

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.

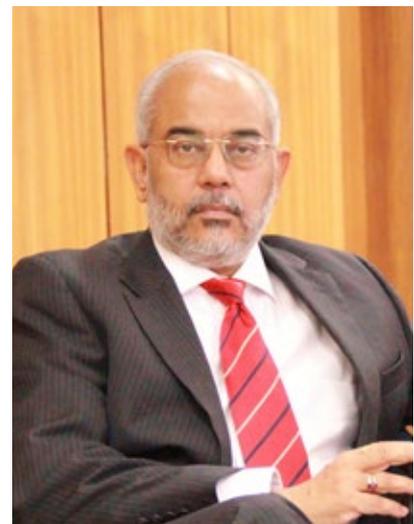
He questions whether the wealth management industry will actually look at 50% of the population which is below the age of 25 and entering the market?

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 deriva-

tives, 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

“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.”

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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.

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 regula-

tors 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.

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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.” ■