Traditional models give way to the new

Investors are slowing moving from a product to a portfolio approach, says Anurag Seth of Quant Capital.

Indian wealth management, and particularly family offices, has been experiencing various winds of change in the past few years.

Even as it has grown rapidly over the past decade, the industry currently faces a changing and complex regulatory and tax environment. This is coupled with a client base that is in relative flux.

For example, while the older generation of wealthy individuals and families are decidedly more risk-averse, there is a growing appetite for more sophisticated products and portfolios among the new generation of clients.

As a result, with wealth managers now keenly focused on managing regulatory change, risk and volatility to compete for market share, many firms have been encouraged to redesign business operating models as part of a new, aggressive focus.

Anurag Seth, head of global wealth management at Quant Capital, has his own take on how this evolution will likely influence India's wealth management landscape.

"I think there is a big difference between the traditional family office and the way the new-age family offices have come to the table," he explains. From his perspective, this is quite evident in the way the traditional family offices operate, versus the new-age family offices. Put simply, traditional firms are risk averse; their new-age counterparts are not.

"In other words, you could say that new-age family offices operate on a hedge fund model, while traditional family offices operate on a fixed return model," explains Seth.

ANURAG SETH
Quant Capital

NEW VERSUS OLD

Seth also sees more changes in the expectations of high-end and mid-range clients with the changing family office scenario. More specifically, the new wealthy are looking for higher returns on investment.

"I think what mid-tier clients are looking for – in fact all clients for that matter – are concrete investment solutions," he says. "When you talk to them about a concrete investment solution, there is acceptability."

There is also a mind-set shift underway from a product approach to one which focuses on the overall portfolio. "[Clients] are now chasing returns from a portfolio pespective rather than from a product one," he adds.

At the same time, this new stance is also leading to big changes in the wealth management industry.

This further drives changes in attitudes among clients about adviser fees and towards concepts such as portfolio management.

This is needed, given that Indian clients tend to dislike paying for advice – a trend that is also widely seen across Asia.

"Until a higher hurdle rate is introduced, very little will change," says Seth.

"Clients will then understand that the adviser makes money only when the client makes money, so I don't think there will be any issue."

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EVOLUTION OF ADVICE

For instance, in comparison with the last 15 years, where market practitioners like Seth have witnessed investors chasing products, they are now looking to have a single adviser but multiple execution partners.

They therefore look for the advice on their entire portfolio or investment strategy being given by that adviser. This also makes accountability an important aspect of the offering and relationship.

The problem today, he adds, is a lack of conviction. "Since we have all been following the execution model, we want that revenue to be accrued.

We don't want to leave it to the future and see the adviser making money only when he generates 12% return, for instance, for the client."

For true change to take place, Seth believes there needs to be an urgent overhaul in the mentality of wealth management professionals themselves.

While this will no doubt take time, everyone will have to embrace the advisory model eventually. ■

A shooting star

The big picture remains that the wealth management industry in India is a shooting star as a new crop of millionaires emerges every year.

The boom in the economy and the resultant increase in income levels support this trend.

Indeed, India ranks among the top markets in Asia for its growing population of HNI individuals.

According to a 2016 wealth report by Capgemini, for example, the country was home to 200,000 such people – with their wealth totalling around USD800 billion at the end of 2015.

Wealth was previously concentrated in the hands of a very small wealthy elite. After 1991, when the Narasimha Rao government introduced liberalisation, wealth creation was seen primarily from private enterprises and the advent of family offices.

The growth of 'traditional' family offices held sway for decades and encompassed international as well as Indian assets that were administered closely by family members only. Now, there is a shift away from those traditional attitudes.