A nod to NEDs: why diversity at executive level is vital for keeping Jersey competitive

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The role of the non-executive director is well-understood – they play an important role in corporate governance by providing independent judgement and constructive scrutiny of the executive directors.

The function of the non-executive director (**NED**) is an important safeguard for the protection of investors, and also serves as a reminder of the risks of "groupthink".

The term "groupthink" was used in a recent Financial Conduct Authority consultation on diversity, equity and inclusion (**DEI**) in the financial sector (CP23/20). The consultation notes that "groupthink occurs when groups of people make poor choices because members have either not considered or do not feel comfortable suggesting alternative options".

This suggests that groupthink is caused by either a lack of independent thought and / or a culture where others are not permitted or are reluctant to speak - or are not heard. Hence, a carefully selected NED can help to reduce groupthink by providing valuable independent judgement.

Fighting groupthink with diversity and inclusion

The FCA consultation considers that "groupthink can lead to weak governance and a failure to act in consumers' best interests" and it links DEI with competitiveness.

Ultimately, the consultation observes that a lack of DEI in the financial services industry may result in poor outcomes for consumers, as competitiveness wanes, resulting in a negative impact for the financial sector and the economy.

For the finance sector in Jersey, being a primary industry employing 14,000 islanders, the importance of good governance and the NED function is not new.

From an investment funds perspective, good corporate governance has always been the cornerstone of fund manager regulation – the expectation being firmly that the mind and management of the fund's governing body must be located in Jersey, board members must have appropriate experience and a balanced skill-set, that checks and balances are effective and that delegates are properly monitored and supervised.

However, wider issues surrounding DEI also need to be factored in and addressed to promote the success of our industry.

DEI as a driver of growth

The FCA consultation identifies that the UK may be a less attractive place to work and do business than it could be, resulting in a talent pool that is smaller than it might otherwise be.

Greater DEI serves to enrich board-level discussions, promotes a healthy workplace and helps to unlock new talent, but it is also important for understanding the growing needs of an ever more diverse consumer base.

A lack of DEI in Jersey's financial services industry may also impact negatively on the competitiveness and the medium to long-term growth of the island's economy. Importantly, institutional investors increasingly question governance models, including in relation to DEI credentials.

DEI is no longer a nice to have HR function; a lack of DEI is now considered a non-financial risk which should be factored into a company's governance framework.

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