Belgian Financial Forum

The role of women in the funding of a capitalist economy

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ABSTRACT

With the launch of "Women in Finance", Belgium is finally acquiring an instrument to raise awareness about the strategic importance of corporate gender equality in the financial sector for its performance, as well as for the country's economic health and for the building of a more egalitarian society. Financial institutions are at the heart of the capitalist system. Their sustainability and sense of responsibility are two essential factors in the well-being of our community.

Introduction

I had the privilege of participating in the very first meeting of women leaders in finance, invited by Laura Atho, then CEO of BNY Mellon Belgium. None of us could have imagined that this pleasant dinner would become the founding moment of a much larger and more powerful network. But it was time for women leaders to unite to achieve better gender balance in the financial sector.

Some banks have been working on this issue for many years and those who did it seriously were able to achieve good results that certainly give them a competitive advantage today. Over 10 editions of the JUMP Award, which nominates each year the CEO Ambassador for

Gender Equality, we have had three nominees from the sector. One of them was Laura Atho, the others were Daniël De Clerck from BNP Paribas Fortis and Jef Van In from Axa Bank. These three leaders were nominated for their personal commitment in favor of equality, but also for the quality of their action plans and the good results obtained. But such leaders are exceptions rather than the rule.

Shocking gender unbalance in leadership positions in Financial Services

Belgium's figures are on the low end of the average, despite women representing more than half of all employees and 57% of university graduates. The 20First global gender balance scorecard for the financial services sector shows that women accounted for 18% of executive committees in 2018, up from only 13% in 2014. The top European companies are Banco Santander with 3 women out of 23, Allianz with 2 women out of 7, Generali with 2 women out of 10 and BNP Paribas with 2 out of 16. You will easily agree with me that these figures are simply unacceptable.

In 2017, the financial services sector in North America showed a 24% gap between women and men in first promotions (from entry-level to manager), despite the fact that women ask for promotions at comparable rates. At entry-level, men are more likely than women to have their managers and senior leaders sponsor them, which implies that men get more visibility, advice on advancement, and information on opportunities.

Companies with greater gender diversity perform better

It's not me that says it, it's McKinsey in a September 2018 report (“Closing the gap: Leadership perspectives on promoting women in financial services”). Their research has shown that companies in the top quartile for gender diversity on executive teams were 21 percent more likely to perform better in terms of profitability and 27 percent more likely to demonstrate superior value creation.

> *“Improved representation of female leaders will lead to a more rounded view of customers. This is particularly critical in financial services, given that more than half of women now control their household finances and are responsible for household savings and investing. Furthermore, companies that do not focus on gender diversity will find themselves at a disadvantage in the war for talent.”*

Jef Van In confirms: "*Having an equal amount of men and women in the Management Board, creates a completely new dynamic and a different way of debating and decision-making. I have noticed that there is a big difference in our meetings now that we have 3 women in our Management Board. It has been an incredibly interesting learning journey: because of the new dynamics, we better understand our customers. Times and society have changed. Today, in many families, women take care of the banking and money issues. Society is in constant evolution and we, as a company, have to be a mirror of the society in which we operate. I believe that having a good understanding of your existing and future customers provides you with a competitive advantage.*"

Companies investing in their workforce are generally also promoting women at high levels, and vice versa. Thus, the presence or absence of women on a board reflects the company's overall approach to talent. This is the result of an MSCI research published in March 2018: "*Companies with both a more diverse board and stronger talent management practices enjoyed higher growth in employee productivity compared to companies with a diverse board only and to companies with strong talent management practices only. All of these groups outperformed companies with both mostly male boards and lagging talent management practices; those companies had the lowest rates of employee productivity growth, relative to industry peers.*"

Finally, MSCI found that average dividend pay-out ratios and return on equity figures were consistently higher over three years for the companies with three or more women on their board and leading talent management practices, than for those with mostly male boards and lagging talent management practices.

Econometric analysis suggests that the presence of women as well as a higher share of women on bank boards appears associated with greater financial resilience and stability.

Daniël De Clerck: "*The lesson that I learnt along the way is the importance of a good mix, meaning of genders, languages, ages, profiles…on the quality of decisions. I have learned to select new colleagues based on two criteria: 1. Competences needed. 2. How the person enriches the mix of my current team. I also learned that positive discrimination during a period of time can really help – and is OK. It can have a huge impact on proposing role models for others.*"

Investors impact on corporate gender equality

Corporate gender balance is not only profitable for financial institutions. For at least ten years we have known that diversity and equality are essential to ensure the financial and non-financial performance of companies. But do investors really care?
To obtain more equality in companies through pressure exerted by investors, we should not wait for there to be more women amongst the decision makers of the financial sector - we risk waiting far too long.

Catalyst reports that in a 2018 global survey of alternative investment firms (e.g., hedge funds, private equity and venture capital, private real estate funds), women represented only 13% of CEOs. Most of these firms have women in non-investment leadership positions and only 38% include women on the firm investment committee. Yet, according to a KPMG study in 2015, women who own or manage hedge funds show much higher performance than their male counterparts: a yield of 59.43% as against a global average for all funds of 36.69%, despite the fact that they say they find it harder to mobilise capital.

Some blame testosterone which is said to distort risk measuring.... This argument does not interest me because its impact could never be measured outside this context and it would justify the assigning of different roles in society based on biological sex. A possible explanation for women being generally better financial managers than men is probably that, due to the obstacles they encounter in advancing in the world of finance, those who do succeed are better than men. As the Secretary of State, Madeleine Albright said: "*There is plenty of room for mediocre men but no room for mediocre women*".

In November 2018, an article titled 'BlackRock Is Sick of Excuses for Corporate Boards Lacking Women' reported that the world's biggest asset manager sent letters to companies in the Russell 1000 index with fewer than two women on their boards, asking them to explain their lack of progress. "*There aren't any qualified women*," "*We don't need a woman director*" and "*We're not a consumer-facing company*." BlackRock decided not to buy these excuses and voted against male-only boards in the General Assembly. As a result, 31% of these companies have appointed at least one more woman.

From Green funds to Gender funds

RobecoSam's study 'Does corporate gender equality lead to outperformance?' compares the share portfolios of investments funds made of companies which score well on gender diversity, compared to others. There are many cases where these companies outperform others, but nobody speaks of them, most of the people I know in the financial world ignore such funds and are even not really interested in knowing more about them.

"*Twenty years ago, green impact funds were considered as provocative and a non-sense for business. This is now the case for gender equality impact funds*", says Junwei Hafner-Cai, Senior Analyst at RobecoSam. However, I am not optimistic that this will change in the next 20 years... As soon as there is speak of sharing economic power between men and women, even with the aim of making money, there is strong opposition which manifests itself in indifference, contempt or even discredit.

As a financial institution, if you want to benefit from this outperformance of gender equal companies, have a look at the social venture EQUILEAP, which ranks and rates companies based on their gender equality results to support investors in deploying their capital with a gender lens.

It is vital to understand that all financial allocation decisions have an impact on inequality in society, by assigning a different value to people, companies and actions.

Do women entrepreneurs have the same access to capital as men?

Throughout the world, companies created and managed by women do not grow as much as those set up by men, but they also have a lower rate of failure. And yet they only get half the capital.

In Belgium, no bank and almost no public bodies compare the money given to women vs that given to men (or if they do the results are not publicly shared). As regards to start-up subsidies or micro credits, I often hear that the files submitted by women have a higher success rate. What is the total value of funds allocated to women entrepreneurs? How much of the venture capital investments go to expanding businesses owned by women?

But there are figures in other countries... in France, a recent KPMG study shows that only 2,2% of total funds go to female founders. In the Netherlands, it is 1,6%.

The place of women in the economy depends on their access to capital. If private capital is generally managed by men, what impact does this have on social projects, companies and innovation created by women? If 2% of venture capital goes to women, that means that 98% goes to men. Where is the equality in that?

At the request of the European Commission, the Intesa San Paolo Bank in Italy analysed the gender of applicants for credit investment and the gender of the banker who decided to grant the credit or not. They found that a woman entrepreneur had a better chance of obtaining the credit if she defended her application towards a woman at the bank rather than towards a man. Female solidarity? Certainly not. It was more linked to a similar approach in apprehending the risks and the financial projections, even though bankers are certainly not sheltered from gender stereotypes, which work against women who go into business.

Some banks take this subject seriously. Nathalie Prévost-Reboul of the BPCE group: "*We developed a awareness-raising kit for our advisers to counter some perceptions that could be circulating: it is true that the turnover of companies set up by women is lower after 3 years than that of companies set up by men, but their companies survive longer and do not carry a greater risk*".

Private investors, philanthropists and public policy-makers, which understand the tremendous challenges of access to capital for women, could play an essential role in the transformation of society, while at the same time increasing their own return on investments.

Rebrand the industry to make it more attractive to women.

Rebranding will require its leaders to commit to change, not only by taking action and making their companies places where women can thrive, but also by voicing their commitment to galvanise the sector at large.

As Laura Atho said: "*Europe's number one priority, as clearly outlined in the European Commission's 'Europe 2020' strategy, is seeing a return to smart, sustainable and inclusive economic growth. If Europe is to achieve this, businesses need to tap wider diverse talent pools. And with the rise of technology and 'cooler' sectors, financial institutions in particular, they need to fight harder to attract the brightest minds. Attracting and retaining talent from 100% of the workforce – as opposed to just 50%. It's the only way our industry and European business in general, will be successful.*"