INDIAN WEALTH MANAGEMENT: SCALING THE PROPOSITION

SUMMARY

During the recent Hubbis visit to India where we met with approximately 125 leaders from the asset and wealth management industry, we had the opportunity to speak with senior product and platform managers from across client segments and platforms, covering State and Commercial Banks, International Private Banks, Independent Asset and Wealth Managers and Multi- Offices.

The following summarises a selection of interesting insights received from asset and wealth management firms in India on how they are seeking to scale their platforms and offerings and where some of the challenges and opportunities lie.

GET IN TOUCH

[View Mark Smallwood's LinkedIn Profile]
[Find out more about Hubbis]

Active vs Passive Management

Historically, active management has dominated the Indian market, in part due to the regulatory environment driving a distribution model (mutual fund portfolios) to mass affluent and high net worth investors, and a reticence to pay transparent fees. Nevertheless, there is a growing requirement for passive solutions, and a steady increase in their adoption is being witnessed. This is being driven in part due to a demand for lower fees, the diversification benefits, and the growing awareness of challenges in outperforming benchmarks.

That being said, with India still very much in a rapidly growing developmental phase, there remain significant opportunities for active asset managers to outperform, notably in the mid-cap and small-cap space, and to provide alternative investment solutions such as diversified exposure to private markets.

The result of this is that within the advised client segment, typically seen offered to the HNW and UHNW space, there is an evolution of a hybrid approach in the traditional equity and bond segment as investors utilise passive funds for core holdings to benchmark the larger indices whilst blending active managers to focus on the market segments where Alpha can be generated (mid-cap/small-cap).

In addition, in the HNW and UHNW space, as clients seek to diversify further there has been a surging interest in adding Private Equity and Venture Capital to portfolios, and this is increasingly spreading to Private Debt and Hedge Funds. This has attracted the larger local and international private markets managers to the HNW and UHNW market in India which is benefiting not only from the general growth in the India market but in particular the technology and e-commerce sectors. Furthermore, there is a growing appetite amongst the older promoters to monetise their equity holdings which presents opportunities for both the public and private markets.

Multi-Banking

For the HNW and UHNW segments the perennial challenge of multi-banking relationships continues to represent challenges in the account aggregation process. Without API connectivity generally in place, the importance in the Fintech sector of having efficient systems in place to consolidate and aggregate data, and then to provide an efficient portfolio reporting overlay is vital.

The challenge is further increased as the once very private promoter, having his corporate accountant punch some numbers into a spreadsheet, is rapidly being replaced by sophisticated approaches to asset reporting and portfolio management. These HNW and UHNW investors are now expecting their wealth managers to provide aggregation and reporting capabilities and the leading firms are stepping up with this capability.

GIFT City

There is considerable focus and investment being undertaken in GIFT City by both asset and wealth managers. With state-of-the-art infrastructure evolving, tax incentives, access to global markets (both out and in) and a separate regulatory framework designed to facilitate international transactions and provide certainty, GIFT City is in turn evolving into a global financial hub for Indians, and an international financial centre in its own right.

Notable feedback from our talks with asset and wealth managers in Mumbai is that the momentum with GIFT City is sufficient now to encourage more relocation of personnel to GIFT City as they see the career upside to such a move, leveraging the first mover opportunity.

Varying opportunities arise, but some which struck were:

1. For feeder funds and fund access generally for both access to India and access for India globally, funds based in GIFT City make more sense now than locations such as Mauritius or Singapore due to the regulatory and tax certainty offered.
2. Foreign Investors and Non-Resident Indians can invest into Multi-Currency “Offshore” Accounts and Deposits administered out of GIFT City.
3. NRI’s can also access Indian stocks and mutual funds, meeting a strong demand for NRIs to invest back into India.
4. Foreign investors will gain an increasing choice of efficient feeder vehicles to enable investment into India.
5. Resident Indian’s can have the Liberalised Remittance Scheme investment allocations run out of GIFT City, simplifying the investment process and reducing costs for them.

Most importantly, GIFT City provides Indian wealth managers (and asset managers) with a significant opportunity to compete with the international private banks both via their branches in India, but indeed with their branches overseas. With Common Reporting Standards in effect, it provides the opportunity to scale up significantly to attract historic assets which are being managed elsewhere and to capture net new money accessing international diversification.

From a wealth management perspective, my conclusion on GIFT City is that the International Private Banks, looking after NRIs (both inside but in particular outside India), need to have a refocus on their NRI business and ensure they have sufficient focus to meet the competition arising from the domestic Indian wealth managers who are expanding overseas in jurisdictions such as Singapore and Dubai as well as offering the GIFT City solution.

Business Models

During our visit, Hubbis had the opportunity to meet leaders in all segments of the wealth management industry. The overriding impression was that the scale of the cake is so large that there is an opportunity for everyone in the space. The competition is however fierce, and the result is that a failure to focus properly on the opportunity, may lead to some very obvious underperformance by those wealth managers who do not execute well.

The following were key elements of feedback:

1. State and Commercial Banks – the large behemoths have no shortage of potential customers. Their greatest challenge is training sufficient advisors. To a certain extent this is relatively straightforward with digital based DIY solutions for the retail and mass affluent segments, whilst the distribution model will meet the needs of the higher net worth mass affluent and less sophisticated customers. Nevertheless, they are also engaging the HNW and UHNW advised segments, replicating the strategies in the private sector. To this end they have the challenge of delivering excellence to all the segments, whether it be a DIY digital only model for the retail and mass affluent or scaling up through the distribution and advisory models. The challenge as we echo later is to take an RM from a relatively simple distribution model client base and leverage that RM to be able to advise HNW and UHNW clients.

2. Independent Wealth Managers – these firms have often evolved from asset management firms, the larger State and Commercial bank wealth managers and indeed the international private banks as either management buyouts have occurred, or teams have departed. The overriding impression in India is that the committed firms are evolving to achieve the ability to deal with all the regulatory segments in a fully integrated manner. This has been supported by some Private Equity players who have provide the capital. They have digital platforms for the DIY investor, distribution models for the mutual fund investors, and advisory models for the HNW and UHNW who need more specialised advice. This approach enables these wealth managers to scale off a broader client base potential, provides a client centric solution to their clients' needs, and enables a hybrid approach by the client to the offering.

3. Multi-Family Offices (MFO)

» The emergence of the independent fee based MFO with a strong holistic process is rapidly emerging. As already mentioned, as the HNW and UHNW segments seek a more professionalised approach to managing their wealth, a transparent approach is being demanded by more wealthy families.

» This growth story is further reinforced when looking at the numbers. Simply in the UHNW segment there are approximately 1,200 centi-millionaires in India with this number set to double in the next 5 years. Yet, there are only approximately 750 advisors in the HNWI and UHNW space.

» The challenge for the larger families is going to be to access the skillsets amongst their advisors that they need. This is further exacerbated by developments such as GIFT City which will enable them to start conducting more of their offshore asset management from India itself, which requires a further enhanced level of sophistication from their wealth manager. Indeed, we are seeing some NRI RMs with banks overseas, returning to India to take up this opportunity and in many cases to access a larger share of wallet of their client.

To this end there has to be a significant growth in demand for MFO's as the larger families appreciate the cost effectiveness of working off a platform that has economies of scale through working with multiple families, whilst leveraging the limited talent pool. Indeed, there is nothing to stop larger family groups from cooperating together to establish their own platforms, and this will undoubtedly lead to new MFOs being established.

4. International Private Banks (IPBs)

» The comment that resonated from our visit was "lack of focus". For a number of the IPBs their lack of focus on India has led to significant attrition in their key personnel and a failure to scale their platforms has led to an inability to compete with the growing competition. This is not the case with all IPBs but nevertheless is a significant weakness.

» Often, global management has not taken the time to understand fully how India operates, and they have been distracted by the perceived opportunities in China and the rest of Asia, whilst not paying sufficient attention to the potential jewel that India represents. Time to refocus?

» For those IPB's who are making the commitment to India the opportunities are good, particularly those with an established foot-print. Whilst they have the advantage of providing global financial market access and potential access to more sophisticated product solutions, the level playing field is being flattened by levellers such as GIFT City, so they will have to sharpen their game commensurately with the winning pack.

» There are clearly some IPBs who are rising to the game, nevertheless there are some that still do not seem to be able to make a proper commitment – their days are likely numbered as they fail to attract the personnel needed to maintain their platforms.

Talent

Without a doubt, the overriding comment on the one major factor that was impeding growth amongst wealth managers was the ability to attract and retain the best talent. With a rapidly growing industry, the war for talent is on.

The war for talent is exacerbated by the different regulatory segments. Whilst the large State and Commercial Banks can train up advisors to direct their clients to a mutual fund portfolio, this source of talent is restricted in its ability to move up to the HNW and UHNW space. The best invariably will move up to the larger clients, but the challenge is that their product knowledge is limited and success in selling a mutual fund portfolio does not necessarily prepare one to service the holistic needs of a HNW or UHNW client.

A number of notable pointers which came out of the discussions were:

1. There is a preference for Indian personnel to go to local firms rather than the IPBs as explained above.

2. For the wealth managers with retail and mass affluent segments, whilst it makes sense to evolve the top performing RMs here, the challenge is the training and development of these individuals to advise HNW and UHNW clients. Enhanced learning and development programs need to be developed for this cohort.

3. The importance of leveraging up on skilled Investment Advisors and Product Specialists is even more the case now in India. Building a solid platform here is vital to support RMs who should focus more on the management of relationships. Invariably however there are issues related to client ownership, and of course the good Investment Advisors are seeing the opportunities themselves to move into relationship management should the compensation provide better rewards there.

4. In the boutique/independent firms, there was a much greater emphasis on the need to train and develop internally with a more structured career path being emphasised. Emphasis was placed on promoters and partners in these firms needing to develop their own teams through their own mentoring and leadership capabilities. Certainly, to develop the sophistication needed to service HNW and UHNW families, the importance of the value of learning and development based on a combination of technical learning supported by holistic mentoring could not be understated.

5. The challenges in finding enough talent places even more emphasis on having a comprehensive and capable

technology platform to enable optimisation of resources and client experience through an efficient interface. The upside to mitigating at least in part the talent challenges by implementing effective digital solutions and enhancing Artificial Intelligence and Generative Artificial Intelligence is significant.

Private Markets

Environmental, Social and Governance (ESG) Investing

In the discussion on product segments, it was interesting to get a flavour of demand in India for ESG related investment products. The most common areas appear to be alcohol and meat related investments driven by religious beliefs, and the overall impression was that the demand was relatively limited.

One investment manager commented that with concerns over performance and potential greenwashing, their firm would offer tailored mandates on demand but otherwise did not pro-actively promote the solution.

Summary

The above represents a snapshot of some of the many interesting topics discussed with the wealth management community in Mumbai in January this year. More will follow from Hubbis over time. India represents a compelling opportunity for all wealth managers who take a committed approach to this rapidly evolving market.

The winners in India will require a combination of a scalable and effective platform, and the ability to attract, retain and develop effective personnel. This requires targeted investment and medium to long term commitment, a characteristic which is not prevalent to all, but for those that deliver, they will benefit greatly from the opportunities. ■

We are very much looking forward to discussing similar themes at our upcoming **HUBBIS INDIA WEALTH MANAGEMENT FORUM 2024**, which takes place on **Wednesday 28th August at the St. Regis Mumbai.**

The event will explore the unfolding trends within India's flourishing private wealth sector, highlighting the modernisation of wealth and legacy planning, the trajectory of insurance solutions, and the role of digital innovation in augmenting advisory services.

Join us on August 28th for what will be an insightful, informative, and thought-provoking event.