Gender Balance Index

- **6%**: Total of female central bank governors remains low
- **30%**: African sovereign funds’ share of top 20
- **90%**: Iceland achieves best balance in European public pension funds
- **415**: Institutions covered by the index

Could do better
This year marks the fourth release of our annual report on gender balance in central banks. The research has been expanded to include separate indices for sovereign funds and European public pension funds, helping shape a broader picture of gender diversity in public investment institutions.

The resulting Gender Balance Index aims to highlight the absence of women at the highest levels of these institutions and emphasise the outstanding individuals who have successfully reached the top. By conducting this research, OMFIF hopes to encourage gender diversity within global public investment institutions and attract more women to an historically male-dominated field. Gender balance is not a lofty ideal, but a tool that can benefit investment outcomes.

Central banks’ score on the GBI fell to 19% this year from 31% last year, indicating that there are even fewer women in senior roles. Our analysis also looks at sovereign funds and European pension funds for the first time and finds the imbalance persists across institution types. Sovereign funds show an even bleaker picture, with a GBI value of 11%, while pension funds offer some hope with a score of 40%.

Institutional GBI scores are calculated by tracking the presence of men and women in the highest ranks, weighted by level of seniority. The regional and global GBI scores are a weighted average of individual institutions’ scores, based on the corresponding countries’ share of the global economy. For sovereign funds and pension funds, institutional scores are weighted by assets under management.

Gender matters
The imbalance is not new, but why it matters is of enduring relevance. Gender diversity in leadership is especially important given the implications for how institutional decisions are made.

Balanced teams are likely to be informed by a more varied set of views, avoiding the myopia to which homogenous groups may be susceptible. This is particularly important in the financial sector, making gender diversity a relevant concern for regulators in charge of safeguarding financial stability. A more comprehensive approach to risk assessment can be expected from an investment committee that benefits from different perspectives. Gender is one aspect that can add diversity, with academic studies in behavioural economics highlighting men and women’s different attitudes to risk, and economic principles more generally.

Having more women participate in management and investment decisions does not guarantee an organisation’s success. Instead, better gender balance expands the range of available views, enhancing the decision-making process. While considerable progress has been made to improve gender diversity in the private financial services sector, it is yet to be seen among the leadership of most global public investment institutions.

Increased female inclusion helps to dispel outdated notions about women’s abilities. The longer women are absent from high-level roles, the more difficult it is to change perceptions about what they are able to achieve. In a sector where few females are visible, there is a need to assess why
the gender imbalance is so stark and what can be done to change this.

**Role models**
Improving gender balance at the top can influence the composition of the investment industry as a whole. Men have no problem finding role models and mentors in the financial industry, and as a result there has never been a shortage of males pursuing careers in this field.

The story is different for women. Before Janet Yellen at the US Federal Reserve and Christine Lagarde at the International Monetary Fund headed two of the most prominent financial institutions in the world, there were few examples that made women believe that an upward career in this field was possible.

Women in visible, high-level positions change this perception. They provide reassurance to junior staff that long, successful careers are possible for women in finance. Their presence can encourage more women to consider working in the sector and widens the pool of talent from which organisations can hire.

**Men as partners**
It is crucial to remember that gender balance is not only a female concern. The failure to hire, retain and promote competent women affects institutional performance, which impacts everyone in the company. More men need to acknowledge that increased female participation is not a threat to their own success but could be a boost to their entire organisation.

More importantly, male colleagues play an important role in fostering a work environment that respects and supports women, especially in traditionally male-dominated fields. When women feel that their work is valued just as much as that of their male peers, they are more likely to stay, build fruitful careers and contribute their skills towards the organisation's goals.

The past year has drawn unprecedented attention to the harassment and abuse that women endure when working with powerful men. Public investors and other institutions can play a vital part in visibly improving the culture and practice of men and women interacting positively in a professional setting.
As guardians of price and financial stability, central banks perform an important social role, influencing their countries’ economic development in areas that affect women and men in different ways. Gender diversity is important in ensuring the workforce of central banks reflects the societies in which they operate. There can be other benefits, too. At last year’s launch of our GBI, senior representatives from the Bank of England spoke of the importance of diversity in opinion and attitude to risk to prevent ‘groupthink’ and to promote balance between overly cautious and overly risky decisions.

Diversity is about making use of female potential in an environment of tightening labour markets and search for talent, especially as female decision-makers can act as role models to inspire the next generation of central bankers. Unfortunately, the results of this year’s GBI research show that the world of central banking is becoming less gender-diverse.

The value of the overall index for central banks – which aggregates the performance of individual institutions weighted by their share of the global economy – fell to 19.4% this year from 30.6% in 2017. The absolute number of central banks headed by women has fallen to 11 out of the 173 institutions included in the survey – a share of just 6%. The number of institutions with female presence extending to deputy governor level rose marginally to 53 from 52, covering 30.6% of central banks worldwide.

The decline in this year’s overall score compared to last year can be explained largely by the stepping down of women in large-economy central banks that carry a greater weight in the construction of this index. The biggest single factor was the departure of Janet Yellen, US Federal Reserve chair, in February 2018. This change also explains the large drop in North America’s regional score, to 24.5% from 68.6%. Still, North America is the second-best performing region in terms of gender balance, trailing Europe’s 34.8%.

The performance of small non-euro area economies boosts Europe’s score, particularly in the Balkans and wider eastern Europe (see Figure 2). Western Europe scores poorly. The euro area earns an average score of 27.1%, derived from a score of 10.3% for the European Central Bank and a euro area aggregate score (weighted by GDP) of 33.6%. The ECB is under significant political pressure to improve its gender balance. Presently just two of the 25 policy-makers on the bank’s governing council are women. This includes the only woman on its six-member executive board, Sabine Lautenschläger, and the only woman to head a euro area central bank, Cyprus’s Chrystalla Georghadji. Georghadji’s term expires in April 2019, while Lautenschläger’s term is not due to end until January 2022. However, this would not apply if consensus expectations for Bundesbank President Jens Weidmann to take over from Mario Draghi as ECB president are proven right.

The ECB’s rules prevent any two individuals of the same nationality from serving on the executive board at the same time, meaning that the appointment of another German would require Lautenschläger to resign. Weidmann’s appointment would follow that of Spanish Finance Minister Luis de Guindos to the position of ECB vice-president to replace Vítor Constâncio, who will be stepping down in May. De Guindos was one of only two (male) candidates nominated for the position, alongside Philip Lane, Ireland’s central bank governor. This prompted members of the European Parliament’s green parties to write a letter advocating greater gender diversity and encouraging member states to nominate female candidates.

In addition to Draghi and Constâncio, ECB Chief Economist Peter Praet and Benoît Cœuré, a fourth member of the executive board, are due to step down by the end of next year, creating more openings for the ECB to improve its gender diversity.
Elsewhere in western Europe, the UK saw a drop in its score to 20.4% from 29%. Two female senior staff from the Bank of England, Deputy Governor Minouche Shafik and Monetary Policy Committee Member Kristin Forbes, saw their terms end over the last year. While Charlotte Hogg, Shafik’s original replacement, was also a woman, her appointment was short-lived – she resigned in March after it was found that she omitted to declare her brother’s employment at Barclays as a potential conflict of interest. Dave Ramsden was subsequently appointed deputy governor. Meanwhile, Forbes was replaced by Silvana Tenreyro, making her the only woman on the MPC. In a future development, the terms of Dido Harding and Dorothy Thompson, both members of the Bank’s court of directors, are due to expire in July, creating further challenges for the BoE’s diversity agenda.

Overall, however, Europe was one of only two regions to see their regional score improve compared with 2017. The other was Latin America Caribbean, which welcomes two new women to the club of central bank heads: Verónica Artola Jarrín, who was appointed general manager of the Central Bank of Ecuador in May 2017, and Irma Margarita Martínez Castrillón, who was appointed minister president of the Central Bank of Cuba in June 2017.

Elsewhere, the top-20 league in terms of gender balance remains dominated by small countries. Collectively, the countries making up the top 20 comprise only 6.6% of the world economy, with negligible impact on the aggregate index value. This includes four island states in the Caribbean, two in Asia Pacific and one in Africa, and further small economies in the Balkans and former Soviet Union, in Latin America, as well as Norway, Israel and San Marino. Yellen’s departure leaves Russia and France as the only G20 economies in the top 20. Russia continues to be led by Elvira Nabiullina, while in France Sylvie Goulard was appointed as second deputy governor in January 2018, taking over from Anne le Lorier.●
Sovereign Funds

Sovereign funds bear long-term fiscal and economic responsibility, whether they were created to provide for future generations or insulate countries from volatility. Like large private investment institutions, their actions can have global impacts. As public investors, they have an additional role in safeguarding public resources.

With a GBI value of 12% sovereign funds are missing the benefit of gender-diverse perspectives in decision-making. Nearly one-third of the 70 sovereign funds covered by the research had no women among senior staff, the worst result for the three types of institutions. Only nine funds are headed by women, and three of them hold the post in an ex officio capacity.

Africa leads the other regions, with six funds in the top 20. South Africa’s score and the fact that it accounts for more than half of the assets under management in the region boosted the continent’s standing. In contrast, the Middle East’s five biggest funds researched had no women among their executive management teams or boards of directors. Together they make up 80% of the region’s AUM, pulling down its index score to just 1%.

As long-term investors of national wealth, sovereign funds have increasingly acknowledged their role in maintaining global financial stability. The drafting of the Santiago Principles in 2008 sought to establish international standards on transparency, independence and accountability for sovereign funds. As they improve operations to adhere to these tenets, it is worth evaluating whether gender balance in management will be among sovereign funds’ long-term goals.

Among global public investors that OMFIF tracks, sovereign funds have the highest concentration of AUM, with $7.4tn distributed across just 92 institutions. With the magnitude of public resources at stake, the quality of decision-making at sovereign funds should be informed by as diverse a set of views as possible. It is unsurprising that some funds, notably those in the Middle East, draw on foreign asset managers, either by hiring them directly or outsourcing investment operations to them. This reflects the value of sourcing expertise from different places. With women beginning to build a more prominent presence in the world of finance, sovereign funds should start thinking of gender diversity as an additional tool to enhance their investment processes.
Pension Funds

While central banks and sovereign funds make financial decisions that have a macroeconomic impact, investments made by pension funds affect individuals directly. Most people rely on pension incomes to sustain themselves after retirement, and the performance of pension funds has substantial consequences. A survey by the UK’s Financial Conduct Authority found that 31% of respondents will rely entirely on state pensions after they leave the workforce. This underlines the importance of pension planning, even though, in the UK case, the volume of state pensions is largely independent of fund managers’ investment decisions.

As in other types of public institutions, diversity of views is important in public pension investment decision-making.

The results of the GBI for European public pension funds are encouraging. At 40%, it is the highest overall score for the three type of institutions covered by the study. This may be because the research covers only Europe this year, a region that advocates gender balance.

In 2012 the European Commission proposed compulsory gender quotas for supervisory boards of large companies in European Union member states. The proposal was deferred, although the Commission actively encouraged targeting 40% as the share of women on corporate boards. As a result, the share of women rose to 23% in 2016 from 12% in 2010, with some taking the prescription more seriously than others.

Iceland followed the Commission’s guidance and enforced a 40% gender quota. This year it became the first country in the world to make it illegal to pay men more than women in the same position. It also topped this year’s GBI for pension funds, with a score of 90%.

In contrast, the UK set a lower initial target for companies of 25% and encourages industry self-regulation rather than imposing quotas. The target was exceeded in 2016, but the success of private companies has yet to translate to pension funds.

The GBI for pension funds has added relevance when considering how they differ from other investment institutions. The returns they generate are unevenly distributed between men and women. There is great disparity between the pension incomes of men and women, rooted in persistent gender pay gaps and workforce sexism that mitigates against women from earning as much as men.

By themselves, pension funds cannot do much to correct the roots of the problem. There are many things outside of their control that affect women’s ability to build up pension contributions, such as labour market attitudes towards women and career interruptions prompted by traditional gender roles.

But if pension funds are aware of the constraints that affect women, they can establish policies that help narrow the gender gap in administering pensions. This adds to the impetus for female representation, as pension funds are more likely to consider the gender gap when women are included in high-level conversations.

Figure 5: Non-euro territories dominate top 20
Gender Balance Index score, top 20 European public pension funds, 2018, %

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<thead>
<tr>
<th>Country</th>
<th>Score</th>
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<tbody>
<tr>
<td>Iceland</td>
<td>90%</td>
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<td>Guernsey</td>
<td>88%</td>
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<td>Sweden</td>
<td>83%</td>
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<td>Ireland</td>
<td>82%</td>
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<td>Belgium</td>
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<td>Spain</td>
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<td>Netherlands</td>
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<td>Poland</td>
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<td>Finland</td>
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<td>Denmark</td>
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<td>Portugal</td>
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<td>United Kingdom</td>
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<td>Switzerland</td>
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<td>Germany</td>
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<td>Jersey</td>
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<td>France</td>
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<tr>
<td>Lux</td>
<td>74%</td>
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Source: OMFIF analysis

Note on methodology

The OMFIF Gender Balance Index tracks the presence of men and women among senior staff of global public investors (central banks, sovereign funds and public pension funds), weighted by level of seniority. Governors, chief executives and those in equivalent positions are given the highest weights. Members of executive teams receive higher weights than those in non-executive roles, such as those on monetary policy committees. Individuals who fall into more than one category are given the weight corresponding to the highest-weighting category that applies.

The GBI for each institution is calculated by taking the ratio of the female and male (weighted) components. A score of 100% would be awarded to a perfectly gender-balanced institution. The global and regional GBI values for central banks are calculated by taking an average of the relevant institutional scores, weighted by corresponding countries’ gross domestic product. The country, regional and global GBI values for pension funds and sovereign funds are calculated by taking an average of the relevant institutional scores, weighted by the value of these institutions’ assets under management.

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