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GETTING HIGH ON MONEY

With an average GDP growth rate of 8% each year, there has been a lot to cheer about in India. During this phase, there has been a massive increase in the growth of individual wealth in India. The Merrill Lynch Cap Gemini Asia Pacific Report for 2008 reveals that India's HNWI (High Net Worth Individual) population grew by 23% which makes it the fastest growing globally. At the end of 2007, the number of HNWIs was at 1.23 lakh. HNWIs are defined as individuals with more than \$1 million (it was Rs 4 crore then) in net assets, excluding what they have as primary residence and consumables. The reason for optimism also comes from US Financial research and consulting firm Celent which predicts the wealth management sector in India to be a \$1 trillion market by 2012, comprising approximately 42 million households, as compared with around 13 mil-

AN UNPRECEDENTED GROWTH IN THE NUMBER OF HIGH NET WORTH INDIVIDUALS IN INDIA HAS THROWN UP FRESH OPPORTUNITIES AND CHALLENGES TO THE WEALTH MANAGEMENT SECTOR, SAYS PRASHANT MAHESH

lion households today. This is merely a glimpse of the wealth creation story that India will be home to.

The market broken up

A look at the accompanying table presents details of various segments. "The mass affluent segment is concerned with insurance protection, children's education, and retirement planning solutions. HNWI and ultra-HNWI are focused on lifestyle continuation, succession planning, and wealth transfer issues. The mass market is inclined towards short-term gain schemes and insurance coverage," says a report by Celent, an independent US research firm.

What is obvious is that as one moves up in the monetary hierarchy, there is a clear shift from safeguarding

one's wealth to growing it. This results in a requirement of more sophisticated products. "There is a greater requirement for high-end products as the net worth of an individual goes up," says Nipun Mehta, head of private banking, SG Asia.

The potential that exists in the market and the growth that lies ahead has prompted a host of players to enter the business over the last 2-3 years. Brokerages like Religare, Edelweiss, Anand Rathi, Emkay Global and of late Reliance Money have entered the business. Most foreign banks have already been providing wealth management services and keeping them company are Indian banks like Kotak Bank, HDFC Bank and ICICI Bank. Foreign banks such as UBS, Citibank, Deutsche Bank, Standard Chartered have had a strong presence in India.

There is also the unorganised segment which has its own place. This is accounted for by independent financial advisors and chartered accountants who do multiple tasks for their client which are largely individuals and families. While there is no formal data available, it is broadly gathered that the organised segment is gaining market share, due to more professionalism, wider products range and a systematic approach that they provide.

A key factor that attracts players to the business is that wealth management is a fee-based business. In the case of banks, they make their money by selling third party products. It could be a mutual fund unit, an insurance policy of a private sector insurance company or a real estate fund or a portfolio management scheme. Banks earn a fee or a commission for selling these products, which is their source of income. Since there is virtually no risk in the banks' books, they focus a fair amount of attention on this business.

It's not as if the business is devoid of its own problems. In a booming market for financial services, there has been a wide gap between demand and supply which has not always had a positive result. There were a large number of players entering the business. "Some of the players simply pushed products doing little justice in terms of managing wealth," says A V Srikanth, director, wealth management, Anand Rathi Financial Services. With the markets down 50% from the peak, it is clear that quality will be a key differentiator. This is the time when the product pushers and the wealth managers will be separated. This gives an opportunity to investors to evaluate their long-term financial goals and then decide on who could be their wealth managers.

Easier said than done

When the markets were in the middle of the bull run between 2003 and 2007, it seemed like nothing could go wrong. At that point, it was difficult to get a wealth manager which was on account of a talent shortage and the high employee turnover at most organisations. "At one point of time, I realised that my wealth manager was a management trainee in his first job," says a client of a private sector bank. This is not a case in isolation. Vikas Agnihotri, chief executive officer, Religare Macquarie Wealth Management speaks of a knowledge gap. "There are many in the business whose advice is limited to a specific transaction at that point of time rather than a holistic approach," he points out. Quality was often compromised and this was clear when a lot of organisations set

high revenue targets for themselves. One was not sure if the client really got what he needed.

This is how the business broadly works—typically, a relationship manager can service only about 50-70 clients. A natural consequence was that the experienced personnel would chase clients with a higher net worth which would translate to higher revenues.

The importance of laying down the ground rules for the client and the relationship manager is something that can hardly be exaggerated. Both need to be clear about areas like the width of products being offered, technological support, quality of relationship managers to name a few. A client needs a very high level of comfort when it comes to the strength of the research team, proven track record and regularly being updated on developments in the market. "One should look for organisations that have strong primary research capabilities. That would help organisations develop views on the market," says Anand Rathi's Srikanth. In a nutshell, it is important that a relationship manager has seen a bull and a bear market.

Those in the wealth management space have been doing innovative things. For instance, firms like Religare Macquarie Wealth Management offer a tripod model wherein each client is serviced by a team of three managers—the relationship manager, an investment advisor and a service manager. This is a win-win situation for the client and the organisation. It ensures a sense of discipline. More critically, there is a sense of continuity if one of the employees moves on. "Individual customised client advice is of central importance as each client has different needs and expectations," says Puneet Matta, head of wealth management, Credit Suisse, India. For instance, wealth management providers should recognise that rapid wealth addition is mutually beneficial.

Every bit of advice given by the relationship manager is important and one of them relates to asset allocation. This refers to how much wealth could go into assets such as equity, debt, commodities or real estate. This is done after taking into account various parameters such as risk appetite, age and return expectations. Any product added to the portfolio should have a valid reason. When the markets move up or down, the portfolio needs to be rebalanced which is where the relationship manager steps in.

The future looks bright

By all counts, it will be about a demanding client and catering to his needs. "Indian wealthy individuals and families are increasingly demanding a more sophisticated approach in terms of asset allocation. They are also asking for and an access to a truly global platform for specialised wealth management and services," says Matta. Sophisticated investors would expect wealth management to combine the full range of product and market expertise into leading edge and tailor made solutions and services.

The wealth management industry is passing through a transitional phase. Today, providers are evolving from treating wealth management as just another distribution channel for products," says Naresh Kohari, president, Edelweiss Securities.

Clearly wealth management is evolving and is changing with client preferences, new products and a changing regulatory environment. The potential looks interesting and players will need to think on their feet to meet the changing demands from their clients. The market exists and no one is questioning that. How wealth management firms get the best out of it will be the nucleus of the future.

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