

## Case Study: Banc-Zero New Product Development

This case study is based on Banc-Zero (a disguised name for one of the largest US banks). Banc-Zero, a holding company for its numerous subsidiaries worldwide, provides a range of financial services increasingly targeted to large multinational conglomerates. It has “recently” opened a Mexican subsidiary, where the head of derivative sales is impatient for a currency swap product that has long been under development at the bank’s New York headquarters. Having failed its “stress test” just before the “final documentation “ step in the development process, the product is further analyzed for risk exposure and thus will be delayed once again. The development process is a “stage-gate” model whose steps have been sequenced for the incremental projects the bank has generally undertaken in the past. The environment the bank now faces, however, is increasingly turbulent and the product involved more revolutionary. Meanwhile the competition in Mexico is rumored to be near ready with a similar offering. Given the demand for this kind of product, BancZero clients could well defect to the competition.

Your assignment is to:

1. Demonstrate a thorough understanding of the case by **describing in great detail** all aspects of the case
2. Approve or disapprove the new currency swap product
3. Provide suggestions to improve the bank’s processing and approval of new products guided to local markets
4. Write a summary of major insights that you have gained and lessons learned from the case

In your presentation you must be sure that you provide answers for all these questions or issues:

1. What are Banc-Zero’s credit policies?
2. What type of clients are they trying to attract?
3. Who are Banc-Zero’s competitors?
4. Describe the difference between the over counter derivatives and standardized traded derivatives
5. Describe how BancZero uses derivatives in its trading and asset/liability management operations
6. What is the role of Banc-Zero’s Risk Management Group and who is the head of the group?
7. To demonstrate your understanding of the new product approval process you need to examine and comment on: Figure 2-The New Product Approval; Figure 3-New Products Manager; Figure 5- Mexico City Office Organizational Structure

8. What are Banc-Zero's risks in the Currency Swap with Company A?
9. How could BancZero hedge some of the risks with Company A and what are the limitations of doing so in the Mexican Market?
10. What will be Banc-Zero's compensation (fees, etc.) if it were to do the swap with Company A?
11. Who are Fernando Manzanilla and Ricardo Eliazondo?
12. What are some of the things that must take place before the swap project is approved?
13. Describe the problem with Banc-Zero's pricing and valuation model and the swap project?
14. What were the results of the "stress test"?
15. What will be the problems in modifying the product to meet the current stress test standards? What about changing the stress test standards?
16. What is the concern of Fernando Manzanilla with the results of the stress test?
17. Assume that you are the Head of Risk Management in New York: Would you approve this product? Give detailed reasons for your answer.
18. How would you improve Banc-Zero's process for new products? How would you change the sequence of activities?
19. What Have I Learned From this Case?

In order to share in the Group's grade a student must contribute to the Group's presentation and participate in the group's discussion of the case, otherwise his or her grade will be 0.

Each group must designate a Group Captain who will coordinate the discussion of the case within the group and will be responsible for posting the Group's presentation on the Canvas' Assignment Tool. For additional details please, see your Syllabus-Assignments