

New Company Aims to Take on Banks over Fees

By Murray Townsend

Hands in your pocket? It could be worse. They could be King Kong's hands.

Large companies have more to consider with regard to bank fees than transaction costs for their personal savings accounts. They have credit facility pricing, operating line fees, current account service charges, cash management fees, interest compensation arrangements, and credit/debit card discounts.

As it stands, financial institutions in Canada have all the advantages in negotiating banks fees. They know it, company negotiators may or may not know it, and CB Intelligence (CBI) knows it but doesn't accept it.

CBI is a new company whose vision is to create market intelligence about bank pricing practices in order to make bank negotiations transparent. It is owned and managed by three chartered accountants who intend to accomplish this by benchmarking bank prices.

Jack Ostroff is primarily responsible for the administration of CBI's complementary treasury management programs and the development of new business initiatives. He's also the President of Genus Financial Corporation and CEO of Corporate Treasury Services Inc. Both companies provide treasury management services. His experience with these firms helped him to realize that something definitely was missing from the bank fee negotiation process.

"What I recognized," said Ostroff, "was that companies were at a knowledge disadvantage. They had sophisticated people, but with limited time and limited exposure, they didn't understand pricing and what banks could or couldn't do. Corporations can use some big help in an area that I don't believe is being served well."

"Banks are shielded from price competition," added Dick Clark, CBI's President, acknowledging companies that companies that tender their banking relationship are the exception. "They definitely have a leg up at the negotiating table."

Several factors are responsible for that advantage. Among them:

Negotiations aren't straightforward as they might be with other supplier relationships because there are so many different types of costs;

Tenders are the exception rather than the rule, so there's little nose-to-nose competition;

Banks, with their tendency towards bundling, treat charges as part of the cost of obtaining credit, and are infrequently challenged in this practice because they know fees are rarely a primary consideration in credit negotiations.

Another factor is that companies just don't want to be bothered changing financial institutions if they can help it. Few believe the inconvenience justifies the time and effort.

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As well, banks take these negotiations far more seriously than do their clients. It's a major source of income for them, rather than a necessary evil of doing business. They know what they're doing and how to do it. It's down the list of importance in normal business operations for most companies.

That's not to say that banks are all running around stealing everybody's money. "In the marketplace, there's a misconception that bankers are all bad guys and everybody else good guys," said Ostroff. "Bankers are just smart business people that have an information advantage."

"When you add to that people at the negotiating table who don't have benchmarking information, you'd be surprised if the bank didn't benefit accordingly," said Clark.

While benchmarking bank fees is an established practice in the United States, Canada has lagged behind. In the U.S., Phoenix-Hecht publishes *The Black Book of Bank Prices* and the Association of Financial Professionals supplies bank pricing data to its members. Because of the differences between the two banking systems, American information is of little use in this country.

CBI is conducting its own survey of bank fees (www.banksurvey.ca) which it expects to have available by December. The last one of its kind was a paper based survey published in 2004 by Stewart Associates of Toronto. CBI expect theirs to be different due to its internet based point and click methodology, its detail, and the fact that it can be done in about half an hour.

"We're in a position to help companies help themselves," said Ostroff, who adds that the robustness of the survey depends on corporate participation, which isn't always easy to obtain. Excuses range from a lack of time to a lack of desire to share information with a competitor. CBI suggests that even just filling out the survey can open up a CFO's eyes to the range of banking costs.

Tom Pahapill, the CFO for Numatech Industries Inc. filled out the survey and has purchased one of CBI's packages. "It was easy," he said. "It only took me about 20 minutes. There is some preparation work, but it's like filling out your tax return, you have to have the information ready."

CBI advises in advance what information they will need, then, according to Pahapill it's "just a matter of placing your quantitative value into the right slot."

Pahapill is looking to get value from the survey, but noted he learned some things by just filling it out. "When your quantitative values are in the mid-range of the choices, you know you're in the middle ground, but if you're at one extreme or the other it makes you wonder if you're getting a bad deal."

Pahapill also thought that the incentive gifts offered by CBI – a Montblanc pen, digital camera, or a donation to the Kidney Foundation – were innovative. "That grabbed my attention in terms of bringing it up the priority list a few pegs."

"What you want is to get the same deal as somebody else who is your strategic peer," said Clark. "We've coined the term 'principled negotiating' to describe the process that produces this result."

"When you're involved in a negotiation, if you can reference a benchmarking standard that is available and transparent to both parties, it can move a negotiated settlement much faster than any other approach."

Benchmarking allows the negotiation of banking fees to meet the fairness test, according to CBI, because it allows both parties to reference a standard that is separate from either party's negotiating strength. Banks will be held to the same negotiating standard as other suppliers.

Managing bank pricing isn't considered a one-time cost saving, according to CBI, because it sets a baseline for future increases. They also suggest that bank savings have a multiple of 10 in terms of effect on shareholder value. A \$50,000 cost savings that yields a \$500,000 shareholder value increase is not to be ignored.

Another example they give regards Bankers Acceptances (BA's). Through benchmarking companies can determine whether or not the stamping fee is standard. A 20 basis point stamping fee difference

translated into a \$10,000 cost savings for a company that has a \$10 million operating line and uses BA's to fund 50% of that.

Foreign exchange pricing is another area that is overlooked by corporations, yet CBI claims that too can create tremendous operating cost savings.



Dick Clark, CBI President

CBI says benchmarking is by no means just an opportunity to stick it to the banks. Financial institutions may be reluctant to give up their negotiating advantage, but faced with that reality will find ways to make the best of it.

"Bankers respect financial professionals who have done their homework. It shows they're more efficient and effective and makes them a better credit risk," said Ostroff.

"It's also a huge loyalty lever for the bank. You can demonstrate that the deal you're offering to the customer is a good one. If they don't offer that deal and a competitor comes in with benchmarking information it can hurt that loyalty."

The other principal in CBI is Harry Feldman, who is a founding partner of the chartered accounting firm Schwartz Levitsky, Feldman and is responsible for managing the company's relationships with banks and developing CBI's Quebec operations.