hubbis

INDIAN WEALTH MANAGEMENT

Issue 2, 2017

Karan Bhagat
IIFL Investment Managers

Indian Wealth Management - Award for Excellence

FEE TRANSPARENCY
Hubbis survey highlights pressing need

CREATING CAPACITY
NISM: closing the advice and competency gaps

KOTAK'S PILLARS
Boosting AUM via people, products and platform

NEW AMC MODELS
Why fund houses must rethink business models

SBI ON WEALTH
Banking on India's trust to create a wealth edge

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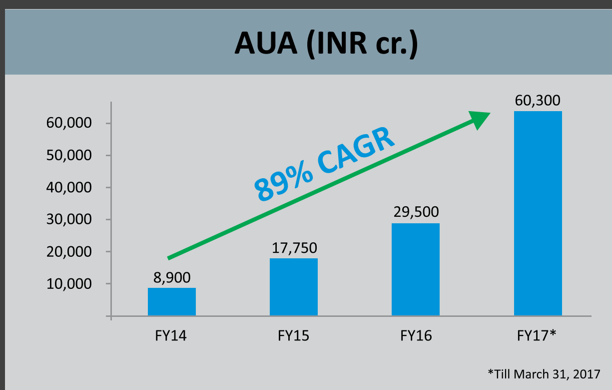

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Foreword

This is the latest edition of our Quarterly publication covering Indian wealth management.

There is no denying that the country's wealth and asset management markets continue to boom.

The fact that the average AUM in the country's mutual funds industry was at an all-time high of INR19.92 trillion (USD309 billion) as at end-June 2017, is a clear sign of the opportunity – growing from INR3.26 trillion a decade earlier. At the same time, the total number of folios stood at 58.2 million.

But there is still so much more potential given the number of untapped investors, if and when the advice gap can be narrowed.

Indeed, enhancing competency standards and creating the right mind-set for future generations will build capacity and capability in wealth management in India, and, in turn, help take the industry forward.

For this second issue of our Quarterly magazine, we spoke directly – both on- and off-the-record – with over 75 of the leading practitioners across wealth management, asset management, wealth solutions and technology.

The content in this publication therefore focuses on how to capitalise on the ever-wider opening of the market, to access affluent individuals and HNIs, looking also at success stories and best practices to pave the way.

Many of the key trends and opportunities will also form part of the discussions at our 7th annual get-together for the Indian wealth management community – the pre-eminent event of its type – in Mumbai on August 23.

We have also given out our latest award – 'Indian Wealth Management - Award for Excellence' – to Karan Bhagat, the founder, managing director and chief executive officer of IIFL Investment Managers.

We aim to continue to add value to the market where we can going forward. So to ensure this is relevant to you – please email your feedback and suggestionsus to editor@hubbis.com.

ANDREW CROOKE
EDITOR
HUBBIS

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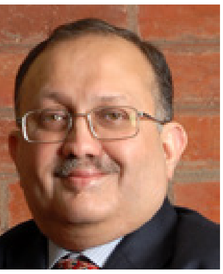



Cover Story

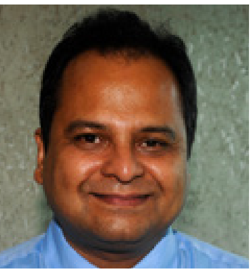
Business Strategy

Family Wealth










Asset Management & Product Gatekeepers

Asia Highlights

Practice Management

USD18 bn

IIFL Investment Managers has grown in nine years to USD18 billion in AUM from 230 front-end advisers across 22 locations.
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45%

AUM in the private wealth arm of Kotak Mahindra Bank has grown by almost 45% in 2016/17.
Page 14

2,000

There are 40+ fund houses in India, selling more than 2,000 primary fund schemes; individual investors hold about 46% of the overall assets.
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65%

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1 billion

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INR500

Those people who invested INR500 on a monthly basis in the early 1990s in SBI Mutual Fund, the country's first of its type, have all become millionaires.
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Content colour coding - for Hubbis articles

REGULATION & COMPLIANCE	FAMILY WEALTH	STRATEGY & BUSINESS
INVESTMENTS	SKILLS	TECHNOLOGY

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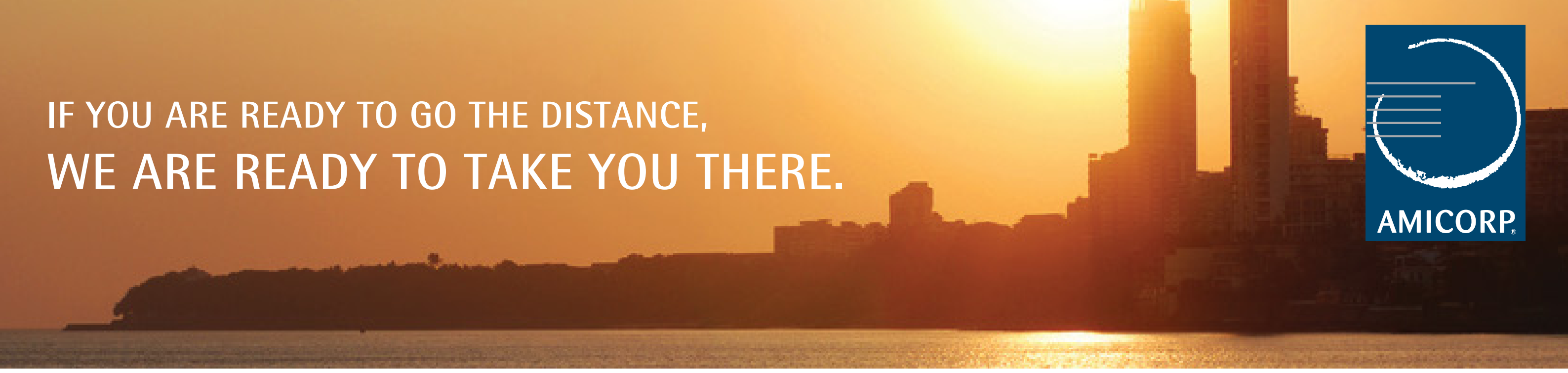

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How India's largest wealth manager stays sharp

Innovation and a can-do, entrepreneurial spirit are evident at IIFL Investment Managers, in its continued pursuit of growth, says Karan Bhagat – who is also the latest winner of our award 'Indian Wealth Management - Award for Excellence'.

As someone who enjoys playing poker in his spare time, Karan Bhagat is certainly 'all in' when it comes to in the wealth management game.

He has clearly taken a calculated approach so far. This has seen Bhagat, who at 40 is the founder, managing director and chief executive officer of IIFL Investment Managers, spearhead the firm's growth from a standing start to a business nine years later with USD18 billion in AUM from 230 front-end advisers across 22 locations.

In working with his fellow senior executives to create what is understood to be India's largest wealth management firm, innovation has been a key card that Bhagat and IIFL Investment Managers have played to date.

A case in point is the pre-IPO fund that IIFL Investment Managers' asset management arm launched early this year. The USD500 million IIFL Special Opportunities Fund has a mandate to predominantly invest before and during the IPOs of private companies. The aim is to give the firm's HNI clients the opportunity to participate in IPOs as anchor investors through the Qualified Institutional Buyers route.

"Could somebody else have done this?" asks Bhagat. "The answer is yes, but it's different... we did it first."

THE RIGHT CULTURE

The new fund highlights what IIFL Investment Managers can bring to the table for its clients – and therefore justify the fee it charges them for a unique offering.

"You can't just get up in the morning and decide to innovate today; that's not going to happen," he adds. "It's got to be [part of the] culture." This also stems from a mind-set of being willing to try new things – and also not being afraid to fail. For example, when he was only 17, Bhagat, hailing from a 'Marwari'

KARAN BHAGAT
IIFL Investment Managers

family in India (hailing from the Marwar region in the northern Indian state of Rajasthan and known for business acumen and work ethic), founded a travel agency that didn't go so well.

Rather than taking a back seat after investment by General Atlantic, however, there was no talk of a sunset stage. "We are far away from that," he says. "It is just the start. The sun is shining on us."

"You can't just get up in the morning and decide to innovate today; that's not going to happen. It's got to be [part of the] culture."

Unperturbed by the outcome of his maiden venture, Bhagat went on to do a Master's programme in Business Administration, Finance & Strategy at the renowned Indian Institute of Management in Bangalore.

Post-IIM in 2001, he joined Kotak Mahindra Bank, becoming the Mumbai head of the bank's wealth management division.

ALL OR NOTHING

But being his own boss at 17 was infectious. In December 2007, at 28 years old, Bhagat resigned from Kotak to join the office of IIFL (previously India Infoline), to ask the chairman, Nirmal Jain, to back the idea for his own wealth management practice.

Jain bought into the pitch and Bhagat, along with Yatin Shah and Amit Shah, founded IIFL Investment Managers (then known as IIFL Private Wealth Management). In October 2015, IIFL Investment Managers sold a 21.6% stake in the wealth unit to General Atlantic for INR1.2 billion (USD173 million).

"There has never really been a dull day," reminisces Bhagat, "and as we [develop] different things keep coming along."

SIFTING CLIENTS

IIFL Investment Managers also has a very clear view on the types of clients it feels it can add most value to; it doesn't want to go below the equivalent of USD3 million in financial assets invested with the firm. Effectively, this means a client will need to have a total net worth of at least USD5 million to USD10 million across their various providers.

Some exceptions exist, says Bhagat, where, for instance, a client is 40 or under, since this gives the firm a longer timeframe and more of the individual's lifecycle to participate in their wealth accumulation and management.

While this approach to segmentation leaves a large under-penetrated groups of India's wealthy – including salaried individuals – it also offers an opportunity for the group's asset management offering to leverage distributors such as commercial banks, including the likes of ICICI Bank, Axis Bank, and HDFC Bank.

But Bhagat also sees a large amount of money moving from non-financial / unsecured forms of savings to financial assets. Plus, a greater number of people are falling within the tax net. In all cases, there are compelling reasons for them to look to save and invest money in a more constructive manner.

Lower fixed income returns might also force some individuals to look at optimum methods of investing, he adds. Such strong tailwinds in the wealth management business are likely to continue to play out over the next 10 years, he predicts.

This also bodes well for the leadership transition that he and his fellow management team have earmarked for a few years down the line, when they will look to take on a lighter role and hand over the reins. ■

Fresh blood

As part of this next phase of the evolution, IIFL Investment Managers plans to add a large number of new relationships, with a particular emphasis on new-to-bank relationships, to benefit from the tailwinds of growth in the country.

The firm is also realistic about the need to be patient, especially since customers typically don't buy advice on day one. It might take until the 12th month, or even longer, before that happens.

"Our effort in launching new products is to ensure that we get as many new-to-bank clients as possible," explains Bhagat.

"The moment we lose sight of that, it will become a stagnant franchise and we will only be able to add assets from existing families, which is something that happened to a lot of [wealth management] organisations from 2007 to 2012/13."

Banking on India's trust to create a wealth edge

It is the near-blind faith that Indians all over the country have in State Bank of India (SBI) that gives Nimish Shah reason for optimism in delivering on plans to grow the state-run institution's recently-launched wealth management business.

It wouldn't be too far-fetched to say that SBI is an institution that the vast majority of Indians would trust with their eyes closed. It owes its origin to the Bank of Calcutta, founded in 1806 in British India. And the name itself conjures up the image of a monolith that's backed by the full force of the government.

Yet so far, the institution has failed to capitalise on the head-start it's had over pretty much all other banks, which today vie for the growing amount of wealth held by individuals across the country.

The key to the plan to benefit from peoples' trust, lies hidden in numbers. India has a population of 1.3 billion people and is witnessing a growing crop of affluent individuals. The bank has woken up to the potential of tapping the wealthy, both at home and abroad.

"We have a lot of scope and ready infrastructure, in terms of resident Indians and non-resident Indians (NRIs). Both groups represent huge opportunities available to us."

NIMISH SHAH
State Bank of India

SBI's wealth management division is small in comparison; while it currently advises about 10,000 Indians with an average wealth of the equivalent of USD110,000, the bank has over 200,000

clients who can meet the on-boarding criteria for wealth management.

"We have a lot of scope and ready infrastructure, in terms of resident Indians and non-resident Indians (NRIs). Both groups represent huge opportunities available to us," says Nimish Shah, SBI's head of investments, research and products.

Also in the bank's corner is the fact that India has the largest population of people living abroad. According to a UN report, for example, there are 16 million NRIs.

"We are attracting a lot of talent purely from the brand name of SBI," says Shah.

number of people SBI is able to hire. "The infrastructure is not a problem, and the clients are not a problem... [but finding the] right quality of people is the major focus and challenge," he adds.

Shah said the bank wants its 100-member team to grow to at least three- to four-fold over the next 12 months.

MAKING A DIFFERENCE

Even if it gets there, how will SBI to stand out in an already-crowded wealth management landscape?

"It's more in terms of holistic wealth management, which is unbiased and

"We are building the entire organization. Right from creating the product and programmes to the delivery channels, everything is being set up from scratch, so that's an exciting challenge."

The value proposition has also been bolstered simply due to the retreat or downsizing of many international banks in India, especially in terms of their private banking operations. "So people want to come to SBI," he adds.

GROWTH PATH

One of SBI's tasks in achieving its goals is to lure new-to-bank customers from private sector banks that are the country's largest wealth managers.

This starts with a recruitment drive, confirms Shah, explaining that growing the existing to bank and new-to-bank client base is correlated with the

geared towards what the clients want, rather than what the wealth manager wants to sell" explains Shah, who had a long stint at Citi Private Bank before joining the SBI. That's how we have differentiated ourselves."

The bank's motivation to succeed in its wealth management unit are strong, not least since this would go a long way in proving wrong those sceptics who doubt the efficacy of state-run institutions and corporations.

Among its challenges, SBI must address issues in its main commercial banking division. For example, the size of the institution has also resulted in it having the largest share of non-performing assets (NPA), or bad loans, among Indian banks. At INR1.12 trillion (USD17.3 billion), it represents 6.9% of gross NPA, according to a stock exchange filing.

The wealth management unit, in that sense, represents baby steps for the bank in the context of its overall business. But it is an important initiative.

"We are building the entire organisation," explains Shah, underlining the huge task at hand. "Right from creating the product and programmes to the delivery channels, everything is being set up from scratch, so that's an exciting challenge."

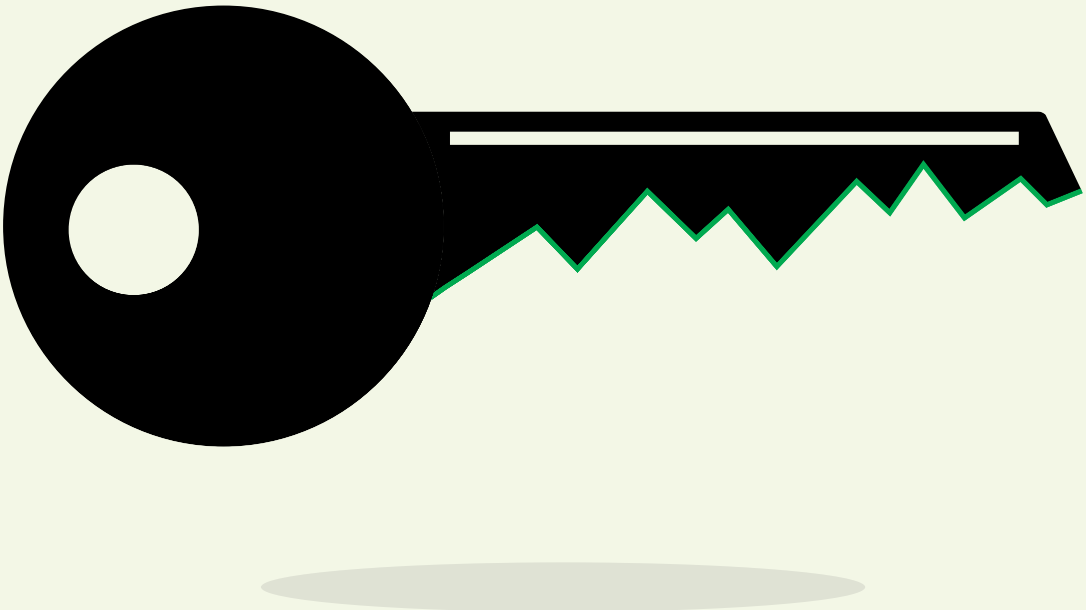
More specifically in terms of the Shah's part of the offering, SBI has an investment research team and investment counsellors who are capital market specialists. Plus, there are data analysts who help in asset allocation, portfolio analytics and reviews.

The bank also employs independent agencies to help it evaluate products, he adds – based on which it selects best-of-breed products for clients. Every product is approved by a cross-functional investment committee of the bank.

Ultimately, the most important thing that Shah – and SBI in general – wants to do, is avoid destroying the 'trust' of the bank's customers.

"That should not, at any point of time, be broken. Our product selection, suitability assessment, method of delivery and commission policies are all geared towards making sure we maintain the client's 'trust'," he explains. ■

UNLOCK THE SECRETS OF MONEY WISDOM, WITH INSIGHTS FROM ROLF DOBELI.



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Ethical advisers key to growth in Indian wealth sector

Wealth managers need a heavy dose of ethics as client dependence grows, believe wealth management business leaders in India.

As client dependence on advisors goes up in a growing economy such as India, advisors need to shape up, and the regulatory environment catch up, to ensure ethics go hand-in-hand with growth.

“Two is globally what we are finding is the dependence of UHNIs on brokers or you may call it private bankers is increasing not decreasing,” according to one practitioner.

Advisers are surprised more banks don’t get into asset management despite having access to a large client base. An oft-quoted fear of conflict of interest by banks can’t be a reason, felt round-table participants, as product pushing takes place despite banks' unwillingness to get into fiduciary services.

“One of the things I will be honest, I have always been quite surprised with is that in India the financial institutions or the banks that have this capability of the investment bank, all the things that we are trying to do why is it that these organisations haven't taken that proposition to a different level,” said a practitioner.

“To the extent of actually having a multifamily office or creating family office services because part of what I see in terms of the way the industry has kind of morphed is that because it was always distributor-led, there was this distrust to a certain extent in banks about they being totally free and without conflict of interest, but I genuinely believe that if the large institution which has the access to the customer and the client can have a no-conflict-of-interest model, it should be a very successful one for you. Taking away from certainly different – we are literally trying to replicate or set up a business which banks could have done.”

This reluctance to take on a wealth management role may not be the case with every bank, a few have used their customer base to advantage.

AGGREGATION ENTITY

Regulation has a bit of catching up to do with the pace of change of financial services.

"I think some of it is in stage of evolution, there is a lot going on across financial services as a whole and what banks are doing and what securities companies are doing and what portfolio managers are doing, and the regulatory changes that are coming and there are many more to take place in the next few years as well," said one practitioner. "The Reserve Bank of India mooted the idea of setting up an aggregation entity, for example, which I don't know how long it will take and what that might mean but that might also have an influence on how these services are aggregate and offered."

Conflict of interest, though, is of concern to everyone, as banks can end-up recom-

ETHICAL ADVISERS KEY TO GROWTH IN INDIAN WEALTH SECTOR

CLIENT DEPENDENCE GROWTH
WEALTH MANAGERS NEED A HEAVY DOSE OF ETHICS

mending their own products. Products which get higher fees from clients and not serve their best interests are often seen in wealth management, and clients must both demand and get greater transparency in fee fixing.

“And I have seen it where a wrong product has been suggested and has been recommended to a client, I have seen products which have been packaged in particular manner with the intent of getting more fees out of the client. This has been when clients have been ignorant and didn't know unless we were peeling the onion for them, and this is happening here and now," said a practitioner.

And I don’t want to take any names because we see practically every product in the market by every manufacturer because at the end of the day the pool that is the client, ultimately the client has to invest in a product, because the investment has to happen somewhere, those products are coming to us for due diligence, for fee structures, for peeling the onion,”

Wealth management in India has not yet reached the stage for conflict of interest to be clearly defined. Advisors feel, in such cases, it is better to feel the way forward and view every situation differently.

“In many cases clients are okay paying you fees and some cases they will have, nature of clients in India are very different, I don’t think a cookie cutter sort of applies across the board. We face competition with all clients, we sometimes face – in fact I have a very simple formula now, depending on who the competition is with we decide what the pricing should be. I also want to comment on here, I am sure we will have views and perceptions about each other but sometimes I hear the competition on the other side is X, I say let them be, they will help us also make our margins, you hear competition Y on the other side. I said fine, cut drop your margins because I have got other avenues within the banks to sort of make money,” said a practitioner.

“So, depends we got size, we got scale, so we try to use it for advantage, but just mixing two points together, one, at least Kotak in a limited capacity, has tried to use institutional might to get family office propositions built in and we today manage close to hundred-odd genuine family offices which as a percentage of the 2,000 clients that we manage may be small but these are obviously 360-degree view and on the whole point of conflict of interest is interesting but I don’t think it's reached a stage as of now where there is a clear model in terms of what is conflict of interest and what is not conflict of interest, I have lost of mandates to many of you and have won mandates from many of you, that’s typically the industry sort of functions, yes you are right, but there is something that we are trying to do.” ■

Kotak's pillars of wealth management success

Kotak Mahindra Bank's private wealth AUM will increase rapidly given its demonstrated ability to deliver the right mix of people, products and platform, says Jaideep Hansraj.

Jaideep Hansraj has fashioned the evolution of Kotak Mahindra Bank's wealth management and priority banking business based on what seems to be a simple philosophy.

"The three key things I have worked hard to closely guard are my people, our products and the platform," explains Hansraj.

Indeed, if all three components are in place and well-executed at any private wealth firm, the chances of building, retaining and expanding the business become very real. "Whenever I look at competing firms, I base my assessment on how well the firm will stand on each one of the three pillars.

That is my only focus," he adds, chief executive officer of wealth management and priority banking at the bank.

"The three key things I have worked hard to closely guard are my people, our products and the platform."

JAIDEEP HANSRAJ
Kotak Mahindra Bank

A NEW DIGITAL DIMENSION

Apart from his belief on the 'fundamentals' of wealth management he also acknowledges that advances in technology will be a further big driver for the industry going forward. "Digital will become really big," he predicts. "I am not so much talking about robo-advisory, because I am not the guy wanting to trade online.

But I am keen that we work on areas like the ease of reporting, the ease of MIS and the ease being comfortable with a bank, on behalf of our clients. To me, these will continue to be priorities."

As things stand already, Hansraj says his strength is the operational side of his business.

"We are among the few players having a demonstrated expertise of over two-and-a-half decades. In the past three years, we have meticulously focused on expanding our advisory services to boost our existing relationships with the clients," he explains.

And with his AUM in the private wealth arm having grown by almost 45% in 2016/17, he clearly has confidence in the business model.

"With no capital and return on equity infinite, it's a great business model," he explains.

"Yes, it has virtually zero entry barriers, but that's why it's so attractive to so many people, because there is hardly any use of capital; it's pure franchise income."

GUNNING FOR GROWTH

Hansraj manages two divisions of Kotak Mahindra Bank – Kotak Wealth Management, the unit focusing on niche needs of Indian UHNIs located both in India and abroad; and Kotak Priority Banking, a division focusing on the investment and banking needs of mass affluent.

Under Kotak Wealth Management, he also oversees family office and offshore wealth propositions, which includes exclusive offerings on investments, banking, succession planning and family wealth structuring.

"I see huge traction in our trusteeship business, and I see huge traction in our pure advisory business, in terms of which businesses to look at to put surpluses in, rather than from an investment point of view."

With a huge chunk of the wealth in India at the upper end of the spectrum being contained within family networks, Hansraj is astute of the target audience who needs advice and guidance for wealth management. "I see huge traction in our trusteeship business," he explains, "and I see huge traction in our pure advisory business, in terms of which businesses to look at to put surpluses in, rather than from an investment point of view."

The types of issues that clients need to consider, for example, relate to where the next generation should be located.

"Should they be in Singapore, or in Dubai?" asks Hansraj.

"Should they look at setting up a paper plant, a cement plant, or buying a hair-oil manufacturing company?"

Such a change in investment attitude may also be attributed to the changing of the guard with business-owning families, as new generations take control.

But Hansraj is reluctant to pinpoint any hard-and-fast new strategies that his team may be looking to deploy for the bank's clients.

"Every individual – whether family office member or adviser – is different, and each member of the next generation is different," he says.

"I haven't dealt with too many of the third generation yet, but advising two generations is quite common now. The requirements of each generation differ, with the youngest keener on technology and less interested in safe, steady investments," he adds.

While there is no set pattern, however, the people, product, platform philosophy remains core to the Kotak offering.

As a result the broad things he says he would expect, or want, to advise the younger professionals coming into the wealth management business today, would be to formulate a generic practice on how to manage different generations.

"In my opinion, they should be treated on a family-to-family basis," adds Hansraj. ■

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Sundaram Portfolio Management (SPM) offers discretionary services for high net-worth individuals and families and advisory services for foreign mandates focused on Indian equities. Stock selection and fund management are strongly driven by Sundaram Asset Management's overall investment philosophy, robust processes & risk management practices.

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Using niche HNI segments to grow advisory industry

Wealth managers in India can focus on both doing the right thing with existing customers and getting the right clients to grow the market, believe wealth management business leaders in India.

Specialising in a segment, say, of first-generation wealth or tech entrepreneurs, helps wealth mangers stand out. Some are also working on niche HNI families which would be obvious to a layman in India but are often under-served: cricketers and Bollywood families.

“Absolutely, it's a big elephant, so let’s try to lead the elephant slowly, so we are very focused on that, because everything else is a distraction, otherwise you don’t mean anything to anyone. So we want to be very, very focused and specialised in that segment,” said one practitioner.

“I guess when we started with the model we started with one-year engagements with clients, the fact that those clients today are signing up with us three-year engagements or five-year engagements is a recognition of the fact that they just don’t want this to be something which is short term. They are recognising this as a long-term relationship that they have with us and that's what we are trying to build and that is the family office model. It's intergenerational, it's not just from one person and one family member. It's about the entire family as a whole,” said another market practitioner.

“Specialising in a segment, say, of first-generation wealth or tech entrepreneurs, helps wealth mangers stand out. Some are also working on niche HNI families which would be obvious to a layman in India but are often under-served: cricketers and Bollywood families.”

“Some banks take pride in going to a segment which I think nobody in the industry touches — celebrities and cricketers, for example,”, said one practitioner. “So this is a segment which is pretty ignored and we have relationship with 15 to 20 top families in Bollywood and not many people are focusing on them, so we have found our niche and we have solutions for them, what we give to them in terms of even lending. They are quite untouchable in terms of lending by other banks but we found success. So you have to know where

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USING NICHE HNI SEGMENTS TO GROW ADVISORY INDUSTRY

CLIENT SEGMENTATION
Helps wealth managers stand out

COMMON SEGMENTS
First-generation wealth and tech entrepreneurs

VENTURE INTO UNDERSERVED NICHE HNI FAMILIES
Cricketers and Bollywood families

your edge lies in the market space and build on that."

YOUNG INVESTORS

Bollywood actors are turning producers at a young age, reinvesting their wealth to launch entertainment companies or gym chains or even film training institutes.

The Indian Premier League or IPL has emerged as the cricket world's most lucrative league which just completed its 10th successful season. Expensive television rights and sponsor money have matched auction amounts of individual cricketers, putting them among ultra HNIs.

Another HNI segment advisers can tap into in India is top-end doctors and lawyers, who earn ahead of the curve. But for some wealth managers, segmentation, and collaboration within the financial services group to help serve those segments, is the key to growth. "Supreme Court lawyers, celebrities and the entire segmentation of the large base that ICICI has and for us collaboration I think is the key, we have so much insight, we really don't have to go out if we can get to work with the corporate banking team, with investment banking team and so on and so forth, I think we are home by a big margin," said a practitioner

> **"Another HNI segment advisers can tap into in India is top-end doctors and lawyers, who earn ahead of the curve."**

Wealth managers also say staying with HNI clients through many years gives deeper understanding of their needs and can help grow the business.

"So, the approach is the client is becoming larger, the client is growing and overall wealth is growing, so how long in their life cycle can you attach yourself and how many needs can you serve, so at a simplistic form find customers who are large growing and have multiple needs and try and address as many needs as you can, so it's a very simplistic thing but then you build the software and the hardware."

Digitisation playing a role in reaching new investors

In a video interview, Milan Ganatra of Miles Software Solutions explains the far-reaching potential for digitisation to drive India's wealth management industry to the next level of development.

Digital will play a significant role in enabling India's wealth management industry to scale up to service the number of investors that firms are aiming at, says Milan Ganatra, chief executive officer of Miles Software Solutions. "The questions are how and when, but I think the time is now," he adds.

He cites the success of new telecoms companies as an example in being able to acquire 100 million new customers in very a short timeframe.

The Indian regulators have helped wealth managers by taking the first step, with CKYC. "This is the most difficult thing when any investor looks to buy a financial product," says Ganatra. "So the platform is now there for the industry to grow; we need to see how quickly all institutions comply with CKYC.

A second key component which he believes will determine the pace of development for the industry relates to investor education. "The industry needs to innovate in terms of products," he says, "but with enough security and growth so that investors don't just rely on bank fixed deposits."

More broadly, to highlight the potential for digitisation to drive such growth, Ganatra says that India consumes a similar amount of data as a developed market like the US. "We have enough data bandwidth to go digital.... Digital is the only option given the scale that the industry is looking for."

ROBO IMPACT TO COME

At the same time, robo-advice has not yet made much of a dent in India, but Ganatra predicts that it will make a big difference going forward.

For example, it has shown wealth managers that they also need to do something in this space. "The adviser delivery has to be much sharper and more accurate than has been delivered to date."

MILAN GANATRA
Miles Software Solutions

For traditional wealth managers, Ganatra expects to see them collaborate with robos, either by setting them up on their own, or tying up with existing players. ■

Accessing India's growth in wealth

In a video interview, Mandeep Nalwa of Taurus Wealth Advisors says he thinks wealth will continue to grow in India, in turn offering opportunities for firms like his to partner with local players to service the offshore needs of their clients.

Mandeep Nalwa shares the view of many practitioners when it comes to growth in wealth in India – that it will continue for at least another six or seven years.

This is based on expectations that capital inflows into the country will increase, in turn providing opportunities for investors who see positive returns in infrastructure and other sectors such as technology, says the founder and chief executive officer of Taurus Wealth Advisors.

PARTNERSHIP POTENTIAL

For firms like Taurus, meanwhile, the India growth story also presents opportunities to partner with local players that deal with HNI and UHNI clients and that have some representation overseas.

Nalwa says Taurus can look after the international share of wallet. For example, the Singapore-based multi-family office already works closely with a firm that has a large team of relationship managers.

Although it has a non-compete deal in place and does not offer any advice on Indian product, it advises the Indian clients on their international assets, he says.

For HNI and UHNI clients, the appeal of such an offering is that they don't want to invest all their assets locally, plus India's regulatory regime allows them to do so under certain guidelines.

They can then access, via Taurus, global capital markets for corporate financing needs, as well as diversify their public market exposure away from Indian stocks and bonds.

MANDEEP NALWA
Taurus Wealth Advisors

At the same time, the firm can assist its Indian partners as clients look to expand their businesses internationally and their children are educated and live overseas, adds Nalwa. This is also part of bringing family governance to Indian clients – an area in which the firm has expertise. ■

How India can stem wealth manager attrition rates

The country needs standardised training, less stress on AUM, believe wealth management business leaders.

India's wealth managers are looking to groom the next generation of relationship managers who can relate to third-generation wealthy, and along with this trained human interface, develop technology that supports round-the-clock client engagement.

Advisors feel some form of collective, standardised training of relationship managers by the industry is required to stem attrition, besides discussing case studies which stress on career trajectories not common in India.

"I think this year, the opportunity we have in front of us and lack of really resources to seize that opportunity and I think from a work perspective two things, fair bit of work to groom and create talent, I think that's important and second work on digitisation, the name you want to give, in terms of really making the client experience better using the tech platform," said one practitioner.

"Some form of collective, standardised training of relationship managers is required to stem attrition."

"I would say the most important ingredient in our industry is people, and again that mindset shift, from playing the role of a team leader to being a semi-entrepreneur or an entrepreneur... in India if you say from a team manager you become a senior banker, it's perceived as a demotion," according to another observer.

"So I think that change needs to happen in our society and there are some couple of examples which have come out of a team management role and have become the case studies today in the industry. Those needs to be highlighted more and I think there the collective responsibility maybe if all of us can take it as a group, rather than talking about our AUM, maybe talk about our case studies in the industry, that will actually change the mindset and that will be the I think one of the good ways for us to actually take this business or profession to a different level all together, he added,

"I almost feel at times guilty sending a 2-year-old or 3-year-old fresh out of college sitting in front of a large

HOW INDIA CAN STEM WEALTH MANAGER ATTRITION RATES

Standardised training and less pressure on AUM

Hire next-generation relationship managers who connect with third-generation wealthy

Develop technology that supports 24/7 client engagement

family office client, wanting to advice and it resonated with what Sowmya said in terms of putting the people up the curve, that's a point very well taken, I think if you could collectively work toward creating the right talent pool, I think we would have done a huge service, the only small little thing, since it's a blue sky sort of a wish list is, I just hope that some of the foreign players do very well in this space."

"India's wealth managers are looking to groom the next generation of relationship managers who can relate to third-generation wealthy."

LESS STRESS ON AUM

The wealth advisory industry in India lacks standardised training.

The emphasis on assets under management as a measure of a relationship manager's effectiveness doesn't help either when seasoned advisors know it takes a long time to build client relationships. Unless these changes take place, along with better brand recall of asset management companies among millennials, the wealth advisory industry will keep losing young and bright employees to other industries such as e-commerce.

"The whole attrition issue is more precipitated from the organisation driven the way you value the RM, the way you manage the expectation, is more to do with organisational philosophy and ethos, so if you don't measure right inputs, and in the first three months and six months and nine months, you are not organised as an organisation, and you expect the RM to be extremely be organised in following call reports and things like that. So I think we have a long way to go in standardising our industry and something really works. First three months if a guy does X, it really will help him in the 18th month, but we don't do that, we ask him how much AUM and how much assets or how much revenue today and we coin new words: net new money. I want new money today, this and that. So we kind of confuse that guy and propel that attrition and we eventually even good talented high IQ guys actually resist themselves from coming because there is too much opportunity in India now from other industry for a starter, for a four-year-old and five-year-old, there is telecom, there is dotcoms and Flipkarts, most of these guys today going there," said a practitioner. ■

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Why wealth managers must embrace digital marketing

Digital platforms to enable transactions and digital marketing to reach clients are part of a seamless online chain that wealth managers must use to keep up with the hyper-connected world of HNIs and wealthy families.

Wealth advisors and asset managers are increasingly deploying WhatsApp memes and SMS to put out information about their products and services.

A more complicated next step is to use digital platforms for client servicing that allow a transaction in the middle of the night and move customers to a Do-It-Yourself approach.

Online routes, whether in marketing or transactions, save money in the long run.

“I think in the last few years the digital has gotten more into it, so you're doing a lot of WhatsApp memes, you're doing emailers, you are doing SMS crafting and you're actually looking at the full communication chain to say, send this email, then the call, then somebody shows interest and then what to do, so the digital bit has gotten into it,” said one marketing specialist in the industry.

“Now to come back to digital there are three parts, one is where most people think, I use digital and that's really using digital as a media. So, it's just one more channel for you to communicate to the consumer, put your ad out, put your content out, put your information out,” said another practitioner.

“Online routes, whether in marketing or transactions, save money in the long run.”

Second is if you can actually solve the customer service problem such that you're more available to the consumer and you're also doing cost saving for the organisation because the digital channels of transaction and communication with the consumer are in the longer cheaper. So, for example if you have to service many clients and you use a chat box and people are developing chatbot now in India it's going to be a far cheaper mechanism over millions of calls when you receive, not where you have ultra HNIs, where the total number of families you are servicing are some 10,000.”

FREE UP TIME

Robo advisories and digital platforms free up advisors’ time to do more com-


INTELLIGENT
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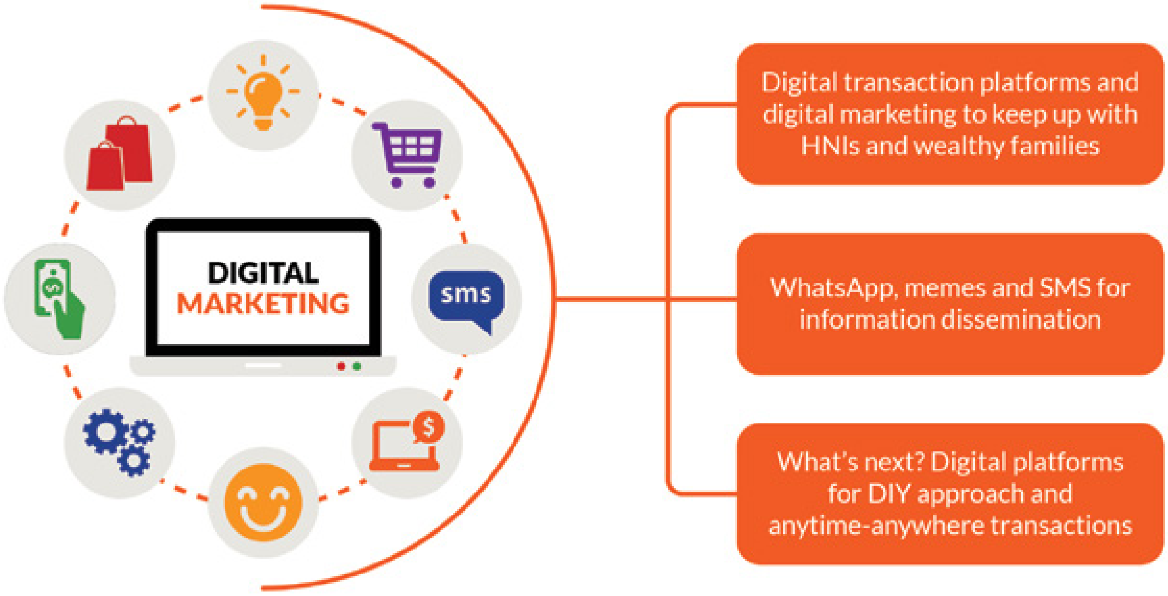
WHY WEALTH MANAGERS MUST EMBRACE DIGITAL MARKETING



plicated stuff. Speakers on the panel mentioned Scripbox, which they said has made investment advice simple for the "mass affluent".

Scripbox is a Bengaluru company that uses proprietary algorithms to automate mutual fund recommendations to retail customers. It raised an undisclosed amount in funding led by Omidyar Network in 2016.

"I will give you hardcore examples one is from our internal operations team, it can be interpreted anyways, equity, ops, etc. So, we are actually deploying, trying to explore opportunities to deploy robo-advisory solutions internally and optimise things. So, operations team –and I can get the actual data for you later, but in ops team we've actually been able to something which used to take I think a couple of hours or something has been compressed to eight seconds just the whole process has been compressed," said one observer.

"Investor education is one of the few places innovation is happening but the pace can be increased."

"Cost and manpower. So, some people may interpret it oh man jobs are going to go out of the window, no not really, it leaves you, frees you up to think more, plan more, utilise your abilities in far more productive areas. So, that's one example. Secondly at the mass affluent space we actually have an online option available and you have other models in India also like Scripbox, etc., are doing very well. They make investment advice simple for the mass affluent, make it accessible for the mass affluent and these also get all the return."

Panelists agreed, though, that despite the hard work on digital marketing content, it can't be too innovative or different because of regulatory constraints. Investor education is one of the few places innovation is happening but the pace can be increased if companies spend more on education than the amount prescribed by the regulator. "I think it will boil down to that because the regulations also do not allow you to do very fancy products. The regulation also doesn't allow you to write content beyond a certain boundary," said a market practitioner. So, that limits you in terms of the content that you can do. Only innovation that seems to be happening in the last few years is in the educational content space."

Costly lessons for succession planning savviness in India

Marketing and communications experts in Indian wealth management feel that awareness of having succession plans in place has grown among Indian HNI families after the feud between the Ambani brothers.

Adi Godrej, a well-known business leader in India, handed over the reins of his flagship company to daughter Nisaba in May this year. The move, just after Adi Godrej turned 75, was widely reported in the Indian media which is not used to such smooth, well-publicised transitions of power even in enlightened business families.

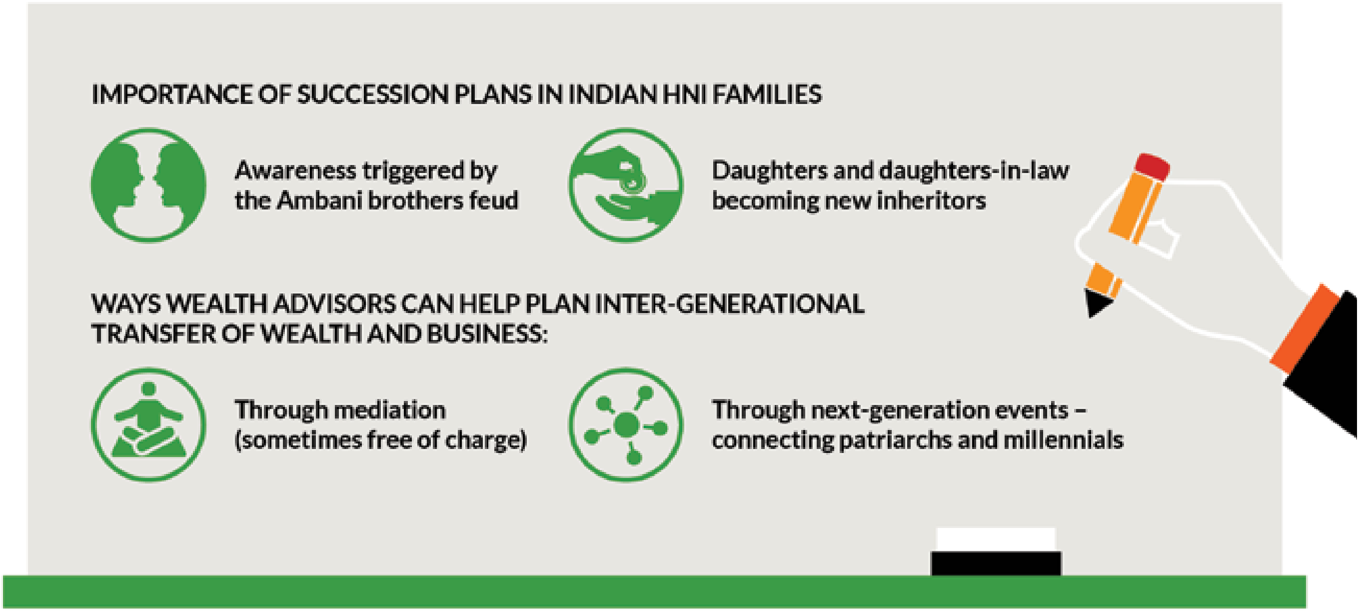
Wealth advisors can help plan inter-generational transfer of wealth and business through a variety of ways, by offering to mediate — even without charge because several advisors know HNI families quite well — or holding next-generation events that connect patriarchs and millennials.

"But that's changing now, you're right about the grandfather generation and maybe the father generation but I see there's a certain more awareness and understanding in things like Ambanis hitting the headlines, our generation, this generation, the next generation. So, I think you would see a certain movement to manage succession planning and the openness," said one marketing expert.

"Wealth advisors can help plan inter-generational transfer of wealth and business through a variety of ways, by offering to mediate... or holding next-generation events that connect patriarchs and millennials."

"I will just give an example, you were talking about the clock ticking mechanism and that's one of the ways how you differentiate, sometimes we have to actually intervene or because we become advisers and you get invited to family weddings, etc., they become almost extension of the family, right. So, when you're in a situation where there are things that need resolved, what we have done is we've actually got an outside mediator at no cost because I am not here in it for money. I am already handling your money and hopefully the next generation, but what we try and provide advice is get someone from outside to come and mediate and more often than not there's no cost associated to mediating, it's just

COSTLY LESSONS FOR SUCCESSION PLANNING SAVVINESS IN INDIA



the regard and the thing that happens," said another practitioner.

Data shows that Indian families need all the help they can get.

Family businesses may be growing in India but only a handful of them have a concrete succession plan, showed a 2016 study by PwC.

While three-quarters of top Indian family businesses recorded growth, just 15% have chalked out a robust, documented succession plan.

The 2016 Global Family Business Survey- India surveyed 2,802 family leaders across 50 countries, 102 of them in India.

Not only the Ambani brothers' feud, but, more recently, the Ratan Tata-Cyrus Mistry succession gone awry, holds lessons.

COMMUNITIES, NEXT-GEN EVENTS

The panel felt some communities in India, such as Marwaris, bring up children with a great awareness of money matters, right from spending to saving and investment. Others can learn from them.

Advisors must prepare clients, and themselves, for the change that an inter-generational shift implies in a company.

Events that allow a peep into next generation's thinking and help in inter-generation understanding can be arranged to facilitate communication.

"Precisely, you actually get the third generation and different people, you sponsor separate workshops, maybe run by Harvard or by McKinsey which talk about inter-generation planning and using case studies and what happens if you don't do this. So, that's something that they use effectively as a marketing tool," said one market participant.

"You have the old man with likes things that way and he has a certain relationship manager who does it that way and then tomorrow the son takes over, and there's a two generation difference there because there is easily three decades of difference there and he just does not – how should I say – have chemistry with the relationship manager who is the older guy. "

The organisations I don't think financial services organisations are geared to see whether they can change the RM tomorrow. They don't." ■

How to prepare for changes in Indian family dynamics

While sharing family problems does not come naturally for wealthy Indians, secrecy is taking a back seat to best practices and trusted professional advice to ensure that businesses keep moving forward through generations, says Sunil Shah of Evergreen Family Business Advisors.the generations.

If there is one word that rings true about families in India, it is change. The joint family structure, in which several generations lived under one roof and a senior member held together businesses and worked for family unity, is giving way to smaller families.

The result is the rise of more of a 'nuclear' set up – and, along with it, the need for a new mechanism to resolve conflicts that crop up within families as they extend from the founders to the next generation.

"In the traditional [Indian] mind-set, one is not supposed to share or talk about any issues, let alone any differences or disputes with others," says Sunil Shah, director of Evergreen Family Business Advisors. "It is deep in the DNA of Indian families and in their culture to keep family matters within the family."

In part, younger members of the family who study or live abroad are driving the change. When they return to India, they bring with them ideas that contrast with those of the patriarch, therefore giving rise to differences.

"They come back with the idea of openness and are semi-Westernised," explains Shah.

"That creates a certain pressure on the system – although it's a positive one – from the next generation," he adds.

For family-focused advisory firms like Evergreen, the new generation of inheritors are opening a world of new opportunities. Yet the approach that works in the West in terms of setting up governance models cannot automatically be implemented or adopted in India because families are still not as communicative or open about their issues.

SUNIL SHAH
Evergreen Family Business Advisors

GETTING THE FAMILY IN SHAPE

When it comes to building family constitutions in India, therefore, Shah, who has written extensively on this subject and even taught a course at the Indian Institute of Management Ahmedabad, typically divides his work with families into two parts. The first is diagnostics. Here, he meets the whole family for an informal chat. Assuming they go forward from there, he then invites them for a three-day workshop before starting work on the process of building the constitution.

The workshop is part of his exercise to identify the problems facing the family and to figure out whether he is the right person to revolve those, he explains.

"I am not the guy to divide the family. If they want that, then there is a different skill-set required," he says. "My job is focused on Business Growth with Family Harmony."

"I am not the guy to divide the family. If they want that, then there is a different skill-set required. My job is focused on Business Growth with Family Harmony."

The diagnostics workshop itself has two components: one-on-one sessions, so individuals can open up and talk freely about what is on their mind without worrying about what other members might think of them; plus a joint session with all members sharing together.

Shah says he spends a lot of time trying to understand the under-currents of family dynamics. Although his clients come to him on their own, from experience he knows whatever they disclose about themselves will often be just the tip of the iceberg. "I spend a lot of time in making people feel free to communicate, because they are not accustomed to communicating on these topics. Sometimes, two days go into this, but that's actually the most productive part of the exercise," he adds.

CREATING NEW LEADERS

Tied to the first part of Shah's work is the second part of the process: Next Generation Leadership Development.

For this, he takes on the role of a mediator between the old and the new generations; he looks to help each side see the viewpoint of the other.

Typically, he says he finds that although nearly 80% of heirs are keen to join family businesses, sometimes they are reluctant to do so because of interpersonal issues and differing views about running the business.

For the patriarchs, he says, the business not only represents their wealth, but also their life's work. So their reluctance to change stems from a fear that the next generation will flitter their wealth away. The next generation, on the other hand, want to have more autonomy and a voice in taking business decisions.

To bring the two sides together on a common footing, Shah uses his Certification in Coaching from the International Coaching Federation. Again, he says he focuses on communication and openness within the family.

"The workshops are introspective sessions designed to encourage members to think about what's non-negotiable and what's negotiable," he explains. "I encourage that and I help that negotiation happen."

GETTING PAID FOR ADVICE

Going forward, Shah believes that more and more wealthy families will open up to the idea not just of engaging a professional adviser, but also paying for the services. "The traditional mentality of wanting free advice and saying, 'I don't want to pay for advice', is giving way to 'let's get the best man for the job rather than doing it ourselves'."

But the future is not without challenges for family advisory firms such as his. For example, client acquisition is a slow process; the richer the family, the longer the gestation period, he says.

To make advisory a viable proposition, therefore, Shah suggests firms should look to have at least two or three anchor clients, since relying on one family alone may not be wise, given that wealthy clients tend to be unpredictable.

"Anchor clients change their mind or they invest in a huge property or they have some business issue and they say 'well I can't do any investments'."

One of his priorities going forward is to build a network of people with expertise in fields ranging from psychology to mental health to addiction. He will then be able to guide families that have members with such problems and who may have confided in him about these.

"And over the last three to four years, these kind of questions and issues have come up in many families, especially the larger ones." ■

Life with elephants: wealth management in India

TP Ostwal talks to Hubbis about pace, regulation and the secret to staying afloat in the industry.

As the old (vaguely grim) idiom goes, the only sure things in life are death and taxes. And where there are taxes, there's a need for chartered accountants.

This is what TP Ostwal does at his firm, TP Ostwal and Associates, where he serves as partner.

It also offers consulting services, business aid and help with regulation processes. So, what's the first step to understanding these processes in India?

According to Ostwal, thinking of the country as a nation separate from the Asian market is the starting point.

TP OSTWAL

TP Ostwal and Associates

"Don't compare India with other Asian countries. We are a giant and we run with our own speed. The country is an elephant, not a tiger."

Tax processes in India have their own quirks, and Ostwal and his Mumbai-based team help clients file both international and domestic taxes.

"Don't compare India with other Asian countries. We are a giant and we run with our own speed." The country is an elephant, not a tiger, he adds.

Currently, the application of regulation processes within wealth management are "quite slow" in India, especially within smaller companies. For larger companies, the cost of compliance is very important.

"They don't bother about the cost of compliance. They charge fees that are a little bit higher, and they also pay higher fees," says Ostwal.

Though other companies might not have corporation-level types of spending, Ostwal believes that following the same type of process, combined with picking the right people with the right advice, can help them catch up.

DOWNSIZING TO BE ABLE TO UPGRADE

According to PwC's 2016 wealth management report, the industry in India is experiencing significant changes: patriarchs are passing on, or getting ready to pass on, their wealth to younger generations.

This next generation, meanwhile, is expecting quicker advice, supplemented by the transparency offered by online resources. In fact, customers generally want more personalised advice.

When it comes to the advice that is needed, Ostwal explains that the trend in India right now is to continue structuring and restructuring companies to be more compliant with regulations internationally, which require greater transparency.

This also lends itself towards growth in more boutique advisory firms, believes Ostwal, to deliver a more bespoke service.

Much like the start-up boom in India, which saw – and continues to see – engineers from large corporations like Microsoft leaving to launch firms like Flipkart, Ostwal suggests that advisers and professional services practitioners will increasingly leave larger firms for smaller ones.

On the flip side, the key to keeping good talent from jumping ship is easy, he adds: pay them enough and don't fall into the temptation of greed.

"[Many firms] want to retain more and more rather than paying their employees, consultants, or competent personnel. And if the person is competent, he must after achieving some competency, create a network," adds Ostwal.

He believes that the regulators [in India] should instead be using greater oversight themselves.

For his firm, one of the challenges Ostwal says he faces in India is customer acquisition.

It's a slow process, which takes on average around a year, from first meeting to sealing the deal. Prior to those meetings, the search for new customers can take around six to eight months, he explains.

"The process involves a lot of time and effort," says Ostwal.

"When it comes to the advice needed... the trend in India right now is to continue structuring and restructuring companies to be more compliant with regulations internationally, which require greater transparency."

CHALLENGES IN THE REGULATORY PROCESS

While Ostwal sees that the wealth management industry in India moving towards greater transparency, dealing with regulatory institutions is still a big challenge.

The regulators are mobile themselves, merging and changing, he explains.

"Today, what regulators are doing is copying the laws of various countries," adds Ostwal.

"And it's a delicate process that involves cost negotiation, lawyers and proving the firm has the know-how to do their jobs well."

Luckily, a process so complicated doesn't have to take place in-house.

"You need to have a network," explains Ostwal.

"You need to have people known to you who are handling and create a network between yourself and them." ■

How to help wealthy Indian families 'let go'

Tariq Aboobaker of Amicorp explains a proven approach to helping these clients to use effective structures for planning their succession and protecting some of their assets.

The rigidity that many wealthy families in India show in terms of their fear of losing control over their assets continues to pose a big challenge for most wealth planning professionals.

But this doesn't have to be the case, says Tariq Aboobaker, managing director of Amicorp Trustees in India, who is responsible for looking after all aspects of estate planning.

While planning for one's estate and succession, the client also needs to consider asset protection, so that the personal wealth is not attached in case of business failure or any creditor's claim.

The approach he recommends to overcome this hurdle of losing control, is to break down family wealth into separate categories and then to put only a certain portion of it into trust structures that will provide asset protection. This can reassure clients that they still own part of their wealth, he explains.

"We have advised families not to move 100% of their wealth into a trust, but instead a portion of it that they are willing to relinquish ownership and control of," says Aboobaker.

"If I tell them that they need to relinquish around 20% to 30% of their wealth into a trust structure which is for the benefit of their family, they are willing to discuss it," he adds.

This has led to a certain amount of success with wealthy families in India, he acknowledges.

"We break up the clients' wealth into parts and that's how we are managing trust structures."

Some assets might, for example, be put into a structure that is disconnected from the family and fully irrevocable, to create an asset protection angle. The rest, meanwhile, could be kept in a structure where clients retain control, to provide benefit to them during their lifetime and then pass on the wealth to the next generation in amicable manner.

TARIQ ABOOBAKER
Amicorp

PARTNERSHIPS KEY

Amicorp, which Aboobaker estimates to have structured 250-plus trusts in India, realises the need to take a patient approach to putting such solutions together, especially since the process of educating clients and creating sufficient comfort doesn't happen overnight.

At the same time, family planning structures require a mix of expertise and experience that the firm needs to access via third-party specialists.

"A large number of meetings are needed with a client before they agree to a trust structure, and also once they have decided to move some of their wealth into the trust," he explains.

Yet while the time period is long, and therefore high patience levels are required to deal with slow conversions, having the right knowledge on hand is critical.

This is based on Aboobaker's decade or more of experience in succession planning, wealth structuring and private banking – during which time he has set up estate planning services on behalf of various organisations such as Centurion Bank and HDFC Bank.

"It's very difficult to get the right blend of parties [in a wealth structuring conversation every time], but we have built a good team of a respectable size," adds Aboobaker.

Further, the firm's 25-year track record is a big plus in a market where most family trusts go back only a couple of years.

The same goes for Amicorp's ability to form partnerships. "We don't offer legal advice nor tax opinions," he urges.

As a result, it has forged relationships with wealth managers, lawyers and chartered accountants, for instance.

And he doesn't see any issues relating to overlap, since Amicorp serves as the trustee.

"We only add value to the structure," says Aboobaker, adding that perhaps the firm's biggest and most meaningful contribution is in breaking down barriers to enable wealthy families to discuss structures and see them through to implementation.

> **"The world is getting smaller. Once upon a time, having international exposure via wealth and children overseas was not at all common. Today, every second household we meet has a family member studying or working overseas and is an NRI – and they will probably settle there."**

GREATER ACCEPTANCE

A PwC survey in 2016 showed that only 15% of Indian HNI families have a formal succession plan, based on 102 families surveyed.

But some recent trends also increasingly point to the fact that wealthy Indian families are becoming more aware, willing and open to the types of solutions that Aboobaker can deliver.

Part of the reason for Indian HNIs being more receptive to formal succession plans and family structures, is due to geography – as they are located around the world.

"The world is getting smaller. Once upon a time, having international exposure via wealth and children overseas was not at all common," he says.

"Today, every second household we meet has a family member studying or working overseas and is an NRI – and they will probably settle there."

Tied to this is the fact that these clients see the complexities involved with cross-border taxation and succession laws, in turn encouraging them to look for suitable solutions for succession of their wealth keeping in mind the offshore laws.

Amicorp, with its global presence, has assisted large number of clients with both onshore and offshore solutions.

Another reason is for business families to plan their succession due to the complexities of cross holding structures and issue of transfer of ownership versus management, especially when some of their children are not active in the family business. ■

Why Indian fund houses must rethink business models

Rising costs in India's mutual funds sector means that asset management companies need to be able to manage margins and boost profitability – if they expect to see continued success, believe investment leaders in India.

Despite the boom in asset growth in recent years within India's mutual fund industry, the rising costs and moderating margins mean that future profitability for asset management companies depends on them improving efficiencies and driving product innovation.

This is made even more important given the competitive nature of the industry, with 40-plus fund houses operating in the country.

These were among the views of senior industry executives as well as top product gatekeepers at a recent roundtable organised by Hubbis in Mumbai.

Despite the five-fold growth in assets already over the past decade, to INR17.6 trillion (USD270 billion) – and the total number of folios in at the end of March at 55.4 million – some practitioners expect the investor base could double over the next three years.

Plans industry-wide to step up investor awareness campaigns will play their part in this. However, the fight for greater market share has seen many fund houses increasingly handing over higher commissions to distributors.

And as some investment leaders believe, each asset management firm has a choice about how much profit it wants to retain.

MOUNTING CONCERNS

From the common 50:50 split in fees in India in years gone by between the distributor and asset management company, the balance has shifted in favour of the wealth managers.

This is creating a new dynamic among product providers. While the larger fund houses are more likely to be able to operate on wafer-thin margins due to their sheer scale, the fee tactics put immense pressure on smaller players.

Overall, this is forcing many firms to rethink their business models in order to remain viable.

For example, investment leaders believe that the industry remains (overly) reliant on third-party distributors.

Nevertheless, it is also a fact that mutual fund agents in India generally earn far less than their counterparts selling insurance. According to a PwC report entitled 'Mutual Funds 2.0: Expanding into New Horizons', the first-year commission for insurance agents in India can be as high as 35%, and around 7.5% in the second and third years.

By contrast, mutual fund agents may earn around 0% to 0.4% as a one-time brokerage fee, and 0.5% to 0.75% as trail commission.

Further, with compliance requirements and salary expenses rising significantly over the past few years, margins are expected to compress further and put yet more pressure on bottom lines.

FINDING THE BALANCE

Regulatory changes are also making life tougher for players in the mutual fund industry. In a consultation paper released in late 2016, for instance, capital markets regulator SEBI proposed the separation of advice from distribution.

In short, distributors of mutual funds were previously allowed to offer advice "incidental to the sales process". Under the new proposed regime, if they want to offer advice, they will have to become Registered Investment Advisers within three years; if they don't, their role will be reduced to distribution only.

However, India is a market where more than 90% of Indian households don't invest in mutual funds. What is needed, therefore, is greater operating efficiency and productivity to capitalise on the growth potential in a way which is profitable, according to industry practitioners.

Certain market trends are in their favour. For instance, high disclosure standards, a reasonably good track record, rising awareness of financial investment products and improving ease of transactions for first-time investors (via electronic KYC, for instance) continue to boost growth prospects for the mutual fund industry.

The regulator also seems to be continuing to look for ways to enhance expansion and penetration, according to the PwC paper, via tie-ups with e-wallets and e-commerce distribution channels.

Plus, there is growing awareness of the need to create financial products that cater to various needs and appetite.

WHY INDIAN FUND HOUSES MUST RETHINK BUSINESS MODELS

SEBI is already promoting the alternative investment fund (AIF) platform, for instance, which should encourage innovation around real estate and structured credit. Eventually, other types of products such as infrastructure investment trusts should come to market.

Innovation is needed, according to investment leaders, since the majority of the 2,000 or so mutual fund schemes on offer in the market today are highly commoditised.

Efforts to change this are, however, underway to some extent.

Over the past 12 months, these have included new fund offers for new genres of products – such as fixed maturity plans, retirement focused funds and hybrid funds, the PWC paper noted.

REGULATORY STABILITY

Market practitioners also believe in the view that stable regulation would go a long way in improving the overall outlook for asset management in India.

After all, how can the industry grow when many people don't know what's going to happen tomorrow? How can anyone build a long-term business model on this basis?

A stable regulatory regime with rules that play out for the next five to eight years is considered ideal for growth.

Perhaps a 'super regulator' would also help fund houses to derive more synergies across financial products.

Currently, SEBI oversees equities, bonds and mutual funds, while insurance and commodity markets are governed by different regulators.

The UK and Singapore are two notable examples of markets with such an over-arching regulatory body.

And more recently, China has been considering merging its multiple regulators into one authority, according to various media reports.

However, the Indian government doesn't seem inclined to consider the creation of such a super-regulator for now.

Yet some investment leaders believe there is a case to be made for having such a similar structure in India. ■

Driving the right mind-set among Indian investors

The combination of superior fund performance, frequent communication with investors and the role of technology is crucial to success in India's asset management industry, says Edelweiss' Radhika Gupta.

A key goal for Radhika Gupta is to ensure that the investment performance of her firm remains top-notch.

"The primary priority for us will always be delivering consistent, long-term investment performance," emphasises the recently-appointed chief executive officer of Edelweiss Asset Management. To do this, a sharp focus is critical. "It's not possible for an investment manager to deliver consistent performance if they have to manage 20 or more fund offerings," explains Gupta.

This is a pertinent issue in India, given the market has more than 2,000 primary mutual fund schemes. In fact, the general consensus among industry players, is that most asset management firms sell too many funds.

Gupta, who took over her role in February 2017 after heading alternative asset specialist Edelweiss Multi Strategy Fund Management, also shares this view. "I have been paring down the number of funds because focusing on a few category-leading funds and delivering superior performance is far better than simply having a wide spread of funds, a majority of which fail to deliver."

Indeed, for most asset managers in the country, 80% of AUM comes from 20% of their funds.

A LONG-TERM FOCUS

In addition to quantity, Gupta also emphasises the need to focus on long-term investment performance.

This is easier said than done in a market like India, where the explosion of business news channels and websites over the past decade creates an appetite to hear about what has happened each day in the stock markets.

But as any discerning investor would point out, investment performance is best measured over longer time periods.

RADHIKA GUPTA
Edelweiss Asset Management

"I would like to change the obsession [in India] with near-term performance," says Gupta. "The 3/6/9/12 month performance is too short a time frame to judge performance. Investors need to have a genuine long-term orientation and that's not possible if you look at performance every month."

Changing the mind-set in this way requires asset and wealth managers alike to educate investors about the way mutual funds and other financial products work.

This is another priority for Gupta. "I spend a lot of time with customers to see what their needs are – either product or knowledge – and how we can fulfil those needs."

MORE EDUCATED

She is a strong proponent of education, since the biggest driver of growth in the long term is expected to be individual investors as they move from a savings culture to investment mode. "As an industry, we need to educate and simplify," she adds.

Even today, despite the staggering growth in India's asset management industry over the past five years, the average investor tends to shy away from investing in mutual funds.

They seem to prefer to park their money in bank deposits because they either don't really know how to get started, or they get confused by the many funds on offer in the market.

Helping distributors is part of this bigger picture of education. Gupta estimates that over the past three months, she has interacted with roughly 500 IFAs across the country via a series of roadshows, other events and one-on-one interactions.

"It's important to spend time with customers and capture their feedback so we can continue to refine our proposition for them," she explains.

She also believes that the industry needs to continue to try to change the perception that mutual fund investing equals high-risk equity investing. "The truth is the asset management industry in India has options that cater to every risk-return profile, with funds that are 20% invested in equities to being fully invested in stocks."

A third priority for Gupta, meanwhile, is to continue investing in the firm's product platform and technology. "Our goal is to keep improving the client experience. I believe that investors, especially the younger ones, will be savvier about using digital options and as asset management companies, we need to think how we can effectively communicate with them as well as wealth managers."

GROWTH IN ALT ASSETS

Edelweiss Global Asset Management's asset base has grown generally in recent years via a mix of organic and inorganic growth. In 2014, for example, it acquired Forefront Capital (an absolute return focused investment firm co-founded by Gupta), which was followed by the acquisition of the onshore business of JPMorgan Asset Management and the Ambit Alpha Fund (AIF) in 2016.

The group's positioning, says Gupta, has been focused on alternative assets. "From an asset management perspective, I expect to see significant innovation in asset management even on the mutual fund platform beyond the traditional offerings that have existed."

One reason for this is the country's evolving capital markets: India's equity market, for instance, is one of the most efficient in the region. "We have a very vibrant stock futures market, which you don't see in many other parts of the world," says Gupta.

"Our fixed income market, and in particular the corporate bond market, has scope to evolve substantially and I expect that to happen over the next few years. Even the commodities market is very vibrant, but from an asset management and regulatory perspective, it needs to evolve more." ■

Seeking alpha

India is also a high-alpha market – meaning it compares favourably with a market like the US, where alpha generation has become challenging and perhaps only 10% of managers outperform traditional indices.

By contrast, in India, about 85% of managers have outperformed the benchmark indices.

Yet in the large-cap universe, Gupta expects to start to see some kind of pressure on alpha. "The market is a little more efficient and that could lead to some fee pressure."

A decade from now, the situation could be totally different. "Then, you could see ETFs becoming more popular," she adds. "So far, they haven't taken off because India r emains high alpha but that could change."

In turn this will lead managers to encourage innovation as they attempt to generate higher returns, predicts Gupta.

How to drive an evolution in Indian mutual funds

Taking the spectacular recent growth in India's mutual funds industry to the next level requires a clear understanding of the very different needs of customers, according to top product gatekeepers and asset management experts at a roundtable in Mumbai.

India's mutual fund industry is developing at an impressive pace. But as it moves into its next stage of evolution, there is a pressing need to segment clients clearly and offer products that suit different needs.

This was among the views of senior product gatekeepers at leading wealth management firms as well as senior executives of fund houses – at a recent thought-leadership discussion by Hubbis in Mumbai.

The growth of India's mutual fund industry has been remarkable over the past 10 years. It has gone from INR3.26 trillion (USD50 billion) in March 2007 to INR17.6 trillion (USD270 billion) as of March 2017 – representing more than a five-fold increase, according to the Association of Mutual Funds in India (AMFI).

There are a little over 40 fund houses operating in the country, selling more than 2,000 primary fund schemes. Individual investors hold about 46% of the overall assets.

Yet there is a dire lack of client segmentation, according to senior market practitioners. As a result, product manufacturers tend to look at what gatekeepers refer to as 'the lowest common denominator' when creating a product.

"There is a pressing need [in India] to segment clients clearly and offer products that suit different needs."

In many other markets, including Hong Kong and Singapore, investors are segregated as 'accredited / qualified' and retail, which applies to everyone else.

Qualified investors are typically HNIs who tend to be more financially savvy and experienced, so should understand better what they are investing in.

TO SEGREGATE OR NOT

In fact, in a Hubbis survey in early 2017 of more than 125 leading professionals in Indian wealth management, around 75% of respondents said they believe that the segregation of investors into retail and professional / accredited would be a good step in taking the market to the next level.

However, the views were split when considering whether to follow examples in more developed wealth hubs like Singapore and Hong Kong – in terms of offering a relatively more 'relaxed' rules framework for HNI clients, or professional investors.

Some of the respondents were also of the view that instead of segregating on the basis of ticket size, it would be better to segregate on the basis of financial literacy.

Even with a high level of investable assets, investors could show low levels of knowledge, according to many industry players.

Indeed, the vast majority of Indian households continue to shy away from mutual fund investing, primarily because they have little understanding of how such products work.

According to a recent survey by capital markets regulator SEBI (Securities and Exchange Board of India), more than 95% of households prefer to park their money in bank deposits.

Other preferred savings and investment vehicles include life insurance, gold, silver, post office savings and real estate. Less than 10% seem interested to invest in mutual funds or stocks.

DIFFERENT NEEDS, NEW PRODUCTS

Even those investors who do invest in mutual funds seem to have vastly differing characteristics.

As a result of this, wealth and asset management investment leaders say it is important to understand these better.

For example, many entrepreneurs tend to take enough risk in their businesses already, so might be looking for capital preservation when they invest in financial products such as mutual funds.

Another group of customers, meanwhile, might enjoy trading in the capital markets; they want to be active players and believe they understand markets better than their peers.

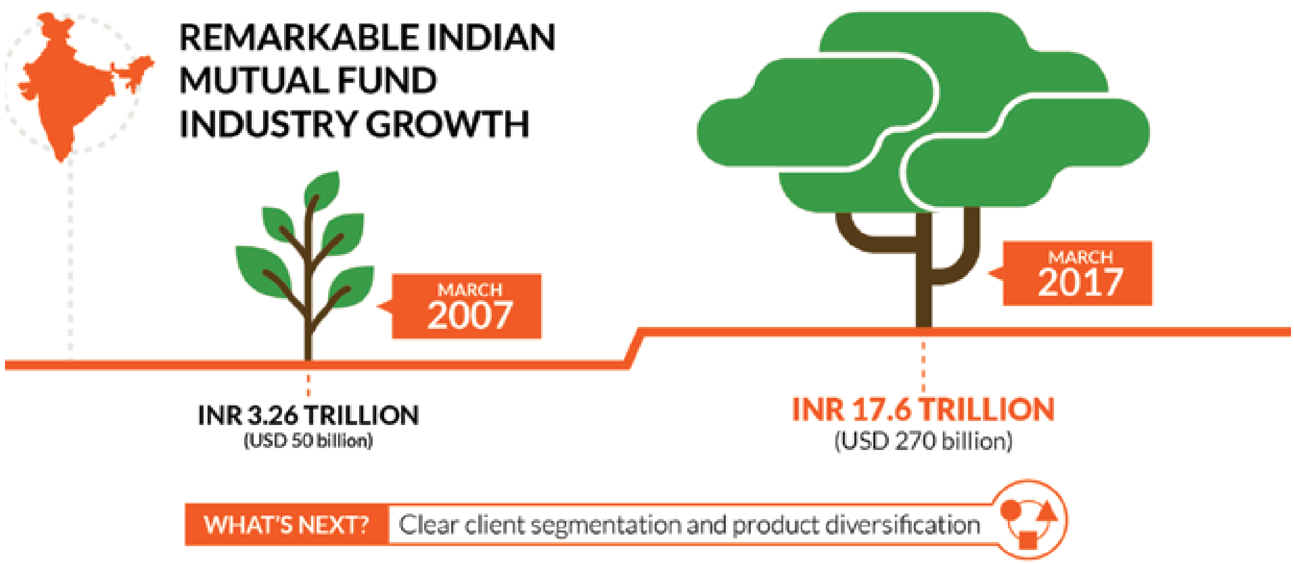
There are also those individuals who know very little about mutual funds, but want to experience the world of equity investments gradually. They might therefore try a monthly income fund scheme that has the option of investing just 15%, for example, in equity, to ensure volatility in returns remains low.

In such a case, distributors and advisers have the task of ensuring the client acquires some basic understanding of markets, risk and how a mutual fund actually works.

Inevitably, different types of investors have differing risk profiles, return expectations and investment time horizons – so require different products to ensure suitability.

To cater for all this, however, practitioners are calling for the Indian market to

HOW TO DRIVE AN EVOLUTION IN INDIAN MUTUAL FUNDS

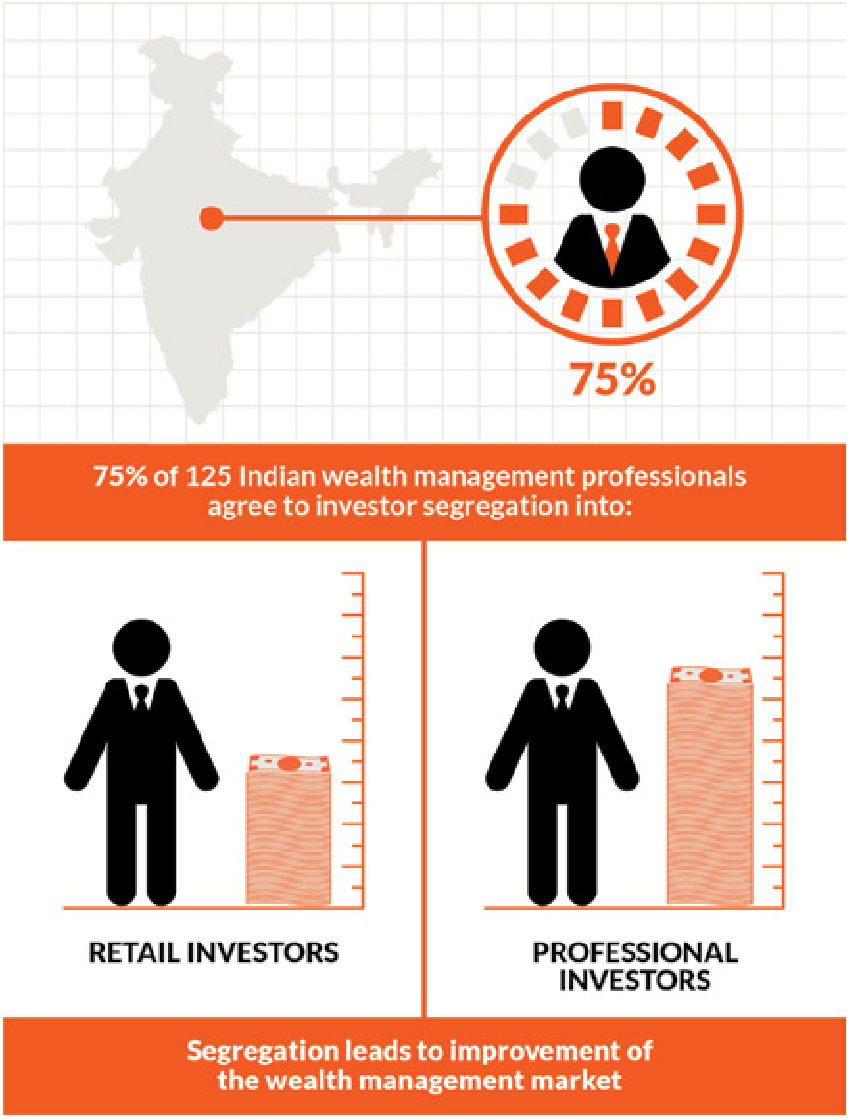


evolve accordingly and deliver an adequate breadth of products.

Client segmentation also has important implications for the budding market for advice, say investment leaders.

Wealth managers need to be aware of the key investor segments before offering suitable advice, they explain.

Further, clients seeking to build wealth for the long term, for instance, could be encouraged to make equity investments, while those who are more focused on capital preservation could opt for fixed income portfolios.



ENCOURAGING BEHAVIOUR BECOMING VISIBLE

In a sign of positive things to come, some practitioners say that they also see both HNIs and affluent investors being increasingly willing to park their funds in investment vehicles for longer periods of time.

In line with this, many of them are now experiencing first-hand the kind of returns the market can offer over the longer term.

In turn, this breeds further confidence about investing in financial products such as mutual funds.

Indeed, the idea of 'long term' is itself seemingly changing among Indian investors; a decade ago, for example, the concept meant 12 months, whereas today, it's considered to be more like five to 10 years.

MORE WORK TO BE DONE

Nevertheless, education of the average investor remains key to boosting fund investing in a country with deposits seen as a savings / investment vehicle.

Against this backdrop, the new and upcoming digital fund distribution platforms represent both an opportunity as well as a challenge for wealth and asset management players.

Digital channels can be effectively used to connect with and educate Millennials, who can, in turn, influence their peer networks.

For example, digital marketing can be used to help them 'unlearn' what they might already perceive about investments from previous generations, such as getting involved in stock markets causes large losses.

On the flip side, practitioners warn that digital access increases the possibility of making mistakes, if investors are not fully aware of the risks involved.

After all, agree investment leaders, saving money in time or fixed deposits is one thing, but investing in mutual funds, which experience more variability in returns, is different and will take some getting used to for the majority of Indian investors. ■

Hubbis Education & Learning

A unique platform that brings together content and thought-leadership - to challenge and provoke conventional thinking, with an aim to innovate and improve the Asian wealth management industry

1 Digital Learning
Online training platform

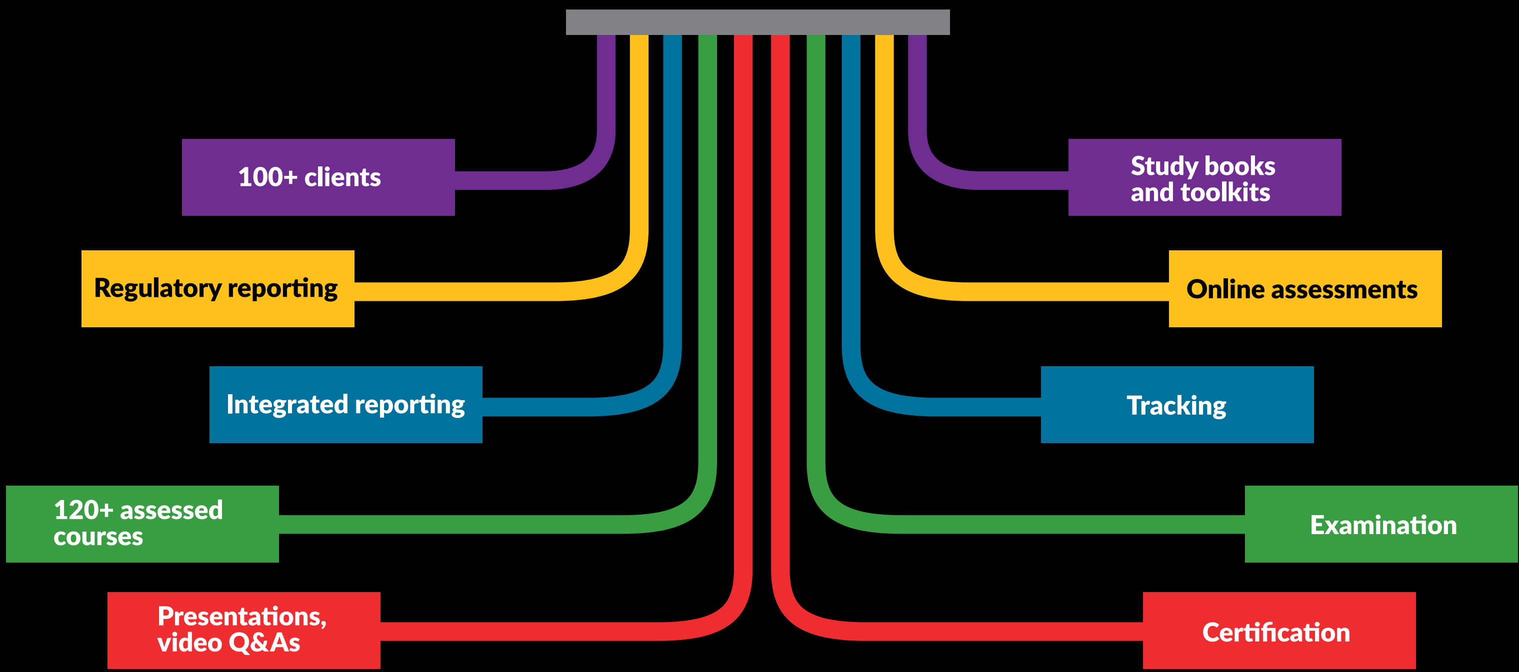
Education and CPD

Our learning solutions reach an increasingly large number of wealth managers who directly advise wealthy individuals. A key way we meet the needs of the wealth management industry in Asia is via the solutions we deliver via our digital learning platform – to more than 5,000 individuals from over 100 firms in 8 countries across Asia.

2 Private Wealth Manager
Foundation & Essentials

Wealth Manager Programmes

We have conceptualised and designed a 200 hour-plus Foundation Certification Programme, and a shorter Essentials Programme, to reflect some of the changing dynamics in the regulatory environment and the subsequent need to deliver advice in a more structured way to clients.



For more information on Hubbis training, please contact: e-learning@hubbis.com

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PWM PRIVATE WEALTH MANAGER

Leading by example for a mature Indian funds industry

The hope is that Indian investors will increasingly take a measured approach to their portfolios and ensure a better balance of asset classes, says Raghav Iyengar of ICICI Prudential Asset Management.

ICICI Prudential Asset Management, India's largest money manager with the equivalent of approximately USD39 billion in AUM, sees a new maturity gradually taking hold among investors in the country.

Rather than being in a rush to make most of the latest bull-run, which has seen the S&P BSE SENSEX Index cross the 30,000 mark, there are signs that individuals are starting to favour a mix of equity and debt in their investment decisions.

The jury is out on whether money managers will demonstrate client centrality in the same way.

To do so, they need to remember that clients are with them for a lifetime – not just for three to five years. "I think every three or five years something new comes along, and then we tend to forget that a customer is not here only for a transaction but for the entire journey of achieving their financial goals," says Raghav Iyengar, executive vice president and head of institutional and retail business at ICICI Prudential Asset Management.

"We tend to forget that a customer is not here only for a transaction but for the entire journey of achieving their financial goals."

RAGHAV IYENGAR
ICICI Prudential Asset Management

Given the rapid rise in market levels, the fund house is now focusing on getting money into funds, which are little more defensive in its investment approach. "A balanced fund is possibly the most defensive approach for equities currently as it allows investors to go up to 35% in debt," says Iyengar.

This approach is well-suited to ICICI Prudential Asset Management, which invests in Indian public equity and fixed income markets, and considers it to have a clear understanding of the needs of retail investors. "We were among the first few to launch a defensive/volatility suite of products," he adds.

One of the firm's flagship schemes from this suite – ICICI Prudential Balanced Advantage Fund – has seen significant investor interest over the past few years and is currently the largest equity scheme in its category, with a AUM of INR18,221.41 crore (as of March 31 2017).

The company has thus far managed to create consumer-centric products, further improved by communication based on relevant consumer insight. This has led to what the firm describes as a 'pleasant investment experience for investors'.

ICICI Prudential Asset Management aptly believes that it is important to create a long-term track record to win the trust of both investors and distributors. In fact, the firm calls it 'trust record' rather than track record.

"We have been at the forefront of trying to take care for all our partners, not just the big distributors."

BUILDING CONNECTIVITY

Being a part of ICICI Bank, the fund house has the ability to reach more location at a rapid pace. Currently, ICICI Prudential Asset Management has 2.5 million customers across offices in over 162 locations. Going forward, the investment manager aims to have at least 250 offices by 2018.

Meanwhile, the firm clearly understands that going digital is the way ahead. Digital in fact represents the largest investment that it has made in its business over the past three years. "We have been at the forefront of trying to take care for all our partners, not just the big distributors from the banking sector. We are stepping up to better our excellence, such that we are now in sync with the ever-evolving technology," explains Iyengar, whose professional experience includes 19 years in banking and financial services.

"IFAs can transact on behalf of a customer, with a mobile from anywhere in the world; it's as simple as that," he adds.

With launching applications such as IPRUTOUCH, the aim is to ease integration of key processes, minimise paper work, optimise content experience and streamline sales activities, among many other features carved out for the distributor community.

IFAs, as an example, account for roughly one-third of the distribution volume to the fund manager's target audience. Plus, it is a very fragmented channel. This explains the concentrated efforts by the firm on trying to make the whole office experience as mobile and versatile as possible.

TRAINING AND EDUCATION

The firm is increasingly spending its time and energy on both distributor training and investor education in India. For example, it conducted 2,000 programmes for distributors in FY2016-17, training between 40,000-45,000 people in the 25 to 30-year age group, estimates Iyengar. The subjects have ranged from the basics of mutual funds to yield curves, and more.

Similarly, in FY2015-16, he says the firm covered between 150,000 and 160,000 retail investors across the country via education camps and various other modes of communication.

Even though a part of the expenditure was regulatory-mandated, Iyengar highlights that the firm went far beyond just spending money on brand advertising.

Thus far their efforts have been well-received by local distributors and investors alike. This was reflected in the Wealth Forum Advisor Confidence Survey 2016, wherein the firm emerged as the leader in five of the six parameters, namely: ability to deliver long-term returns; innovate products; impactful and relevant investor education initiatives; an investor-friendly approach; distributor engagement; and support. ■

Why less is more in driving funds take-up in India

IDFC Asset Management is taking a more engaging, infotainment-led approach to spreading the word about mutual funds and their role for investors. Vishal Kapoor believes this might finally deepen penetration across the country.

Analysing recent data from the Association of Mutual Funds in India (AMFI) would suggest the country had nothing to worry about when it comes to the engagement of these products in portfolios.

For example, mutual fund AUM more than doubled, from the equivalent of USD93.9 billion in March 2012 to USD196.8 billion four years later. And the total AUM of the mutual funds industry has risen five-fold in the last 10 years – hitting USD285.2 billion as of January 2017. But these numbers may not represent the full picture. Mutual fund penetration in India is, in fact, still low despite the variety of products on the market.

Indeed, SEBI has begun to suggest the need to rationalise the number of funds in certain categories.

"So the question for us is: if we indeed believe we offer a better solution, how can we communicate this with savers more simply and clearly?"

VISHAL KAPOOR
IDFC Asset Management

And according to Vishal Kapoor, chief executive officer of IDFC Asset Management, this kind of focus makes sense. "[As an industry], we still aren't doing a good enough job in terms of penetrating the market."

Net-net, he says, looking at the absolute numbers versus the size of the opportunity, fund houses are still just scratching the surface. "Some of this also has to do with transactional ease as well as the KYC requirements. Simplified KYC can add significantly to attracting new mutual funds customers."

This suggests, therefore, that investors prefer to allocate the majority of their investment dollars to other products.

"So the question for us is: if we indeed believe we offer a better solution, how can we communicate this with savers more simply and clearly?" asks Kapoor. "To me, that's really an opportunity, and one of the areas we are focusing on."

PULLING TOGETHER

While IDFC Asset Management is among the top 10 fund houses in India in terms of size of assets, with an AUM in the last quarter of around INR62,000 crores (just under USD10 billion), Kapoor feels more can and should be done to expand the industry's reach.

A collective effort among market players should be on the cards, as the most sustainable way forward.

"I think there's a lot more energy and resources required to expand the market," adds Kapoor. "Yet, this can't just be at an industry-wide level via AMFI; individual firms also have a responsibility to play a role for the greater good of all players."

He is well-placed to judge both perspectives, given that until mid-2016 he had run Standard Chartered Bank's Wealth Management division in India.

"Every time we do an investor awareness programme, it is an opportunity to get a [mutual fund] 'convert' interested in the whole industry, not just in an IDFC mutual fund," explains Kapoor.

How IDFC Asset anagement is driving new communication channels

One Idiot – the movie
The story of Bugs uncle, an affable neighborhood uncle who, by the looks of it lives frugally and does nothing in life. The teenagers and others in his community are in for a surprise and they realize that they can learn a lot from Bugs uncle who they thought was a loser.

Bachat Nivesh Badhat
An entertaining film that helps viewers understand the benefits of saving and investing in mutual funds.

Money Wisdom
A series of videos created by IDFC Mutual Fund with best-selling author of the book "The Art Of Thinking Clearly" Rolf Dobelli, explaining human behavioral biases which influence investment decisions.

Dil Ke Ameer
A digital experience that personalises people's dreams and makes a compelling case for investing money for things that are close to their heart.

Save your Tax
Interactive storytelling coupled with a reminder service for investors to make tax-saving investments on time, plus a customised mailing tool for advisers to send a branded reminder to clients to save tax.

SIP Pen
A pen that also demonstrates the power of compounding.

Game Changers
A creative way to demystify funds so the concepts and ideas are easier to understand as part of the overall investment journey.

LEADING WITH INFOTAINMENT

At the same time, he needs to also be focused on building his new firm's product range. Within the last nine months, for example, it has introduced two ETFs, launched a balanced fund in late 2016 – and in the middle of demonetisation – and, in February 2017, started a credit opportunities fund, an asset class the company was not represented in.

More fundamentally in trying to address the crux of the opportunity, however, IDFC Asset Management is asking its distributors to educate end-clients with the help of movies, board games and other campaigns that are slightly off-the-beaten track (see box). "Innovative and simple communication that gets to the end-customer through a distributor is an important focus for us," urges Kapoor.

This can be especially effective in smaller cities, where individuals lack access. "A platform (www.oneidiot.in) has been created to help trainers impart financial literacy to individuals who need help," he says. "The trainers have ready access to our videos, presentations and notes. They can also submit invoices of programmes conducted to simplify administration." ■

India grappling with ebb-and-flow of falling fees, more clients

With plummeting fees within Indian wealth management becoming a concern locally, the situation is attracting a worrying eye from practitioners. An exclusive Hubbis survey of almost 100 top Indian wealth management professionals delved into the abyss.

A Hubbis survey of almost 100 leading wealth management professionals in India has shown that the dramatic decrease in fees in the sub-continent can be directly linked to automation and a continued client resistance to embracing the fee-paid advice model.

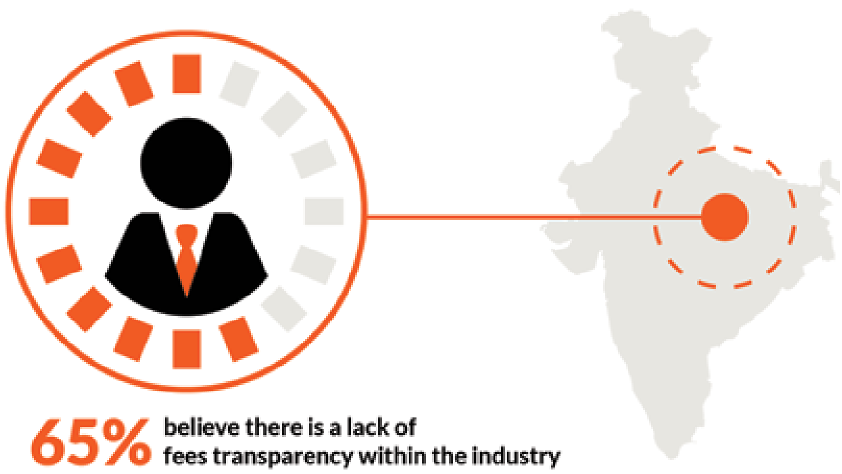
However, some industry protagonists believe solutions do exist to overcome these setbacks.

When asked about a perceived lack of fees transparency within Indian wealth and asset management, almost 65% of respondents agreed that this was the case, this being tempered by the fact that current regulations are in place to monitor fees.

A significant portion of those surveyed also held the view that most Indian clients need more education of wealth needs and products in order to get over the hurdle of clients being unwilling to pay for advice, which leads to a preference for structured products.

This has led to fees in some cases being reduced to 20 basis points or less, which was another worrying point grappled by the survey respondents with the majority believing that this was self-defeating. It was also thought that advisers should stop competing on the parameters of fees and start differentiating themselves on the basis of quality advisory practices, turnkey solutions and structured products and services.

However, a majority also said that from the investor's perspective this as going to be hard to change, and, worryingly, they believed that this was ultimately controlled by the investors, who wishes would prevail with quality being compromised.



On the question of quality, the survey respondents also debated if clients should be placing greater value on the advice given to them?

This garnered a mixed reaction, with the majority opinion agreeing with the sentiment but questioning if the market had matured enough to allow this to be possible.

One respondent also noted that: "Clients have always placed greater value what is being offered to them. A client shall never give business to a firm on the basis of lower fees.

"Quality of Advisory practice and bouquet of products along with benchmarking performance are the priority. Fees are an important criterion but overall performance counts first."

The question of low fees also prompted some debate on the possibility of "hidden fees" propping up the structure, and, while there was a mixed response (and some evasive responses) most practitioners agreed that some fees, while still transparent were not obvious.

This, of course, lead on to the question of how front-line advisers and wealth managers should be rewarded, which again produced diverse opinions.

While around 35% of respondents agreed that rewards or compensation should be based on the service provided and the time spent to manage that account, there was support for the alternative option of having a full performance-based structure that would be linked to the growth of the portfolio of the client.

However, this group was very clear that there must be a demand to cover the appropriate cost for that advice and that neither compromise on quality or cost should be entertained.

The group also opposed hidden charges and said that earnings must be transparent to the clients.

Over 50% of those surveyed also believed that the current practice to incentivise by rewarding higher churn of a specific book of accounts was also a good initiative as the emphasis of the front line advisers is on doing more number of transactions then increasing returns of the portfolio.

The reward should then be on the feedback an adviser has received based on parameters set out for performance by the firm as well as the clients.

Another school of thought is believed that a large part of the incentives should be based on returns generated for clients and not only on sales achieved, while some weight-age should also be given for feedback from clients on the services given to them.

It was also thought that there should be a cap on fees that could be charged by the advisers / wealth managers for their advice depending on the AUMs handled by them.

The group said this was similar to investment management fees that could be charged by investment managers under the SEBI (Mutual Funds) Regulations, which are based on the AUMs managed by the investment managers.

However, a minority 15% of the survey had concerns over the capabilities of the advisers in relation to the services they offer.

"Front-line advisers should be well equipped to impart quality advice to clients and should be rewarded on wallet share of the client that is brought in, rather than chasing revenue. Revenue chasing never ends up in increasing quality Asset Under Advisory / Management. When an organisation takes pride in mentioning the AUM being managed, why not praise the advisers as well?

"Ideally, rewards should be on an incentive model, but the firm has to drive the right behaviour. Most local firms pay only lip service to due diligence on products and transparency and ethics." ■

HUBBIS SURVEY: 100 TOP INDIAN WEALTH AND ASSET MANAGEMENT PROFESSIONALS

The importance of advisers to India's funds growth

G Pradeepkumar of Union Asset Management Company Private Limited explains why the country needs a much larger number of advisers to be able to encourage greater take-up of mutual funds – rather than expect growth to come from machines.

The slow-but-sure growth of mutual funds in India will be spurred by advisers not robots, given the importance of creating a financial plan, monitoring it and keeping investors updated on new opportunities in the market.

"While lot of people seem to think we are going to replace the human interface by mathematical rules or algorithms that can do the job effectively, or even more effectively, I don't believe that because I think that each individual [investor] is unique," says G Pradeepkumar, chief executive officer, Union Asset Management Company Private Limited, formerly known as Union KBC Asset Management Company Private Limited.

His views are based on first-hand experience. G Pradeepkumar, an alumnus of Indian Institute of Management, Ahmedabad, says he has also hired an adviser to manage his personal portfolio.

"In spite of having worked in the funds industry for more than 25 years, and in spite of having access to fair bit of information, it is my conviction that my personal financials are best left in the hands of somebody who can spend time and resources to manage that. I don't have that," he explains.

FILING THE GAP

The challenge for the Indian market as a whole, however, is the shortage of advisers.

This seems to be a key factor holding back the wealth management industry, not just the penetration of mutual funds.

If there were more advisers to sit in front of clients and explain to them why it makes sense to invest in funds, as well as highlight which kinds of funds would make sense, the industry would grow much quicker.

G PRADEEPKUMAR
Union Asset Management Company

"We face a problem of too few advisers," says G Pradeepkumar. "We probably need 10-times the number of advisers that we have."The number of mutual fund distributors is probably only 10% of the total number of insurance agents in the country, he adds.

"I see no logical explanation for why it has to be that way. The gap has to be bridged."

UNTAPPED MARKET

While 90% of people in India have exposure to bank deposits, just 10% are invested in mutual funds.

Union Asset Management Company Private Limited intends to capitalise on these opportunities in the market.

Indeed, when it launched a new product in February 2017, more than 70% were first-time investors in mutual funds.

He estimates the total number of folios in the market to be more than 55 million as of March 31 2017.

Considering duplication, best estimates bring the number of unique investors to around 10 million.

"For a market like India, this is a ridiculously low number," he adds.

"We want to increase the demand in B-15 cities by reaching out to every possible corner of the country and inculcating a healthy habit of savings through mutual funds."

One area for the industry which has grown significantly in the last 18 months is the count of Systematic Investment Plans (SIPs), which stood at more than 13 million accounts at the end of March 2017.

SIPs represent individuals signing up to invest a fixed amount on a pre-decided day of every month, quarter or half-year, etc. India is witnessing investments equivalent to USD700 million per month approximately through SIPs.

For mutual funds to hope to see growth of a similar nature continue in a country of expanding wealth – and move beyond 10 million unique investors – regulatory requirements such as KYC norms must be ironed out, not duplicated for every new purchase.

"[Investors] can't understand why they have to go through the whole grind again," says G Pradeepkumar.

"That is the real problem we are facing in the industry today."

PROGRESS NEEDED

Being the vice chairman of the Association of Mutual Funds in India (AMFI), he acknowledges the effort and hard work by AMFI to simplify the KYC process, with due support from SEBI and the Government of India.

Although not an easy fix, he is confident the industry can find a healthy solution.

"The concerns from the Government are very valid, especially in terms of money laundering. Mutual funds should not be used as conduit for that," he explains. "But at the same time, mutual funds today have controls in place such as not accepting third party payments."

When looking at all the funds which flow through the banks, mutual funds hardly ever accept cash deposits, and if they do, it tends to be for very small amounts.

"If the KYC has been done by the banks and we don't accept third-party payments, the real risk [of money laundering] from a mutual fund perspective is relatively low," says G Pradeepkumar.

What needs to be done to boost the penetration of mutual funds, he believes, is to make the process of investing in these products easier for the average investor.

Further, a key goal for the industry as a whole should be to increase financial literacy, adds G Pradeepkumar. "Equities as an asset class has provided superior returns over long periods and mutual funds are one of the best investment vehicles to participate in equity markets," he explains.

"We need to change the age-old cultural attitudes from fixed rate of returns to market-driven returns." ■

"We face a problem [in India] of too few advisers. We probably need 10-times the number of advisers that we have."

HSBC's disciplined approach to managing money in India

HSBC Global Asset Management's global investment process creates consistent performance of its funds for Indian investors. Ravi Menon explains how the firm is using this competitive edge to look for new distribution channels.

The longevity of HSBC as a group in India is a competitive advantage that the firm believes stands it in good stead to take its offering to the next level in the country.

Having operated in India since 1853, the group clearly knows the difficulties of being a foreign player.

"If you don't have a long-term plan in place [in India], then you shouldn't be here," says Ravi Menon, chief executive officer of HSBC Global Asset Management's (AMG's) local business.

"There are no short-cuts to growth and success in this country, but there are, we believe, the right strategies [to generate] the right returns," he adds.

The firm's credibility in India is based on several factors. For example, it is one of the largest managers / sub-advisers in the country. Today, the investment management team located in Mumbai manages/advises strategies with assets of USD22.3 billion. And with over USD21 billion of that in a combination of mandates and offshore advisory, long-term is part of the culture.

Further, of its current AUM, it has assets of around USD2.34 billion of Indian equities managed globally and USD19.98 billion of Indian fixed income managed globally.

It is also the only global player in India managing EPFO (Employees Provident Fund Organisation) since 2008. Plus, it was the first player to remove exit loads from all schemes across categories.

"We are a well-recognised brand [in India]… which conveys greater strengths and attributes," added Menon.

RAVI MENON
HSBC Global Asset Management

DOING THE BASICS WELL

The firm is among the top five or six fund houses in India, operating across mutual funds, portfolio management and advisory.

HSBC group clients include all four lines of business – across retail banking, private banking, commercial banking, and global banking and markets.

"Whilst we have a significant core advantage of providing investment solutions to all HSBC group clients, our ambition and strategy is also to capitalise on the big Indian opportunity through third-party distribution," explains Menon.

The company has 24 funds by which it looks to do this, across equities, fixed income, liquidity and multi-asset. In particular, Menon highlights the multi-asset approach and the funds called Managed Solutions: "This is a core strength of HSBC and no-one else has made the kind of investments in this product strategy as we have. That's a unique offering for us."

He is also proud of the HSBC Equity Fund, a large-cap strategy that has seen 18-times growth over the last 14 years. It maintains a portfolio that mainly comprises large-cap stocks, without exposure to excessive risk – in line with the risk appetite of investors. The strategy is centred on superior quality businesses that generate sustainable growth. "This is a disciplined, repeatable approach to generate long-term alpha – good stocks at inexpensive valuations that can get re-rated versus popular stocks at high valuations," says Menon.

It is a play on the power of compounding, he adds, avoiding accidents by ignoring stocks with poor corporate governance, inefficient capital allocators and poor quality of business.

The performance since inception speaks for itself – 27.9% average one-year return, and 7.7% average alpha created year-on-year.

"Whilst we have a significant core advantage of providing investment solutions to all HSBC group clients, our ambition and strategy is also to capitalise on the big Indian opportunity through third-party distribution."

PRIORITIES

More broadly, HSBC AMG has some significant growth plans in India, in line with the vast opportunities that Menon says that he sees across the entire group's business.

Outside of servicing its internal banking channels, the asset manager also wants to become more relevant to a couple of key segments in the retail market. To do this, it will start to engage more closely with its distribution channel partners to deliver on the needs of investors – starting with education and being the international knowledge partner to IFAs.

This has been a priority for all fund houses in the country over recent years. "We want to have that partnership dialogue," says Menon, "to understand what investors are looking for as incomes increase, and goals and needs change."

HSBC AMG also plans to leverage its ability to take Indian product to eligible investors overseas, as well as bring its offshore funds to local investors in India.

Living the HSBC AMG Investment philosophy

- *A well-established relationship between profitability and valuation*
- *Excess volatility in equity markets implies that stocks are often mispriced*
- *This creates the potential for an active investment opportunity that can be confirmed with proprietary fundamental research*
- *Markets revert to a measure of 'relative intrinsic value' over time, hence we are patient investors with a strict valuation discipline and long-term investment horizon*
- *Concentrating overweight positions in profitable companies at below-average valuations will enhance returns*

DELIVERING ALPHA

To find what it believes are the best opportunities for investors, the overarching investment philosophy for HSBC AMG is price to book / return on equity (PBRoE), which the firm believes is effective for global emerging markets.

In short, this means screening for companies with below-average valuations for a given profitability. Tested by the firm's research team, this has been shown to outperform over a period of years at both regional and country levels. ■

Exploring untapped sections of the Indian market

India's vast Aadhar card-holder base provides a great opportunity for fund houses to expand operations leveraging on the JAM trinity. The industry is focused on creating awareness among consumers about various mutual fund investment schemes, says Franklin Templeton Asset Management's Sanjay Sapre.

During its 23 years of operating in India, Franklin Templeton has built a sustainable business understanding local cost and revenue dynamics. In particular, it has looked to develop deep relationships with distributors to create a strong asset mix. As a result of these efforts, it can count close to over 3 million investors (by folios) in its funds.

Yet Sanjay Sapre, the firm's president in India, believes there is lot more scope to develop the business and broaden the investor base.

"Currently a PAN card is a mandatory document for a mutual fund investor. However, the country had only about 55 million individual taxpayers at the end of 2015-16, out of which roughly about 15 million are mutual fund investors. So the industry has already tapped 33% of taxpayers," he explains.

"Being a discretionary product, this is a good number from a penetration perspective but the immediate opportunity can be seen in bridging this gap. With the opportunity to tap investors based on Aadhar (biometric identity) card, the eligible population suddenly shifts from taxpayers to non-taxpayers, which are much larger in number. The wide gap between taxpayers at 55 million and Aadhar card-holders at close to 1 billion is a huge untapped opportunity for the mutual fund industry waiting to be tapped."

Also, it is important to leverage technology as an enabler to improve distribution reach across the length and breadth of the country using the 'JAM' trinity (Jan Dhan, Aadhar and Mobile connectivity), reducing costs and improving the ease of investing in mutual funds.

With innovations such as Aadhar, for example, asset managers have the ability to target relevant individuals. "With government initiatives like Jan Dhan (people's wealth), roughly 60% of Indians have opened simple bank accounts and 1 billion people out of the population of 1.3 billion have been issued Aadhar cards," explains Sapre.

SANJAY SAPRE
Franklin Templeton Asset Management

It is also estimated that of the over 55 million portfolios (mutual fund accounts) at the moment, some 15 million are unique which means that many individuals may hold multiple or joint accounts in two to three combinations.

SUCCESS FACTORS

The three pillars for the business to be successful are, in Sapre's opinion, awareness, advice and access.

The starting point (awareness), he adds, is increasing financial literacy and continuing the industry-wide efforts in terms of investor education on mutual funds.

In line with this, the Association of Mutual Funds in India (AMFI) has been running commercial ads on local TV channels to clarify to investors that mutual funds are not only for the rich, are not only invested in equities and don't lock-in money forever.

"It is about busting the basic myths of mutual fund investing," adds Sapre.

Franklin Templeton's approach is to build trust with clients and distributors alike. "We have a 20 year-plus franchise of strong long-term performance and are here for our customers," he explains. "Since awareness about mutual funds needs to grow, they need to be sold through distributors who explain all aspects about mutual funds to investors before selling. There is a need to widen the network of distributors as most of the selling is happening mainly in the metros. Newer channels may either be through more bank branches selling mutual funds or individuals like agents of other financial products, retirees and entrepreneurs wanting to enter financial services."

Adds Sapre: "We also need to see how distributors can use technology to sell mutual funds so as to reach a wider audience. With the JAM trinity in place, it could be a good medium to target new investors."

PRIORITIES

He says that one of the firm's areas of focus is digital technology, to enable it to reach the maximum number of investors.

Today, distributors can attract investors from multiple geographies because of technology. Being digital helps them spend less bandwidth on operational aspects using features like distributor enabled transactions. They can therefore invest more time on investor engagement, education and new client acquisition.

Investors, too, benefit with the convenience of access from even the remotest corners of the country. "With the progress of e-KYC and centralised KYC (c-KYC), we have arrived in a new digital world where every step of the process from on-boarding to transaction processing can be a quicker and seamless experience, which can help enhance investor participation in mutual funds," explains Sapre.

Another priority is to expand the firm's market share. It is placed well in equities and fixed income, but he says the firm is seeing good flows into alternatives and hybrid products in the industry. "So we need to address the product gaps we have."

A third objective is the large untapped opportunity where money is sitting in the banking system, earning low returns for clients. The savings and deposit accounts fetch 4% and 6% respectively while mutual funds have the potential for better returns on a post-tax basis.

INDUSTRY HURDLES

More broadly across the wealth and asset management industries, Sapre says there are not enough advisers.

At the same time, he thinks the industry is facing operational difficulties which need to be solved.

For example, while the c-KYC concept announced by the regulator is a positive step, there is a lack of a level playing field amongst mutual funds and other products.

While mutual funds are significantly more regulated and restricted in terms of what firms can compensate advisers, insurance is a bit more liberal.

But given such a lack of a level playing field, the investment opportunities and the depth of the markets – both in terms of debt and equity – it is important that growth is commensurate with GDP for the industry to keep going.

"There should be continued engagement with the regulator and a long-term plan for the development of the mutual fund industry as a sector which includes reaching target clients, creating a large distribution community, removing the arbitrage between mutual funds and other products, and giving the ability to manage insurance and pension assets," urges Sapre.

He says the servicing standards in India are very high, but it remains a geographically-diverse, paper-intensive industry that lacks much automation at this stage.

"We need to help our advisers adopt the right technology, be more efficient in doing business and give them tools to demonstrate their value-add," he adds. ■

Uncomplicating the mechanics of managing wealth

A mechanical engineer by training, Feroze Azeez loves sports cars, given his knowledge of how machines are designed, produced and operated. But his true passion lies in multiplying the wealth of his clients at Anand Rathi Private Wealth Management (ARPWM).

Feroze Azeez, deputy chief executive officer of ARPWM, has a very satisfied clientele. With good reason, too: he has achieved approximately 17.3% return on investment (RoI) on the combined assets he's managed in the last four years with ARPWM.

It is this type of tangible outcome which drives Feroze, whose Mumbai-based firm, AnandRathi's AUM stands at around INR140 billion (USD2.2 billion).

"We are in the business of mathematics," says Azeez, who acquired a Diploma in Derivatives and Finance before plunging into the world of wealth management.

"It is not only imperative, but also immensely useful for me to be able to measure my work."

He has even brought Deloitte on board, to audit the returns he's delivered, and says he plans to publish the findings as part of his pitch to manage the wealth of a new generation of increasingly affluent Indians.

SETTING THE TONE FOR GROWTH

One of the primary ways in which AnandRathi differentiates itself in the wealth management industry, is its unique objective-based approach, shunning the more common product-based one.

Most firms would usually begin the advisory process by putting forth their view on different asset classes such as real estate, equity and debt – and then create products which are aligned to and could benefit from the view. This results in a portfolio of products which is premised on a hit-or-miss approach. Furthermore, often, advisory stems from vested interest – higher commissions, larger fees.

FEROZE AZEEZ
AnandRathi

Azeez, however, has ensured that advisory at AnandRathi begins first with an objective as decided by the client. This is then followed by the designing of a strategy that is tailor-made to meet that specific objective, and constant monitoring allows for a careful and ongoing analysis of whether or not the strategy is helping clients move towards their objective.

Objective-driven wealth management, then, is AnandRathi's key proposition. Now, while objectives could me multi-fold, there are three chief ones that Azeez has his team focus on.

First, it is to get sensible returns of 15% to 16% on the client's wealth and quadruple their wealth in about a decade. Secondly, it is to create a safety-net to protect this wealth from external encumbrance. Finally, it is to ensure near-zero transmission loss while bequeathing one's wealth to future generations.

This approach has been instrumental in helping AnandRathi go from strength to strength over the last few years.

The success enjoyed by the firm in recent times has also served to reinforce Azeez's conviction in the importance of expansion – the foundation of which he laid when he led AnandRathi in acquiring Religare Macquarie's wealth management business.

This deal gave AnandRathi a footprint in Delhi and Kolkata as well.

The deal brought the firm about INR30 billion to INR40 billion in assets, and as many as 26 new relationship managers. The financial strategy team working under his leadership is now 160 members strong.

"Whatever the parameters are for measuring the wealth management business, including assets, a front-line sales fraternity, profitability or income, all have been positive," explains Azeez, who was previously associated with Religare Macquarie.

"In fact, I believe all these parameters have grown four-fold."

He now says he wants to focus on hiring more pure-play finance professionals, rather than increasing the number of marketing and sales people handling wealth management.

Such an approach is very common with many other firms, emphasising that it is necessary to have more treasury experts and rank-holder chartered accountants involved in advising clients on how to build robust portfolios.

To cite an example, he says that there are instruments available to achieve this at relatively low cost, but many wealth managers in India either don't understand them, or don't utilise them – one of these, is Long-Term Equity Anticipation Securities (LEAPS).

LEAPS TO SAFETY

LEAPS are, basically, long-term stock or index options, offered by India's National Stock Exchange.

They are available in two types – calls and puts – and have expiration dates up to three years in the future.

"LEAPS solve the biggest mystery for a wealth management client who wonders what they need to do when the markets fall," says Azeez.

Although LEAPS don't necessarily guarantee returns, they can help prevent erosion of wealth even if the market drops 40%, he explains. He views this as akin to buying life insurance.

KEEPING IT REAL

Throughout his association with AnandRathi, Azeez has been firmly against practices such as inflating the firm's AUM to enhance its standing in the industry and among clients.

Far from clients being impressed by massive – sometimes made-up – numbers, Azeez insists that in his experience, they often prefer the kind of upfront, 'fearless' and most importantly, 'uncomplicated' approach that his firm chooses to employ.

When it comes to advisory itself, AnandRathi also made the decision to ban a number of what Azeez calls 'vested interest products' in the wealth management industry.

This is based on the firm's data-backed conviction that they are not good for clients' portfolios.

To demonstrate, he critiques Portfolio Management Services (PMS).

"PMS grew from INR150 billion to INR600 billion in a year-and-a-half. This was only after it took 15 years to get to INR150 billion, so you can see the problem there," he says.

Now, while Azeez is well-aware that he belongs to an industry known for being high on adrenaline, he remains clear and grounded about one thing: he might risk his own money, but never that of a client. "Growth is possible without much risk – the trick lies in getting the game plan right," he contends.

Today, with about INR14,000 crores of AUM, it is evident that with Feroze's leadership combined with his team's dedicated efforts, ARPWM has grown rapidly in a short period of time, and shows no signs of slowing down in the times to come. ■

Evolving investment solutions and portfolio advice in Asia

Providing advice in a more structured and consistent way is essential in preparing Asian investors' portfolios – especially in an environment where the potential for correction, plus disruption from the march towards digital, looms large.

A key goal for wealth managers in Asia should include delivering sustainable performance but in a way that helps position and protect investors' portfolios against the chance of any correction or digital disruption. This is especially important against a backdrop of a successful run in the markets since mid to late-2016, continuing into the first quarter of 2017.

So with most wealth management firms and their clients doing well during this period, where do they go from here?

This is an ever-more pointed question given efforts by robo-advisers and emerging platforms to challenge the traditional investment channels.

It relies, however, on several key areas in which the market needs to evolve. For example, most clients still believe in market timing, agreed speakers, with an estimate that probably only about 20% properly understand asset allocation. Yet at the same time, there are various tactical plays for advisers to discuss with their clients in the coming months, based on market outlook and investment sentiment.

More broadly in providing – and justifying – value to clients, there has to be more of a concerted effort by institutions to help clients tally all the charges they incur to ensure there is no lingering distrust.

The flurry of activity around digital platforms makes this pressing. The inevitability of greater price competition from new entrants will lead to the increasing use of algorithms along with more structured data.

These were among some of the most important conclusions of speakers at the annual flagship Hubbis Investment Solutions Forum in Singapore in early June.

Delegate, speaker and sponsor summary

- *More than 35 speakers*
- *285+ senior product & fund gatekeepers from the top international and local Private Banks, Retail Banks, Multi-Family Offices and IFAs, as well as for RMs and investment advisers from across the industry*
- *Sponsors: BlackRock, PineBridge Investments, RHB Asset Management, Swissquote, Principal Global Investors, Pershing, Numerix, MFEX, MSCI, and Leonteq Securities*

KEY EVENT TAKE-AWAYS

- According to 70% of poll respondents, the fees that private banks charge HNW clients in Asia are not transparent.
- 61% of delegates don't think HNW clients really understand and take seriously enough the risks in their portfolio.
- To give consistent and structured portfolio-led advice – rather than just execute single trades – 49% of poll respondents said more alignment of suitability / risk profiles is required. This beat client education (33%) and use of data / algorithms in showing benefits (11%) as the two closest other options.
- While 49% of poll respondents said a typical Asian HNW client's view of 'long term' is 5 years, 40% said it was only 2 to 3 years. Only 2% said client perception of 'long term' is 10 years.
- 59% of poll respondents said the level of engagement by their clients in DPM is between 0% to 10% – with only 28% opting for 10% to 20%, and a small number saying it is over 20%.

- Bankers, not clients, need the most education to boost DPM in Asia, said two-thirds of delegates. Yet nearly 75% of poll respondents said DPM should be done in-house, not outsourced.
- Collaborating with robos, not buying them or building them in-house is the future in Asian wealth management, according to 52% of poll respondents.
- 55% of poll respondent said user experience far outweighs cost and performance as the key factor when digitising the investment process.
- Yet the majority (37%) of poll respondents to the query over time before robo-advisers make a real impact, opted for 3 years – with 12% saying it will take a decade, and 9% choosing 'never'.
- Compared with structured products activity in the first quarter of 2017, 43% of delegates said they believe volumes will be higher in the second half of the year.

- 96% of poll respondents said Asian clients should look for principal protection, not leverage, for 2H 2017.
- Equities will be the clear favourite asset class as the underlying for structured products for the rest of 2017, said 62% of poll respondents; funds followed at 19%.

Scrutiny on quality to trump short-term risks in India

Buoyant markets continue to generate good returns for the country's investors. But caution is needed in determining where to invest as a way to protect riskier portfolios, says Yogesh Kalwani of BNP Paribas India Wealth Management.

YOGESH KALWANI
BNP Paribas India Wealth Management

India's risk-takers are on a roll. They have been benefitting from booming markets and seemingly ever-rising valuations – in turn making it tricky to get them to pay attention to any efforts to encourage them against acting in the short term.

"There are risks around today because when markets move up, everything rises."

But words of caution are needed in the current environment. "There are risks around today because when markets move up, everything rises. So investors feel they are experts and they buy any stock they like the look of," says Yogesh Kalwani, Senior Director and Head of Investment Services for India at BNP Paribas Wealth Management. "The challenge," he explains, "however is that not every stock which has gone up will see earnings growth and this might disappoint the market. That is when stocks which fail to deliver will see a huge downside as it is priced to perfection."

To address this, the focus should be on quality – or, in Kalwani's words, "stocks that will deliver earnings growth". Yet this caution exists only in a select number of stocks, and current investments are not as selective as they could or should be.

Instead, they are all-too-often guided by market rumours and second-hand information. "Those are the kinds of stocks that tend to be a risky," he emphasises, adding that he sees mid-cap valuations as being ahead of the curve – and ripe for a correction. More specifically, this means that if a narrow index such as the NIFTY 50 declines by 5% to 10%, for example, mid-cap stocks could well fall in value by between 15% and 20% from the recent highs.

"These are the types of risks clients have to be aware of," says Kalwani.

"If investments have made good money already, one should keep in mind that there might be an interim shake-out where companies that are not doing well may get punished a lot more."

CHOOSE MORE WISELY

Yet a correction certainly doesn't mean the rally has come to an end or that there won't be a recovery. But when recovery happens, it will be the better-quality stocks which will rebound first and hardest. This will apply to good businesses with good management.

According to Kalwani, this is where investors need a professional adviser or wealth manager to guide them, including in terms of avoiding being too short term in their thinking and actions.

This will become increasingly vital over the next three to five years, which he predicts – at least from a trajectory perspective – will see many capital appreciation opportunities. "A section of clients think very short term and are more opportunistic in their [investment] decision making, and that's a challenge," says Kalwani. "This is where we need to explain investors the risks of taking a short-term view."

"A section of clients think very short term and are more opportunistic in their [investment] decision making, and that's a challenge. This is where we need to explain investors the risks of taking a short-term view."

ENHANCING ACCESS AND EXPERIENCE

A separate but related way that an investor may stand to gain going forward will be via the further introduction of digital tools and platforms. "Digital is definitely a priority for us now from an organisation perspective," says Kalwani. "We are improving the way clients, and also the relationship managers, see the portfolio information."

Indeed, providing information which is more relevant from clients' perspective and in a manner that is more effective for client decision-making, has been a key focus area as part of the broader platform development efforts. Tied to this, innovation in products is also a priority. "This means we want to get more meaningful products to offer as new opportunities for our clients," explains Kalwani.

This involves working with various investment managers to fill gaps in client portfolios, such as impact investing. "Impact investing is relatively new and emerging in India," he says, "we are looking to create a product that can offer opportunities that are equally good from the perspective of financial return as they are in causing social change. New products across various themes are a big priority for us in order to break new ground." ■

Hot on equities and alternative investments

For the time being, Kalwani sees equities and alternative investment products as the flavour in near term.

Within equities, consumption, GST beneficiaries (switch from informal to formal economy), turnaround opportunities and banking & financial services are near term themes and will attract strong flows.

Alternative Investments have good opportunities in pre-leased commercial assets, infrastructure investment trusts (InvIT) and structured products.

However in case of equities, since there is a mix across the market, one has to be careful about what is shown to the investors. "India is more a bottom-up market, meaning it is a lot more stock-specific," he adds.

Why Indian advisers have failed to generate alpha

The focus for market practitioners should not be about whether or not the Sensex can reach 35,000. Regardless of how the markets perform, wealth managers need to start giving the right advice to their clients, says Siddhartha Rastogi of Ambit Capital.

The past year has been a turbulent time for Indian stock markets. This was due to various cues such as Brexit, US presidential elections and demonetization. In response, both the Nifty and Sensex indexes declined approximately 6% post-September 2016 and gained only 4% 5% in the past year.

Despite the underperformance of financial markets, wealth allocation data, according to Karvy's 2016 wealth report, reflects a skew towards financial assets which were around 57% of portfolios as compared with physical assets which stood at around 43%. Yet returns from physical assets such as gold and real estate for this period were much higher – at roughly 8% and 40%, respectively.

"Are successive wealth managers inclined towards following industry trends?" asks Siddhartha Rastogi, director, investments advisory, private wealth and fund raising at Ambit Capital. "Why do they struggle to change their investment pattern in spite of low performance by their preferred asset class, and therefore fail to generate alpha?"

He believes that having the precise mix of skills to deliver great wealth management service requires years of experience and specialised knowledge. "Every client requires a financial portfolio which matches their risk appetite and financial needs," he adds.

In Rastogi's view, the Indian markets have reached a stage where an investor should be practicing 'caveat emptor' – responsible on their own for checking the quality and suitability of the financial instrument before the purchase is made.

SIDDHARTHA RASTOGI
Ambit Capital

HIGH CHURN AND TIMING THE MARKET

One big dilemma that the investment industry faces, says Rastogi, is the timing of its investments. "Most wealth managers put out 'buy' recommendations when a bull run is already underway, claiming that the future is bright," he explains. "It may really be so, but do they also issue advice that cautions investors about rampant profit-booking at these higher levels?"

More than a bull-run, he says the role of wealth managers becomes critical during bear phases. "During downturns, when there is panic in the markets, many wealth managers tend to shy away from looking at the brighter side of the economy," he adds. "The brave ones also do not fare particularly well. Their new investment proposals invariably get turned down by clients due to a fear of potential losses."

In such a scenario, many advisers recommend clients to pull out as quickly as they can under the belief that markets can crack further. Their missive to the clients usually ends with the sentence: 'Let us enter when markets bottom out.'

Truth be told, no wealth manager can always accurately predict the market's future, says Rastogi, adding that, in the meantime, heavy churning in the stocks and wrong timings of entry/exit ensure that the client loses precious time and money.

LOW EMOTIONAL QUOTIENT OF WEALTH MANAGERS

With the rise in savings and digitisation, more money is finding its way into the financial markets. As a result, there is a need for more financial wizards. Inline with this, more IIT-ians, engineers, chartered accountants and MBAs are getting attracted to the wealth management industry.

"These folks spend approximately USD50,000 to USD60,000 in top business schools and other similar educational institutions to complete their studies,' says Rastogi. "To pay back the loans or recover the money spent, they get carried away to sell (or, is it mis-sell?) products without understanding the suitability of the product for the customers."

Their zeal to 'make big' in life forces them to thrive on customers' greed, he adds, completely ignoring the risk appetite of the customers. "And, yes, this is how complex and high-cost instruments find way into the portfolios of clients."

CONFLICT OF INTEREST

The other predicament that he believes wealth managers face is how they can avoid recommending a product that is ultimately paying for their salary.

For example, until recently, asset managers were paying upfront commissions of as high as 6% to 8% to their biggest distributors on close-ended equity funds that were locked in for 3 to 5 years. Similar incentive structures were offered by fund houses on their capital protected products, until SEBI cracked down on upfront revenues.

"There are enough statistics to prove that close-ended funds have paid lumpy fees to wealth advisers with the singular objective to induce retail customers to lock in equity money," explains Rastogi. "It is embarrassing to note how many of these funds have delivered absolutely horrendous returns."

NEXUS OF MANUFACTURER, ADVISER AND INTERMEDIARY

At the same time, there are many clients who chase high yields and have no understanding about the concept of default or junk bonds and risks associated with it.

"Such highly-resourceful wealth managers use various intermediaries to move the money and pay off the money so that all parties are satiated," says Rastogi. "At the time of default, the client is the only one who loses money with no accountability on the manufacturer or wealth manager."

TOO MUCH PRESSURE TO DELIVER QUARTERLY NUMBERS

In wealth management, both adviser and client need to have an immense amount of patience. Without it, Rastogi says money can evaporate like it never existed. "Unfortunately, listed entities – that need to deliver quarterly numbers to the street – come under the pressure to deliver quick returns on their investment."

For these entities, the investment is really the wealth manager's salary, he explains. "Trying to get quick returns puts undue pressure on the manager. This, in turn, leads to the manager earning more and more revenues by mis-selling high-cost insurance and close-ended products."

REDUCED ECONOMIC CYCLES

At the same time, economic cycles have become more severe – and even shorter.

During good times, therefore, both wealth managers and fund managers juice up undue risk and chase returns over consistency as they are aware – during downturns – that not only their fund, but also their jobs, will be in danger.

"They tend to move up the risk curve, chase momentum, form cartels and deliver returns," explains Rastogi. "There are examples galore when during a particular economic cycle, wealth managers have issued similar advice to their clients."

But, ultimately, neither the fund manager nor the wealth manager is able to time and exit the market, he adds. And the poor client becomes even poorer. ■

Encouraging a longer term investment mind-set in India

Sankaran Naren of ICICI Prudential Asset Management says investors in the country are increasingly looking at making longer-term decisions, and advisers need to focus on managing client expectations.

Rather than looking at what has happened in the financial markets in the short term, it is the long-term conversations and construction of portfolios using asset allocation methodology which contributes the most to delivering consistent outperformance for clients.

A lot of attention among Indian investors and advisers, however, continues to be focused on the high activity on the stock exchange and the vibrancy of the derivatives market. This skews media attention towards trying to satisfy a retail audience, which is trading stocks on a day-to-day basis. Yet there is evidence of the movement among a growing number of investors towards longer-term thinking, says Sankaran Naren, executive director and chief investment officer at ICICI Prudential Asset Management.

"I have seen that investors are looking more at the long term," he explains. "Over the last four years, [many] investors have been adding to their equities [portfolios] and have been careful not to take money out when markets have fallen." Having said that, as a student of behavioural finance, he is waiting to see what will happen when these investors get tested during the next market crash.

"I have seen that investors [in India] are looking more at the long term."

SANKARAN NAREN
ICICI Prudential Asset Management

DELIVERING PERFORMANCE

According to Naren, in the short run, an increasing number of funds in India will under-perform benchmarks.

Over a longer time period, however, the fact that India lacks an efficient market means that active fund managers are more likely than in developed markets. to deliver alpha over a cycle. "One thing to keep in mind is that we have to create a portfolio different from the benchmark," he adds.

More broadly, adding more depth to India's asset management industry is an important part of ensuring capacity going forward. Yet Naren believes his firm has done a lot to contribute in this area by promoting a dynamic asset allocation fund category.

This involves various funds – including equity, income, balanced advantage, balanced – which can move into equities as the market falls and move out from equities as market rallies.

"My belief is this category lends itself to a situation where we have lesser liquidity issues because the automatic nature of these funds is to raise cash as the market goes up and put money into equities as market falls," he explains. And as long as the bulk of the increasing flows into the firm go into its dynamic asset allocation and closed-end funds, this will not present an issue for Naren.

"If I start getting money in a thematic category that has done well then I will have something to worry about," he adds.

He also remains unconcerned about capacity constraints in the Indian market over the coming years given that small- and mid-cap funds are not seeing large inflows as of yet.

In terms of numbers of funds, Naren says that ICICI Prudential Asset Management needs the number of strategies it has at this point of time. In fact, he adds, there is potentially a need for more funds in the industry as a whole, given the significant growth in the local market over the last decade.

"We need more types of strategies to grow the [mutual fund] market from where we are at the moment."

"We need more types of strategies to grow the market from where we are at the moment."

KEEPING ASSET ALLOCATION IN MIND

A key aspect of thinking longer term is keeping asset allocation in mind, with advisers able to play an important role in terms of staying focused on managing client expectations.

To help its investors in this way, the thought process that ICICI Prudential Asset Management implements for its dynamic asset allocation category has been one of a solutions-based approach. This way of thinking is a bit different to how many domestic investors view their portfolios, given that India lacks any kind of US-style, 401K-type pension system to force people to think of investing in a mutual fund with a 20- to 30-year view. "If this were to [happen], then people would become more solution-oriented," adds Naren.

The current situation therefore also calls on advisers and wealth managers to spend time managing their clients' expectations. "Towards [the top of the market] people forget that there is something called 'asset allocation'," says Naren.

"Our entire goal has been to convince people that they should not forget asset allocation as a concept as the market keeps going up."

Although he doesn't see any signs at this stage to suggest that nearer-term returns are at risk, it is more that when investing in these kinds of markets, the longer-term returns require substantial moderation, he explains.

"The big problem in bull markets is the fact that investors don't focus on asset allocation," he adds. "Behavioural finance forces them into a greed situation... and once the market crosses a certain level, people forget about the risk." ■

Finding value

In Naren's view, there will be value over the next 12 months in infrastructure-related stocks – plus, potentially, some areas of financials.

Over the longer term, he sees healthcare as one of the more attractive sectors.

Reinventing advice and value in Asian wealth management

Our 8th annual event in Singapore for the region's most senior individuals in the private banking and wealth management community saw practitioners discuss how the industry can refine its value proposition and capitalise on the growing need for sound advice.

Despite an impressive and positive first few months of 2017 in terms of performance for financial institutions and clients alike, it remains a time of much change and uncertainty for the Asian wealth management and private banking industry.

Only a small number of players are profitable, and the broader wealth management industry is increasingly polarising – those firms making headway seem to either be the largest institutions with scale, or those that are more focused and niche in their strategy.

As a result, wealth managers of all sizes and business models need to pay closer attention to what brings real value to clients.

In particular, the regulatory direction – both globally and in Asia – is likely to create a shift in wealth management models to fee-based solutions from transaction-based sales.

As long as the incentive structures at most banks don't change, the style and substance of advice given to clients will be questionable.

Increasing compliance, risk and administrative costs will simply further erode profit margins and speed up the consolidation wave within private banking, as has already been seen in Hong Kong and Singapore.

The concept of needs-based conversations is ever-more critical, backed up by the right advice and relevant, contextual, timely information – via a blend of digital and human touch-points.

Yet for many institutions, this seems harder to achieve than they think it will be.

Delegate, speaker and sponsor summary

- *40 speakers*
- *350+ senior individuals attended - delegates included CEOs, senior management, product gatekeepers and business unit heads in technology, compliance, operations, risk and advisory – from the leading international and local Private Banks, Retail Banks, IFAs, Family Offices, Insurance Companies, and other Independent Wealth Management Firms*
- *Sponsors: FactSet, Global Precious Metals, Henley & Partners, Matthews Asia, Old Mutual International, Pershing, Assentis, CFA Institute, Equiom, ERI Banking Software, Globacom Technolgies, IRESS, Commerzbank, Friends Provident International, IPG, Leonteq, Mercer, Orbium, RBC Investment Management, Rosemont, Swiss Asia, Swiss Life, SEI, and Synpulse*

And with the next generation an increasingly important segment, there is a pressing need to adapt service offerings and solutions, as well as the ways to deliver content and advice.

There also continues to be a significant opportunity to help the region's wealthy families to diversify, protect and pass on their wealth – assuming firms can also tailor solutions to the needs of the next generation of younger clients also.

For all players, it seems that differentiation in strategies and value propositions is key to survival and success.

KEY EVENT TAKE-AWAYS

- Half of all poll respondents said they don't think private banks operate in a transparent way
- Meanwhile, 74% of delegates said they consider private banks to be 'product pushers'
- 80% of poll respondents said that local banks will be more successful in Singapore than their international counterparts in growing their business over the next 10 years
- Wealth solutions offer by far the most potential for wealth managers to make the most profit over the next decade, according to 39% of poll respondents – ahead of the other options: discretionary mandates (27%), insurance (21%) and investment products (14%)
- Within the insurance space, VUL will see the biggest percentage growth in Asia over the next five years among HNW clients, said 46% of respondents. Medical / critical illness was next at 22%, followed by UL at 20%, PPLI at 10% and whole-of-life at 2%
- Realistic investor expectations for 2H 2017 returns should be between 0% and 10%, according to 88% of poll respondents
- Fixed income will see the biggest allocation between now and the end of 2017,, believe 46% of poll respondents – followed by equities at 41%, gold at 7%, private equity at 4% and then hedge funds at 2%

Making digital core to wealth management success

The challenge that private banks and other wealth management institutions in Asia continue to face, is that while they know they need to embrace digital, many of them are still unclear about what to do and how to do it - according to speakers at the annual Hubbis Digital Wealth event in Singapore in June.

One of the most important elements of going digital that firms need to focus on, is ensuring that they are adding value to the bottom line, their clients and internal stakeholders alike. And this is essential, given the amount of money that organisations are committing to digital projects.

Making things simpler, better and faster for customers, needs to be a key driver, given that institutions sometimes forget about the end-user in their path to digitisation, and it becomes just another business process.

Ultimately, in trying to measure digital success, it is important to establish a direct correlation to revenue uplift. This will also contribute towards efforts to drive change in the culture throughout an organisation – a big contributor to buy-in at all levels, especially the front-line.

More communication to bankers is also needed on the benefits and value of digital to augment their role and performance – rather than replace them.

The way some of the more forward-thinking and digitally-minded banks are now spending money on digital is also evolving. For example, they now want to digitise the full value chain – from expanding the client experience to automating processes like client onboarding.

Paying attention to these and other success factors is ever-more pressing in the mission to adopt enterprise-wide digitisation, rather than many banks still looking to fix the basics, or continuing to apply what some practitioners call 'digital lipstick'.

The end-game, say many practitioners, is an improved multi-channel experience for clients which leads to increased AUM and revenue, and a better understanding of clients' needs, thanks to the technology.

Delegate, speaker and sponsor summary

- *More than 35 speakers*
- *Over 300 CEOs, COOs, heads of technology / digital, and other senior practitioners attended – from a mix of local and international Private Banks, Retail Banks, Insurance Companies, Independent Firms & Family Offices, Asset Management Companies, and IFAs*
- *Sponsors: EY, IMTF, Pershing, Quantifeed, SS&C Technologies, additiv, FactSet, IRESS, Liferay, Xignite, Ingenia Consultants, Orbium, Synpulse, State Street, and WeInvest*

KEY EVENT TAKE-AWAYS

- Nearly 60% of poll respondents said only a small amount of the talk at their own firms about digital leads to any tangible action. And 74% of poll respondents said that most private banks in Asia are reactive to digital

- Among different types of institutions, local retail banks are making more progress in the digital wealth race in Asia than universal banks, international private banks and insurance companies, said delegates

- Digital is a way to support RMs rather than replace them, according to 87% of poll respondents

- Enabling bankers to spend more time with clients should be the priority for banks to get right with digital, said 50% of poll respondents – with 22% opting for lowering the admin burden for RMs

- 78% of poll respondents think the quality of investment advice from by RMs who actively use digital tools is better than those RMs who don't

- The end-game for digital tools for RMs should be to increase sales / revenue, according to the majority poll respondents – followed by spending more time with clients, and then lowering the admin burden. Only 9% of poll respondents said the digital priority for banks in Asia today should be driving new AUM

- Indeed, 19% of poll respondents said that their firm derives zero revenue from digital channels today; 41% said the revenue from digital was somewhere between 0% and 10%. One-third of respondents said digital-led revenue currently counts for 10% to 20%

- Nearly 90% of poll respondents said banks should invest in partnerships with fintechs – instead of developing their own digital strategy

- Technology budgets should prioritise online capabilities towards interactive engagements with advisers, said 49% of poll respondents. This was followed by technology and process strategies to aid internal innovation (24%) and moving core infrastructures, platforms or software to the cloud (15%)

- 90% of poll respondents think that every robo-adviser should be a regulated entity

- Despite the hype about AI (artificial intelligence), 62% of delegates said they don't really understand what AI is, in the context of wealth management

Creating capacity and capability in India's wealth sector

Despite the country's growing pool of wealth, financial education and literacy are still in their infancy. This leaves a big gap between people who need proper advice and individuals able to give it, says Sandip Ghose of the National Institute of Securities Markets (NISM).

There is little doubt about the extent of the opportunity to tap into the ever-expanding amount of wealth within India.

But this is only the tip of the iceberg, it seems.

If lofty goals can be achieved in relation to key industry objectives such as financial literacy, investor education to boost mutual fund penetration, and higher standards of competence of wealth managers and financial advisers, then hundreds of millions of potential buyers of insurance and investment products could emerge.

Filling the gap in this way is the vision – and mission – of Sandip Ghose and NISM, where he is director.

This "white space", as he calls it, exists across Indian financial services – the 300 million or so people who are either entering the market or are already working. "These are people who are qualified or who have earning capacity, but don't have capacity for managing their money," he explains.

He questions whether the wealth management industry will actually look at 50% of the population which is below the age of 25 and entering the market?

Or whether it will look at the 70% of the population which is below the age of 35 and are still not wealthy but who are building wealth?

Instead, he says, the focus is narrowly on the HNIs and UHNIs, who represent a fraction of the population of potential customers.

FAR-REACHING

Ghose estimates that NISM connects with around 700,000 people every year in terms of financial education – despite being a small institution with five people working on this area.

SANDIP GHOSE
National Institute of Securities Markets

This might involve, as an example of trying to fill the "white space" at a practical level, explaining to individuals why they should buy insurance. "People tend to buy insurance for all the wrong reasons," he says.

Rather than buy term insurance, for example, people flock to equity-linked savings policies.

Yet the first type of protection they should be buying, at the age of 25 when they enter the job market, is term cover, explains Ghose.

The issue, he says, is that no insurance agent wants to sell term insurance due to the lack of commission in comparison with the 35% or so on most other policies.

"My job is to help those 700,000 people understand these basics," he adds.

This highlights the broader mission of NISM, which has six schools of excellence doing work in different areas under the auspices of the Securities and Exchange Board of India (SEBI).

In short, the aim is capacity-building activities at various levels to enhance the quality standards of professionals and increase the participation in the securities markets.

This includes guiding individuals through the various life-stages, via understanding basic concepts such as the time value of money and compounding, for instance.

Another part of the mission involves training and certifying professionals for the financial markets, including running five major post-graduate programmes.

Ultimately, for anyone wanting to work within the Indian asset and wealth management sectors – across derivatives, research, investment advisory, mutual fund distribution, risk management, capital market operations or broking – entry is via the NISM-certification process.

GETTING THE RIGHT ADVICE

This gives Ghose a unique perspective on what it will take to move the wealth management industry to the next level.

SEBI is clearly trying to drive this too. And the latest version of its investment adviser regulations, it wants to address its prime concern: that if someone is a distributor earning trail commission from the producer of the product, then they should do that and be clear and transparent that these are the products available; or there is a separate adviser akin to a doctor who is paid to do a wealth 'check-up' and comes up with an independent action plan – a distributor then takes over to select suitable products and solutions.

Yet most individuals in India don't even get access to the right advice.

Instead of following a prudent and structured financial plan, therefore, they tend to know no better than to look for random investment opportunities to invest and try to generate double-digit returns.

"This is part of behavioural finance, but they need someone to explain to them that they might only get a return of 100 to 200 basis points above their fixed deposits in the bank," adds Ghose.

The upshot is that there is little, if any, understanding of risk appetite.

"I am most concerned that people in India do not understand that the generation which is entering the market is going to live until they are 90 years old, so how are they going to survive if they are not planning today?" he asks. "This is the message the industry has to sell them."

> **"We certify people, but they might not have the competency to go and practice the profession."**

As a starting point, Ghose believes that mutual funds should be everybody's default investment in India.

The year-on-year return on mutual funds in the last five to seven years, for example, has been 200 to 300 basis points – without fail – above the equivalent fixed deposit rate.

For example, he says, those people who invested INR500 on a monthly basis in the early 1990s in SBI Mutual Fund, the country's first of its type, have all become millionaires.

"I am creating more of a space for mutual funds," he adds. NISM has to date certified 250,000 individuals to sell mutual funds.

Ghose is all for simple programmes that create a multiplier effect.

This comes via initiatives such as Financial Awareness Messages (FAME) or Financial Education Training Programmes (FETPs).

"We train 4,000 teachers in financial advice every year, on the basis that they will train others," he adds.

There is also a big focus and commitment to children's education. This includes three levels of national-level financial literacy test (NFLAT) conducted for children between the ages of 12 and 18 and covering 4,000 schools across India.

QUALIFIED OR COMPETENT?

One of the biggest challenges that has emerged – not just for NISM, but within the Indian market as a whole – is the fact that many people are getting qualifications just to get a job, rather than build a career in that area.

"We certify people, but they might not have the competency to go and practice the profession," he says.

He sees India losing people who want to practice what they are trained in. "People want these qualifications just to join the corporate world."

Although India has around 6,500 management schools and 11,700 engineering colleges, producing around 500,000 professionals every year, it is one of the few countries where after taking an engineering or management qualification, that person doesn't know what job to do.

PRIORITY OF PROFESSIONALISM

It is no surprise that Ghose's key objectives revolve around bridging the education and advice gaps in India.

Within this, he explains, is a desire to deliver more classroom-based training programmes which can produce practitioners who can start working in the marketplace based on having a practical understanding of the industry – not just a theoretical one.

In addition, in relation to NISM's broad certification powers on behalf of regulators such as SEBI, the pension authority and even the newly set-up bankruptcy board, Ghose wants to move beyond just offering entry-level certificates.

This would take the role of the NISM more towards aspirational certification.

"If a person wants to become a professional, they might want to take an advanced level certificate, beyond the benchmark qualification available," he adds.

Other priorities for Ghose include financial literacy and investor awareness across the country, corporate governance, and training the regulators themselves. NISM already acts as a kind of staff training college for the 700 officers of SEBI.

"Over and above this, we run the national strategy for financial education which was created by the FSDC (Financial Stability and Development Council)," adds Ghose.

Perhaps the grandest goal he has, however, is setting up a wealth management academy where he, alongside his team, can work with young people to help them become the right type of wealth manager who can connect with individuals in need of such guidance.

"There are very few wealth managers whom you can count on your hand who will be able to talk to you about all the basics," he says, "not just about products and returns."

The other element of this is ensuring they are ethical, and operate with integrity.

"People need the mind-set that they will spend 15 to 20 years, and work their way up in this business," he explains. "Only then will they have credibility and be able to talk to people with authority." ■

"There are very few wealth managers whom you can count on your hand who will be able to talk to you about all the basics, not just about products and returns."

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