

## MANAGING AND INNOVATING IN FINANCIAL SERVICES Spring Term 2020

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### CONTENT

Financial services firms play a critically important role in the global economy. They finance investment, facilitate payments, and help firms and households save and manage risk. These financial services are provided in an array of organizational forms – from FinTech startups to multi-trillion dollar global banks – in an industry that is always under the threat of disruption.

In *Managing and Innovating in Financial Services*, we examine the challenges and opportunities faced in financial services as incumbent firms and startups try to navigate and shape an environment in which competition, technology and regulation are constantly changing.

We will look at a variety of financial institutions and financial service providers including banks, insurance companies, FinTechs, and BigTechs. We will examine decisions through the lens of these firms with government policy and regulation as an important factor that often shapes their decisions, but for some of the course we will look at the issues through the government's public policy lens, particularly as it relates to the financial crisis and its aftermath.

The course is divided into five modules. In the first module, we'll study the basic business model of banking. I believe you can't really understand innovation and FinTech startups without understanding the basics of banking. Critically, unlike most firms, banks actually make money on both sides of their balance sheets, and we'll study why and how, and the challenges they face in doing so. In the second module, we'll study the spectacular failure of the banking system during the financial crisis – how banks mismanaged both sides of their balance sheets – and the unprecedented response of the government to stabilize the financial system. We will also look at the capital regime that have been put in place to achieve longer-term financial stability, and the way it shapes bank behavior. In the third module, we study the use of financial technology in consumer and business lending. This module includes discussion of FinTech companies, finance companies, securitization entities, and insurance. The fourth module will cover insurance

– from traditional annuity products to Fintech insurance brokerage. Finally, in the fifth module, we will look at the payments system and the innovations taking place in that sector.

We will have case protagonists visiting about half the classes. For the section on the financial crisis and the government response, we will be joined by Paul Tucker, a Fellow at Harvard Kennedy School of Government and Chair of the Systemic Risk Council. He spent over 30 years at the Bank of England, most recently as the Deputy Governor for Financial Stability and was also a member of the G20 Financial Stability Board Steering Committee.

## **ADMINISTRATION**

Assignments will typically be posted by Friday of the week prior to the class, if not sooner.

Your course grade will be based on class participation (50%) and the final exam (50%). Evaluation of your class participation will be based on both the frequency and the quality of your comments, with more weight being placed on the latter criterion. Students are asked to attend class only if they are fully prepared to participate in the discussion, and not to arrive late or leave early. If you must be absent from class, please notify me in advance via the absence notification system. Please consult the policy regarding what are considered excused and unexcused absences.

The format of the final exam will be electronic and self-scheduled, and will consist of a series of questions (some possibly based on “mini-cases”) that test your understanding of the course material. The exam will be available for download from 9:00AM on April 30 and must be completed in a four-hour window by 4:00 PM on May 5.

If you are interested in writing a paper for this course rather than taking an exam, please send me an email outlining your idea. This could be a good opportunity for you to explore an area of financial services you’re particularly interested in with guidance from me and a learning opportunity for both of us. You can team up with one other person, but the expectations for the paper will be higher than if you are doing a solo-authored paper.

I will be available to meet with students by appointment. When possible, I will try to reserve time at the end of the day our course meets for these appointments. To schedule an appointment please contact Nicole Gregory (Email: [ngregory@hbs.edu](mailto:ngregory@hbs.edu)).

## **RESOURCES**

S&P Global Market Intelligence is a great resource for doing research on the banking industry as it collects information from a variety of sources and packages them in a convenient way to use in analysis. It is also a great resource to stay informed about what is going on in the banking industry. You can set up your account through the Databases section of the Baker Library website. If you want, you can receive daily emails with

industry news.

Another good resource is the daily periodical, American Banker, <http://www.americanbanker.com>. It covers FinTech as well as traditional banking. The full articles are not available on the website without an expensive subscription, but they are available online through Baker Library via EBSCO in the e-journals section of the website. You can, however, sign up for a free trial subscription and you will receive daily emails with the articles appearing that day.

## SCHEDULE

Class #	Date	Day	Case
			<b>Module 1: Banking Basics</b>
1	Jan 28	Tue	The Case of the Unidentified Financial Firms and Introduction
2	Jan 30	Th	Leader Bank, N.A.
3	Feb 5	Wed	Leader Bank, N.A.
4	Feb 6	Th	Introduction to Bank Valuation*
5	Feb 7	Fri	Leader Bank in 2020
6	Feb 13	Th	“Fair Play” at Huntington Bancshares
7	Feb 14	Fri	Novantas and Deposit Funding at First Regional Bank
8	Feb 20	Th	Citizens Bank*
			<b>Module 2: The Financial Crisis, Government Response &amp; Implications for Banks</b>
9	Feb 21	Fri	The Aftermath of Lehman’s Failure*
10	Feb 26	Wed	The Financial Crisis: Hank Paulson in 2008*
11	Feb 27	Th	The Financial Crisis: Timothy Geithner and the Stress Tests*
12	Feb 28	Fri	Capital, Portfolio and Risk Management*
			<b>Module 3: Fintech and Lending</b>
13	Mar 5	Th	Goldman’s Digital Journey (TBC)
14	Mar 6	Fri	Live Oak Bank*
15	Mar 11	Wed	OnDeck Capital, Inc.*
16	Mar 12	Th	Sankaty Advisors: Race Point IV CLO*
			<b>Module 4: Insurance</b>
17	Mar 25	Wed	New York Life and Immediate Annuities
18	Mar 26	Th	USAA
19	Mar 27	Fri	Hilb Group
20	Apr 2	Th	Lemonade
			<b>Module 5: Payments</b>
21	Apr 3	Fri	Apple Pay
22	Apr 9	Th	No Class
23	Apr 10	Fri	TBD
24	Apr 15	Wed	True Link*
25	Apr 16	Th	Toast*
26	Apr 17	Fri	Banco Inter*
			<b>Conclusion</b>
27	Apr 23	Th	Perspectives on FinTech and the Modern Financial System
28	Apr 24	Fri	Wrap-up

