

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-

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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 com-

petition 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." ■