUROPE WITH THE LOWEST GDP PER PERSON. IN CONTRAST TWO UK REGIONS WERE IN THE TOP TEN



[17] Eurostat, GDP in purchasing power standard per inhabitant at current market prices by NUTS level 2 regions, 2017

[18] Research by Dr James Cheshire at University College London, 2012

People who have grown up in London will often find that their proximity to the City doesn't necessarily help them to find jobs in financial services. The cultural and economic draw of London means that the competition for jobs is intense and people from privileged backgrounds benefit disproportionately. More than half (56%) of domestic migration to London is by people from professional or managerial backgrounds.[19]

It wasn't always this way. From the 1920s to the 1990s changes in the nature of industry in the UK meant that the proportion of people in professional and managerial jobs rose from 15% to 37%.[20] This economic and social change has not continued and the opportunities for social mobility that it offered have declined as a result.

Taken together, the financial and insurance industries have some of the lowest rates of in-work poverty of any sector in the UK economy. Just 4% of workers in the industry are in poverty, compared with more than one-fifth of workers in accommodation and food services (25%), agriculture, forestry and fishing (23%) and administrative and support services (22%) sectors.[21]

It is a matter of concern that anybody in the financial services industries might be experiencing in-work poverty. But a 'class pay gap' exists with

A **'CLASS PAY GAP'** EXISTS WITH PEOPLE FROM PRIVILEGED BACKGROUNDS WORKING IN FINANCE RECKONED TO EARN **£17,500 A YEAR MORE** THAN PEOPLE IN THE SAME INDUSTRY FROM WORKING CLASS BACKGROUNDS

[19] Sam Friedman and Daniel Laurison, The Class Ceiling, 2019
[20] Sam Friedman and Daniel Laurison, The Class Ceiling, 2019
[21] Joseph Rowntree Foundation analysis of Department for Work and Pensions data on households below average income, 2018

people from privileged backgrounds working in finance reckoned to earn £17,500 a year more than people in the same industry from working class backgrounds.[22] Social mobility is not a one-off event, only provided at the recruitment stage or early in life. It is important for employers to understand the circumstances of employees and to consider how they might provide social mobility to the people they already employ.

By and large, investment management and other financial services industries provides good quality jobs. The nearly 1.3 million people working in financial and insurance industries[23] are experiencing the living standards that we should expect for individuals and their families living in a developed country like the UK and they are working in industries concerned with providing future-facing services and jobs.

It stands to reason that anybody looking to improve their living standards and income of themselves as well as their families would consider a career in financial services as a desirable route. For the financial services industry to be a good corporate citizen, making a positive impact on the broader and financial wellbeing of this country, it is imperative that people who are looking to improve their living standards also see a career in financial services as a viable route.

MORE THAN HALF (56%) OF DOMESTIC MIGRATION TO LONDON IS BY PEOPLE FROM PROFESSIONAL OR MANAGERIAL BACKGROUNDS

[22] Sam Friedman and Daniel Laurison, The Class Ceiling, 2019
[23] Office for National Statistics, Labour Force Survey, May 2019

OF THE ONE IN FIVE WHO SAID THEY WOULD LIKE TO WORK IN FINANCIAL SERVICES, MONEY (**70%**) WAS THE KEY DRIVER BEHIND THE DECISION

Yet research by KPMG has shown that nearly two-thirds (65%) of the UK's population would not consider applying for a job in financial services, with two in five people outside the industry (41%) thinking it 'sounds too boring' and just under one in six (16%) thinking they can't pursue a career in the industry because they have no contacts in the sector. The same research gives a clear indication of the narrow talent pool that is being attracted to the industry with two in five people working in investment management (41%) saying that their parents had also worked in financial services.[24] Analysis of the Labour Force Survey has found that people whose parents worked in finance are five times more likely to pursue a career in finance than people whose parents had worked in another occupation.[25]

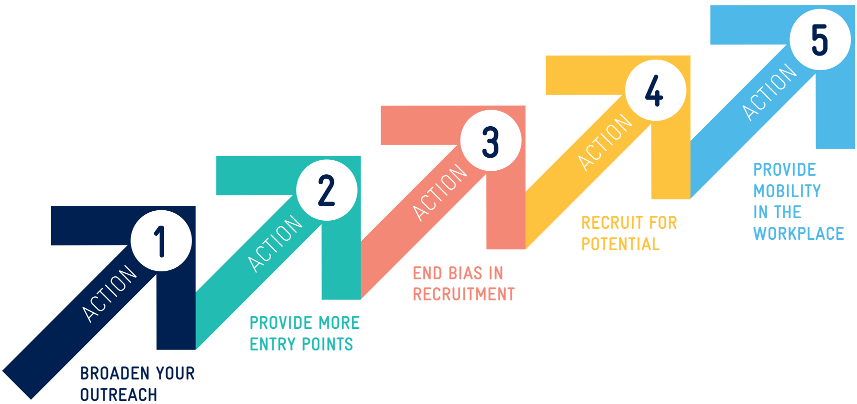
A survey of 16-24 year olds carried out for the Investment Association's early-careers service Investment20/20 found that just under half (46%) of respondents said they would not like to work in financial services, with a third of this group expressing concern that the industry was "not for people like me". The same number (34%) felt the jobs would be "too stressful", while just over one in four (28%) felt that the industry "lacks social good".[26]

The same survey found that of the one in five who said they would like to work in financial services, money (70%) was the key driver behind the decision, with the intellectual challenge (45%) and company benefits (31%) being the other reasons for it. This is supported by the KPMG survey of current employees which found that salary was the main motivating factor (31%) for people to work in financial services.

Investment20/20 is trying to challenge some of these perceptions and get more people, from a wider range of backgrounds interested in investment management.

[24] KPMG, UK financial services faces a talent crisis, 2019
[25] Sam Friedman and Daniel Laurison, The Class Ceiling, 2019
[26] YouthSight survey for Investment20/20, 2017

5. SOCIAL MOBILITY IN INVESTMENT MANAGEMENT



It is clear that there is a need for greater social mobility in the UK, allowing people to improve their circumstances through good work, and that the financial services industry is well-placed to do more as a leading provider of high-quality jobs.

The Investment Association's early-careers service Investment20/20 exists to recruit bright, capable and committed young people to our industry. Investment20/20 encourages people from all walks of life to take advantage of the career opportunities offered in investment management. It aims to ensure the investment management industry has a diverse domestic entry-level talent pipeline and provides an approachable and informative careers service for teachers, lecturers, careers guidance experts and the students themselves across schools, colleges and universities.

Investment20/20's extensive careers outreach programme shines a spotlight on the investment industry, the wide variety of roles available and the different entry points. While traditional graduate schemes focus on a few universities and subjects, Investment20/20's aim is to open up the industry using home-grown talent as ambassadors for working in the industry. Investment20/20's network of trainees, past and present, actively spread the word about their experiences to their former schools, colleges and universities.

In 2018, Investment20/20 launched Think Investments, a new outreach programme to create an environment where all capable young people can access our industry. They talked to 1,000 state-educated school and college leavers from diverse and disadvantaged socio-economic backgrounds, some of the hardest people for recruiters to attract to investment management. 65 young people were selected to join the programme. The programme introduces the career opportunities available in the investment sector and provides these young people with the necessary skills to complete their applications and shine in their interviews.

To be effective we will need to change perceptions. The perceptions of young people who don't necessarily think a career in finance is for them, but also the perceptions of hiring managers in financial services who don't always look for the potential beyond the polish.

A successful approach to promoting social mobility should take a strategic, long-term approach starting with CSR programmes in local schools, moving to outreach to people from less-privileged backgrounds at the early-careers stage, and continuing with mentoring and monitoring to ensure internal progression throughout the career.

AN ACTION PLAN FOR EMPLOYERS

Broaden your outreach to schools, further education colleges and universities that you have not tended to target. Further education in particular is likely to offer a rich source of talent from disadvantaged backgrounds. Networking and training events outside of elite universities will allow candidates from a wider range of backgrounds to learn about the industry and develop pre-entry skills, and reduce the chance that they will think the industry isn't for them. Consider who provides advice and influences the career choices of people from working-class backgrounds. It could be a teacher or a local community worker.

Provide more entry points to the industry beyond the traditional graduate recruitment cycle. Create opportunities for people to enter the industry straight from school, provide a wider variety of entry points for recent graduates or provide more opportunities for people to transfer from a different industry later in their careers. Remember that the (sometimes perceived) cost of moving and starting a career can be daunting to some people and consider providing financial support like paying the train fare of interviewees or 'start to work' bonuses so that employees have the clothes they need from day one.

End bias in recruitment. Consider what somebody's BTEC, A-level or Higher results tell you about the skills they will bring to your company. Look at the context in which somebody achieved their grades and remember that there is a range of reasons beyond ability as to why somebody chose the university they did. Lower educational attainment in a more challenging environment might tell you more about their ability and character.

ACTION 4

Recruit for potential rather than polish. The way someone dresses or speaks at interview will tell you very little about the way they will do their job and academic achievements don't always mean someone will be effective at work. Nobody is the finished article when they apply for a job, not least at the start of their careers. Reduce the number of requirement you ask for in job descriptions to the essentials and remember that relevant skills can also be gained after employment. On the job training will give employees the skills and knowledge they need and if a Masters degree is considered desirable or essential then consider if you could support an employee to gain one, perhaps using Apprenticeship Levy funding.

ACTION 5

Provide mobility in the workplace. Ensure that your workplace culture doesn't favour people who've come from a more privileged background. Try to promote role-models for people who've come from different socio-economic backgrounds at senior levels in your company and don't expect people to conform to a uniform image. Measure and monitor the social background of your staff so that you can tell if there is a 'class pay gap' or other inequalities in your workforce. The UK Civil Service has committed to establishing a baseline of socio-economic data for their own employees by March 2020 and has published guidance on measuring socio-economic background which all employers can make use of.[27] Gathering data can help to identify the processes that might inhibit mobility and introduce changes, such as line management training, that might help to foster it.

[27] Cabinet Office, Measuring Socio-economic Background in your Workforce, 2018

ARE YOU RECRUITING FOR DIVERSITY AND INCLUSION?

Go to investment2020.org.uk

Investment20/20 is the award winning investment management careers service, leading the sector in diversifying entry level talent through an early careers programme. Investment20/20's careers and talent strategy facilitates access to those from wider socio economic, ethnic and subject backgrounds encouraging an open and diverse culture. Working with over 3,700 schools, colleges and universities, they reach, inspire and attract school and college leavers, and graduates, who had not previously considered a career within investment management.

Trainees join our industry through a low risk 12 month trainee scheme, open to school/college leavers and graduates, which can sit alongside existing programmes. They participate in centrally-organised training, development and networking with other trainees from across the industry. Over 40 investment management firms participate in Investment20/20 and 75% of trainees have been offered a permanent role at the end of their traineeship.

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