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**CONTEMPORARY
MANAGEMENT
THOUGHTS
&
CONCEPTS**

**WEALTH MANAGEMENT IN INDIA:
CHALLENGES AND STRATEGIES**

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ABSTRACT

Wealth management is an investment-advisory discipline which incorporates financial planning, investment portfolio management and a number of aggregated financial services. High-Net-Worth Individuals (HNWIs), small-business owners and households who desire the assistance of a credentialed financial advisory specialist call upon wealth managers to coordinate retail banking, estate planning, legal resources, tax professionals and investment management.

Wealth managers may be of different backgrounds as independent Chartered Financial Consultants, Certified Financial Planners or Chartered Financial Analysts (USA), Chartered Strategic Wealth Professionals (Canada), Chartered Financial Planners (UK), or any credentialed (MBA) professional money managers who work to enhance the income, growth and tax-favored treatment of long-term investors. In this scenario wealth management in India has many dimensions like NRI segments, Bank Money and Financial Literacy. The article discusses about the challenges and strategies adopted to improve the wealth management in India.

Keywords: Investments, Economic planning, Strategies, Banking.

WEALTH MANAGEMENT AT A GLANCE

India's wealth is relatively young compared with their international counterparts and hence, a different approach is needed in wealth management. The demographic difference presents an opportunity to create new products to address the needs of young population and leverage new technologies, such as social and mobile enabling investments applications as a key differentiator. India's wealth management services sector is largely fragmented, which isn't surprising given the early stage of the industry. Most organized players have so far focused mainly on the urban segment, leaving untapped about one-fifth of India's high net worth individuals' (HNWI) population. While early entrants and established local players have gained trust with potential investors, firms looking to enter the market will need to invest heavily in brand-building exercises to convey their trustworthiness. Hence, it is recommended that firms take a long-term view while evaluating potential return on investment.

The regulatory environment in the Indian wealth management space is evolving, presenting opportunities for established wealth managers to expand their offerings. Regulations covering fiduciary duties and investor protection are imminent. The changing tax regime in every annual budget cycle is adding some uncertainty, which could potentially change product offerings dramatically.

Given the nascent stage of the market and a demographic and regulatory environment that is significantly different from that which prevails elsewhere in the world, it is recommended that wealth managers consider the following to succeed in the Indian market:

- Build a brand and focus on overcoming the trust barrier.
- Invest in advisor technology to improve advisor productivity and retention.
- Evaluate a partnership-based model, coupled with innovative use of technology.
- Focus on transparency and compliance, to target customers with attractive, segment-focused products.

TABLE 1
FAST-GROWING WEALTH IN INDIA

Key Indicators	India		U.S	
	2009**	Forecast CAGR (2005-2012)**	2009**	Forecast CAGR (2005-2012)**
HNWI Wealth (USD billion)	\$143	20.70%	\$9,700	2.20%
HNWI Population (in thousands)	53,000	20.50%	2.8 million	1.30%
Aggregate Liquid Assets (USD billion)	\$481	19.80%	\$17,749	2.80%
Wealthy Individuals (in thousands)	2.5 million	18.60%	60.5 million	1.50%

Sources: *Data monitor Global Wealth Market Database 2008

TABLE 2
EXPANSION IN INVESTABLE WEALTH

Asset	2005	2006	2007	2008	2009	2010
India's GDP (USD Billion)	\$837	\$949	\$1,233	\$1,214	\$1,310	\$1,430
Liquid Assets as a percentage of GDP	28.2%	30.3%	29.8%	36.4%	36.7%	41.5%
HNWI Liquid Assets as a Percentage of GDP	8.0%	8.6%	8.8%	10.9%	10.9%	12.4%

Sources: World Bank

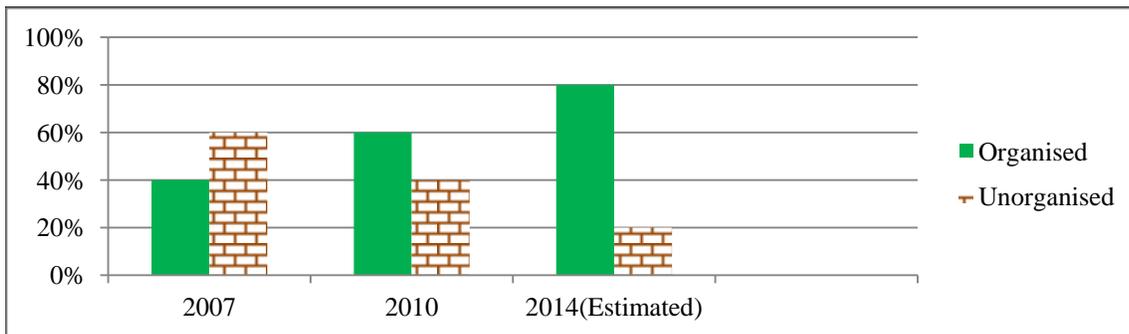
SIZE AND GROWTH OF WEALTH IN INDIA

The total size of the HNWI population in India is approximately 53,000, a meager figure compared with a mature market such as the U.S. However, with the total HNWI population presently growing at over 20% CAGR, and the value of liquid assets expected to grow at 19.8% CAGR (see Table 1), India is one of the fastest growing wealth management markets. Also, overall HNWI liquid assets (when measured as a percentage of Indian GDP) are increasing at a healthy pace, indicating the expansion of investable wealth in the economy (see Table 2).

The high growth rate and the prediction that India will be the third largest economy in the world by the year 2030 makes India an attractive market for potential entrants in the wealth management space to establish their presence early and grow their revenues with the market. The underlying statistics augur well for the Indian wealth management market.

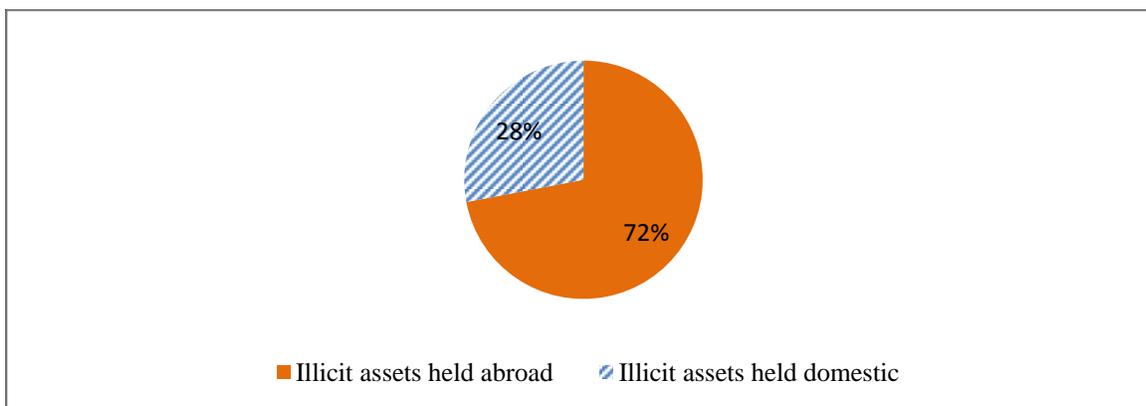
- **Very large mass affluent segment:** The mass affluent segment (\$50K to \$75K), constituting approximately 37% of the total number of wealthy individuals, holds liquid assets of \$54 billion. This segment is expected to grow at CAGR 17.5% and, consequently, is expected to demand a higher level of wealth management services
- **Increasing market share of organized players:** The share of unorganized players (typically independent advisors or small brokers/agents offering financial advice) has shrunk considerably over the last few years, primarily due to the increased presence of organized providers, as well as income and profitability pressures that have resulted in consolidation (see Figure 1). This has caused an increase in liquid assets available for organized wealth management players, which has contributed to their growth in assets under management.

FIGURE 1: WEALTH MANAGEMENT MARKET SHARE ORGANIZED AND UNORGANIZED SECTORS



Source: “Key Trends in the Indian Wealth Management Market,” Celent, December 2010.

FIGURE 2: COMPOSITION OF UNDERGROUND ECONOMY



Source: GFI report, November 2010

The Indian market also exhibits particular features that could provide an additional boost to the wealth management industry.

- NRI segment:** There is a growing trend among wealth management firms operating in India to offer tailored products and services targeted at non-resident Indian (NRI) clientele. This is a lucrative segment for the Indian wealth management industry. For example, the total number of NRI and people of Indian origin (PIO) is estimated at 29 million globally, with a combined wealth estimated at USD \$1 trillion. Remittances to India reached a figure of USD\$55 billion in 2010. It is estimated that about 45% of these remittances are invested in banks and real estate in India.
- Black money in India:** It is estimated that from 1948 through 2008, India lost a total of USD \$213 billion in illicit financial flows. These flows were a result of corruption, criminal

activities and efforts to conceal wealth from the country's tax authorities. HNWIs and private companies were found to be the primary drivers of illicit flows out of India's private sector. The present value of India's total illicit financial flows (IFFs) is estimated to be at least \$462 billion (see Figure 2). In recent times, the Indian government has redoubled its efforts to curb these leaks from the economy. If successful, these efforts could result in discouraging future illicit outflows from the financial system. In 1997, the government introduced a Voluntary Disclosure of Income (VDIS) scheme, allowing individuals to convert black money into white by paying taxes on previously undeclared income. Similar targeted measures may be taken in the future, rechanneling previously undisclosed wealth into the mainstream.

TABLE 3: PLAYERS IN THE WEALTH MANAGEMENT SPACE

Business Models	Market Position	Examples	Main Characteristics
Universal Banks	Strong	Kotak, HDFC, ICICI, HSBC, Axis	<ul style="list-style-type: none"> • Developed lending offering. • Good reach. • Large players, relatively low entry levels for wealth management services. • Cross-sell potential with retail/corporate network.
Wealth Management Specialists	Medium	Deutsche, BNP Paribas	<ul style="list-style-type: none"> • Primarily foreign players with focus on advisory and offering of managed/structured products. • Wide range of wealth management entry levels; typically high entry barriers.
Global Investment Banks	Weak	Morgan Stanley	<ul style="list-style-type: none"> • Focus on the ultra-high net worth segment. • Institutional approach to serve clients with investment banking products.
Brokers/Dealers [Online, Retail]	Strong	DSP Merrill Lynch, ICICI Direct	<ul style="list-style-type: none"> • Wide range of brokers targeting mass affluent market without focused approach for the HNWI segment. • Domestic equity/mutual funds focus. • Limited research recommendations.
Family Office	Weak	Client Associates	<ul style="list-style-type: none"> • Holistic advisory services for specific client segments such as entrepreneurs, professionals.
Others	Medium	Independent Fund/ Insurance Advisors	<ul style="list-style-type: none"> • Very low entry levels • Serve clients across segments • No dedicated wealth management offering • Commission-driven model

Source: Cognizant Research Center analysis

KEY MARKET ATTRIBUTES

- **Reach:** The HNWI and family-office segment is largely served by foreign banks and large domestic brokers, whose reach is limited to metro areas. It is estimated that about 20% of the Indian HNWI population lives outside major metros and is still served by unorganized

players. Therefore, the reach of wealth management firms will play a very important role in capturing available wealth and converting it to assets under management.

- **Entry barriers:** One significant challenge for potential entrants is expensive property prices for setting up branch locations. The wealth management model is based on a high-touch client relationship, and therefore, establishing a physical presence is critical. However with the sharp increase in real estate prices during the past decade, establishing a brick and mortar model has become cost prohibitive for new entrants. Hence, firms need to take a long-term view and expect an extended payback period. Another barrier for new entrants is trust in investors. Given India’s unfortunate history of financial scams, there exists a general sense of mistrust and wariness among investors. Establishing trust is a vital component for any successful brand-building exercise in India.
- **Products and services:** Existing wealth managers offer various products and services, and the portfolio has grown remarkably in the last few years. However, the sophistication and breadth of products is still limited, compared with the choices offered by players in mature markets. Developing innovative product offerings that address the needs of varied customer segments will be critical to success. The complexity of designing innovative products in a more restrictive regulatory environment — as well as maintaining product structure and pricing transparency — will be key challenges. Recent trends indicate that local players are teaming up with specialists from developed markets to enhance their product and service offerings. For example, Axis Bank has partnered with Banque Privée Edmond de Rothschild Europe for wealth management services.

Another force with the potential to change market dynamics is the entry of public sector banks into the wealth management market. While they haven’t been aggressive yet, their entry into the fray is inevitable. Given their phenomenal brand equity reach, old corporate relationships and ability to invest in top of the line technology platforms, public sector banks will be a formidable competitor, particularly in the mass affluent segment.

TABLE 4: MAJOR REGULATORY CHANGES SINCE 1992

Year	Regulatory Changes
1992	The SEBI Act was passed, with the objective of protecting the interests of investors in securities and to promote the development and regulate the securities market.
1993	Mutual funds sponsored by private sector entities were allowed to enter the Indian market, introducing competition within the mutual fund industry and resulting in the introduction of new products and improvement of services.

2000	Exchange traded financial derivatives were introduced in India at the two major stock exchanges, NSE and BSE. There are various contracts currently traded on these exchanges
2003	The National Commodity & Derivatives Exchange Limited (NCDEX) and MCX (Multi Commodity Exchange) started operations, to provide a platform for commodities trading.
2007	First Gold Exchange Traded Fund started.
2009	Exchange traded interest rate derivatives introduced.
2010	Options in currency derivatives launched.

Source: Cognizant Business Consulting

REGULATORY ENVIRONMENT

The Indian regulatory environment is evolving, and there is still significant ambiguity in the jurisdiction of various regulators. The limited range of investment products offered is largely due to the cautious approach adopted by Indian regulatory bodies. India's fixed income, commodities and derivative markets have not kept pace with its equities market in terms of maturity. However, it is expected that the regulatory environment in India will evolve rapidly, in tune with market and investor needs (see Table 4 for a list of regulatory changes in the securities trading space).

- Fiduciary duty and investor protection:** Financial advisors in India are not bound by stringent fiduciary duty regulations; however, recent years have seen a number of regulatory changes aimed at safeguarding investor interest and curbing money laundering, such as the introduction of limits in fees and commissions charged by unit-Linked Insurance Products (ULIPs), elimination of entry loads charged by mutual funds, strengthening of Know Your Customer (KYC) norms, etc. Recent adverse incidents in the Indian wealth management space have highlighted regulatory loopholes. While there are no regulations aimed specifically at protecting the interests of private banking customers in India, this may very well change in the near future. This could mean tighter norms around advisor eligibility (qualification and training), disclosure requirements, stricter rules regarding investment advice, especially in the public domain, and perhaps even a new self-regulating authority for advisors that may be empowered to define the fiduciary role and duties, monitor the suitability of investment advice, etc. We also expect data privacy-related rules and guidelines to become stricter. These changes will impose higher training costs, as well as investments in processes and IT for compliance (disclosure/reporting, data security, etc.).

The Securities and Exchanges Board of India (SEBI) recently announced plans to set up a self-regulatory model for the wealth management industry along the lines of AMFI (Association of Mutual Funds in India) and AMBI (Association of Merchant Bankers in India). It has been proposed that the new organization, once formed, will act as a regulator, as well as a market development authority.

- **Evolving tax laws:** Tax rules are evolving and are set to change, which might affect investor behavior. For example, the new Direct Tax Code, which is set to replace existing tax laws, proposes a move from, a deferred taxation regime, which may influence investor preference for some products over others. This, in turn, may drive greater product innovation. Wealth management organizations will need to be flexible to continuously adapt and ensure that they can suitably tap into any market opportunities created by such changes.

STRATEGIES TO SUCCEED IN INDIA

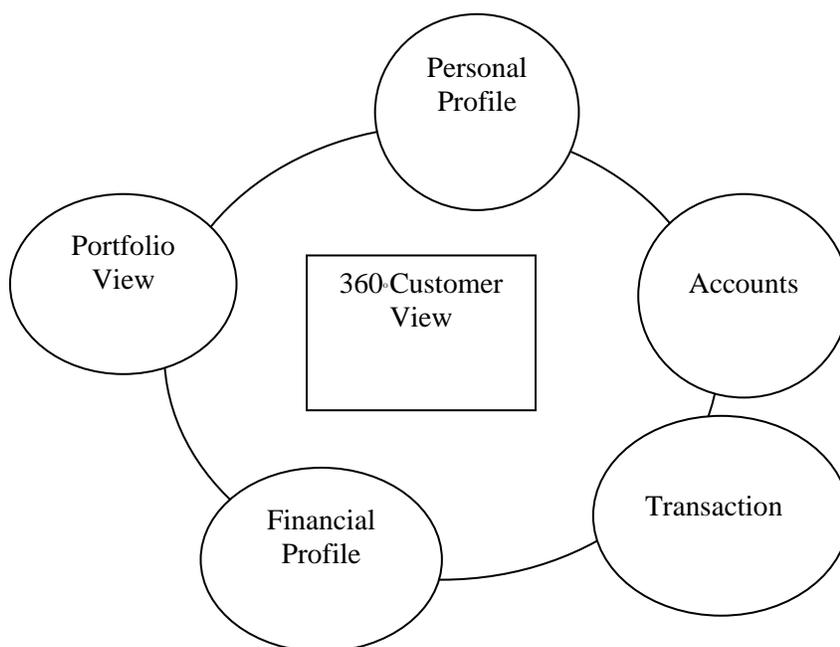
The overall outlook and trends in India indicate a huge potential for growth for new and established wealth management firms. To exploit this potential, players will require a comprehensive and strategic approach, encompassing investments in brand building, state-of-the-art advisor technology platforms, enhanced reach, transparent and compliant wealth management for investors.

- **Invest in brand building to build trust:** For wealth management firms seeking to develop their business in the Indian market, overcoming the trust barrier is the greatest impediment for building a strong brand. Widespread mistrust can be attributed to the spate of dishonest practices, which for years have reverberated across the financial services space. Promotion of investor education can help in long-term relationship building. Greater financial awareness will also help in informed decision making and will reduce the chances of fraud. Investor education programs could deliver information pertaining to various asset classes and the associated risks, fee structures and benefits derived. Programs must be tailored suitably, allowing for differences in the maturity and experience levels of investors. In addition, programs should sensitize the investors about the common fraudulent practices rampant in the industry and include precautionary measures that investors could take to avoid falling victim to such practices.
- **Invest in advisor technology to improve productivity and advisor retention:** Given the large number of firms entering the wealth management market in India, and the inevitability of public sector banks launching wealth management services, the shortage of quality financial advisors is expected to be more acute than ever. Additionally, firms will need to work out a retention strategy for their advisors as demand of resources rapidly exceeds supply. Stemming attrition is critical because when advisors leave the firm, they take a significant portion of their client base and assets with them. Moreover, increased attrition leads to higher recruitment costs.
- **Offer a 360-degree view:** Providing advisors with a panoramic view of clients will help to enhance advisor productivity and enable advisors to deliver high quality services (see Figure 3). A 360-degree solution serves to aggregate critical customer data and saves advisors from duplicating information in disparate systems. It presents a consolidated relationship view, allowing advisors to easily generate the insight needed to identify and serve client needs. A

user-friendly solution can help advisors access client data in real time and deliver a seamless, high-touch service experience.

- **Embrace mobility:** Mobility solutions provide wealth management firms with the ability to conduct business in locations that are not covered by the branch network. They also provide financial advisors with the flexibility to work from anywhere and provide them critical information on a real-time basis. Also, as the target segment in India is fairly young and tech-savvy, mobility solutions will help avoid situations where the customer is better aware than the advisor, contributing to higher customer satisfaction.
- **Increase reach through smart use of partnering and technology:** The reach of large wealth managers is primarily limited to metro areas, which leaves out a significant target population. Since the target population is fairly young, most of who are conversant with new technologies. Internet and mobile technology penetration is deep among the target segment and has the potential to exponentially increase the reach of wealth management services. Employing these technologies will also help firms serve customers in a cost-effective manner and will enable them to reach out to the larger mass affluent segment. With the recent launch of 3G services in India, wealth managers have the potential to connect with clients via video telephony, further reducing the need for them to establish an extensive physical presence.

FIGURE 3: 360 DEGREE CUSTOMER VIEW



Source: Cognizant Business Consulting

- **Focus on transparency and compliance:** Financial advisory regulations are still under the purview of the Ministry of Finance. However, to create a more comprehensive regulatory environment, all regulators will have to work together to address a variety of distribution segments, from service pensions and insurance, through investments and wealth management. This is particularly important given the significant flux in regulations aimed at protecting investor interest in recent years. Wealth management firms offering services in India will need to build flexibility into their operating models and processes in order to adapt to frequent changes in the regulatory landscape. Currently, most wealth management firms operate on a transaction-based pricing model; thus, profits are based on fees and commission. Advisors tend to push products that earn higher commissions under the current framework and recommend frequent portfolio churns to increase the number of transactions, leaving clients feeling cheated. Moreover, with regulators stepping up vigilance and high commissions, this model will soon be unsustainable. Shifting to a profit-sharing model (where the advisor's fees are based on the overall performance of the portfolio) would help mitigate these issues to some extent.

Firms will need to innovate to create attractive product offerings within the evolving regulatory environment. For example, changing tax rules have the potential to render many popular products obsolete. In addition, anticipating investor needs and addressing them proactively will be the key to carving out a niche in a market that is expected to grow more crowded over time. For example, while the “retirement segment” is not big in Indian markets today, the focus on retirement planning is expected to grow in coming years. Consistent, well performing products in this segment will help in gaining an early market share. Moreover, inventive products will be a key differentiator for targeting the UHNW (United High Net-Worth) segment.

MOVING FORWARD

The wealth management industry in India is poised for significant expansion, given the favorable market landscape and expected regulatory boosts for the sector. This provides exciting growth opportunities which will drive rapid market expansion, coupled with an increase in the number of industry participants. To successfully tap this potential, financial services organizations must undertake a customized approach, taking into account the specific attributes of the Indian market. This will need to be supported by a robust and cost-effective business model focused on improved transparency and compliance, synergistic partnerships and efficient technology solutions.

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