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CBIZ Banking & Financial Services

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IN THIS ISSUE:

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Banking & Financial Services

The Power of Women in the Boardroom

BY **KRIS ST. MARTIN**

The headlines shout recognition of the power of diversity in the boardroom and C-suite – "Nasdaq Pushes for Diversity in the Boardroom" (Dec. 1, 2020), "Goldman Sachs Announces Commitment to Board Diversity" (Feb. 4, 2020), "New Law Requires Diversity on Boards of California-Based Companies" (S). The banking industry has lately joined the chorus. As an example, in February the American Bankers Association (ABA) issued Women in the Boardroom, a white paper developed in collaboration with Bank on Women, an organization whose mission is to educate the community banking industry on the importance of adding qualified women to the board and C-suite positions.

If equal opportunity in the boardroom is not your personal mission, you do have a fiduciary obligation to pay close attention to the economic benefits to your institution. We all like to make money, and the ABA's white paper tells the tale in statistics. As of the date of the white paper's issue (February 2020), women held just 40 CEO positions at U.S. public banks, representing only 4.31% of all bank CEOs. Specifically, ABA reports that the percentage of women in S&P 500 finance industry drops from 44.7% at entry- and mid-level positions to 19.8% at the board level and just 1.4% at the CEO level.

The number of board seats held by women has continued to increase. Yet women remain

(Continued on page 2)

(Continued from page 1)

underrepresented in the boardroom and leadership roles in spite of documented significant economic and financial gains from increased female participation.

- Revenue and expense ratios improve once the share of women on boards reaches around 17%.
- Return on assets increases once the share of women on boards reaches around 13%.
- An institution's Sharpe ratio – a measure that indicates the average return minus the risk-free return, divided by the standard deviation of return on an investment – increases once the share of women on the board reaches around 20%.

The case for including women on boards and in executive ranks makes even greater sense when you consider how women uniquely impact current bank industry concerns as described below.

Core Deposit Growth

A big concern for banks today is funding, including cost and type. Access to low-cost deposits is critical to growth and profitability. The optimal mix of infrastructure/delivery systems to attract and retain deposits is evolving. As business owners and job creators, women present a huge lending/core deposit/fee income opportunity.

- Women-owned businesses are growing at a rate that far exceeds male-owned businesses, and 99% of women-owned businesses are small businesses.
- The combination of women-owned businesses and firms equally owned by men and women = 48% of all businesses.
- Female small business owners report their greatest challenge is lack of capital and cash flow.
- Venture capital investment in all-female founding teams hit $3.3 billion in 2019, representing 2.8% of capital invested across the entire U.S. startup ecosystem this year, according to the latest data collected by PitchBook.

Yield Curve

The yield curve has flattened considerably, which continues to put pressure on profitability. With net interest margins (NIMs) hovering near 3%, there has been increased value in ancillary business lines (e.g., wealth management, home mortgages, SBA lending, etc.).

- Women represent potential growth in deposit accounts – both in number and size – in addition to offering wealth management fee opportunities and SBA lending opportunities.
- Women are financial decision makers; women represent 50% of total stock ownership, 51% of all U.S. personal wealth and 85% of consumer purchases.
- Women-owned firms employ nearly 9.2 million people, generating $1.8 ***trillion in*** sales as of 2018.
- 4.2% of all women-owned firms have revenues of $1 million or more.

Efficiency & Profitability

New technology and investments are required for digital banking. Ongoing regulatory and technology investments have inflated the expense base. Efficiency and profitability need to diversify revenue to combat NIM pressure and increasing operating expenses. The relationship between bank performance and gender diversity becomes positive as the share of females on the board increases.

- Companies with >3 women in senior management score more highly, on average, across 9 categories of organizational excellence, than companies with none.
- Companies with a higher percentage of women on their management committees are also the companies with the best performance.
- Banks perform better once they reach a critical level of gender diversity.

Internationally, It's the Same Picture

The Financial Alliance for Women (the Alliance) points to a 2017 International Monetary Fund (IMF) report measuring the large gap between the representation of men and women in leadership positions in banks and bank supervision agencies worldwide. Their econometric analysis suggested that, controlling for relevant bank and country-specific factors, the presence of women as well as a higher share of women on bank boards was associated with greater bank stability, as represented by higher z-scores and lower nonperforming loan ratios.

The Alliance's 2020 InBrief report, Driving Change - Achieving Gender Balanced Leadership in Financial Services, explores the key benefits of having women in leadership and identifies the main drivers to achieving gender parity in leadership. The report presents diversity program insights from several financial institutions, shares lessons learned and presents key recommendations. As an example, taking the subjectivity out of hiring and with practices like removing name and gender from CVs and using objective, capability-based evaluation criteria, rather than subjective ones like "culture fit," make it easier to mitigate gender biases.

(Continued from page 2)

The Times, They Are A'Changin'

The data certainly confirms that financial institutions can expect to realize significant financial benefits when women are present in leadership roles. Particularly considering the current concerns of banks in this COVID-impacted business climate, the unique impact of women should be compelling motivation to step up mentoring, networking and recruiting programs that advance women to board and other leadership positions.

Your Questions & Comments Invited

We invite your questions and comments on this topic. Don't hesitate to connect with Kris St. Martin (KStMartin@cbiz.com and 763.549.2267), Vice President of CBIZ Insurance Services and Director of the CBIZ Bank Program. Kris is a former banker himself and has been a long-time proponent of diversity in financial services. The Federal Reserve Bank of Richmond, in collaboration with Bank on Women and The Risk Management Association, hosted the second annual conference "Promoting Growth and Prosperity Through the Banking Industry: The Power of Gender Diversity in the Boardroom and C-Suite" in October. As part of the conference, Bank on Women awards a "Champions Award" – this year, Kris was recognized as the recipient of this award. (Day 3 and award presentation starting at 55 minutes recorded here.)

Additional Online Resources

COVID-19 Resources

Articles by Business Need

Tax, legislative, employees, HR, financial management, risk, operations

Executive Insights On-Demand Webinars

In-depth insights to help your organization and your commercial customers mitigate the impact of COVID-19 on employees and operations.

Featured Content

Webinar

Seven Ways to Prepare for Your 2021 Bank Insurance Renewal
Jan 21 | 10:00 – 11:00 CT

Podcasts

Maintaining Wellbeing In a Time of Crisis (episode 5)

Diving into Diversity (episode 6)

Cost Recovery – For Your Bank and Your Customers

COVID-19 has shaken up business as usual in all sectors, including banking and financial services. Finding ways to cut costs and increase cash on hand are top of mind for many banks and other businesses right now. Fees and cash have been low for banks since interest rates were cut by the Fed in March 2020, which is leading many financial institutions to seek alternative ways to help their bottom line.

A cost recovery audit is just one tool that can be used to help with immediate liquidity needs. They can refund payments or credits directly to the bottom line, ensuring judicious use of your resources. Reviewing specific areas of spend, as described below, may reveal savings opportunities and potentially even refunds for expenses paid in error.

As a relationship bank, cost recovery can add tremendous value to your business clients as well. It can help keep a profitable company in the black or perhaps create cash for a non-profitable client, which may help keep your loan current. Best of all, of course, what you pay for this service can either be an agreed-upon fee or a contingency fee. A contingency fee takes the risk out of the process because there is nothing owed if savings are not uncovered.

Where to Identify Potential Cost Savings

The cost recovery audit process involves a third-party review of contracts, accounts, invoices and other related documentation to determine if your vendors are billing properly and that your organization is not paying for unnecessary service or duplicate billings. If a discrepancy is found, your organization can work with a cost recovery audit team and applicable service providers to recover any overpayments and potentially optimize vendor or

(Continued on page 4)

(Continued from page 3)

customer contracts with accurate fees, usage and billing rates. A few key areas for review include:

Accounts Payable
Financial waste in accounts payable generally falls into two buckets – overspend and payment areas. Reviews of your disbursements can identify if your organization made duplicate payments to vendors, did not apply credit memos or missed rebates and other potential cost-savings opportunities.

Recovery opportunities in payment areas generally involve:

- Duplicate payments
- Wrong vendor payments
- Pricing errors
- Missed discounts or rebates
- Unrecorded purchase returns
- Unnecessary escheatment

Telecommunications
Comprehensive reviews of telephone, Datacom and wireless services may help optimize usage, contracts and related expenses.

Core Service Providers
As a key element of banking service, reviewing contracts and fees of core service providers may provide valuable insight. Long-term contracts with termination penalties, per item charges for all transactions (e.g., check clearing, stop payments, daily reports and many others) are prime areas for review.

Common Area Maintenance and Lease
Reviews of your lease documents helps ensure your charges and other lease costs, such as base year calculations or pro-rata share are appropriately allocated.

Parcel Shipping
Thorough reviews of your parcel shipping and freight costs can reveal the possibility of overcharges and opportunity for refunds, but it can also provide opportunities to improve the management of your shipping function. For example, as part of a cost recovery review, it is generally recommended to automate the general ledger coding of carrier charges and the cost center allocation process, which provides greater visibility into total parcel spend. You may find, for example, that certain shipments can be packaged in a more cost-efficient way.

Software Licensing
The benefits of software licensing reviews are threefold – one, they help ensure compliance with licensing terms; two, they can reveal whether your organization makes use of all the licenses it holds; and three, a closer look may reveal less-than-optimal terms for your arrangement. The audit of software licenses reduces your risk of contractual breach while optimizing your licensing arrangement and spend.

Unclaimed Property
While unclaimed property is frequently a tax reporting function, a closer look at your records may uncover assets that vendors have paid you that are currently being held by federal, state or local government agencies.

Additional Resources

- How to Cut Unnecessary Costs During COVID-19 (CBIZ article available here)
- Why some banks are aggressively cutting costs and others aren't (ABA article available here)

To Learn More

For more information on the cost recovery process, visit our website, contact your CBIZ advisor or connect with Frank Campagna, Managing Director, CBIZ Risk & Advisory Services at (216) 525-1989 or fcampagna@cbiz.com. You will also find additional resources on COVID-19's impact on your organization and your recovery through our Accelerated Recovery Resource Center.

Keys to Navigating Insurance Renewals: Preparation and Accurate Data

BY **KRIS ST. MARTIN, VICE PRESIDENT, CBIZ INSURANCE SERVICES**

With the increase of weather-related catastrophes and natural disasters, along with the impact of COVID-19, the commercial insurance market is seeing a significant rise in rates for the first time in decades. This hardening of the commercial insurance market is putting pressure on carriers and therefore businesses are seeing consistent increases in renewal premiums and a tightening of underwriting guidelines and coverage offerings. There are several ways your organization and customers can mitigate premium increases. Join our CBIZ Insurance Services leadership team to learn more about the current insurance market conditions, how to use tangible asset data to negotiate the right coverage at the best possible rates and get recommendations for your organization to consider moving forward. Access our on-demand webinar here (and feel free to share this link with your business clients).

In the meantime, business as usual is anything but usual, and that will probably affect your operations for the foreseeable future. Not surprisingly, your next insurance renewal is unlikely to be as straightforward as it may have been in the past. The hard market and COVID-19 impacts have added complexities, which makes it crucial to prepare early for your insurance renewal. Regardless of the type of insurance coverage, there are certain questions you should think through.

Business Changes

- Have there been substantial changes in your operations or business practices?
- Are there any significant changes in your finances, liquidity or cash flow?
- Have you experienced a change in workforce (furloughs/layoffs/hiring/remote workers)?
- Are you considering a merger or acquisition?

Policy Review

- Do your policies offer the right amount of coverage to protect you from risk?
- Have you done a recent risk analysis to understand if you need to adjust coverage (such as cybersecurity or D&O)?
- Have you considered optional deductibles?

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(Continued from page 5)

- Have you recently received a replacement cost valuation?
- Have you adjusted estimated payroll or revenue on your current policy?

Claims Data

- Are your reserves at the right limit for open claims?
- Do you have any claims that can or should be closed?
- Is your experience modification rating (EMR) accurate?

Risk Management

- Has your broker provided a recent loss control or site survey?
- Has your risk tolerance changed?
- Did you meet your risk management goals? If not, why?

Your insurance broker should schedule a pre-renewal meeting with you 60 to 120 days prior to your renewal date to discuss what underwriting information is needed and how to best present it. Make sure you aren't blindsided with a large increase in premium and no time to shop. Begin your insurance renewal preparations now by taking these steps:

Gather Required Paperwork

- Cover all legal entities.
- Physical addresses for all locations with employees – remote and offices.
- Updated annual payroll by class code and state.
- Full-time versus part-time employee payroll by class code.
- Five years of loss runs reports from your previous carrier (currently valued within 90 days of renewal.
- Supplemental applications as applicable.

Create an Effective Submission

- Include a detailed description of your operations, including changes in the last policy period and risk controls.
- Explain any claims and the actions you've taken to mitigate future losses.
- Define your safety and loss prevention efforts. Such as building improvements, installing new fire safety systems, additional lighting, or building upgrades.
- Describe other attributes that positively impact your organization's risk profile.

Prepare in Advance

- Implement carrier loss control services.
- Use carrier risk management tools.
- Consider multi-year rate guarantees.
- Work with a broker who has expertise in your industry and excellent carrier relationships to negotiate on your behalf.

As you can see, it will take some time to prepare properly. Your insurance broker or risk manager can be key in guiding your insurance renewal process. A qualified broker can help you analyze your business, provide the guidance, insight and expertise needed to be prepared for stricter underwriter scrutiny, and put you in a positive position for your renewal.

Additional Resources

- Technology and Insurance Appraisals in the Current Environment (article)
- How the CBIZ Bank Insurance Program Can Help Your Business (short video)
- Essential Traits of a Commercial Insurance Broker (article)
- Top Reasons to Secure Cyber Insurance (article)

Your Team

You may have questions. We're happy to provide answers. Should you require additional information, don't hesitate to contact the author, Kris St. Martin at KStMartin@cbiz.com or 763.549.2267.

WHAT'S NEXT?

What the Lending Environment May Look Like During COVID-19 Recovery

Financial disruption has a ripple effect, and as a result of the COVID-19 pandemic, we may start seeing changes with lending arrangements involving financial institutions. This episode takes a closer look at what happened during COVID-19, where things stand today, and where lending changes may be headed.

In episode 4 of the CBIZ What's Next podcast series, Jake McDonald of the Credit Risk Services team shares insights, including what's happened to the lending environment, similarities/differences between now and the 2008 financial crisis and how businesses can prepare for changes lenders may be making. Tune in here.