



Ethnicity pay gap report

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Representation and compensation as
at 31 March 2020

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Introduction

In 2019 we set some bold targets in our diversity and inclusion strategy. This included an objective to record and reduce Nest Corporation's ethnicity pay gap and to increase representation of people from Black, Asian and additional ethnic minority communities in senior roles¹. In last year's corporate plan, we said we'd make our ethnicity pay data publicly available.

This really matters to us – we know that embracing diversity and inclusion brings different insights, improves communication, increases job commitment and inspires innovation. We want to benefit from all of these. So it's only right that we remove inequality in remuneration at Nest.

¹ Senior roles are those in our top four pay bands, comprising 'heads of' roles, technical leads, director-level roles and our executive team.

We've worked hard to stick to our objectives and we're pleased to be publishing our first ever ethnicity pay report. Making this data available is a recommendation made by the [McGregor-Smith review](#) into race in the workplace. By voluntarily doing this, we want to prove our commitment and transparency in this area and inspire the wider pensions industry to follow us.

We recognise that the data in this report is sobering and it's clear we still have lots of work to do. On average, our employees from a Black, Asian or another ethnic minority community earn less than their White counterparts, receive significantly smaller bonuses and are underrepresented in senior roles. This isn't good enough and we accept that we need to keep focusing our minds, strategies and policies to improve ethnic representation at the senior level.

Despite the disappointing figures in this report, we're at the beginning of our journey to improve our ethnicity pay and representation performance and there are reasons for hope. For several years, we've had a strong focus on cutting our gender pay gap, creating a gender-balanced workforce and bringing more women into director roles. We've published our gender pay data every year since 2017 and have consistently seen progress in meeting and sometimes exceeding these targets. We believe applying the same vigour to ethnic diversity at Nest can help us to achieve positive results.

The leading role that we've played in driving responsible investment in the pensions industry is also something we'll draw on. We know that companies with sound environmental, social and governance policies are more likely to be successful in the long term. This includes being transparent about ethnicity pay gaps and the diversity of leadership and setting goals for reaching pay equity. When we invest members' money, we push to see these things. And we need to embrace this drive and hold ourselves to the same standards.

Looking forward, you'll see that we've already put some initiatives in place to try to make sure our future ethnicity pay reports are full of better outcomes. This includes setting a target for Black leadership representation and gathering and implementing insights from our race and social diversity working group.

Last year the Black Lives Matter movement focused global attention on the inequalities faced by Black people and caused us to have a long hard look at ourselves. It made us even more determined to tackle racial inequalities in our own workplace. By publishing our first set of data on our ethnicity pay gap and representation and describing the actions we'll take to address it, we want to demonstrate our commitment to being transparent about these issues and improving our performance.



The first step to solving a problem is identifying, quantifying and understanding it. While we're making progress, I want us to do much, much better. The data makes it clear that we still have a long way to go and we'll be digging further into the data to more fully understand in particular how ethnicity impacts people's careers at Nest.



Helen Dean
Chief Executive Officer

What we've already done

We've embarked on our journey to cut our ethnicity pay gap and to increase Black, Asian and ethnic representation in our senior roles.

Publishing this report is a key step for us but we've taken others too. In the run-up to producing this data we introduced some important policies, strategies and initiatives that should stand us in good stead for meeting our objectives and changing our working culture. Even though we have a long way to go, we believe what we've done so far shows we're serious about creating a diverse workforce and leadership that's rewarded fairly.



13%

at least 13% of our executive team will be from a Black, Asian or another ethnic minority community by 2025.

Here's some of the things we've done:

Introduced change within Nest

- We established a race and social diversity working group. This group has met twice already, agreed terms of reference and shaped our response to this pay report. The working group will be monitoring our progress in addressing our pay gap and ensuring that any action we take has the intended positive impact.
- To understand how ethnicity is viewed and felt within Nest we held two focus groups to seek feedback from staff from a Black, Asian or another ethnic minority community. Their views were anonymised and fed back to leadership for consideration and action. We also facilitated three all-staff 'Talk about race' sessions to encourage our whole workforce to discuss diversity and inclusion.
- Prior to lockdown we began rolling out mandatory diversity training that focused on our values, expected behaviours and tackling our unconscious bias. We enlisted actors to better illustrate inappropriate behaviours such as micro-aggressions and to spark discussion. We're in the process of converting this training into an e-learning format that will be rolled out later this summer.

- We also introduced mandatory 'licence to recruit' training for all hiring managers. As lockdown restrictions are lifted, we'll continue delivering these sessions to all relevant employees.

Improved our recruitment practices

- We established a diverse group of trained employees to help us introduce gender diversity into our interview panels to mitigate against any biases.
- We procured a recruitment platform, provided by Eploy, which will be introduced into our hiring process. The platform will anonymise details to help reduce unconscious bias. It will also assess candidates more thoroughly and provide detailed reporting on our hiring to ensure we're taking important steps towards fairer recruitment.

Set and committed to targets

- We carried on working towards targets detailed in our diversity and inclusion strategy. We said that at least 13% of our executive team will be from a Black, Asian or another ethnic minority community by 2025. This aligns with the percentage of people from a Black, Asian or ethnic minority group in the UK's working-age population.

- It's not just in our executive team – we've also stated that we want to increase Black, Asian and ethnic minority representation in senior leadership roles too. As part of these targets, we want to have at least two Black directors in post by 2025.
- Another objective we've set is to reduce our ethnicity pay gap and we remain committed to making progress with this.

Engaged with our wider industry and beyond

- To give more young Black people access to paid work experience, we signed up to the [#10000BlackInterns programme](#). We're looking forward to welcoming our interns in 2022.
- We read, discussed and acted on recommendations in the [McGregor-Smith review](#) into race in the workplace. This has included publishing our ethnicity pay data for the first time.
- Our investment team continued to push the companies we invest in to be transparent about their ethnicity pay gaps and the make-up of their boards. It's important that we hold ourselves to the same standards.

Our ethnicity pay data for 2020

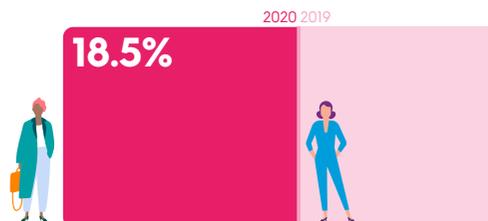
We're pleased to make this data publicly available for the first time. While there has been some progress in narrowing the ethnicity pay gap that we recorded last year, on the whole we realise we must do much better. The actions that we've already taken, and the future plans outlined in the next section show that we're serious about tackling the problems highlighted by this data.

Mean and median ethnicity pay gap

- Black, Asian and ethnic minority employees had a mean pay that was £6.51 less than White colleagues, representing a mean pay gap of 18.5%.
- The gap is 10 percentage points narrower when comparing Black, Asian and ethnic minority employee median pay to White employee pay.

Mean hourly pay gap 2020

A gap of £6.51 per hour. This gap has reduced by 0.3 percentage points from 2019, when the gap was 18.8%.



Mean bonus

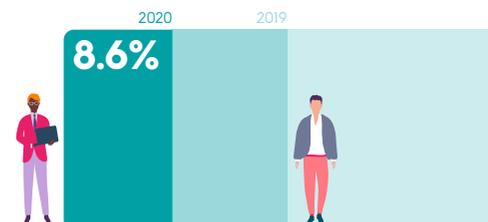
A gap of £849.29. This is 4.5 percentage points higher than the gap in 2019 of 35%. White employees on average received a 39.5% higher bonus compared to Black, Asian and ethnic minority employees.



This gap is due to Black, Asian and ethnic minority employees being over-represented in the junior pay grades and under-represented in the more senior pay grades.

Median hourly pay gap 2020

A gap of £4.34 per hour. This gap has reduced by 8.1 percentage points from 2019, when the gap was 16.7%.



Median bonus

A gap of £1,000.00. This is 13 percentage points lower than the gap in 2019 of 63%. The median bonus paid to White employees was 50% higher than Black, Asian and ethnic minority employees.



Similarly to the mean pay gap, the median bonus gap is due to Black, Asian and ethnic minority employees being over-represented in the junior pay grades and under-represented in the more senior pay grades.

Quartile pay representation of Black, Asian and ethnic minority and White employees*

- Nest overall: Black, Asian and ethnic minority 28%, White 72%. Anyone who marked their ethnicity as 'Prefer not to say' is not included in this data.
- Black, Asian and ethnic minority employees are significantly under-represented in the upper pay quartile and over-represented in the lower pay quartile.

— Of the UK's working-age population, 13% of people are from a Black, Asian or another ethnic minority group. Nest's workforce has a much higher representation than this, although the majority of our Black, Asian and ethnic

minority employees work in our lower pay quartiles. We believe that through talent management and development, and by addressing any challenges or

barriers that may exist, we could expect to see more of these employees move into the higher pay quartiles.



Proportion of Black, Asian and ethnic minority and White employees who received a bonus

*Nest overall, factoring out 'prefer not to say'



The proportion of Black, Asian and ethnic minority employees who received a bonus has increased from 65% in 2019 to 78% in 2020. The proportion of White employees who received a bonus has also increased from 69% in 2019 to 71% in 2020.

The Office of National Statistics (ONS) includes White minority populations in its reports on Black, Asian and Minority Ethnic groups. In our analysis of ethnicity pay gaps and representation, we include White British and White minorities in the same, broader category. We believe this will better focus our efforts to improve diversity and inclusion at Nest and understand the experiences of people of colour.

What we need to do next

Compiling this report and reviewing our data has been another reminder that we're a long way from where we need to be when it comes to ethnicity and pay. In order to close our ethnicity pay and bonus gap we need to significantly increase the representation of people from Black, Asian and ethnic minority communities at the senior level.



28%

Staff from a Black, Asian or another ethnic minority community represent 28% of our workforce.

We're confident that the people and the approach we've put in place will help us to make progress. We're also aware that we can't stand still. Our goal of creating a long-term solution to remove inequality in remuneration at Nest will take continued focus and action. Here's some of the things we've got planned to help us achieve this:

- We'll keep measuring all of our actions against our objectives to improve Black, Asian and ethnic minority representation at the senior level.
- We're committed to transparency. Going forward we'll publish our ethnicity pay data every year as it's a priority for us. Our objective of cutting our ethnicity pay gap will continue to guide us.
- A review of our talent and development pathways is underway. We want to ensure that these pathways nurture and develop our diverse talent.
- The Diversity Project aims to create a more inclusive culture in the investment and savings professions and we've decided to join it. Specifically, we'll aim to engage with young people through the project's school outreach programme. Our diversity & inclusion business partner and our accountable executive for diversity and inclusion are also set to join the project's governance structure. Adding our voice to this initiative will mean we contribute to and learn more about diversity in our industry.

- We've given our race and social diversity working group oversight of our ambition to improve ethnic diversity among our senior leadership. The group is championed by our CEO and managing director of Nest Experience and will offer guidance and challenge us where necessary. It's important that we maximise and implement learnings that the group provides.
- Our people data could be understood and analysed more effectively to identify and report on ethnicity trends at Nest. We're working towards finding ways to better utilise this data.

Our conclusion

When we set out on our journey to improve ethnicity equality at Nest, we knew that it would be tough. Publishing this report is a significant step and shows we're serious about taking meaningful action and being open about what we're doing. We're under no illusions about all the hard work that lies ahead if we're to meet all our objectives.

At Nest, we're always looking for new ways to embody a diverse workforce and create an inclusive environment. We'll only be able to do this if our employees can work free from pay disparities and our senior positions reflect the diversity of our workforce. We'll continue to try to achieve this and look forward to publishing our progress again next year.



We have work to do to address our ethnicity pay gap and our focus will be on meaningful action. We intend to lead by example by developing a generation of senior leaders who are from Black, Asian or another ethnic minority community. This will not only help close the pay difference at Nest but encourage and help to create a truly diverse pensions industry as well. I am confident that we will see positive change as a result of our actions. Our progress with gender parity shows that we can.



Richard Lockwood
Diversity and Inclusion lead,
Chief Financial Officer