

Introduction



Welcome to CBI's *2009 Survey of Canadian Bank Pricing* Report. As you read it, you'll quickly realize that this isn't your typical bank pricing survey report.

For starters, the Report emphasizes analysis, not data tables. This orientation reflects CBI's assessment of the Canadian marketplace for bank benchmarking information, an assessment that says when it comes to managing bank pricing, many companies and many financial executives are relatively inexperienced. The Report deals with this gap in a comprehensive and authoritative way.

How so? The *2009 Survey of Canadian Bank Pricing* is specifically written to help financial executives whose responsibilities include the cost side of managing the banking relationship. Data is presented in easy to understand graphs. Sections are headed up by executive summaries. Commentary reflects a "What does the data say? What does the data mean?" perspective. The Report is chock full of insights and advice about how bank pricing works and how to negotiate the properly priced banking arrangements. The *2009 Survey of Canadian Bank Pricing* has the depth you would expect from a comprehensive survey report, presented in an easy-to-understand and straightforward manner. In the world of surveys, CBI's *2009 Survey of Canadian Bank Pricing* is the antithesis of a data table report.

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

To address this deficiency the *Structure of Bank Negotiations* section introduces a five force model that describes the sources of competitive advantage that banks enjoy when they negotiate. Then it shifts gears. Principled negotiating and benchmarking are introduced as the only approach that can bring balance to bank negotiations. In addition to explaining why, the section also addresses three common questions financial executives have about bank negotiations: (i) which banks have the best prices (ii) why doesn't tendering work better and (iii) how will the banks react to benchmarking?

Having laid the theoretical framework for benchmarking, CBI's *2009 Survey of Canadian Bank Pricing* moves on to the meat of the Report:

1. *Lending Covenants and Security Arrangements* describes a practical way to categorize different classes of lending covenants and provides benchmarking information for common financial performance covenants and margining practices.
2. *Operating Line of Credit Pricing* opens with an overview of the credit assessment process. Benchmarking data is presented for US and Canadian credit line pricing,

syndicated debt, term debt, and operating credit line fees. The section 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.

3. *Bankers' Acceptances and LIBOR Borrowing* is without doubt the crown jewel in *The 2009 Survey of Canadian Bank Pricing*. This section explains how these two key financial instruments are priced and how to use them to lower borrowing costs. The explanation of the BA bracket pricing structure and the Report's analysis of how bracket pricing distributes the benefits of BA's asymmetrically between banks and their corporate customers is a first. It would be described as an exposé in any publication other than a survey report.
4. *Interest Compensation* is a topic that will be of interest to many companies. Starting with an explanation of how Canadian and US compensation practices differ, this section describes the history of Canadian interest compensation, relates current interest compensation rate pricing to prime pricing, and identifies interest compensation price ceilings and what can be done about them.
5. *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 righting this wrong. It shows busy financial executives how to use dynamic benchmarking and fixed mark-up pricing to unlock FX savings that are being traded away.
6. *Service Charges* is the dark horse of the Survey Report. Because service charges are visible and well understood 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 attention and attract more negotiating resources 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".
7. In every Survey Report there's the unexpected. *Debit and Credit Card Fees and Charges* garners 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 implications that these changes have for debit and credit card pricing.
8. Finally, tucked at the back of the report you'll find an interesting discussion of the business model that underlies CBI's *2009 Survey of Canadian Bank Pricing*, what to expect in future reports, and what needs to happen to track and report current bank price increases. For those that are interested, there is a section covering the survey methodology and a comprehensive glossary – the latter constituting an excellent introduction to the terms and concepts that are central to bank negotiations.

2009 renewal bank pricing is not covered by the Survey Report. 2009 renewal price increases, for most companies, have been substantial and demand comment. To this end, CBI's *2009 Survey of Canadian Bank Pricing* includes an Addendum. *Managing Bank Pricing in a Recessionary Environment* addresses the rationale and consequences of the current round of

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renewal price increases and addresses the question that many financial executives are struggling to deal with – how do you manage bank pricing in tough economic times. Here the Report is decidedly practical in both its analysis and recommendations. Unfortunately, too many companies are ignoring the issue, hoping that it will go away. It won't. For many, *Managing Bank Pricing in a Recessionary Environment* will be a much needed wake-up call.

Having said what the *2009 Survey of Canadian Bank Pricing* is, it's important to say what the Report isn't – a rehash of US data and US experience. The Canadian banking system and the Canadian marketplace is pointedly different from the US. The Survey Report addresses Canadian bank pricing issues with Canadian data. This different perspective will make CBI's *2009 Survey of Canadian Bank Pricing* of real interest to US treasury personnel that are relatively unfamiliar with Canadian banking and Canadian banking issues but who have responsibility for managing Canadian banking relationships. To them we say, it's a different world up here.

We close this introduction with a word to the wise. *In business you get what you deserve...and you deserve what you negotiate.*

In too many companies, managing the banking relationship has been synonymous with securing the credit line and negotiating favourable security arrangements and margining covenants. Managing bank pricing across the myriad of bank interface points has been, at best, a negotiating afterthought.

These companies – and they are legion in the midmarket company segment – should expect to pay premium bank pricing. And they shouldn't grumble about it. When it comes to bank pricing, banks are not the problem. When banks negotiate they do what they are supposed to do – look after their shareholders' interests. If they do so at their corporate customers' expense then, in the infamous words of Ricky Ricardo not the banks that have some '*splainin*' to do.

In fairness, Canadian companies haven't fared well in bank negotiations because they haven't had benchmarking data that's needed to manage bank pricing. Absent this tool, there's been little incentive to tackle the issue. CBI's *2009 Survey of Canadian Bank Pricing* changes this.

The *2009 Survey of Canadian Bank Pricing* is an important first step in mastering the pricing side of bank negotiations. Financial executives that understand what's between these covers will be well equipped to look after their company's interests next bank renewal. The Survey Report will level the "paying" field for many companies for the first time.

We conclude with one final thought. In bank negotiations, benchmarking will deliver a better banking deal, more efficiently, than any other negotiating strategy. It's your passport to fair bank pricing. It's also your passport to a more enjoyable negotiating experience. Banking negotiations are more fun when there's meaningful give and take, and not just give.

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