Private Banking and Wealth Management         Fall, 2011
Professors Alan Rappaport and Ingo Walter    B40 3120.10
Mondays, 6:00 – 9:00 pm         KMC 5-140

Course Description
This is a case-based minicourse intended to provide an in-depth conceptual and practical guide to domestic and international wealth management for high net worth individuals and families. Global market for wealth management has grown rapidly in recent decades and is likely to continue to be one of the most dynamic dimensions of the financial services sector, even as growth shifts location to new areas of wealth accumulation, notably Asia-Pacific, parts of Latin America, Russia and the Middle East. Besides growth, private banking remains one of the most valuable franchises of the global financial services industry, based on key client relationships, creativity in product development, and earnings stability.

Course Requirements
Students taking this course should have successfully completed the Foundations of Finance course as well as the Economics MBA core course. Students are required to complete the assigned readings before class coming to class, and be prepared to discuss the assigned cases. There will be a final examination during the last session of the course involving a challenging, complex private banking case.

Course Material
All course material and cases are posted on Blackboard. Copies of PowerPoint presentations will be posted on Blackboard following class discussion.

Grading
Grading: Grading weights are as follows – Final exam 50%; Class participation and case discussion 50%. The full range of grades will be by awarded, and the Stern Finance Department’s grading curve will be applied.
Course Outline

Session 1:  
31 October  
Private Banking: Defining the industry, market segmentation, service offering, competition

Onshore private banking (Rappaport)

Introduction to the industry model, service providers, client segmentation. Role of banks, brokerage firms, Registered Investment Advisors, Family offices; regulatory structure; introduction to service offering; nature of clientele and segmentation strategies; competitive distinctions. Globalization implications for client service and product solutions.

Offshore private banking (Walter)  
International dimensions of financial services for high net worth clients. Principal drivers of offshore financial holdings. The value and role of offshore financial confidentiality. Impact of political, economic and financial instability. Regulatory developments affecting offshore private banking including FATF, money laundering and anticorruption measures, and tax enforcement.

Reading: [Descriptive background article on private banking]  
Ingo Walter, “Note on Financial Confidentiality”  
Ingo Walter, “Notes on Money Laundering”

Session 2:  
7 Nov.  
The Wealthy Family: Structure, balance sheet, needs, behavior, objective, issues (Rappaport)

Social, financial, emotional dimensions of wealthy families; class will review balance sheet and income statement of families. Discussion will provide a framework to assist families establish clear financial objectives, requirements to meet lifestyle (including issues of retirement), charitable and estate objectives. Class will address issues of wealth creation, role of leverage and the
importance of asset location. Class will provide insight into the complexity of structures and challenges of multi-generational wealth. Class will then focus on the role of a wealth management firm in servicing this family, reviewing the types of services, professionals and team structure.

Case: The Garnett Family (A)

Session 3:
14 Nov. The Business Model

Return dynamics, organizational structure and compensation (Rappaport)

Private wealth management companies can generate significant value through efficient use of capital and strong earnings growth. This class will focus on the financial structure of these firms, components of revenue generation, expense structure and use of capital. Discussion will focus on the role of professionals, including organizational structure and compensation plans. The class will highlight the service model needed to solicit and serve families. The class will present the often conflicting requirements of “product sales” and client advice. The class will cover the return dynamics of the “spread businesses”, which rely on institutional balance sheets and capital as well as the importance of “fee based businesses”. The class will identify optimal margin structure and business mix dynamics and the implications on client product solutions.

Risk management and private banking (Walter)
Discussion of the key risk domains – market risk, credit risk, liquidity risk, sovereign risk, operational risk and reputational risk, including the issue of legal and compliance risk. Focus on the interlinkage among risk domains from the perspective of the client as well as the perspective of the private banking organization.

Case: Banque Alpha
Session 4:
28 Nov.  The Product Suite:

Banking, credit, trust and investments (Rappaport)
This class will review, in detail, the comprehensive elements of the product offering of wealth management firms. The class will organize the service offering around its core components – managing liquidity through banking products, the extension of credit, delivering of fiduciary services, the broad range of investment solutions, administrative support, philanthropic advisory and administration. The class will review of the similarity of product offerings and then provide insight into differentiating solutions, comparing different service providers.

Product suite: Applications (Walter)
Case analysis focusing on private client value added using the full range of private banking products and services. Benchmarking service quality against best-in-class offerings, including discussion of open-architecture models and event-windows in the context of the private client experience. Optimizing the matrix – coverage and execution.

Reading: [Pre-reading on the private banking product suite]

Guest speakers:

- Regina Bronson, Managing Director, JP Morgan Private Bank
- Tom Brasco, Managing Director, Goldman Sachs Wealth Management
- Ted Cronin, Chief Executive Officer, Manchester Capital (private multi-family office)

Session 5:
5 Dec  Investments: strategy, allocation, concentration, manager selection, portfolio oversight, rebalancing, tactics (Rappaport)

This class will focus, in depth, on the investment solutions available to families. The class will start by discussing customized, investment strategies and then focus on optimal advisory roles.
Starting with the creation of an Investment Policy Statement that captures the elements of a family’s comprehensive investment strategy, this class will review the essential elements of asset allocation, concentration and diversification. The class will review various implementation strategies, focusing on both the type of investment solutions and the role of the advisors. The class will contrast various types of investment programs, including self-directed investments, the role of investment consultants, brokers and family office investment officers. This class is designed to provide a framework for the delivery of optimal investment solutions and the type of service provider most appropriate for the family.

Reading: The Yale Endowment, 2010
Case: The Garnett Family (B)

Guest speakers:

- John McNear, Managing Director, JP Morgan Private Bank
- Lex Zaharoff, Managing Director, Citigroup Private Bank and Head of Citigroup Private Bank Idea Lab

Session 6: 12 Dec. Competitive Performance in Private Banking

Choosing an adviser: Banker vs. broker vs. family office (Rappaport)

Each type of firm in the industry offers certain advantages to clients and needs to balance the often conflicting needs of its owners, employees and clients. This class will identify critical priorities for each of the firm’s constituents and explore, in detail, the implications of the trade-offs. The question for the class will be to identify the best features of the modern private bank – structure, model, market, products, compensation. Making a difference – for the firm and its clients.

Competitive performance criteria (Walter)
What factors seem to separate successful from less successful firms in service wealthy clients? What are the appropriate metrics for assessing competitive performance? Economies of scale and
scope in private banking, including advantages and disadvantages of stand-alone firms vs. private banking units of financial conglomerates.

Case: The Call

Case-based Final Examination (second half of last class on 12 December 2011)
Instructors

**Alan H. Rappaport** is **Vice Chairman, Roundtable Investment Partners LLC.** He joined the firm in 2009. Previously, he served as Chairman and as President of the Bank of America’s Private Bank overseeing one of the world’s largest wealth management businesses and the nation’s largest trust bank. Mr. Rappaport served in a number of capacities for the Bank, including its Management and Operating Committee. In addition, Mr. Rappaport served as New York President, where he oversaw market activity and represented the Bank in public policy, philanthropic and sponsorship activity.

Prior to joining Bank of America, Mr. Rappaport was a Partner at The Beacon Group, a private investment and strategic advisory firm where he was responsible for the wealth management business. The Beacon Group was acquired by the Chase Manhattan Bank in July 2000. Mr. Rappaport served as Managing Director of Investments at the Chase Private Bank.

Prior to joining The Beacon Group, Mr. Rappaport was Managing Director of the Asset Management Division of CIBC Oppenheimer. In this capacity, he was responsible for this $12 billion investment business. He created and served as chairman of numerous investment funds including many New York Stock Exchange listed investment companies as well as pioneering work in the emerging markets. During his seventeen year tenure, he was involved in a broad range of investment strategies and served on a number of committees, including the Executive Committee.

Mr. Rappaport serves as Chairman of GuideStar, the nation’s leading database for non-profit organizations. He also serves on the boards of the NYU Langone Medical Center and the American Museum of Natural History and is a member of the Council of Foreign Relations. He is a member of the Allianz Multifund Board, a family of registered investment funds. He has served as the National Co-Chair of the Parents Committee of Duke University as well as served on the boards of the Partnership for New York City and the New York City Investment Fund.

Mr. Rappaport is an MBA graduate of the Stanford Business School and holds a B.A degree *magna cum laude* from Harvard College. He is a native of Martha’s Vineyard, Massachusetts and lives with his family in Bronxville, New York.
Ingo Walter is Dean of the Faculty and the Seymour Milstein Professor of Finance, Corporate Governance and Ethics at the Stern School of Business, New York University.

He has been on the faculty at New York University since 1970. From 1971 to 1979 he was Vice Dean for Academic Affairs and subsequently served a number of terms as Chair of International Business and Chair of Finance, as well as Director of the New York University Salomon Center for the Study of Financial Institutions from 1990 to 2003 and Director of the Stern Global Business Institute from 2003 to 2006. He has been Faculty Dean since 2008.

Prof. Walter has had visiting professorial appointments at the Free University of Berlin, University of Mannheim, University of Zurich, University of Basel, the Institute for Southeast Asian Studies in Singapore, IESE in Spain and various other academic and research institutions. He also held a joint appointment as Professor of International Management from 1986 to 2005 and remains a Visiting Professor at INSEAD in Fontainebleau, France and in Singapore.


He has served as a consultant to various corporations, banks, government agencies and international institutions, and has held a number of board memberships.

Prof. Walter received his A.B. in Economics summa cum laude in 1962 and his and M.S. degree in Business Economics in 1963 from Lehigh University, and his Ph.D. degree in 1966 from New York University.