INDIAN PRIVATE WEALTH MANAGEMENT
THE HUNT FOR TALENT

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INTRODUCTION

On our recent visit to Mumbai, Hubbis had the opportunity to meet with and listen to some professionals in Human Resources and Talent Development at leading Indian and international banks and private wealth management firms.

It was clear from our discussion that the wealth management industry in India is showing strong growth, presenting the challenge of capitalizing on this opportunity commensurately.

A major factor is keeping pace with the demand for qualified personnel to advise on the growing numbers of wealthy individuals and the net new asset potential. The following synopsis provides insights into the opportunities, challenges, and potential focus areas for the industry to address these challenges directly.

Background

The Indian Wealth Management sector is growing rapidly. With approximately 1,200 centi-millionaires and 850,000 households with a net worth over USD 1 million, this is set to double in the next 5 years, and clearly, the opportunities are extensive.

In the spirit of "Follow the Money", evidence of the recognition of these opportunities is very apparent when looking at the activities of the private equity investors. Household names like KKR, Blackstone, Bain Capital, PAG and Multiples have all made investments in leading wealth managers in India such as ASK, Avendus, Sanctum, Edelweiss (Nuvama) and IIFL (360 One).

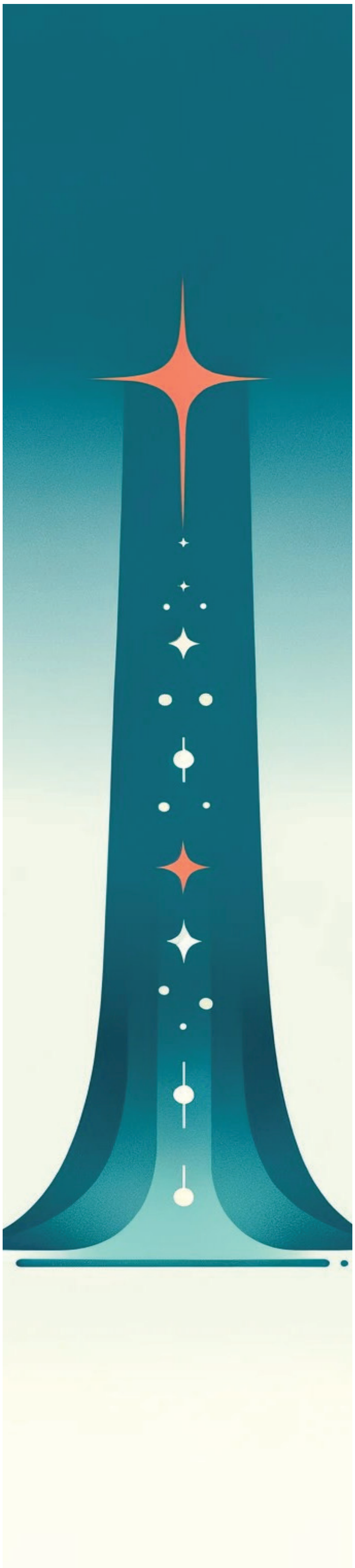
In looking at the developments since these investments, one sees a common strategy. The search for smaller players to absorb into and scale up these investments, the development of a comprehensive platform addressing the asset base and regulatory requirements for targeting the different client segment verticals and taking some of these brands offshore to locations such as Singapore and Dubai, to cater for the cross-border opportunities of the HNW and UHNW segments.

Furthermore, the growing Indian non-bank financial services players (NBFCs) are posing an existential threat to the traditional sources of cross border advice in India of the international private banks remaining onshore such as HSBC, Standard Chartered, Deutsche Bank, Julius Baer, Barclays and LGT. In addition, as they spread their wings to Singapore and Dubai, they start to become an attractive platform to NRI bankers at the international private banks in Singapore, Dubai and indeed Switzerland, who may feel tempted to move to firms that have a better focus and understanding of Indian clients, both domestic and NRI.

This risk to the international private banks of losing NRI bankers to the Indian NBFCs is a symptom of the competition for talent that has evolved in India generally. With the growth rates in HNW and UHNW customers, and the enormous growth rate in AUM and potential AUM the problem that all the wealth managers are facing is the hunt for qualified talent.

For the potential talent, the opportunities are very compelling. At a recent roundtable event that Hubbis held in Mumbai, senior Human Resources professionals confirmed the attractions of the wealth management sector – compelling numbers for current and prospective employees.

In a country with a per capita income of approximately USD 2,700 per annum, the numbers are compelling. Entry level relationship managers straight out of a campus would be expected to be starting at around USD 30,000 p.a. with a junior relationship manager earning around



USD 60,000. In the more established HNW firms, average earnings will be in the USD 125,000 p.a. whilst the top performers will be earning between USD 1-1.5 million. Importantly, the feedback indicated that these numbers have roughly doubled in the last 5 years and with current growth rates, have the opportunity to increase significantly over the next 5 years as the projected wealth is set to double again.

Interestingly, a recent study by Credit Suisse showed that whilst private bankers in locations such as Singapore and Switzerland may take approximately 3.5 years to break even, in India with the higher momentum, the break-even is nearer to 2 to 2.5 years.

The challenge for the wealth management firms is bringing on enough talent to meet this growth and opportunity. This is exacerbated by the different regulatory models, a similar problem to other jurisdictions.

For example, the large State and Commercial banks have enormous numbers in the retail and priority type banking level. As we have recently alluded to, State Bank of India has 460 million customers, whilst Bank of Baroda has 153 million customers. Clearly for a large portion of this segment a digital only solution is the right way to scale the business. However, the HNW and UHNW segments need human touch.

The result is that from a regulatory perspective, advisers, from a bottom-up perspective, are generally limited to the distribution model, in other words, the selling of mutual fund portfolios to meet clients' risk tolerances and objectives. These advisers need to be trained to understand a limited product range and operate within tightly controlled processes for the engagement and delivery of solutions to their customers. They then represent a latent pool of talent whose ability, if undeveloped further, is limited to a finite product and planning scope.

This creates a challenge in the HNW and UHNW segments for State and Commercial Banks, International Private Banks, and NBFCs, where a more sophisticated relationship manager is required. These relationship managers not only need to understand a broader range of product and delivery verticals, including direct capital markets exposure, structured products, alternatives, private markets and the advisory model, but furthermore to really excel, they must have the capacity in these segments to think internationally and help co-ordinate their client's domestic and international exposure.

The management of international exposure from India is becoming increasingly relevant as clients become more sophisticated, understand the effects of the Common Reporting Standards and start seeking the opportunities that are emerging through GIFT City.

In a nutshell, Indian wealth management firms need many more relationships managers and supporting skillsets. They also need management skills to take them to the next level.

Opportunities

With this background in place, our roundtable of HR specialists came out with some interesting issues and areas of focus. The following is a brief snapshot at some of the many focal points which came out of the discussion:

1. Executive Coaching

Firstly, from a top-down perspective, many of the leaders in the space are becoming what might politely be referred to as "long in the tooth". Furthermore, due to the rapid expansion of the businesses, a number of leaders fell into their roles as a matter of expedience rather than a superb ability to run a wealth management business (for example being a top RM who was moved, sometimes reluctantly, into a management role). The message being that the established banks and wealth managers need to have a close and effective look at their corporate Governance and Succession plans and ensure that they are grooming, training and mentoring their qualified business leaders to run the businesses through the next stage of their development.

2. Campus Programs

These have generally worked well for the larger banks and wealth managers and can be successful in training larger volumes of relationship managers, in particular for the distribution segment (so the mass affluent/ priority banking type customer). The problem with the product of this segment is that they are limited in their scope to mutual fund portfolios, and it becomes much more challenging to train them to deal with more sophisticated clients and a more diversified and sophisticated product platform. In particular the training of softer skills to support technical skills becomes vital.

3. Wealth Management Association (WMA)

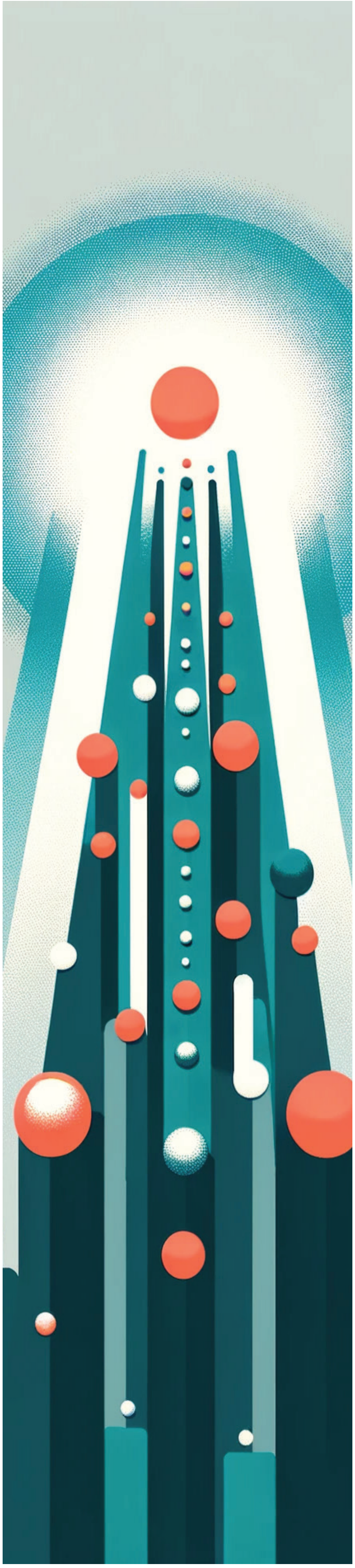
The members of the roundtable felt that the time was ripe to establish a WMA. The opportunities in India are so significant that rather than fighting each other and stealing each other's RMs, there is a clear case for mutual cooperation in the interests of the industry as a whole, not only between members of the industry, but to ensure co-ordination and representation with the Government to ensure alignment between Government and industry objectives.

4. Professional Qualifications and Continuing Professional Development (CPD)

Entry into the industry requires a limited test and qualifications. For an industry that is growing rapidly, setting a low bar for entry is important to fuel the engine. However, it is important that the quid pro quo for this is that once entered, the talent is nurtured and trained regularly to advance up the scale of knowledge and capability. The only way for the industry and regulator to ensure this, is to establish a framework of expectations for CPD that are a regulatory requirement. This will ensure that the investment and co-ordination is achieved.

5. Support Staff

Whilst there may be a fixation on RMs, it is equally important to address the requirements in the support staff space, in



particular the Investment Advisors (IAs) and Product Specialists that are supporting the RMs. The IAs in particular provide an opportunity to enter personnel into the industry, develop their technical skills and then to monitor the group to identify suitable individuals to progress to becoming RMs.

6. Client Segment Progression

Many banks and wealth management firms are dealing with multiple verticals driven by regulatory requirements. So for example, they will have a DIY model, a Distribution Model and an Advisory Model. Focus needs to be assigned to developing an RM from a distribution limited delivery model to advancing to being able to (from a regulatory perspective) move to additional verticals so as to be able to deliver more products and solutions, and progress to focussing on the higher value clients.

7. Mentoring and Teaching

A common feedback from the group was that even with technical training and opportunities represented by new requirements such as CPD, the importance of managers teaching and mentoring their teams must be recognised (and rewarded). Whilst academic skills can be taught on-line or in the classroom, the softer skills require the voice of experience to transfer this knowledge base to the next generation of managers and RMs.

8. Overseas Talent

Another common theme was the opportunity for NRI RMs and IAs based overseas to either return home (indeed we met one senior RM who had done so) or to move from the international private banks to the Indian wealth managers setting up operations in Dubai and Singapore. The RM we met who had returned home had done so because his domestic based Indian clients with offshore assets had significantly more assets onshore, and more so, assets were being increasingly monetised. These clients wanted the RM back onshore to manage their assets from Mumbai. ■

SUMMARY

There are many more opportunities to consider but these should suffice for now. It can be clear from the above that from a talent management perspective, whilst there are considerable challenges for Indian wealth management firms, there are also considerable opportunities given the growth metrics.

Whilst digital and AI focused development and transformation can certainly help, the HNW and UHNW require a sophisticated and competent human touch. This requires considerable focus on a structured and relevant learning, mentoring and development program.

There are opportunities for the Government to work with the industry and indeed the industry to work together to meet the opportunities ahead. Certainly, there is more upside to this approach than downside. As one wealth manager commented “We have the unusual problem of having too many clients and not enough advisors”, and a concerted energy, investment and effort is required to feed the wealth management machine. The continued success of the wealth management industry will be dependent on a high quality of training and development to ensure good outcomes for both the industry and its clients.