NeuGroup Insights

Key Takeaways from NeuGroup's 2020 H1 Tech20 Treasurers' Peer Group Meeting

Tech20 treasurers talk lending a helping hand to customers and suppliers during the pandemic; digitizing processes while prioritizing people; rising D&O insurance premiums and more at H1 annual meeting.

Helping Hands: How Corporates Are Aiding Customers and Suppliers

Supply chain finance and how the "we're in this together" approach to the pandemic is playing out.

The COVID-19 crisis has put the significance of business community—emphasis on community—into sharp relief as some businesses have survived well or even thrived (tech, consumer staples), while others have suffered devastating losses (retail, travel and hospitality).

- At few points in recent memory has the mutual reliance on comrades in commerce been more important; as in families, it's often the stronger among the business brotherhood that pitch in the most to see the tribe through tough times.

At a recent Tech20 treasurers' meeting, members shared what they were doing to keep businesses running—their own and those of all their value chain partners.

Who needs money? Can you collect later and pay earlier? Members across the NeuGroup universe—strong, global and investment grade, mostly—have shared throughout the crisis that they have been asked to extend collection terms to customers and pay suppliers earlier.

- But that means being judicious and determining "how much capacity we have and how much credit to give," one member said. "Some of our programs are more efficient and we can't afford to be too generous."
- Nevertheless, large corporates, which are typically the strongest credit in the chain, are the best positioned to partner with C2FO, Taulia or another supply chain finance specialist or with their banks for a proprietary offering.

Win-win: Change of business models may present opportunity. When the world as you know it grinds to a halt, what other avenues are there to reach customers? For brick-and-mortar retailers, going online, if they haven't already, seems the natural step if customers cannot come to them. Some build their own platform; others join one of the branded platforms.

- By expanding a retail revival program already in place for underrepresented communities, one member was able to onboard new sellers—mainstream small and medium-size businesses that had never sold online—to its platform rapidly while also supporting them with a curriculum of educational tools on how to use the platform and thrive on it, as well as a free trial period and free listings.

Speed and scale require ownership. Operationalizing a new program is one thing; scaling it is another. To deliver on promises made to new sellers at a faster pace than normal takes internal coordination. One idea is to have a special task force own it, with either treasury driving it or having significant involvement.

- Treasury can help creating educational tools addressing what to do when goods are sold and how the money comes into the seller's bank account.

- On the corporate side, this connects to the treasury and balance sheet implications of extending credit to customers (such as payment grace periods), as well as partnering with global billing to streamline while managing fraud risk.

- It helps for treasury to also be the owner of collections.

Negotiating new terms to spread the pain. In situations where the company is a platform between a seller and buyer—new economy service companies come to mind—the fine print of agreements really comes into focus.

- In cases where refund policies are subject to seller discretion and/or are too one-sided, the platform or broker may need to step in to ensure the pain of lost business is shared equitably between buyers, sellers and itself via an amended extenuating circumstances policy.

- This requires careful consideration of what will feel equitable to all involved to maintain brand goodwill, and how the broker itself can finance its part, including loans and dipping into reserves.

- In addition, if refunds during the pandemic suddenly go from a relative exception to an avalanche of requests, it may require a reengineering of the payments-reversal process to manage significant transaction volume.

Pandemic Stokes Rise in D&O Insurance Premiums

Corporates see no relief as insurers take a hard line on renewals amid growing fears of COVID litigation.

Premiums for directors and officers (D&O) insurance are surging, a pain point discussed at several NeuGroup meetings this spring, including the Tech20 Treasurers' Peer Group and the Life Sciences Treasurers' Peer Group.

- Premiums were already on the rise at the beginning of the year and now, amid the pandemic, they're going even higher. That's in part because COVID-19-related D&O claims are already being filed in US courts.

Big percentage increases. During Tech20's recent virtual meeting, members said they were seeing premiums rise by between 25% and 70%. According to insurance broker Marsh, rates on D&O policies in the US rose 44% on average in the first quarter from the same period a year ago. Marsh reported that 95% of its clients experienced an increase.

- "The last few weeks have been bad," said one member, adding that in some cases insurers themselves "have just walked away." Another member was quoted an increase in the 30% range and considered himself lucky. "If someone gives you something good, take it."

- This advice was too late for one member. "We were told of a 30% to 35% [increase] in February, but now we're told between 50% and 70%," she said.

- At the NeuGroup for treasurers of retailers, one member's D&O renewal experience involved "premium pressure on the lead portion, but more on the excess layers, where the premium pressure was outrageous."

Reckoning and retention. After a "historic underpricing" of D&O premiums in London, the market is now witnessing a serious course correction, according to an account executive from Aon Risk Solutions who spoke at the Life Sciences meeting.

- This reckoning, along with the pandemic, means the London market is not offering capacity and premiums are surging, he said.

- Another takeaway from that meeting: Higher retentions by corporates are not leading to significant premium relief.

- Some members of the Life Sciences group reported having difficulty getting competing quotes for D&O coverage.

Litigation nation. At the LSTPG meeting, one insurance expert presenting noted that he was starting to see an increase in "litigation over the pandemic," including lawsuits in the tourism sector. "No one is immune," he said, and treasurers should "anticipate seeing more and more [litigation]."

- With this in mind, some treasurers noted that underwriters were adding a pandemic or virus exclusion to policies going forward; current policies either don't have the exclusion or are vague.

Better beyond D&O. The good news, according to Tech20 members, is that outside of some coverage areas like D&O and property, there haven't been huge increases. "Coverage has remained stable," said one Tech20 member, who added that there was "no constriction in terms and conditions."

Managing the Team Through WFH Takes Effort

Powering an effective team through tough times—snacks and all.

For all the talk about how well NeuGroup peer group members and their teams have navigated the pandemic—quarter closes, bond issuances, insurance renewals, revolver negotiations, even hostile takeover attempts—there is a nagging feeling that "this can't go on forever" without more problems manifesting themselves in some way.

After almost four months of a near-complete "work from home," or WFH, regime, it will still be a while before the full strength of the treasury team is back together in the office. Some companies announced phased-in returns as early as mid-June while others have told employees to stay home through the end of the year. What can be learned from the experience so far as the situation stays fluid? Here are some thoughts from NeuGroup's recent Tech20 Treasurers' Peer Group meeting.

First, all the BCP work pays off. Treasury's essential focus on keeping the lights on no matter the catastrophe has long required detailed business continuity plans to ensure access to liquidity, collections capabilities and the ability to make payments away from a compromised office site.

- So, arguably, no team was better prepared than treasury going into the pandemic-driven mandate for staff to take up their posts at home. Some treasurers noted with relief that they had recently tested the BCP and that things had worked out as planned when the order came.

- Not much change for some. Global corporations of a certain size already have regional treasury centers in other parts of the world, and—especially if based in the high-cost San Francisco Bay area—varying levels of distributed teams in lower-cost regions of the US, such as Florida and Texas. The ability to lead those teams may have taken on a different nuance in the WFH environment, but managers were already used to leading remote team members.

- "We were already very remote so we had that down, and the [quarterly] close wasn't a problem," said a Tech20 member who heads both the treasury and tax teams. Nevertheless—and despite a significant redistribution of ergonomic chairs from offices to homes across the Bay Area—several companies gave a stipend of up to several hundred dollars to set up a home office.

Reassure the team with leadership, transparency. With the airwaves filled with COVID-19 news and the increased focus on cash and forecasting facing a very uncertain future, it is natural that people start worrying about losing their jobs. Some companies announced that there would be no layoffs in 2020, including the company of one Tech20 member who shared its approach to leading in times of COVID-19.

- This company also makes a lot of effort to show empathy with employees and demonstrates its own focus on well-being to reassure others that it is OK to not just power on as usual. The cadence of communication is important.

Set boundaries, examples. Particularly in situations where the whole family is at home, it's important to demarcate work time and home time. Our presenting member said her husband oversees schooling the kids and she does "after school" activities. This means she is not available for meetings for a set number of hours in the afternoon, and she encourages her staff to set similar limits.

- Another member, who also emphasized mental well-being after the intensity of weeks upon weeks of blurred work/home lines—especially for single parents with young kids, and since taking vacation seems pointless if you can't go anywhere—said he would take a Friday off on a regular basis, signaling that similar actions by staff are acceptable.

A lot of mileage out of small morale boosters. Coffee breaks and happy hours by Zoom, a dedicated Slack channel for office chitchat and family pictures, checking in on the singles on the team and online trivia game times are examples of team building and maintaining a sense of team and inclusion. The tax and treasury chief from above organized a “remote offsite” meeting to connect with the team and from time to time sends much-welcomed healthy snack packages (from Oh My Green) to her staff.

- All this, combined with the moratorium on layoffs, has rewarded the presenting company’s management with their highest employee satisfaction numbers, despite the challenging period.

Pandemic Pushes Companies to Digitize Processes, Prioritize People

Treasurers at tech firms push to abandon legacy processes while focusing on keeping teams connected.

During the pandemic, many tech companies have been able to announce that they will not lay anyone off during the crisis—and have been able to keep their promise.

Unfortunately, that’s not universally true. Some businesses have been particularly hard hit and have had to furlough or cut staff, and consequently do more with less. This prompted a hard look at projects and their prioritization for many members of NeuGroup’s Tech20 Treasurers’ Peer Group, who met virtually in May.

Mixed emphasis. Even for those members who didn’t have to downsize their teams, there was an effort to deprioritize certain projects to avoid the fatigue that creeps into teams as the work from home regime drags on. But there may also be projects that should be accelerated.

- A lack of automation and digitalization manifests itself sharply in uncertain times and calls for a mindset of taking advantage of the crisis to boost these efforts.

- One simple example is the push for wider bank and regulatory acceptance of digital signatures (Adobe Sign, DocuSign) instead of the standard “wet” signature, not just on a temporary basis but permanently and globally.

- And if you haven’t automated enough of your cash positioning, for instance, now is the time to do so to free up time for critical forecasting and analysis.

Back in the office, or not so much? What will the future workplace look like, even if you have an office to go to? Even with smaller meeting sizes, half team in, half team out, masks on and temperatures checked—all of which will put a damper on office enthusiasm—some employees might not have an office. One treasurer’s company had announced in May that it would reduce its real estate footprint by 50%; this has been something heard across NeuGroups.

- “Hoteling,” with coworking and shared work spaces, is back again. Will this lead to a reversal of the California exodus trend, i.e., going to lower-cost states? If one of the key reasons for distributing teams out of the state is the cost of Bay Area real estate, will that go on to the same degree if the team can just work from home instead, saving the cost of office space? At the very least, the calculus will look a bit different going forward.

But really, what’s next? As one member noted, the new WFH paradigm is not likely to change any time soon and may become a permanent arrangement for some, or at least some of the time. What will that mean for recruitment processes, performance reviews, retention, team alignment and getting everyone to row in the same direction?

- Focus on the folks. A member noted an emphasis on empathy and keeping the team feeling connected: “At other meetings, we used to talk to about systems, systems, systems, and now it’s people, people, people. And I can’t imagine losing any of my people now.”

- When everyone’s remote, “it’s hard to recreate the ordinary dialogue you have,” one of the RBC Capital Markets sponsors noted, referring to summer interns and new hires. That said, it seems that younger employees are thriving in the WFH environment and have grown more assertive; they were quieter in the office. As one member said, "On Zoom, everyone's square is the same size."

So Far, So Good: US Banking Sector Shows Strength During Pandemic

Banks are as healthy as ever, and robust investment-grade debt issuance has bolstered the industry's profitability.

The global pandemic has cratered economies and affected businesses the world over. But the US banking system remains healthy because banks are well capitalized, having adhered to rules put in place after the 2008 financial crisis. Equally important: Investment-grade debt issuance by corporates is generating bank profits.

- That's some of what members of NeuGroup's Tech20 Treasurers' Peer Group heard from a bank equity strategist at a recent meeting.
- "The investment-grade markets are stronger than ever," the strategist said. "Funding markets are very robust, with corporates taking advantage of low rates."
- Data from US securities industry organization SIFMA and financial tech and data company Refinitiv show that investment-grade companies have issued more $1 trillion in debt this year. As a result, the strategist said, bank industry profits "are going gangbusters," noting that this is a continuation of a long-term trend.

Texas ratios. This means that despite the current economic straits, "We can handle a greater level of the problems we're facing," the strategist said. He also referred to the "Texas ratio," which, by dividing nonperforming assets by tangible common equity and loan-loss reserves, helps investors determine how risky a bank is. (The higher the Texas ratio, the more financial trouble a bank might be in.) By this measure, the sector is "very healthy," he said.

- That health stems in part from banks "setting aside a lot of money for loan losses" in the first quarter, the strategist said. He acknowledged that deferments "are happening" and loan forbearances "are way up"; additionally, bank lending standards are tightening and "demand is going down." He added that he expects bank earnings to be weak "but this is not a balance sheet event or credit event." Bottom line: "The banking system is as healthy as it's been in our lifetimes."

Weakness in Europe. The strategist said that while US banks are in top form, European banks are not. That's because of the zero interest rate environment in the European Union. The European bank sector is weak because zero rates makes banks inefficient, the strategist noted. "European banks are as weak as they were during the '08-'09 financial crisis," he said. US banks have taken a hit but are in great shape, and "nowhere near '09 levels."

Negative rates in the US? While there are negative rates globally, the strategist didn't think the US would go that route. "There are now unprecedented levels of negative rates" globally, he said. "Will the US go there? No, because we have a huge money market fund market and if we break the buck again, then it will be a huge mess." And it certainly would be "negative for bank profitability."