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WEALTH MANAGEMENT IN INDIA: CHALLENGES AND STRATEGIES

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ABSTRACT

India has key elements of a high-growth wealth management market consisting of a very large and young mass affluent segment. The increase in the wealth of global Indians and increase in share of the organised market players adds on a major role in the wealth management. Most organised players have so far focused mainly on the urban segment, leaving untapped about one-fifth of India's High Net Worth Individual (HNWI) population.

The growth in the wealth, coupled with demographical changes, has resulted in emergence of new avenues for growth. The wealth management industry has thus, been facing a number of profound challenges.

Two case studies from corporate sectors are considered for study. The case studies are mainly focussing on the challenges and strategies of wealth management and the trends in wealth management respectively.

Keywords: Market players, Strategies, emergence, HNWI

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INTRODUCTION

The Wealth Management industry in India is a prime example of the success of free competition in the country. Wealth Management is one of the fastest growing disciplines of the banking sector and with a GDP growth rate hovering around the 9% mark and a strong future outlook, India's growth story is making it an increasingly attractive market for wealth management firms. This trend is expected to continue, with India estimated to become the third largest global economy by 2030.

Literature Review:

The Indian Wealth Management market is on a persistent path of growth, given India's long-term economic prospects, positive demographics, rising income levels and current low penetration. India is currently ranked among the top 10 nations in terms of total private wealth held as per Capgemini's World Wealth report. The aggregate wealth held by Indian High Net worth Individuals (HNI) (i.e. individuals with investable assets of $ 1 million or more) is expected to grow at a CAGR of 27 percent over next five years to approximately Rs. 400 Trillion. This, combined with robust GDP estimate by IMF of 7.5 percent in 2016 and 2017 and growing allocation to financial assets by HNIs, predicts well for the Indian Wealth management industry.

Importance of Wealth Management in India: Although 8 percent of the total population in India represent 45 percent of the total wealth, only 20 percent wealthy families take advice from wealth managers. However, this number is growing steadily as more and more client seeks advice for:

1) Asset Management
2) Financial Planning (specific short term and long term goals)
3) Tax Planning
4) Estate Planning

Around 69 percent of total HNI population in India is below the age of 55 years. This population seek a wealth manager as they neither have the expertise nor the time to monitor their investments.

With the growing population of HNIs outside of tier 1 cities, penetration and access to services becomes a growing challenge. With technology being the prime driver of businesses, there is lesser and lesser affinity to be tied down to a specific geographic location. This has made use of technology to deliver solutions to HNIs a very important part of the offering as the cost of delivering service in tier 2 and tier 3 locations is becoming difficult. Slowly and steadily Wealth Management firms are finding technology solutions for offering advice by use of Robo advisors. These computer driven asset allocation models can do the routine jobs of basic asset allocation with ease. However, for high involvement solutions like tax minimizing strategies, estate planning etc. will continue to be done with human intervention. In terms of offerings, Family Office solutions and Estate Planning is increasingly in demand as more and more family run businesses see the next generation wanting to start afresh and not necessarily continue with the traditional family business.

Another aspect of note is the emergence of the mass affluent. With increasing urbanisation and organised jobs (IT being the leader in this aspect), more and more families are able to generate surplus income and would like to channelize this into productive investments and not just savings in banks.

Scope: The wealth management industry in India is poised for significant expansion. To successfully tap into this potential, financial services organisations must undertake a customised approach, taking into account the specific attributes of the Indian Market.

Objective: To provide growth opportunities to the wealth management industry in India.

Methodology: This is a conceptual paper developed from secondary sources. Two case studies from corporate sectors are considered for the study.

Case 1: Capgemini Financial Services Report: Top ten trends in Wealth Management in 2016

Summary: Taking into account the demand for credit and recent explosion of wealth, driven by emerging markets are lending solutions to provide to the complex needs of HNWIs. In the present scenario, firms are focusing on markets with higher revenue and profit pools. Disruption caused by automated advisors, is also leading to emergence of new business models where the low-cost options to serve HNWIs in lower wealth brackets can be framed.

Overall, a combination of difficult market environment, increase scrutiny by market regulators, increased demand on revenues and margins, and rising cost pressure, is reshaping the way wealth management firms operate.

The wealth management industry around the world is witnessing a multitude of changes due to weak economies in the developed world, strong growth in developing markets like China and India, an uncertain political future in Europe, increasing regulatory supervision, and new competition from rising technologies and their innovative services for High Net Worth Individuals (HNWIs).

The analysis in this paper revolves around the impact of the above mentioned dynamics on the industry players and how they are adapting through this phase of transformation.

Analysis outcome: From the above study, the following most important trends that are affecting the wealth management industry have been analysed. These top ten strategic trends will have an impact on the wealth management industry in the near future.

(a) Firms are adjusting to the new environment of rising competition, lower margins, higher cost-income ratios and increased regulatory scrutiny. Thus, **firms are focussing on lending solutions** to cater to the strong HNWI demand for credit and to enhance performance.

(b) Growth in HNWI wealth over the last few years has not translated into strong profits for the wealth management industry. Thus, firms are increasingly **adopting the utility –based models** for their middle and back -office functions in order to improve operational efficiencies.

(c) With increasing digitalization and proliferation of digital channels, data breaches are on the rise. Cyber threats are increasing at a faster rate, resulting in **rise in focus on cyber security** by wealth management firms.

(d) Cloud computing is transforming the IT landscape of the wealth management industry as **firms leverage cloud platforms** to provide convenient solutions to HNWIs and reduce their IT costs.

(e) The digitally superior new-age firms are attracting the younger HNWIs who demand more transparency, convenience, and more control over their investments. Thus, the wave of digital revolution is transforming the industry with the rise of new entrants and technological innovations, creating a mandate for firms to **enhance their digital capabilities** in order to meet client needs.

(f) Strong desire among HNWIs to be true to personal or family values and to implant those values in children, HNWIs are increasingly looking forward for support from their wealth managers in **driving social impact**, as they desire to contribute to the society.

(g) Converging demographic and technological trends together with changing HNWI demands are driving the adoption of automated advisor functionality. As a result, new

technology –driven and advisor assisted business models are emerging. Automated advice offers firms the advantage of lower costs, lower thresholds for attracting new clients, and greater transparency in their operations.

(h) Firms are **increasingly using predictive analytics** to process vast amounts of structured and unstructured data. The goal is to produce actionable information that will enable them to better understand their clients and to enhance client experience and loyalty.

(i) Different firms have different drivers for **re-examining their international operations** based on their current resources and capabilities. Business opportunities coupled with the need for operational restructuring, are changing the dynamics of the wealth management industry, pushing firms to focus on their priority markets in order to boost profitability.

(j) Driven by the need to empower wealth mangers to provide personalized recommendations HNWIS and to free up their time for business-building and value-add activities, firms are **investing in financial planning and advice tools.**

Case 2: Cognizant Business Consulting: Report June 2011

Summary: India's wealth management services sector is largely fragmented. Most organised players are focused mainly on the urban segment. The early entrants and established local players have gained trust with potential investors. India is one of the fastest growing wealth management markets. The HNWI liquid assets are increasing at a healthy pace, indicating the expansion of investable wealth in the economy.

The very large mass affluent segment, increasing market share of organised players, NRI segment are the particular features which provides an additional boost to the wealth management industry.

Analysis outcome: Initiatives to create awareness of available financial products in the target population has to be encouraged. The new local and global entrants in the market are increasing the market's competitive intensity. Establishing trust is a fundamental component for any successful brand-building exercise in India. 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. The entry of public sector banks into the wealth management market is the force to change the market dynamics.

Strategies to succeed in India: A comprehensive and strategic approach, encompassing investments in brand building, enhanced reach, transparent and compliant wealth management for investors in India indicate a huge potential for growth for new and established wealth management firms.

(a) **Invest in brand building to build trust**: Greater financial awareness among the investors will help in up-to-date decision making and will reduce the chances of fraud.

(b) **Invest in advisor technology to improve productivity and advisor retention**: Firms will need to work out a retention strategy for their advisors as demand of resources rapidly exceeds supply. Investing in advisor technology can help in decreasing attrition rate.

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

(d) **Embrace mobility:** As the target segment in India is fairly young and fluent in the use of technology, mobility solutions will help avoid situations where the customer is better aware than the advisor, contributing to higher customer satisfaction.

(e) **Increase reach through smart use of partnering and technology:** Internet and mobile technology penetration is deep among the target segment and has the potential to exponentially increase the reach of wealth management services.

(f) **Focus on transparency and compliance:** 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. 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.

CONCLUSION

Clients' expectations are ever changing and the ability to deliver differentiated service is continuously declining. The key differentiated service is provided by engagement with organisations and HNIs at various levels. Organisations and HNIs constantly want to focus more on their respective areas of expertise. Organisations want one view of their investments; want higher customized offerings and need easy access to credit and many such differentiated offerings. Wealth Management firms with their ability to provide one stop shop for all these requirements save a lot of cost, time and energy for their clients and thus plays a major role in making the organisation successful.

The Wealth management industry is slowly and gradually moving from a one size fits all models to a more customized offering. This is enhanced by technology to take care of the non-core activities. As high as 25.5 percent HNI population in Asia pacific (ex: Japan) is using credit to enhance their returns. Hence, there is an increased drive on lending and credit solutions for HNIs. The thrust on customization, technology dependence, need for lending solutions, rising awareness and financial assets is creating large opportunities for the Wealth Management industry in India. A robust and cost-effective business model focussed on improved transparency and compliance, synergistic partnerships and efficient technology solutions will assist the industry to be competent to serve specific needs of clients across situations.

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