



Diversity in boards composition, gender pay gap and EBA benchmarking in the banking sector

*European Commission
DG JUST
Unit A.3*

These slides accompany the explanation of the acquis to Albania and North Macedonia and can only be used for that purpose. Their content is subject to further development of the acquis and interpretation by the Court of Justice of the European Union.

Capital Requirements Directive (CRD)

Some background

- **Objective:** to strengthen the resilience of the EU banking sector
 - Absorb economic shocks whilst ensuring that banks continue to finance economic activity and growth (implementation of Basel III capital accords)
 - *How much and in what form capital must be maintained?*
 - Besides the capital requirements, leverage ratios, and buffers, there are also rules on supervision, **corporate governance and remuneration.**

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Corporate governance provisions

- **Reduce excessive risk taking** by firms (and ultimately the accumulation of excessive risk in the financial system)
- Among the enhanced corporate governance **rules**:
 - Strengthens the requirements with regard to corporate governance arrangements and processes
 - Improves transparency of bank activities (profits, taxes, and subsidies in various countries where banks operate): CBCR
 - Remuneration rules: composition and deferral or paid in instruments of variable remuneration, bonus cap...
 - Improving the risk management function and ensuring its effective monitoring by risk supervisors

Capital Requirements Directive (CRD)

Fit-and-proper rules

- Fit-and-proper assessments (Art. 91 CRD)
 - whether members of the management body of a supervised credit institution are suitable for their roles.
 - Individual and **collective** suitability assessments
 - **Individual** (at all times of sufficiently good repute and possess sufficient knowledge, skills and experience to perform their duties)
 - **Collective** (The management body shall possess adequate collective knowledge, skills and experience to be able to understand the institution's activities, including the main risks. The overall composition of the management body shall reflect an adequately broad range of experience)

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Diversity in board composition

- Contribute to effective risk oversight by boards, providing for a broader range of views and opinions
- Avoid the phenomenon of “group think” and ‘*herd behaviour*’
- Help members of the management body to act more efficiently
- Achieve a business and risk strategy that is in the best interests of the institution
- To ensure sound management of the credit institution and its staff,
 - Bank’s policies are gender neutral and provide for equal opportunities for all genders in accordance with Directive 2006/54/EC

Capital Requirements Directive (CRD)

Diversity requirements

- **Arts. 91 (10) CRD**

- *credit institutions shall engage a **broad set of qualities and competences** when recruiting members to the **management body** and for that purpose put in place a **policy promoting diversity on the management body***

- Those policies should promote diversity regarding several aspects, **including gender**, age, educational and professional background, and, in particular for internationally active institutions, the geographical provenance of members of the management body

- **art. 88(2)(a) CRD**

- *credit institutions should **set a target for the representation of the underrepresented gender** and prepare a **policy on how to increase the number of the underrepresented gender in the management body**.*

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- **Article 74(1) CRD - gender pay gap**

- *credit institutions must apply **gender neutral remuneration policies** under and to monitor the gender pay gap as further specified in the EBA Guidelines on internal Governance*
- [Final report on Guidelines on internal governance under CRD.pdf \(europa.eu\)](#) (EBA/GL/2021/5 and EBA/GL/2021/14).

- **Similar provisions for investment firms** (Article 26(1)(d) of Directive (EU) 2019/2034 - Investment Firm Directive).

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Benchmarking exercise

- **Article 91(11)**

- EBA and competent authorities are required to **benchmark diversity practices** in institutions' management bodies.

- **Article 75(1)**

- EBA and the competent authorities are also mandated **to collect information** on the **gender pay gap** of members of the management body (also Art. 34(1) of Directive (EU) 2019/2034 IFD).

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collection of data and the sample

- **Since 2015**, the EBA has been **collecting data** on:
 - credit institutions' diversity policies,
 - the composition of the management body in terms of gender, age, geographical, educational and professional background
 - the gender pay gap at the level of the management body.
- The figures are based on a representative **sample of 662 credit institutions and 129 investment firms**

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Implementation

Women's representation on boards has gradually improved, but imbalances remain:

- Already **27.75%** of **non-executive directorships** are held by women.
- Only **18.05%** of **executive** directors are female.
- Gender balance in **Northern and Eastern Europe** is generally better than in other parts of the EU.
- **27.05%** of institutions still **lack the mandatory diversity policy**.
- A clear positive **correlation** between **gender balance** and **Return on Equity (RoE)** exists.
- **Women earn** on average **9.48% less** than male executive directors and **5.90% less** than male non-executive directors.

Capital Requirements Directive (CRD)

Implementation

[Report on the benchmarking of diversity practices.pdf \(europa.eu\)](#)

[EBA Benchmarking of diversity 2021 \(europa.eu\)](#)

[Internal governance | European Banking Authority \(europa.eu\)](#)