Hubbis at-a-glance

We focus on the Asian wealth management industry and produce high-quality, localised content that is practical and independent. This includes news, articles, research, reports and conference-related content, and is available in multiple formats including video, web and print. The Hubbis e-learning platform consolidates this wealth of knowledge into an indispensable training and development resource for all professionals.

What we do

- Events
  - Presentations
  - Thought leadership

- Publications
  - News & videos
  - Online content

- Online learning
  - Case studies
  - Assessments

Topics we cover

- REGULATION & COMPLIANCE
- INVESTMENTS
- FAMILY WEALTH
- SKILLS
- STRATEGY & BUSINESS
- TECHNOLOGY

Who it is for

Hubbis offers a unique platform that brings together content, thought-leadership and collaboration - to challenge and provoke conventional thinking, with an aim to innovate and improve the Asian wealth management industry across the following segments: Private Banks, Independent Wealth Management, Retail Banks, Asset Management, Insurance, Technology, Professional Services. Through our events and content channels, we reach senior management, business heads and other key stakeholders from the top international, regional and domestic organisations.

Key highlights

- 120,000 monthly unique website visitors
- Weekly email newsletter to over 34,000 regional & global professionals through our proprietary database
- More than 10 annual publications
- Dozens of thought-leadership discussions and surveys featured
- 80+ proprietary training courses and over 200 hours of live learning content
While the potential of the Indian wealth management space has always existed, the sector is yet to witness this opportunity translated into sustainable business for its participants. The industry is in the midst of an evolution in terms of platforms, players, products and regulatory environment. Issues relating to business models, talent hiring and retention, digital engagement and client experience are at the core of current strategic ideations.

Accelerated unlocking of wealth pools and an awareness of the need for professional advice makes the outlook brighter today than it has been recent years for organisations that can get their positioning right and put in place solid building blocks.

But this comes with its set of challenges. On all fronts across retail banking, private banking, independent advice, asset management and professional services – firms in such a fragmented market are grappling with what the reforms and other developments mean for them, how they should adapt and evolve their business models, and whether they can make a realistic return on their investment.

This requires significant time, effort and resources in technology and people, and in a consistent way.

Anyone providing advice, in particular, must prove their worth with a distinct value proposition. They should be able to give clients proper asset allocation advice, involving solutions which not only fulfill clients’ needs, but also align the interests of all parties.

This means firms need to have the right profile of professionals who are able to have more strategic conversations with their clients in order to bring investment know-how and innovation to them.

At the same time, professionals must ensure the right balance between their own commercial objectives and client expectations of wealth growth, capital preservation and advisory credibility.

Digitalisation is also a key theme which is likely to shape the development of the industry. Within all types of organisations, the focus needs to be on how to use technology to create a more relevant, consistent and profitable wealth offering via mobile, digital and social channels.

Adaptation of sustainable business models by the industry and its players will be key in determining its long term growth and development. The content in this publication covers these issues and more. I hope you enjoy reading and are able to benefit from these insights.
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The equity market in India continues to be a positive long term story. But today, a few stocks are significantly outperforming others. Which leads to one big question.

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**Speak to your investment advisor, or visit dspblackrock.com/focus25 for more.**
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We very much appreciate the participation and contribution of key individuals and organisations in the Indian wealth management community to the content in this publication.
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MUTUAL FUND INVESTMENTS ARE SUBJECT TO MARKET RISKS, READ ALL SCHEME RELATED DOCUMENTS CAREFULLY.
45%

According to audience sentiment at a Hubbis event in Mumbai, 45% would prefer to work for an independent firm in India. Page 08

12

The top 12 asset management companies in India represent 80%+ of the industry AUM. Page 11

2%

In India's hugely fragmented market, wealth management institutions are “lucky” if they have just 2% market share. Page 20

USD150 bn

India's household financial savings is about USD 150 billion per year. Page 39

61,000

India has seen the second-biggest outflow of HNW individuals in the last 14 years – with as many as 61,000 millionaires shifting base abroad. Page 61

2.8m

There are more than 2.8 million people of Indian origin in the US alone, according to a 2010 census. Page 64

Content colour coding - for articles in this publication

REGULATION & COMPLIANCE

SKILLS

INVESTMENTS

STRATEGY & BUSINESS

FAMILY WEALTH

TECHNOLOGY
quant has been adjudged as the winner in the category ‘Best Performing Regional Financial Advisor (West)’ at the CNBC TV 18 UTI MF Financial Advisor Awards 2014-15 powered by ICRA.

quant was recognized as the ‘Most Admired Service Provider in Financial Sector’ at the ABP BFSI Awards 2015.

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Changing with the times

Evolving the wealth management industry in India requires market players of all types to find the right blend of business model, people, technology and strategic focus. But optimism that the industry is moving in the right direction is growing.

Indian wealth management seems to be at a cross-roads.

There is regulatory uncertainty over the advisory model going forward and how firms can make it work.

There also continue to be multiple challenges around business models, including: how to align the interests of clients, advisers and the organisation, especially in relation to compensation; deepening the talent pool and building a pipeline of high-quality staff; building a credible and reliable brand; working within regulatory constraints and meeting the compliance burden; and differentiating value propositions.

Yet the outlook among industry leaders seems brighter today than it has been in recent years.

These senior practitioners see the current macro-economic picture as encouraging; a long-term story with confidence on the up. As a result, the prospects for capital flows look positive.

All this adds more firepower behind the country’s already-promising demographics which have been in place for a relatively long time.

To capture this huge potential from a scale perspective, the industry needs to invest more in terms of technology and people, says Shiv Gupta, founder of recently-formed Sanctum Wealth Management, and former head of RBS Private Banking in India.

Efforts to date have been of a more incremental nature, he explains, rather than being as focused and consistent as he believes is needed in order to

“The industry needs to invest more in terms of technology and people.”

SHIV GUPTA
Sanctum Wealth Management
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really build a viable long-term and profitable business.

CLEARER FOCUS NEEDED

One of the reasons for optimism among practitioners are the higher levels of GDP growth and disposable income – both of which are expected to lead to more investments by high net worth individuals (HNIs) and others in various financial instruments.

“We will increasingly see gradual movements towards the use of more financial instruments,” says Atinkumar Saha, managing director and head of wealth management coverage for Deutsche Bank in India.

Rajesh Iyer, executive vice president and head of investments and family offices at Kotak Wealth Management, says this is already underway.

He is seeing a major shift in focus among wealthy clients from physical assets to financial products.

This is also partly because wealth creators in India need credit to further grow their businesses.

These types of entrepreneurs are a key segment for firms like Deutsche Bank, which targets ultra high net worth (UHNI) clients.

But while Saha knows who matters to him, many wealth management firms still need to decide which segment they are targeting, rather than rely on hope.

To turn this into reality requires an organisation to have a sound advisory base in place, adds Iyer. “Advice will be a key differentiator, both in terms of the

<table>
<thead>
<tr>
<th>Compared with today - How many wealth management firms will exist in India in 3 years’ time?</th>
</tr>
</thead>
<tbody>
<tr>
<td>50% fewer</td>
</tr>
<tr>
<td>25% fewer</td>
</tr>
<tr>
<td>The same number</td>
</tr>
<tr>
<td>There will be more</td>
</tr>
</tbody>
</table>

Source: Hubbis, Indian Wealth Management Forum 2015

“We will increasingly see gradual movements towards the use of more financial instruments.”

HIMANSHU BHAGAT
IIFL Wealth Management

“IIFL Private Wealth Management model has been built on investment advice and being quick to market from a product perspective.”

ATINKUMAR SAHA
Deutsche Bank
Jersey has been a leading provider of wealth management services to international investors for more than 50 years. Renowned for its political and economic stability, a mature legal system, a robust regulatory regime and a strong partnership with the City of London, Jersey has become an important gateway into European markets for investors in India and across Asia.

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Timing and execution of it. This will be key for survival going forward.

This is essential since wealth management in India has moved far beyond bonds and stocks. The correct structuring, advice, execution and administration of assets is key today, and is a lot more complex to get right.

In conjunction with the fact that promoters and entrepreneurs do not tend to differentiate between their personal and private wealth, all-encompassing solutions seem to be where the biggest opportunity lies going forward.

“We are seeing a lot of customer acceptability in this area,” says Arpita Vinay, executive director at a boutique firm Centrum Wealth Management.

At IIFL Private Wealth Management, meanwhile, the model has been built on the delivery of investment advice and being quick to market from a product perspective, explains managing partner Himanshu Bhagat.

Yet he acknowledges that purely focusing on the investment management piece is not going to lead to a long-term profitable business in a market like India.

“If you are not helping clients with their tax planning and trusts, for example, in addition to providing innovation products as part of the investment management offering, it is going to be difficult [as a firm] to grow,” says Bhagat.

Regardless of model, the key for organisations, agree senior practitioners, is to remain relevant.

This is tricky to achieve, given such an overwhelming amount of information being so readily available to clients. As a result, practitioners say that advisers need to ensure they filter and disseminate this in a targeted way.

There is also a growing realisation of the need to balance the objective of being scalable – to ensure consistency in the client experience across all touchpoints – with the desire to maintain the personal brand of the adviser and tailor the offering.

“Advice will be a key differentiator, both in terms of the timing and execution of it. This will be key for survival going forward.”

RAJESH IYER
Kotak Wealth Management

### WHAT IS THE BIGGEST HURDLE TO ENHANCING INDUSTRY CREDIBILITY IN INDIA?

<table>
<thead>
<tr>
<th>Category</th>
<th>Percentage</th>
</tr>
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<tbody>
<tr>
<td>Multiple regulators</td>
<td>22%</td>
</tr>
<tr>
<td>Financial motivations of wealth managers</td>
<td>9%</td>
</tr>
<tr>
<td>Financial motivations of fund managers</td>
<td>4%</td>
</tr>
<tr>
<td>Limited investment options</td>
<td>4%</td>
</tr>
<tr>
<td>Knowledge levels of advisers – and clients</td>
<td>61%</td>
</tr>
</tbody>
</table>

Source: Hubbis Indian Wealth Management Forum 2015

### TALENT MANAGEMENT KEY

Whether firms can take advantage of the market’s potential will depend on whether different players can find their sweet-spot, says Saha, based on their individual value proposition and what they can deliver.

Part of achieving this includes understanding which types of individuals can work in different segments most effectively. Talent, after all, has to relevant
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A greater amount of empathy is an important trait for advisers to have, and in this area women have a natural strength, says Vinay.

However, there is certainly a shortage at the moment.

**ENHANCING CREDIBILITY**

Overall, there is optimism that there will be a larger industry in the next three years, according to an audience sentiment poll at the Hubbis flagship event.

Ultimately moving the market forward will be based on several factors.

One of them is addressing the perceptions that the motivations of advisers are not in the right place.

This leads to a certain amount of trust deficit, which, say practitioners, also explains some of the unwillingness by clients to pay for advice.

Perhaps most significant, according to sentiment, is improving the knowledge levels of advisers and clients.

**“Talent management is the critical area that as an industry we need to work harder on.”**

“A greater amount of empathy is an important trait for advisers to have, and in this area women have a natural strength.”

ARPITA VINAY
Centrum Wealth Management

**WHO WOULD YOU RATHER WORK FOR IN INDIA?**

<table>
<thead>
<tr>
<th>Category</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Retail bank</td>
<td>9%</td>
</tr>
<tr>
<td>Private bank (for HNIs)</td>
<td>27%</td>
</tr>
<tr>
<td>International bank</td>
<td>14%</td>
</tr>
<tr>
<td>IFA / Independent firm</td>
<td>45%</td>
</tr>
<tr>
<td>NBFC</td>
<td>5%</td>
</tr>
</tbody>
</table>

Source: Hubbis Indian Wealth Management Forum 2015

Getting more women involved in wealth management, either as advisers or client, is another important aspect of solving the talent equation in India.

For instance, continuity is fundamental to creating trust with clients.

This means continuity of the platform, advisory process and the relationship manager.

"In a market where you cannot retain the right people, it is difficult to create a sustainable model," says Saha.

Finding talent in the first place and then nurturing it effectively, however, is easier said than done.
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Unlocking India’s potential

Samir Bimal of BNP Paribas Wealth Management explains why he believes the bank’s access-all-areas capability and focused approach is well-suited to meet the needs of wealthy Indians, especially as they start to seek solutions to their rapidly widening objectives.

The opportunities in India for wealth managers are seemingly endless, especially since an increasing number of Indians are joining the millionaires club.

According to the Asia Pacific Wealth Report 2015 by Capgemini and RBC Wealth Management, for example, India and China have propelled Asia Pacific high net worth (HNW) growth in recent years and they are expected to continue to act as drivers, both regionally and globally, in the years to come.

These two markets represent nearly 10% of global HNW wealth, and account for approximately 17% of the global increase in new wealth since 2006, adding USD3.2 trillion during that time. Continued growth is expected to result in India and China holding over 10% of all global HNW wealth by 2017.

Unlocking the majority of this wealth, however, is where the challenges start. A large proportion of the wealth of most HNW individuals continues to remain trapped within their businesses, real estate and deposits.

“With increasing corporate liquidity events, more investment opportunities are becoming available and HNW clients are slowly becoming more open to consider other avenues but it is a gradual process,” says Samir Bimal, head of Indian markets and member of the APAC Executive Committee for BNP Paribas Wealth Management (the bank).

Talent continues to present another hurdle, in terms of what he calls a paucity of a pool of experienced, well-introduced relationship managers. “The high costs of this limited pool are also a concern,” says Bimal.

Challenges arise from an investment perspective, too. India’s commodities, derivative and bond markets, for instance, are not as mature as its equity market. Although there has been huge improvement in the product portfolio being offered to investors, the standards are still evolving compared to more mature markets.
But while Bimal’s team has been focused within the main eight large metropolitan areas in India, which even today account for over 80% of the wealth, he is aware of the wealth phenomena in India, in the second and third layer cities – and hence the need to eventually address this relatively untapped wealth.

DEVELOPING A SOLID BRAND
Success will depend partly on the extent to which the bank can further develop its brand in such a competitive market.

As an established player in India having built its credentials over 15 years of continuous presence, BNP Paribas Wealth Management offers a wide range of wealth management services for the HNW and ultra high net worth (UHNW) clients. “Our full range of wealth management products and services include wealth planning solutions, investment services and financial solutions as well as the more personal lifestyle offerings such as yacht and jet financing,” says Bimal.

In particular, two aspects of the bank’s engagement model act as a key differentiator for its onshore offering. First, there is transparency in all dealings with clients – in terms of recommendation, costs and risks. “This is a hallmark of our engagement model and is recognised by our clients. It is one of the key factors why referrals from existing clients constitute such a high proportion of our business, says Bimal.

Secondly, the bank adopts an institutionalised approach, meaning clients experience the full strength and reach of the bank.

Wealth management clients can benefit from all of the expertise and resources of BNP Paribas Group’s capabilities.

Bimal acknowledges credit is a key part of this, and it is a key part of the needs of clients in the region. “We understand the need among our clients to use credit solutions and have an offer which aims to address this requirement,” says Bimal.

The bank plans to further enhance its credit capabilities in India. “These solutions which we propose to clients are devoid of gimmicks, utilising fully our capital appetite and risk management sophistication to help clients achieve full financial flexibility for personal and business needs,” explains Bimal.

Other offerings open to clients in Asia which provide points of differentiation include European real estate, philanthropy advisory services, Agri-France (vineyard/chateau advisory services) and art investing. Another long-standing initiative which Bimal highlights is the bank’s work with the next generation. “Our annual flagship event, Next Generation Programme, is designed to make full use of our Asian and global network and expertise to offer a meaningful seminar. It focuses on educating and helping young clients take next steps in their investing, family business, philanthropy and personal lives.

TALENT FOCUSED
Making the most of the Indian opportunity also depends on being able to attract talent in the first place and create a strong pipeline. “We are committed to growing our business in Asia and we shall continue to invest in local talents to develop new business, broaden our client base and serve them with the highest standards,” confirms Bimal.

The opening of the BNP Paribas Asia Pacific Campus in Singapore a year ago is an example of the commitment to invest for the long term.

This goes hand-in-hand with targeted recruitment and training to further expand and upgrade the skills and expertise of its bankers. The bank also recently launched the Certified Private Banker Programme in Singapore. This is a global initiative aimed at enhancing and formalising the skills and knowledge of the bank’s relationship managers.

AHEAD OF THE PACK
Given that most HNW customers in India use three or more banks, being the primary relationship requires a comprehensive platform, agility in response, a solution-seeking approach and access to all areas of strengths of a large, international group. “Our focus on the upper end of the wealth segments allows us to create customised solutions for our clients.”

Aiming to be a full service bank with an open architecture platform helps.

“Clients benefit not only from the expertise of their private bankers but also of all BNP Paribas Group divisions: Europe real estate, art, philanthropy, advisory, corporate and institutional bank, insurance and asset management,” he explains.

Digitalisation and technology are also key levers of the bank’s growth ambitions. “Technology can improve the immediacy and quality of delivery of relevant information to clients as they seek it,” says Bimal. “It can improve the analysis of information / research to validate our advisory. And for the bank, it can mitigate risks with better controls and monitoring as well as managing costs effectively by more streamlined processing. There are a number of initiatives in this space which we are working on and which further cement our positioning as a long-term partner.”
‘Differentiation’ is key for Axis Bank’s India wealth management

Wealth managers in India need a distinctive offering to gain a larger share of the country’s growing wealth. There are ‘four pillars’ on which Axis Bank aims to achieve that distinction, says Satheesh Krishnamurthy.

The growing wealth of domestic and non-resident Indians (NRIs) will enable banks to thrive, if they can provide a distinct, value-added offering. For Satheesh Krishnamurthy, head of Axis Bank’s affluent business, this means emphasising four key “pillars of value”.

By focusing on these pillars – people, product, research, and brand – Axis’ wealth management business has seen a much faster uptake from customers over the last 12 to 18 months.

However, rather than just add customers, which can be relatively easy in a market where most wealthy individuals are multi-banked, Axis aims to become their primary banker and wealth manager of choice.

“Our challenge is to make sure we are their principal bank,” Krishnamurthy says. “We have conversations with them about their overall banking requirements, business needs, investments, credit and protection needs. If the products, research and service levels we offer surpass their expectations, they tend to increase their share of wallet with us.”

PEOPLE - ALIGNING INTERESTS
Axis Bank’s focus on people is core to the client experience it wants to offer.

“What distinguishes the top [wealth management] firms from the rest is how rigorous their commitment is to building skills and keeping them contemporary at all times,” Krishnamurthy explains.

“The biggest challenge in the wealth management industry today is recruiting and retaining the right people, especially RMs (relationship managers). We have done radical work on both the technical side and the behavioural side [of staff] to ensure we have the best.”

The bank uses classroom and online training (by in-house and external specialists) to build the expertise of its RMs.

Every RM has to go through this rigorous programme, in addition to the mandatory regulatory certification required, to be certified to distribute investment and protection products.
The bank also hosts daily calls with the investment research team and other industry experts to give all RMs their daily inputs and a quick overview of the Indian and global financial markets. There are also regular meetings between RMs and fund managers / product providers to ensure client-facing staff are fully-versed in the financial products they are distributing.

“This distinguishes our RMs on the ground from those of our competitors,” Krishnamurthy says. “Customers want to do business with banks that have a loyal pool of RMs. Even banks do not want to have to revisit their client with a new RM every six months.”

“In our consumer research one of the key attributes of the bank’s brand was its colour being regarded as exclusive and having stature. These were the evocations that we wanted the offering to have.”

Krishnamurthy aims to retain talent by creating strong career paths for vintage RMs who want to move up to become branch heads or other business segments, and has introduced awards and recognition for RM achievements.

The development of talent is vital not just for institutions like Axis, but for the entire wealth management industry in India, he believes. “There is a very big market here, and for the industry to capitalise on this we need competent people,” he says. “If the pool is limited it hugely curtails our ability to do this.”

**PRODUCT - DELIVERING VALUE**

Product is the second cornerstone of Axis’ wealth management proposition.

Its flagship wealth management offering, branded ‘Burgundy’, was created eight months ago by combining Axis Wealth and the invitation-only Axis Privee into one unit.

“With Privee, we found most [market players] were using the same word in some form, so there was no distinction for customers,” Krishnamurthy recalls.

“The mutual fund platform includes only the top 12 asset management companies (AMCs) in India. At the same time, we also try and ensure that we have products that meet most of the financial requirements of our clients. Together these 12 firms represent 80+% of the industry AUM,” he adds.

For Krishnamurthy, however, it is not just about providing investment options.

“Several wealth management firms may provide investment and other products. However, integrating them on a common platform is key from a client’s perspective. Axis Bank is the only bank which provides its clients with a ‘One Glance Statement’ that consolidates their relationships across savings and in direct equities through Axis Securities, meet their business fundraising needs through Axis Capital, and satisfy leverage requirements, including IPO funding and stock option schemes, through Axis Finance, he notes.

The bank also tries to provide the best products to its clients in a simple, seamless manner. There is an elaborate due-diligence and research process to distribute only the best investment products across all asset classes.

“We need to make sure that we align the interests of the client, the company and the RM. We are fine-tuning the compensation model to reward RMs who have a larger book.”

“With Burgundy, targets customers with wealth of at least USD1 million, including their primary residences. Currently, they must have a relationship worth at least USD50,000 with Burgundy.

Krishnamurthy says wealth management should meet a client’s financial requirements on a single platform. Burgundy exemplifies this principle. Clients can do their banking and investments through the retail bank platform, invest in direct equities through Axis Securities, meet their business fundraising needs through Axis Capital, and satisfy leverage requirements, including IPO funding and stock option schemes, through Axis Finance, he notes.

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“The bank also provides protection solutions – through its life and non-life insurance partners. We also try to ensure our debit and credit cards, and our forex card for people travelling abroad, are best in class,” he says.

“We have partnered with Visa on credit cards where customers do not have a pre-set spending limit and there is an algorithm at the back end which constantly evaluates their spending characteristics to determine credit lines.”

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current accounts; deposits; overdraft accounts; demat accounts; investments and insurance products purchased through the bank; multi-currency travel currency cards; loans; and credit cards.

In terms of target clients, Krishnamurthy believes there are two main opportunities – domestic affluence and the growing wealth of NRIs.

**MAKING RESEARCH COUNT**

Research is the third pillar on which Axis builds value.

The bank has an elaborate process for conducting research and due diligence for all the wealth management products that it distributes to its clients. A quarterly report is sent to all clients with the bank’s views on the macro variables and various asset classes. It also covers key events like the Union Budget and monetary policy announcements.

In 2012, Axis Bank launched Axis Capital, the investment banking arm of Axis Bank. This was a result of the successful integration and completion of prescribed legal processes for the transfer of the financial services business of Enam Securities Private Limited (Enam) to Axis Bank. This merger was in line with the bank’s strategy of continuously expanding its product and service offerings to its customers to deepen its relationships and value differentiators.

With Axis Capital, the Bank achieved the objective of creating one of India’s leading financial services powerhouse with expertise in the investment banking, equities, debt capital markets and the commercial banking franchise. Axis Capital, along with the bank, creates a complete bouquet of financial products and services for corporate, institutional and individual clients that enhances the ability of the combined entity to better serve client needs in a seamless manner across product categories and geographies.

**BUILDING A BRAND**

Brand is the fourth critical element of Axis’ proposition, as it is essential to the bank expanding its customer base. It has held special events for Burgundy clients, including opportunities to meet fund managers on the bank’s platform to get their views on financial markets.

“We also have special events that cater to the tastes of our clients and make sure they have time to pursue their passions through us,” Krishnamurthy adds.

In practical terms, the wealth management business aims to gain customers from other parts of the bank through a dedicated acquisition channel. “We could lend to a customer to buy a Ferrari, or give them a USD2 million mortgage, and this would trigger a meeting where we would try to encourage the client to allocate their entire wealth to us,” Krishnamurthy says.

**FUTURE PROOFING**

Axis is also preparing for future business models, both in terms of the ways in which it interacts with clients and how it can use technology to better facilitate these relationships.

Fee-for-advice services will be a vital element of this, according to Krishnamurthy. However, he says for now this is a relatively small part of Axis’ business. “The model for most banks is as a distributor. We have a small pool of customers willing to pay for advice. Very niche players, including some boutique firms, offer the advisory model.”

A focus on digital is another element of Axis’ forward-looking approach, according to Krishnamurthy. “We are extremely bullish around participating in the digital journey for wealthy Indians. We are constantly evaluating how customers can experience our offerings via digital and how we can innovate.”

The bank also aims to use big data to segment customers to tailor investment solutions to their stage of life. “The future will belong to proactive solution providers,” Krishnamurthy says. “If I look at your previous consumer behaviour and determine you will need a leverage product, and can offer it before everybody else, there is a ‘white space’ opportunity to monetise this.”

Commitment to legal and compliance probity is an issue that Axis believes can also add to its business. “Regulations are the most important element of any banker’s life today. It is critical to not only follow the rulebook by the word, but also the spirit of the regulation,” Krishnamurthy says.

The bank holds monthly meetings to review cases that could be red flags for its business, has introduced a series of checks and balances for ‘outlying events’, and is in constant touch with regulators about how it can evolve its business model in a “controlled fashion”.

“We stand strongly by our compliance culture. It is one of our core values,” he says. “We are very clear to customers about the nature of our products, the risks involved, and the prior returns.”

“All of this very clearly speaks to the core philosophy of Axis – ‘Progress On’. We are there to participate in the progress of clients’ lives. Our story will not be complete if we are not able to get a substantial market share in the top layer of wealth,” Krishnamurthy explains.
CFA Institute is a global community of more than 125,000 investment professionals working to build an investment industry where investors' interests come first, financial markets function at their best, and economies grow.
A growing need for tailored advice among Indian wealthy

India’s wealth management market has been characterised by commission-driven fund churning, but customers are increasingly willing to pay fees for tailored advice that meets their specific needs, says Waterfield Advisors.

India’s investment product market is becoming more specialised as niches open up on rising volumes and declining margins, according to senior executives at multi-family office (MFO) Waterfield Advisors.

From 2002 to 2008, banks made the bulk of their income from commissions on the sale of mutual funds and insurance products, according to chief investment officer Munish Randev, formerly an investment expert at Fidelity and ABN AMRO.

This started to change when investors lost heavily on investments that they, and arguably their advisers, could not even understand, during the global financial crisis of 2008.

The sheer volume of investment products now in the market, and subsequent cost pressure, means there is more room for specialist providers.

“When [an industry] starts the margins are very high and it makes tonnes of money,” Randev explains.

“But when the market gets much bigger, cost comes down and niches are created, so every provider becomes an expert in something. We are seeing the same thing in India’s wealth industry.”

Many firms that have aimed to provide a whole range of products have fallen by the wayside, he adds, as they have been caught out by an increasingly commoditised market.

“They start off making the right noises, but after three years of pressures on income they give up and start becoming like any provider,” Randev says.

“If you also aim to sell the company after three years, you can start doing things you weren’t supposed to be doing and lose focus.”

“That’s why some people started off well and faded later.” On the other hand, he argues, boutique firms are already benefiting from the move away
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**COST OF GOOD ADVICE**

Waterfield’s fee model derives from its ability to both provide advisory and execute product transactions, according to Soumya Rajan, its chief executive, who founded the business in 2011 after leaving her job as managing director and head of private banking at Standard Chartered India.

Waterfield’s model is to provide advice to the family office and leave the choice of who should execute the advice to the client.

If needed Waterfield can also help execute the investment transactions. It has three levels of charges - fees for providing "base layers" of equity and fixed income investment, individually negotiated fees for alternative investments (some of which goes to the provider), and a third layer of ‘success-based’ fees for specific transactions.

The one thing Waterfield will not do is charge performance-based fees.

"We don’t want to link fees to investment performance because our advice is targeted towards risk management rather than performance," says Randev.

This means Waterfield aims to make asset allocations according to the degree of risk a client finds acceptable, a strategy it bases on the belief that return is an outcome of the risk taken, and not the other way around.

"People are paying [fees] because an increasing number of families are becoming aware of the need for better governance," Randev explains.

"Whether it is a PE transaction in their own company or creating wealth for the next generation, families’ reputations and risk governance need to be much sounder than they have been in the past," he adds.

According to Rajan, these wealthy families are also willing to pay fees. This is because they are learning the value of differentiated services, and understand that the typical private bank in India usually only offers the ‘one-size fits all’ proposition that has forced some players out of the market.

"Irrespective of how much the client has, all private banks, even those that label themselves as family offices, have been looking at the same, commoditised services," she says.

That is not to say there isn’t room for both specialists and one-stop shops, with providers like India Infoline making waves in the industry, but Waterfield aims to stay firmly in the former camp.

It is a strategy that brought the company to the attention of the Patni brothers, the founders of Patni Computer Systems, who made a strategic investment in Waterfield in March 2014.

**BOUTIQUE = BEST OF BREED**

"A boutique’s objective is to pull in the best solution for the client from wherever it sits.

"If we start bringing things in house we are no different to someone else," explains Randev.

"We want to build our business on relationships and networks. In the UHNW space the families want to be sure that their advisor is looking after their specific needs."

With this in mind, he adds, Waterfield aims to be an example of independence in the market.

In practical terms this means that the company’s advisers sit on the investment committees of trusts and family offices and provide an asset management overlay.

"The solutions you may want to provide are not necessarily with the bank or wealth management firm where you sit," concludes Randev.

"Hence the need for an absolute open-architecture, advisory only platform wherein you choose the best solution for each need and have no conflict of interest," he adds.
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Driving a new investment mind-set

Prashant Trivedi of Multi-Act Family Office explains the evolution of the firm’s investment philosophy and style into one which today is a structured approach to making the most of market opportunities for its clients.

In the mid- to late-1990s, Prashant Trivedi’s time and energy was exclusively focused on managing his own family’s assets. However, he knew he needed to make a change in the approach he was taking. He was starting to see a lot of sell-side analysts quoting what seemed like very big numbers on stocks like WorldCom and Enron – and these were companies that Trivedi was already somewhat sceptical about in terms of their potential riskiness.

As a result, he realised he needed his own buy-side analytical team in India. Nearly 20 years on, his decision was the right one. “We are focused on investing in high-quality equities,” explains Trivedi. “This means companies which generate a high return on equity or capital employed, or ones which have lower debt and conservative balance sheets, and they generate a healthy degree of free cash flow.”

“We are focused on investing in high-quality equities.... We try to invest in high-quality businesses with some sort of margin of safety.”

In short, he likens the firm’s approach and philosophy to one of value investing. “We try to invest in high-quality businesses with some margin of safety.”
A CLEAR AND STRUCTURED APPROACH

In restructuring the firm’s investment approach, Trivedi says he started with three analysts in India who were mainly focused on historical financial statement analysis.

Until around 2008/9, the firm continued to manage the family assets, but then decided to open up to outside capital as well, offering more of an advisory service as part of the process of managing external money.

In addition to its focus on value investing, but with some degree of conservatism, he cites momentum as another important factor driving his strategy.

“There is a case to be made that momentum is nothing other than the market incorporating a revision in its expectations of what an underlying business is going to earn,” he explains.

In general, in terms of his investment criteria, he looks – in order of importance – at quality, value and momentum. He pays attention to technical factors as also a momentum indicator.

The next stage is to incorporate this in relation to the position sizing of each investment.

In practice, therefore, if all four key factors are positive, the firm would then take its maximum position in a particular company.

By contrast, with only one of the four factors present, the investment would be at a minimum.

KEEPING UP PERFORMANCES

The approach seems to work. The firm has had an audited, published track record since 2011, and can boast a CAGR of 18.4% on a total return basis.

On a five-year track record basis, the firm has beaten its benchmark index by about 10% a year, adds Trivedi.

“What started out as research shop trying to bring investment excellence to my own family investments is now a firm which looks to meet the needs of families across the board in India.”

Indeed, part of reason the firm decided to take in outside money, either on a managed or advisory basis, was due to the fact that a lot of equity investors cannot see the true macro picture, explains Trivedi.

To build on its success to date in these areas, he says the firm is now looking to build out advisory and investment management franchise. “One of the things we are doing is developing funds around global markets,” says Trivedi.

One such offering is an equal-weighted fund which invests in what he considers to be the best companies in the world – via a rules-based investment process, which is this discipline which Trivedi believes is essential to maintain investment performance in today’s markets.

“At one extreme, there are active managers, but over time, many of them end up being closet index-huggers,” he says. “On the other side of the fence are the passive vehicles such as ETFs.”

He likes the middle ground. “This is a sensible way combining a semi-passive approach where we exclude factors which don’t work and then try to focus on approaches which have shown over a period of time that they do work.”

This type of approach is essential in an environment where everyone knows that central banks, because of their quantitative easing programmes, are leveraging assets beyond where they would be.

As a family which cannot realistically avoid the need to invest in the financial markets, Trivedi is focused on devising an investment approach which has the best chance of maintaining relative value – especially during market periods where severe asset price deflation isn’t unlikely, he explains.

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Creating a supportive landscape in Indian wealth management

Having good understanding of and addressing client needs should be paramount and take precedence over product and revenue, according to Gokul Das at Warmond Trustees & Executors.

The lack of sophisticated and wide-ranging advice in India’s wealth management market means financial institutions all too often frustrate clients by pushing services whether a client needs them or not, according to Gokul Das, managing director and chief executive officer at Mumbai-based Warmond Trustees & Executors.

Das cites a UHNW client relating just this problem who, in frustration, told him: “Every time this one guy comes to see me he tries to sell me an insurance product.” Although this is annoying for clients, it is creating increased awareness of true wealth management.

This educational process is backed by players like Warmond, says Das, although the overall industry does not yet have the expertise to support it.

“Wealth management comes after wealth has been created, and India has been behind the curve on wealth creation in the past, especially in smaller cities. Overall, wealth creation has grown exponentially in the past 15 years,” he explains. “People are getting into the idea of wealth management, but there still is a shortage of proper expertise and frameworks to support and cater to the new UNHW landscape”.

Wealth management has moved on from merely providing tax planning for wealthy families, and is now more about creating awareness about the need to preserve and grow wealth. Warmond, founded in 2006, taps directly into this demand by providing estate planning and succession, trust services, and executorship services.

CREATING AWARENESS
Its efforts to create awareness of the need for families to plan include a bi-monthly publication that contains frequently-asked questions about succession planning and details of recent court cases that can impact it.

The idea is gaining traction elsewhere, with the Indian School of Business having created a one-year management programme for family businesses.
Despite these moves, however, Das believes it will take some time to bring everyone in India up to the same level of understanding.

On the product front, he says, although a typical UHNW investor in India will use a private bank, the level of expertise at that institution will be much lower than it is at a private bank in Singapore, for example.

This has pushed product manufacturers to concoct investments that are either too racy or too pedestrian, with little in between. Based on client profile, he says: “In the US an investor will probably have 10% in alternatives, 30% to 40% in fixed income, and the rest in equity. In the Middle East, most products are capital protected notes or structured products. In India it is like a Ferrari – all the client solutions are either in 1st or 5th gear.”

However, even he has to admit that Warmond is not able to provide expert advice in all areas of client concern, so strives to give them access to the best intellectual pool internally and externally by tying up with some of the leading experts globally and domestically. This is particularly true in the area of trust and succession planning, where, says Das, there is huge uncertainty over what is permissible.

To address taxation and other accounting and financial needs, Warmond has tied up with top advisors such as N.A. Shah Associates and JDNT & Associates. On legal matters, it works with Lawrence Graham, Bharucha & Partners and SNG & Partners.

THE BEST ADVICE

“Our goal is that right from inception through to the management and in the unlikely event of turbulence, we make sure that we have the best pool of individuals by your side taking care of all your needs” Das explains.

“For example, I was at a seminar some time ago and the speaker was asked if a private trust could be made perpetual and someone said ‘yes’ and there were some options given.

“The Trust Act though states otherwise, so it is very important to make sure there are no translation gaps else you could get into a problem with the regulatory authorities”.

Warmond is so confident in the quality of its advisers that it often insists clients use them. “We closed down a lot of trusts where our quality filters were not met, for example the families had gone to their own accountant who got very creative with income tax and returns,” says Das. Warmond advised those clients that if they wanted to use its services they had to use the firm’s recommended panel.

“Some of those clients went away because of this, but some of those later realised our intention was to make sure the trust served its purpose for generations to come and returned to us,” Das adds.

Looking to the best outside counsel helps to provide the expertise clients need makes those clients more willing to pay fees for the services Warmond provides, as Das says: “If you give clients the feeling you have the best people backing them up you are likely to get more of their wallets.”

This emphasis on bringing in the right partner has also enabled Warmond to take a leading position in India’s market for online wills, he adds. It has done this by tying up with NSDL e-Governance, one of the largest depositories in the world, a pioneer in digitizing India and a renowned e-governance provider, to create ezeewill.com.

“We have cross-pollinated the e-capability of NSDL with our own succession planning capability to create this product,” Das explains.

According to The Economic Times, the site charges just INR4,000 (US$64) per will, compared with up to INR100,000 for the same service through a lawyer. Das reports that the service was launched only three months ago but has already received three million hits and has become “solidly entrenched” as a brand.

“Not everyone can do this service because they won’t have access to platforms and capabilities of NSDL,” he adds. “Other banks have copied it but this is very hard for them to do because we have legal experts drafting the wills whereas they run it through a template format.” Warmond is the only provider in the country to offer a completely customized option.

In addition to the NDSL tie up, Das says, it is also courting retail banks. “Federal Bank, which is the third largest bank in India from a distribution perspective, has recently signed up with us,” he says. Warmond is also in the final phases of sealing relationships with more of the most noted financial institutions and banks and is expected to make announcements soon.

“Our approach has been to develop a solid in-depth understanding of the client and give him a holistic solution,” Das concludes.
Local banks set to take the lead in Indian wealth management

The difficulties foreign private banks have found in India have broadened the opportunity for local providers to tap the increasingly sophisticated demands of the country’s US-dollar millionaires, says Jaideep Hansraj at Kotak Mahindra.

Foreign banks have struggled to break through in Indian wealth management because they tend to use a “tick the box” approach to the market, according to Jaideep Hansraj - head - wealth management and priority banking at Kotak Mahindra Bank.

“Someone in their home office believes they should start up in India and they pick someone and tick the box,” he says. “They then say you need to recruit 20 bankers, so the person has a bonus per banker, which means it doesn’t matter at what cost they recruit.

“He goes on and recruits 20 bankers from [a local wealth manager] and pays them multiples of their current salaries.”

Foreign institutions’ approach to the Indian market was driven home to Hansraj in a personal capacity when he saw a member of staff recruited by a foreign private bank at three times the salary Kotak was paying him at the time. “I estimate that for the salary they were offering him he would have to generate INR6 billion-INR7 billion (US$96 million-US$112 million) in AUM,” Hansraj says. “This makes him unsustainable and the business unsustainable.”

These difficulties are magnified by the fact that India is a hugely fragmented market. Indeed, Hansraj estimates that institutions are “lucky” if they have just 2% market share.

The relative lack of success foreign institutions have had in Indian wealth management, and the huge fragmentation of the market, is in stark contrast to the asset management sector.

According to the Financial Intermediaries Association of India, the top 15 companies, including foreign players such as Deutsche, Franklin Templeton and DSP Blackrock, represent 88.27% of industry AUM.

Hansraj believes that an institution will need to be local, and a bank, to succeed in India’s wealth management sector. On the latter point, he says, non-bank
financial institutions are prevented from offering clients a wide range of wealth management services and products, and cannot make assets stick.

“You really need to attain a large amount of annuity-type assets, as without that you are left with no option but to keep selling high-commission products.”

**KEEPING IT SIMPLE**  
Over more than a decade, Kotak has been able to do just that by providing its clients with a pure wealth management proposition with no bells and whistles, according to Hansraj, who has been at Kotak in various capacities for the last 21 years. “We have been in this space for more than a decade and we don’t do too many flashy things. Clients are happy because we don’t have excessive employee turnover,” he adds.

"Also, there are a lot of people within the industry who like to work with us. That’s a good feeling.”

That popularity is reflected in the company receiving numerous awards, and in Kotak Wealth Management becoming widely regarded as India’s foremost institution of its kind.  

*Euromoney, Finance Asia, and The Asset* all herald Kotak Wealth Management as India’s best private bank in recent awards. And its reach is not just domestic, it is regional and international.

According to the *Euromoney* Private Banking Survey 2015, Kotak Wealth Management is one of the world’s top 30 private banking institutions for overall services.

Its core proposition is investment counselling on a range of asset classes, split according to a client’s net worth between transaction-based investment management and asset advisory.

Kotak Wealth Management also hosts a dedicated family office team that provides value-added services. Last but not least, Kotak Wealth Management is also renowned for its thought leadership, most notably through *Top of the Pyramid*, an annual report on India’s UHNW that explores their spending, investment and philanthropy.


**LONG-LASTING RELATIONSHIPS**  
According to Hansraj, Kotak Wealth Management has been growing at a rapid annual rate of 50% to 60% over the past eight years.

He believes it will be able to maintain that growth by chasing India’s US-dollar millionaires, a cohort he believes much larger than it is widely considered to be.

"The reported number of US dollar millionaires in India is 150,000," he says. "I would think it is at least 100,000 more than what is reported.

"So that is a quarter of a million people in the million US dollar segment who we will be going after."

This clear statement of intent does not tell the full story, however.

Kotak does not purely look at clients in terms of how wealthy they are, but seeks to establish long-term relationships with them by tailoring its service to the origins and nature of their money.

Its main targets are professionals, SMEs and UHNW individuals, as Hansraj explains: “The professional requires ease of execution, and simple advice, and will stick with you for a reasonable time.

“The SME owner needs me more for his business than for his wealth now, but if I can be with him for five or six years I will be able to get a slice of both his business and his personal wealth.

“For UHNW clients it is all about comfort [working with us] and trust.”

In order to establish these long lasting relationships with clients, Kotak Wealth Management and its priority banking proposition share their resources with other parts of Kotak Mahindra Bank, particularly its retail arm.
Each month the bank’s branches send across a list of potential leads for wealth management and priority banking determined according to different levels of customer borrowing.

“[If a retail banking client] takes out a US$2 million mortgage, or buys a US$100,000 car, they will be referred to the wealth management division,” Hansraj says.

It will further expand its reach with the imminent merger of ING Vysya Bank with Kotak Mahindra.

The deal was approved by shareholders on both sides earlier this month.

Once approved by regulators, the deal will bring Kotak Mahindra Bank’s number of branches to 1,214 and make it India’s fourth largest private bank after ICICI, HDFC and Axis, according to business-standard.com.

As well being able to tap business from other parts of Kotak Mahindra Bank, and its expanded branch network, Kotak Wealth Management also refers some of its client base to a dedicated trust office, Kotak Mahindra Trusteeship Services, which provides services including estate planning, advisory, custody and executorship.

Within the wealth management proposition it also offers a bespoke family office service.

Outside this self-developed business, Hansraj believes prospective new relationships will also come from the increasing number non-resident Indians (NRIs) who are now considering investments in their home country, a move driven by much stronger expectations for the domestic economy.

Kotak offers services specifically for this group. The services include investment in equity, fixed income, real estate, and other asset classes via mutual funds and portfolio investment schemes.

It recommends that potential NRI investors ensure that they have a wealth management provider in their country of residence.

“Investing in India is very cyclical in nature,” explains Hansraj, who used to run Kotak’s offshore business, including stints in the UK and Dubai.

“These guys would only invest into India if they saw an opportunity, and over the last six or eight months the amount of money we are getting from non-resident Indians is not funny at all, so things look good now and everyone wants to have a piece of the cake.”

PEOPLE FIRST, PRODUCTLAST

For Hansraj, products are the least of Kotak’s worries.

Cementing relationships with clients who are bringing their money back into India is an altogether more difficult proposition, he admits.

He says the relative youth of India’s wealth management industry can make it difficult to find people who have the ability, and the perseverance, to be able to serve Kotak’s clientele at all stages of a long-term relationship.

“Finding the right set of people is the toughest task,” says Hansraj. “I don’t know how long it will take for us to train people to think the way we would like them to think, which is to do what’s right for our clients.

“But after that, everything else will fall into place.”

After people, the next biggest challenge for Kotak will be in meeting an expected surge in use and demand for e-services as the next generation of India’s wealthy families starts to take its place at the table. Although he is reluctant to talk about Kotak’s specific plans in this area, Hansraj says he is certain that a day will come when the use of technology in India’s financial services landscape reaches a tipping point.

“Things will change when the sons and daughters of our existing clients start to take on the responsibility of looking after the family wealth,” he says.

“They will be more willing to take risks with alternative assets, and they will want everything in soft copy.”
These are 2 must-attend fixtures in the country's wealth management calendar for senior management, product gatekeepers, business heads and other key practitioners from the leading private banks, retail banks, IFAs, NBFCs, insurance companies, asset managers, and other relevant organisations. They seek to:

- Bring together the leaders from across different firms and segments within the industry – to discuss and debate what can be done in the domestic industry to ensure organisations can make the most of the opportunity that the growth in wealth represents.

- Further the development of the community in the wealth management space – with open, informal dialogue about how best the regulatory environment needs to evolve.

- Get market experts from overseas to explain how business models, products and services have developed and evolved elsewhere.
FIRM PROFILE

Karvy puts focus on customers to get ahead of the pack

In India’s increasingly-crowded wealth management market, Abhijit Bhave of Karvy Private Wealth is convinced that putting the interests of customers first via the client experience, quality of advice and breadth of product offering, is the best way to make his mark.

What excites Abhijit Bhave about his new role is not just the thought of the bright prospects for wealth management in India, but also the idea of giving direction to a vision where customers take centre stage.

In an industry where the interests of customers, shareholders and staff are often at cross-purposes, Bhave’s viewpoint may seem utopian – even quite disruptive. But the newly-appointed chief executive officer of Karvy Private Wealth believes that taking care of the clients’ interests before anybody else’s is the only way to build a successful business in the long run.

“Unless you put the customer first, it is not going to be a sustainable model,” he explains. “You will keep on digging a well every quarter to get your revenue, but sooner or later when the customer realises he or she has been taken for a ride, then they are going to go elsewhere for advice.”

This way of thinking is more important than ever for an industry where competition has heated up significantly. Yet too many of the wealth management players operating in India essentially do the same thing.

**STANDING OUT**

In particular, the domestic industry is getting increasingly crowded. Non-banking financial companies (NBFCs), independent financial advisers, multi-family offices and direct distributors are all vying for a share of the expanding pie, given the growth in numbers and assets of wealthy individuals.

In the banking sector, wary of being left behind in this land-grab, institutions such as State Bank of India (SBI) and ICICI have quickly reoriented themselves by entering the wealth management business.

Undoubtedly, this makes good business sense, says Bhave.

For banks, such a move provides an opportunity to pick up untapped customers in smaller towns and cities. “I don’t see why a bank should not do
wealth management,” he explains. “A bank that is helping a promoter get his business in line by arranging cash, credit, overdrafts or by giving him or her a loan, is actually losing out on an opportunity if it is not doing wealth management,” he adds.

But there seems to be a limited amount of meaningful differentiation – or even the scope to do so – from one wealth management provider to another. Whether at the banks or otherwise, what’s gaining prominence instead are factors such as client experience, quality of the advice, and the strength of a firm’s product capabilities. This last aspect is particularly important as India’s wealthy move along the investment curve, from real estate and gold to a broader array of financial assets.

COMPELLING SEGMENTS
One of the more enticing client segments in India for Bhave is individuals with AUM of around INR5 crore, equivalent to USD1 million, given the critical mass of this group.

Here too, striking a chord with them by identifying their specific requirements and delivering on these will set a successful firm apart from the rest. This is where Bhave believes firms like Karvy have an advantage over banks, especially foreign players, because of the focus on providing a higher level of personal attention and customisation to clients and engaging them in detailed discussions about opportunities and products.

BUILDING THE PROPOSITION
Turning his ambitions for Karvy into reality will, to a large extent, depend on Bhave having the right set of advisers – and without having to pay them unrealistically high salaries.

His “customer first” vision also drives his approach to hiring. He says his guiding philosophy is to steer clear of high-fliers whose inflated remuneration packages could end up making it more expensive to acquire new clients at a later stage. This would also compromise the ability of the firm to genuinely put customers first and ensure that they make money. "We will go for those new advisers and train them," he says.

He also has teams focusing on wholesale debt, currencies and commodities, for example, which means it will be easier for the firm to launch products for a forward contract. “We can also take care of corporate treasury needs,” adds Bhave.

The asset classes Bhave is particularly bullish about over the next decade are equities and debt. In addition, while the returns on physical assets, be it real estate or gold, are not going to be on par with liquid assets over the next five years, over a 20-year horizon, all asset classes will perform well.

Gold, being a crisis currency, will do well in adverse times. 5% to 10% to gold is a must in a portfolio for the right asset allocation. “With the way the Indian economy is growing, we will see a lot of wealth creation in terms of incremental wealth, nouveau riche people. In the next 20 years, I think one can make money in every single asset class and the numbers of millionaires and billionaires are only going to grow in future,” he says.

It’s easy to see why he is optimistic for the development of his business.

“Unless you put the customer first, it is not going to be a sustainable model.”
Sticking your neck out in fickle times

India’s wealthy are beset by private banks who pump in house products without offering a true picture of the country’s capital market or the strategic opportunities to tap it. Anurag Seth at Quant Capital Advisors says the focus instead should be on solutions.

Providing an overview of available investments based on investment conviction is of more value to a client than simply providing a product designed to produce a certain return, says Anurag Seth, director and head of global wealth management at securities and brokerage firm Quant Capital Advisors.

“It is rare for us to see a client who uses only one private bank,” says Seth, former head of Standard Chartered’s wealth advisory business in India.

Instead, he says, clients typically go to four or five institutions at a time, in some cases only choosing one product or service from each.

Seth agrees this is an “irrational approach”, and argues that if banks’ only frame of reference is the products they themselves produce, they cannot provide a full overview of the market and therefore cannot possibly build optimum portfolios.

This is exacerbated by the fact that there are few people in the industry with any longevity, which creates fast adviser turnover.

“Many of our clients will have had four managers within just a few years of starting up their portfolio.”

Quant Capital Advisors’ approach, says Seth, is to present clients with an overall view of the market’s direction, which is typically derived from the company’s own research reports, and then suggest ways in which those clients can tap the available products available in the market to benefit.

SOLUTIONS NOT SALES

In other words, he suggests, Quant provides investment solutions rather than investment sales.

It is a role that is supported by its ability to search for, and group together, the best products in the market.

“Clients will get a market view from across the industry, including foreign banks and institutional equity. But there is nobody to put that into perspective.”
and say how it will impact the portfolio,” Seth says.

“What’s the harm of sticking your neck out and saying you will charge the client a fee if the market delivers what you expect? What’s the point of charging a client if the market does not perform?”

At Quant, this advice extends to include clients’ borrowing requirements, where, Seth says, it can go to multiple banks and canvas for the best rates.

Private banks that do not provide advisory, for either making money or borrowing it, could see margins shrink to just 1% as markets becomes more commoditised. This would follow a trend that has already been seen in the insurance industry.

“Sales and advisory cannot function together,” Seth says. “Clients appreciate a platform that can be a solutions provider. We have been dealing with private banks and public banks as product advisers. Our role is to give them solutions that other platforms are not able to provide.”

To that end, Quant looks at a variety of different asset classes, including domestic and international equities, debt, property and commodities, and comes up with “a concrete view that a certain market will go up, or down”. It did just this with a report on Indian equities early last year, analysing prospects for the market with Narendra Modi as Indian prime minister or without him.

“We said people had ignored the signs of India’s economic recovery before Modi – but they were thinking that the moment he came in things would change,” says Seth.

“But now those same people are saying that nothing has changed, and the recovery is not so robust. Yet even with all that doom and gloom they are revising GDP growth up from 6.2% to 7.9%.” Quant’s view was that the question of whether India could withstand the threat of a rating downgrade. If the country was downgraded, it argued, it would promote even a Modi-less government to promote reform.

Although Quant primarily focuses on the Indian equity market, it aims to offer a global view and can also provide solutions to clients who want to disagree with its relatively bullish in-house take on India’s market prospects. “When we started six years ago we set out to differentiate ourselves in terms of how our advice is generated and how it is transmitted to clients,” Seth says. “We will not tell a client we have a different product, we will say these are our views on various asset classes [Indian and global equities, property, equity, debt and commodities] and recommend the entire portfolio be based on that view.”

At the moment Quant favours thematic investment. Seth believes this will hold the company in good, long-term stead. However, he will not lose sleep if any clients do not agree with Quant’s in-house view.

“We won’t have an issue with someone who wants to take their money out of India and invest in the US. If one market is not delivering they have to go to another one, and it’s the same with commodities. I can’t say to a client that their portfolio has declined because the gold price is down, I have to find them something on the commodities side that will work for the portfolio.”

At the moment, however, Quant is advising clients to keep their money in India, as Seth says there is no real reason to look for offshore investments. The country’s campaign for financial inclusion, which was introduced by Modi in mid-2014, will help in this regard, but take time to bear fruit, he suggests: “Ninety-nine percent of people are not yet financial included … we have opened many accounts in the last 12 months but half of them are empty.”

“Since markets are looking promising and people are betting on Modi there’s not enough reason to take money out of India. Everyone is trying to play the India game through inbound and domestic investment,” he says. “We believe the Reserve Bank of India will be more comfortable if the rupee stays in its current range for a longer time.”

SEPARATING SALES AND ADVISORY

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India’s product gatekeepers require rigorous selection criteria

Choosing the right products can be a lengthy, arduous process, but having stringent criteria and procedures in place are essential if wealth managers are to develop and maintain Indian investors’ trust, says Jharna Agarwal at Karvy Private Wealth.

There has been a rapid expansion of investment options in India’s wealth management market over recent years.

As a result of this greater choice, product gatekeepers need to be increasingly vigilant when they select funds to present to clients, according to Jharna Agarwal, head of products at Karvy Private Wealth.

Before, the limited number of products on the market meant it was common for relationship managers to push specific funds or insurance based on their expected return.

However, the greater complexity of today’s market means a more rigorous process is required, she says.

This is a principle that Karvy puts into practice when it considers whether or not to put a portfolio management, insurance or mutual fund product on its platform and recommend it to clients, according to Agarwal. Talking specifically of funds, she notes that the company has introduced a quarterly selection process.

RIGOROUS PROCESS
At Karvy this process begins with research associates looking at the five-year performance of a fund, including its risk and return parameters. Performance is not the only criteria, however, as even if this has been excellent, Karvy also determines how closely a fund is following its own investment mandate.

For example, Agarwal says, if a fund manager has a large-cap portfolio that has substantial investments in mid-cap companies, Karvy will categorise it as a mid-cap fund.

After applicants pass the first stage of the process, Karvy then arranges to meet with the fund manager and discuss what they intend to do with the portfolio.

“We ask them whether they plan to change direction, the sectors they are most bullish on, and which sectors they plan to exit,” explains Agarwal.
Once it has established the fund manager’s intentions, Karvy then sets up an investment committee meeting. This is attended by representatives from the Group’s asset management and advisory arm, Karvy Capital, as well as its internal research team.

"Only if [the committee concludes that] a fund manager’s ideas are rational will we recommend that fund to the client," Agarwal adds.

"But there is real education on investing available online for people who are willing to look for it. Otherwise they typically rely on following the decisions that their friends make."

She recalls a time in the industry when investors were being promised returns of 30% over a period of just six to nine months, a situation that paid off for some, but also meant that sales people did not have accountability. As a result of this, investors had no recourse if their investment went south.

There were strict customer audit processes in place, so that even if one client signature was missing from documents the investor would be called back the same evening, but sales people were not kept to similarly stringent requirements.

"There was little point in having these compliance processes in place when sales teams were only asking relationship managers to meet one criterion," Agarwal adds.

"Their accountability was to their employer rather than the client, and that just came down to how much in mutual funds or insurance they had sold." A shift to greater accountability for clients will in the end benefit the wealth management industry itself, she argues, as it will open Indian investors’ eyes to different asset classes, including absolute return strategies, rather than continuing to keeping their money in bank deposits.

She expects investors to start by looking at actively managed equity funds, rather than passive ones, as there is still room for Indian stock pickers to outperform.

Things are already set to improve on the education front with the recent requirement that asset managers spend the equivalent of 2 basis points of AUM on education. This will encourage participation in existing post-graduate and college level programmes, Agarwal suggests, but for its part Karvy believes that investment education should start as early as possible.

"We are part of a drive to go to schools and teach kids about financial planning, and expect that to help seven to 10 years down the line," Agarwal says.

Technology will be another factor that pushes people towards a greater variety of products, but at the moment there is also room for improvement as most platforms tend to only offer simple investment options. "There are websites that do asset allocation calculations for the client on the pretext of providing a financial planning solution, but after calculation they route investors to a couple of sites, one for mutual funds and another for insurance," Agarwal says.

"How to ensure that the right amount of vigilance is maintained while selecting products for clients is one of the most important challenges faced by the gatekeepers of this industry today."
Contrarian asset manager playing key role in industry evolution

IDFC Asset Management puts not blindly following market trends, but investor experience, at the core of its value proposition, says Kalpen Parekh.

As befits its origins as part of IDFC Group, an institution set up in the 1990s to promote the advancement of Indian infrastructure, IDFC Asset Management has a firm commitment to the long-term, healthy development of the country’s investment landscape.

The firm, which is also 25%-owned by Natixis Global Asset Management, aims to stand out by not blindly following market trends, but by focusing on educating both advisers and investors.

This is a distinctive proposition in an Indian funds industry where investors have yet to fully benefit from growth of the country’s capital markets, according to Kalpen Parekh, managing director (sales & marketing).

In 2008, he notes, there were many infrastructure funds launched in India, on the back of the segment becoming a large part of the market cap, yet IDFC, despite its corporate background in infrastructure domain, did not follow suit until 2011, as it felt the valuations were expensive.

Similarly, in 2014 when the revival of the domestic stock market prompted the launch of more than 100 funds, IDFC decided to return money to investors in some of its thematic funds and portfolios as it did not believe valuations reflected companies’ earnings.

“We have come to the market to raise money at different points in time where valuation comfort is very high,” Parekh explains. “This is a counter-cyclical approach to fund management and an attempt to be asset managers rather than asset gatherers.”

Its flagship Premier Fund accepts only regular monthly payments and is typically closed to one-off investments - it has only seen opportunities and opened up to new money seven times during its 10-year track record.

Most Indian investors have not benefited from the performance of capital markets and the alpha generated by fund managers as they tend to buy...
mutual funds and asset classes at the wrong time. “They typically buy the second half of the cycle on the basis of the first half, chasing recent returns,” Parekh says. “Even though top fund managers have generated substantial positive alpha, investors’ portfolios do not reflect this as they do not stay through the whole cycle.”

India is still a young market with many new themes and companies emerging, so there is still room for alpha generation by fund managers. “At the last bull market peak in 2008 the Sensex was at 21,000, and today it is at 27,000, which is a mere 3% CAGR,” Parekh notes. “Good equity funds have delivered 15% to 20% CAGRs.”

IDFC offers 28 funds across various asset classes, including fund-of-funds and monthly income plans. It also has a UCITS fund on the Natixis platform with a three-year track record. Plus, it has now also launched a Mauritius-based feeder fund, that can feed into its flagship domestic Dynamic Bond Fund and Sterling Equity Fund.

**ENTERTAIN & EDUCATE**

The firm uses a variety of innovative and entertaining methods to encourage people to focus on long-term investment and avoid bad habits. It customises its approach according to channel, Parekh notes. “If you strip out institutional business, which is largely direct investment, the remaining 50% of our business is through private banks, retail banks, and IFAs,” he says.

For private banks, the firm aims to offer market insights, identify incremental market trends in companies and sectors, as well as thematic opportunities. On the retail front, IDFC emphasises long-term investing and financial planning, and creating opportunities for distributors to attract new clients.

Most famously, it created a movie called One Idiot, which teaches young people about the benefits of financial planning and investing for their future, and has now become an essential part of its sales process. “This is part of our investor education and client prospecting events,” Parekh explains. “We use popular culture as a means of messaging the benefits of long-term investment, compounding, beating inflation and the role of an adviser. It is a constructive market development.”

IDFC has made learning experiential and fun, creating games based on concepts like bond and equity investment called Macropoly and EquityBazaar.

The firm also emphasises that markets make money over time, but investors typically do not, as their behaviour prevents them being rational about market prospects. IDFC’s client and adviser events around behavioural biases and how to avoid them are a unique approach to helping investors succeed.

“The programme [aims to make participants] realise how they fall into traps of anchoring bias, confirmation bias or loss aversion. These are put into a real life contexts,” Parekh explains.

**FUTURE PROSPECTS**

Digital advice will be another characteristic of the Indian wealth management landscape in future, Parekh believes, although he notes that there has yet to be a platform created that caters to individual’s every financial need.

“You can draw a parallel with e-commerce models that are emerging [in other industries], and people are doing everything related to their lives digitally. We have yet to see that model in investing. The regulator needs to make certain processes simpler and easier for this to open up, but I see no reason why it would not become a very big trend.”

In terms of its own business priorities, IDFC aims use digital engagement to ensure its investors have a good experience. “It is critical for us to increase points of sale and through that grow the number of customers who invest with us,” Parekh says. “We need innovation and re-invention in terms of how the digital medium will scale up, and are looking at areas in which we can leverage technology in distribution.”

A shift from physical to financial assets is a third trend IDFC aims to take advantage of. “Appreciation of mutual funds is still very low, mainly because of the volatility associated with them in India, which has traditionally been a fixed-return market,” Parekh says.

The investment industry will need to play a part in this shift, he believes, and can start by orienting its products toward long-term investment, whether in equities or fixed income.

On average, Indian investors hold funds for two or three years, focusing on tax breaks rather than the concepts of investing for the long-term and compounding. A small shift is happening where retail investors invest in equity funds via monthly instalments with a horizon of decades, not years, but this has yet to reach scale.

“There should not be an obsession based on which asset class has done well recently,” Parekh says. “Our focus should be on the penetration of mutual funds as a category of investment, and asset allocation.”

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India drives funds growth led by education, not products

A Balasubramanian of Birla Sun Life Asset Management Company discusses the steps that the country’s asset management industry is taking to create more sustainable growth in mutual funds through investor education, spurred by regulation.

In a sign of the changing times for the asset management industry in India, companies are spending ever-larger sums of money talking about the kinds of things that matter to customers: the benefits of investing in mutual funds, for example.

It is well-known that this represents a growth story, but the angle of properly educating clients instead of pushing products is a newer one.

Fund houses have become motivated to go the extra length to create awareness about mutual funds among investors to adapt to the country’s new regulatory environment. Led by the Securities and Exchange Board of India (SEBI), there is a gradual move towards an advisory-based approach, and an ever-clearer distinction between ‘distribution’ and ‘advice’.

While some market players fear an advisory-based model might leave a large section of potential clients underserviced, given the limited number of advisers able to rise to this challenge, others see the large investment by asset managers as a game-changer.

“A lot of seriousness has come in terms of spending money in a manner that it reaches more customers. Basically, this will help the industry expand its reach,” says A Balasubramanian, chief executive officer of Birla Sun Life Asset Management Company (Birla Sun Life).

Over the past year, for example, Birla Sun Life, along with other asset management companies, has conducted a number of events across the country to educate end-clients. These are now increasing in number and frequency.

“It is just a one year-old initiative and now it is gaining momentum,” adds Balasubramanian. “Every asset management company has to undertake these initiatives round the year.”

The impact is already visible to some extent. “In 2014, the industry took on 2.5 million new customers. This year 600,000 customers have already been
added as of August 2015,” he explains. “In my opinion, this is the first sign of things changing.”

**A WORK IN PROGRESS**

With penetration of mutual funds in India at a relatively paltry 3%, the room for growth is indeed huge.

But the regulatory landscape on several key issues, including the often-confounding question relating to fees, is still evolving.

The regulators insist that investment advisers maintain an arm’s length from distributors so as to ensure their interests are aligned with those of the clients. For this to happen, an adviser’s income should come only from clients by way of a fee from the client for the service provided – and not through commissions on mutual fund products.

But India might still be some years away from a time when doing this can be profitable. “Unfortunately, customers are not used to paying fees,” explains Balasubramanian. “Investors expect free advice, and so they don’t like to pay for it.”

To make the advisory-based model profitable, he suggests incorporating into it the concept of trail commission.

“One could take cues from Singapore or a few other countries where an adviser can get trail commission from the product manufacturer or the asset management company. So, we will just have to see what tweaking is needed to make this model a success,” he adds.

Although the efficacy of an advisory model supported by trail commissions has also been found to be questionable to some extent, what could help matters is the regulator’s rather relaxed rules on who can be an adviser and who cannot.

As things stand today, anyone can be an adviser as long as they are able to hive off their distribution business into a separate entity.

This gives enough leeway to IFAs to make their business profitable, and yet keep an arm’s length from distribution.

“The regulator has not said that one should only become an adviser or a distributor of mutual fund products,” says Balasubramanian, who is also AMFI vice chairman. “It has only said that advisers will have to get themselves registered and create a name for themselves just as happens for other professionals such as lawyers and doctors. It adds credibility to an adviser,” he adds.

**MAKING INVESTMENT SIMPLER**

In addition to the changes on the regulatory front, the Association of Mutual Fund of India is undertaking steps to make investing easier.

It recently launched a new transaction platform called Mutual Fund Utility. This enables investment in multiple funds via a single form without writing multiple cheques.

“If I am an adviser sitting at a distributor advising a client on where to put his money, and the investor wants to put his money in one mutual fund, I go to the Mutual Fund Utility; if he wants to put that money into five mutual funds, I still go to the same place,” says Balasubramanian.

To spur further growth, the industry is also making a case for speeding up client on-boarding by simplifying the Know-Your-Customer norms.

One way of doing it, suggests Balasubramanian, could be by using the biometrically-authenticated unique identification number that nearly 80% of the population now has for the purpose of KYC.

“SEBI is working towards making this happen,” he explains. “If that happens, then on-boarding of clients will become very easy.”

In turn, this might add a whole new class of investors that are interested in mutual funds, too.

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**Tax incentives**

While education can broaden the role of mutual funds, a measure which will also dramatically increase the take-up of funds among investors is a wider product range when it comes to tax-saving funds.

*For example, a workplace savings plan like 401k in the US, which lets employees invest a portion of their pay-check before taxes are taken out, would benefit the industry in India.*

“The industry has been working with the government to create a platform on the lines of 401k,” reveals A Balasubramanian of Birla Sun Life Asset Management. “The proposal was sent to the government a few years ago and if that works out, there is a high probability customers will invest in funds of their own volition, instead of funds forcing them to invest.”
Steering a portfolio approach in India

With a wider variety of products available to wealthy Indians, yet the importance of managing the client’s overall portfolio as well as longer term needs, advice must be multi-dimensional.

India has seen a gradual expansion in the range of products available for wealthy individuals, with growth of alternative investment funds and pension products, for example.

In line with this, advisers need to have more strategic conversations with their clients if they want to be able to bring investment know-how and innovation to them.

At the same time, advisers need to ensure the right balance between tactical revenue generation, wealth generation and wealth preservation.

FINDING THE BALANCE

Given that most wealthy clients have been successful in making their money through their own businesses, an important focus for them is often the safety of their investments.

This is especially the case in markets full of risk, with Greece and China two obvious examples in recent months, say industry practitioners.

But the objective of mitigating risk mustn’t mean that the returns aspirations get sacrificing.

This is because investors still want to beat inflation and also meet their lifestyle goals.

With no one-size-fits-all approach for clients, Prateek Pant, head of products and services at Sanctum Wealth Management, formerly RBS Private Banking in India, says that some mandates might involve a lot of asset allocation with various portfolio optimisation elements.

Or, he adds, there might be a client who actively trades.
Yet conversations with clients certainly shouldn’t be just about investment management, explains Hrishikesh Parandekar, chief executive officer of Ambit Private Wealth.

When it comes to a discussion post a liquidity event, for example, this should be focused on the client’s objectives.

“These are likely to be around issues such as wealth protection and legacy planning,” he adds.

However, because so much wealth in the domestic market originates from business earnings, Indian clients often act and behave as if they know a lot about money.

This creates a bigger challenge for advisers trying to give them guidance.

As a result, fewer clients value advice, and an even smaller number are willing to pay for it.

**ALL ABOUT ALPHA?**
The focus on alpha in India creates an interesting dynamic for the advisory process, say industry practitioners ask them what performance they are striving for, and at what level of risk.

Practitioners say that the commonly-stated goal of 15% returns is a thing of fantasy unless clients are willing to contemplate a potential downside of 20% in the next few months.

Until this reality starts to set in, the investment process in India will therefore remain less rational than it might be in other markets.

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"The industry will look to use digital in a way to both create innovation in the product cycle as well as increase penetration.”

**PRATEEK PANT**
Sanctum Wealth Management

"The commonly-stated goal of 15% returns is a thing of fantasy unless clients are willing to contemplate a potential downside of 20% in the next few months.”

The starting point for an adviser to add value in a conversation with clients about their investments, should be to "I would stay as far away as I can from alpha when advising a client’s overall portfolio," says Parandekar. “It is more

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**WHEN TALKING TO AN INVESTOR ABOUT AN ASSET CLASS OR FUND, WHAT DO ADVISERS FOCUS ON AS THE KEY SELLING POINT?**

<table>
<thead>
<tr>
<th>Performance of the fund Brand</th>
<th>56%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Knowledge that the manager has excellent client service</td>
<td>6%</td>
</tr>
<tr>
<td>Ease of explaining the product to the client</td>
<td>19%</td>
</tr>
<tr>
<td>Innovation of the product</td>
<td>19%</td>
</tr>
</tbody>
</table>

Source: Hubbis Indian Wealth Management Forum 2015
about trying to be realistic about the types of risk being taken and returns generated.”

It is a mis-match which he predicts is set to continue due to the nature of the Indian market.

Alpha should, he adds, come into conversations about specific opportunities on a case by case basis.

STAYING MORE ACTIVE
When advisers and investors alike do strive for outperformance, those wealth managers which can get their tactical asset allocation calls right will inevitably create alpha for their clients.

And in these cases, there is greater justification for charging fees.

To date, products specialists say that the investor experience in buying mutual funds has been fairly positive, with the outperformance to the benchmarks being quite impressive.

As a result, the potential replacement of actively-managed strategies by more passive instruments is less likely in any volume for the foreseeable future.

WHAT WILL BE THE BIGGEST GAME-CHANGER FOR INDIAN ASSET MANAGEMENT IN THE NEXT 12 MONTHS?

<table>
<thead>
<tr>
<th>Robo-investing</th>
<th>27%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fee pressure / regulation</td>
<td>60%</td>
</tr>
<tr>
<td>Passive investing</td>
<td>7%</td>
</tr>
<tr>
<td>More offshore investment access</td>
<td>7%</td>
</tr>
</tbody>
</table>

Source: Hubbis Indian Wealth Management Forum 2015

“What would be helpful for asset managers in developing deeper relationships with product gatekeepers is improving the consistency of returns.”

VINAY BAJPAI
Deutsche Bank

“When advisers and investors alike do strive for outperformance, those wealth managers which can get their tactical asset allocation calls right will inevitably create alpha for their clients.”

The higher demand for alpha is also tied to what Gaurav Pant, vice president and fund manager at DSP BlackRock Investment Managers, says he observes: an increasing consideration and demand for liquidity and risk assessment on behalf of clients, post 2008 and 2009.

He says that the reason why more global clients speak about the development of alternatives is with the objectives of diversification and enhancing risk-adjusted returns in mind.

According to Parandekar, there is a great potential for alternatives more generally in India. “How an alternative fits into a portfolio and is able to meet an individual client’s objective will determine applicability,” he adds.
Essentially, this is an evolution of strategies which have been around for many years. But they are now increasingly being formalised as part of a more mainstream wealth management offering, explains Parandekar.

Although, he adds, he is sceptical of investments on the fringes sold as part of a bubble or fad, such as art funds.

SELLING POINTS
According to an audience sentiment poll, what most advisers focus on is the performance of a particular fund when talking to an investor about an asset class or investment. While this isn’t what they should do necessarily, this reflects what clients are looking at.

What would be helpful for asset managers in developing deeper relationships with product gatekeepers, therefore, is if the managers can improve the consistency of returns, according to Vinay Bajpai, head of product at Deutsche Bank in India.

According to the audience sentiment, however, improved client service and communication is key.

GAME-CHANGERS
In looking at the potential for disruption in the distribution mechanism, digital seems to be on the minds of many practitioners as the most likely source.

“The industry will look to use this channel in a way to both create innovation in the product cycle as well as increase penetration,” says Pant. He adds that he expects this to lead to a different look-and-feel on both the manufacturing side as well as distribution going forward.

The audience sentiment, however, was that the biggest game-changer for Indian asset management in the next 12 months will be fee pressure stemming from regulation.

HOW SHOULD ASSET MANAGERS DEVELOP DEEPER RELATIONSHIPS WITH PRODUCT GATEKEEPERS?

- Improve the consistency of returns
  - 14%
- Improved client service / communication
  - 43%
- Better-trained salesforce
  - 21%
- Reduce number of products
  - 14%
- Focus on fewer relationships
  - 7%

Source: Hubbis Indian Wealth Management Forum 2015
Making “advice” count in India

A key concern for India’s wealth managers is choosing between fund distribution and advice. Dhruv Mehta of Foundation of Independent Financial Advisors (FIFA) says the market will only see the proliferation of workable, fee-based models if regulations allow a hybrid approach.

Recent regulations in India have created a distinction between “fund distribution” and “advice”. These new rules effectively bans financial advisers from receiving commissions.

However, a lack of regulatory clarity is leaving wealth managers in the country confused about how to adapt and evolve their business models in this new environment. They are uncertain how to create investment advisory processes which encourage investors to pay for the advice they get.

“At the same time, the Securities and Exchange Board of India (SEBI) recently expressed unhappiness with how asset management firms lack self-discipline in rationalising the commissions paid to distributors of mutual funds.

Payments have doubled from INR2,500 crore (USD393 million) for the 2014 financial year (FY) to INR5,000 crore in FY 2015.

The maximum expenses as a percentage of AUM that any fund scheme can charge to an investor. Commissions paid to distributors upfront and as a trail fee are within these limits.

“There seems to be no advantage to successful distributors turning to being an ‘adviser’.”

“The commissions have gone up because of the growth in AUM,” says Dhruv Mehta, chairman of FIFA.

“FY 2015 saw net inflows of INR81,000 crores against redemption of INR10,364 crores in FY2014. FY 2015 saw gross
flows triple to INR1,63,776 crores from INR50,391 crores in FY2014.

"In fact the fund distribution community must be commended to get customers into equity in 2015 as all of them would have experienced good returns and the country witnessed a shift from unproductive physical assets to productive financial assets."

Even the SEBI chairman has acknowledged that most active funds have generated superior returns by beating their benchmark.

Adds Mehta: “This is post expenses, including commission cost being built in the product. So in fact, it is a win-win for everyone, including the client.”

He emphasises the need to highlight the wealth created by distributors for investors and also that the increase in commissions is in line with increase in equity AUM, translating into higher fees.

This practice is in line with any industry or business model.

**DISTRIBUTOR VERSUS ADVISER**
Recent regulatory changes in India mean an individual can now either be registered and hold a licence as a distributor of funds with the Association of Mutual Funds in India (AMFI), or have an advisory licence issued by SEBI, and therefore cannot accept commission.

Ironically, a firm is allowed to possess both types of licences.

As of May 31, SEBI only had 295 applications for its new advisory licence.

The issue, says Mehta, is that clients are not currently demanding a fee-based service in preference to a commission-based distributor.

This is because clients experience successful distributors aligned with their interest, and therefore do not see any conflict of interest arising out of remuneration paid by fund houses.

Thus there seems to be no advantage to successful distributors turning to being an "adviser".

Being a financial adviser also implies having a fiduciary responsibility to clients, says Mehta. “This, however, is what SEBI is also imposing on distributors,” he adds.

The move towards investors paying for the advice and service they get from an adviser has caught a lot of attention.

It has been adopted so far in the UK and Australia, where mutual fund AUM are in the trillions of dollars. As a percentage of GDP these totals amount to 110% and 40% respectively.

The US, meanwhile, is the biggest and the most developed market for mutual funds. The total AUM invested into these funds there is USD17 trillion, or 91% of GDP.

The US mutual fund market has adopted the hybrid model, which consists of having both fiduciary advisers and commission-focused salespeople.

Mehta believes India would be well-advised to follow the same.

**MANAGING CONFLICTS**
For Mehta, the key issue is one of motivation. He argues that advisers and distributors are ultimately paid by their clients. As a result, they have to ensure that their interests are aligned with customers to be successful.

"Clients should be allowed to choose from a fee-only, commission-only, and a fee-and-commission service. The choice should rest with the client and not be decided by regulation."

Theoretically, any bilateral relationship or transaction has an in-built conflict of interest as each party tries to maximise its gains, adds Mehta.

Yet in the real world, he explains, the solution is not to try and eliminate these conflicts entirely, but to successfully manage them and ensure neither side is overly powerful.

Finally, Mehta says, clients should be allowed to choose from a fee-only, commission-only, and a fee-and-commission service.

"The choice should ultimately rest with the client and not be decided by regulation," says Mehta.
Building portfolios and solutions for the Indian opportunity

Some of India’s top asset managers came together at a recent Hubbis roundtable in Mumbai to discuss how the industry needs to approach education for investors and distributors – and ensure portfolios can be built to tap the market potential over the long run.

HOW WOULD YOU EXPLAIN THE INVESTMENT OPPORTUNITY INDIA REPRESENTS TO AN INVESTOR THINKING ABOUT THE NEXT 5, 10, 15 OR 20 YEARS? WHAT WOULD YOU ADVISE THEM TO INVEST IN AND WHY?

Basu: Before you talk about the investment opportunity and start a conversation with a client, I think the most important thing is to explain to the client why they are investing, the appropriate behaviour and approach to investing, and mutually deciding on the key investment goals.

What makes sense and what is sensational are two different things. What makes sense in a portfolio is asset allocation and the duration that the client holds a product for, while keeping emotions at bay.

Those are the things that are sensible for investing, but investors get carried away with things that are sensational yet have very little impact on the portfolio returns.

If you look at the equity and debt markets in India today, there are some things that are clearly working in your favour. The current account deficit and the fiscal deficit are slowly coming under control, the inflation is coming down to moderate levels and the government is making the right kind of noise in terms of fiscal consolidation. Overall, you are in a situation where the economy seems to be slowly recovering from the lows.

Once growth returns, it will be easy for corporates to start earning and producing better ROE, which is where the opportunity lies in the equity markets.

Having said that, the markets have run up in the last two years, on the basis of expectations of earnings growth. This has to come true for the markets to sustain. We see some pockets of opportunity in some spaces across equity markets, where key things like earnings growth and pricing power has returned and where the industry is consolidating.

Participants
Arun Sundaresan
Deputy Head - Product Management Group
Reliance Capital Asset Management
Aashish Somaiyaa
Chief Executive Officer
Motilal Oswal Asset Management
Vaibhav Sanghavi
Managing Director
Ambit Capital
Amit Basu
Head of Products
IDFC Asset Management
People today are expecting a V-shaped recovery but they may be disappointed for a few reasons. Primarily, the balance sheets in corporate India are massively leveraged and that is going to take time to return to normal. The leverage, in turn, puts the ROE under pressure, which in turn affects the ability of the business to invest more capital since the risk-free rate in the market is as high as 8%.

Under such circumstances, you have to be a patient, long-term investor prepared to weather the short-term fluctuations and keep emotions out of it.

This means the ability of economic agents to service debt also is reducing, at least in some pockets. This signified that you have to be very careful in terms of choosing what kind of debt strategy you prefer as an investor.

We think the balance today is tilting toward a duration play rather than a credit play, in India.

Sundaresan: India’s household financial savings is about USD 150 billion per year whereas combined assets in the Indian mutual fund industry is about USD 200 billion.

The industry has picked up flows over the last year and so. The last few months have showed an average net inflow (inclusive of systematic commitments) of about USD 1 billion per month in equity schemes. However, it’s still below the potential. Investments from the household sector can possibly complement FIIs flows. FIIs invest on an average about USD 13 billion to USD 15 billion in equities per year. Domestic investments into financial assets can significantly go up from the current low levels. At present, Indians have a high inclination towards investing in physical assets. In India, equity assets total about USD 300 billion you can say, whereas gold is estimated to be about USD 1.5 trillion and real estate is estimated at about USD 12 trillion.

While we are quite happy about the way things have started picking up in the last one year, much needs to be done in this space. Hopefully, with more people becoming aware of the potential returns and benefits, more people are likely to invest, which should go very well for the markets.

We have been optimistic about equity markets for a while now and will hold on to our optimism, regardless of global volatility resulting from the situation in Greece yesterday, China today or the Middle East tomorrow. These things cannot be anticipated or planned for. Our fundamentals are fairly robust and we have seen a lot of macro improvements. Inflation has come down, the government is making visible efforts for fiscal consolidation and reducing the
current account deficit, been fiscally prudent by reducing spending on the populous subsidy schemes which is a good thing from a market perspective. What is important now is the implementation of the reforms which will help the earnings to pick up.

As far as fixed income markets are concerned, we are in a very sweet spot. Unlike equities, we are not dependent on foreign flow as the overall fixed income exposure of foreign investors is only about 2% of the outstanding holdings. As a result, it is more domestic focused. The real yield across the curve has been positive and relatively high, making us optimistic on the fixed income space.

Somaiyaa: Whenever there is a crisis that hits the shores, there is some kind of trigger. A 6% fall in the market in a single day in China is definitely a big trigger that points to the fact that there are definitely some serious issues out there. I think it would be very unrealistic to assume that we have heard the last of it and from here on there is going to be a V-shaped bounce back.

This is not the last of it – in fact, this is the beginning of what has started to emerge. Over the next six months to a year, there is going to be a lot of turbulence as far as global factors are concerned. Only when the US does actually get into a lift off, the deep issues related to China will be discovered and the related domino effects will be felt. China is a major trading partner because it is a major consumer & supplier of a variety of products.

The first time the market falls 6%, you don’t see the complete spectrum of damage but I think there is going to be a good amount of domino effect and there will be collateral damage.

As far as next few days or few weeks are concerned we would be circumspect and closely watch what is happening. As far as India is concerned, somebody recently joked that there are more number of traders who have been waiting for it to rain than there are actual farmers who have been waiting for it to rain.

That’s just an indication of the kind of scenario we have. The best of fund managers and analysts today constantly complain about the hawkish nature of the RBI governor, that the government is not delivering, and about the uncertainty in China.

Since the time the new government was formed last year, a lot of people have positioned their portfolios for a high beta kind of activity, which is not totally wrong. Last year, just before the election results came, April and May 2014, the Indian equity market was absolutely indiscriminate. It didn’t matter what stock you were holding, everything was just flying. Then, all of a sudden, there was this feeling that the government isn’t delivering, it is not raining enough, the RBI is hawkish, the international scenario is not playing out as per as expectations and so on.

There is a huge number of people who have positioned portfolios for a certain kind of environment and they have invested in a lot of companies where the locus of control is in the environment and not in the company itself. A lot people have made investments based on a top-down macro analysis and the environment is not very suitable at the moment. The next one year is going to produce mixed results and people will have a tough time, depending on what they’ve bought and where they are invested.

THERE SHOULD BE A SOLUTION-BASED CONVERSATION BETWEEN AN ADVISER AND THEIR CLIENT WHERE THEY TAKE A VERY LONG-TERM VIEW IN THEIR INVESTING. HOW SHOULD THE CLIENT THINK ABOUT THEIR SAVINGS OR INVESTMENTS?

Somaiyaa: Serious long-term wealth creation happens when you invest in companies which have a sustainable earnings trajectory – which is why we propagate this ideology about buying right and sitting tight.

We look to invest in companies with three serious attributes. One is business and management quality, second is growth orientation and the trajectory of earnings growth, and the third is longevity or sustainability. If a company
has these three attributes and all this is quantified, then we look to buy at a fair price.

The entire thought process is around avoiding investment in companies whose control is way away from the company and more centred on the environment and macro developments.

Since the macros have gotten very challenging, our investment philosophy stands out when we have conversations with clients. At a recent conversation with private bankers evaluating our fund which has a portfolio of 15 stocks, the discussion was centred on every stock that we hold, why we hold it and the outlook for the next few years since the portfolio was strictly bottom up.

At the end of the meeting, they complemented me because they had a similar meeting last week and the entire discussion was on the macro and the environment. That’s where the difference lies.

When you are buying companies with the clear understanding that wealth will be created only from their earnings, and you are buying it strictly on a bottom-up basis, you try to keep your portfolio as sheltered from the macro as possible.

I am not saying that top-down never works, but the last six to seven years has become extremely difficult.

Sanghavi: To have a long-term view on investing in equities is great. The only problem with this is you have to counter the behavioural aspect of an investor. If everybody understands and invests for the long term, then there would be massive creation of wealth but that doesn’t necessarily happen.

We have seen time and again, peak inflows coming into equity markets at the time of maximum euphoria. You can take any historical period for example, you will see maximum interest by retail investors coming at the peak of the markets and leaving when the market bottoms out in a year or two.

In equities, long-term is normally three to five years at least. If it is three to five years, one has to understand that there are possibilities of draw-downs and if somebody is not comfortable with the draw-downs, you should look at alternative products and a longer term. On the debt side, in a decreasing interest rate scenario, I think all goes well for fixed income guys. However, for serious wealth creation in equities in the long term, one has to truly understand the behavioural aspects.

If you are in your mid-20s and it’s a 30- to 50-year engagement, not three to five years, to what extent do you think the industry has to think more about solutions as opposed to products?

Sanghavi: Retirement and pension products are for the longer term and can create some good wealth.

However, the level of education and the level of awareness around the products are pretty low and there aren’t many products available.

“The mutual fund or the pension fund industry can come up with different kinds of product for investors and I would like to see an allocation towards these kind of products for longer term wealth creation in the portfolios.”

As an industry, I think attracting investments into these products needs a huge amount of education. First of all, to get investors to give mutual funds a chance,
and then retirement and pension funds. It needs a logical evolution.

Sundaresan: Today, not investing in equities is actually a risk for Indian investors. Their allocation to equities as such is very low. Whether you look at a 20- or 15-year time frame, or even in a short tenure like three to five years, the returns have been fairly good. Probably the benefits of equity investments are not understood well enough and the risks are over emphasised.

Equities have given fantastic returns. To give you some perspective, we have this fund called Reliance Growth Fund we launched in 1995, INR 0.1 million (INR 1 Lakh) invested then is worth INR 8 million today which is a compounded return of close to about 26% after expenses. If you look at the stocks during this time, less than 3% or 4% of the stocks have given better returns.

For the longer term, when you believe that India is a developing economy, it will grow well, the conclusion is that equities will do well and professional fund managers should do much better. That's what history suggests.

We of course adopt a very diligent approach towards investment by asking the right questions: which companies are most likely to benefit in this environment? Pick up good quality companies which are likely to sustain their earnings and profits over a period of time.

That's how we have created wealth over the years.

In terms of products, we offer a variety of products to suit different requirements within asset classes. For example, funds which focus on the large cap-oriented companies and those that focus on mid-cap companies, there could be quite a bit of difference in their performance. Then, there are a whole lot of products which have varying components of equity and debt. There are products which allow you to invest in international markets, and there are multi-asset kind of products which allow you to automatically switch between different asset classes.

Increasingly, the industry, and we at Reliance in particular, is slowly trying to move towards a solution-based approach. Recently, we launched a retirement fund, and we designed the product in a very simple manner to take care of the different stages of retirement. The stage before retirement in which you need to accumulate wealth is dominated by equities and the post-retirement phase is dominated by debt which has a component of equity to take care of inflation in the post-retirement years.

WHERE CAN AN INVESTOR FIND VALUE IN THE MARKET?

Basu: If you want to understand the basics of making alpha, you must understand “EFGH”.

They stand for emotions of fear, greed, and hope – and that is one of the key parameters on which you decide whether you make alpha or not.

If you are a victim of fear, greed, or hope, the chances are that you will not make alpha even if your portfolio has the right qualities. The second is the fact that investors are a big believer of the laws of physics, which dictate that there is the action and reaction phenomenon. Whenever this law of physics is broken, where you find that you have not done any action but the reaction on the portfolio just taking the wealth away, emotions creep in. If you go to a bank and place your money in the bank fixed deposit (FD), unless you do something there is no reaction happening on the FD. If you buy a fixed income instrument which has a maturity, which is defined maturity, if you don’t break that maturity instrument, there is no reaction on your portfolio valuation.

When you enter the market, and the law of physics is broken, that’s when emotions come in and it’s very important that we have a huge emphasis on behaviour rather than portfolio as the first principle.

This should be the first thing we teach investors. Having explained the importance of behaviour and emotions, to investors, we try to educate the distributors and advisors about the behaviours, biases and the risk that investors go through and how we can handle them better.
As a result, it’s not a one way programme; we also share with distributors where they can handle their clients better on their behavioural aspects.

If you specifically come to the market and look at the alpha, we divide the market into four broad categories: banking and financial services; growth and investment economy; consumption; and exporters.

Under these four categories, we analyse the market. Banking, I think the PSU banks are still under a lot of stress and there are mixed bag result in Q1. We are more concerned and keen to partner with private banks who are running a retail franchise and a retail lending book or with an NBFC than a PSU bank at this stage.

On the investment side, we see a lot of announcements by the government on infrastructure investments, but it’s actually limited to a few pockets, especially roads, ports and EPC sector, and now portfolios are getting aligned.

We are not making a case for infrastructure, but only for select pockets under the infrastructure theme where we see a lot of earning feasibility.

On the consumption side, there are pockets where we see some earnings growth happening, in terms of discretionary spends, companies are getting that advantage.

On the export side, we think technology has to reinvent itself. The word “digital” is taking things in a different stream altogether.

The key is the ability of IT companies to reinvent themselves and understand the nuances of that space, and capture opportunities that are going to drive IT companies’ earnings growth.

Another play on the export side is the pharma sector, where we play the large companies because they have more ability to withstand regulatory changes that might happen.

Sanghavi: Whether you talk about alpha creation on a relative return or an absolute return basis, it’s a diverse set. We create alpha by generating absolute returns, consistently, year on year, irrespective of where the market goes.

For us, the definition of alpha is that, over longer periods of time, our objective is to generate about 15% to 20% year on year.

Right now, 15% to 20% doesn’t look too exciting in a beta market like India but if you go back in terms of the data which is available from 2001, where the index has given returns of about 14% to 14.5% on a CAGR basis, achieving that 14% to 15% and outperforming is our objective on a longer term basis.

Somaiyaa: Clearly, if you think about delivering alpha to a client’s portfolio, there are a few sectors that really stand out. Since we are strictly bottom up, our starting point is not really the sector but a search for where we are more likely to find some of the winners.

From that perspective, I think auto and auto ancillaries are clearly a choice because increasingly there are chances that India will turn into a global hub. Private sector banks and NBFCs are another choice.

Third is the FMCG sector in terms of white goods, apparels and textiles, for example. The fourth one is pharma.

A lot of times, there are couple of pitfalls when it comes to delivering sustainable alpha in India. One is that we try to time the cycle and display cowboy-ish behaviour. There is a huge issue as far as style drift is concerned.

Most people either do not profess to have a philosophy, or profess to have a philosophy but they don’t follow it. From that perspective, we are very clear about what we will do, what are the do’s and don’ts, and as far as delivering alpha is concerned whatever are our four or five kinds of favourite sectors.

AS INDIA MOVES IN THE DIRECTION OF PROVIDING ADVICE, HOW MIGHT THE FRAMEWORK EVOLVE IN TERMS OF MORE RATIONAL INTERACTIONS WITH DISTRIBUTORS AND ALSO IN RELATION TO HOW PEOPLE DECIDE HOW TO INVEST AND CREATE PORTFOLIOS?

Sanghavi: Since our product is pretty new to India and to distributors themselves, we have found that after initial apprehension, distributors are quite open to exploring the new idea of something called risk-adjusted returns.

Though a little slow, the fact of an alternative asset class apart from your normal traditional debt or normal traditional equity is starting to seep in and wealth managers are looking for products in these areas.

Having said that, we also see the Indian industry is slowly graduating towards active versus passive, in keeping with global trends.

The wealth managers, going forward will place a huge amount of emphasis
on the process of investments, especially on passive or something like an ETF, whereas there will be a distinct class of active asset management which is aimed at absolute return generation.

Sundaresan: One of the issues is that most advisers go by past returns and tend to make decisions purely based on a quantitative assessment. They may look at the last three years’ data, for instance, to categorise funds. They may not necessarily look at the benefit of diversification that different funds could bring within that categorisation. So, merely by adding three or four funds, investors will not get the benefit of diversification unless the funds and their styles are different.

They need to pay more attention to that rather than only the quantitative assessment. The important point would be to understand the current context and how the funds are being positioned and marry that with their own view of how they think the client should go about it.

That’s the way they should pick styles of funds, while the overall emphasis should be on asset allocation. Obviously, that has to be different for different investors depending on their appetite and the actual requirements.

Basu: Look at the way Indians have allocated their savings. The bulk of it goes to real estate, gold and in the bank. And yet there are no regulations for the markets of gold and real estate.

So the first step should be to get more money into the mutual funds space and then we can start thinking about how to allocate between mutual funds. That has been a herculean task, and as an industry, we have not been successful so far for a couple of reasons.

First is that it’s not important what you know; it’s more important for others to understand how much you know.

We have been talking to clients and customers in a more rational way to tell them how we will invest their money.

However, they are interested to know what will happen to them if they give us money, not what we are buying.

That’s where I think the insurance industry has succeeded because they have been able to tell customers what’s happening to them should they give them money – whereas we have been talking about what we will do with the money that they will give to us.

For example, whether we will put in infrastructure, or a bank, or consumption, or whatever.

The communication has to be simplified and has to be made in a manner where the customer understands the benefits out of investments and that’s where we are lacking.

Secondly, I think as an industry we have started work on financial literacy a little late and we could have been in a better position had we started the work on investor awareness earlier.

However, we are now on the right path and all of the mutual funds have now created investor awareness and financial literacy programmes.

Somaiyaa: I personally feel that as an industry of product manufacturers, we are not very clear whether we are a B2B or B2C industry.

We first need to be very clear whether we are communicating to the channel or to the investors.

When we speak about controlling or guiding investors through their own psychological biases, handling investor psychology is a distributor’s job.

However much I do as a manufacturer, I have certain competencies.

As a result, it seems to be best that we stick to B2B and not confuse ourselves with what the investor wants, because I don’t think that an investor who is catered to directly by a manufacturer is in safe hands.
Fund market growth allows for innovation in India

The sheer size of the Indian funds market now allows for innovation, creating new opportunities on the product front and allowing the entrance of advanced technology in distribution, believes Reliance Capital Asset Management (RCAM).

Since the introduction of the private sector to the Indian mutual fund landscape in 1993, before which there were only government-sponsored schemes, the industry has seen huge growth, particularly over the last 13 years.

According to www.moneycontrol.com, by the end of March 2015 the industry had soared to AUM of INR11.87 trillion (US$188.73 billion across some 1,884 individual schemes).

Although these are huge numbers, the industry does not yet have the diversity its size might indicate.

According to mutualfundindia.com, the market is dominated by income funds that invest largely in bonds, of which there are 1,173.

Open-ended equity funds are a long way behind in second place, with just 303 schemes, and there are only 58 exchange traded funds (ETFs).

The dominance of certain types of fund despite the huge size of the industry presents a big opportunity for asset managers who are prepared to innovate, believes Himanshu Vyapak, deputy CEO of RCAM.

“'The sector only started to open up 15 years ago when you did not have the size of market that could cater to innovation,’ he says.

“That is changing now and much more can be done on the technology front and in product development.’

OPPORTUNITIES

Vyapak believes that the domestic growth story for the industry is far from over yet, particularly on the domestic front, although he also acknowledges there is some opportunity for international business.

“We have reached a threshold and the next leap will be in the domestic mutual fund market. We expect it to double in the next five years. India is already a US$2 trillion economy and in six or seven years this will also double.”
The fact that India is now paying more attention to investment products, having been predominantly investing in physical assets such as gold and real estate, is another factor that will benefit the industry.

“There is a huge opportunity [for asset managers] to benefit disproportionately from that,” Vyapak says.

Fund managers with the capacity to innovate and tap this emerging opportunity will have an advantage over their peers, he believes. However, from investors’ and distributors’ perspectives, performance should continue to be the key factor.

Beyond this, he suggests the industry will also need to up its game in terms of how it interacts with stakeholders in areas such as training, relationship management, products and servicing.

“On the distribution side we are consistently ranked as one of the top asset managers for engagement,” he adds.

And there have been other success stories, he notes, including some of RCAM’s closest competitors. These companies have built up a long track record of wealth creation and “done some great work” to become “clear leaders” in segments such as fixed income, Vyapak says.

“It also pioneered a debit card that links to mutual fund investments.

RCAM has also been taking the lead in distributor education, having established a paperless transaction portal exclusively for their use and introduced certification courses on subject such as goal planning.

HELP FROM REGULATORS
As well fund managers’ own efforts, he believes regulators have a part to play in fostering innovation, particularly in contractual savings.

“Penetration of retirement services is huge across developed markets and this is something we would like to work on here. The industry wants the regulator and the government to give us some specific regulatory and taxation benefits,” he says.

“This is a huge space that could provide long-term, stable assets [to the industry] and help the penetration of funds.”

Vyapak would also like regulators to open up derivatives to the funds industry, including leveraged funds akin to those in more established markets.

The Securities & Exchange Board of India (SEBI) has already opened up the stock exchange for mutual fund subscriptions and redemptions. Giving fund managers the opportunity to innovate by accessing a wider range of underlying assets in new ways would seem a logical next step.

“We could do a great deal using mutual funds as an underlying but cannot use derivatives much at the moment, although I do expect this to happen over the course of time,” Vyapak says.

Although more could be done both internally and externally to help India’s fund industry grow, he agrees that it has already come a long way.

Indeed, regulators do not often get praise from those they regulate, but this is not the case for Vyapak, as he says: “SEBI has created a very robust and transparent platform [for the mutual fund industry].

“The system was tested by the financial crisis in 2008 and again in 2013 and has held firm.

“This in itself can help propel the industry to the next level.”
What it takes to survive and thrive as an Indian IFA

IFAs in India must choose their path between staying niche or building a larger, more corporatised firm – and then tread down it carefully amid a new regulatory landscape and growing expectations about type of the client experience required.

With tens of thousands of IFAs operating across India, standing out from the crowd and being profitable is the goal they should strive to achieve.

Most will fail, so there needs to be a clear understanding of the factors for running a successful IFA business.

This needs to address issues such as: how to provide value for money, what’s required to add value, whether the individual or the brand matters most, what a holistic approach looks like in India today, finding the right partners, and weighing the merits of one-stop-shops versus specialist advice.

SHIFTING LANDSCAPE

In trying to define what an IFA is and does in today’s environment, the regulation covering investment advice is expected to be a game-changer.

“There is a flaw in the overall IFA model.”

JAYANT VIDWANS
Society of Financial Planners

“The regulation covering investment advice is expected to be a game-changer [for IFAs].”

JAYANT VIDWANS
Society of Financial Planners

“It is moving the whole advisory industry from being small scale to something which is more complex, with higher entry barriers and a greater need for professionals,” says Vishal Dhawan, founder director and chief financial
As a positive step forward, he says it will take time to evolve, but adds that it will gather momentum.

“Regulatory changes are moving Indian advice to another level in relation to global standards.”

VISHAL DHAWAN
Plan Ahead Wealth Advisors

Dhruv Mehta, chairman of the Foundation of Independent Financial Advisors (FIFA), says those individuals and firms more focused on distribution won’t feel much of an effect.

“This is because their revenue model comes largely from the manufacturer.

For larger organisations, however, and those increasing their scale towards more of a corporate set-up with a broader range of products, they need to get their licence to offer clients more advice, especially if clients are looking for fee-only services.

“The clients will be the ones to drive the type of service delivered,” explains Mehta.

The longer term impact of the regulatory changes, which are expected to last for the next few years, will be growth for the industry overall, adds Roopa Venkatkrishnan, who is secretary of FIFA.

This is needed, says Jayant Vidwans, chief financial planner at Chaitanya Financial Planners, who sees flaws in the overall IFA model.

“As an industry, we need to look at this positively in terms of how we can move forward in line with these regulatory changes,” she explains.

For example, adds Dhawan, it can increase respect for IFAs in the eyes of the consumer.

This is especially as it will force individuals and organisations to raise their game in their efforts to build the types of more professional businesses that are now required.
STEP BY STEP
The views of some leading practitioners suggest that regulations might have come a bit ahead of their time as far as IFAs are oriented.

Perhaps there should have been more of a transition period, they say.

For example, this might involve a hybrid model could have seen an IFA act as a distributor and also charge a fee at the same time.

Customers would, in such a scenario, be able to determine which model to opt for.

For instance, this could be possible after they had a chance to experience and assess the options – whether this is fee-only, commission only or an approach which is a combination of fee and commission.

Current regulations don’t allow an IFA to adapt their model depending on the needs of the customer, says Mehta. “This is restricting the business and is an obstacle to the growth of the IFA segment,” he explains.

SUPPORTING SUSTAINABLE GROWTH
In addition to the regulatory changes in relation to advice versus distribution, IFAs in India continue to face various hurdles, say practitioners.

As a result, Venkatkrishnan says that IFAs have barely touched 10% to 20% of the overall market across the country.

One of the stumbling blocks to them being able to articulate a clearer value proposition, for example, stems from the limited range of products available.

Another is how to evolve the brand over time. While, as Dhawan explains, the individual and the brand initially co-exist within financial advisory firms, the question which proves difficult to answer is: at what stage does the brand need to be represented by more than just the business owner?

From more of an industry-wide perspective, Mehta says the community should work together more closely in order to develop a code of ethics and some type of certification, along with a continuing professional education standard.

“This is what will lead to us being recognised as a profession,” he explains. “However, this will also require self-discipline.”

But only then will firms have more credibility across the investor community and in the eyes of regulators.

In turn, this will also create more opportunities for career progression, and will also breed a greater pool of talent over time.

“The most successful IFAs in India are not product centric. They are more focused on solutions for customers,” adds Mehta.
India’s advisers get ready for onshore structuring opportunity

Wealthy, global Indian families are starting to realise the need to set up succession structures in India for their assets in the country, says Navita Yadav, chief executive officer at IL&FS Trust Company Limited (ITCL).

Based on a 2014 report, total Indian individual wealth in financial assets stands at about INR134 trillion (US$2.4 trillion) and that holdings of physical assets (real estate and precious metals) are INR122 trillion, a marked increase of 28% compared to 2013.

This surge in domestic wealth has triggered the need to preserve wealth using various succession structures aimed at seamless transfer of assets to the next generation.

Trust structures are the preferred mode of managing and passing on family assets in the most efficient manner.

Increasingly, they are being used for succession planning and the distribution of assets to that next generation.

A growing number of families are setting up trust structures to counter issues stemming from family disputes, divorce and other personal challenges.

Special needs and philanthropy objectives can also be achieved through trust structures.

In fact the new, savvy generation is more open to creating structures for protecting corporate and personal assets from day one.

Either way, according to Yadav: “We are getting a number of queries from wealthy families who are intending to set up succession structures for their Indian assets.

“We are also seeing a large number of NRIs (non-resident Indians) who wish to set up domestic structures to cater to their Indian assets”.

Interest in trust structures is also being boosted by growing recognition of the need to avoid “frivolous use of intergenerational wealth”, which is exacerbated by the increasing number of second generation wealthy who have no interest in carrying on their families’ businesses.

Against this backdrop, ITCL has become one of the leading integrated corporate trustees in India, with assets under ad
India’s advisers get ready for onshore structuring opportunity

ITCL caters to global Indian families and UHNW individuals and assists them on matters including structured succession, inter-generational wealth transfers and in setting up family governance structures.

Its value proposition encompasses specific services such as the design of legal structures to contain family wealth, private family trusts, estate planning, and tools for family governance such as codes of conduct and family constitution documents.

ITCL’s stated aim is to become a “preferred global trustee and advisor delivering value to our clients, in a rapidly changing environment, through independent advice, innovative solutions and effective risk management.”

TRUE INDEPENDENCE

No conflict of interest is IL&FS Trust’s USP, according to Yadav, a 20-year veteran of the financial services industry in India. “We are independent of brokers, custodians, and wealth managers, and hence we can provide independent oversight of the activities of the trust,” she explains.

“Yes. Essentially, ITCL acts as a second pair of eyes for its family clients.

“The company believes it has developed tried-and-tested methodologies over the last two decades, resulting in a strong business practice which is a direct reflection of the prudence and precision with which we meet our client’s needs.”

“For each client, we start by setting up a team of up to three people, including a relationship manager, a tax advisor, and a legal advisor”

“This team ensures structuring from regulatory, legal and taxation perspectives,” she adds.

“Once the structure is set up, we attach an operations team to it, usually with another two people, who will be responsible for the day-to-day operations of the trust structure.”

Yadav recently wrote an article for the Hindu Business Line, in which she discussed the growing need for estate planning as India’s traditional joint family systems are replaced by other structures such as the DINKs (double income, no kids). In it, she gave a cost-benefit analysis of setting up a trust, and advised that structures to preserve wealth were no longer the preserve of the super-rich.

According to Yadav, a single trust structure can cost as little as INR500,000 (about US$8,000) to set up.

She believes this amount is “negligible compared with the benefits that will accrue to the family through creation of an appropriate structure.”

LIFELONG RELATIONSHIPS

ITCL, in acting as trustee to family trusts, undertakes administration of family assets for the long term.

“The duration of structures is intended to be more than for the life of the individual, so as to cover at least the next two generations.

“It is therefore vital for families to look for institutions that have the necessary bandwidth and experience to administer assets for such long periods of time,” Yadav says.

This need for due diligence does not only flow one way, however, as she adds: “We have strict compliance and KYC requirements as part of our on boarding process.”

She believes clients can be confident in dealing with ITCL because, in addition to having longstanding experience as an institutional trustee, it also has a strong commitment to nurturing talent and expertise in this space.

Ultimately, the need for well administered structures in India, is only going to increase and the practice continues to evolve.

“We are getting many queries from wealthy families intending to set up succession structures for their Indian assets. We are also seeing a large number of NRIs with overseas assets wanting to set up domestic structures catering to their Indian assets.”
Why advisers shouldn’t fear tech advances

Financial advisers who fear being disintermediated by digital tools and channels should instead embrace technology’s potential to create better and more efficient ways of doing business, believes Chetan Pandya of Intellect Design Arena.

Debate over the use of new technology and related tools is nothing new in India’s financial services industry, says Chetan Pandya, senior vice president at Intellect Design Arena.

The current concern is that digital will disintermediate advisers. However, he believes this fear is misplaced, just as those in the past have been.

“There is a fear in the market among financial advisers that they will lose their livelihoods,” he says.

“This is something that happened [with brokers] in 1995 when the market went electronic and again when India moved to dematerialisation of the market. People who changed with the times have done very well, but those that did not have stagnated and now are perishing also.”

Indeed, Pandya believes the tech-based development of the country’s financial markets is one of the things Indians can be most proud of. “I entered the market at the same time as SEBI (the Securities & Exchange Board of India) was becoming a powerful regulator and have seen the way it has gone about changing the structure of the market,” he explains.

“The capital market development has been safe and is technology-oriented. There are margins, checks and micro structures in the market that protect...
investments, and these are what gives investors confidence."

RAISING THE BAR
In the advisory space, he believes there is now a substantial opportunity for players to move up the value chain by adopting technology and making advice more "process oriented".

Those that do not do this, whether large players or boutiques, could find it difficult to scale their businesses, and might go the same way as brokers who did not adapt to the technological evolution of India's stock market. Pandya notes that as well as technology, new regulatory developments are supporting the advisory model, particularly since the introduction in 2013 of Registered Investment Adviser (RIA) certification by the securities regulator.

"The market is there for advisory and a very healthy margin is available subject to getting the business right," he adds.

"The trend is towards some kind of discretionary approach, not only in equities. This is where there is very aggressive interaction between the client and the portfolio manager."

The move away from a distribution-based market towards an intermediary-based one means that record keeping will become increasingly important in product sales, particularly as data from multiple sources needs to be centralised, Pandya believes.

"You also need a set of repeatable tasks you can do for the customer, and a standard against which the customer can measure you, so you can continue to deliver a better experience. This is where technology becomes very important," he adds.

INTELLIGENT SALES
It will also become a vital part of the entire sales process, as he says: "Currently the sales is an island with limited ability to manage the transition from prospecting to engagement as the client moves through various parts of an organisation. By the time you move a client on to the system it should be a seamless process for the salespeople."

For its part, Intellect Design Arena aims to serve these needs via its integrated front- and back-office platform which is targeted at domestic and global private banks, advisory firms and IFAs, among others.

"We are in a brand-building phase to get our name in front of people in the industry, from CEOs of mutual funds to their sales staff, and from advisers to the regulator," Pandya says.

The need to offer a much wider range of products will generate further demand for technology that can help advisers do a better job, particularly as Indian investors start to move away from physical assets to financial ones.

A shift towards mutual funds is the first element of this, according to Pandya. "There is a lot of retail money going into mutual funds – almost everyone knows somebody who is putting in good amount of money month on month through SIP," he says. "The money is moving rapidly from other assets such as gold and real estate."

The second factor is advisers providing for their clients' various financial needs at every stage of their lifecycle.

"This includes covering life, theft and general insurance, and even extends to being a client's car insurance agent," he explains. "[Advisers] are dealing with almost everything that could be a financial instrument. People are becoming more interested in this kind of service."
Digital drivers of change in Indian wealth management

Digitising the delivery of products and services is vital for wealth management players across India, if they are to become more cost-effective and offer information, access and advice in a way which meets what clients demand today.

In India, more so than most other countries around the world, using technology to create a more relevant, consistent and profitable wealth offering via mobile, digital and social offerings is critical in delivering financial services efficiently and effectively.

The country’s retail banks have made the biggest leaps forward in mobile and digital offerings so far.

When it comes to the more specific wealth segments, however, and especially the upper end of the wealth pyramid, many firms are lagging.

The industry now needs to adapt more quickly to the times, which includes becoming more process-oriented, as part of formulating appropriate advisory processes and scaling the business.

DEFINING DIGITAL

According to Satheesh Krishnamurthy, senior vice president and head of affluent banking at Axis Bank, digital translates to disruption via new ways of doing business. “Customers being able to go direct will drive change in business models and old ways of doing business will fade away.”

“Customers being able to go direct will drive change in business models and old ways of doing business will fade away.”

SATHEESH KRISHNAMURTHY
Axis Bank

“The industry now needs to adapt more quickly to the times.”
models and old ways of doing business will fade away,” he explains.

Greater engagement of digital by the industry will also create greater speed and simplicity in. In short, say participants, it is re-writing the way banking is being conducted across the globe.

The client experience is another key beneficiary of digital, adds Anshu Kapoor, head of global wealth management at Edelweiss Global Wealth Management.

This is about delivering more value via digital channels, he explains.

Productivity and efficiency is another aspect. “What tools can we create for advisers and also clients?” he asks.

Digital also enables firms to re-think how they acquire clients, as a result of change in how they deliver advice.

WHERE TO INVEST
With so much money being invested into digital more broadly, but the key, say industry leaders, is to create the right context and have a clear plan for how that money is going to be spent.

“Digital also enables firms to re-think how they acquire clients, as a result of change in how they deliver advice.”

Sumeet Vaid, founder of FIINFRA.in, says it is essential to determine how to create a design that benefits the end-user experience and enables them to do what they want.

The end-to-end client experience must be focused on how clients experience the products and access the right advice and information, before they can fulfill those transactions as part of an online experience, adds Bharat Sharma, head of wealth management at ICICI Bank.

At the same time, data structures also need to be developed that facilitate a deeper level of analytics, and make this on-the-go via mobile devices.

Indeed, says Vaid, data security should command a large share of the IT spend.

“Data security should command a large share of the IT spend.”

In addition, Kapoor says he is also focused on using data to get a true understanding of the customer, in order to get a competitive edge.

Technology is a way to support this, he explains, via analytics to understand the individuals’ behaviour.

WHAT DO BANKS MOST NEED TO CHANGE TO ADAPT AND THRIVE AGAINST DIGITAL DISRUPTORS?

| Culture and mind-set of staff | 69% |
| Systems & solutions | 3% |
| Leadership | 28% |

Source: Hubbis Redefining the Digital Evolution in Wealth Management 2015 - Singapore
For example, setting up an account might require a 100-page document to sign. “We are now able to open a client account on a tablet in 30 minutes,” says Kapoor. “If we don’t get the first part of the journey right, then clients will not come to us.”

**ON THE FRONT FOOT**

Rather than being reactive, becoming proactive is a way to harness technology in a more user-friendly way.

Current revenue models in India are transaction focused, so digitising this is a priority for many organisations.

This is also driven by an emergence of more digitally-savvy clients wanting to go direct to the manufacturers. As a result, those provides are working hard to create digital experiences to make them as effective as robo-advisers.

Another shift which is happening at a reasonably large scale, say practitioners, is around the use of technology in terms of what devices are preferred. For example, the screen size is an important factor in determining the type of business that will work and be successful.

**READYING FOR ROBO?**

According to industry leaders, the client segment where a robo-adviser will be a more natural fit is the mass affluent space.

This is where this style of automated advice has found a lot of success in the US and UK markets, but it is based on the positioning of low cost. Some managers also offer a hybrid model depending on the preferences of specific clients.

In India, it is key to get it right for the mass affluent segment. And some practitioners see India as being a breeding ground for a large invasion of robo-advisers. Yet it will be challenging in the domestic market. Most people prefer to speak to someone they trust, with this consumer behaviour shaping the likely take-up rate. As a result the offering will need to be packaged in simpler products.

Further, with human advice being ‘free’, the take-up in this market is likely to be more based on accessibility.
Hubbis is the leading provider of independent content, learning solutions and training for companies providing wealth management-related products and services in Asia. Our ambition is to help you become more competent and capable - so that you can provide suitable and trusted advice for your clients.

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Shaping India’s future for fiduciary services in wealth management

At an exclusive roundtable discussion hosted by Amicorp Group and Hubbis in Mumbai, leaders from 15 wealth management and professional services firms discussed the future of the trust industry – including the scope for growth of this segment given the country’s early-adopter status of global transparency initiatives.

According to the 2015 World Wealth Report by Capgemini and RBC Wealth Management, North America and Asia Pacific pushed global investable wealth to record levels to USD56.4 trillion, with North America maintaining its position as the wealthiest market with USD16.2 trillion compared with Asia at USD15.8 trillion (see chart on next page).

However, it’s anticipated that by 2017, Asia Pacific – with India as a key contributor – will soon emerge as the world’s largest wealth market and overtake North America, and potentially as early as 2016. India recorded the highest growth rates across the globe for HNW population (26.3%) and wealth (28.2%) in 2014. This was driven by the mid-year elections creating a more business-friendly environment, combined with sound monetary policies and a wave of positive investor sentiment.

Notwithstanding this continued growth, global as well as regional private banks face mounting uncertainty over the strategic positioning of their fiduciary services businesses within their broader wealth management offering.

This is against a backdrop of regulatory complexity, global tax transparency, cost pressures, scalability hurdles and a shortage of talent. As a result, many banks around the world are at tipping point in their decision-making around whether to remain in the business of wealth structuring.

“These organisations are grappling with fundamental business objectives such as cost and risk reduction on the one hand, and scale and operational efficiency on the other,” says Peter Golovsky, managing director and global head of private clients at Amicorp Group. “Now, increasingly, the question of how – and indeed, if at all – they choose to deliver fiduciary services most effectively, is being put under the microscope.”

In India, more specifically, the question of what to offer – and how – is very
much at the forefront of the minds of industry leaders, especially given the (early) stage of development of wealth planning solutions.

The biggest considerations include making it viable within a less-than-clear regulatory environment for trust and similar structures, generating more confidence among clients and practitioners alike in these services, and getting prepared for the changes to take effect as a result of the greater transparency which is now imminent.

These were among some of the high-level conclusions and talking points at a recent discussion hosted by Amicorp in Mumbai.

15 industry leaders in the domestic and international private banking and wealth management landscape shared their views, concerns and outlook.

The aim was to examine the key strategic and critical issues facing banks and other wealth managers around the important options and choices around how best to deliver fiduciary services – and explore all of this in light of a strategic report produced by Amicorp and Scorpio Partnership on the future of the trust industry.

This also forms part of a series of global Amicorp-led discussions with business heads throughout 2015 – including Hong Kong, Singapore, Miami, New York, Zurich, London, Sao Paulo and also Dubai.

**IN SEARCH OF MORE CLARITY**

In the more developed wealth management hubs in Asia such as Hong Kong and Singapore – as well as in North America – the upshot of the various challenges confronting private banks is that some of them are selling off their trust arms or considering exiting this business. The appetite for doing every-
thing in-house has disappeared. Others continue to rely on these divisions to provide what they consider as value-add to clients.

In India, by contrast, the development of the industry is at a much earlier stage. Many banks say that they still don’t know that the regulator wants from them in relation to providing fiduciary services to clients. Most of what gets offered today in these areas is typically done through referral arrangements and tie-ups. And when it comes to the formation of trusts, practitioners feel that a lack of regulatory clarity stifles the offering to some extent.

The same impact can be said about the (in)action of senior management, who need to believe in the substance and rationale for such an offering as part of their business.

Even for those practitioners in India who might be more active in advising clients on relevant wealth planning structures, when they consider giving up the role of fiduciary-service provider to a third party, they say they feel a certain amount of discomfort.

This goes back to the issue of having enough confidence that the structure will remain intact and continue to meet clients’ needs over the long term. It is something which business owners – or promoters as they are known in India – struggle with too. This is especially the case when it comes to them having to cede control of their assets to place into certain structures.

At the other end of the spectrum, wealth management leaders recognise the scale of the opportunity in India – once the teething problems are dealt with and industry professionals as well as clients themselves have more faith in the system. Further, as more Indians invest abroad, they will also need to look for the right solutions.

Ultimately, however, the focus among participants was to ensure institutions avoid the situation where any trust business which gets done becomes a non-core cost centre. Equally, they are not in favour of subsidising it from other sources of revenue, so finding the right model for the trust business that balances cost and risk is important.

In addition to cost and risk drivers, the ever-changing regulatory environment, including responding to FATCA and more recently the onset of the Common Reporting Standards (CRS) is significantly changing the game of international private wealth planning.

**BRIGHT GLOBAL FUTURE FOR TRUSTS**

The joint research project between Amicorp and Scorpio Partnership in 2014, meanwhile, proves a useful benchmark around the state of the global trust industry.

In seeking to uncover the perspectives of leaders at global private banks across the Americas, Asia and Europe, the findings shed more light on three main aspects of the topic: first, the challenges and issues facing the trust industry; secondly, how senior executives view the fiduciary business within the context of a broader offering; and thirdly, the approach of different banks

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**STATE OF THE GLOBAL TRUST INDUSTRY**

- **10%** per annum growth in trust industry business volumes
- **US$5trn** worth of assets held by Latin America and Asia Pacific in offshore markets
- **475,000** trust structures held worldwide
- **50 - 60** interviews undertaken across the globe with leading market professionals
- **4** business models covered
  - Universal banks
  - Private banks
  - Local banks
  - Multi family offices
- **5** geographic regions analysed and covered around the globe

Amicorp brought together 50-60 participants across Asia, Europe and the Americas to discuss the future of trust and examine the key factors driving change in the industry.

Source: AMICORP / Scorpio Partnership
to the challenges presented by initiatives related to global tax transparency.

"[From the research], we found that Asia Pacific and Latin America represent the two largest international offshore markets with an estimated value of USD5 trillion of the total USD8.5 trillion," says Golovsky.

Plus, while there are an estimated 475,000 trust structures worldwide, only around 5% of the HNW population seems to have a fiduciary structure.

Supporting this research, India has seen the second-biggest outflow of HNW individuals in the last 14 years – with as many as 61,000 millionaires shifting base abroad due to reasons such as tax, security and child education. A joint report by New World Wealth and LIO Global highlights the trends in terms of this change of domicile, generally to the UAE, UK, US and Australia. The numbers in India are second only to China, which saw the largest outflow.

"That presents interesting opportunities in this segment, and in terms of the growth rate in business volumes across the trust sector," adds Golovsky, "which is estimated at 10% per annum, with the emerging markets of Asia Pacific and Latin America to lead the way."

CHANGE DRIVERS

The report shows six key factors driving change in the global trust industry.

First, is a combination of cost management, business profitability, consolidation and polarisation.

Bank-owned trust companies are reviewing their operating models for fiduciary services, evaluating what is core versus non-core, and what aspect of the offering to retain in house, said a number of the banks represented.

"Their options include a sale, strategic segmentation, or outsourcing / white-labelling," says Golovsky; Amicorp is working with more than half of the global top 10 private banks on such projects. "I expect to see consolidation as banks review their strategies and reassess their core businesses, markets and offerings."

Secondly, there is an emergence of new operating models. These include specialist independent trust firms, challenging the traditional operators. According to some private banks, one of the benefits this provides is the ability to access an open-architecture platform which offers scale, flexibility and reliability.

A third factor relates to cross-border complexities and regulation (the Indian context is discussed further below).

The demand for talent is another key issue for the industry, regardless of busi-
ness models and geographic diversity of the offering. And it is something at the forefront of the minds of many senior executives in India also, given the limitations it imposes on the business model – regardless of other components which might be in place.

In short, this comes down to finding, attracting, training and then retaining talent. That includes wealth planning specialists as well as client advisers, to help banks keep up with projected growth rates in India’s HNW population.

Having sufficient knowledge is also increasingly important given the need for practitioners to anticipate issues relating to the structures.

A fifth factor driving change stems from the goal of operational excellence and efficiency in administration, especially in light of margin compression.

This comes down to putting in place “smarter” systems for functions such as trust administration, reporting, IT, compliance, client onboarding and AML.

At the same time, improvement is needed in the communication channels between adviser, trustee and client. A final change-driver, meanwhile, is in terms of the models to support the direction of the business.

“The objective is to identify and implement operators and platforms that offer scale and open architecture to support growth,” says Golovsky.

Diversification and a focus on new markets where real growth is taking place is another part of this strategy.

THE PREPAREDNESS OF INDIA FOR CHANGE - IN LIGHT OF THE REGULATORY ENVIRONMENT

Yet even though banks and wealth managers in India typically don’t have a fiduciary services offering of similar scale or to the same extent as exists in Hong Kong or Singapore, the urgency of finding a solution for clients is pressing.

In addition to FATCA, CRS is potentially a ‘game changer’, driven by the OECD and approving a new standard for the Automatic Exchange of Information (AEOI) in tax matters with the following three key elements: a Model Competent Authority Agreement (Model CAA); the CRS; and commentaries on the provisions of the Model CAA and the CRS user guide. The G20 has since endorsed the AEOI standard which goes live in January 2016 (for the early adopters). (See chart on the next page for key dates for early adopters.)

Participants at the discussion are aware that there will be less places to hide assets and the time of “Do not ask, Do not tell” is over.

On 9 July 2015, for instance, India signed the IGA with the US – and on 7 August, the Indian government amended Income-tax Rules to include FATCA compliance and reporting. Meanwhile India has issued the Guidance Notes and FATCA Reporting portal.
is available now. In terms of CRS, India, along with 90 other countries, have already signed the Multilateral Competent Authority Agreement. India is one of the “early adopter” countries to implement CRS, with it becoming mandatory for India financial institutions (FIs) from 1 January 2016 – and the first report to be filed by May 2017.

In fact, India is the first country to issue joint rules for FATCA and CRS.

This will not only impact FIs in India which will suffer from extra compliance due to identifying and reporting information about their account holders who are tax residents of all CRS Participating Jurisdictions. It also will impact all India tax residents who hold directly or indirectly financial accounts with banks and other FIs in other Participating Jurisdictions, as related information of such Indian tax residents will need to be reported to, and automatically exchanged with, the Indian tax authorities.

In response, the role of private bankers, wealth planners and intermediaries is to support taxpayers in this process.

More than ever, there will be a greater need going forward for collecting client data and for understanding a client’s business and objectives.

Private clients have to be informed and educated about these global AEOI, about developments as well as increasing anti-abuse rules in domestic legislation, and the need to check and adhere to local disclosure requirements. And it may even be required to terminate relationships with those clients that fail to cooperate in a legitimate manner.

“We are focused on helping the leading global private banks by supporting them as part of their review and consideration of alternative choices around optimally delivering fiduciary services,” explains Golovsky.

For India, this is increasingly important given that The Black Money (Undisclosed Foreign Income and Assets) and Imposition of Tax Act, 2015 (Black Money Act) has been applicable to Indian tax residents since 1 July 2015.

This means tax shall be charged at 120% on the total of undisclosed foreign income and value of foreign assets. Plus, the Act provides for more punishment for various types of violations.

As a concessional measure, the Government of India has provided a one-time tax amnesty compliance window for the affected persons for the disclosures.

This all will require FIs to make significant investments on their compliance and systems. They will need to assign a FATCA and CRS officer and project team, to assess the gaps and to adapt IT systems, on-boarding procedures, policies, forms to undertake the required due diligence and annual reporting of these account holders who are tax residents of Reporting Jurisdictions.

Yet regardless of the type of fiduciary services offering, whether these are standardised or more customised, roundtable participants are focused on high-quality services.

And those that can develop specialist expertise in particular country and markets, in light of these changes in the regulatory environment, will have a key role going forward.

“There is a need for operators that can deliver ‘product excellence’ that offer transparency for regulators and governments,” confirms Golovsky.

The choices that private banks and wealth managers in India make about the extent and type of fiduciary services they will offer within today’s changing regulatory environment has the potential to significantly re-shape the look and feel of the industry in the years ahead.

Ultimately, the optimal outcome for each institution will come down to how it addresses the three-pronged challenge of managing costs, controlling risks and increasing revenue. There is no right or wrong way to do this.
Meeting the needs of India’s wealthy families

The strong performance of the Indian economy and stock market, and stricter international requirements on asset disclosure, are encouraging wealthy families to return their assets to the country. This is providing a big opportunity for trust and wealth management providers.

The main opportunity in Indian wealth management today derives from the large number of non-resident Indians (NRI) who are now looking to bring their assets back to the country.

The main impetus is the fact that Indian families have become increasingly international over recent years.

There are more than 2.8 million people of Indian origin in the US alone, according to a 2010 census, and numerous other Indian communities worldwide.

The main push factors are the US’s Foreign Account Tax Compliant Act (FATCA) and common reporting standards (CRS).

Under FATCA, US taxpayers must disclose their foreign financial accounts and offshore assets.

Although progress in implementing FATCA in India has been slow, tax specialist TP Ostwal believes that eventually the systems for compliance will be established. “If you have an American citizen who is a beneficiary of an [Indian] trust you have to comply with FATCA,” he adds.

Forty-seven countries, including India and China, agreed in May last year to confirm to CRS, an agreement to share information on residents’ assets and incomes to ensure that tax is paid.

On the domestic front, the recent Financial Budget proposed measures to halt the practice of keeping ‘black assets’ overseas in order to avoid tax. Under a proposed law, an Indian taxpayer who conceals or “does not adequately disclose” their foreign assets
and income could be imprisoned for up to 10 years and pay a penalty of up to 300% of the amount of tax evaded.

Although there are many requirements for KYC and documentation when creating a trust or a family constitution, commentators believe that for most multi-family offices (MFOs), once the systems are put in place the needs will be recurring, so the work does not have to be done twice.

“We would always advise clients to declare their wealth. We would not encourage them to hide behind a structure,” says Tariq Aboobaker, managing director of Amicorp Trustees India. “They should structure in a way that is more tax effective, but it has to stay within the law. Sooner or later the structures will get opened up.”

This could become even truer if the rumoured reintroduction of inheritance tax comes to pass. The tax was abolished in 1985 but there has been constant talk of its reintroduction in the last couple of years.

As well as these push factors, the improved outlook for the Indian economy and stock market is also encouraging NRI to bring their money back home. This could become even more appealing if another of finance minister Arun Jaitley’s proposals passes India’s parliament.

This is the abolition of the country’s wealth tax, which is currently charged at 1% of net wealth of more than INR3 million (US$47,600), although it is also proposed to raise the surcharge on annual taxable income above INR10 million from 10% to 12%.

In addition to these new factors, the existing reasons for setting up a trust structure in order to preserve family wealth remain in place, particularly given the different religious and legal issues in the country.

Indian family wealth is typically centred around businesses, and, according to a report by the Indian School of Business, conflicts often arise over issues like family members’ career choices, pay, ownership and decision making.

This is creating demand for plans that preserve and grow wealth during an individual’s lifetime, distributing that wealth after the individual dies.

It is most appropriate for people who own significant amounts of assets, have dependents, own a business or want to transfer wealth to specific individuals or entities after their deaths.

There are also factors such as the need to protect personal wealth from business creditors or business disputes, which creates the need to set up wills and trusts to ensure that on death, assets are transferred in an orderly way.

The equivalent procedure in a family business is succession planning for who...
will take management control after the death of the patriarch.

There is also a need for advice on how to make decisions about those assets.

Within a family this includes setting up a constitution or council and within a business involves determining who will have management control and who will have economic ownership of it.

This is becoming increasingly important as family members have different relationships with the family business.

Some members will own shares in the business but are not involved in managing it, and others will manage the business but not have any shares in it.

According to a report in the family business network, one of the key factors in this situation is to enable family members to “carry and present themselves in the various forums they participate in, while duly respecting the forums they are rightfully kept out of.”

“Family businesses have been the growth engines for both GDP and the stock market in India. Most decision makers approach their business almost like a family office,” says Gokul Das, managing director and chief executive at Warmond Trustees & Executors.

In addition, a majority of Indian wealth is now passing to the next generation, which means many wealthy families require succession planning. These families have access to information. Some of them may set up their own single family office, hiring experts for legal, tax, and financial advisory.

However, this is increasingly complex, and expensive, prompting the rise of multi-family offices and wealth managers who outsource to the best third parties available.

In addition to these new factors, the existing reasons for setting up a trust structure in order to preserve family wealth remain in place, particularly given the different religious and legal issues in the country.

Families are increasingly choosing a trust structure to manage these affairs because they give them more options than traditional structures such as the Hindu Undivided Family.

In most cases a trust is combined with a will, but the bulk of Indian wealth is in real estate, which can attract stamp duty if it is moved into a trust.

In 2012 India’s marriage laws were amended to entitle a divorcing spouse to 50% of post-marital property.

A 2005 amendment to the Hindu Succession Act of 1956 gave daughters the same rights to parental property as brothers, but this did not extend to widows until a recent ruling by Mumbai High Court.

There is a trend towards multi-family office (MFO) structures as UHNW individuals and business owners come to realise that they may not be getting the best advice in-house.

The single family office (SFO) concept is losing traction because it requires expensive investment in infrastructure and staff.

“Business is booming as families increasingly realise the single family office concept, with in-house lawyers, accountants and investment advisers, is no longer practicable,” says Aboobaker.

“Business originates largely from people who are advising on the financial side,” says Navita Yadav, chief executive officer at IL&FS Trust Company (ITCL).

“It could be private bankers, it could be investment bankers, and accountants. Anybody who is close to the family [will come to us].”

This is creating heightened competition in the wealth management market, with a growing number of providers competing for attention. Choosing the right provider is becoming more important.
Even for boutique providers such as Waterfield Advisers, getting the best outside help is a priority.

A boutique’s objective is to pull in the best solution for the client from wherever that sits,” says chief investment officer Munish Randev. “If a client is doing a PE deal and we know who the best law firm is we will go to them. If I start bringing things in house I am no different [to anyone else].”

Access to this top-notch advice is vital given India’s unique characteristics, including multiple religions, often with their own, specific laws.

For example, Islamic personal law mandates that individuals cannot leave behind more than one third of their estate in a will, and the remainder must automatically go to their heirs.

For Hindu joint families, property can only be disposed of in case of “legal necessity” or for “the benefit of the family/estate.”

This means it is increasingly important for wealthy families to understand who they are dealing with, and seek out institutions with the requisite experience, or the ability to access it.

“Through information, a client will know whether they are approaching someone for only financial advice or wealth structuring and acting as a trustee, preserving wealth or dealing with long-term succession issues,” says Yadav.

“It’s a question of knowing who is the best fit to address the requirements of the family.”

Despite their reputations for indifference, the younger generation are also getting involved in decision making, if not yet those related to the hands-on management of family wealth.

“The majority of HNW and UHNW families get their children introduced to the family business at a very early age,” says Jaideep Hansraj, head – wealth management and priority banking at Kotak Mahindra Bank.

“The children can be involved in decisions, including those on how the family wealth should be managed.”

According to Randev at Waterfield, however, the main demand for wealth structuring services is from 1st and 2nd generation wealth: “Our focus tends to be on these generations, with an average age of between 45 and 55.

They are thinking about what needs to happen for the next generation.”

Trust structures will be in place for 30, 50 or even 90 years, so it is vital to get things right at the start.
India’s need for more solutions to meet wealth preservation needs

A lack of investment products and wealth planning tools is preventing high net worth interest in wealth preservation from being fully executed, limiting the growth of the industry, believes Tariq Aboobaker of Amicorp Trustees.

Indians are becoming increasingly savvy on tax and understand the need for wealth planning as taboos around death and divorce unravel, but the market is not yet developed enough to meet their needs, according to Tariq Aboobaker, managing director of Amicorp Trustees.

Aboobaker, who started out in the industry 12 years ago with Centurion Bank and went on to set up its estate planning services, believes the global economic slowdown is attracting families back home to India, further bolstering the demand for planning.

“Ten years ago one out of 10 clients would want a second meeting [about wealth planning],” he says. “Today I can confidently say that five out of 10 people are willing to have a second meeting. But it is still only 50% and there is a long way to go.”

However, the work needed for the wealth management industry to attract the other 50% of clients to that second meeting is less of a concern for Aboobaker than the shortfall in providers’ ability to provide high-quality research and choose the right product.

For a long time there was a very limited number of products in the market, he says. But things are changing, with people increasingly aware of esoteric investments and a burgeoning structured products market.

PRODUCT INNOVATION

Indeed, according to Bloomberg, issuance of structured products in India rose more than five-fold to INR24.5 billion (US$400 million) in the third quarter of 2014. This is fostering the kind of product innovation Aboobaker believes the Indian market needs.

In February financial institutions including ICICI Securities and IIFL Wealth Management introduced the country’s first capital-protected, index-linked structured products, designed to tap an expected decline in money market rates and marketed to wealthy clients, according to The Business Standard.
"The market is ready for more exotic products. You can see that art is being accepted [as an asset class] now," Aboobaker says. However, he adds: "There is an improvement in the Indian style of investment, but we still need to get a little more sophisticated and add more products."

As these develop, both wealth managers and their clients must learn to be even more discerning, Aboobaker warns. Specifically, he says, clients should be discouraged from merely following what their friends or family members do.

"Each client needs to recognise their own requirements and risk appetite. If I have a large risk appetite, for example, I will need to find a good equity research firm, or I could be more conservative and go into the mutual fund space. Most of the large organisations have a good combination of risk management and asset allocation," he advises.

Despite this cautious optimism for the product market, Amicorp has no plans to move away from its main area of expertise – estate planning and trusts.

"We are a global trust company and have been in India for the last three years," explains Aboobaker. "A lot of clients have asked us to manage their wealth as investment advisers but we don't want to get into that business."

Unlike some industry participants, Aboobaker believes there is sufficient talent in India for both the product and the planning side of wealth management to thrive. "I would not agree that there is a shortfall of capable people," he says. "There are enough [capable people] in the industry and they have done wonders for themselves, their organisations and their clients."

Turning specifically to the structures available for wealth management planning, Aboobaker says there has been some diversification, with the move from basic wills and the concept of the Hindu Undivided Family to tailored trust structures. However, he thinks more could still be done.

Typically, an Indian family has 70% of its wealth in real estate, which is not appropriate for moving into such a structure as the transfer can attract stamp duty, and the remainder in other, liquid assets Aboobaker says are suitable for a trust.

Indeed, clients are starting to welcome the flexibility of purpose that a trust can provide, even though the legality of one structure versus another is an area of concern, especially since the advent of FATCA and Common Reporting Standards.

"A trust is like water, you can make it take any form you like, whereas the principles of a Hindu Undivided family are set in stone," Aboobaker explains.

The primary purpose of estate planning is to protect, preserve and manage assets. Timely succession and estate planning are keys to a hassle-free future for individuals and their families, Aboobaker believes.

"We definitely do not encourage clients to hide behind a structure or not disclose their wealth. You can structure in a way that is tax effective, but it has to stay within the law, as sooner or later the [trust] structures will get opened up [by the authorities]."

One way in which wealthy families’ assets could come under greater scrutiny is if India reintroduced inheritance tax, a move that Aboobaker believes is "around the corner".

The likely reintroduction of the tax will raise as many questions as it answers, he argues.

"The tax could come with an exemption for one house," he says. "But will it apply to the house you bought last or the house you bought first? The most expensive or the cheapest? We don't know the implications yet."
People and firms who supported this publication

We very much appreciate the participation and contribution of key individuals and organisations in the Indian wealth management community to the content in this publication.

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Tuesday 16th February, Ritz Carlton, Dubai  

**Forum**  
Asian Wealth Management Forum  
Tuesday 23rd February, Conrad, Hong Kong  

MARCH

**Forum**  
Independent Wealth Management Forum  
Thursday 10th March, Pan Pacific, Singapore  

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Commodities  
Tuesday 15th March, Hong Kong  

**Publication**  
Independent Wealth Management in Asia  

**Publication**  
Wealth Management in the Middle East

APRIL

**Forum**  
Indian Family Wealth Forum  
Wednesday 6th April, Sofitel BKC, Mumbai  

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Thursday 14th April, Singapore  

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Real assets  
Tuesday 26th April, Hong Kong  

**Publication**  
Family Wealth in Asia  

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Digital Wealth - Asia

MAY

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Tuesday 10th May, Singapore  

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Thursday 12th May, Pan Pacific, Singapore  

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Thailand Wealth Management Forum  
Thursday 19th May, Conrad Hotel, Bangkok  

**Forum**  
Philippines Wealth Management Forum  
Thursday 26th May, Shangri-La Hotel, Manila  

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Indian Family Wealth

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DPM  
Tuesday 14th June, Singapore  

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Wealth Management in the Philippines

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Malaysian Wealth Management Forum  
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Wealth Management in Asia  

**Publication**  
Wealth Management in Malaysia  

**Publication**  
Islamic Wealth Management
AUGUST

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Indian Wealth Management Forum
Thursday 25th August, Sofitel BKC, Mumbai

SEPTEMBER

Forum
Structured Products Forum
Thursday 1st September, Conrad Hotel, Hong Kong

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Income strategies
Tuesday 6th September, Hong Kong

Forum
Vietnam Wealth Management Forum
Thursday 8th September, Melia Hotel, Hanoi

Forum
Wealth THINK
Tuesday 20th September, Pan Pacific, Singapore

OCTOBER

High-Impact Briefing
Alternative investments
Thursday 13th October, Singapore

Forum
Indonesian Wealth Management Forum
Thursday 20th October, Shangri-La Hotel, Jakarta

Forum
SWISS-ASIA Wealth Exchange
Tuesday 25th October, ConventionPoint, Zurich

High-Impact Briefing
DPM
Wednesday 26th October, Hong Kong

Publication
Special Report on Insurance in Asia

Publication
Wealth Management in India

NOVEMBER

Forum
Asian Family Wealth Forum
Thursday 3rd November, Pan Pacific, Singapore

Forum
Digital Wealth - Asia
Thursday 10th November, Four Seasons Hotel, Hong Kong

Forum
Taiwan Wealth Management Forum
Tuesday 22nd November, Le Meridien, Taipei

Publication
SWISS-ASIA Wealth Exchange

Publication
Wealth Planning

DECEMBER

High-Impact Briefing
Real assets
Thursday 1st December, Singapore

High-Impact Briefing
Independent wealth management update
Tuesday 6th December, Hong Kong

High-Impact Briefing
Independent wealth management update
Thursday 8th December, Singapore

Publication
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Amicorp’s core business is the provision of global outsourced fiduciary services. More than half of the top 10 global private banks as well as other financial institutions including family offices and insurance companies choose Amicorp as their preferred services provider because of our global coverage, breadth of proposition, scalable platform and specialist knowledge of jurisdictions and products, across more than 40 offices in over 30 countries. Our aim is to become your strategic partner of choice, in delivering Amicorp’s full suite of fiduciary services to you and your clients.

Whilst financial institutions recognize the critical value of offering fiduciary services in order to complement their core investment proposition, some may lack the resources to deliver this internally, and in reviewing their operating models, are increasingly seeking the services of independent providers like Amicorp.

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For more information on how Institutional Sales can assist, please contact:

Peter Golovsky - Global Head of Institutional Sales, Amicorp Group
Tel.: +852 3105 9882 | Email: p.golovsky@amicorp.com