

How can you grow and add value to the client?



“AS THE INDUSTRY PROGRESSES, ECONOMIES OF SCALE WILL BRING DOWN THE MARGINS, IF NOT THE PROFITABILITY, AND THAT’S ONE CHALLENGE”

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What are the opportunities and challenges in Indian private wealth management?

One challenge is to be competitive on the cost side. We generally like to take our clients from a perspective of not just cost, but a value standpoint. As the industry progresses, economies of scale will bring down the margins, if not the profitability, and that’s one challenge.

Second is innovating products from client centricity, rather than just commission-driven product innovation. For the last 20 years, the most conventional commoditised product has delivered 17- 18% return at risk levels which are at 14, 15 standard deviation. But people have innovated far more than desirable. If a simple instrument can deliver my client objective, I should not be innovating. Innovating to create a return for the client, from a financial engineering perspective, is going to be the key driver.

The third challenge is maintaining low levels of attrition so that the delivery of the client has consistency, not sporadicity and change at each relationship level.

These are the three challenges. Even if we are not facing them today as an organisation, assuming and having a hypothesis that managing these is not required, would be wrong.

Are there too many products and not enough solutions?

Absolutely. I think you’ve hit the nail on the head. There are so many products but hardly any solutions, because people are not solution driven. Wealth management has become an activity of product buying and selling. It should be objective driven. We call our wealth management objective

driven. First write down the client's objective, and then try to find the least complex method to achieve that objective, or the highest probability method of achieving that objective.

There are not too many solutions, because the solution needed has not been written down. People are going with what the client wants, but not what the client needs. If you operate in an environment of high-net-worth individuals, the client is definitely going to be attracted to customisation, definitely looking for something which may not necessarily be needed. Creating the right solution itself becomes the first priority. Then providing the solution and not just a complex product. To summarise, defining the solution itself is the problem because the client is not looking for solutions, but for fancy stuff because that's what he's used to.

What can you do to differentiate yourself and create value?

What you can do to differentiate is to measure value in the first place. Today, if you ask wealth management clients, "What is your last five years pre-tax and post-tax return?" there's a lack of measurement. And value is something which is subjective unless measured. You need to measure both sides of the coin; the return, the risk and the post-tax return. There is ambiguity. We have instruments in the industry in client's portfolios that make the measurement of value difficult. Point one on value is, as an industry, are we measuring value in the first place so that you can make your connection?

Point two, does the industry know the average return of your AUM? For example, Anand Rathi

measures and audits the return of all our assets under management. That is value, right? That's the prime requisite why the client deals with you. Audited returns of your entire AUM could be a good starting point to measuring value.

Point three, how do you differentiate in the marketplace? By making sure that no divisions in your company are not delivering advice. Even my HR head manages clients. My product head manages clients. My operations guy manages clients. I'm an RM myself. Everybody in the company needs to be a private banker to be able to facilitate and understand the entire value chain in the business.

How will your competitive environment change in the next 10 years?

In the next 10 years, there will be different portions of the pyramid which will have more and less competition. Coming back to the point of how do you see competition panning out and competitive advantage of different organisations? I think it'll be very dependent on which segment people are operating in. Anand Rathi's competitive advantage would be our track record of measured value delivery. I think cost is definitely going to be one area.

And finally, advisor behaviour. There is an inclination towards high-commission products over a period of time that exists today. I think the regulator will introduce some degree of parity in terms of vehicles of participation and assets. I think that will create a lot of client advantage. Whereas today clients might not be as happy with the industry, that will help to bring change over a period of time. ■

