

INDIAN ASSET AND WEALTH MANAGEMENT: THE MISSING JEWEL IN THE PORTFOLIO?



SUMMARY

- *I have just spent a week in India with Michael Stanhope of Hubbis. We had the good fortune to meet with 125 senior executives of some of Hubbis' clients, all of whom are leading local State and commercial banks, international private banks, independent wealth managers, multi-family offices, asset managers, law firms and fiduciary services providers.*

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I CAME AWAY WITH TWO VERY CLEAR CONCLUSIONS:

- 1. The global asset management community is asleep at the wheel – it is oblivious to the opportunities in India.**
- 2. The local wealth management, investment banking and asset management industry is riding an elephant, that is running fast! The opportunity is to get on and enjoy the ride.**

There are tremendous opportunities to be had in India and there needs to be a much greater focus on building the wealth management sector and asset management sector. The opportunities are there for those who move now.

Let me explain.



Despite these impressive numbers, global investor exposure and attention to India is pitiful. The country with the fifth largest stock market in the world and a projected growth rate of 6% p.a. represents just 1.6% of the MSCI All Countries World Index, it is not even in the MSCI World Index and has a paltry 9.88% exposure in the MSCI Emerging Markets Index. Furthermore, the opportunities to manage this vast and growing wealth are still untapped and represent significant opportunities for global and local players.

What is clear from our visit is that things are changing, and the early movers have significant opportunities to benefit from what is a long-term secular opportunity. There is a rapidly growing momentum which presents tremendous opportunities for those players who recognise the opportunity and develop the correct strategies.

The following is designed to provide a very high-level flavour of what we observed in the key

The Indian Story

The market capitalisation of the Indian stock market at the end of 2023 was USD4.33 trillion, making it the fifth largest stock market in the world by capitalisation after the US, China, Japan and Euronext.

India is projected to be the world's third largest economy by 2030. Its current 3% share of global GDP is set to double in the next two decades.

There are between 1100 and 1200 families in India with a wealth in excess of USD100 million, making

it the 3rd largest country of centi-millionaires after the US and China.

There are over 800,000 people in India with a net worth of over USD1 million.

However, the punchline is even more impressive – the Indian economy is growing, and the bullish estimates are that the above numbers are going to double within the next 5 years – 2,200 centi-millionaires... 1.6 million people with a net worth of more than USD1 million...?

asset and wealth management segments. It should be clear that there are tremendous opportunities in all wealth segments, and as we will see, for asset managers, there are growing opportunities to benefit from a more liquid capital account.

The Wealth Management Industry Opportunity

India is a country where client segmentation is critical. The per capita income of approximately USD2,000 per annum, in a population of 1.42 billion, is a major distraction from the realities of the wealth that exists in the top segments of the population, the momentum of growth in these segments, and the trickle-down effect as more and more people see a rise in their standard of living and ability to save and invest.

To this end it is important to understand within the overall opportunity presented, where the opportunities are to be found and in which opportunities to focus on and optimise one's brand.

State and Commercial Banks

The numbers one is dealing with represent opportunities as well as challenges. Simply looking at the State Bank of India, it recently passed the 460 million mark in customers. Bank of Baroda has 153 million customers. Still huge numbers exist with banks like HDFC, ICICI, Axis, Kotak Mohindra, IndusInd and others.

These are huge numbers to deal with and create two major points of focus for the commercial banks and their private client wealth management units:



1. Firstly, they need to be hugely disciplined with client segmentation and what they are realistically able to deliver. In particular, this determines the product line within regulatory limits that can be delivered, and the manner of delivery (digital only vs. digital and human touch).
2. Secondly, the solution has to be immensely scalable, and the opportunities are so large

that focusing and excelling on this scalability in one segment would be a better outcome than being sub-standard in multiple segments. Place your bets!

For the State and Commercial Banks to successfully combine private banking with their huge retail and mass affluent platforms will be challenging as has been seen in the west. The culture and mindset of a retail/mass affluent private client offering does not





mix well with that of a HNW and UHNW offering. Notwithstanding this, there remain targeted opportunities, particularly where there is the benefit to leverage the capital markets opportunities of the investment banks and the cross selling to promoters of capital markets opportunities and products such as structured finance solutions.

The resounding comments from our meetings in this sector (which were echoed across all the sectors) was the challenge of recruiting, training and retaining the numbers of front-line staff to service these enormous client banks, waiting to be looked after. As one of the senior executives at a State bank commented, we have a unique problem in that we have too many prospects and not enough advisors!

International Private Banks

A consistent comment from our meetings was that there is a resource mismatch in India. The UHNW and HNW clients in India are

becoming far more sophisticated and are transitioning to a more professionalised approach to managing their wealth. This has created a number of interesting issues and observations:

1. Firstly, there is a lack of human talent within India that has the global, sophisticated exposure that these clients demand. This is a positive gap that could be filled by the international private banks, and bankers who are currently overseas and want to return home or build their Indian franchises. Indeed, we met one senior UHNW relationship manager who had done just that.
2. A weakness of the international private banks is that for many, their onshore India business has been there to complement their offshore relationships. The result is that they are not fully on the radar screen of global management and there has been a distraction with North and South-East Asia. This is a significant strategic error given that the largest percentage of share of wallet of these clients is actually their domestic asset base which is growing by leaps and bounds. International Private Banks would do well to switch at least some attention from the rest of Asia to South Asia, and pursue their client onshore asset base in India which is rapidly being monetised.
3. The Indian UHNW and HNW clients are typically successful and highly driven entrepreneurs. For this wealth segment, flexibility and adaptability are critical criteria. The result is that if a bank is operating off its own proprietary platform, and that platform is insufficiently diverse,

providing a comprehensive range of product and service solutions, then these clients will look elsewhere for that flexibility. This creates an importance for the international private banks in India to enter into strategic relationships with key service providers such as wealth planning, legal advisors and trust and fiduciary services providers.

4. Comments were made that one of the issues for the international private banks is that their global management simply do not understand how India works. The result is that often the wrong decisions are made and repeated. The answer from some was that in order to enter into the market at the right scale, these banks would need to acquire existing businesses that would benefit from the international brand whilst retaining the character and knowledge base of the existing management teams.

The biggest challenge for the international private banks is to be able to compete with the independent wealth managers and



the small but growing contingent of multi-family offices who typically have the diverse product and services solutions that the UHNW and HNW clients are looking for. There is a clear need to adapt their models to compete with these wealth managers by replicating their product and solutions platforms whilst providing additional value based on their global expertise and connectivity – the competition is however set to continue to be fierce.

Non-Bank Wealth Management Firms

This segment is probably the most exciting segment in the Indian market for the UHNW and HNW client base, and indeed provides a template for what the international private banks should be emanating (both in India and indeed elsewhere). The successful firms in this space have structured themselves by both client and by default, regulatory segment. They have ensured the implementation of DIY, distribution and advisory related models, filtering their product platforms for each segment as appropriate and



providing an integrated platform of solutions which can be cherry picked by their clients.

Importantly they have embraced technology and leverage the ability to use technology to deliver different touch and feel solutions from a full digital DIY engagement to a combination of digital and human touch to deliver more advanced services up the value chain and wealth segments. This flexibility of approach is of course highly attractive to clients seeking more flexible solutions, perhaps combining DIY, distribution and advisory into their overall relationships. Furthermore this addresses the multi-banking needs and characteristics of India wealth.

Indeed, some firms in this segment have such a powerful proposition that they are now a threat to international private banks in territories such as Singapore and Dubai. We are seeing some of these firms who used to rely on working with international private banks for custody and investment services for their NRI clients, moving into competing directly in this space as they have found the services provided disappointing at best. This is illustrated by the recent acquisition of a Relationship Management from a Singaporean Private Bank by an Indian wealth management firm who is now building a franchise in Singapore and the UAE.

Finally, as alluded to, these firms often have combined wealth management, asset management and capital markets businesses under one roof. They offer the holistic range of solutions demanded by the UHNW and HNW segments, including wealth structuring and family office solutions, and they have created



all the required product streams through DIY, Distribution and Advisory Models.

I recall a number of years ago being asked by a consulting firm what the ideal wealth management platform would look like and it was quite an easy question to answer – take Charles Schwab and copy and paste. Give the client the choice to enter via different verticals and indeed price the verticals appropriately and let them combine these verticals. In India this is precisely what I have seen with some of the Non-Bank Wealth Management firms and the reasons for their ongoing success are very clear – they have client centric wealth management models which deliver to the client what the client wants and needs.

Multi-Family Office (MFO)

Whilst the non-bank wealth management sector has significant opportunities in scale, the dedicated MFO sector exists and is likely to starting to grow rapidly as the UHNW segment appreciates the ability to cost effectively outsource their investable asset management, account aggregation and portfolio management on a fully transparent fee basis.

Whilst this MFO opportunity is offered by some of the wealth management firms, there will always be a slight reticence when a firm also has its own asset management and product lines which may create conflicts of interest. It is therefore important to assess when looking at the MFO market who the pure plays are.

The UHNW Indian client segment, both domestic and non-resident is increasingly inclined to embrace the transparent fee model for advisory services. With no reliance on retrocession payments and full alignment with the client's objectives whilst delivering a highly professionalised holistic experience, this segment is growing with the market and will undoubtedly continue to attract a growing client base, in particular from the next generation of the old wealth and from new wealth being generated by the younger generations who have had international exposure and seen the benefits of the transparent fee model.

With the centi-millionaire market growing, and wealth management becoming more professional among these successful families, engaging a Multi-Family Office



(MFO) has become increasingly cost-effective. An MFO can consolidate and aggregate banking and wealth management relationships. It also acts as an outsourced CIO, advising on portfolio management, product selection, and cost management. This segment, therefore, holds tremendous prospects.

The Asset Management Industry Opportunity

During our trip, there were very clear messages from the asset managers we met, namely:

1. Global investors are only just beginning to realise they are missing out on an incredible story in India – money wants and should be coming into India.
2. The opportunity for these inflows creates the opportunity for the Indian Government to loosen its capital controls further. If inflows from global investors can offset prospective outflows from Indian resident investors seeking global diversification, then the opportunities are obvious.
3. Every single asset manager we met, without fail, is setting up an operation in GIFT City. Investment is being made, and as the business starts to flow and confidence builds the opportunity will accelerate.
4. For non-Indian asset managers there is the opportunity to leverage their global distribution channels by either partnering with Indian asset managers or setting up their own infrastructure and capabilities.

With the regulatory environment in India favouring mutual funds and exchange traded funds, one just has to follow the money and





a clear advantage for them to not only focus on the domestic opportunities, but to also grasp the global opportunities, as global investors recognise they are wildly under exposed to the Indian economy.

In the meantime for non-Indian global players, there is a growing opportunity to benefit from the two way capital flows that GIFT City is designed to promote, and where their expertise in non-Indian capital markets can be brought to bear as Indian investors are able to increase diversification of their portfolios.

Summary

The above comments barely scratch the surface of the opportunities in India. Inevitably there are challenges in executing,

but for the asset and wealth management industry in both India and globally, this economy and market has been ignored for too long and is ripe for attention, re-focus and a significant increase in portfolio and business allocation.

At Hubbis we have seen this opportunity and will be writing further, interviewing and publishing relevant content by thought leaders, and working with the asset and wealth management industry in India to support them in growing their brands, training and educating their key staff and providing them with content that will support them in key decision making.

We are very much looking forward to working increasingly with our friends in India. ■

projections on economic growth to see the upside in asset capture for the fund management industry.

For the Indian domestic asset management industry, there is



« *“If you are in the asset management industry and have not heard of the Gujarat International Finance Tec-City, otherwise known as GIFT City, then you are missing out on what is likely to be one of the **biggest opportunities for transformation** in Indian asset and wealth management services.”* »

OUR ENGAGEMENT WITH INDIA IN 2024

The Hubbis Team eagerly anticipates delving further into the themes explored this January with industry leaders at our upcoming [India Wealth Management Forum 2024](#).

The Forum aims to expand upon the crucial insights gained from industry leaders regarding key opportunities and challenges in the market. We will explore a range of topics, including the evolution of wealth management, addressing the needs of India's HNW and UHNWI families, enhancing client services, optimising investment offerings, talent acquisition strategies, the significance of GIFT City, and more.

For more information, [please visit the forum's homepage](#). If you have any questions regarding this article, or the forum - from discussion topics to participation details - [feel free to reach out to us](#).

