

## Canadian Bank Pricing: Who You Gonna Call?

For most Canadian companies, 2009 bank renewal pricing has been a rude awakening. Steep increases in borrowing costs and large fee increases are the order of the day. Requests for competitive quotes are met with demands for hefty review fees and these fees come with no guarantee of a term sheet. Beleaguered financial executives are told that the recession marks the beginning of a new market for Canadian bank pricing; that Canadian businesses should expect to pay more for a stable banking system; that substantial price increases are necessary to rebuild bank balance sheets; that bank price increases reflect the company's new risk profile and increased bank funding costs. Yesterday's concepts of fair pricing and relationship banking are in full retreat. And the two questions that are top of mind for financial executives? Are these price increases justified or are the banks using the recession to leverage price premiums that disadvantage their customers and will the new pricing regime become bank base pricing on a go-forward basis?

*When it comes to negotiating banking arrangements, banks are in the driver's seat. Few companies understand why and what needs to be done to level the "paying" field.*

In times like these many financial executives simply throw up their hands and pay the piper. They accept that bank negotiations are naturally one-sided in recessionary times. Their attitude is "survive and fight another day". And who's to say this attitude is wrong? Most companies have no options. Or do they?

Before throwing in the towel, financial executives should know there's a new tool in the bank negotiating toolbox. CB Intelligence Inc (CBI) has just published its *2009 Survey of Canadian Bank Pricing*. The Survey Report costs \$895 plus GST – not an outrageous amount but enough to make most financial executives pause. The question is what does \$895 buy you? Is the Survey Report good value for money? You be the judge.

### ***This Survey Report is Different***

To begin with CBI's *2009 Survey of Canadian Bank Pricing* is probably misnamed. It's the antithesis of every Survey Report you've ever read. Forget page-after-page of hard to understand tables. Data is presented in easy to understand graphs. Each section is headed up by an executive summary. Commentary reflects a "What does the data say? What does the data mean?" perspective.

CBI's Survey Report is chock full of insights about how bank pricing really works. It's a bank negotiating answer book that has the sophistication and depth that seasoned financial executives would expect from

a comprehensive analysis of Canadian bank pricing. It's also easy to read and understand – a boon for financial managers that have never paid bank pricing much attention.

CBI's *2009 Survey of Canadian Bank Pricing* opens in an unexpected way – with theory. Most financial executives recognize that, when it comes to negotiating banking arrangements, banks are in the driver's seat. Few understand why and what needs to be done to level the "paying" field.

To address this deficiency the Survey Report introduces a five force model that describes the sources of competitive advantage that banks enjoy when they negotiate. Financial executives will read this and understand, many for the first time, why it's so hard to negotiate a competitive banking deal. Then the Survey Report shifts gears. Principled negotiating and benchmarking are presented as the only approach that can bring balance to bank negotiations. The introduction also addresses common questions financial executives have about bank negotiations. Ever wondered why tendering doesn't yield better bank pricing results? How about which bank has the best prices? CBI's Survey Report has surprising answers to these questions.

### ***Getting to the Heart of the Matter***

Having laid the theoretical framework for benchmarking, CBI's *2009 Survey of Canadian Bank Pricing* turns to the graphs and analysis that companies need to evaluate the competitiveness of their bank pricing. This material is laid out, section-by-section, in a common sense manner.

*Lending Covenants and Security Arrangements* describes a practical way to categorize different classes of lending covenants and provides benchmarking markers for common financial performance covenants and margining practices. As banks tighten credit, many companies will find this information invaluable.

*Operating Line of Credit Pricing* opens with an overview of the credit assessment process. For many companies, this material will be an eye opener. Preparing the bank credit assessment package is a big job, one that's often done poorly. The Survey Report includes an excellent discussion of what information companies should provide to a bank. If a company's documentation doesn't measure up, the Survey Report doesn't mince words. That company will pay the price both in terms of lending limits and bank pricing. Many financial executives will find CBI's discussion of preparing for the credit assessment process an overdue wakeup call.

Credit line pricing is a bellwether price and the Survey Report provides easy to use markers for benchmarking Canadian and US credit line pricing. The Credit

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Line section also includes benchmarking data for syndicated debt, term debt, and operating credit line fees. *Operating Line of Credit Pricing* closes with a discussion of the emerging use of pricing grids, when they make sense, and what to look for when you're negotiating grid pricing.

The section on *Bankers' Acceptances and LIBOR Borrowing* breaks new ground. For companies familiar with BA's, the Survey Report's explanation of BA bracket pricing and its exposé of the asymmetrical distribution of BA benefits between banks and their customers will invoke "why didn't I see this before" comments. For companies that haven't used BA's, but are eligible to do so, the material on BA pricing will pay back the cost of the Survey Report many times over.

*In business you get what you deserve and you deserve what you negotiate. If you're unhappy with your bank pricing, then stop complaining and do a better job at the bargaining table. The logical consequence of failing to manage banking costs is premium prices.*

*Bankers' Acceptances and LIBOR Borrowing* also explains why the banks are so committed to increasing BA stamping fees to a 125 or 150 point standard, why such a move would marginalize the utility of BA's, and why higher stamping fees could potentially cost Canadian companies hundreds of millions of dollars in additional borrowing costs. The material in this section will be fresh and new to all but the most seasoned large company financial executives.

*Interest Compensation* is a topic that will be of interest to companies that have excess funds on account. The section opens with an explanation of how Canadian and US compensation practices differ. The section also describes the history of Canadian interest compensation and relates current interest compensation rate pricing to prime pricing and deposit thresholds. For companies that are bumping up against interest compensation ceilings, there is good advice on how to use tiered pricing arrangements to maximize interest compensation revenue. For financial executives that have surplus funds, *Interest Compensation* covers all the bases.

*Foreign Exchange* is the hidden gem in *The 2009 Survey of Canadian Bank Pricing*. Too many companies manage FX poorly. This section provides practical advice for companies that are serious about addressing this problem. It explains common FX pricing pitfalls, including time-of-day trading. It also introduces two new FX pricing tools, dynamic benchmarking and fixed mark-up pricing, that will help companies realize FX savings. What's particularly interesting is the section doesn't promote a "one size fits all"

solution to managing FX pricing. Recommendations are tailored to company trading volumes.

*Service Charges* is the dark horse of the Survey Report. Because service charges have a high profile they attract a lot of attention in banking negotiations. Having said this, service charges are typically a small element of overall banking costs. They are usually given more consideration than they deserve. The Survey Report provides readers with a sensible methodology – patterned bargaining – to manage bank pricing in an area that's described by some financial executives as "death by a thousand cuts".

In every Survey Report there's the unexpected. *Debit and Credit Card Fees and Charges* takes this prize in CBI's *2009 Survey of Canadian Bank Pricing*. In this area current events have overtaken historical pricing data. Instead of presenting stale dated benchmarking data, the Survey Report brings readers up-to-date on current developments in the debit and credit card market and the consequences of price increases that have triggered public inquiries by Senate and House of Commons Oversight Committees and a Competition Bureau investigation. For companies struggling with the current round of bank price increases, developments in the debit and credit card market are a pointed reminder of the pricing power of large financial institutions and the consequences of passively accepting price increases.

### Bank Pricing in a Recessionary Environment

The final section in CBI's *2009 Survey of Canadian Bank Pricing* deals with the special challenge of managing bank pricing in a recessionary environment. The Survey Report doesn't take the path of least resistance.

The section opens with an assessment of current economic conditions and concludes that the long term prognosis for the Canadian economy is clouded. Whether or not financial executives accept the Survey Report's recommendation - that companies manage for liquidity – the Report's approach to recession planning is thought provoking. What's particularly interesting are its comments on the role of pricing in managing profitability in tough economic times. When it comes to pricing, companies are advised to follow the lead of their bankers and leverage pricing's profitability potential to the fullest. *Managing Bank Pricing in Recessionary Times* goes far beyond the usual "cut costs and batten down the hatches" strategies that many companies rely on to ride out the economic storm.

### Bankers Put on Notice

While bankers will applaud the Survey Report's conservative approach to managing in a recessionary environment, the Survey Report's recommendations

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on how to deal with current bank pricing demands will present them with real challenges.

The Survey Report:

- Reminds companies that the current round of bank price increases can have an annuity effect and, once institutionalized, that new base level pricing will prove exceedingly difficult to reverse.
- Exposes a negotiating strategy that demands one-sided price concessions as the price of maintaining the banking relationship for what it is – the antithesis of principled negotiating.
- Shines a light on the inconsistency between excessive bank price increase demands and bank objectives for relationship banking.
- Looks critically at the justifications that are being used to rationalize the current round of bank price increases.
- Gives financial executives short and long term strategies to deal with unreasonable bank pricing demands.
- Advises financial executives how to use borrowing cost and bank fee benchmarking information to advantage in current bank negotiations.
- Introduces a new tool – RAROC – that has the potential to flag bank price increases that cross the fairness line.

If enough companies follow the Survey Report's recommendations, bank pricing will be much more competitive in the years to come.

### **Increased Prices: Who's to Blame?**

While the banks may find the Survey Report's recommendations dealing with the latest round of bank price increases challenging, they will have no quarrel with how the Survey Report treats them. There's no finger pointing and no finding fault.

CBI's *2009 Survey of Canadian Bank Pricing* attributes bank negotiating success to their corporate customers' lack of preparedness. Financial executives are reminded that in business you get what you deserve and you deserve what you negotiate. If financial executives are unhappy with their company's bank pricing, then they are told to stop complaining and do a better job at the bargaining table. The Survey Report is quite matter-of-fact when it says that the logical consequence of not managing banking costs is premium prices. Bank bashing in the Survey Report is noticeable by its absence. CBI preaches tough love.

### **So What's Missing?**

So far we've focused on what's in CBI's *2009 Survey of Canadian Bank Pricing*. What's missing?

There's no doubt that the Survey Report leaves many important bank pricing questions unanswered. How large is the current round of bank price increases? On what products or services do these price increases fall? Are the banks characterizing their price increases as temporary or do these increases presage new base pricing for banking services? What's happening to BA stamping fees? Is there regional pricing in Canada? Why isn't there more detail on pricing grids?

Some of these questions will be addressed in CBI's next survey. As CBI correctly notes, you can't report on developments you don't have data for. Others can't be answered without broader survey participation. If financial executives want answers to questions like regional pricing CBI says they must invest the time to add their company's experience to the survey data base. It's a truism, but financial executives shouldn't expect to reap more than they sow. Survey Report results get better and more robust with greater survey participation.

### **Value for Money**

Let's close with the question posed at the beginning of this review. Is CBI's *2009 Survey of Canadian Bank Pricing* worth \$895? The answer is, it depends. If you're a treasurer who believes that managing the banking relationship is synonymous with securing a credit line and that managing bank pricing either isn't important or can't be done, then save your money. On the other hand, if you think bank negotiations would be more interesting if there's meaningful give and take, and not just give, at the bargaining table, then the Survey Report is an excellent place to start building your case for better bank pricing.

In the past companies have not fared well in bank price negotiations because they haven't had the tool that's needed to benchmark bank pricing. CBI's *2009 Survey of Canadian Bank Pricing* changes this. Financial executives that understand what's in the Survey Report will be well equipped to look after their company's interests in bank negotiations, many for the first time.

In the final analysis, the value-for-money question boils down to a personal one. Are you prepared to invest \$895 to add an important skill set to your professional toolbox, one that will help you protect your company's interests? Or not? For most financial executives this will be an easy choice, even in recessionary times.