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INDIAN WEALTH MANAGEMENT

Issue 1, 2017

Shiv Gupta, Sanctum Wealth Management

Indian Wealth Management - Award for Excellence

IMPROVING MARKETS
Indian HNIs: to segregate or not segregate?

CLIENT-CENTRIC
How Edelweiss has doubled AUM in a year

CRACKING DOWN
Jail time needed for wrong-doing to resonate

CITI PRIVATE BANK
A matter of good business sense in Asia

GOOD FAMILY ADVICE
Six steps to holistic succession planning

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PRIVATE BANKING SOLUTION

- IBS Sales League Table 2016

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Foreword

This is the inaugural edition of our Quarterly publication covering Indian wealth management.

There is no denying that the country is a booming market within this segment of financial services.

For example, according to a recent Knight Frank Wealth Report, the pace at which the number of ultra-wealthy Indians grew in 2016 was the sixth-highest in the world. It said that the UHNI population rose 290% in the last 10 years. Over the next decade, believes the report, about 1,000 new UHNIs will be added every year.

These are spectacular numbers by any measure – and reflects the growth in the HNI and mass affluent populations too. According to the Credit Suisse Research Institute's Global Wealth Report 2016, for instance, there are 178,000 millionaires in India with an estimated wealth of USD973 billion.

Yet accompanying the opportunities for investment managers and wealth planners in managing the various assets of their clients, are also several challenges.

In particular, there is an acute shortage of qualified wealth and investment specialists, plus a lack of variety in the products on offer.

For this first issue of our Quarterly magazine, we spoke directly – both on- and off-the-record – with over 75 of the leading minds in the Indian wealth and asset management industries, as well as practitioners focused on family wealth, to find out their take on tackling the prevailing competency and capability shortages, along with the other demands confronting all players.

We also conducted a unique survey with over 125 senior industry professionals on some of the specific measures required to deepen talent pools and product diversity.

Yet given the nascent stage of the wealth management industry, there is also much that can be learnt from other more developed markets such as Singapore and Hong Kong. As a result, we feature some of the high-profile interviews from highly-respected wealth management and private banking executives in Asia.

It has been an exciting quarter for the Indian wealth management industry. We look forward to continuing to add value where we can to the market and we will be adding further sections and features going forward.

To ensure this is relevant to you – we welcome your feedback and suggestions. Please email us at editor@hubbis.com.

ANDREW CROOKE
EDITOR
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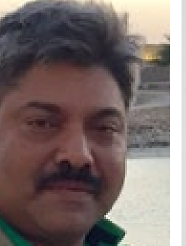

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Born from the acquisition of RBS' private banking business, Sanctum Wealth Management is off to a flying start owing to a trio of strong fundamentals – global expertise, domestic agility and a strong client franchise.

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*AUM defined as all Assets under Advice, Distribution, Custody and Management

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to get us all those zeroes and our clients who
put them there in the first place

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Nearly three-quarters of the 125-plus respondents to a Hubbis survey believe individuals in breach of rules should face stricter penalties from the regulator – including going to jail.
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USD6 bn

From around USD3 billion in AUM at the turn of 2016, the figure had jumped to roughly USD6 billion 12 months later.
Page 20

7%

The INR16 lakh crore mutual fund industry (about USD230 billion) is equivalent to about 7% of India's GDP.
Page 42

700,000

Nation-wide, close to 700,000 customers are signing up every month for SIPs, generating close to 12 million transactions.
Page 49

500

Three years after SEBI issued its investment adviser regulations, only just over 500 licences have been issued.
Page 60

70%

More than 70% of DBS' wealth clients are online and use mobile banking, actively managing their wealth on these digital channels.
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Content colour coding - for Hubbis articles

REGULATION & COMPLIANCE	FAMILY WEALTH	STRATEGY & BUSINESS
INVESTMENTS	SKILLS	TECHNOLOGY

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Market movers in Q1 2017

SEBI gets new chairman

The Indian government has appointed Ajay Tyagi as the new chairman of the Securities and Exchange Board of India (SEBI). He becomes the ninth SEBI chairman, taking over from U.K. Sinha, who is the second-longest serving chairman at SEBI, according to local media reports. Under Sinha, stronger measures were introduced to curb insider trading and there were significant changes in the rules for listing and de-listing companies as well as corporate governance standards. Tyagi will take the helm for a period of three years.

India set to be top-performing wealth market

With global wealth expected to rise by 35% over the next decade, India is likely to remain among the top-performing wealth markets along with China, Mauritius, Sri Lanka and Vietnam, a report titled The 2017 Global Wealth Review by market intelligence firm New World Wealth has said. "There are approximately 13.6 million HNIs in the world at the end of 2016, while worldwide HNI wealth stood at USD69 trillion." India's financial capital, Mumbai, which is home to 46,000 millionaires and 28 billionaires, is the richest Indian city with a total wealth of USD820 billion, It is followed by Delhi and Bengaluru in second and third place, respectively.

India to double UHNI annual growth rate in next 10 years, says report

India will add 1,000 UHNIs annually over the next decade, according to a Knight Frank report. "In the last 10 years, around 500 new UHNIs were added annually in India; over the next decade, it will be approximately 1,000 every year." Globally, India ranks sixth in terms of the growth rate of UHNIs in 2016, but at the current pace, the country is expected to move up to third-spot over the next decade. The number of UHNIs in India has increased by 290% during the last decade. India houses 2% of the world's millionaires (13.6 million and 5% of world's billionaires at 2,024).

Credit Suisse rejigs India private banking team

Credit Suisse has announced that Balakrishnan Kunnambath, private banking market group head for non-resident Indians (NRI) Asia Pacific and Indian sub-continent based in Singapore will oversee the private banking India business in addition to his existing portfolio. In addition, Inigo Mendoza has been appointed head of private banking India. Based in Mumbai, Mendoza will report to Kunnambath and locally to Mickey Doshi, CEO India. Before taking on this role, Mendoza was the head of business management for developed and emerging Asia markets of the bank's private banking Asia business, with the additional responsibility of overseeing the private banking India business in the past year.

IDFC AMC names new head of sales and marketing

IDFC AMC has named Gaurab Parija as head of sales and marketing as of March 2017. Previously with Franklin Templeton as director, business development and new initiatives – India/EMEA, Parija brings with him over two decades of mutual fund experience. At IDFC AMC, he will be responsible for driving accelerated business growth working with a seasoned sales and marketing team across India, focusing on building strong partnerships and enhancing value to clients.

Indian mutual fund AUM hits all-time high

AUM of the Indian mutual fund industry at the end of January 2017 stood at INR17.37 trillion (USD260 billion), according to the Association of Mutual Funds in India. The AUM has more doubled in the last four years from INR5.87 trillion.

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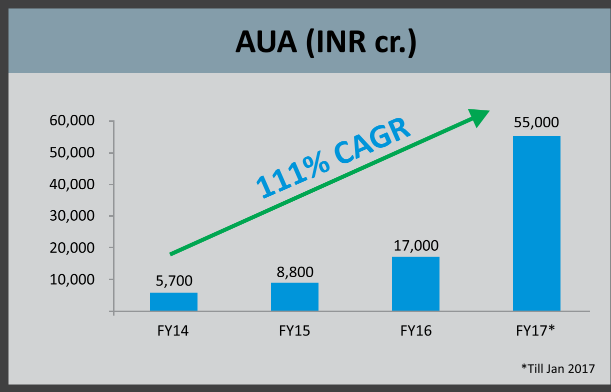

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Edelweiss AMC appoints new CEO

Edelweiss Asset Management has promoted Radhika Gupta to the position of chief executive officer as of February 2017. Gupta, who used to head Edelweiss Multi Strategy Funds Management, replace Vikaas M. Sachdeva, who has decided to move on to pursue other interests. Prior to joining Edelweiss in 2014, Gupta was a portfolio manager with the US-based AQR Capital Management, which manages USD170 billion in assets, and a consultant with McKinsey & Company.

ICICI Securities, Saxo ink partnership deal

ICICI Securities and Saxo Bank signed a strategic partnership to offer Saxo's trading and investment capabilities via a digital platform to Indian investors. The partnership will enable ICICI Securities' four million clients on ICICIdirect.com, India's leading investment portal, to diversify their investments outside the domestic market, accessing multi-asset investment opportunities through trading platform SaxoTraderGO. With increasing globalisation, diversification has become an important objective for all investors as they seek to spread risks and opportunities across geographic regions and asset classes.

Battle of the payment banks heats up

Payment banks, a new phenomenon in India, are threatening to significantly disrupt the way traditional finance operates. Alibaba-sponsored Paytm payment is considering entering the asset management space by launching its own funds, according to a report in the Financial Times. In 2016, it tied up with a string of mutual fund services and banks, including IndusInd Bank, ICICI Prudential and HDFC Mutual Fund, to offer banking, insurance and mutual fund services to its customers. Airtel Payments Bank is also planning to sell third-party financial products to boost its revenue from other income categories. These developments come just as SEBI is getting ready to allow the purchase of mutual fund units through digital wallets and electronic payment platforms, according to other media reports.

Centrum names head of alternatives unit

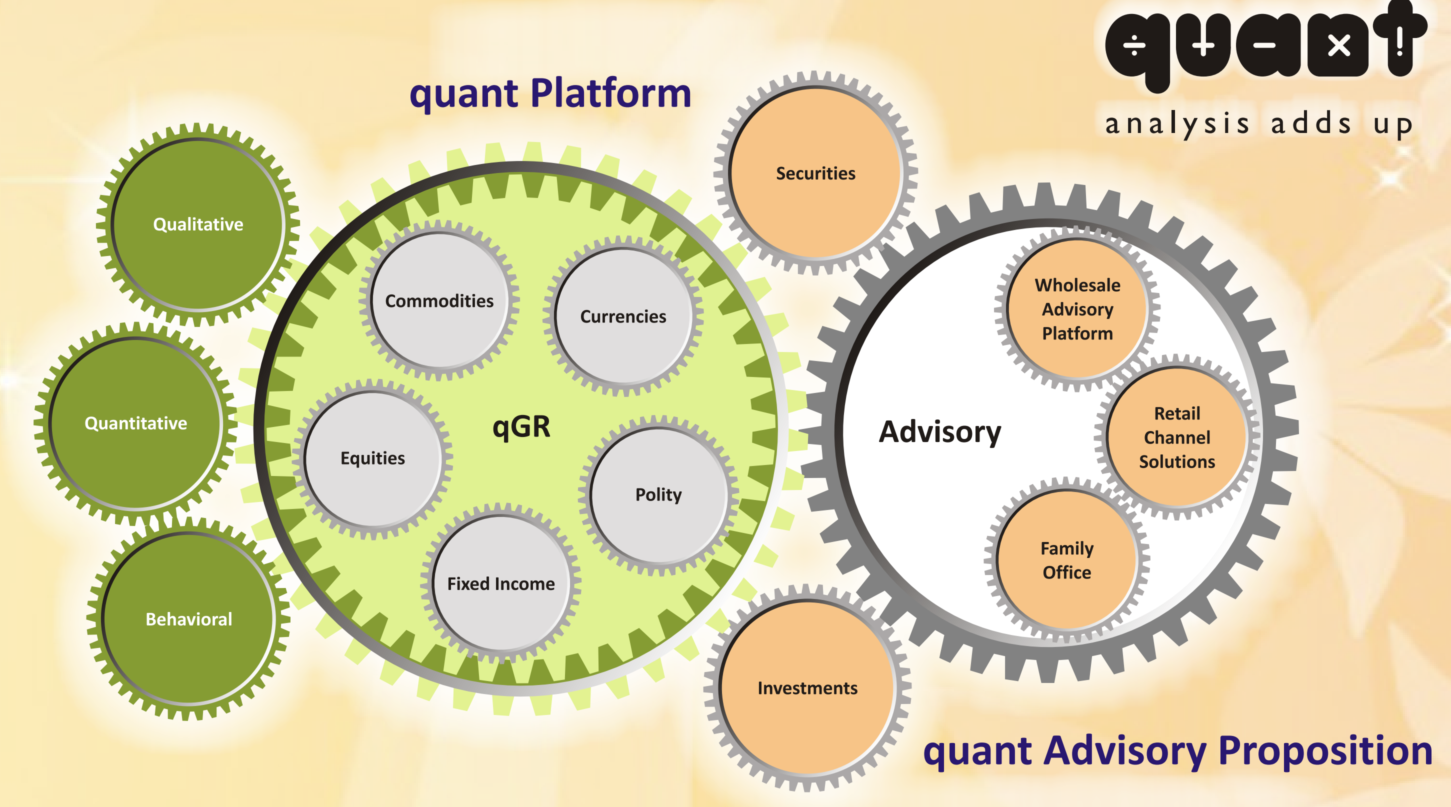
Centrum Capital has formed a dedicated alternative asset unit, Centrum Asset Management, and also named Shujaat Khan to lead it. The new division encompasses funds across public market equities, private equity, structured credit, real estate and distressed debt. Khan was previously co-founder and managing director of Blue River Capital and general partner of Chryscapital.

SIPs gain strength in mutual funds industry

Indian mutual funds have currently about 1.27 crore (12.7 million) Systematic Investment Plan (SIP) accounts through which investors regularly invest in Indian mutual fund schemes. SIPs are investment plans offered by mutual funds under which an investor can invest a fixed amount in a mutual fund Scheme periodically at fixed intervals – say once a month instead of making a lump-sum investment. They have been gaining popularity among Indian investors, as they help in rupee cost averaging and also in investing in a disciplined manner without worrying about market volatility and timing the market.

UTI creates new team to launch private debt fund

UTI Asset Management Company is setting up a private debt fund to enhance its product offering. A new team led by Rohit Gulati has been formed for the new venture, with Gulati appointed as managing partner at UTI Capital, Shaurya Arora has been named partner and Sumit Khandelwal has been appointed principal, effective March. The trio were previously with Religare Capital Markets. At UTI Capital, the team will establish a UTI-sponsored private debt fund to exploit credit arbitrage opportunities that currently exist in the Indian market.



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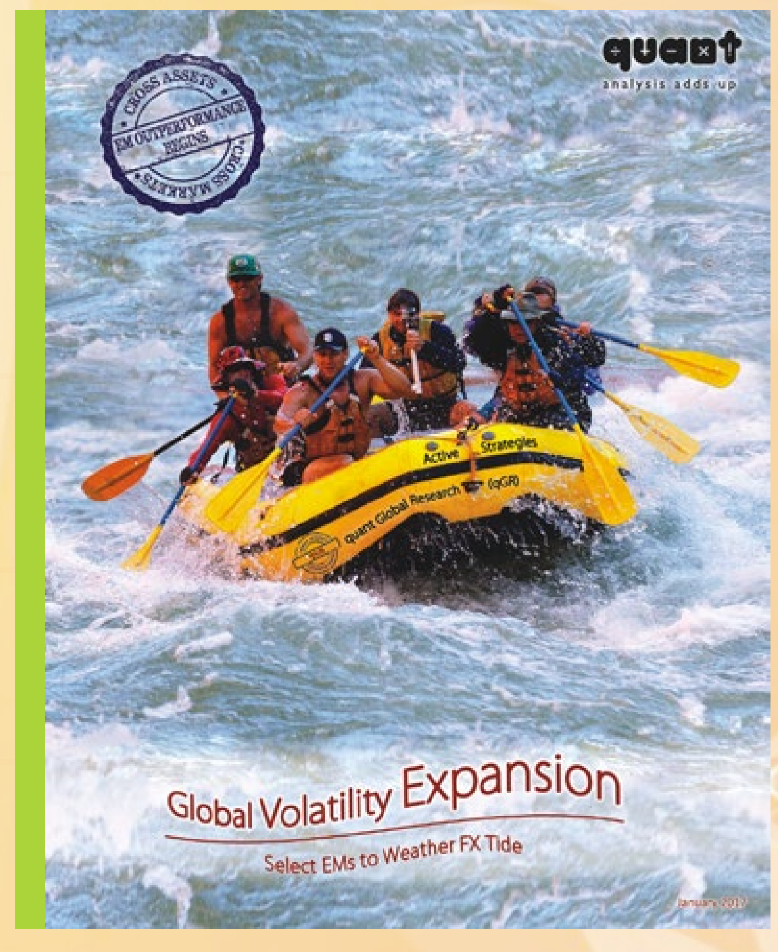

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- Financial Advisor Awards 2014-15 & 2015-16

Fundamental is the ATMA, Liquidity the PRANA & Sentiments the MAYA...

Plugging India's talent gap

There is a dearth of talented and qualified professionals to service the growing population of wealthy Indians, according to leaders of many of the country's leading private banks and other wealth management firms.

The unrelenting pace of growth in wealth in India is exposing an important flaw in business models across the industry– a lack of qualified and competent people to advise them.

As more of the 200,000-plus HNIs look for professional advice in managing investment portfolios and other assets, the dearth in number of relationship managers and investment advisers capable and experienced enough to deliver this has become glaringly apparent. And the situation gets worse the higher the net worth – and more complex the needs – of a client.

This is causing increasing concern to chief executives and senior management of all types of players.

How to tackle this talent shortage, therefore, was a key topic discussed at a thought-leadership session organised by Hubbis in Mumbai in January 2017 for these industry leaders.

HOW TO FIND TALENT

Industry heads say there are some specific strategies they have been adopting to ensure they can attract and retain the best and brightest of the talent available.

One CEO says his firm started its own training programme for private bankers. It also decided it would only recruit experienced sales personnel from other, complementary industries, such as investment banking and institutional equity.

A rigorous screening process is also in need. At one firm, up to 70% of the individuals it looks at initially to consider hiring don't complete the training programme, including, for example, periodic tests to evaluate competency levels as well as psychometric tests. Those who complete it, make up for the cost of losing out in terms of skills and business generated eventually.

"The dearth in number of relationship managers and investment advisers capable and experienced enough to deliver professional advice has become glaringly apparent."

Such a programme has helped this firm build a strong team of competent financial advisers. The experience of other senior executives has included hiring

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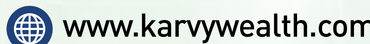

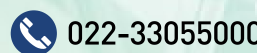

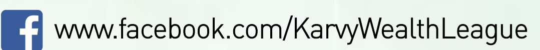

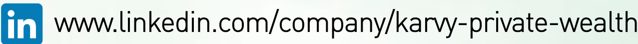

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Investments may be subject to market risks

fresh graduates from top management institutions, and putting them through two-year training programmes.

PASSION OVER PAY-CHECK

In general, chief executives tend to agree it is best not to hire someone who is simply attracted to the industry for the money.

Such individuals will eventually leave a firm when a better (financial) opportunity comes along. The time and effort and effort spent in training them, therefore, is considered a waste. Further, some chief executives say they prefer not to hire teams because this tends to disturb a company's culture by imposing their own way of working.

There also seems to be consensus among practitioners that simply poaching staff from a rival is not an efficient strategy – unless management has aggressive growth plans which can only be executed by hiring industry veterans.

WHAT TO LOOK FOR?

Interestingly, domain expertise is not always a pre-requisite for working in the wealth management industry, according to many participants. What's more important, they agree, are relationship skills and resourcefulness.

A background in working in the navy was an appealing background in the case of a head of research at one wealth manager; another team member had experience in infrastructure sales.

Along these lines, some of the biggest and most established wealth managers in the US hire college athletes for different roles; they are highly-competitive and never give up. These individuals then get trained for three to four years before they emerge as a wealth professional. This goes to show the extent to which industry leaders believe private bankers are made, not born – and that the best way of learning is on the job.

The nature of this challenge for Indian wealth management in general, tends to mean that all players need to play a role in building the talent pool for future growth. Of course, more recently, the industry has been helped somewhat by poorer market conditions elsewhere. In 2016, for example, there was significant consolidation in Hong Kong and Singapore among global private banks, as higher regulatory, compliance and operational costs – combined with lower profitability – took their toll.

With many institutions scaling back in Asia, or merging with competitors, a number of bankers of Indian origin have been heading back to India.

KEEPING THE TALENT

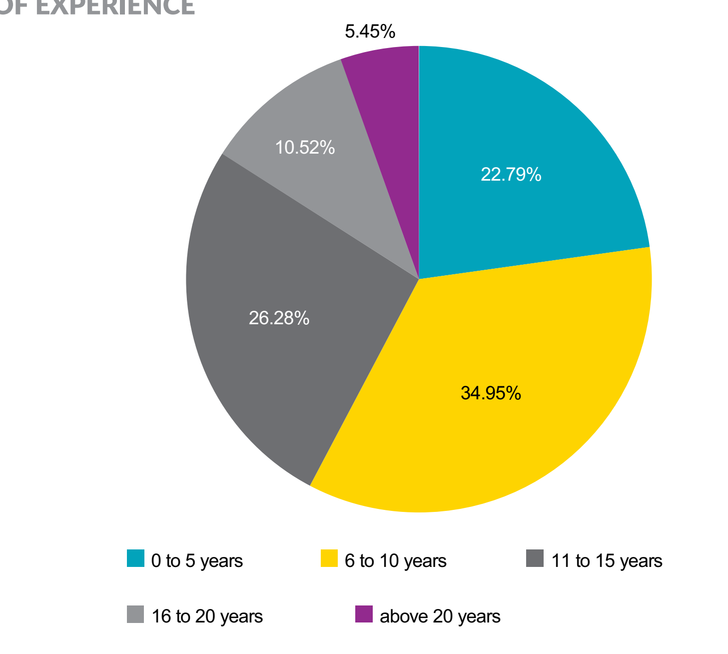
While finding talent is one thing, another big challenge is retaining those individuals who have been hired.

How organisations groom their staff eventually influences the kind of talent they attract – and retain, according to chief executives. Sometimes, for example, employees leave because they believe they can better serve customer needs with another firm that has a wider range of product offerings.

However, not all clients follow bankers as they move on. Increasingly, clients are willing to stick with an institution even if their banker has gone. As some top executives note, barring a few exceptions, even the most experienced bankers have not been able to take more than 20% to 30% of their client book to their next organisation. Indeed, if anything, it suggests the need and importance of adapting to changing market conditions.

With the industry facing changes on several fronts, upgrading the skill-set is a must for professionals who want to stay relevant in this market. ■

CALIBER OF FINANCIAL ADVISERS IN INDIA / YEARS OF EXPERIENCE



Source: FPSB India, Annual Report 2015-16, EY 'Winds of change: Wealth management reimagined'

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SNG & PARTNERS
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Jail time needed for wrong-doing to resonate in India

A Hubbis survey of local market practitioners reveals that many people believe punitive action must be taken against wrong-doers if the industry is going to be able to avoid long-term damage to its reputation.

Nearly three-quarters of the 125-plus respondents to a Hubbis survey on enhancing the wealth management industry in India believe individuals in breach of rules should face stricter penalties from the regulator – including going to jail.

It seems to be important to market practitioners that those advisers and other professionals found to be violating rules get reprimanded properly.

This is based on the belief that the harmful actions and wrong-doings of one individual run the risk of tainting the entire industry for a long time. And in the minds at least of the survey respondents, heavy financial penalties are considered a good deterrent.

REGENERATING TRUST

The vast majority of them believe that a violation of client trust deserves strict punishment in order to rebuild what gets lost.

Where it can be proved there was any intent to harm client interests deliberately or through negligence, exemplary punishments are a must, add practitioners.

One respondent noted that dishonest practices are economic crimes and must be dealt with punitively.

Many others also shared such a view added that the law should be unforgiving in matters such as financial fraud.

SEBI STANCE

Certainly, the securities regulator is doing its part to caution the public to deal with only SEBI-registered investment advisers and research analysts while seeking advisory or research services.

For instance, in 2016, it urged the public to check the registration status of the entity/person on the SEBI website before seeking investment advisory or research services.

The watchdog also warned the public to be wary of trading in the securities markets based on tips or recommendations provided by unregistered entities or persons.

NO CONSEQUENCES YET

While SEBI has been encouraging self-regulation to a large extent, it does not remove the need for monitoring and punishing breaches, some respondents noted.

Indeed, there is a sense among some industry practitioners that it is currently easy for individuals and firms to break the rules and get away with it.

For example, there have been instances of mis-selling in the wealth and asset management industries, creating a pressing need to address these convincingly and dispassionately.

One big problem plaguing the wealth management segment, in particular, is

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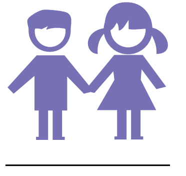

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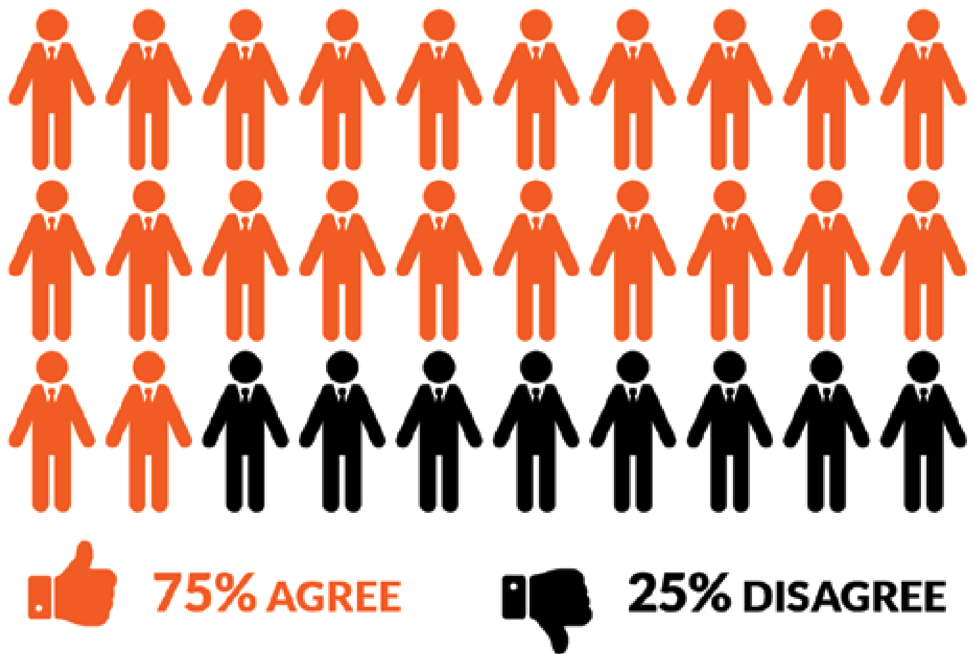

that entry barriers are very low and anyone can join this industry.

To improve adviser quality and reduce instances of mis-selling, however, it's important to raise educational and other requirements, according to some respondents. Education, for instance, remains key to ensuring advisers realise their fiduciary responsibility to clients.

A clear code of conduct and suitability framework, with appropriate consequences for non-adherence, is also needed for the wealth management industry, add practitioners.

Even steps such as banning firms or individuals from the industry for a period of time in extreme cases of wrong-doing, could be considered, they added.

MORE REGULATIONS NEEDED

As one respondent noted, India is in an adolescent phase when it comes to wealth management. Although there is huge scope for growth, strong regulations and platforms are required to make this scalable.

Meanwhile, there were some who believe a jail sentence is too harsh for wrong-doers, and that other penalties would do the trick, especially as the country's judicial system is already burdened with a multitude of pending cases.

An alternative point of view among respondents is that financial penalties are simply an easy way out. They believe that punishment for rule breaches should be even harsher.

Then again, opinion was split on the topic of extremely strict punishment.

As one respondent noted, the more punitive the law, the lower the likelihood that it will be implemented.

Also, some of the survey participants noted that it is important to remember that if the intent behind a breach of rule is not to deceive, it should be treated accordingly.

Ultimately, according to some respondents, the regulator needs to make the rules clear and easier to follow. ■

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Sanctum Wealth Management embraces the long view

Born from the acquisition of RBS' private banking business, Sanctum Wealth Management is off to a flying start owing to a trio of strong fundamentals – global expertise, domestic agility and a strong client franchise.

For a firm that launched less than a year ago, Sanctum Wealth Management has arrived and landed well in the Indian wealth management industry.

Shiv Gupta, the firm's founder and chief executive officer, is a man with a plan, and is determined to demonstrate that Sanctum Wealth Management is ready to take on all-comers in the wealth management ring.

"Our vision is to be the most trusted Indian wealth advisor, upholding the highest standards of conduct and service," explains Gupta. "I am of the firm opinion that the principles contained within this vision statement resonate with quite a lot of people, not least our clients."

Indeed, the fundamentals of the business are rooted in the concept of trust. And if clients see a professionally capable, values-driven organisation with integrity at its core, then it will make for a very compelling proposition. "Integrity doesn't only apply to our dealings with clients, but also to staff, partners, counterparties and regulators," he adds.

QUICK TO GAIN TRACTION

Sanctum Wealth Management began operations in April 2016, through the acquisition of the India private banking business of RBS, also known as Coutts India.

In doing so, Sanctum Wealth Management was able to get a running start on account of the sizeable client franchise and the block of talent that came with it – which itself was the result of the value that had been built up over time through investments made by the previous owner.

SHIV GUPTA
Sanctum Wealth Management

Mumbai is Sanctum's functional centre. Here, alongside the client teams, the majority of the investment and functional teams are based. The three other offices – Bengaluru, Chennai and Delhi – consist mainly of front-line staff with a sprinkling of specialist resources. Sanctum is now looking at expanding

its presence to additional cities, starting with Kolkata where it has an existing book of business.

"We have made quite a lot of progress quite quickly, with a new operating architecture and an enhanced product proposition," says Gupta. "We have established our operating rhythm and on the back of this, have seen our client base grow by 25%."

For example, after acquiring its various licenses, Sanctum can now offer discretionary portfolio management services, a new proposition, in addition to pure advisory services.

It has been a big undertaking – constructing a new firm, acquiring and activating all its licenses, and hiring new people. Now, Gupta is pleased it is all up-and-running and he, along with the management team, are already focused on the next step in the firm's evolution.

FOCUS ON WHAT YOU DO BEST

As a pure-play wealth manager, Gupta says the firm has focused its efforts at finding the best way of constructing its client proposition to deliver an end-to-end service, across a range of its clients' wealth management needs.

This spans investment management, estate planning, real estate services and private investment opportunities. It offers them through a combination of the firm's own platform and a network of partnerships and alliances. At its core though, it rests on the notion of the wealth manager as an unbiased curator and custodian.

Gupta maintains that this extended suite of solutions, accompanied by flexible and innovative pricing, will assist Sanctum in reaching its goal of high-end market penetration, while paving the way to future expansion.

The firm, however, sees the proposition and platform as elements of a larger theme. "In a professional services proposition likes ours, being different comes down to outstanding customer experience, certainly in the long run, and achieving this requires attention to a number of design and cultural factors. It is about the people you have and how they are trained, your firm's values, the approach used to deliver client solutions, the depth and breadth of the proposition, and increasingly in the use of technology."

BANKING ON TECHNOLOGY

Digital is also set to play a big part in the success that Sanctum is aiming for. "We have fundamentally overhauled our platform with a new technology architecture that massively enhances our productivity, mobility and client experience. However, we have discovered, with some humility, this only gets us to a baseline from which we must build further," says Gupta, "even though many in the industry are not at this baseline, in my opinion."

There is also a new way in which clients interact with the firm, especially in the digital space. "We have provided our clients with access to their portfolios, both online and mobile, which is something we didn't have before," says Gupta. "Even today, a lot of our competitors don't have this."

How to leverage technology to further improve the client experience is important to Gupta as part of the next phase of growth. This might well be in the form of providing more analytical tools, better online reporting and online transaction capability. "If we want to succeed at this game, we must be aware of, and adopt, the latest technologies in servicing our clients," he explains. "It also needs to help from an internal efficiency perspective, so that it is appealing to both clients and professionals who are looking to join us."

SUCCESS AT THE TOP-END

Sanctum is benefiting from the marriage of its heritage and traditional experience with its new-found flexibility and agility. "The sort of advantages that come with being a pure-play wealth manager, with the dynamism and agility of a domestic player alongside world-class governance, and a high-calibre team, result in execution abilities that not many in this industry can boast of," adds Gupta. Couple this with the macro-economic fundamentals for India that he is a firm believer in, and it seems like this is a positive story waiting to unfold. ■

Award for Excellence

Shiv Gupta is also the inaugural winner of our new award "Indian Wealth Management - Award for Excellence" – to reflect his achievements and commitment to the industry

He served as the head of private banking for India at The Royal Bank of Scotland Group from February 2009 to March 2016. He also had a stint as the co-head of Coutts' Middle East business, operating from Dubai, and was one of the founding members of the Coutts International South Asian business, based in Singapore. Prior to RBS, he worked with the Private Banking divisions of BNP Paribas and Citibank, in Singapore and Switzerland.

Driving a digital revolution in India

Business leaders of traditional wealth management firms in India are eyeing opportunities from the emergence of new technologies and tools such as robo-advisers.

Digital disruption. This phrase has become commonplace when talking about the future of wealth management. Indeed, emerging technologies are expected to revolutionise the landscape – and India will be no exception.

The implications of such technologies were a key topic of discussion at a roundtable organised by Hubbis in Mumbai in January 2017 for chief executive officers of leading industry players.

In particular, participants said that one of the big trends to watch in the domestic market will be the ascent of robo-advisory, in offering automated portfolio management services, mainly consisting of passive investments at much lower fees than traditional wealth managers typically charge.

Globally, according to a 2015 EY report on wealth management, this is leading to the emergence of two models for the business: one being a fully-automated digital wealth manager; the other a hybrid, combining automated services and the human adviser.

The growth of robo-advisory – especially in more developed markets – has, in part, been driven by a shortage of financial advisers. Many experienced professionals are in their 50s, with fewer young people willing to join this highly-competitive industry.

As the EY paper noted, the average age of advisers in the US is close to 60 years old; 43% of them are more than 55, while just 11% are below 35.

More broadly, the developments in the robo-advisory space have also prompted traditional players to invest to boost their digital capabilities generally.

DIGITAL DEMAND

The shortage of talent is perhaps most severe in markets such as India, which at the same time is also experiencing phenomenal growth in wealth creation. As a result, demand for people who can offer financial advice is far higher than the qualified advisers available.

Making matters worse is the fact that many wealth management firms focus purely on HNI and UHNI clients. Yet there is a vast number of mass affluent clients who have virtually no access to expert financial advice.

This is the segment that is likely to feel the biggest positive impact of robo-advisory services. For now, the current market share of robo-advisory firms is marginal in comparison with the AUM of the global asset management industry. (However, some of these companies already boast more than USD1 billion in AUM.)

While the robo-advisory services currently available in India have the potential to significantly improve customer reach and offer services at an extremely low cost, they haven't made a huge impact in India yet.

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This is partly because there is a limited range of index-linked funds and ETFs available. Instead, wealth managers offer a variety of mutual funds.

Another challenge to the penetration of digital advice, is Indian investors are not very comfortable with online investing and prefer some form of personal advice, even if this is informal. Only then, said participants, will they want to make an investment decision.

In short, there seems to be a lack of trust in pure digital investing models.

Another related issue are low financial literacy levels. Most Indians are comfortable with physical assets such as property and gold, while financial assets make up a relatively smaller proportion of their total portfolio. Mutual funds, meanwhile, comprise an even lower share: they make up less than 5% of the financial assets of most individuals.

Nevertheless, it's important to remember the bigger picture: favourable demographics, rising affluence, and the increasing number of internet and mobile phone users. This sets the stage for explosive growth in robo-advisory models, despite some hurdles along the way.

Indeed, industry leaders believe digital tools have the potential to change the face of product distribution in the country as traditional advisers and distributors have faced challenges in expanding beyond the big cities and towns.

DIGITAL VERSUS PHYSICAL

Another alternative is to integrate with robo-advisers. One way or another, traditional managers know they must find a way of adapting.

Most executives at the roundtable also believe, in a price-sensitive market such as India, the increased transparency and lower fees provided by digital models will make advice viable to customer segments that have long been neglected.

Of course, as the customer moves through their life and wealth cycles, wealth managers will need to ensure they provide different platforms and services to reflect their customer's changing needs.

FINTECH FUTURE?

A related topic of discussion continues to be fintech – another buzzword in India and other markets.

However, as one participant noted, despite the news headlines, fintech hasn't made much headway in India so far. While fintech firms could come up with some good products, they lack relationships; wealth firms, meanwhile, have the relationships that are needed to ensure these products are a success.

With an eye on the future of the industry, there seems to be optimism about the positive impact new technology could have on the market.

While traditional managers will have to invest significantly to match their new digital competitors, there is little doubt that the changes, even if not fully disruptive, are likely to enable more financial inclusion in the Indian market. ■

ROBO-ADVISERS IN INDIA ARE MAINLY OF THREE KINDS:

Type	Features
Basic	▶ Ready portfolio of pre-selected funds ▶ Limited risk profiling and customization
Advanced	▶ Customized mutual fund portfolio construction; goal-based financial advice ▶ Comprehensive financial counselling (telephonic) ▶ Extensive risk profiling and customization
Evolved	▶ Customized mutual fund portfolio construction ▶ Goal-based financial advice; basic life and health insurance related advice ▶ Tax optimization; expense restructuring ▶ Extensive risk profiling and customization

Source: EY 'Winds of change: Wealth management reimagined'

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Making a client-centric approach pay off

By living up to its stated philosophy of putting clients first, Indian wealth manager Edelweiss was able to double AUM, retain all its advisers and win a string of plaudits from clients in 2016.

The global trend in private banking of running fully transparent and compliant businesses is placing a big burden on many organisations.

Being consistently profitable against such a backdrop is difficult even in many of the most developed wealth management hubs, so finding a way to achieve this in a developing market like India is especially challenging.

Yet some firms are carving out their own paths to success through focused strategies – which often require very deliberate client segmentation. Edelweiss Global Wealth Management is among them.

Its frequent claims to be one of the fastest-growing firms of its type in India were more-than-adequately supported by the results achieved by the business in 2016. From around USD3 billion in AUM at the turn of the year, the figure had jumped to roughly USD6 billion 12 months later, purely for the wealth management unit of this financial services conglomerate.

To put this into perspective, Anshu Kapoor, head of global wealth management at the firm, says that the growth seen in AUM in 2016 was more than the cumulative total of the first five years the firm has been operating in this space.

CLEAR PROPOSITION

Notable in Edelweiss' success has been its productivity per adviser; as of the second half of 2016, its 52-strong team were generating between USD150 million and USD200 million a month in AUM. "The rest of the [wealth management] industry [in India] needs about 200 to 300 advisers to do this [AUM]," says Kapoor.

But what's really worked for the firm is having a defined value proposition. This rests on a focused, three-pronged approach to client segmentation: next-generation entrepreneurs; family offices; and what it refers to as institutional clients.

Further helping Edelweiss' case is the fact that it didn't lose a single adviser over the last three years – a feat Kapoor can justifiably be pleased about given the merry-go-round which characterises the industry in India.

Complementing and reinforcing all this, he adds, is the investment that the firm has made in all aspects of the business – ranging from people to product platform to digital capabilities.

The results to date are clear. In the family office business alone in 2016, for example, Edelweiss has raised around USD2 billion in AUM.

PUTTING CLIENTS FIRST

This type of success stems from how Edelweiss defines its engagement of

customers: helping them capture the opportunities in the financial markets, while at the same time protecting them from the various risks they face.

As a sign of the firm's focus on quality of service delivery, it closely follows the international practice of net promoter score to assess customer behaviour.

Once a month, a central team calls each customer to ask if they will refer Edelweiss to anyone else, on a scale of 1 to 10. Depending on their answers, customers then get categorised as one of 'passive', 'promoter' or 'retractor'. For each category, a set of questions follows, ranging from engagement to the experience that the respective Edelweiss adviser is creating for the client.

tomer relationship platform. This will mean that if a customer is coded under the risk profile 3, for instance, the system will prevent any product marked with a higher risk profile from being offered to that individual.

"A lot of customer understanding and performance assessment will take place through this core engine," he adds illustrate.

DOING THE BASICS WELL

Part of the Edelweiss success has come from simply being diligent in maintaining long-term, healthy relationships. "Clients usually do not have grand expectations on portfolio management. But they do expect their advisers to do the basics efficiently," says Kapoor.

cific inputs are given on how to scale up their business.

Kapoor is also spearheading a practice management framework for his advisers, looking to implement best practices in the US in the Indian context.

This focuses on a mix of 'book management', in terms of how to acquire, retain and grow customers; on specific wealth management products and services; on the team itself; and on sales.

"There has been a huge investment in development of advisers over the last three years, which is now paying off," says Kapoor.

THE RIGHT SIZE

While he says he would like to have 500 advisers in theory, it's a slow process, plus he know he must be realistic.

"We have stayed away from hiring teams and moving people en masse for two reasons," he explains. "First, we thought it will be disturb our culture, and secondly, we have not been ready to absorb all these people."

"At Edelweiss, the rewards that our advisers receive are significantly impacted by their client satisfaction scores."

The results of this effort are published to the entire firm to create transparency and accountability.

"Our goal is to achieve 100% client satisfaction score to make sure that no client is unhappy with our services," explains Kapoor.

To contribute towards this, Kapoor believes that digitising the delivery of products is vital to respond to the client demands in real-time. It is also cost-effective.

For example, the firm is moving its workflow to Salesforce, a digital cus-

The way it remunerates its client-facing staff reinforces this. "Most global wealth management firms have a revenue-based reward structure for their advisers," he explains.

"At Edelweiss, the rewards that our advisers receive are significantly impacted by their client satisfaction scores," he adds.

Yet this also relies on developing people in the right way. To do this, for its most senior dozen or so advisers, the firm offers a one-on-one coaching track. This involves assigning them a sales coach or an executive coach where very spe-

However, Kapoor now feels readier than ever before to scale up the hiring process, given the more robust and refined processes in place to cultivate and develop people.

As he looks to do so, he will ensure every potential hire goes through the firm's rigorous evaluation, which focuses on client orientation.

"It evaluates individuals on ambition, on enterprise and on problem solving, and only when someone passes do they then have a chance to join us. As we can see from our productivity and other parameters, it's really worked for us." ■

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Enabling the growth of wealth advice in India

As growing costs and competition add further pressure to the bottom-line of banks and wealth managers, Milan Ganatra of Miles Software Solutions believes the role of technology and digital solutions is more important than ever before.

The regulatory trends towards fee-based advisory models will create a challenge for wealth managers to get the revenue and then be profitable.

Changes are expected in terms of how banks operate going forward, in line with the pressure on revenue in the wake of the latest Securities and Exchange Board of India (SEBI) its investment adviser regulations.

Many advisers don't yet have the confidence to ask their clients to pay a fee for their advice.

Technology will then serve as a real enabler to reduce the labour-intensity of many processes to make it the cost of doing business more realistic, explains Milan Ganatra, chief executive officer of Miles Software Solutions. "There is a vast opportunity for technology players due to the cost pressures," he adds.

Banks, however, have a generally trusted status among most clients, and with their existing scale and reach, already have a more technology-driven mind-set.

MILAN GANATRA
Miles Software

"They don't mind investing first in technology, with the expectation that revenue will follow," says Ganatra.

Remote advisers, for example, where clients can dial-in an do a video call with their adviser, is already a concept which exists today.

Non-bank financial companies (NBFCs), on the other hand, look first to generate revenue flows before they consider investing in technology.

A COGNITIVE COMPONENT

Taking the role of technology in wealth management in India to the next level, an important priority for Miles Software in 2017 is cognitive computing. Ganatra believes this would add artificial intelligence that can benefit institutions, individual advisers and clients – for example, by cloning the smartest adviser. There are three specific situations where he says cognitive computing is relevant to wealth managers.

"[Cognitive computing] would add artificial intelligence that can benefit institutions, individual advisers and clients – for example, by cloning the smartest adviser."

The first is in terms of bringing the right product to customers. Secondly, it can help an investment adviser do the mining of data and behaviours to determine which customer to contact – as well as when and how – plus, what to offer an individual. And thirdly, it can ensure more effective customer communication.

"All this can deliver intelligence which, as a human, would be difficult to achieve because typically a cognitive engine would ingest large amount of data from various sources, plus also capture various actions and reactions of a customer as well as an adviser, to deliver an intelligent solution," explains Ganatra. As a result, wealth management firms can on the one hand potentially reduce their costs. On the other hand, an adviser can cater to more customers given the automated nature of the interactions and individual transactions.

TECHNOLOGY-DRIVEN CHANGE

Technology can also help build more capacity with the Indian wealth management market.

"Technology can also help build more capacity with the Indian wealth management market."

For the next five to seven years, digital and manual processes and systems will continue to co-exist.

While there is inevitably a desire to access information quickly and efficiently, the preference of many investors in India to have specific touchpoints. This, says Ganatra, is connected to the emotion of managing their money. Yet the direction is clearly towards a more automated and digitised engagement.

From April 2017, for example, all mobile handsets in the country will need to be multi-lingual to support the local language, plus they will offer biometric functionality. This will increase accessibility, explains Ganatra, although he still believes that true comfort levels will take time to develop.

DELIVERING REAL SOLUTIONS

As a complete wealth management platform, Ganatra says Miles is adding a cognitive layer to its adviser desktop as well as the customer-focused digital channel. The aim is to deliver advice to a relationship manager so that he can react to situations and communicate effectively to clients.

"This sits on top of our core wealth management engine, as well as interactively advising the client and suggesting various actions through the digital channel."

For institutions which are clients of Miles, for instance, this gives them an additional intelligent layer on top of an already-robust engine. "This takes our platform to a level which will allows our customers to do their business far more profitably, in a more scalable way, and allows them to be ahead of their competition," he adds. ■

How India is embracing advice

The advisory model and technology advances are set to dramatically change the country's booming wealth landscape in coming years, says Anurag Seth of Quant Capital.

Shifting financial sands within the Indian wealth management landscape has set a new type of challenge for advisers and firms looking to find the best way to meet clients' needs and desires.

The jury is somewhat out on the best path to take, with views split between client willingness to adopt the advisory model on one hand, and a continuation of the tested execution framework on the other. Add to that the changing complexion of family offices in India – which is gradually embracing a new-age approach – and you discover that a different mind-set on investment and money management is emerging. Anurag Seth, head of global wealth management at Quant Capital, sits in the advisory-model camp. He believes the transition from old to new is the future for the industry – in more ways than one.

"We are one of the firms advocating clients to move to an advisory model and we are seeing greater client acceptance for the advisory set up."

"We are one of the firms advocating clients to move to an advisory model and we are seeing greater client acceptance for the advisory set up," he explains.

ANURAG SETH
Quant Capital

"More and more clients are now inclined to adopt an advisory rather than just a plain execution framework. As a result,

we have added a considerable number of new accounts."

Previously, the firm was targeting accounts above a certain investment size.

But he says it is good to see that clients with relatively smaller balance sheets are also looking at the advisory set-up rather than continuing with a plain execution model.

"We were looking for high-end clients, but we have, gradually over the last six months, moved to mid-tier clients because that is where the advisory model is finding more acceptability."

Adds Seth: "This has been a major change in our focus over the last couple of months, and we are happy with the uptake of what we have been advocating."

INTEREST FROM MID-TIER CLIENTS

The model which saw mainly the top-end of India's wealthy opt for advisory was based on them chasing a particular return target.

As a group, these clients seemed to better understand the process and wanted to participate in the upside.

"Now, however, I have seen more people within the mid-tier understand the logic of the advisory model," notes Seth. A key thing helping to drive this, he believes, is that everyone is optimistic about India.

Apart than the recent demonetisation measures (which should also eventually lead to a favourable outcome), clients are quite optimistic.

"In fact, we have seen some of the best months for mutual fund equity flows in India domestically," explains Seth. "So, there is a lot of optimism and many investors are hoping for good returns."

SKIN IN THE GAME

This upturn in investment volume, however, also creates a 'buyer's market'; clients have multiple options for where to take their business.

"Fintech, or technology-enabled investments, had taken a back-seat in India, either because we were grappling with the issue of one-touch investment, or because we could not link with Aadhar."

He expects the situation to be resolved in a few months.

"We were looking for high-end clients, but we have, gradually over the last six months, moved to mid-tier clients because that is where the advisory model is finding more acceptability."

Yet Seth takes this in his stride. "We believe that to win business, you need to have skin-in-the-game, and that is one reason why a client chooses us.

If the client is willing to participate and pays an advisory fee, then you need a particular benchmark or a hurdle rate, above which you will charge an advisory fee," he explains. "Until you do that, clients will always look for a discount on advisory."

After all, a client can easily get a risk-free return, which in today's scenario, is what is offered by a nationalised bank.

THE DIGITAL FRONTIER

Seth also sees the latent introduction of new financial planning technology as another great stride for the wealth management industry.

"Technology, specifically in India, will lead to a huge transformation to our business in the next six months or so," he predicts.

"I think that by April, we will have a system in place whereby you can invest in mutual funds or trade easily through mobile phones. Then, all of the platforms that have not seen any traction over last couple of years will suddenly become an important tool for clients to use by themselves."

Quant, meanwhile, is exploring options of teaming up with other digital platforms to offer back-end advisory support for clients.

No doubt, while India's growing population of affluent consumers are actively seeking investment solutions, it must be remembered that digital technology still has a long way to go in India.

But optimism is rising rapidly. "In another couple of months, we will see enough traction to give clients the ability to start investing with ease," adds Seth. "In the future, we will be able to offer a lot more." ■

Addressing the expectations of wealthy Indian families

Speaking at the Hubbis roundtable on Family Wealth in January 2017 in Mumbai, leading practitioners say managing the growing gap between service delivery and client expectations will need to be addressed to maintain harmony between groups.

The biggest task and challenge for wealth management advisers is to be a part of the discussion surrounding family wealth planning and to figure out how to get family members to discuss the problem.

COMMUNICATION IS KEY

In India, communication between members of different generations and between families and their external advisers is hardly ever direct.

Hence, the first hurdle for advisers is to get the issue on the table and have members across generations talk about it.

For example, the matter of death is never approached directly. Phrases such as, "eventuality," "worst case scenario," and "it is time to move on," are used instead.

These are some ways how the matter is discussed to get the patriarch to talk about succession and transfer of control.

Professionals believe that it takes months, at times years, to achieve the trust of the family if they are externally introduced to the client.

To overcome this trust issue, professionals suggest working with the trusted family adviser or accountant. Working jointly helps build the trust with the family and they are more comfortable working with the external advisers.

"Professionals believe that it takes months, at times years, to achieve the trust of the family if they are externally introduced to the client."

Most families prefer to seek financial advice from someone who has been with the family for years or their accountant, commonly called, 'munshi.'

MANAGING EXPECTATIONS

Due to differences in the earning curve from the past to the present structures, advisers believe that there

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is a need for client education on the return expectation.

The behaviour coaching part is a constant challenge because the expectations are very different compared to what the actual returns are.

> "Clarity is also sought on whether external professionals should be involved to handle the business or should training be given to internal family members who might not be as competent."

Hence, advisers believe that for the overall investing experience to be healthy, managing expectations is important.

Clients are also extremely conscious of the conflict of interest for advisers.

Given the overlapping of interests within the financial industry, clients seek to work more with advisers where the bias is taken care of and the adviser is believed to work in an independent capacity.

CLARITY ON CROSS HOLDINGS

As large businesses run across generations, advisers are finding that increasingly the younger generations are not comfortable with how the businesses have been run so far.

Newer generations seek far more clarity in terms of who is owning what and what part of the business belongs to which of the family members. There might be cases where some members of the family are just passive partners within the business while some are actively involved in running the enterprise.

Advice is sought on how to distribute the financial benefits to different family members depending on their input and share-holding.

Clarity is also sought on whether external professionals should be involved to handle the business or should training be given to internal family members who might not be as competent.

There are instances where there is a fear that professionals might not fit into the culture of the family business. But there is also fear that some family members might not want to be a part of the business, might want to run the business in a different way than before, or may not possess adequate skills.

Hence, clients expect advisers to be competent in providing advice regarding restructuring and remodelling of the businesses to adhere to these changing needs.

NEED FOR SUCCESSION PLANNING

Creating structures that result in seamless succession planning are the need of the hour. Many Indian business families are on the verge of a change of guard between generations to transfer business and assets.

The older generations created businesses with the intention of keeping them within the families, during a time when compliance and regulations were minimal. The newer generations want to run the businesses differently, want to create simpler and tax compliant structures, or want to sell the business and start something new.

> "Creating structures that result in seamless succession planning are the need of the hour. Many Indian business families are on the verge of a change of guard."

Hence, the succession planning needs of both the generations are quite different and advisers need to advise holistically to comply with those needs. ■

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India's wealthy more willing with succession planning

Business families across the country are slowly moving from a relatively sceptical view of using structures as part of long-term wealth planning, towards adopting a more formal approach to succession planning, says Abhijit Joshi of Veritas Legal.

A combination of several factors over the past couple of years has created various new opportunities for wealth managers in India.

These include impressive economic growth spurred by a bull-run in the country's financial markets, regulatory initiatives to encourage greater transparency and compliance, and a general heightened level of sophistication among wealthy individuals and families.

This has all highlighted the broader range of services and products which are now required – and more readily being sought – to meet the new needs of clients.

"When an emerging market is evolving, a lot of it is work in progress. Financial markets and instruments will deepen, and transparency will bring more accountability," says Abhijit Joshi, founder of Mumbai-based Veritas Legal. "This creates legal complexities, which I see as an opportunity as the market evolves." More specifically, he points to recent developments like the reworked double taxation agreements (DTAs) with Mauritius, Singapore and Cyprus, plus demonetization. As a result, HNI and UHNI clients are wary of what might come next and in turn, are incentiv-

"People are baffled by the recent developments and the systemic changes that are happening. They now want to put their 'houses' in order."

ABHIJIT JOSHI
Veritas Legal

ised to ensure their assets are adequately protected and their structures robust enough.

"People are baffled by the recent developments and the systemic changes that are happening," adds Abhijit. "They now want to put their 'houses' in order. The need for wealth management is getting more and more important."

FORGING CHANGE

The developments in India are clearly leading to a shift in the mindset of clients.

It was previously a struggle to get these individuals to understand the need for succession planning and the importance of transparency. Today, Abhijit says it is much easier to initiate conversations about the right structures and how to set up.

This is also having an impact on the regulatory environment. For example, the securities regulations previously didn't factor in the use of trusts as a succession planning tool. But now that clients have started making formal applications to the regulator to create trusts, a more robust system is emerging.

As a result, along with greater client education is also an important evolution of the regulatory mind-set.

NEW THINKING NEEDED

Despite these positive changes, the private client segment must also overcome various hurdles to fully understand and embrace long-term wealth planning.

One of the biggest challenges for advisers at the moment stems from what Abhijit calls "thought bankruptcy" when it comes to promoters discussing succession planning in any detail.

"Most [of these clients] want to plan for their succession because others are doing so, but the thought process has not matured enough," he laments. Further, there is sometimes a disconnect between what clients say they need and how they act and behave.

"Most [of these clients] want to plan for their succession because others are doing so, but the thought process has not matured enough."

The HNI and UHNI segments are still predominantly governed by the ideologies of the patriarch who first started the business.

And these promoters only tend to want to get external professionals involved when they see other business families doing so.

What this leads to for advisers, explains Abhijit, is a conversation with a client about sensitive and important issues to which the client hasn't yet given much thought.

TREADING CAREFULLY

Discussions around succession planning inevitably cover topics which many people are not used to talking about at all, let alone with a 'stranger'. These include: complexity of the business; appetite of the next generation to take it over; longevity of the business; a potential sale; competitive forces; and regulatory threats.

Based on the outcome of such discussions, advisers should then be able to ascertain what types of structures need to be put in place – and what needs to be restructured.

A complicating factor is the fact that Indian clients have become increasingly insecure about their wealth and inheritance. This makes the advisory component a more complex process than ever before, adds Abhijit.

In particular, he says the founder as the first generation is typically most insecure about sustaining the wealth. In turn, this fosters a certain amount of uncertainty within the inheriting generation. For example, promoters might be insecure that he will not be respected as much if he puts money into a structure that is far from where he cannot control it directly. He might also be unsure if his family will take care of him in his old age.

At the same time, the next generation is fearful that they have never been given the right (from the promoter) to make decisions.

"A lot of the time, conversations with families are about nothing but addressing these insecurities," explains Abhijit. "Different generations have different insecurities. A competent adviser knows how to tackle them well." ■

Six steps to holistic succession planning in India

Speaking at a Hubbis roundtable on Family Wealth in January 2017 in Mumbai, leading practitioners say the biggest need of wealthy families in India is seamless succession planning. Bridging the gap between different generations and ensuring a smooth transition of assets and wealth to the next generation will be the biggest challenge for investors.

Succession planning is becoming an increasingly discussed topic among India's wealthy families. As one generation cedes control and assets to the next, the importance of ensuring that transition is smooth and painless is becoming extremely crucial.

At the Hubbis roundtable on Family Wealth in Mumbai in January, leading experts discussed some key themes deemed important to ensure a holistic transfer of generational wealth and assets.

1. UNDERSTANDING WHO IS GOING TO LEAD THE BUSINESS

Problem: Many times, there is a debate between onboarding external professionals versus family members.

There is a fear that external professionals might not be aware or attuned to the culture of the family business, even though they might be better suited for the skills that the business requires.

Alternatively, family members might not have the required expertise to handle the business or there might be visible nepotism.

Approach: Striking a balance between the two groups of people is important.

> **"As one generation cedes control and assets to the next, the importance of ensuring that transition is smooth and painless is becoming extremely crucial."**

Achieving a balance by hiring just enough adequate skilled personnel as required should be the goal.

Similarly, resources should be invested in training suitable family members to handle the business.

2. ACCEPTING THERE WILL BE DIFFERENT VIEWS ON BUSINESS CONTINUITY

Problem: The promoter usually has the vision of business continuing in perpetuity. The second and third generations, however, might not want to be a part of the business or might want to sell it. Hence, there are generational differences about business continuity.

Approach: Try to get different family members to come together to

discuss their views on the future of the business.

Try to find ways of employing either external professionals or family members who might be interested in the business.

It is difficult to bring up the conversation to give up control to the next generation in case of death or incapacitation.

Approach: It is important to understand that death is something that is never discussed in Indian families. Hence, one way is to bring up the topic of "eventuality".

This would trigger conversations of handling worst-case-scenarios.

"It is a slow process, but open and transparent communication is required."

3. ACCEPTING THERE ARE ISSUES TO BE DISCUSSED

Problem: Advisers face the most difficulty in negotiating and advising families in situations where the promoters and senior members believe that there is no friction and nothing is going wrong.

Approach: Have multiple sessions to bring the views of different members and generations to the forefront.

It is a slow process, but open and transparent communication is required.

4. ADDRESSING THE NEED OF THE PATRIARCH TO CONTROL EVERYTHING

Problem: Traditionally, in Indian families, patriarchs control and make all the business decisions.

It is not uncommon to witness an eighty-year old patriarch signing cheques while his fifty-five-year-old sons have minimum authority.

The third generation, meanwhile, barely gets a say in anything.

"Death is something that is never discussed in Indian families. Hence, one way is to bring up the topic of eventuality."

5. SYMPATHETIC AWARENESS OF WHY THE BUSINESS WAS SET-UP

Problem: Often the promoter feels that the younger generations do not understand why and how the business was set up.

There seems to be miscommunication and a mismatch of expectations between generations regarding the vision of the business.

Approach: Create a family constitution. This document should outline values from both the family and the business perspective.

6. TAKING ADVICE FROM EXTERNAL ADVISERS VERSUS IN-HOUSE PERSONNEL

Problem: Advisers believe that securing the trust of family members is more difficult when advisers are new as opposed to being a part of the family structure for a long time.

For this reason, many promotors are hesitant to discuss succession issues with external advisers.

They prefer in-house counsel who may be friends, or long-standing staff, even though they may not be fully competent.

Approach: Advisers should seek to work with the in-house counsel such as the chartered accountant or the 'munshi.'

Once the promoter feels that there is harmony between different advising parties involved, it will be much easier for external advisers to connect with the families. ■

Taking stock of family values in India

The influence of digitalisation and new policies in relation to IT, GST and demonetisation are all taking a toll on Indian business families, says Girish Vanvari of KPMG.

Indian business families are not just grappling with international treaties such as the Common Reporting Standard (CRS) and Automatic Exchange of Information (AEOI). They are trying to deal with the dynamic of domestic reforms, too.

Local and national financial markets have been in an almost constant state of flux in the wake of new policies on the Information and Communication Technology Services (ICTS), Goods and Services Tax (GST) and demonetisation.

This has forced wealthy families across the country to become more flexible in responding to these emerging trends. According to Girish Vanvari, national head of tax at KPMG, there are four issues facing Indian business families today: globalisation of businesses and wealth, leading to de-risking India; succession planning; responding to new policies such as ICTS and GST; and digitisation.

GIRISH VANVARI
KPMG

DEALING WITH UNCERTAINTY

These trends are creating a certain amount of insecurity among clients when they look to the future. Not knowing what will come next, says Vanvari, leaves them hesitant about whether the structures they have in place today will hold for tomorrow. Some further emerging themes also add to this anxiety: a lack of competent or

experienced talent within the advisory community to tackle these issues; technology innovation; and changing regulations in terms of tax laws and accounting standards

With a GDP per capita in India of the equivalent of USD1,500, and overall GDP at USD1.9 trillion for a population of 1.25 billion people (based on 2013 consensus figures), Vanvari and his team of 2,000 tax professionals at KPMG have their work cut out just to keep up.

> **"Businesses can deal with the fluctuations by ensuring they have organisational agility."**

His approach is trying to meet them head-on, with solutions to counter the moves that tend to shrink the business.

"We are seeing the sales of businesses beginning to grow, and clients exiting businesses completely," he explains.

"Although we continue to see joint ventures, partnerships and alliances, we are also seeing people who don't know how to beat change too."

While a lot of new companies are emerging, many of them are in the fintech space.

And those companies which are not able to be multi-dimensional usually have a shorter lifespan. Vanvari suggests that businesses can deal with the fluctuations by ensuring they have what he calls 'organisational agility' and also seeking help.

Indeed, having the right people and preparing for the future is essential. For example, he explains, the infusion of technology within the retail market means family-run businesses must figure out how to maintain the balance between physical stores versus an online presence. This brings with it a pressing need to get their digital strategy right.

GETTING MORE PREPARED

In the realm of longer-term wealth planning, Indian business families have been known for leaving the governance and succession planning to fate.

But this is slowly changing, as they engage family offices and seek a family charter, in a bid to put robust structures in place. Among their goals is minimising disputes, clarifying family rules and allocating capital.

Families are also looking at creating structures to minimise risk. "So it is about learning to live with dynamism, and in a changing world," says Vanvari.

"It is important to understand the implications of policies which are far hitting. People who embrace this will survive."

While he places high value on family businesses, he also fears this new dawn of change may deal a cruel blow to those with a traditional philosophy. And with planning in mind, Vanvari sets out his wish-list for the year ahead, while remembering the problems and pitfalls that beset the industry in 2016.

"Our first priority must be to see where the digital industry is heading," he explains. "Everybody is studying that at present without really getting a handle on it to be ahead of the game. Our second priority is to cope with and find a common ground regarding tax and regulatory framework changes. What are the implications of all of this, is a question-and-answer discovery process that we must go through." ■

> **"Our first priority must be to see where the digital industry is heading. Everybody is studying that at present without really getting a handle on it to be ahead of the game."**

Tackling old money versus new money

Speaking at the Hubbis roundtable on Family Wealth in January 2017 in Mumbai, leading practitioners highlight the differences between the needs of old family money versus new family money. Clients prefer advisers who can assist in understanding these different needs.

Most businesses in Asia are family owned. With a change in guard for these businesses around the corner, and UHNI segment growing by 7-8% every year, leading practitioners suggest that there are distinct challenges of old money versus new money.

OLD MONEY ISSUES

Problems with old money are generally more difficult to deal with. This is the money that will be changing hands through generations.

Hence, the fears of sustainability and transfer of power are multi-fold.

There are four main challenges for this segment: succession planning, giving pertinent amount of responsibilities and incentives to relevant family members, decluttering structures, and bringing all assets under the official fold.

Succession planning here primarily refers to understanding and deciding whether there are competent family members who can take over the business or if there is a need to involve external professionals.

There is always issues with engaging either group. With incompetent or uninterested family members taking over the family business, the progress of the business suffers.

The second challenge is to determine how to provide beneficial interest to family members and how to incentivise them.

Questions about what kind of money, salary, bonus, dividends, should be paid, so that they are commensurate with the value these members are adding to the business, need to be answered.

> **"Four main challenges for old money: succession planning, giving pertinent amount of responsibilities and incentives to relevant family members, decluttering structures, and bringing all assets under the official fold."**

Similarly, there is also the fear that external professionals will not be able to adjust with the existing business culture.

Decluttering of business structures has become a recent challenge with the approaching CRS and other regulations

that are forcing the businesses to become more transparent and compliant.

Professionals are meeting more and more families who want to clear up their complex web of holding and regulatory structures.

They want to ensure that these structures, when handed down to the subsequent generations, are not too complex.

When families with old money started their businesses, there were less stringent tax treaties and regulatory laws to comply with.

With the changing regulatory scene, these structures will need to be reorganised so that they are sustainable.

It was easier to funnel money to India from offshore holdings before than it is now. To respond to this challenge, a lot of families are trying to bring their offshore holdings into some kind of formal structure.

Families are thus open to discussing new ideas, taking the bitter pill, clean up the structures and bringing everything under the official net.

NEW MONEY OBJECTIVES

Professionals believe that the main objective of new money is wealth creation. The problems of this segment are far easier and less complex.

Succession planning is not a big problem. This is because there is no legacy of the past and also there are no past structures that bind the individual towards a certain direction.

The families are also becoming smaller and nuclear, hence lowering the need for an elaborate succession planning scheme.

There are four main concerns of families with new money: monetisation of the business, creating tax optimal structures, developing structures with the purpose of selling them, and adequate ownership among different partners involved.

The new generation is setting up businesses with the purpose of maximising their time, energy, and investments.

Their challenge is to create a sustainable and efficient structure within a global economy.

Creating tax optimal structures is a priority with this segment.

For example, with the introduction of double-taxation treaties between India and Mauritius/Cyprus/Singapore and PoEM, creating structures that are tax compliant has become increasing important.

This segment is looking at ways to build up their knowledge and expertise in managing their investment portfolios.

These portfolios could be direct investments or pure financial investments. They are mostly looking at tax optimisation and regulatory compliant structures, mainly around NBFCs, deemed NBFCs and personal holding companies.

Setting up robust structures also helps with the ultimate purpose of selling the business.

Most businesses established in recent times are created with the intention of being sold off one day.

Hence, these families are interested in creating formal, legal and suitable corporate structures with the expectation that third-party investors will come into play one day.

New businesses are concerned with what is in for them because there are multiple promoters coming from multiple jurisdictions with multiple objectives.

There is also a lot of concern in terms of protecting whatever that has been created jointly.

In recent times, several business families have even taken their feuds to court to fight for proprietary rights.

This has propelled businesses to put in place structures where all partners are duly compensated. ■

"The main objective of new money is wealth creation. The problems of this segment are far easier and less complex."

Responding to the changing needs of wealthy Indians

Changing regulations worldwide have brought with them a host of challenges for Indian business families – from higher costs of doing business to the need to re-assess tax compliance. Advisers need to be creative in finding workable but holistic solutions.

The onslaught of Common Reporting Standards (CRS) and Automatic Exchange of Information (AEIO) is forcing wealthy families around the world to become more transparent and compliant.

In India, demonetisation and double taxation are clear evidence of the impact of these initiatives, in turn putting the spotlight on whether businesses are tax compliant.

For existing companies, owners urgently need to review existing structures; for new firms, they must pay close attention to what will be viable in this new environment.

Either way, families should get professional advice as early as possible to make sure they meet regulatory expectations, says Saurabh Kumar, managing partner at SK Attorneys.

In many cases, streamlining what is in place might be sufficient. "Simply because the governments and structures are becoming more stringent, does not mean that everything will fall out. But they need to have clean structures," he explains.

CHANGING NEEDS

An important consequence for business families in India of more transparency and the freer movement of capital, is a greater cost of doing business.

This is due to the announcement by the Indian Central Board of Direct Taxes (CBDT) of a revised double taxation treaty, effective in the first half of 2016, between India and Cyprus/Mauritius/Singapore – favoured offshore destinations for wealthy Indians.

For example, many investments in the Indian capital market used to come through Mauritius because of Article 13(4) of the double taxation agreement between the two jurisdictions. This stated that no tax was payable in the source country and, in return, there was no capital gains levy in Mauritius. Under the new regime, either government is slowly going to exercise its right to tax

SAURABH KUMAR
SK Attorneys

potential tax gains made in India. Yet despite an increase in the cost of doing business in the short term, professional advisers believe that families will come to appreciate the change in the long term.

"For example, with the India-Mauritius treaty, there was a lot of ambiguity. There was a lot of litigation but hardly any clarity because different courts had different judgements," explains Kumar. "But now, with the change in regulations, there is more precision. While there might be additional costs, people will be more likely to invest in India because there will be more simplicity and efficiency in litigation."

guidance from those professionals who are equipped to give risk analysis of existing structures.

"[Practitioners] can also propose something to lower any risks they may foresee in the future," adds Kumar. This is long overdue in India. Generally, families have run their businesses in a relatively haphazard manner.

This has resulted in poor structure, or at least ones which are inadequate in today's environment.

The burden of having to operate under a system where exchange of information is inevitable also demands more

"Simply because the governments and structures are becoming more stringent, does not mean that everything will fall out. But [family businesses] need to have clean structures."

efficient and transparent structures. Proper planning and advice is therefore essential.

The insurance industry is also expected to benefit, he adds.

Given the size and volume of business activity taking place in India, Kumar says that families are getting insurance coverage as best practice in protecting themselves against any unpredictability.

BRIDGING THE GAP

The changes that business owners need to make in response within this new regulatory landscape is good news for lawyers and tax specialists. From the outset, families need to seek

Where practitioners like Kumar need to spend more time and energy, however, is in convincing Indian business families about the value of using external advisers.

The starting point, he believes, is to gain the promoter's trust, for example by instilling a strong corporate governance structure for the business as a way to engage with the management.

CHANGING OF THE GUARD

This also highlights the importance of the need for an effective business continuity strategy.

"A lot of family-owned businesses lack the ability to predict the future, so they cannot start preparing for it early," says Kumar.

"They do not have in place a plan for a change of guard."

But this is to do with a generational mind-set. There has been little need until now to consider transparency in business structures due to regulation.

Neither was there much awareness nor was there education about the need for professional advice.

The next generation has no excuse.

The opportunity to get the best education from around the world, understand the business from various perspectives and learn about best practices, means they must adapt to the realities of today's environment.

There is an inherent need to adapt to the global trends or fear stagnation.

"My expectation from the next generation is that they understand the global needs of the business now," says Kumar.

Many family businesses have already started taking action along these lines.

Some have started involving their children by adding them to the board from an early age.

Others have encouraged the next generation to work for other companies to cultivate a sense of hard work and business acumen. ■

Indian advice industry gearing up for change

Draft proposals to separate mutual fund distribution and advice might face implementation challenges in the short term, but will benefit the industry in the long run, said senior product gatekeepers at a roundtable hosted by Hubbis in Mumbai.

A recent consultative paper by the Securities and Exchange Board of India (SEBI) has sparked some debate among the wealth management community.

In the paper, the capital markets regulator said it wants to introduce regulation that clearly demarcates mutual fund distribution from advice.

In other words, it wants to separate distributors of mutual fund products, who earn commission from fund houses, and investment advisers, who earn fees from providing advice to investors about what products to buy.

The new recommendations are proposed amendments to the SEBI (Investment Advisers) Regulations, 2013. To implement them, however, there are likely to be challenges, according to product gatekeepers from top wealth managers at a thought-leadership discussion roundtable hosted by Hubbis in Mumbai in January 2017.

VALID CONCERNS

The main concerns among industry practitioners revolve around the fact that most Indian investors are still loathe to pay for advice.

Despite there being a global shift towards advisory and away from transaction-led models, given the low penetration of mutual funds in India, most participants believe it will take some time for the advice-driven approach to become successful in the country.

According to SEBI proposals, for instance, mutual fund distributors will not be permitted to offer incidental or basic investment advice on any mutual fund scheme, unless they register separately with the same regulator as an investment adviser.

They will be given three years to make this transition and until then, cannot refer to themselves as wealth/financial advisers, so must remain as mutual fund distributors only. Although product gatekeepers tend to agree that the regulator's intent is good, how the rules are implemented could affect the growth of the mutual fund industry.

GAINING GROUND

The INR16 lakh crore mutual fund industry (about USD230 billion) is equivalent to about 7% of India's GDP – which, according to a recent report by EY-Café Mutual, is a proportion that is much lower compared with developed markets like Australia (114), the US (91%) and the UK (51%).

Mutual funds have not yet been able to gain a significant share of investors' wallet mainly due to lack of financial awareness among a major portion of the population, the report added.

Yet, despite the low penetration rate, in absolute terms, the mutual fund industry has seen significant growth over the past decade.

According to data from the Association of Mutual Funds in India, for example, the INR16 lakh crore mutual fund AUM represents a compounded annualised growth rate of 18% since 2007.

GETTING IT RIGHT

While participants acknowledge the regulator's efforts in pushing for a more transparent, investor friendly and less risky mutual fund industry in India, they believe it also needs to ensure the growth of the mutual fund industry is not jeopardised.

This is particularly important as it comes at a time when the government is making a push for financial inclusion.

For distributors, the main issue stems from a belief that the new rules could lead to higher distribution costs as companies may have to split their advisory and distribution operations into separate entities.

Unfortunately, distributors don't have an industry body that can represent their collective concerns to SEBI.

Yet it's important to protect the interests of these distributors, say product gatekeepers, because they have a significant role in boosting mutual fund penetration among Indian investors.

Given the current low penetration of funds and low financial awareness of most investors, engaging only in advice or distribution will be tough for financial firms, according to participants.

If distributing mutual funds becomes an expensive proposition or doesn't make much commercial sense, there is a risk that distributors will shift to selling other financial products, such as insurance. That will affect the longer-term goals of expanding the mutual fund industry.

Higher distribution costs could also prompt companies to cut back on promoting mutual funds in smaller cities, which will therefore become less viable locations for selling.

According to the EY-Café Mutual report, nearly 86% of the mutual fund AUM comes from the top 15 cities. Yet SEBI has been keen on promoting mutual fund awareness and penetration everywhere else.

"There is a need for the regulator to separate different kinds of clients – for instance, professional investors from retail investors. Such differentiation exists in many developed markets."

A HELPING HAND

Product gatekeepers have recommended steps for SEBI to take to help the mutual fund industry in India move to the next level. (This is especially important at a time when physical assets such as real estate and gold are losing lustre.)

For example, the regulator could continue to focus on simplifying KYC norms, which until recently had too much overlap in documents across different institutions.

There is also a need for the regulator to separate different kinds of clients – for instance, professional investors from retail investors. Such differentiation exists in many developed markets.

'Accredited' status, as an example of the approach in Singapore, implies an investor can take on a higher level of financial risk.

PART OF A GLOBAL TREND

Nevertheless, there is also an acceptance among practitioners that disintermediation is a global phenomenon which must be accepted – no matter how uncomfortable it may seem for players in the short term.

One good example is the UK, which in 2012 introduced the Retail Distribution Review (RDR).

This brought about four key changes: advisers must inform clients whether the advice given is independent; they must charge fees for advice rather than taking commissions from product providers; they must have minimum prescribed qualifications; and they need to treat clients fairly.

Indian regulators have typically been quick to adopt global norms, which bodes well for confidence in the country's financial markets, in general. ■

Indian HNI clients: to segregate or not segregate?

A growing number of India's leading wealth management practitioners are increasingly receptive to the idea of segregating wealthier clients as professional or accredited investors. However, there are concerns and mixed views about relaxing the rules for this segment.

In a survey of more than 125 leading professionals in Indian wealth management, around 75% of respondents believe that the segregation of investors into retail and HNI (professional or accredited investors) will be a good thing to take the Indian wealth management market to the next level.

However, the views were split when considering whether to follow examples in more developed wealth hubs like Singapore and Hong Kong – in terms of offering a relatively more 'relaxed' rules framework for HNI clients, or professional investors. In fact, there was a greater tilt towards the "no" camp in terms of such a reform.

Most of the respondents emphasised that they believe rules should be the same for all clients and should not be dependent on wealth levels.

Some of the respondents were also of the view that instead of segregating on the basis of ticket size, it would be better to segregate on the basis of financial literacy.

Even with a high level of investable assets, investors could show low financial investment awareness or knowledge, believe many industry players.

Further, each client has a different understanding of markets and products, so the classification of investors could be based on different levels of product and investment knowledge. There was broad acknowledgement that wealthier Indian clients do have more diverse needs, which current Indian laws are not equipped to understand.

FLEXIBILITY WHERE IT SUITS

Among those practitioners who believe that wealthier clients in India could have more relaxed rules, the argument was that they had created wealth via risk taking and making hard decisions even in the face of uncertainty.

As a result, they don't need to be bound by highly restrictive regulations.

The UHNI segment, meanwhile, is also seen as far more developed.

There is greater knowledge within these individuals on the various aspects of investing, given their broader access to the right information and resources.

For example, many of them have up formal family offices to cater to their specific investment needs and have a team of experts to evaluate products and ideas.

Given their quasi-institutional nature and equivalent knowledge levels, the rules should definitely be more relaxed for these clients and should be segregated from HNIs, believe practitioners.

In addition, these clients should be separated from retail investors, according to some of the views.

MIS-SELLING MATTERS MOST

For those in the "no" camp when it comes to segregating how clients get treated, given that there continue to be instances of mis-selling and misrepresentation in the industry, relaxing current regulations did not seem feasible.

As one participant noted, being wealthy does not in any way mean these clients should be willing to take on higher losses. Instead of easier regulations, some participants say they favour rules that offer more flexibility for sophisticated investors with knowledge of complex products and a willingness to take higher risks.

SELF-REGULATING

One of the solutions suggested by several participants in the survey was the establishment of a self-regulatory organization – which would clearly lays down the practices rules and penalties.

Notably, this has also been suggested by markets regulator SEBI.

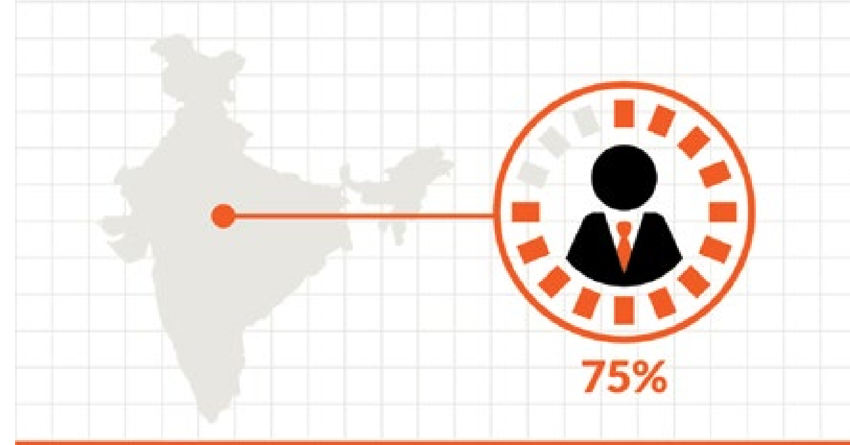
LEARNING FROM OTHERS

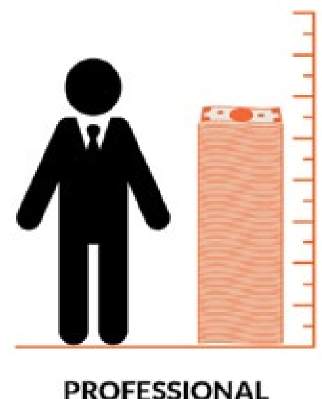
In general India's wealth management sector would clearly benefit from an approach to segmenting clients in the form of 'accredited' or 'professional' investors.

This is already a known and accepted concept in markets such as the US. It has also been used successfully in Asia, especially in Singapore and Hong Kong.

Further, it is an ongoing process which need to be reviewed.

For example, Hong Kong's securities regulator is consulting the local market (until early April 2017) on proposed amendments to its rules on professional investors (PIs).





Under the proposals, the watchdog envisages that more persons will qualify as PIs.

Nevertheless, intermediaries remain subject to the suitability requirement and other fundamental requirements when serving them. Essentially, the proposed amendments are intended to enhance market transparency and promote consistency in the application of the PI rules.

And the key consideration is that the proposals should cater for the business needs of intermediaries and their clients without compromising investor protection.

Applied in India, such segmentation of customers rules would also allow more targeted marketing for product producers as well, believe some practitioners.

Interestingly, one of the survey respondents proposed similar rules for advisers. Accredited advisers, goes the suggestion, should be allowed to sell complex products and only to accredited investors. ■

Six steps for a bigger and better products industry in India

Leading product gatekeepers within Indian wealth management came together at a roundtable organised by Hubbis in Mumbai in January 2017, to discuss factors that could improve prospects for the financial products industry.

With one of the highest growth rates in the world, India's wealth creation is happening at an astonishing pace. After taking more than half a century to become a USD1 trillion economy, the country added the next USD1 trillion in just seven years, joining the USD2 trillion club in 2014, according to the World Bank.

The economic expansion and growth in per capita income is now expected to lead to a boom in financial products, including mutual funds.

Against this backdrop, a thought-leadership discussion organised by Hubbis in Mumbai in January 2017, saw product gatekeepers gather to discuss the prospects and challenges for the product industry in the years ahead.

The key take-aways point to six clear measures for further growth in the country.

1. DIFFERENT PRODUCT CLASSES

The Indian product landscape is hampered by a limited offering. Investment specialists depend on just a few assets at the moment – including bank deposits, insurance, mutual funds and equities. Even the bond market is India is not developed enough to be accessed by retail investors, so remains dominated by institutional investors such as banks, financial institutions and pension funds.

In contrast, in most developed markets, customers who pay for advice have many more options, whether they are exchange traded or OTC (over the counter), such as foreign exchange and commodities.

To deepen and broaden the wealth market, access to a wider array of products for all types of investors is essential. And it's possible that the regulator will need to play a role. One way to bring about scale, for example, is by launching products via exchanges.

2. INVESTOR EDUCATION

Another way to improve the prospects for the financial products industry is investor education. Today, many investors are unclear even about the features and application of the simplest product offerings, for instance mutual funds.

In line with this, there is a need to launch comprehensive investor education programmes when new products are launched; incentives could also be offered to encourage a greater take-up among the buying public.

Currently, market regulators such as the Securities and Exchange Board of India (SEBI), and some of the stock exchanges, such as BSE and NSE, provide some initiatives along these lines, but more needs to be done, say market participants.

This would help India to increase its mutual fund AUM-to-GDP ratio – which at 7% (as of 2015) is significantly lower

that 114% in Australia, 91% in the US and 51% in the UK, according to a report by EY-Café Mutual.

3. THE REAL ESTATE MARKET

The real estate market, which is highly popular with Indian investors, could be developed further with the introduction of REITs (real estate investment trusts). This has the potential to be a big winner as Indians inherently gravitate towards property investments.

Further, the range of investment can be varied under REITs – from as low as INR1 lakh to INR10 crore.

To date, India has been trying for several years to introduce a REITs market, but for various reasons, it has failed to take off.

However, things could change in 2017 as local media reports suggest that Blackstone, the world's biggest private asset investor, is ready to list a REIT locally. This is a development that could encourage local and foreign investors put money in India's real estate market in a clearer and more transparent manner.

4. PRODUCT INNOVATION

More innovation could boost India's financial products industry. To a large extent, this needs to be driven by asset managers themselves; regulations can only help with new ideas up to a point, in the sense that they provide a conducive ground for experimentation.

However, some participants believe that many asset managers seem scared of failure. Yet innovation is key due to favourable demographics, rising income levels and a booming middle class.

5. NEW PRODUCT CATEGORIES

The industry could also benefit from the introduction of multi-asset class products – although, at least for the time being, this would require oversight of a regulatory body in charge of different asset classes.

Multi-asset solutions allow a manager to move in and out of various asset classes easily, depending on the market. As a comparison, in the past 12 months across Asia, multi-asset products have attracted interest from clients as the need and awareness of diversification grows, yet no single asset class has shown a clear lead in terms of growth.

6 LESS OVERLAP IN PRODUCTS

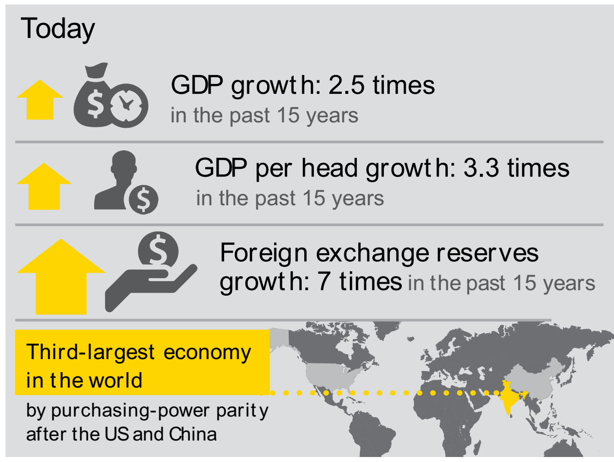
Fewer product overlaps would also help the mutual fund industry evolve and grow. And indeed, the regulator has been taking action to ensure these are kept to a minimum.

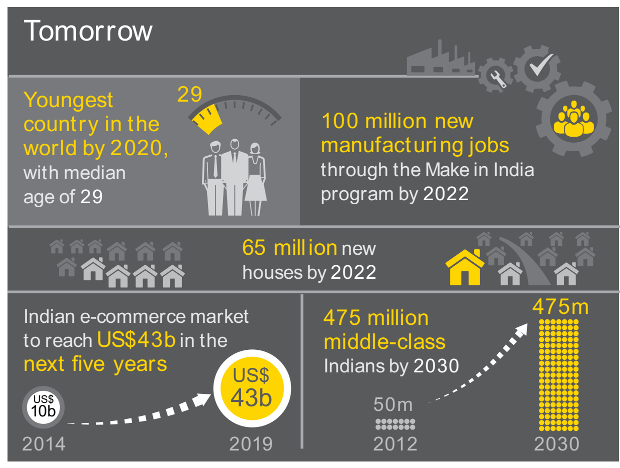
In the past, the regulator has directed asset managers to either shut down similar schemes or streamline their offerings.

Local media reports say SEBI is nudging AMCs to consolidate existing schemes before launching new ones, while M&A is also being given approval only after the merger of similar schemes.

These are steps in the right direction as the mutual fund industry offers too many similar schemes which can be confusing for ordinary investors. ■

A BUOYANT TODAY AND TOMORROW





Source: Oxford Economics Database; United Nations Conference on Trade and Development; World Bank; IMF; EY Rapid Growth Markets Forecast, EY, July 2014; Nomura's India Internet Report.

Why simplicity sells in India

Simple product offerings and a long-term vision are important for any fund house which wants to be successful in India, says Milind Barve of HDFC Asset Management.

Simplicity in the product offering is crucial if India's mutual funds industry wants to gain more traction among domestic investors.

The INR16 lakh crore mutual fund industry (about USD230 billion) is equivalent to about 7% of India's GDP – which, according to a recent report by EY-CafeMutual, is a proportion that is much lower compared with developed markets.

Yet the industry has grown strongly in the past few years, with 2016 being one of the best since 2010, according to some local media reports.

Although this is cause for optimism, a number of historical factors suggest the tide will take longer to turn. For example, Indians have tended to park their savings predominantly in banking deposits, and within that, government-owned banks accounted for 70% of those savings; this denoted a certain kind of investment behaviour – protecting principal first, following by a hunt for returns.

"While we have occasionally adapted the route we travelled, the destination has always been clear. We are long-term focused."

MILIND BARVE
HDFC Asset Management

The asset management industry, as a result, has been on a mission to introduce more capital markets-related products to investors. And while there are niche players who look at the medium or higher ends of the market, it is equally important to cater to the smaller investors based outside the cities.

This is one reason why Milind Barve, managing director at HDFC Asset Management, is a big fan of simplicity.

Given the fact that millions of Indians still don't own a mutual fund, he believes products need to be straightforward so that they can be understood by potential investors.

This means the vast majority, which remains unaware of the benefits of mutual fund investing.

So, unlike a lot of experts who think the industry needs more innovation to cater to the more niche segment of sophisticated customers, Barve believes a balance is required.

"There should be innovation in terms of how a product reaches investors," he explains. "If you look at India and the kind of investors from which we want to encourage product adoption, just getting them to accept a capital markets-oriented product is the first step. If innovation comes at the cost of making the product complicated, I think there is no place for it."

The bigger innovation, he adds, comes from how differently distributor / channel partners can carry product offerings to an investor who has never bought a fund.

'If you look at our operating costs versus our topline or AUM, they are among the lowest in the industry. That is also a measure of how we are performing, beyond investment performance and customer service."

STRENGTH IN SIPs

One factor that helped significantly in boosting the industry's AUM in 2016 was the growth in systematic investment plans (SIPs).

Nation-wide, close to 700,000 customers are signing up every month for SIPs, generating close to 12 million transactions. The average amount per customer, however, remains low: INR3,000 to INR3,500.

Notably, these are not products; instead, they represent a way of investing which is akin to dollar-cost averaging. This can help to breed discipline, such as inculcating a habit of saving regularly.

According to Barve, such growth in SIPs is a good sign that investors are not

HDFC's clear vision

In the case of HDFC Asset Management, which started 17 years ago, in 2000, being focused and sticking to a long term vision has seen it jump from 25th to one of the largest in terms of size in the Indian asset management space.

"While we have occasionally adapted the route we travelled, the destination has always been clear. We are long-term focused," says Barve.

Another success factor has been a distribution led model which has been able to successfully navigate and cover the country's length and breadth. This has been helped by the active role distributors have played in encouraging mutual fund penetration.

Importantly to help facilitate such efforts, Barve says that new investors entering this industry don't have unrealistic expectations of what mutual funds can achieve.

"I would give a lot of that credit in terms of creating that behavioural understanding among investors to distributors and asset managers alike."

Nevertheless, it's not all about AUM growth. "Size is important but we don't want to take our eyes off reasonable profitability," he adds.

"If you look at operating costs versus our top-line or AUM, they are among the lowest in the industry. That is also a measure of how we are performing, beyond investment performance and customer service."

timing the market. It's also an indication of how the market is gradually maturing. Indeed, the average holding period under such schemes has also been increasing steadily.

A BOOST FROM CENTRALISED KYC

A further reason for optimism is the centralised KYC format.

This was introduced last year, enabling customers to provide KYC data with one financial institution and know that it might be used by other financial service providers, avoiding the need for duplication of time and effort.

Financial institutions such as banks, mutual funds, brokers, insurance firms and depositaries are then required to upload all KYC data to the Central Registry of Securitization and Asset Reconstruction and Security Interest of India (CERSAI).

With the teething issues largely over, the mutual fund industry is expected to be a big beneficiary over time, predicts Barve.

OUTLOOK FOR 2017

To capitalise on the potential he sees in India in general, therefore, HDFC Asset Management's focus over the next 12 months will be on maintaining a superior investment performance across both asset classes - equity and debt.

"That is the core of our business," says Barve. "People invest in our funds because they want a good investment outcome."

Part of achieving his goals includes more effort to improve the distribution network. This doesn't just mean adding new distributor / channel partners, but also improving the quality and depth of engagement with them. "We want to deepen our relationships by increasing the frequency and quality of communication," he explains.

"We want to deepen our relationship with distributors by increasing the frequency and quality of communication."

And this is a key component of the strategy since distributors in India typically only sell what they believe is a good product. It's this type of potential which Barve sees that motivates him every day.

"There is unlimited scope to increase the scale of this business. There are no limits on growth for many decades to come," he explains. ■

Investing for social impact

Among HDFC Asset Management's many funds, one which Barve is particularly passionate about is HDFC Debt Fund for Cancer Cure, a fund that has a social intent – helping cancer patients.

The firm launched a three-year, close-ended debt fund in 2011, with the aim of donating part or all of the dividends generated to the Indian Cancer Society, a non-governmental organisation dedicated to helping cancer patients. "Money is distributed through 16 affiliated hospitals to patients," he explains.

Under this scheme, HDFC AMC also contributed money equal to the amount raised from investors so that the income generated for donations doubles. A second series of the fund was launched in 2014. Now, a third is being launched in 2017.

The donations have led to free treatment for more than 3,000 patients all over the country. "Given the size of the challenge, we are keen to scale up this fund. It is something we are very proud of," adds Barve.

It's also interesting that HDFC Asset Management launched this fund at a time when corporate social responsibility was not considered a priority in India. The situation changed in 2014, after India's Companies Act made it mandatory for companies of a certain turnover and profitability to spend 2% of their average net profit over three years on such activities.

Indian asset managers set for next phase of growth

Even as the mutual fund industry grows from strength to strength, new trends such as robo-advisory will spur product providers to adapt and evolve, according to business heads at a roundtable hosted by Hubbis in Mumbai.

The growth in India's mutual fund industry has been impressive. In 2016, AUM hit INR16 lakh crore (about USD230 billion), up from INR3 lakh crore a decade earlier.

However, mutual funds still only account for less than 5% of the financial assets of individual investors in the country, living in the shadows of physical assets such as property.

Efforts by the Securities and Exchange Board of India (SEBI) have been focused on trying to change this by trying to make mutual funds more transparent and less risky – in conjunction with the broader government aim of financial inclusion.

These were among some of the key talking points at a thought-leadership discussion involving chief executive officers and senior management at asset management firms in India – hosted by Hubbis in Mumbai in January 2017.

In particular, market players noted that despite recent buoyant growth, the industry is still young and operates differently than in the more mature markets, such as the US and UK.

"Mutual funds still only account for less than 5% of the financial assets of individual investors in the country, living in the shadows of physical assets such as property."

SEPARATING DISTRIBUTION AND ADVICE

One of the areas of concern among participants stems from how to implement new proposals from SEBI to separate mutual fund distribution from advice. While the industry generally acknowledges the measures are part of a global trend of financial disintermediation – and have no doubt about the Indian regulator's positive intent – they pointed out that it is important to be cognisant of the (low) investor education levels, the relatively limited acceptance of advisory services and logistical challenges for the industry before adopting global norms.

The crux of the problem is that Indian clients in general do not want to pay for advice – regardless of the fact that

SEBI wants investment advisers to only earn fees from advice, and mutual fund distributors to only earn commission from fund houses.

It is generally at the higher end of the wealth pyramid, for HNI individuals, where there is a greater acceptance of the need to pay for advice, according to participants.

The plan to separate mutual funds distribution from advice will affect all players – banks, national distributors and IFAs.

For example, for most, they will likely need to split operations into two businesses, involving a replication of costs, infrastructure and manpower.

Nevertheless, the expectation is that the draft measures will eventually become law and mutual fund companies are already drawing up plans on how to deal with the new regime.

INSTITUTIONAL INVESTORS TAKE THE LEAD

Institutional investors have typically accounted for the largest share of the mutual fund industry's AUM, investing predominantly in fixed income.

By contrast, individual investors hold a lower share of industry's assets – 44.6% as of December 2016, compared with 45.9% a year earlier, according to data from the Association of Mutual Funds in India.

According to media reports, the top 10 Asset Management companies hold close to 80% market share. Small and medium-sized players have not been able to make significant inroads, and are feeling the pressure of escalating costs and shrinking revenues.

Meanwhile, foreign players have also found it difficult to gain a strong foothold – with a few of them exiting India altogether. Indeed, some participants note that while the industry outlook – AUM wise – seems vibrant, some cost pressures are piling up.

One of these relates to onboarding customers. With new online methods coming into force, such as the centralised e-KYC system, the cost of onboarding clients is rising, especially if the ticket sizes are small (INR1,000 to INR2,000).

Many of the customer onboarding procedures are statutory and companies have no room to negotiate.

> **"Over the next five years, technology will prove a huge disruptive influence for asset management in India."**

There is a risk that such procedures could make the business unviable and steps need to be taken to mitigate that, according to some practitioners.

A DISRUPTIVE INFLUENCE

Something that many industry players are in agreement about, is that over the next five years, technology will prove a huge disruptive influence for asset management in India.

With technology companies entering the finance arena, costs are coming down and the dynamics of doing business are changing. Indeed, robo-advisory is one of the digital developments expected to become a big trend in coming years within the industry.

Online investing hasn't yet taken off in India in a big way, but it's a popular trend in developed markets, so only a matter of time before it makes in-roads.

For example, already several online investment platforms are available in the country – including FundsIndia, Bharosa Club and ORO Wealth. Several fund houses also offer mobile and online apps for tracking and transacting portfolios.

Currently, the robo-advisory model is not expected to disrupt traditional distribution because of the low financial awareness levels of individual investors, who still want some form of human interaction before making investment decisions.

Future growth in robo-advisory models is also expected to give a boost to ETF acceptance in the country.

ETFs have, so far, not seen much demand apart from gold vehicles, because of the many opportunities for alpha generation in equity markets.As in some other markets such as Singapore and Hong Kong, big data and analytics are also becoming buzzwords in India, according to the participants. ■

Readying for an AUM surge in India

India's asset management industry is gearing up for a phase of high growth in the coming years, says UTI Asset Management's Leo Puri.

Asset management in India is entering a phase of significant expansion over the next few years, both in terms of AUM and acquiring customers.

"The industry should experience growth of above 25% over the next financial year, up from 14% to 15% in the current year," predicts Leo Puri, managing director of UTI Asset Management, one of India's largest firms in this space.

Two important catalysts are likely to drive this in the short term, he explains. "We are positive about the effects of demonetisation and its impact on the asset management industry."

"We are positive about the effects of demonetisation and its impact on the asset management industry."

He believes it will bring in fresh funds via new investors into the markets.

While this might well go into banks initially, he says that eventually, investors' search for yield and diversification will make them look at the asset management industry.

LEO PURI
UTI Asset Management

WIDE SCOPE FOR GROWTH

By AUM, the Indian asset management industry is estimated at around INR16 lakh crore (about USD230 billion) with INR4.5 crore (USD45 million) in customer folios.

For an investor, a folio number (like a bank account number) contains information about the holdings in the schemes of a fund house. There is no restriction on the number of folios an individual investor can have with each fund house.

Another factor driving growth is that steps are also being taken at various levels to encourage the adoption of mutual funds.

For instance, there is a push towards easing the procedures for client onboarding, which has been a major barrier to date to client acquisition.

"Currently, various forms of KYC norms are in the process of being simplified," explains Puri, "such as eKYC, digital KYC, Aadhar-based KYC, and universal KYC with a centralised agency."

Once the teething problems are over, he says it will be easier to onboard clients who are already clients with banks or insurance companies.

There is also a thrust to improve digital capabilities.

Such platforms, he adds, will also enable distribution to scale up in a way that has not been possible through simple physical distribution.

Yet these changes certainly won't take place overnight.

"We do expect more banks, including public sector banks, to become more active in physical distribution in addition to all the digital platforms," says Puri.

Further, there are ongoing regulatory efforts to gradually permit the industry to expand its suite of offerings.

"In terms of scope, our markets are developing fairly quickly. We are seeing a few new categories of investment opportunities," explains Puri.

The Securities and Exchange Board of India (SEBI), for instance, is promoting the alternative investment fund (AIF) platform, which will allow for product innovation around real estate and structured credit – and eventually other forms of products such as infrastructure investment trusts (invITs).

"In terms of scope, our markets are developing fairly quickly. We are seeing a few new categories of investment opportunities."

"We have a small domestic market for alternatives assets and private equity, but I think that will expand quite quickly over the next three to four years," he explains.

Of course, there is a balance to be drawn between aiming for simplification and consolidation in terms of product development, and also in ensuring a certain level of freedom and ability for firms to innovate.

While there are concerns in the market of there being too many products in the core business, it's likely the regulatory bias will be towards simplification, while the innovation could occur in relation to AIFs and other emerging platforms. Regardless, capital market sophistication must increase, stresses Puri. In line with this, therefore, product design must keep pace with it.

The demonetisation dynamic

In late 2016, the Indian government announced that INR500 and 1,000 notes, which account for roughly 86% of the cash in circulation in India, had been voided and could no longer be used for transacting.

People were given 50 days to either redeem their old notes for new ones, or deposit their cash in bank accounts.

This action was driven by the belief that INR500 notes were being used to finance terrorism and drive the black-market economy.

It has led to new money entering the financial system via banks – and eventually, this money is likely to seek a higher-returning asset, such as mutual funds.

Puri also anticipates a fiscal stimulus announcement by the government soon, which, he believes, will be good for financial markets, despite the global scenario.

MORE REFORMS TO COME

On the topic of regulations, it's clear that some significant changes are afoot.

A recent SEBI consultation paper shows an intent to follow a global trend of delineating those individual and organisations acting as distributors versus advisers, who will be required to act as 'fiduciary on behalf of clients'. As advisors, they will be paid directly by investors and not manufacturers. Under the draft rules, distributors will not be allowed to offer any financial advice to investors. This hasn't been the case so far. They have been able to offer advice which was deemed incidental to the sales process.

Going forward, it seems that distributors which want to offer advice will need to become Registered Investment Advisors within three years. If they don't make this transition, their functions will be limited to distribution and execution only. This could affect the mutual funds industry. Plus, the transition from distribution-led advisory to pure advisory will need to be supported, as Indian clients learn to pay for advice.

"It could lead to an acceleration in the role of passive products," says Puri, "because those are important components of portfolio building in advice-based operating environments."

"The transition from distribution-led advisory to pure advisory will likely face challenges."

A NEW ENVIRONMENT

Amid such challenges, scale, size and efficiency will matter even more to the industry than before. However, as in other parts of India's financial sector, the mutual fund industry is no stranger to tough regulations. It has endured these in the past in relation to commissions and compensation, and has absorbed the changes and ultimately become stronger. While there are concerns about the new consultative paper, there is also rising confidence that the industry will be able to tackle the challenges successfully. Notes Puri: "Anything that can improve trust on the part of the investor is a good thing for the asset management industry." ■

"Anything that can improve trust on the part of the investor is a good thing for the asset management industry."

2017 goals

UTI Asset Management has two key components to its business: a core domestic mutual fund business and a healthy offshore business.

The firm is also committed to building an alternatives platform and has a goal to become a leader in retirement solutions.

Of course, the relative size and scale of these different business areas are likely to change over time.

According to Puri, the firm has some key goals over the next financial year.

"First, we are in the investment business, so continuing to excel in that is a top priority," he says.

Since UTI is primarily a retail-focused player in the case of equity funds, consistency of performance plays a very important role in this, he adds.

Another strategic goal is to navigate and leverage the distribution shifts that are happening in the industry – whether physical or digital – and ensure that it can stay ahead of some of those shifts as they happen.

Further, the firm is also continuing to invest not just in its core mutual fund business but also in the offshore side of the operation.

"We can never become an asset management company of global scale and profitability unless we do all of that successfully," says Puri.

How to deliver a better experience for Indian investors

Improving the client experience while encouraging greater adoption of financial products remains a priority within wealth management in India.

The ongoing wealth creation in India continues to attract a host of new players to the country's burgeoning wealth and asset management industries.

The prognosis is good: favourable demographics, rising income levels and an expanding middle class all provide a strong customer base for the financial products sector.

For now, penetration remains relatively low in India, given the fondness individuals feel for physical assets such as real estate and gold. But the government, along with the central bank and markets regulator, has been taking steps to channel household savings into investment vehicles such as mutual funds.

This won't be easy, given that the wealth and asset management industries are already highly competitive and the battle for customers is intense. At a roundtable hosted by Hubbis in Mumbai in January 2017, leading product gatekeepers from the country's top financial institutions came together to discuss how to encourage the growth of financial products among the growing population of wealthy individuals.

They also considered how their role might evolve from being a product distributor to offering a suite of valuable services as they strive to differentiate the client experience.

PERFORMANCE COUNTS

All participants agree that to encourage more financial product acceptance, customers must be encouraged to think longer term.

When investors typically walk in to meet a wealth adviser, the primary objective, especially with retail clients, is beating returns on fixed deposits.

Yet in trying to accomplish that goal, many clients revert to monitoring performance on a weekly or daily basis. It is the role of the wealth manager to educate clients in the merits of adopting a long-term approach.

Consistency of performance is another important goal. Products such as mutual funds should be selected for being consistently in the top quartile rather than for showing a short-term bounce.

PRODUCT PARTNERSHIPS

Some wealth managers are choosing to partner with product manufacturers to offer clients a variety of offerings, rather than create everything in-house.

These partnerships can offer a significant value-add to clients, although which products are offered to clients depends on a client's risk and reward profile.

This can also give distributors access to new products once asset management companies get the go-ahead to introduce new products in India.

TAX BENEFITS

Mutual funds help create tax-efficient portfolios for investors, as well as reduce the amount of 'churn'.

In India, for example, there is no tax to pay if a resident unit-holder sells his units in equity-oriented funds after 12 months. However, if the units are sold before 12 months, a capital gains tax is incurred. A securities transaction tax will also apply on all redemptions of equity schemes.

For debt-oriented funds, meanwhile, ''short term' is defined as a period of less than 36 months. If a unit-holder sells before 36 months, a short-term capital gains tax is applicable, and the rate depends on the income tax slab. Units sold after 36 months attract a capital gains tax of 20% with cost indexation benefits.

SUPERIOR RESEARCH

Some wealth management firms, especially those with broking or execution facilities, emphasise the strength of their research capabilities while promoting financial product solutions.

Constructing equity portfolios based on in-house research is promoted as a stand-out feature for their offerings. And market participants agree that helping clients grow their wealth across market cycles is crucial to success.

Over longer time periods, product gatekeepers believe clients will appreciate the value addition that the investment adviser provides in constructing the portfolio and generating returns – especially if cash flows have occurred at different points in time.

Indeed, some firms even document their research calls, providing their clients with a track record of their investment decisions. Such transparency is a welcome thing in the eyes of clients.

Other firms, meanwhile, focus on manager selection research, which they believe will help them differentiate themselves from the competition when recommending mutual fund solutions.

Disciplined investing, which means investing at attractive levels only and refraining from deploying cash when markets look frothy, is also something that will stand out in the long run and encourage greater acceptance of financial solution providers, believe participants.

"It is crucial to have a robust mechanism for reviewing and monitoring portfolios as part of the broader framework for encouraging clients to adopt financial solutions."

ROBUST REVIEWS

Indeed, some wealth managers believe that it is crucial to have a robust mechanism for reviewing and monitoring portfolios as part of the broader framework for encouraging clients to adopt financial solutions.

Wealth management firms might also call on non-product professionals – such as senior management – to monitor performance outcomes, with regular reviews at board meetings.

Investment advisers can also be assessed on whether they have carried out timely portfolio reviews for their clients. Regular reviews will also help wealth managers to avoid using poorly-performing products, plus it reduces the risk from the unknown. Gaps in performance can also then be quickly rectified, encouraging clients to embrace products – including mutual funds – more willingly.

Of course, understanding the client's risk profile is vital in setting investment objectives. In the Indian market context, this assumes even more importance as clients are sometimes unclear about their own risk profile, or how to prioritise objectives.

CONNECTIVITY AND LENDING

For international firms with wealth management operations in India, global connectivity can become one of the key factors in their product proposition.

With offices in other parts of the world, these organisations can offer diversification opportunities overseas – which is highly-valuable in a market challenged by limited product classes.

Some clients also use funds in India as collateral to borrow overseas. Sometimes, they might want to engage in M&A or ink a joint venture overseas, and the Indian unit helps them connect with their global counterpart to carry out the deal.

This also opens a new avenue for such firms to offer solutions to these clients. ■

Trained advisers key to success in wealth sector

A Hubbis survey of leading Indian wealth management professionals reveals a host of ideas to tackle the big challenges facing the country's wealth market.

With India's wealth management industry growing rapidly, there is a growing need to improve competency and capacity levels to be able to take the market to the next level.

According to 125-plus practitioners, the lack of properly trained and skilled advisers and other professionals is one of the biggest challenges facing the sustainability of this segment of financial services.

A key issue is the fact that many advisers today are not certified financial planners. In fact, often, they have been recruited from top management universities and offered in-house training by companies before quickly being put in front of clients.

As a result, there is a dire need to create a pool of skilled talent, survey participants acknowledged, if the domestic market is able to deliver the type of advice to clients to which everyone aspires.

MORE COLLABORATION

One recommendation from the market is for the industry to team up with the government and regulator(s) to introduce study programmes in financial topics at post-graduate level.

Another suggestion along the education lines, is that industry participants could join forces to introduce a relevant course on wealth management.

Certification programmes for niche segments in wealth management and tie-ups with foreign universities for the transfer of knowledge about this industry, were also among proposals by practitioners.

STRUCTURED TRAINING

There is also an acceptance among a growing number of professionals about the need for more consistent and structured training – for example in the form of continuing professional development (CPD). This is a common practice in the most developed financial markets globally – including the US, UK and Australia, for instance.

In Singapore, meanwhile, which is arguably the regional benchmark when it comes to developing a credible wealth management industry, between 15 and 30 hours of CPD a year is required by The Institute of Banking & Finance (IBF).

Compulsory CPD is also not an unrealistic option for India, according to some practitioners who responded to the survey.

In addition, they believe, periodic competency checks could help in ensuring skills and knowledge levels are up-to-date with the latest market trends.

SKILLS AND EXPERIENCE

Along with education, experience in managing money and also in terms of relationship-handling skills should also be evaluated, according to some re-

spondents. In the past, some professionals bemoan the fact that there have been instances where quality has been compromised for scale.

Further, knowledge should not be limited only to investment products. It should also be a lot broader, for example covering areas such as behavioural finance, noted some respondents.

Yet key to success of any wealth management market is trust, add practitioners – which originates from robust regulatory oversight and a legitimate vehicle for redressing investor complaints.

Ultimately, suitable measures must be in place to ensure that appropriate products are marketed to investors, according to survey participants.

Other drivers suggested to improve the industry's prospects include: greater regulatory clarity on what is acceptable and what isn't; a longer-term focus rather than aiming for short-term gratification; and an ability to embrace technology to improve the client experience as well as cut costs.

A transition from transaction-based business to advisory models and building meaningful relationships with clients will also help the industry mature.

Indeed, SEBI is already encouraging the introduction of such a regime, judging by a recent consultative paper released by the regulator.

LOW LEVEL OF FINANCIAL KNOWLEDGE

Indian investors are biased towards investments in physical assets such as gold and real estate – and less than 5% is placed in financial assets.

56% of responders say that investment options should be more diverse

IN NEED OF AN ECOSYSTEM GEARED TO TRAINING

When it comes to capacity in India, some respondents point out the need to build robust platforms that are transparent, seamless and all-encompassing.

On the products side, a proper REIT and ETF market are on the wish-list of some practitioners. Meanwhile, simpler KYC norms could also help.

Indeed, the recent introduction of a centralised KYC agency in India is considered a positive step in that direction.

Overall, what is needed is an ecosystem to train wealth managers to take a more holistic perspective on client investments, instead of them specialising in one or two asset classes.

As one participant noted, using appropriate technology, grooming talent with the right skill-sets and having the patience to build the business rather than play an AUM game, are critical for the future growth and success of the Indian wealth management industry.

Bringing holistic advisory to life in India

Plan Ahead Wealth Advisors is one of the 500 or so investment advisory firms in India which appears to take its fiduciary role seriously. Vishal Dhawan outlines the structured process he follows to bring more transparency and better-quality advice to his clients.

The tightening regulatory net around providing investment advice in India looks set to favour those firms which have been most proactive in putting in place a structured advisory process.

This is in line with the clear fiduciary responsibility the firm has for its clients, given that it is registered with the Securities and Exchange Board of India (SEBI).

"We strive to maintain the highest standards of integrity and client confidentiality in our practice."

Plan Ahead Wealth Advisors is among them. "We continue to work closely with clients to ensure that our practice is continuously evolving to exceed client expectations and reinforce their trust in us," explains founder and chief executive officer Vishal Dhawan.

"We strive to maintain the highest standards of integrity and client confidentiality in our practice," he adds.

Such a mind-set, however, hasn't been the norm in the Indian wealth management landscape. Indeed, three years after the Securities and Exchange Board of India (SEBI) issued its investment adviser regulations, only just over 500 licences have been issued (both individuals and firms, as of September 2016). Yet there are roughly 10,000 active distributors (out of around 70,000 registered).

VISHAL DHAWAN
Plan Ahead Wealth Advisors

Market practitioners believe the larger fiduciary role which advisers must play once registered has been a deterrent. Plus, the regulator left a loophole

which has to date enabled IFAs to continue 'advising' without becoming 'registered advisers'.

This might get closed in the wake of recently-proposed changes in mid-2016 to the investment adviser regulations.

The outcome of the current consultation might mean that advisers won't need to register with SEBI, but that anyone giving financial advice will fall under its ambit.

Regardless, the kind of holistic approach that Plan Ahead Wealth Advisors – and some of its peers – have already put in place creates a value proposition which is likely to appeal to clients who seek an adviser who is fully aligned with their objectives.

STRUCTURED ADVICE

Since setting up the firm 13 years ago in Mumbai, Dhawan has abided by a philosophy where all advisers strive "to add meaning to finance and add time to life".

They do this by encouraging time-poor individuals to outsource their wealth management to professionals. These clients can then focus their limited time on their work and family.

As a result, while only relatively small with 20 staff – including three advisers and a team of researchers, para-planners and client service executives – he believes Plan Ahead Wealth Advisors has gained wide acceptance and generated significant goodwill amongst its clients and other stakeholders.

The structured process which the firm's advisers follow starts with what he calls 'discovery'. More specifically, during the first meeting with a prospect, advisers use various life planning tools, including one from US company Money Quotient.

This 20-question methodology looks at and measures financial satisfaction levels which, importantly, then gets written down. It gives direction to what the adviser should focus on during the discussion, he explains.

> **"[We create] a roadmap in terms of what the client is looking to achieve and how they can achieve it."**

This might range, for example, from concerns over spending habits, to worries about retirement, to how they manage their documentation.

Advisers also run clients through questions on a variety of potentially-relevant issues relating to wealth transition, children's education, setting up businesses, and relocation or migration.

After this 45-minute to one hour meeting, Dhawan says it becomes possible to filter out those individuals who don't fit the firm's client profile. The adviser might also use the opportunity to discuss the firm's services. "This is typically an advisory conversation around their asset and liabilities, and income and expenses," he adds.

From this, the firm creates a financial plan and the next steps.

"This is a roadmap in terms of what the client is looking to achieve and how they can achieve it," says Dhawan. "They can do this as a one--off exercise to get

Enhancing the offering

Dhawan has three clear objectives to develop his business and offering in 2017.

First, he will continue to drive the transition towards being a fee-only firm. "This is important as we think that our fiduciary role demands it, so that we can be completely independent in our advice," he explains.

Secondly, Dhawan wants to add a few more advisers to the team – perhaps seven to eight in total.

His approach to talent development will also involve grooming staff in research and para-planning roles to become advisers. "There is not a lot of ready talent available who can follow our holistic approach, so most of our new advisers will come from within."

Technology is the third priority. He wants to streamline it, rather than being subject to too many disparate systems which don't connect or communicate well with each other. "We are looking for a more enterprise solution," says Dhawan.

their financial situation in order, or they can take the decision to engage with us over the long term."

WELL THOUGHT-OUT INVESTMENT

Typically, the planning process would include a focus on investments, risk management and wealth planning.

"We think [rolling return data] is a better way to measure the long-term performance and ensure consistency."

In terms of fund selection, Dhawan says that there is an in-house research process which involves the use of rolling return data.

"We think this is a better way to measure the long-term performance and ensure consistency," he adds.

Here also, the firm calls on an online financial planning tool, Value Express FE. This is a collaboration of the most respected mutual fund industry information providers in India, Value Research, and FE, a leading UK provider of mutual fund data and analytical tools.

From a risk management perspective, Plan Ahead Wealth Advisors essentially looks at areas such as life coverage, critical illness, disability, house insurance and life insurance.

WELL-PLACED

The firm's attention and commitment to the advisory process is likely to stand it in good stead amid the expected direction of the market amid SEBI's regulatory vision.

There are roughly 2 million people in India – across insurance, banks, IFAs and national distribution firms – who discuss financial services with clients. But only around 40,000 of these are regulated by SEBI.

"The regulations say that if someone is offering more than one product type to a client, then they will need to get an investment advisory licence [from SEBI]," explains Dhawan.

For those firms and individuals which, going forward, want to still operate as a non-adviser, then they must call themselves a 'mutual fund distributor' and give no advice.

Yet Dhawan believes that most people will want to evolve to providing advice.

Meanwhile, the regulator is showing that it is not to be messed with. In late November 2016, for example, it banned three entities from acting as investment advisers, after finding them guilty of providing unauthorised services to investors.

FILLING THE GAPS

There is also a pressing need within the advisory landscape in India to address some structural weaknesses, in order to rise to the challenge of providing a suitable and consistent service.

For example, the Indian wealth management industry continues to suffer from a lack of advisory talent.

"There is a clear need for more training and development in the local market, with specialist programmes needed," explains Dhawan.

"We think that this should start at the high net worth level and then move down," he adds.

The availability of products is another issue. For example, REITs have been under discussion for several years but haven't really taken off.

"There is a clear need for more training and development, with specialist programmes needed."

More broadly, beyond funds, there is a need for more diversity and options. For example, many individual investors look at funds as one 'bucket', and once they have too many, Dhawan says they don't want any more. ■

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A unique platform that brings together content and thought-leadership - to challenge and provoke conventional thinking, with an aim to innovate and improve the Asian wealth management industry

1 Digital Learning
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Our learning solutions reach an increasingly large number of wealth managers who directly advise wealthy individuals. A key way we meet the needs of the wealth management industry in Asia is via the solutions we deliver via our digital learning platform – to more than 5,000 individuals from over 100 firms in 8 countries across Asia.

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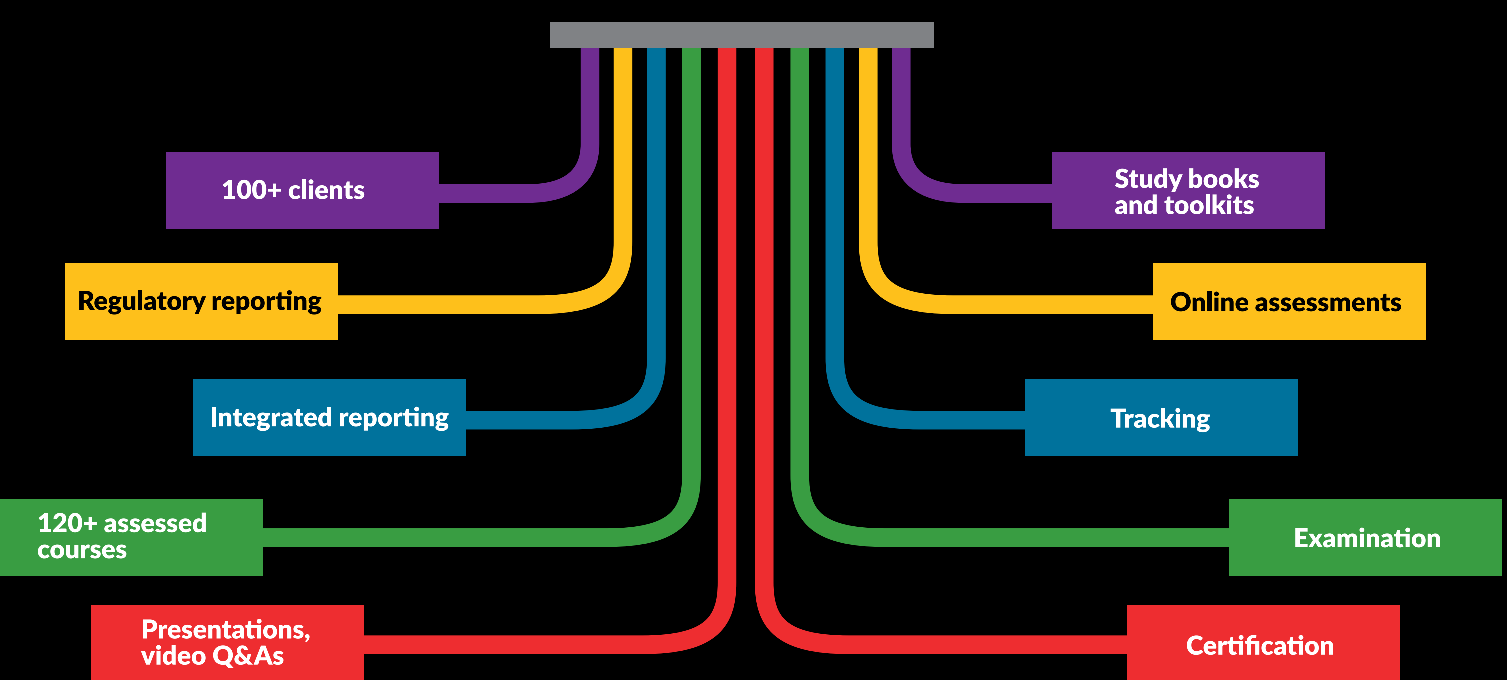
Wealth Manager Programmes

We have conceptualised and designed a 200 hour-plus Foundation Certification Programme, and a shorter Essentials Programme, to reflect some of the changing dynamics in the regulatory environment and the subsequent need to deliver advice in a more structured way to clients.



For more information on Hubbis training, please contact: e-learning@hubbis.com

Educating India's next generation of advisers

With an objective to educate investors to invest according to their needs, and to help build advisory capacity in India by educating the next generation of advisers, P R Dilip of Impetus shares the philosophy with which the firm was founded and functions today.

With stringent regulations imposed by the Securities and Exchange Board of India (SEBI) in 2013 outlining the role and capacity of investment advisers, these practitioners will need to adopt a more comprehensive approach to advising their clients than before.

Impetus is among the first few pure equity research firms in India. Founded in 1994 by P R Dilip, the firm operates via process-driven investment approach toward its clients.

Such an approach is in line with the laws stated by SEBI. And with the proposed reforms, which call for advisers to assume a more facilitatory role in the investment advisory process by understanding the client's needs.

Advisers should be enablers during the wealth management process, suggests Dilip. "An adviser should enable the investor to understand what is good for him or her, and then take a decision with help from the adviser."

STAYING AHEAD

In 2014, SEBI tightened norms for custodians. Embracing a custodian route suggests that a financial institution will hold the client's securities and safekeeping to minimise the risk. Each investor will have a separate depository participant/demat account, a separate bank account, and a custodian manages the account. Such a practice thus calls for a comprehensive Know Your Client (KYC) strategy.

Dilip prides himself on the fact that Impetus did not have to make many changes to suit the changing regulations. By contrast, to comply with the current SEBI regulations, many wealth management institutions will need to revise their approach to make it more holistic. Firms should undertake an exhaustive process focused on the risk-

P R DILIP
Impetus

taking ability and goals of the client before suggesting a suitable basket of portfolios. A key issue is that Indian

clients still shy away from paying fees purely for procuring advice. They are more likely to pay commission-based fees as opposed to adhering to an annual fees structure.

For this reason, Impetus has two operational models: advisory and distribution. The advisory model charges an annual fee to the client for discretionary advice; the distribution model is based on commission. According to regulations, an adviser cannot claim fees under both the models.

"An adviser should enable the investor to understand what is good for him or her, and then take a decision with help from the adviser."

BUILDING CAPACITY

To create a sustainable and systemic change in the approach of investment advisers, educating the upcoming generation in wealth management is the key.

"I have been training youngsters on wealth management for a few years now. These youths come from different parts of the country and from different management universities for three months to understand the workings of the wealth management industry," says Dilip, explaining his model for building capacity in the next generation.

Some students use the learning to manage their own family wealth; others use it to advise their own communities.

This is important given the country's demographics. Half the Indian population is in their late 20s. Within the next three to four years, they will start looking for options to invest.

There is potential to invest almost USD140 billion of financial savings per year. Household savings per annum are close to USD130 billion.

However, together between the available SEBI-approved 44 mutual funds, the cash flow in the system is only about USD230 billion. Hence, the mutual fund industry has not even captured two years' worth of household financial savings. This presents a tremendous opportunity to build adviser capacity within India.

"There is exponential opportunity for growth of wealth in India which presents a very lucrative opportunity for firms like ours."

Says Dilip: "There is exponential opportunity for growth of wealth in India which presents a very lucrative opportunity for firms like ours. Governments and firms should strive to generate more qualified and registered financial advisers to capture the growing wealth industry in the country."

Training the younger generation is more feasible today than before, given the advent of technology.

Even in the countryside, young adults have access to information which they previously didn't.

As a result, the younger generation should be taught the workings of the wealth management industry to make them more skilful. Opportunities should be provided and are present for them to operate within their local neighbourhoods.

This would generate more employment opportunities along with creating a robust framework of sustainable advising.

"If an individual is able to operate from his known, local domain, there is minimal competition for then," says Dilip. "These individuals will also be more cognizant of operating with keeping the best interests of their clients. There is thus a chance for firms like ours to expand our reach to the remotest areas of the country and flourish." ■

Reinventing advice and value in Asian wealth management

Our 7th annual event for the most senior individuals in Hong Kong's wealth management community saw nearly 300 practitioners discuss how the industry can refine its value proposition and capitalise on the growing client needs for sound advice.

At a time of so much change and uncertainty for the industry, wealth managers of all sizes and business models need to pay closer attention to what brings real value to clients.

The concept of needs-based conversations is ever-more critical, backed up by the right advice and relevant, contextual, timely information – via a blend of digital and human touch-points.

Yet for many institutions, this seems harder to achieve than they think it will be. And with the next generation an increasingly important segment, there is a pressing need to adapt service offerings and solutions, as well as the ways to deliver content and advice.

Further, the industry is increasingly polarising. Those firms making headway seem to either be the largest institutions with scale, or the niche players which have an 'independent' mind-set.

In particular, the regulatory direction – both globally and in Hong Kong – is likely to create a shift in wealth management models to fee-based solutions from transaction-based sales.

As long as the incentive structures at most banks don't change, the style and substance of advice given to clients will be questionable.

Increasing compliance, risk and administrative costs will simply further erode profit margins and speed up the consolidation wave within private banking in Hong Kong and Singapore.

There also continues to be a significant opportunity to help China's wealthy population to diversify, protect and pass on their wealth – assuming firms can tailor solutions to the needs of this younger group of HNW clients and the unique nature of the regulatory environment in the PRC.

For all players, it seems that differentiation in strategies and value propositions is key to survival and success. ■

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A matter of good business sense

The wave of private banking consolidation in Asia highlights the shortcomings of the traditional model today. For those who want to stay in the business, they must understand the unique formula that underscores profitability and factors in the interests of several key stakeholders, says Bassam Salem of Citi Private Bank.

It is clear that the private banking model of the past, which relied on secrecy and tax avoidance, is dead. Anyone who doesn't believe that needs only to see the headlines that scream out why a model built on these premises is only inviting hefty fines and in some cases the end of the line – the death of the business any way you define it.

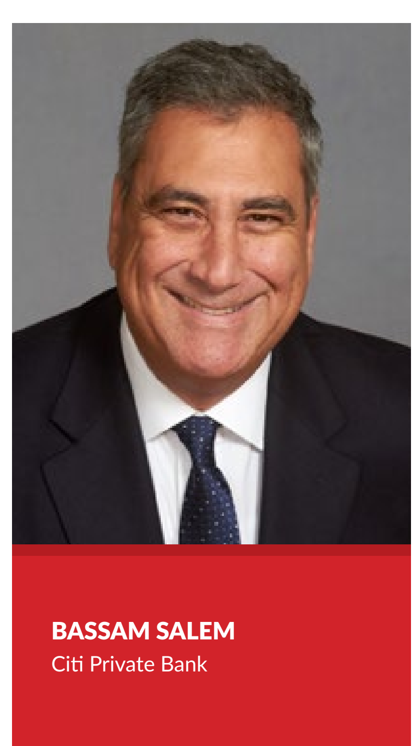
Yet many banks – a good number of them European – have been unable to rise to the occasion in the midst of the industry's structural change. Challenges to their traditional proposition, even at home, has prompted and continues to lure many to flock to Asia, viewing it as their 'El Dorado' – a place of wealth and opportunity yet to be tapped.

In their throes of excitement in coming to a new place, they not only ignored the winds of change in the industry but also employed all the 'don'ts' of good business practice – over-hiring, over-paying and over-spending.

There are also a host of additional challenges that increase the cost of doing business here in Asia. These relate to investments needed in control and compliance to meet the more prescriptive regulatory requirements, as well as the establishment of a platform to deliver the range of products and services that clients expect, such as lending.

In the case of lending, many smaller and boutique banks lack the balance sheet to meet the needs of clients who want to liquefy their illiquid wealth or to finance their real estate interests.

The impact is not necessarily relegated only to the small boutique institutions. Even more established global players have been severely affected by the challenges and in many cases have exited the region altogether. From the likes of Merrill Lynch and Societe Generale – highly recognised and respected names in the financial world – to a host of other



BASSAM SALEM
Citi Private Bank

equally well-known names like ABN AMRO, ANZ, Barclays, Coutts and BSI, one can only surmise that the traditional way of conducting private

banking is no longer a viable business model. "I have never seen as much churning of private banks, both coming to and leaving Asia, as we have witnessed in the last few years, " says Bassam Salem, region head of Citi Private Bank in Asia Pacific and a 35-year plus veteran of the industry.

Even amongst some of the institutions which remain today, the percentage which are profitable based solely on their activities in the region is much lower than most executives at these banks want to acknowledge or admit. "It is important that the industry recognises that the constant entries and exits taking place are not good for the overall business of private banking and that steps need to be taken to create a better understanding of what is necessary to set up a sustainable proposition, which, in the end, benefits all the significant stakeholders," adds Salem.

Basically the problems stem from an outdated model in which the strategies employed in the past are no longer valid or profitable today. The inability to recognise this as the heart of the problem and to adapt is the 'elephant in the room' for many institutions, and for the private banking industry as a whole.

These problems are allowed to fester because often times, especially for the international firms in particular, the board members and shareholders back in the home country are not being made aware of the reality of the situation in Asia.

Salem believes that if they knew the real cost of doing business in Asia, the extent of the investments needed to have the right platform – which includes not only the right products but all the associated processes and controls – not to mention the cost of staffing and premises, they would realise that the chances of success are not so clear cut. They would, in all likelihood, probably rethink their decision to expand.

CONTINUITY COUNTS

While acquisitions of private banks might boost revenues and profiles in the short term, this often means that the problems more-often-than-not get relegated to a point in the future. Yet the existing management may not worry about these because those individuals may not be there later.

In Salem's view, consolidation raises other concerns for the client. For example, clients typically share a great deal of personal information with their private banker, especially given the ever-stringent nature of the KYC process. When an institution is 'sold' to another, it means that now another institution has access to the information about the client from the bank that was sold.

Yet often times, few institutions will take the time or care to explain to that same client about what happened with that data. And in fact, it wasn't by the client's choice to necessarily bank with the 'new' institution. Given the level of privacy often prized by private banking clients, this has become an issue.

Institutions should not underestimate the negative impact of movements in staff – be they through consolidation as a result of merges or exits or lured by a 'better offer'. What matters to clients most, and especially in today's environment, says Salem, is continuity. This might well play to the advantage of the larger and more stable institutions whose long-term history and commitment to the region would make it a key selling point to clients looking for stability. Salem says he is comforted by the fact that Citi's private banking clients develop meaningful relationships with their bankers and investment counselors over many years. "This instills a great amount of trust from both sides, which is a factor that plays well in ensur-

Digitalisation: marrying the old and new

An important goal for Salem in 2017 is to consider more deeply the impact digital can have on the business. The existing development work being done is focusing on a digital platform which can finally mix technology with the unique relationship between the bankers, investment counselors and clients.

Over the last few years, the talk about digital was essentially focused on more of a retail banking model which tries to remove bankers in favor of clients interacting with an interface via iPads and other devices. However, Salem notes, clients at the Citi Private Bank level still want to talk to a human being.

Its existing offering, InView, is getting a lot of time and attention. The bank even has a lab in Tel Aviv, Israel, to analyse more closely what clients are using the app for. So far, the results have been extremely instructive, leading to a simplification of the functionality and tools which are more in line with client activity.

But now the bank is embarking on building something unique over the next few years. "Stay tuned," says Salem, with an entrepreneurial glint in his eyes.

ing that we understand the client and in turn provide them with the appropriate solutions and advice."

The bank's clients also have many touch points – if they choose – within the organisation. "This can allow them to tap on the depth and breadth of services that extend beyond the private bank and to the wider Citi platform. They do so effortlessly through the orchestration by their private banker," he explains.

In particular, Salem adds, the access and partnership with Citi's Corporate and Investment Bank provides it with the opportunity to offer clients a rich menu of capabilities that can serve a wide range of their needs in a seamless manner. "It allows for the opportunity to grow share of mind with our clients and become 'their first call' for anything they want to do."

Partnering within the organisation has additional benefits in the form of referrals, a key source of client acquisition and one of Salem's ongoing priorities. In his opinion, this is a healthier way to grow the business instead of the boom-and-bust of acquisitions. Salem also feels that continuity of the team is equally important and that client stickiness is an important differentiator when it comes to the loyalty of relationship managers (RMs) / private bankers.

Although a few RMs will inevitably leave for various reasons, senior executives at competitor institutions have noted privately that it is virtually impossible to lure a Citi Private Banker. "Very few of our core team leave," says Salem. "If they do, it is generally because they retire." Most of the team he works with, for example, have been with the firm for more than 20 years.

COST ADVANTAGE

An unprofitable business can only be sustained for a certain amount of time before it has no option but to close. The profitability of any business is important if it intends to remain open and satisfy its various stakeholders. Salem and his management team at Citi Private Bank have worked hard to achieve and maintain a fully-loaded cost-income ratio of around 60% as compared with the 80%, or often higher, for many of his competitors in the region. Some banks do not even include their head-office allocations in their calculations.

The road to this enviable achievement was not easy; it was fraught with many difficult decisions. Citi exited those hubs where the predominantly offshore business model wasn't making much financial sense any more. In doing so, Salem was able to slash the bank's cost-income ratio by about 25%. So in making any decision now to go back onshore, in any market across the region, the venture needs to be a cost-effective and money-making proposition. This is non-negotiable for him and the bank.

GRADUAL NOT GREEDY

Having experienced and witnessed many scenarios in the industry over the years, Salem feels that the most likely way forward for Citi Private Bank is steady and sustainable growth. "It is not within the DNA of Citi today to make acquisitions. We believe the best way for us to grow is to do so organically," he adds. This strategy allows them to avoid the noise associated with mergers and the inevitable hiring and firing – none of which adds any value to what they are doing – and which only serves to distract everyone from focusing on clients. Salem also doesn't like the uncertainty of whether assets will necessarily move across with an RM, as well as the possible coverage duplication of a client and the upheaval and confusion that this causes. The worse is when the merger of two cultures is incompatible, which can lead to a whole host of problems such as compliance and control issues. Ultimately, it comes down to viability. After all, asks Salem, who wants to invest in a business where the bulk of the revenue is used to cover costs and fix problems?

2017 priorities: tilting the balance

An important objective for Salem over the next 12 months is to accelerate the move towards more of an annuity business, an effort he began when he rejoined the bank over five years ago.

He says the aim is for the business to be less reliant on an overly volatile capital markets business and increasing the focus on fee-based annuity income. The work that he and his team have done has allowed them to see a significant shift, where around 50% of its investment revenues in Asia Pacific have now come from managed investments.

Salem also sees a trend that will help support his goal and that is the shift underway in Asia towards the second and third generations of UHNW individuals. "They are more willing to allocate their money to us to manage for them and have a great interest in investing in more long term and managed strategies," he says, "such as private equity, real estate and other alternatives."

Looking from the outside in

The DBS Bank wealth management mantra is that being fully digital yet embedded within the daily lives of its customers is the only way it will survive the next 10 years. Tan Su Shan is leading the charge.

The challenge for the wealth management industry today is to understand what the customer wants. Organisations must then take a leaf out of the book of the best client experience designers – the 'Googles' of the world – to create a truly lasting relationship by being relevant, timely and simple.

This highlights just how wrong the starting point has been for many private banking institutions to date in Asia. Many of the newer industry players (some of whom have already exited Asia) were offering the same kind of solution – an open platform with various wealth management products to choose from.

Yet as the cost of doing business continues to rise, differentiation is key, urges Tan Su Shan, group head of consumer banking & wealth management at DBS Bank.

This is in terms of the digital architecture, how intuitive a firm can be to meet both the personal and business needs of a client, and being able to merge the physical and digital channels to be contextual, timely and simple.

On its current trajectory, the private banking landscape will become increasingly polarised. The largest institutions will just grow bigger, and the smaller firms will either focus on their existing niche, or leave the industry.

And within the bigger players, the fight is to win customer mindshare and be relevant. "This cannot be done just through traditional channels and hiring expensive bankers with big guarantees," says Tan, adding that this is disruptive; it upsets the ecosystem internally, plus clients can suffer from the distraction of their banker being uprooted.

She is therefore adamant about her goal: winning the digital game. "This means gaining market share to stay alive and stay ahead."

TAN SU SHAN
DBS Bank

INTIMACY OF INSIGHT

DBS has already been enthusiastically embracing more of a fintech philosophy, at all levels of the organisation.

This started via 'eWealth' (which later evolved to 'iWealth') around five years ago. And Tan's team from those days remains intact.

Then, in 2014, the bank made a public commitment to invest SGD200 million over three years in digital banking.

It has since rolled out countless initiatives, including RM Mobility, which provides relationship managers (RMs) with an integrated mobile platform used to engage customers from the very beginning of their banking experience with DBS.

It now engages in best practices used in consumer industries such as usability testing, human-centred design and 'Uber-like ratings to solicit constant feedback from its clients.

"We do everything through the customers' lens, and everything we design and build begins and ends with our clients in mind," explains Tan. "Whether it's integrating their banking accounts and wealth portfolios in one single dashboard, keeping track of the markets or learning about opportunities, we are putting the bank in the palm of their hands."

She believes the 'winners' of tomorrow will be those organisations and individuals which understand digital intimately. This means how to connect the dots, with both clients and partners in mind, for all the various aspects of the service and offering.

In Tan's view, banks must use the new tools available to drive change in terms of the culture of the people. This goes way beyond coming up with a funky app; it is about complete immersion in the digital world on a daily basis. "The more intuitive the digital channel, the more likely a bank is to win the wealth management race," says Tan.

DRIVEN BY DIGITAL

Despite her near-30 years in financial services and private banking, Tan seems to think like a millennial.

Yet this is of little surprise given how engrossed she – and the whole of DBS – has been in furthering its digital transformation agenda.

The latest enhancement to its wealth offering came in February 2017 when the bank launched what it called "a first in Singapore", by enhancing its 'DBS iWealth' platform.

The new and improved service allows clients to conduct their banking transactions, manage their wealth and also trade on a single platform (see box).

Already more than 70% of DBS' wealth clients are online and use mobile banking, actively managing their wealth on these digital channels. This translates to over 2.6 million (online) and 1.5 million (mobile) users – the largest numbers in Singapore – and accounting for more than 1.6 million transactions daily across the bank's digital platforms.

The bank says that its customers' mobile activity also leads the industry in Singapore; it already accounts for more than 60% of DBS' 500,000-plus daily logins. And in 2016, around 25% of its wealth management clients were acquired online via 'DBS iWealth'.

BRANCHING OUT

The digital ambition of the bank also spans the Asian region. This was reflected, in part, by its decision in the latter part of 2016 to buy the wealth management and retail banking business

iWealth win-win

Now also available to wealth management clients (DBS Treasures, DBS Treasures Private Client, DBS Private Bank) via a mobile app, the latest enhancements made to 'DBS iWealth' were implemented after a number of intensive client feedback sessions.

The enhanced wealth platform empowers clients with quick and intuitive access to services, product information and research.

For example, clients can personalise their profiles and customise quick links. Insights and analysis can be tailored according to clients' preferences and holdings, allowing them to manage their wealth and stay updated on market trends while on-the-go.

Equity trading and funds investing have also been incorporated into the platform, enhancing the range of customer investment needs that can be instantly fulfilled.

On the mobile app, clients can toggle between their banking, trading and wealth management portfolios without having to log in and out of different apps.

"By leveraging Big Data, biometrics and intuitive design, we are focused on delivering relevant advice in a timely manner," says Tan. "For the new 'DBS iWealth' mobile app, we tested it with over 3,000 clients before rolling it out to all clients, and we believe it will give them a faster, smarter and more personalised way to manage their wealth."

of ANZ in five markets – Singapore, Hong Kong, China, Taiwan and Indonesia.

Ensuring a smooth integration is one of Tan's priorities, as the bank aims to complete this from June 2017 onwards over the following eight to nine months.

The boost to the bottom line at the time was one thing – with total deposits of SGD17 billion, loans of SGD11 billion, investment AUM of SGD6.5 billion and total revenue of SGD825 million for FY2016. And around 100,000 affluent and private wealth customers will likely be added to the DBS brand.

But in Taiwan and Indonesia, in particular, the transaction made strategic sense in terms of enabling DBS to much more rapidly scale-up its digital proposition on the back of ANZ's investment and innovations in these two countries.

DEDICATED DESIGN

Tan believes that the approach DBS takes has been a big contributor to its overall digital success.

From tracking the eyeballs of customers who do testing in its lab, for example, it can monitor where they look, which colours they find most alluring, and also what words or images attract them to a greater or lesser degree.

From this, the bank will determine how to provide alerts to customers, and the type of contact they prefer.

Further, in its own internal development meetings, it tries to limit the number of participants to 12 individuals who are dedicated to the digital cause.

The bank also calls on its managing directors to take the lead in running the many client 'journeys' it embarks on – which might range from travel to KYC to wealth to retirement, for instance.

The underlying philosophy very much heeds the Chinese saying which refers to the concept that 'the mother of failure is the mother of success'.

"The more intuitive the digital channel, the more likely a bank is to win the wealth management race."

Tan certainly shares the view that it is important to try new things, even if that means failing along the way.

REFINING THE PROPOSITION

Although the Watson collaboration couldn't be described as bluntly as that, clearly DBS has learnt that some innovations and changes in mind-set take longer than others to get right.

The bank might have been a little early to bring this level of artificial intelligence (AI) to wealth management, given the number of non-facts based judgement calls required in delivering high-quality advice. But the efforts and time spent on the project highlighted the potential for AI to learn quickly.

And DBS hasn't wavered in its priority to continue on its digital path with a commitment to be relentless in the pursuit of the customer journey and knowing what the client wants.

Plus, it has focused on ensuring that its RMs buy-in to the blended, multi-channel approach. "When this happens, the chances of success are much higher," adds Tan. For example, by incorporating the best of its retail business within the wealth offering, all RMs now operate from iPads, ranging from investment objectives to insurance products.

"We want to create stickiness by being embedded in the everyday lives of our customers," says Tan. "We also need to ensure everything we do is contextual, to make it relevant to each customer. We want our customers to feel we know them and what they need." ■

Investing with a human touch

Guilherme Lima of HSBC asks whether portfolio managers and advisers will be completely replaced by algorithms and digital solutions.

Deciding on the right investment plan is never easy, even at the best of times. It is a process that requires assessing goals and carefully researching products to make sure these fit with both aspiration and risk appetite.

But living in complicated times forces investors to address a broader range of considerations when thinking about where to put their money. Research by the McKinsey Global Institute notes that over the next 20 years annual returns in traditional US/European asset classes could fall by 1.5% to 4%, compared with their average returns over the previous 30 years.

Some of the underlying factors that drove historical returns, including favourable demographics, productivity gains and exceptional margins for large multinational and listed companies, are not expected to prevail.

Also, in the short term, markets will continue to be volatile as various socio-political and economic events globally impact sentiment. “We expect continued market uncertainty leading to increased volatility even for ‘safe’ bond

> **“Are investors better served by paying fund managers to make active investment decisions? Or should they rely more on cheaper passive products that replicate a market index?”**

GUILHERME LIMA
HSBC

investments in 2017, which have seen significant inflows over the last months," explains Guilherme Lima, HSBC's global head of premier, and regional head of wealth management in Asia Pacific.

"At the same time, investors approaching retirement, or who are already in a decumulation phase, face substantial headwinds with still-low interest rates, despite potential interest rate hikes."

Another important aspect for investment decisions is reflected in the debate over the merits of active and passive asset management.

"Some are asking whether investors are better served by paying fund managers to make active investment decisions, or if they should rely more on cheaper passive products that replicate a market index. However, the answer is more balanced: retail investors will continue to be better off by investing in a combination of active and passive investment products."

Assets managed by index tracking funds have grown in the US by USD2 trillion since 2013, accounting now for one-third of all mutual fund assets in the world's largest asset management market. ETFs, exchange traded index tracking funds, saw nearly a tenfold increase in AUM over the past decade to USD3.3 trillion globally.

DIGITAL INFLUENCE

Investment distribution is also changing. While it is too early to say exactly how fintechs will thrive, Lima believes the long-term trend is clear.

"Digital technology will structurally change retail investments," he predicts. So-called robo-advisers are attracting a lot of attention. As automated investment managers which use algorithms to determine how money is allocated after an initial online client evaluation, they mostly use passive instruments – and thus have a big appeal in terms of cost, transparency and simplicity.

"For the advocates of passive investing, robo-advisers are the latest step on a road that started with ETFs and ends with an investment process that could eliminate human intervention," explains Lima.

"For the advocates of passive investing, robo-advisers are the latest step on a road that started with ETFs and ends with an investment process that could eliminate human intervention."

"In this context, will the future of the investment industry be driven by algorithms and digital solutions with little or no human component?"

ACTIVE-PASSIVE DEBATE

"Passive instruments work well for markets that are already highly efficient," he says. "In these markets it is more difficult for active managers to consistently outperform their benchmarks."

Research by S&P Global shows that 76% of US large-cap mutual fund managers underperformed the S&P 500 over a five-year horizon. This figure increases to 84% when the fees charged by these managers are taken into account.

In less efficient markets or asset classes, which exhibit lower liquidity and higher concentration, the argument for index trackers is less compelling, adds Lima.

"Some of these asset classes, including emerging markets, can offer attractive investment returns as well as diversification benefits to investors' portfolios."

The same research by S&P Global shows that managers investing in, for example, international small-cap equities fared better on average than their benchmarks, when measured using gross-of-fees returns. Over the coming years, exposure to small companies might become a critical factor in achieving long term returns, believes Lima.

"Technology is changing some of the underlying factors of global flows and competition and as a result professionals and small companies will capture an increasing share of the value," he adds.

As a result, he says a challenge for the industry is how to provide traditional retail investors access to these opportunities, as these are mostly illiquid and require a higher level of risk appetite.

"Passive instruments are not an option, as these companies are not part of the

traditional investment universe. For example, the average company in the MSCI World Small Cap Index already has a market cap of USD1.1 billion."

Investment through insurance seems to be a good alternative, he adds, as some of these products allow longer lock-in periods and exposure to illiquid asset classes.

ROBO VERSUS ADVISERS

When it comes to investment distribution, the significant attention and coverage drawn by robo-advisers can over-excite investors.

"These solutions are indeed quite innovative but follow a standard asset allocation process and suggest a portfolio of ETFs for broad categories of client risk profiles and investment needs," says Lima.

In many cases, an investor looking to invest USD1,000 for one year will get the same solution as someone looking to invest USD1 million for five years.

However, the challenge with robo-advisers, he explains, is that clients need to be comfortable to fully delegate their investment decisions for at least a part of their portfolio.

"For these clients, robo-advisers can be excellent and innovative solutions with one-click execution," he adds. "Also, we believe that in many instances these solutions will complement, not necessarily replace, the work of advisers and bankers."

In reality, there is a spectrum of client preferences for investment advice. On the one hand, are investors who delegate all their investment choices into a single solution or discretionary portfolio. At the other end of the spectrum, are self-directed investors.

In the middle, are people who seek some advice but ultimately make their own investment decisions.

The 2015 BlackRock Global Investor Pulse Survey showed that 76% of mass affluent clients in Hong Kong, and 86% in China, enjoy managing their investments.

In line with this, they look to have some level of influence in how their money is invested.

"In our experience, those clients will want to exchange ideas and seek information from an adviser than solely through a website," says Lima, "even if those conversations happen over the phone or digital channels."

At the same time, Lima says one should not under-estimate the process of understanding client needs and defining financial goals.

"Most clients come to us without a clear view on why they are investing in the first place or what should be their priorities to achieve a better financial health," he explains.

For example, while most people want their families to be in a secure financial situation in case of an unforeseen event, he says that very few assess how much they need to cover the first six to 12 months of income replacement, or how to ensure education costs continue to get paid.

"Financial planning is not an objective science," adds Lima, "and is at its best when the discovery and decision-making processes are enabled by human connection."

"Financial planning is not an objective science, and is at its best when the discovery and decision-making processes are enabled by human connection."

From this perspective, he says it is clear that there is no one-size-fits-all approach when it comes to advising investors.

"Technology will undoubtedly continue to structurally change the business," he adds.

"But it cannot replace the human element, as it is only through personal interaction that each individual's needs and aspirations can be truly understood." ■

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We appreciate the participation and contribution of key individuals and organisations across the wealth management community to the content in this publication.

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