Moving from market-driven to performance-driven growth

Riding the macro-economic wave is a fact of life in the Indian wealth management industry, but firms need to be able to add alpha and produce meaningful growth, according to Shiv Gupta at RBS.

There has been very little "core, structural" growth in Indian wealth management in recent years, with most of the gains a result of the country's strengthening economy and stock markets, says Shiv Gupta, managing director of private banking at RBS India.

Some wealth management firms have made gains in AUM almost by accident, rather than providing a unique, alpha-generating take on domestic markets and instruments.

"The last couple of years have resulted in a good equity market on the back of everything that has happened on the political side in India and [better] economic expectations," explains Gupta. "And this has resulted in a market action-based increase in the asset base of wealth managers."

One part of being able to generate more performance-driven gains will be authorities allowing firms to provide a more sophisticated range of products to clients, Gupta believes. There have been incremental changes on this front, and successful wealth managers will be those able to take advantage of each increment. "Certain regulatory steps are already nudging people in the right direction which is a good thing for improvement in the quality and growth of AUM in this industry," he says.

SEBI rules on investment advice, which came into effect in April 2013 have been one such recent change (http://www.cafemutual.com/News/SEBI-releases-FAQs-on-Investment-Adviser-Regulations-~3611~New~Industry~21).

Under the rules, distributors are now required to be licensed, and tell clients whenever they receive remuneration from a third party for distribution and execution services, or referrals.

The surge in alternative investment funds (AIFs) is another, according to Gupta. So far, 123 AIFs have been approved for sale in the country in just over two years, thehindubusinessline.com. has reported.

SHIV GUPTA
RBS Private Banking India

Furthermore, he believes, new rules facilitating the creation of real estate investment trusts (REITs) will add yet more alpha to the industry. "The creation of REITs potentially allows you to create a liquid market for an asset class which represents one-third of all wealth assets [in India], depending on which estimate you look at," Gupta says. "Potentially this will be overseen by professional managers."

TRULY AGGREGATED SERVICE

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Over the last five years, RBS's approach to attracting new assets has been to make continuous investments in infrastructure and operations so that it is able to offer clients a truly aggregated wealth management proposition. Investment in the businesses, which was formed out of the RBS acquisition of ABN AMRO in the depths of the global financial crisis, has started to bear fruit since 2012, says Gupta, who has been in his current role since 2009.

He defines the core services as banking and cash management, investment management – which is the largest revenue source for RBS – credit services, estate planning and real estate.

Additional services include advice on issues not typically associated with private banking, such as philanthropy and family business.

"Not enough attention has been paid by a sufficient number of people to aggregate and integrate in a way that means you can offer all these things on the same platform," he says.

"For some firms that speak of having some of these pillars [of private banking] on their platform or supporting them, this often just involves a referral to a third party."

Rather than using such an ad hoc approach, RBS has instead established a panel of both local and foreign experts in wealth planning issues. "We provide the initial structuring and advice to clients and the execution is done by a third party which will be a law firm, or a trust company, and in some cases even an accounting firm," says Gupta.

One of the biggest benefits of RBS' investment in infrastructure is that it has been able to fully express its value proposition – truly aggregated services backed by a team that is not too heavily skewed towards relationship managers.

According to Gupta, this has enabled it to overcome clients' natural aversion to paying fees for advice. "If you have only a two member investment team for 30 RMs, clients are going to perceive that differently to having seven people [on the investment side] for the same number of RMs," he says.

The final piece of the jigsaw, Gupta adds, is RBS' focus on develop trusting relationships with clients. The fact that it offers targeted services and thinks beyond just how much money a client has is a big part of that success, he believes. In his view, at the current stage of India's economy, entrepreneurs are investing for growth, so will tend not to be too focused on investment services, whereas the older wealthy, who target the preservation of assets, are much more suited to them.

Within that cohort, Gupta believes, it is vital to segregate further by forging closer relationships with clients. RBS' strategy is to divide according to region, client type, and wealth bands. After identifying those potential customers it then looks to access the main decision maker within their "circle of trust".

"It is important to build up trust with the main decision makers in a family or business and add value through conversations with them," he says.

Despite its efforts, and investment, over the last few years, Gupta understands that there is more to be done, particularly on the technology front.

"We need to remain alert to technology and how we can use it better. There's considerable underinvestment in this area in the [financial services] industry as a whole. We need to remain alert to opportunities to maintain growth," he adds. "We can leverage the investment we have already made to keep growing." ■