New wealth reshaping product delivery in India

Asset and wealth management firms in India need to adapt the products they offer, and how they deliver them, to cater to the appetite and preferences of a new crop of wealthy investors, says Gaurav Arora of Religare Private Wealth.

With the rise of the generation of younger millionaires and newly-wealthy in India, led by entrepreneurs and a generational shift in wealth, opportunities for asset managers and advisers alike abound.

But in seeking to appeal to this growing segment, practitioners need to reshape the attitude of these clients towards wealth management along the way.

For example, to resonate with individuals who constantly look for something new in a product, plus want to be much more closely involved in managing their finances, wealth managers are leaning heavily on innovation and agility.

"These new clients are much more demanding in terms of looking beyond the 'me too' products," says Gaurav Arora, chief investment officer of Religare Private Wealth. "If they want to put their money in equities, for instance, they might want to know the exact investment strategy and to a large extent its execution as well."

MORE HANDS-ON

In finding various ways to differentiate amidst a landscape populated by products which have a similar look and feel about them, Alternative Investment Funds (AIFs) have become a key part of the strategy for most wealth managers in India.

This is because, in addition to allowing investors access to advanced strategies in hedge funds, derivatives, private equity and real estate, AIFs provide a structured product platform to those investors who want better understanding and predictability around the underlying investment strategy, as well as more like-minded investors coming together to invest.

With AIFs, Arora says that he can watch the investment style closely for the entire tenure of the fund. This ensures that a particular investment style is maintained and also delivered upon, he explains.

GAURAV ARORA
Religare Private Wealth

This combination of structuring and innovation has led to growth in the take-up of AIFs in recent years among India's wealthy.

CLOSER DUE DILIGENCE

Wealth managers have other options at their disposal in their bid to woo younger clients.

Some advisers, for instance, add an extra layer of diligence to existing third-party funds.

They do this by collaborating with portfolio / fund managers to pick investment themes with an eye to improving the fund's overall performance, in turn meeting their clients' heightened expectations.

The idea, he adds, is not to manage the fund directly but simply provide an extra dimension to a third-party product which already looks promising.

NEW BENCHMARKS

Some advisers are also starting to switch their focus in terms of the metrics by which they assess the funds to advise clients to invest in.

The rationale, says Arora, is that advisers don't base their evaluation on track record alone to assess a fund.

They instead want to closely monitor the individual fund managers to see if they are able to tweak their investment styles to ride a particular market wave and deliver outsized returns.

"I have to constantly watch what's going on in the portfolio," he says, "whether it is up to the mark with market movements and whether it is nimble enough by adjusting its strategies with market movements."

INVESTMENT PREFERENCES

In terms of asset classes, equities and real estate credit seem to still be preferred by investors.

Equities for their long-term fundamental attractiveness, and debt/NCDs secured against real estate (largely residential developments), which come with the promise of high periodic returns, are popular, says Arora.

"With sales slowing and uncertain returns / exits through equity participation in real estate projects, investors now prefer exposure through structured collateralised debt to developers, at an attractive fixed yield."

Unlisted equities is another asset class that has caught the fancy of many wealthy Indians.

For savvier investors, this offers the potential of high returns, he explains, since these investments – which are made in early stage / new-age start-ups – have a much lower correlation with the success or failure of the broader stock market.

Instead, the returns come from exits via subsequent funding rounds, M&A and/or IPOs. A big run-up in valuations though needs to be watched out for in these investments from here.

On the flipside, Arora says investors seem to be steering clear of leverage. Borrowing rates have risen to the point where it is difficult to turn a profit from such a strategy, he explains.

As for structured products, investors are primarily using those to generate higher yields while exercising their view on the markets. "People don't tend to take very bullish calls on equities from structured products, they prefer doing that through traditional equity investments." ■

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The opportunity – and risk – of technology

According to Gaurav Arora, the advisory model in India is at an inflection point where the role of technology will be key.

"We need to use technology to enhance our offering to clients," he says. "As we cater to the second and third generations, they want to see inputs which are only relevant to them."

Yet to provide the type of specific data that relates to their investments, and also delivering it to their smartphones so that it is at their fingertips, is clearly a challenge for traditional wealth managers.