The components of a successful wealth offering in India

Many firms have tried – and failed – to tap the assets of India's wealthiest citizens. Karan Bhagat believes that IIFL Private Wealth Management has devised a successful strategy based on the right blend of people, product and platforms.

IIFL Private Wealth Management was borne out of the vision of a group of senior professionals with significant private banking experience who, at the height of global financial turmoil in 2008, took a decision to join forces with India Infoline Group.

Since then, being more focused on advisory than distribution has enabled the firm to develop a sustainable business model that offers a high level of transparency and has been able to engender client loyalty.

More recently, IIFL Private Wealth Management has been in fundraising mode, with the majority of the funds raised earmarked for reinvestment, particularly in non-banking finance. In February, for example, it acquired non-banking finance company (NBFC) Chephis Capital Markets.

For Karan Bhagat, managing director and chief executive officer of IIFL Private Wealth Management, this is a particularly attractive segment.

"In India, fixed income taxation only reaches zero after the investor holds it for three years, so if clients have liquidity needs they can draw against the portfolio. In India, many people invest their own money but they want a credit line against it," he explains.

A WINNING MATRIX

To create the right mind-set and culture, the firm's 90 or so employees now own 33% of the business, which has kept attrition low as staff feel more committed. That is the 'people' component.

In terms of products, there is a need to be continually innovative while achieving a standardisation in the offering.

"Even though most of the business in India and Asia is non-discretionary, the majority of the client portfolios have a similar product profile," explains Bhagat.

KARAN BHAGAT
IIFL Private Wealth Management

As for the platform, there are a number of elements without which a firm cannot survive, he adds. "Obviously one is the NBFC aspect of the business for client finance, but you also need a very solid technology platform, as well as a good equity brokerage set-up and research."

With this in mind, Bhagat attributes the struggle of many wealth management firms in India to the ability of getting the three components of products, platform and people right.

"As time goes along it will only become difficult because investment required in these three facets will only be higher and retention ratios on assets will only be declining."

have moved the money that it manages today from other advisers because he believes that it would have taken way too long to do so.

EVOLVING THE CONCEPT OF ADVICE

Bhagat describes the introduction of advisory guidelines in India as a major step forward in the development of the country's wealth management sector.

"This has the power to consolidate, to look at all holdings under one umbrella and deal with multiple advisers through the custodian account as opposed to individual segregated depository accounts with multiple brokers."

Such reforms, driven by the Securities and Exchange Board of India (SEBI), have moved the country much closer to global regulations in terms of disclosures of fees.

In line with this, Bhagat suggests the majority of the larger firms are going to struggle to move to advisory mandates because the fee structure doesn't support their cost base. He adds that IIFL Private Wealth Management is exploring internally whether it could potentially make such a move.

"The advisory model is challenged by the commercial reality of the business, because typically in India, clients have been averse to paying fees," he explains.

"Plus, given the way the regulations are, an adviser's ability to earn any kind of commission is effectively zero."

In the interim, Bhagat says flow is more important than transaction fee income. "We are not worried about earning a specific fee on a transaction," he confirms. "We are more interested in being able to capture the flow of the transaction for the client. Given all the tax benefits in India for mutual funds, about 50% of our client's portfolio will always be in these products, so we need to be sharper in this business to get access to the remainder of their portfolios."

The firm's retention rates are healthy, he concludes. "We are possibly a little less expensive in commoditised products and a little more expensive in exclusive products, but we get the exclusive products because we are sharper in the commoditised space." ■

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NEW PROSPECTS

The fact that many older entrepreneurs in India have exited businesses has created a pool of money that remains available for investment. "We also have professionals who are selling stock options and land, the proceeds of which can be collectively described as 'new money'," says Bhagat.

IIFL Private Wealth Management has found it easier to go after this type of business. "Old money typically went with established wealth management brands," he explains. "Even if you did break through, the client would possibly start with 5% of their portfolio and test you over 12 months to 24 months before scaling up their portfolio."

So while the firm does business with established wealthy families, it couldn't

Digital demands

There is little doubt that while digital technology will improve adviser effectiveness along with the client experience, user-led dashboards will change as platforms evolve and new ones are developed. In turn, this will make a big impact in terms of aggregation of data.

The outlook for robo-advisers, meanwhile, is less rosy among HNW clients. Dealing mainly with very simple products and ETFs, Bhagat says that robo-advisers have generally performed poorly compared with actively managed funds. "Over the last 10 years, active managers have consistently beaten the index by a big margin."