

Managing Financial Businesses -FINC-GB 2310-10 (20542)

Fall 2016 - Sep 22, 2016- Dec 15, 2016

Professors Phil Ryan and Brad Hintz

Thursdays, 6 to 9 pm

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Location: KMEC Room: 5-80

Office hours: By appointment

TA: To be announced.

Course Description: The global financial services industry has undergone massive change over the last five years. Since the end of the financial crisis, commercial banks, securities firms, insurance companies and asset management firms have struggled to adjust their business models to the shifting global economy and a changing regulatory environment.

Managing Financial Businesses (MFB) provides a broad overview of the four largest financial services industry sectors: Commercial Banking, Investment Banking/Capital Markets, Asset Management and Insurance. The lectures emphasize three large questions: What are the economic drivers of each industry segment the generate profits achieve strategic objectives and create shareholder value? What of the success factors that will determine the likely winners within each financial services sector? How do modern financial institutions set corporate strategy, manage risk and control capital resources? In addition, the class will examine the broader picture of financial services and review the interplay of globalization, politics and regulation, changing demographics, disruptive technologies and new competitors on the industry.

By the end of the course, each student will have gained a thorough understanding of the financial services landscape and should be well prepared to interview for positions at a major financial service firm or at a client firm where he or she is expected to interact with the financial service industry.

Managing Financial Businesses is co-taught by two former C-suite executives:

Philip Ryan, Adjunct Professor of Finance and has had a long career in financial services. Professor Ryan is currently Chairman of Swiss Re America Holding Corp. and a director of Swiss Re Ltd. Prior to that he had a number of roles in investment banking and financial management with Credit Suisse, including Group CFO, and CFO of Power Corporation of Canada.

Brad Hintz, Adjunct Professor of Finance. For twelve years, Professor Hintz was a nationally ranked equity research analyst covering the Securities and Asset Management Industries. Prior to becoming a research analyst, Hintz served as CFO of Lehman Brothers Holdings and Managing Director and the Treasurer of Morgan Stanley Group.

Student Deliverables and Grading:

1. Four written company analyses prepared by student groups. (50% of final grade)
2. In class midterm exam (25% of final grade)
3. Final exam (25% of final grade).
4. Noteworthy contributions to class discussion will be considered in determining the final grade.

At NYU Stern, we seek to teach challenging graduate courses that allows MBA candidates to demonstrate mastery of difficult subject matter. Assigning grades that reward excellence in and reflect differences in performance is important to ensure the integrity of our graduate curriculum. The grade distribution will follow the Stern guidelines (i.e. no more than 35% of the grades awarded will be an A or an A-).

Pedagogy:

1. The MFB course is divided into four parts, each for one of the segments.
2. Each part begins with a lecture and discussion of the business model, economic drivers and requirements for success of the segment.
3. At the subsequent session of the course, student write-ups on companies from the segment (see below) will be presented, and discussed.
4. Four sessions will include guest speakers from the financial services industry.
5. Sessions will be structured to provide ample time for class discussion
6. Adherence to an announced syllabus, but with 10-15 min allocated to the discussion of any material events occurring in financial services.

Company Analyses.

MFB students will be expected to form study groups of two to three students for the purpose of writing an analysis of a specific company for each of the first four industry segments covered. The joint papers should be a five page executive summary of the group's findings to which graphs, charts, spreadsheet analyses or other exhibits relevant to conclusions may be attached.

MFB study groups will select a particular company in each of the industry segments to research. Groups will do their own research to prepare their papers, and include a review of recent SEC filings and a careful reading of the Management Analysis and Discussion presented in the annual 10K filings.

Group write-ups will be graded and returned. Instructors will prepare and post on NYU Classes an example of a good write up for each segment after the papers are due.

Readings:

A digital course packet in lieu of a textbook is available at the NYU bookstore and certain other readings will be posted on the class website:

- “Note on the Banking Industry”, by Clayton S. Rose and Scott Waggoner, Published by Harvard Business Publishing (2010) Reference no. 9-311-011
- “Investment Banking in 2008 (B): A Brave New World”, by Stowell, D.; Meagher, E.; Frazzano, R. published by the Kellogg School of Management. Case Reference no. K5-308-507(B)
- Note on “The US Life Insurance Industry” by Robert C Pozen and McCall Merchant, Published by Harvard Business Publishing (2011) Reference no. 9-310-091
- “Note on the Insurance Industry” by Rose, C.; Waggoner, S. Published by Harvard Business Publishing (2010) Reference no. 9-311-012
- “Note on the Asset Management Industry”. Authors: Rose, C.; Waggoner, S. Published by: Harvard Business Publishing (2010).

For those students wish refer to a textbook, Brian Scott-Quinn’s “Commercial and Investment Banking and the International Credit and Capital Markets” (ISBN-13: 978-0230370470) and David P. Stowell’s “An Introduction to Investment Banks, Hedge Funds and Private Equity ” (ISBN-13: 978-012415820) are good reference texts, but are not required for the course.

Grading, Attendance and Honor Code

There will be a mid-term and final exam, each of which will count 25% towards the final grade. Four written company analyses prepared by student groups will count in total for 50% of final grade. Class participation will considered when determining the final grade. Class participation grades will be determined by the professors.

Normal Stern “default” standards on class attendance and adherence to the university’s honor system apply in full.

The class sessions are being recorded. However, neither Mr. Ryan nor Mr. Hintz stand behind the podium when lecturing and both attempt to engage the class in discussions. This means that the audio quality of the recordings will vary in quality. Open laptops and use of other electronic devices during class are permitted for taking notes and following along in class presentations. Surfing the internet, reviewing, drafting or sending e-mails during class is not permitted.

Course Outline

Session 1 Sept 22, 2016 Overview of the Course and Financial Services Industry

First Session:

- Overview of the Course: Phil Ryan.
- The Financial Services Industry: Brad Hintz

Second Time Period:

- Economic business drivers of commercial banking, NIM, interest rate sensitivity, fee business, analyzing bank balance sheets and margins. Ryan

Reading:

- “Financial Market Globalization - Retreat or Reset?”, McKinsey Global Research Institute by Susan Lund, Toos Daruvala, Richard Dobbs, Philipp Härle, Ju-Hon Kwek, and Ricardo Falcón. (2013)
- “Note on the Banking Industry”, Clayton S. Rose and Scott Waggoner, Published by Harvard Business Publishing (2010)
- “Statistical Data on US Financial Services Industry.”, available on the course website.

Session 2 Sept 29, 2016 PART I Commercial and Retail Banking (Hintz)

First Time Period:

- Primer on capital. Basel, leverage and liquidity. Primer on valuing Financial Institutions. P/E, Price/Book and dividend discount model. Hintz

Second Time Period:

- Discussion of regional banks and alternative commercial bank strategies. Hintz

Readings:

- Three articles from Valueline and Investopedia on analyzing bank financial statements.
- Texas Capital Bankshares 2014 10-K (from Edgar, the SEC website) – Read Management Discussion and Analysis section.

Session 3 Oct 6, 2016 Commercial and Retail Banking (Ryan)

First Write-up on Commercial Banking due

First Time Period:

- Guest speaker regarding Retail Banking. (Ryan)

Second Time Period:

- Discussion of the company analyses performed as part of the First Write-up. (Ryan)

Session 4: Oct 13, 2016 PART II Investment Banking and Brokerage (Hintz)**First Time Period:**

- Understanding the investment banking business model and its specific earnings drivers – Investment banking (debt underwriting, equity underwriting and M&A advisory). (Hintz)

Second Time Period:

- Fixed income (market making, yield curve, trade volumes, securitization, and risk economics); and Institutional equities (trade volume, commission trends, derivatives, and brokerage). (Hintz)

Readings:

- Case - “Investment Banking in 2008 – Brave New World,” by David Stowell. Published by the Kellogg School.
- “Normalized Margins in the US Securities Industry”, Sanford C. Bernstein Research by Brad Hintz.

Session 5: Oct 20, 2016 Investment Banking and Brokerage (Hintz)**First Time Period:**

- The Investment banking industry pre-crisis and post-crisis.; overview of principal changes. Class discussion of the impact of the 2008-09 crisis on business economics and firm strategies. (Hintz)

Second Time Period:

- Discussion of the rise of the investment banking boutiques; Lazard, Evercore and Moelis. Disruptive technologies. Discussion of shadow banking trends. (Hintz)

Readings:

- “The Bi-Polar World of Capital Market Banks” by Brad Hintz and Roy C. Smith (2015)

Session 6: Oct 27, 2016 Investment Banking and Brokerage (Hintz)

Second Write-up on Investment Banking due.

First Time Period:

- Industry speaker will discuss the challenges facing the securities industry in a 'fireside chat' with the class. (Hintz)

Second Time Period:

- Discussion of the company analyses performed as part of the Second Write-up. Closing comments regarding changing Wall Street cultural and brand. (Hintz)

Reading:

- “Trading places - After decades of consolidation, Wall Street is fragmenting”, The Economist (2014)
- “Badly managed and unrewarding, global banks need a rethink”, The Economist (2015)

Session 7: Nov 3, 2016 PART III Insurance (Ryan)

First Time Period:

- Midterm Exam – Commercial Banking and Capital Markets.

Second Time Period:

- Introduction to Insurance. Life and P/C businesses. Statutory accounting. Regulation of insurance. Primer on analyzing an Insurance company. (Ryan)

Readings:

- Investopedia Article; Review of the insurance business concept, risks and products.
- The Street.com Article; Overview of Insurance

Session 8: Nov 10 Insurance (Ryan)

First Time Period:

- Overview of property casualty industry. PC risk management, PC risk transfer, PC portfolio structure. PC Industry - Major participants and strategies. (Ryan)

Second Time Period:

- Life company, , valuing and insurance company. Overview of life industry. Life risk management, life risk transfer, life portfolio structure. Life Industry - Major participants and strategies. Mutual and stock companies. (Ryan)

Reading:

- ValueLine.com Article; Overview of Property Casualty Industry.
- “Note on the Insurance Industry” by Rose, C.; Waggoner, S. Published by Harvard Business Publishing (2010)
- “The US Life Insurance Industry” by Robert C Pozen and McCall Merchant, Published by Harvard Business Publishing (2011)
- 2014 Allstate Financial 10-K.

Session 9: Nov 17, 2015 PART IV Insurance (Ryan)

Third Write-up on Insurance due.

First Time Period:

- Insurance industry guest speaker re challenges and opportunities (Ryan)

Second Time Period:

- Company analyses and discussion. (Ryan)

NO CLASSES NOV 24**Session 10:** Dec 1, 2016 Asset Management (Ryan/Hintz)**First Time Period:**

- Overview of the Asset Management Industry; institutional asset management, mutual funds, ETFs, 401K and alternatives. Discussion of business drivers of asset management. Valuing asset management firms. (Hintz)

Second Time Period:

- Business models in asset management. Lecture on alternative assets (Hedge funds and private equity). The economics of alternative asset management and valuation of PE firms. Hintz
- Lay of the land among the public asset management companies. Hintz

Readings

- The Economist “Rich managers, poor clients; a devastating analysis of hedge-fund returns.”(2012).
- The Economist “Barbarians at middle age.” (2014).

Session 11: Dec 8, 2016 Asset Management

First Time Period.

- Industry speaker will discuss issues facing the investment industry in an informal discussion with the class. (Hintz)

Second Time Period.

- Company analyses and discussion. (Hintz)

Session 12: Dec 15, 2016 Final Exam (Hintz/Ryan)

First Time Period:

- Final Exam – Full year: Commercial Banking, Capital Markets, Insurance and Asset Management.

Second Time Period:

- Pulling it all together. Class discussion of the universal banking business model and its likely future.

Reading:

- Note on the Asset Management Industry. Authors: Rose, C.; Waggoner, S. Published by: Harvard Business Publishing (2010).
- The Economist, “Practice Makes Imperfect” (2014).

Course Readings

1. "Financial Market Globalization - Retreat or Reset?", McKinsey Global Research Institute by Susan Lund, Toos Daruvala, Richard Dobbs, Philipp Härle, Ju-Hon Kwek, and Ricardo Falcón. (2013)
2. "Note on the Banking Industry", Clayton S. Rose and Scott Waggoner, Published by Harvard Business Publishing (2010)
3. Bank Financials. <http://www.investopedia.com/articles/stocks/07/bankfinancials.asp>
4. Bank Valuation. http://www.valueline.com/Tools/Educational_Articles/Stocks_Detail.aspx?id=10967
5. Overview of Banking.
http://www.valueline.com/Stocks/Commentaries/What%E2%80%99s_Ahead_for_the_Bank_Industry_in_2013_.aspx
6. Texas Capital Bankshares 2014 10-K (from Edgar, the SEC website) – See Management Discussion and Analysis section.
7. "Statistical Data on US Financial Services Industry.", available on the course website.
8. Case - "Investment Banking in 2008 – Brave New World," by David Stowell. Published by the Kellogg School.
9. "Normalized Margins in the US Securities Industry", Sanford C. Bernstein Research by Brad Hintz.
10. "The Bi-Polar World of Capital Market Banks" by Brad Hintz and Roy C. Smith (2015)
11. "Trading places - After decades of consolidation, Wall Street is fragmenting", The Economist (2014)
12. "Badly managed and unrewarding, global banks need a rethink", The Economist (2015)
13. Note on the Asset Management Industry. Authors: Rose, C.; Waggoner, S. Published by: Harvard Business Publishing (2010).
14. The Economist, "Practice Makes Imperfect" (2014).
15. Class Note on Wealth Management by Brad Hintz and Phil Ryan
16. The Economist "Rich managers, poor clients; a devastating analysis of hedge-fund returns." (2012).
17. The Economist "Barbarians at middle age." (2014)
18. Review of the insurance business concept, risks and products.
<http://www.investopedia.com/university/insurance/>
19. Overview of Insurance. <http://www.thestreet.com/story/10409493/1/understanding-the-financial-sector-insurance-companies.html>
20. Overview of Property Casualty Industry.
http://www.valueline.com/Stocks/Industries/Industry_Analysis__Insurance_%28Property_and_Casualty%29.aspx#.VGtoecm2CZQ
21. "Note on the Insurance Industry" by Rose, C.; Waggoner, S. Published by Harvard Business Publishing (2010) Reference no. 9-311-012
22. "The US Life Insurance Industry" by Robert C Pozen and McCall Merchant, Published by Harvard Business Publishing (2011)
23. 2014 Allstate Financial 10-K read Management's Discussion and Analysis