EMERGING WEALTH MANAGEMENT TRENDS

Indian economy is expanding, and the GDP is likely to touch US$ 5 trillion over the next five years. This is making way for a bevy of changes that will result in a new wave of investment and wealth management trends. Bhavesh Sanghvi, CEO, Emkay Wealth Management takes a look at some of these trends.

The wealth management landscape in India has been undergoing a metamorphosis that is unprecedented in its depth and impact. The changes that are witnessed today is the product of various factors which are related to the rapid economic expansion which the country is undergoing or the demographic advantages the country is bestowed with.

These factors present a discerning analysis with several interesting features that are emerging in the wealth management space. India has an expanding amount of mass affluent as well as high net worth individuals. This number is expanding on account of one major factor - the economy is expanding, and the GDP is likely to touch US$ 5 trillion over the next five years. Bhavesh Sanghvi, CEO, Emkay Wealth, believes "This is likely to result in a significant expansion of equity market capitalization. Market capitalization as it expands creates wealth for all those who are invested in the markets". This presents India as a prime market to be explored both in terms of investments and wealth management opportunities.

THE EMERGENCE OF ADVISORY FUNCTION

The emergence of advisory as the pre-eminent mode of reaching out to clients and helping them create wealth is a major factor to reckon with in the coming years. This will redefine the relationship between the service provider and the investor and will put it on a clearer and stronger base. The relationship in earlier times was transaction-based and quite often product-linked. The lack of performance or otherwise of a product used can be directly attributed to a product manager. In the advisory mode, there are several products in which the advice is given to the investors, that is, on the whole portfolio. The advisor is responsible for the advice given and looks after the portfolio in its entirety. While this model has been struggling to establish itself, it is acquiring greater acceptability now amongst the Ultra HNI families with an investible surplus of over USD 7 million and above. According to Bhavesh, "Apart from regulatory nudge, the ground level realities too favour a gradual shift to the advisory mode, of at least a part of the wealth management assets".

SIMPLE PRODUCTS, SIMPLE SOLUTIONS

A distinct feature, says Bhavesh, that is gradually emerging is a clear preference for simple investment products and investment solutions. The challenges in wealth management comes from simple things. There has been a practice of providing only structured products and complex products to investors. It was lucrative for the distributors to sell those products. Some of these products have such complex structures that even those who are advising those products do not understand what the products are like in actuality. That is why the saying is, 'sales managers understand, most of the time, their rewards or fees only. And nothing much beyond that'. The reported unpleasant experiences from structures resulting in the gap between promise and delivery have compelled many advisors to focus more on simple products and solutions which are intelligible to investors.

PROFILE-BASED APPROACH

Another notable change is that advisory is becoming more and more profile based. Many times challenges have cropped up with several wealth outfits in the past, leading to complaints and litigation. The central issue being, products which were invested was very risky and not necessarily suitable for the low risk investors. This has raised challenges regarding the suitability of products offered. Quite a few leading wealth management firms today have put in place a risk and suitability assessment system by which the risk profile of the investor and that of the products are matched to avoid instances of lack of alignment of risk profile with the product profile, resulting from investments recommended.

ENHANCED CREDIT RISK SENSITIVITY

One of the striking features of the current economic and market conditions is that the level of credit risk sensitivity of investors has gone up manifold in the wake of the difficult liquidity conditions that are prevailing in the domestic interbank market. While the overall liquidity conditions have come into surplus from a chronic liquidity deficit, the ability of non-

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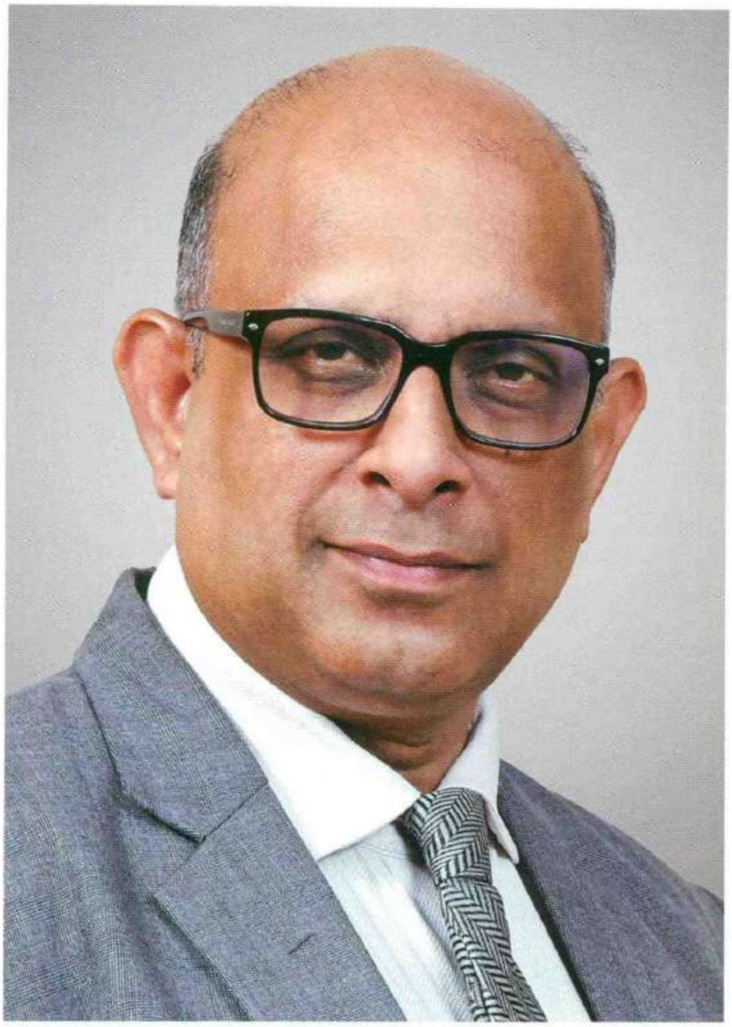
CEO, Emkay Wealth Management –
on emergence of advisory function

banking finance companies especially the housing finance companies is impaired to a significant extent. This situation has actually resulted from the defaults that took place in many companies which have been quite popular. The slowdown in economic growth and the general business conditions also have to be blamed for the financial crunch which some of these companies are facing, though the way they have managed their asset-liability profile is to be blamed primarily for this fiasco. These developments are going to have a long lasting impact on portfolio preferences of HNIs. Products which address the credit risk angle more effectively, like an all AAA portfolio, would be more preferred in the coming days. Further, from a wealth advisory and planning perspective, advisors have to evolve systems by which early detection of credit disabilities can be achieved so that the portfolios remain more or less insulated from negative surprises. The market for credit funds may also shrink substantially as the trade-off between risk and returns is skewed against the investors at this juncture. It is pertinent to note that the latest federal budget has proposed to make repurchase agreements in AA corporate bonds a legitimate instrument which has so far been permitted in government papers and AAA rated corporate papers.

GUARANTEE OF PROCESS

Scientific process-orientation is central to the scheme of things in highly evolved wealth management, says Dr. Joseph Thomas, who looks after Research at Emkay Wealth. Emkay Enhanced Efficiency Model is a unique proprietary model employed in scheme or instrument selection at Emkay Wealth management. This model brings together several risk-based and return-based parameters with almost equal weightages in the selection process. Dr. Joseph adds, "The model has a track



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introducing the Emkay Enhanced Efficiency Model

record of more than 15 years. The model came of immense utility in a scenario of aggravating credit risk and price risk". Portfolios which have been having extra ordinary risks in credit were continuously rejected by the model. Similarly, the model has withered many tempests and has come out with potential performers. Such time-tested models offer a guarantee of the process to the investor. The other related processes like risk and suitability assessment, key risk disclosure calls, investment committees which deliberate regularly the twists and turns in the markets are all part of the broader process-orientation that is gradually taking hold of wealth management in the country. The process orientation, as mentioned earlier also, helps eliminate negative surprises, and greater certainty about portfolio results.

TRANSMISSION STARTS GETTING ATTENTION

There is an increasing awareness that accumulation, preservation

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AVP- Succession Planning, Emkay Wealth Management
– on transmission services

and transmission are part of a comprehensive and complete wealth management solution. The transmission which has been relegated to the background is gradually gaining ground. This change in approach stems from the fact that post-economic liberalisation many businesses have grown big and established, and it is time for the promoters to hand over the reins to the second generation or bring in professional management. Many of these first-generation entrepreneurs require help in organizing this transition in a disciplined way, and that is where transmission services come in. Transmission takes across a host of services like advice, planning, evaluation of scenarios, will writing, the formation of private trusts and much more. Namita Agarwal, who heads the Estate Planning and Succession Planning Practice at Emkay Wealth says, "The use of private family trusts has become increasingly popular among HNIs to hold and consolidate one's personal and family wealth, offering seamless multi-generation succession, spousal protection in case of marital disputes, strong governance mechanism to administer trust assets, avoiding the lengthy process of probate, freezing of assets and disputes between family members on inheritance".

Wealth management and an advisory is still an evolving terrain in India, and one can be sure that as we move along new trends may set in and new ways of doing things could be introduced by human ingenuity. Bhavesh is very emphatic about this, that at the end of the day, it is not just how much wealth which has been created alone that would matter, the ways in which it has been accomplished would also be important while a moral judgement on the advisory business is pronounced. This is where robust processes make an entry, and the ability to withstand tempests do matter. M