India's need for more solutions to meet wealth preservation needs

A lack of investment products and wealth planning tools is preventing high net worth interest in wealth preservation from being fully executed, limiting the growth of the industry, believes Tariq Aboobaker of Amicorp Trustees.

Indians are becoming increasingly savvy on tax and understand the need for wealth planning as taboos around death and divorce unravel, but the market is not yet developed enough to meet their needs, according to Tariq Aboobaker, managing director of Amicorp Trustees.

Aboobaker, who started out in the industry 12 years ago with Centurion Bank and went on to set up its estate planning services, believes the global economic slowdown is attracting families back home to India, further bolstering the demand for planning.

"Ten years ago one out of 10 clients would want a second meeting [about wealth planning]," he says. "Today I can confidently say that five out of 10 people are willing to have a second meeting. But it is still only 50% and there is a long way to go."

However, the work needed for the wealth management industry to attract the other 50% of clients to that second meeting is less of a concern for Aboobaker than the shortfall in providers' ability to provide high-quality research and choose the right product.

For a long time there was a very limited number of products in the market, he says. But things are changing, with people increasingly aware of esoteric investments and a burgeoning structured products market.

PRODUCT INNOVATION

Indeed, according to Bloomberg, issuance of structured products in India rose more than five-fold to INR24.5 billion (US$400 million) in the third quarter of 2014. This is fostering the kind of product innovation Aboobaker believes the Indian market needs.

TARIQ ABOOBAKER
Amicorp Group

In February financial institutions including ICICI Securities and IIFL Wealth Management introduced the country's first capital-protected, index-linked structured products, designed to tap an expected decline in money market rates and marketed to wealthy clients, according to The Business Standard.

"The market is ready for more exotic products. You can see that art is being accepted [as an asset class] now," Aboobaker says. However, he adds: "There is an improvement in the Indian style of investment, but we still need to get a little more sophisticated and add more products."

As these develop, both wealth managers and their clients must learn to be even more discerning, Aboobaker warns. Specifically, he says, clients should be discouraged from merely following what their friends or family members do.

"Each client needs to recognise their own requirements and risk appetite. If I have a large risk appetite, for example, I will need to find a good equity research firm, or I could be more conservative and go into the mutual fund space. Most of the large organisations have a good combination of risk management and asset allocation," he advises.

Despite this cautious optimism for the product market, Amicorp has no plans to move away from its main area of expertise – estate planning and trusts.

"We are a global trust company and have been in India for the last three years," explains Aboobaker. "A lot of clients have asked us to manage their wealth as investment advisers but we don't want to get into that business."

Unlike some industry participants, Aboobaker believes there is sufficient talent in India for both the product and the planning side of wealth management to thrive. "I would not agree that there is a shortfall of capable people," he says. "There are enough [capable people] in the industry and they have done wonders for themselves, their organisations and their clients."

Turning specifically to the structures available for wealth management planning, Aboobaker says there has been some diversification, with the move from basic wills and the concept of the Hindu Undivided Family to tailored trust structures. However, he thinks more could still be done.

Typically, an Indian family has 70% of its wealth in real estate, which is not appropriate for moving into such a structure as the transfer can attract stamp duty, and the remainder in other, liquid assets Aboobaker says are suitable for a trust.

Indeed, clients are starting to welcome the flexibility of purpose that a trust can provide, even though the legality of one structure versus another is an area of concern, especially since the advent of FATCA and Common Reporting Standards.

"A trust is like water, you can make it take any form you like, whereas the principles of a Hindu Undivided family are set in stone," Aboobaker explains.

The primary purpose of estate planning is to protect, preserve and manage assets. Timely succession and estate planning are keys to a hassle-free future for individuals and their families, Aboobaker believes.

"We definitely do not encourage clients to hide behind a structure or not disclose their wealth. You can structure in a way that is tax effective, but it has to stay within the law, as sooner or later the [trust] structures will get opened up [by the authorities]."

One way in which wealthy families' assets could come under greater scrutiny is if India reintroduced inheritance tax, a move that Aboobaker believes is "around the corner".

The likely reintroduction of the tax will raise as many questions as it answers, he argues.

"The tax could come with an exemption for one house," he says. "But will it apply to the house you bought last or the house you bought first? The most expensive or the cheapest? We don't know the implications yet." ■

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PATIENCE IS A VIRTUE

Aboobaker also advocates patience, from both a client's and a provider's perspective: "Give [investment managers] enough time to perform on your behalf. You can't expect miracles as they are looking at patterns of growth over time. For the provider, time frame and investment horizon have to be very clearly defined."