

Survey Report Methodology

CBI's *2009 Survey of Canadian Bank Pricing* is an analysis of prices paid by Canadian corporations for borrowing costs and bank fees. It was written as a reference tool to help both corporations and banks negotiate fairly priced banking agreements.

A bank pricing survey report is, by its nature, historical in perspective. Pricing data in the *2009 Survey of Canadian Bank Pricing* reflects bank pricing in effect for 2008 renewals. CBI's bank pricing data was collected during the last three quarters of 2008 and the first quarter of 2009. It is not representative renewal bank price increases that began to appear late in the first quarter of 2009. 2009 renewal pricing will be dealt with in the *2010 Survey of Canadian Bank Pricing*.

The *2009 Survey of Canadian Bank Pricing* does not ignore the banks' recessionary pricing initiatives. Because 2009 renewal price increases are unprecedented in both scope and magnitude CBI has written an addendum to the Survey Report, "Managing Bank Pricing in a Recessionary Environment", to address the issue. The latest round of credit and debit card price increases is also dealt with separately in the "Credit and Debit Card Fees and Charges" section of the Report.

Statistics and Analysis

CBI's *2009 Survey of Canadian Bank Pricing* is not a statistical "data table" report. Rather, pricing data is presented on a descriptive basis. Survey results are organized in easy to understand graphs that are complemented by analysis and commentary.

The decision to prepare the Survey Report on this basis was driven by two considerations.

First, Canadian marketplace for bank pricing is neither homogeneous nor transparent. In borrowing cost and bank fee negotiations information asymmetry and insulation from price competition is the norm. This limitation combined with widespread bank use of "average up" pricing strategies means that price ranges for bank services are much broader than they would be in more competitive markets. The current market for bank services is not characterized by well defined price points and narrow price ranges. Companies get what they negotiate and a large number of Canadian companies fair poorly in borrowing cost and bank fee negotiations. Very early on CBI concluded that description and analysis, not statistical precision, was the key to understanding bank pricing dynamics in the Canadian marketplace.

The second consideration is perspective. CBI's *2009 Survey of Bank Pricing* is an ambitious undertaking, but one in which the concepts of utility and usability, not statistical precision, are primary drivers. The Survey Report includes substantial content, like the five force bank pricing model that is not numeric. It also includes a detailed explanation of principled negotiating and explains why this approach is fundamental to negotiating fair banking arrangements. On the applications side, the Survey Report introduces small and medium sized companies to an important cost management tool that, until now, has been reserved for the largest organizations – pricing grids. It also shows how bank pricing works, from how size and leverage impact operating credit line pricing, to the ripple effect that operating credit line pricing has on the other products and services to the cost consequences of accepting bank pricing strategies like bracket pricing for Bankers' Acceptances. All this is presented for the first time.

CBI's *2009 Survey of Bank Pricing* focuses on pricing basics. Secondary issues that demand precise statistical answers and large sample sizes – questions like what banks have the best

prices, what's the impact of regionalism on bank pricing, how does industry type impact bank pricing, etc. – are deferred to future reports. CBI's *2009 Survey of Bank Pricing* is written from a practical viewpoint for practicing finance professionals.

Survey Population

CBI's *2009 Survey of Canadian Bank Pricing* is based on financial data from more than 300 organizations and reflects actual bank pricing not published price lists. The survey population includes 120 survey responses from CBI's on-line *Canadian National Banking Questionnaire*.

Survey Report data tables and graphs reflect bank prices based on survey results corroborated using benchmarking information from Genus Financial Corporation bank pricing data base. Genus Financial Corporation is a consulting firm that provides treasury management and borrowing cost and bank fee negotiating services to medium sized and large Canadian corporations.

The Survey Report reflects the pricing experience of companies with revenues between \$25 million and \$1 billion but includes pricing from a limited number of Canadian "not for profit" organizations. Significant subsets within the CBI data base include:

<i>Survey Category</i>	<i>Survey Responses</i>	<i>Genus Data Base</i>
Lending covenants & margining practices	111	188
Canadian operating credit line	115	188
Renewal & standby fees	103	175
LC's & LG's	69	185
BA's	36	79
Canadian interest compensation	101	219
FX	32	73
Service charges	120	220

To ensure that conclusions drawn in the Survey Report are representative of bank pricing practices CBI's *2009 Survey of Canadian Bank Pricing* was reviewed by a panel of senior treasury management executives. All these executives have senior management experience negotiating banking arrangements and have been active in national treasury associations. CBI extends to them our thanks and appreciation. Their comments, questions, and insights enriched and improved the final report.

Presentation of Results

CBI's *2009 Survey of Canadian Bank Pricing* presents survey results using four different graphic formats:

1. Bank pricing for key products and services is graphed on the basis of pricing quartiles. The major factor that influences prices for these products and services is incorporated into its graph as a dependent variable. When using pricing quartile graphs, the pricing objective is to identify the pricing quartile that is appropriate to the company in review.
2. Line graphs are used to profile product and service price levels where there is insufficient data to segment pricing into pricing quartiles but there is sufficient data to identify price points that anchor price ranges. When using line graphs the pricing objective is to identify the price range into which proffered pricing falls and to identify the competitiveness of pricing within that range.
3. High-low graphs are used to profile product and service price levels where there is insufficient data to segment pricing into pricing ranges but there is sufficient data to indicate the high and low pricing for the product or service. When using high-low graphs the pricing objective is to ensure that proffered pricing lies within the high-low range and to identify whether pricing is at the top or bottom of the range.
4. Data for lending covenants, security arrangements, and products like fees are presented as area graphs. These graphs provide an easy to understand pictorial representation of survey data and are intended to provide readers with an overview of how prices or other attributes are distributed within the survey population.

For products and services with less than 40 survey responses, the Survey Report flags pricing analysis with “insufficient survey respondents” and “anecdotal commentary” comments. For these products and services commentary is not as authoritative as commentary for bank pricing practices that are based on survey results. It is based on available survey data complemented by industry knowledge and supplementary interviews with survey respondents. Commentary for these products and services should be viewed as informed opinion and is believed to provide a reasonable description of bank pricing practices.

Finally, minor service charges, cash management charges, and EFT charges are not presented in graphic format. Because these products are less frequently discounted, price ranges are presented on a first quartile, median and third quartile basis. Reported price ranges for these products are broader than for other product and service categories reflecting greater pricing variability. Pricing for these products tends to concentrate at the top and bottom of reported ranges rather than clustering around the range midpoint.

Underlying all reporting formats are two assumptions. First, even the most competitively priced banking agreements are not uniformly competitive and second, the objective in borrowing cost and bank fee negotiations to ensure that final banking arrangements are priced competitively on an overall basis.

CBI's *2009 Survey of Canadian Bank Pricing* deliberately focuses on big ticket products and services. That minor cost items receive minor attention should be neither surprising nor unexpected. In surveys, survey reports, and bank negotiations the law of diminishing returns applies. At some point, it's not worth worrying whether marginal products or services are priced right. CBI's *2009 Survey of Canadian Bank Pricing* was written to help treasurers and their banks deal with the big picture and get major cost items priced properly. It was not designed as a pricing calculator. It should not be viewed or used as one.

A Final Thank You

CBI would like to publically thank the companies that completed the *Canadian National Banking Questionnaire* and the financial executives that patiently answered ancillary questions about their bank pricing. The Survey Report would not have been possible without their assistance. To them we promise that next year's version of the questionnaire will be shorter and will be designed to deliver survey results that are even more useful.

To those that didn't participate in the Survey and are now benefiting from it, CBI encourages you to take the 2010 Survey. Surveying bank pricing is one endeavour where you can't complain about what gets reaped unless you're prepared to sow.