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Dear Chair

### **PRA rules on board diversity**

This letter aims to reinforce the importance the PRA places on diversity for improving decision-making and providing effective challenge, and is a reminder of the requirement to comply with PRA rules in this area.

Diverse boards, made up of members with different skills, knowledge, experience and values will support different perspectives being brought to discussion on business operations and risk strategy. PRA diversity requirements aim to reduce the risk of groupthink, which can adversely affect the safety and soundness of PRA- regulated firms.

As noted in Supervisory Statement (SS) 5/16 'Corporate governance: Board responsibilities',<sup>1</sup> the PRA expects boards<sup>2</sup> to have the diversity of experience and capacity to provide effective challenge across the full range of the firm's business. This is of particular importance as a firm's business changes and the external context evolves, as it may require new skills and perspectives on the board. In line with this, the PRA requires firms to have a board diversity policy in place.

The publication of the European Banking Authority's (EBA) report on the benchmarking of diversity practices in February 2020 showed that 70% of the sampled UK credit institutions and investment firms have a policy in place for promoting diversity on the management body.<sup>3</sup> While there has been substantial progress since 2015 (when only 15% of the sampled UK credit institutions and investment firms reported to have a policy), compliance is still not universal.

Following the initial EBA benchmarking report, the PRA extended these requirements to insurers in April 2018 so that now all Capital Requirement Regulation (CRR) firms, Solvency II firms and large non-Directive firms are required to engage a 'broad set of qualities and competencies when recruiting to the management/governing body' and for this purpose put in place a policy to promote diversity of the management body.<sup>4</sup> Significant credit institutions and investment firms,<sup>5</sup> that are required to have a nominations committee, must also set a target for the under-represented gender in the management body. Firms must also explain on their website how they comply with the respective requirements.

Chairs should take this opportunity to satisfy themselves that their firm is meeting the PRA's requirements and take remedial action where they are not. In doing so, Chairs (and where appropriate – Chairs of the Nomination Committee) should consider the extent to which the diversity policy is embedded in recruitment and succession planning for the board, to support constructive debate and challenge on the

<sup>1</sup> July 2018: <https://www.bankofengland.co.uk/prudential-regulation/publication/2016/corporate-governance-board-responsibilities-ss>.

<sup>2</sup> For the purposes of this letter, 'board' is (for simplicity) used as a substitute for, and interchangeably with, 'management body' (as defined in the PRA Rulebook) and should be interpreted accordingly.

<sup>3</sup> <https://eba.europa.eu/eba-calls-measures-ensure-more-balanced-composition-management-bodies-institutions>.

<sup>4</sup> See General Organisational Requirements 6.2-6.4 for CRR firms, Conditions for Governing Business 2.7-2.9 for Solvency II firms and General Governance for Large Non-Solvency II Firms 3.7-3.9.

<sup>5</sup> The definition of a significant firm is set out in Policy Statement 7/13 'Strengthening Capital Standards: Implementing CRD IV': <https://www.bankofengland.co.uk/prudential-regulation/publication/2013/strengthening-capital-standards-implementing-crd-4>, please see 'Chapter 4 Governance and Remuneration' on page 9.

range of issues facing the firm. Chairs should expect to discuss this with their supervisors through the course of your normal supervisory dialogue.

If you have any questions regarding the content of this letter please speak to your usual supervisory contact.

Yours sincerely,

The image shows four handwritten signatures in black ink. From left to right: a stylized signature for David Bailey, a signature for Sarah Breeden, a signature for Charlotte Gerken, and a signature for Anna Sweeney.

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