THE GUIDE TO WEALTH MANAGEMENT IN INDIA

hubbis

January 2014

FOREWORD

On behalf of BNP Paribas Wealth Management, I am delighted to take part in the 3rd edition of Hubbis' Guide to Wealth Management in India.

Asia continues to be the key engine of growth for the wealth management industry. With one of the highest growth in the number of high net worth individuals, and continued increase in the affluent segment, India has even more potential.

While there continue to be untapped opportunities in the region and market potential thanks to continued economic growth and wealth creation, the challenges we face today are indeed ever more sophisticated than before, with pressure from regulatory bodies, intensified competition from new market entrants of different sizes and formats, high operational costs, and challenges with hiring, training and retaining human capital.

Our job can be overwhelming at times. But to remain successful, one not only needs to manage all these challenges in stride, but also to devote proper effort and resources to sharpen our value proposition, keep listening to our clients and be open to changes that are happening within and around us.

The various chapters in this Guide look in detail at what organisations in the wealth management industry are doing and need to do to enhance their businesses and service their clients better.

I hope you find this publication valuable and insightful.

Stephane Honig
Head of Indian Markets
BNP Paribas Wealth Management

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Hubbis best practice

We don't just build strong portfolios. **We build trust.**

Dear Wealth Manager,

For over seven decades, L&T has been a trusted name in the world of business as well as households across the country. But it's beneath this legacy that you find the values that define us: integrity, reliability, transparency, a quest for quality and customer centricity.

Our purpose at L&T Mutual Fund is to create prosperity for all stakeholders and deliver consistent and superior long-term investment performance. And our commitment to answering different customer needs has resulted in over 26 funds that span asset classes, risk profiles, time horizons and geographies.

Research and fundamental analysis is the core for stock selection and fixed income investing. Our proprietary investment process – **GEM** – comprises three rigorous steps: **G**eneration of Ideas, **E**valuation of companies and **M**anufacturing and Monitoring of portfolios. Put another way, we build our funds on strong foundations to help you build strong customer portfolios.

My team and I look forward to meeting with you to work towards an even more fruitful partnership.

Sincerely,

Kailash Kulkarni
Chief Business Officer

www.lntmf.com

L&T Mutual Fund

Mutual Fund investments are subject to market risks, read all scheme related documents carefully.

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22%

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153,000

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7850

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MARKET ENVIRONMENT OPPORTUNITIES AND CHALLENGES

THE INDIAN WEALTH MANAGEMENT MARKET APPEARS TO LEAD, IN BOTH OPPORTUNITIES AND CHALLENGES. THE GROWTH IN AFFLUENT AND HIGH NET WORTH WEALTH PRESENTS A HUGE OPPORTUNITY. HOWEVER, CHALLENGES ALSO ABOUND IN THE FORM OF TIGHTER AND FAST MOVING REGULATION, VOLATILE MARKETS, AND ONGOING STRUGGLE TO SELL THE VALUE OF ADVICE.

In line with the trend over the recent years, the number and wealth of Indians continued to grow in 2012.

There are now about 2.8 million Indians to be in the 'high wealth band', those with net worth of over US$100,000, according to the Credit Suisse Global Wealth Report. And this number is likely to rise exponentially in the future.

HNW WEALTH INCREASED

The population of high net worth individuals (HNWI) rose even faster last year. Credit Suisse estimates India to have 182,000 dollar millionaires, while Capgemini estimates the HNWI population to be around 153,000 in 2012, up from 126,000 last year. Wealth increased from US$477 billion to US$ 589 billion or around 23%, the second highest after Hong Kong.

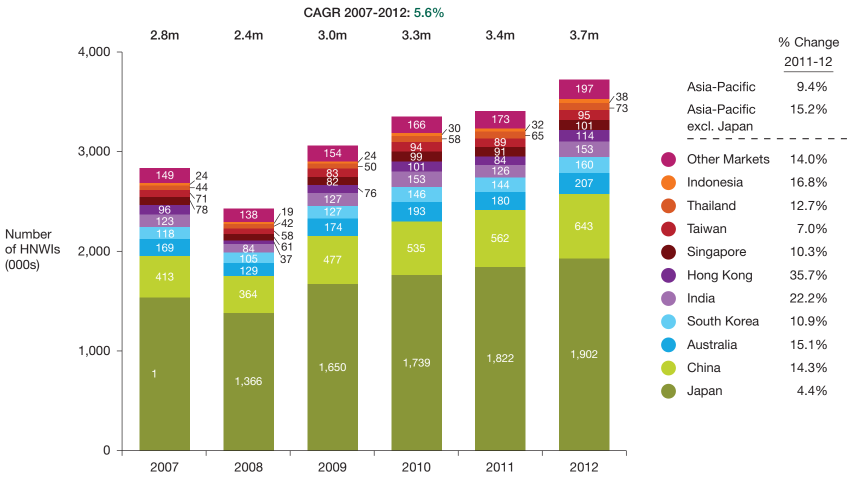
Using a bottom-up methodology, Wealth-X calculated India's ultra high net worth population to have grown marginally to 7,850 with a total wealth of US$935 billion. The modest 1.6% growth translated to 120 new additions. More than 90% of the ultra wealthy live in 10 cities, with Mumbai and Delhi dominating as more than 50% of the country's UHNW population based in one of these citites. At 103, India has the sixth largest billionaire population in the world, narrowly behind Russia. India is one of the few countries where finance, banking and investments is not one of the significant industries. Instead, industrial conglomerates and pharma-ceuticals are the first and second most significant industries.

SO DID REGULATION

While the opportunites increased with the increase in wealth, so did the challenges with increased regulation. Indian regulators - Securities and Exchange Board of India (SEBI), Reserve Bank of India (RBI) and Insurange Regulatory and Development Authority IRDA) - announced a number of key reforms in the past year or so -

- **For asset management industry**
  SEBI announced two separate changes resulting in a bar-bell impact on mutual fund fees; on one hand, allowing an increased expense ratio to incentivise distribution in smaller towns (beyond top 15 cities, or B15 for short), and on the other, a directive to launch 'direct' plans with lower expense ratios to allow knowledgeable investors to by-pass

ASIA-PACIFIC HNWI POPULATION, 2007 - 2012 (BY MARKET)



Source: Capgemini Lorenz Curve Analysis, 2013 distribution. It also directed the industry to spend 2 basis points of assets under management on investor awareness programs, and launched mandatory colour coding of mutual funds.

- **For managed account services**
  The minimum investment amounts for Portfolio Management Services (PMS) accounts were raised to INR 25 lakhs (~US$40,000) restricting these to affluent and high net worth investors.

- **For alternatives manufacturers**
  Asset managers offering any illquid investments need to register and offer funds under the new Alternative Investment Funds (AIF) regulations, which have higher investment amounts of INR 1 crores (~US$150,000) restricting these to high net worth investors.

- **For wealth management industry**
  SEBI announced the introduction of the Investment Adviser Regulations, which, in effect, forces the industry to choose between a 'distribution' model under which it continues to get paid by product manufacturers, or an 'advice' model under which it will need to charge fees to clients. The concept of Employee Unique Identification Number (EUIN) was introduced to combat mis-selling by employees of large firms or banks who have previously managed to avoid censure by switching jobs.

  It also announced a 'new cadre of distributors' with lower entry barriers who would distribute simpler mutual funds. Similar to the mutual fund fees, there seems to be a bar-bell approach – on one hand, lowering barriers for distributors of simple products and on the other, raising barriers for advisers.

- **For banks**
  After news reports of banks offering to launder money, RBI announced a review of banks' wealth management services with the intention of ring-fencing such operations from the rest of the bank, though it has not announced final outcomes at the time of printing of this Guide. Separately, the insurance regulator is proposing that banks become insurance brokers rather than agents as is currently the case, to shift banks' responsibility from the insurance company to the client.

Taken together, the regulatory changes appear to be pushing the industry to client segmentation, without explicitly introducing the concept of 'sophisticated investor' as is the case in other markets. In addition to local changes, Indian wealth firms also have to be conscious of global regulatory trends affecting their higher net worth clients.

Harshendu Bindal
Franklin Templeton

"This industry could do with a few hundred thousand more feet on street."

Wealth estimates

There are various 'world wealth reports' that estimate wealth using different techniques.

The Credit Suisse Global Wealth Report aims to provide the most comprehensive estimate on global household wealth, covers all components of wealth spanning the entire spectrum from the very wealthy to the bottom of the wealth pyramid.

The Capgemini World Wealth and Asia Pacific Reports focus on estimating the population and wealth of high net worth individuals (HNWI).

The BCG Global Wealth Report also estimates global wealth focusing on HNWIs.

While all of these estimate wealth using statistical analysis, Wealth-X maintains a database of UHNW population by region, country and gender built from the ground up, using extensive database of hand-curated intelligence.

The globally accepted definition of 'net worth' is the value of financial assets plus real assets i.e. including housing, less debts.

HNW is defined as having a net worth of US$1 million, while UHNW is defined by a net worth of at least US$30 million (after accounting for shares in public and private companies, residential and passion investments such as art, planes and real estate, in the case of Wealth-X). In recent times, the the US$1-5 million is referred to as affluent.

New regulations on investor protection, transparency etc are increasing compliance requirements and costs. These have huge implications for the operating models of wealth management institutions across Asia. While some may complain about the pace of the change, most in the industry welcome the direction of the regulatory changes.

Harshendu Bindal, president at Franklin Templeton, says, "The regulator gets the themes. It has asked the asset management industry to do investor awareness. It's getting a new cadre of distributors to increase the sheer numbers. And now, both SEBI and RBI are looking at the quality issue of distribution industry."

OTHER CHALLENGES

A number of senior asset management industry executives summarised the challenges for the wealth management industry as the lack of financial literacy, evolving distribution and product design and communication.

FINANCIAL ILLITERACY

Many in the industry blame the investors for not being aware of the benefits of capital market products, and being lulled into a false sense of security with term deposits. Worse, they get lured by real assets like real estate and gold. "Investors don't understand that they are not getting positive real returns from fixed deposits, let alone good returns. The distribution industry is still evolving – it's not regulated, the quality is still evolving and experiences of investors, on balance, haven't been as

Ajit Menon
DSP BlackRock

"India is full of savers with some speculators, and what you find in between are investors, but that's a small portion."

INDIA UHNW BY WEALTH TIER

INDIA UHNW NET WORTH	2013 UHNW POPULATION	2013 TOTAL WEALTH US$ billion	2012 UHNW POPULATION	2012 TOTAL WEALTH US$ billion	POPULATION CHANGE %	TOTAL WEALTH CHANGE %
$1 billion +	103	180	109	190	-5.5%	-5.3%
$750 million to $999 million	26	21	25	20	4.0%	5.0%
$500 million to $749 million	131	82	125	80	4.8%	2.5%
$250 million to $499 million	200	77	200	75	0.0%	2.7%
$200 million to $249 million	665	160	655	160	1.5%	0.0%
$100 million to $199 million	855	140	845	135	1.2%	3.7%
$50 million to $99 million	2,270	145	2,240	140	1.3%	3.6%
$30 million to $49 million	3,600	130	3,531	125	2.0%	4.0%
TOTAL	7,850	935	7,730	925	1.6%	1.1%

Source: Wealth-X/UBS World Ultra Wealth Report 2013

TOP 10 INDIA CITIES BY UHNW POPULATION

RANK	CITY	2013 UHNW POPULATION	2012 UHNW POPULATION	CHANGE %
1	MUMBAI	2,135	2,105	1.4%
2	DELHI	1,980	1,945	1.8%
3	BANGALORE	750	720	4.2%
4	KOLKATA	635	640	-0.8%
5	HYDERABAD	540	535	0.9%
6	CHENNAI	385	370	4.1%
7	AHMEDABAD	225	225	0.0%
8	PUNE	220	215	2.3%
9	GURGAON	200	210	-4.8%
10	JAIPUR	165	175	-5.7%

Source: Wealth-X/UBS World Ultra Wealth Report 2013

good as it should have been. In addition, there is just not enough distribution – this industry could do with a few hundred thousand more feet on street" said Bindal.

"The main opportunity as well as the challenge for the wealth management market is the lower allocation to financial assets, particularly to risk assets such as equities. The share of financial assets in household savings has declined from a peak of 51.9% in FY08 to 35.3% in Fy13.

Within this, what flows into assets like equities is dismal - only 0.5% of the household savings has flown into equities in FY 13. We have a long way to go to tap the enormous opportunities," said Himanshu Vyapak, of Reliance Asset Management, echoing the sentiment of many in the industry who lament the low penetration of mutual funds in the overall household savings of the economy.

Ajit Menon, head of sales at DSP BlackRock, said, "India is full of savers with some speculators. And what you find in between are investors, but that's a small portion. The challenge is to understand this break-up and act accordingly."

CREDIBILITY ISSUE

The issue of the wealth industry's credibility is a contentious topic. While the HNWI survey included in the Capgemini Asia Pacific Wealth Report ranked India amongst the highest in trust levels, the reputation of the affluent segment is not as high.

The media attack on the industry was relentless during the year. There were some direct allegations of mis-selling, churning and even attempts of money laundering. But the industry also suffered from scams in financial services generally, including the collapse of a ponzi scheme and a commodities exchange.

Vikaas Sachdeva, CEO of Edelweiss Asset Management, says, "I think the biggest challenge the Indian wealth management industry faces is credibility. Recent media articles have added to this ambiguity.

The industry has to collectively draw up a best practices document, if not there already, to ensure that certain ground rules and processes are put in place for building the comfort quotient back with the client."

"We are a young and evolving Industry and I am confident that the practices will become increasingly more robust in the times to come. Already, we are observing a trend of the Industry moving away from mere products to solutions based approach. forts

KEY REGULATORY CHALLENGES FOR WMIs

	Changes	Implications for Wealth Management Institutions
1 Tax and Regulatory Compliance	• Cross-border taxation • Disclosure/reporting standards • Change to capital and liquidity requirements	• New regulations on investment taxation and transparency are creating complex reporting requirements and increased costs • New capital and liquidity requirements can positively impact protability if leveraged eectively
2 Financial Crime Prevention	• KYC procedures/ anti-money laundering • Risk management systems	• An ability to perform customer due diligence beyond bank branches will create eciencies in the ease and cost of transacting for clients and may serve as a competitive advantage • Simplifying processes to meet compliance requirements and the use of analytics to enforce preventive measures and provide visibility on activities related to un-disclosed transactions benet WMIs
3 Market Conduct	• Investment suitability • Pricing/fee structures • Compensation of investment managers/ relationship managers • Investment restrictions	• Regulators are tightening rules to ensure adequate safeguards are in place • This is impacting the product development and pricing/fee structures that must be aligned with the markets they serve • Continuous investment in talent development and skill-building is required

Source: Accenture Analysis

Continuous engagement by way of meaningful communication, sustained training efforts and more investor awareness programs could go a long way in combating mis-selling," said Vyapak.

Sumeet Vaid of Freedom Financial Advisers said, "the number one challenge for industry especially IFAs is change management in relation to regulations, technology and client expectations.

It's mind boggling to see IFA paralysis in terms of reluctance to change and waiting for bull markets to be their savior, which is as good as preparing to get extinct.

Our industry has not learnt any lesson from travel industry - the whole breed of ticketing agents is extinct.

TALENT SHORTAGE

Some in the industry continue to list talent as the biggest challenge. Aashish Somaiyaa, chief executive officer of Motilal Oswal Asset Management believes, "the biggest challenge for a wealth management firm is getting the right talent, retaining them and training them."

The talent shortage seems to have been a constant in the list of challenges for the industry over the past few years. However, the issue appears to have shifted from not just a quality issue, but also a quantity issue, with thousands of IFAs dropping out of the industry.

Dhruv Mehta, chairman of Foundation of Independent Financial Advisors (FIFA), said, "Over the last five years, we have seen a decrease in the number of new people coming into this field because the roadmap is not very clear.

Vikaas Sachdeva

Edelweiss

"The industry has to collectively draw up a best practices document."

There have been so many regulatory changes the revenue model is unclear. If you want to increase access and penetration and you want better quality, the challenge is how you attract talent into this business or profession." Some believe the challenging environment was good to weed out the not-so-good or non-serious IFAs.

Menon said, "The number might have reduced but the quality has certainly gone up.

Quality of the industry has improved in terms of the IFAs. " Menon believes the IFAs who dropped out were themselves to blame. "Apathy to increasing knowledge quotient, and not looking forward but grieving about the bad times," were attributes that led to their demise.

BUT WILL EMERGE STRONGER

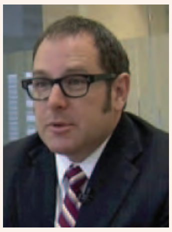
There is no doubt that the last few years have been tough for the wealth management industry. Compared to other markets, the Indian industry hadn't had years to build its foundations of talent and processes, before being hit with the storm of the global financial crisis and fast paced regulatory changes that followed.

Some may argue the industry might have built bad habits if it weren't for the crisis. However, most people in the industry are optimistic about the opportunities. Sachdeva believes the tough time only made the industry stronger, saying, "The wealth management industry has some of the smartest brains in the industry.

I think it has not just evolved, but morphed into a very client focused industry – particularly after the catharsis faced over the last few years." ■

STARTING THE JOURNEY TO BECOMING A BEST-IN-CLASS ADVISER

TO CREATE A PROFITABLE AND VIABLE BUSINESS, AND OUTPERFORM PEERS, AN ADVISER SHOULD BE ABLE TO TICK THE FOLLOWING BOXES BELOW, ACCORDING TO DAVID BELLINGHAM, CHIEF EXECUTIVE OFFICER & RESPONSIBLE OFFICER OF PROFESSIONAL INVESTMENT ADVISORY SERVICES (PIAS) IN SINGAPORE.



David Bellingham. Given that holistic, solution-driven advice hasn't been commonplace in the Asian financial advisory space to date, many practitioners need to reinvent themselves. The global push towards transparency and fee disclosure in financial advice will force IFAs to move beyond product centricity and fine-tune their value propositions. They will need to develop skills to apply industry and client information strategically if they want to be survive and thrive.

1. Move away from being product-centric

Focus on what the client wants and needs, not the flavour-of-the month products that you can earn a high commission on. Good practice includes disclosing fees to your client, who will work with advisers who are upfront and solutions focused.

2. Understand and communicate a clear value proposition

Segment your client base and tailor a value proposition to each segment. This will set you apart from other wealth professionals and give you the confidence that your advice is valuable to a client, rather than hiding behind a one-size-fits-all wall of products.

3. Take a long-term view of every relationship

For a sustainable business, you need to develop lasting relationships with your clients. It's a lot more effort pitching for new clients in short-term intervals compared with serving one client throughout their lifecycle.

4. Do thorough fact-finding

You should view the greater requirements on know-your-client as an opportunity to learn as much as you can about your clients. Clients, especially new ones, aren't going to volunteer every detail of their financial (and often personal) life so it's up to you to investigate what information you need to give holistic advice, ranging, for example, from their risk profile to plans for taxes that their kids in the US might be subject to.

5. Apply the information

You need to apply the information you gather strategically. So, if your client mentioned his daughter is getting married, this raises questions such as: will he be providing the newly-weds with a property? Will her partner be included in the Will? Where will they live? And what taxes will they be subject to?

6. Keep the client informed

Some clients will be more handson than others, but all will require information. But where you add value is by explaining what the information means to them individually, and how it can be used strategically. For instance, a client may hear about a new financial regulation through a friend or the news; it's your job to make sure they understand the extent to which this is relevant to them – and if so, what their options are.

MASS AFFLUENT SEGMENT CLEAR ON DISTRIBUTION MODEL

BANKS AND NATIONAL DISTRIBUTORS CONTINUE TO BE OPTIMISTIC ABOUT THE MASS AFFLUENT SEGMENT. WHILE CONTINUING TO USE DISTRBUTION MODELS, THEY ARE KEEN TO EVOLVE THE PRODUCT OFFER TO INCLUDE MORE SOLUTION-ORIENTED PRODUCTS. INDEPENDENT FINANCIAL ADVISERS FIND THE ENVIRONMENT TOUGHER, EVIDENT IN THE DWINDLING NUMBERS.

Kamlesh Rao
Kotak Bank

"This segment is likely to explode within the next two to three years."

The affluent segment of the wealth management industry is excited by the size of the opportunity. Speaking on a panel discussion at the Hubbis Indian Wealth Management Forum, experienced representatives from leading Indian private sector banks and IFA groups expressed their enthusiasm and excitement about bringing part of the huge retail savings into financial products.

Kamlesh Rao, senior executive vice president, priority banking group & third party products at Kotak Mahindra Bank, estimated that the number of mass affluent families in India, (defined as those with assets of INR 10 lakh, or US$20,000), could more than double to over 130,000 within the next three years.

"What makes this segment attractive is the number of products customers consume," commented Rao. "Our rough estimate is that the customer consumes seven products. To a lot of us, he's definitely a good customer. He has more than two banking relationships, and if you are the primary bank, then more than 60% to 70% stays with the bank. This segment is likely to explode within the next two to three years." Nitin Rao, senior executive vice president, private banking group & third party products at HDFC Bank, said that over the past three years, the bank has had to explain the benefits of mutual funds to each of its branches. As the whole market starts to talk more about financial products like mutual funds, he explained, this segment will become a "rolling stone."

BANKS ARE CLEAR ON DISTRIBUTION

While the banks are excited about the opportunity to offer investment products to their retail customers, they are aware that they have to address the business model question triggered by the recently introduced Investment Adviser Regulations.

There was a consensus amongst the banks that the best way to meet these requirements would be to continue as distributors. Said Prathit Bhobe, general manager for wealth management & privilege banking at ICICI Bank: "We will be happier to take the distribution route. It's a pure route. If you want to exploit that opportunity you have to say true-label distributor." Rao of HDFC made a suggestion about how to transform the product offering to incorporate advice. "If we need a vibrant industry, it can't be on advisory regulation," he explained. "There will be a segment of people who want formal advice who can go to investment advisers. Instead, products will have to be packaged like asset allocation products, fund of funds, or SIPs, which have advice built in." However, there are some in the industry who don't see this as a black and white issue.

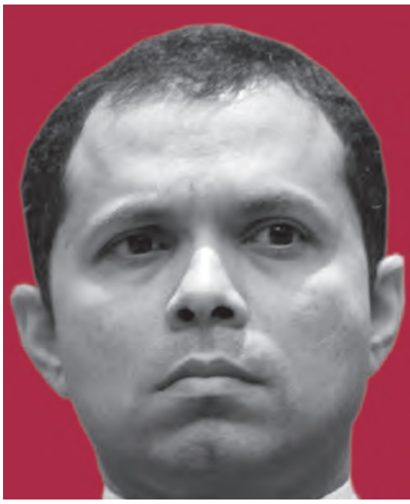
Nitin Rao
HDFC Bank

"Products will have to be packaged like asset allocation products, fund of funds, or SIPs, which have advice built in."

Vishal Kapoor, general manager for wealth management and priority & international banking, South Asia, at Standard Chartered Bank, believes in raising the bar, saying, "Are we advisers? In my mind, we are. There is no running away from that and that's what the customers want. They come to us for advice." His point was that the Investment Adviser Regulations didn't prevent the banks from offering advice while continuing with the commission remuneration model, although this view may be challenged by the RBI's proposed guidelines for banks.

CHALLENGING ENVIRONMENT FOR IFAs

India's IFAs are also excited about the opportunities in the mass affluent segment. Dhruv Mehta, director of the Foundation of Independent Financial Advisers said: "The opportunity is immense in the mass affluent segment. Only in the last five to six years, discretionary saving has increased, and it will continue to do so exponentially. It is extremely important that the products are accessible. You either need a network of branches or a network of IFAs across smaller towns which are willing to provide the services." On the choice of business models, Mehta said IFAs are leaning towards the distribution side, because that's how they set up their businesses.



Prathit Bhobe
ICICI Bank

"If you want to exploit that opportunity you have to stay true-label distributor."

Dhruv Mehta
FIFA

"You either need a network of branches or a network of IFAs across smaller towns which are willing to provide the services."

Their revenue stream comes from the product manufacturers. Very few are in corporate form and in a position to set up a 'separately identifiable division' to also provide advice, he said. Neeraj Choksi, joint managing director of NJ Group, one of the

largest IFA platforms, also indicated that IFAs are choosing the distribution model to survive. "We need to create an environment, particularly from the regulatory side, where advisers or distributors should get remunerated adequately for their efforts." While technically following a distribution model, IFAs want to align investor and distributor interest through the adoption of trail commissions rather than upfront commissions. Rajiv Bajaj, vice chairman & managing director of Bajaj Capital, "Advice can be delivered based on a commission model. We have shifted to a trail-based model, and many others are also doing this." Sumeet Vaid of Ffreedom also sees an opportunity in the current set of challenges: "The main reasons for it (mis-selling) is low advice economics which leads to lack of knowledge, which in turn leads to lack of governance. Regulators have come with relevant regulations to control it; the challenge and opportunity will be on enforcing and governance of regulations. In my view, following will be the way ahead."

IFA PLATFORMS EMERGING

Bajaj also sees the current challenges as opportunities. He said, "Five years from now, the leaders of the industry will be those who adapt fastest to the change. Distribution of advice, mass customization and creating structures is the way forward." NJ Group and Bajaj Capital run large IFA platforms, offering smaller IFAs some benefits of economies of scale by aggregating their transactions. Platform services include technology, research, tools, marketing etc. In this model, IFAs lose direct contact with the product manufacturers by giving up their AMFI Registration Number (ARN).

There is another model emerging, in which IFAs come together to get economies of scale but still keep their identity through their own ARNs.

SUCCESSFUL INVESTING

HARSHENDU BINDAL, PRESIDENT, FRANKLIN TEMPLETON INVESTMENTS, SHARES SOME PRACTICAL TIPS WEALTH MANAGERS CAN USE WHEN ADVISING INVESTORS

"When we think about the future of the world, we always have in mind it's being where it would be if it continued to move as we see it moving now. We do not realize that it moves not in a straight line ... and that its direction changes constantly." Wittgenstein As quoted in Philosophy and the Mirror of Nature by Richard Rorty.

The world we live in is non-stationary and moves in unpredictable ways and so do the markets. So how does one go about investing in various asset classes when the environment is uncertain? Legendary investors starting from Ben Graham, John Templeton to Warren Buffet, would say, look at the fundamentals and basic principles.

But, is that how one goes about investing? For example, if one takes a survey today after the market has rallied strongly in the last two months or so, the number of investors who will be inclined to take an equity exposure will be more. So let us take a closer look at the way most invest and the need to change that approach.

EQUITIES - THE WAY MOST INVEST

We have seen huge inflows to equity markets normally during periods of a sustained rally in the stock market. More often than not, the interest and the consequent inflows have been the most when the markets had peaked or just after. And they end up selling after the market declines.

There are two drawbacks of this investment style. During euphoric market conditions, investors normally lose sight of fundamentals and buy into any stock / sector which is seeing a strong upward momentum.

Also, attracted by the "irrational exuberance", investors tend to invest large sums of money in select sectors / stocks at one go, without paying heed to one's current asset allocation and risk tolerance levels.

This overconfidence about the outcome based on market hysteria also leads to non-diversification, and thereby affecting the savings pie adversely when the bubble bursts. A case in point is, investors who took a high exposure to the technology sector at the peak of the 1999 - 2000 tech rally and the 2007 peaks.

And because they invested a large amount, the resultant loss was significant in absolute terms, increasing the impact. This also leads to increased disillusionment with the equity asset class. By choosing to stay away from equities, investors lose out on the next growth opportunity... for instance, most tech sector investors who did not invest in diversified equity funds between 2001-2003, have missed out on the one of the biggest rallies in Indian equity markets. Similarly those who had stayed out of markets after 2008 would not have participated in the sharp rallies of 2009 and 2010.

Harshendu Bindal
Franklin Templeton Investments

FIXED INCOME – THE WAY MOST INVEST

While Indians have extensive exposure to fixed income assets through traditional avenues such as bank deposits, post office savings etc, they have not fully experienced the benefits of actively managed income funds. These funds tend to provide potentially higher returns through active management of securities and identifying opportunities across the yield curve. This along with the various tax advantages make open end fixed income funds an essential part of investor's portfolio.

Like in equity funds, investors should avoid chasing performance or the latest fads. For example, there is a lot of interest for G-sec funds in recent months. However, these are ideal for those investors who are comfortable with potentially higher volatility - as the interest rate outlook continues to be clouded due to the fiscal deficit and core inflation issues.

If the outlook changes and monetary easing gets pushed back, there is a possibility of negative returns and they should be ready for that. Also it is very important for investors to match their investment horizon with that of the fund's - otherwise there will a mismatch of expectations and reality. For example, the long term gilt funds tend to have maturities of well above 10 years and investors should not be looking at these for their 1-year investment goals.

One should also look at consistency of investment style – in our funds, the positioning is clearly articulated and we do not drift away from that. One should be aware of the risks they are getting exposed to in their portfolios.

Overall, given the underlying inflation trends and the expected evolution of the fixed income market in India, we believe that Indian investors who have traditionally had a low exposure to fixed income funds can benefit from increased exposure. This also helps in creating a well-balanced investment portfolio that can provide better risk-adjusted returns.

THE WAY TO INVEST - SOME SIMPLE STRATEGIES

We need to keep in mind that like in life, success in investing can be achieved by identifying few simple things and basic principles, and should be able to execute them well and have the discipline. Given below are some basic principles, well known but often not followed. Sharing these with you clients can help them make better decisions.

Know thyself

Understanding your current financial situation (needs, time horizons etc) and ascertaining your attitude towards risk is of paramount importance for making any investment decision. These two factors act as a guideline while establishing your financial goals and the type of investment you need to be making, to achieve those goals.

Be practical

While setting your expectations from any investment, make a realistic estimate of the type of returns you expect from the investment. Past performance only provides an indicator of the historical returns and there is no assurance that the same would be repeated. So make sure you understand the performance across market cycles and also relative to the peer group.

This analysis will help you in matching your investments and expectations in practical terms, which will in turn help you in dealing with the vagaries of the markets.

Information is power

Information empowers you and gives you the extra edge while making investment decisions. Ask as many questions - after all, it's your hard earned money. Make sure that you have all the relevant information and you have understood it before making any decision.

Make an overall plan first, then choose specific investments

Make a financial plan first and then choose individual investments that fit into this plan - rather than making investments on an ad hoc basis or by reacting to market conditions. A professional financial advisor can help you with both these steps

Different investments make sense for different time horizons

Match your investments to the time horizon of your goals. For your long-term goals such as retirement or children's education, go in for equity funds which even though volatile in the short term are likely to give you the growth you are looking for. Similarly for short-term goals, invest in money market or cash funds as they tend to be more stable and predictable.

Don't put all your eggs in one basket

The importance of diversification cannot be overstated... it is a fundamental, long-standing investment principle. It helps reduce portfolio risk because different investments rise and fall independent of each other.

One cannot eliminate risk, but diversification can help in limiting the exposure to event and systemic risks. Diversification across asset classes and currencies (global funds) is important for reducing the overall portfolio risk.

Understand the risk-reward relationship

All investments have a certain amount of risk, and normally, the rewards are commensurate to the risk you take. For example, equity funds do have the ability to provide good returns over the long term, but the question to ask is - are you comfortable with the ups and downs of the markets? There is no point in investing your money in equities and spending sleepless nights due to short-term volatility.

But at the same time, you need to ensure that your investments provide you returns that will be adequate to meet your long term goals.

In today's changing environment, it is important to understand that risk is no more about having some degree of volatility in a portfolio... it is now defined as the possibility of investors not earning enough on their savings in their income earning years, and falling short of building the nest-egg required for a comfortable life in their golden years.

There is no "right" time

Trying to successfully 'time' the markets is next to impossible. Your investment decision should be based on the careful analysis of your situation rather than market conditions. It is important to remember that any short-term volatility you might face tends to smoothen out over the long term. Investing is not a 100-meter dash...it's a marathon!

Moreover, when it comes to equities, investing in a systematic manner can help you capitalize on the ups and downs of the market.

Don't let your emotions take control

Emotions tend to overwhelm us whenever there is a significant shift in market conditions or when faced with unforeseen circumstances, be it good or bad. And given the cyclical nature of the markets, the overconfidence about the outcome based on market hysteria leads to non-diversifi-cation, and thereby affecting the savings pile adversely when the bubble bursts.

While making investment decisions during such situations, one needs to be even more careful. An objective and deliberate analysis of the situation, taking into consideration the investment objectives and time frame is an absolute must for achieving financial success.

Don't be averse to taking losses

Most of us are reluctant to take losses, which means admitting to mistakes. Until and unless you have a good reason to be optimistic about the future prospects of a ke loss-making investment, just sell it. We all make mistakes, the point is to learn from them and not live with them.

Stick to your plan but review it

Before making the investment decision, evaluate how it affects your current asset allocation plan. As time passes by, your life stage changes and so do your needs as well as income. You need to periodically monitor and review your investment. You need to ask questions like -

Has my investment goal changed? Has my risk tolerance changed? How has the investment performed compared to the expectations and its peer group? Is there a need to change my decision? After all, we invest to create wealth for ourselves and achieve peace of mind. Let's not make our wrong investment decisions lose it for us. ■

PRIVATE BANKING EVOLVES

PRIVATE BANKS ARE SHOWING EMERGING SIGNS OF PROFITABILITY, AS THEY BROADEN THEIR SERVICE OFFER WITH WEALTH PLANNING, INVESTMENT BANKING AND FAMILY OFFICE SERVICES. PRODUCT INNVOVATION IS STILL MISSING BUT NOW POSSIBLE WITH ALTERNATIVE INVESTMENT FUNDS.

With the number and wealth of high net worth investors increasing rapidly, private banks in India have plenty of opportunities. And most are growing rapidly, according to the McKinsey Global Private Banking Survey 2013. Although coming from a low base, assets under management (AUM) grew by 32% in 2012, making India one of the fastest growing private banking markets in the world.

IMPROVING ECONOMICS

The industry showed emerging signs of profitability with margins doubling each year since 2010, rising from 3bps in 2010 to 15 bps in 2012. This came on the back of increased revenue margins (from 66bps in 2010 to 88 bps in 2012) and lower rise in cost margins (from 63 bps in 2010 to 73 bps in 2012). The increase was higher shares of revenue from standard banking pools and brokerage income, as well as higher fee structure. The cost margins also rose due to higher sales and marketing expenses and back-office and IT costs.

SKEWED TO UHNW SEGMENT

The industry primarily serves the ultra high net worth segment, with this segment accounting for over 60% of the assets under management of the industry, according to the McKinsey survey. Interestingly, this segment is expanding faster than the overall market with annual growth rates in AUM of over 50%. In line with the wealth being concentrated in Mumbai and Delhi, these cities dominate over 65% of the AUM, though Chennai and Bangalore are growing significantly faster than the overall market.

While the industry primarily serves the ultra high net worth, it could look at lower segments for better profitability. Speaking at the Hubbis Indian Private Banking Forum, Atul Khosla, India head at consulting firm, Oliver Wyman, said "we think in Asia there is a bit of white space. If you think about segmentation, private banks operate at US$10m+ while premier banks operate sub US$1m. In our opinion, the US$1-10m space is where the sweet spot is; where the highest margins are."

The private banking divisions of Indian banks tend to court clients with around US$1m, which probably partly explains their higher profitability. Indeed, the profitability of Indian private banks (with a margin of 38 bps) was close to European peers, according to the McKinsey survey. Citi is an example of a global bank eyeing this segment. While Citi Private Bank aims at the US$10m + segment, Citigold, its premier division, has launched a 'private client segment' targeting the US$1m+ customer. Abhay Aima, head of HDFC Private Bank, says it doesn't focus on a minimum net worth. “You could have a person whose net worth is INR 10 or 100 crores who wants to keep it in fixed term deposit and not move it. But you could have another person with a net worth that is one-fourth of that but is looking for various wealth services. So it makes more sense to look at how much a client needs you.”

Indeed, Aima goes one step further and focuses on client profitability. He said the attachment of an RM costs money, and the wealth firm needs to make money, so it would make sense to focus on clients who need wealth services. Banks appear to have based their client segmentation based on their organizational strengths - whether it's retail reach, capital markets/investment banking capabilities, or philanthropic advice. HSBC, for example, while being a universal bank, also has significant corporate banking expertise. Shantanu Ambedkar, head of HSBC Private Bank in India, said, “You will always have clients classified by AUM, but you will also have other clients that it makes sense to serve because they are part of the entire offering as an institution. This is much more critical for private banks.”

Ajay Bagga, of Deutsche Private Wealth, also preferred to focus on the bank's global corporate relationships. His rationale is to serve the existing clients of the bank. “In my view, client segmentation in this segment is a segment of one. You have to go really deep in the needs of the client. Success goes to those who keep the customer central,” he said.

Shantanu Ambedkar

HSBC Bank

“You will also have other clients that it makes sense to serve because they are part of the entire offering as an institution.”

GLOBAL VIEW ON REGIONAL ECONOMICS

xx Below last year xx In line with last year **xx** Above last year

2012	Western Europe	North America	Asia	India	Middle-East
Growth					
Net inflow	**2%**	**3%**	7%	14%	14%
Performance	**6%**	**5%**	**10%**	**18%**	4%
AUMgrowth	**8%**	**8%**	**17%**	**32%**	18%
Economics					
Revenue margin	82 bps	95 bps	**82 bps**	**88 bps**	**108 bps**
Cost margin	59 bps	63 bps	65 bps	**73 bps**	40 bps
Profit margin	23 bps	**32 bps**	**17 bps**	**15 bps**	**68 bps**
Mandates					
(share of AUMin advisory or discretionary)	39%	65%	**43%**	23%	**17%**
Asset mix					
Cash and equivalent	31%	22%	32%	17%	**54%**
Fixed income	27%	25%	**18%**	35%	15%
Equities	**25%**	35%	36%	**46%**	7%
Alternatives	8%	**10%**	6%	1%	**8%**
Other/Balanced	9%	8%	7%	1%	**16%**

Source: McKinsey Global Private Banking Survey 2013.

BANKING ADVANTAGE

The industry includes players with different business models including private wealth firms without a banking license. Global universal banks such as Citi, HSBC and Standard Chartered have advantages of balance sheet, range of services and global networks, according to Sandeep Das, head of Standard Chartered Private Bank. Das said the universal bank model was useful in the Indian environment, which is very fragmented with low entry barriers, and a number of non-bank players including IFAs and institutional wealth providers.

Das explained that “a universal bank has access to talent across all parts of the organisation. The private bank would need to pick them up early from different parts of the bank, train them and then groom them within the private bank."

Karan Bhagat, chief executive officer at IIFL Wealth, believes that an independent platform allows his firm to be much more flexible: "From a customer delivery point, we are not that very different from a private bank. The key is adviser of first choice. If you are able to fill that position in the mind of the client; today clients are looking for individuals who they can sit across and find solutions.

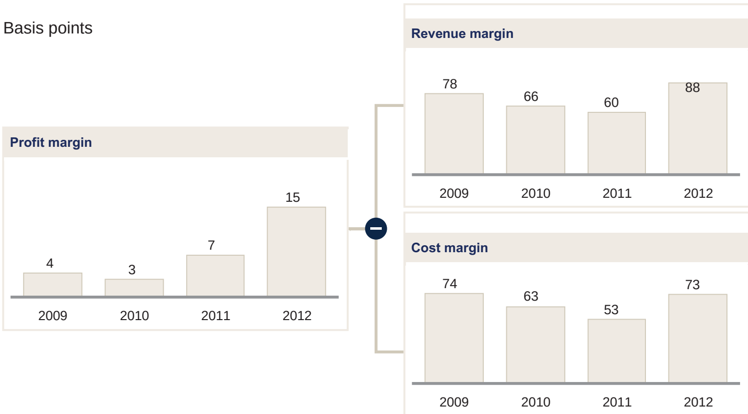
They are looking at platforms, which help them execute. That's coming secondary compared to the needs of the client. Not being a bank is helpful sometimes because we are able to think beyond the platform and look for solutions anywhere. However, Bhagat conceded the cost advantage to banks, saying "On the flipside, the cost to serve ratio of clients is much more expensive for us. It's twice for us compared to that for a bank."

STILL SUB-SCALE

While growing rapidly, most of the private banking players in India are still sub-scale, said Shiv Gupta of RBS Private Banking. In his view, the break even point will differ from business to business, depending on "whether you are investing for the long term." The typical answers to the break-even question range from US$2 to 5bn. Das estimated that the break-even for a business with 50 client advisers in India is about US$3 billion of AUM. Certainly, the McKinsey survey showed that scale had a significant impact on profitability. Firms with AUM of more than US$1 billion showed higher profitability (at 27 bps).

The larger private banks also showed a higher growth rate reflecting significant concentration. Gupta believes the industry should build capability based on potential rather than current levels of AUM. "If we are

INDIA: REVENUE MARGIN DRIVES PROFIT GROWTH



Source: McKinsey Global Private Banking Survey 2013

trying to optimize our business model when operating at this level, the decisions might be different to if you are taking a long term strategic view," he said.

THE TALENT ISSUE

Talent, or lack thereof, continues to be listed as one of the challenges for the private banking industry. Das of Standard Chartered quipped, "if you ask me there are 50 quality private bankers in India."

Some players have decided to tackle the issue head on. Gupta of RBS has been a big advocate of training. "I often hear there is lack of talent in the industry, but that's an euphemism. There are plenty of talented people in the country. It becomes an imperative for all of us to invest in training and development. It's a new market – young and developing. You won't get people ready-made for the job. You will get them from associated industries," he said. Aima of HDFC also is in favour of developing fresh talent rather than allowing existing private bankers in the industry to hold their own. "If it means hiring a fresher and making him go through the grind, I don't mind. I don't think it's so much of a rocket science as people make it to be, so long as you find someone with reasonable experience, some basic common sense, the inclination and a yearning to learn. At times I have found some successful RMs in the market who have built their AUM purely based on relationships and the product knowledge is not there – that's not the kind of talent I would like to hire."

Shiv Gupta
RBS

"If we are trying to optimize our business model when operating at this level, the decisions might be different to if you are taking a long term strategic view."

Samir Bimal
BNP

"We are like general physicians...even if you appoint specialists, we can make sense out of it."

Rohit Sarin
Client Associates

"It takes time for every consumer to get ready for a new experience."

INVESTMENT BANKING AS A DOOR OPENER

The pace at which Indian entrepreneurs have been unlocking wealth from their companies has picked up over the past few years, making this a significant segment for the private banking industry. Some private banks have focused on this segment by offering strategic advice in partnership with their investment banking team. Samir Bimal, India head at BNP Paribas Wealth Management, explained that most of the clients who are value such advice are mid-sized corporates that have a corporate restructuring event.

Companies that are larger or looking at acquisition/divestment transactions tend to go to full service investment banks. BNP services this segment by embedding a team of investment bankers within its private banking division globally, he said, explaining that "it's clearly a door opener". Other global players like Merrill Lynch, Deutsche Bank and HSBC also offer investment banking advice to their private banking clients. Local Indian groups also see the benefit of combining investment and private banking.

Avendus, a leading investment bank player, started its wealth management division about three years ago and credits about 30% of its assets under management to introductions from its investment banking team. Nikhil Kapadia, chief executive officer at Avendus' wealth management division, explained the focus on being relevant to both the personal and business wealth was a deliberate strategy, saying: "It depends on how relevant you are not just to the private wallet but also the business wallet." Banks offering both services can also help clients with cross-border transactions and domain expertise that a pure play private bank would not be able to.

Shiv Khazanchi of Alpen explained: "The point of arrival for a private banker is to be a trusted adviser. If you advise on only 10% to 20% of his wealth, you are ok but you are not getting anywhere near being a trusted adviser. When you advise on real estate you made a rapid stride, but you start

looking at this from the business promoters stand point, they are spending the bulk of their time on their business. If you start adding value, you are now getting to be a trusted adviser."

Bimal explained that the value-add comes from the bridging role, while being able to sit on the side of the family and guide them through the transaction: "In fact a client put it perfectly, when introducing us to the next generation of the family, saying they are like general physicians. They have knowledge; even if you appoint specialists, they can make sense out of it."

Atul Singh
Merrill Lynch

"Every wealthy individual in the country will have to think about planning for succession of their wealth."

FAMILY OFFICES EMERGING

With the growth of private wealth and private banking, so is the demand for family offices. Rohit Sarin, founder of the one of the oldest multi-family offices, Client Associates, was optimistic about the potential, saying: "The way we are the way our society is structured, we are conservative, we are relationship oriented and the wealth is growing we need to preserve and continue it so there is definitely a market for it."

The main requirement of the family business owners segment is advice on preserving and transfer of that wealth to successive generations. "Hence the focus is not generating 1% to 2% extra returns but preservation and steady growth," said Sarin.

However, there is a wide variation in the services demanded by families. Rajesh Iyer, head of the Kotak Family Office, said: "Even I am trying to understand that in terms of what it is because the culture of India is so varied." Comparing the services offered by Indian multi-family offices to the US or Swiss ones, Sarin said the differences were mainly due to the level of maturity in both service providers and clients.

"To avail these services in a very structured manner and also pay a price for it is somewhat of a very different experience for them and it takes time for every consumer to get ready for a new experience," he said. Iyer was of the opinion that India is "not even close to what the US or Swiss family offices do".

His view was that firms need to pick and choose where they want to be and then expand upon in terms of depth. The fee models are based on assets under manag-ement though the levels vary depending on the scope.

There is resistance which is "a sign of lack of maturity" but clients are willing to exper-iment. Clients eventually get convinced about the value-add and then willing to pay for the services.

Said Iyer: "It is a combination of where the industry is and where the environment is.

The industry is nascent, it has to grow and evolve, the environment has to get better for both the industry to invest in this whole practice and to get better in terms of offerings and the environment to be be a bit more conducive and profitable.

I would say across asset classes so that even from the client side so that they are open to look at paying." ■

Sandeep Das
Standard Chartered

"If you ask me there are 50 quality private bankers in India."

BRINGING FAMILY OFFICE SERVICES TO INDIA

RAJAN SEHGAL, MARKET LEADER FOR INDIAN SUB-CONTINENT AND NON-RESIDENT INDIAN (NRI) SEGMENT FOR CREDIT SUISSE, TALKS TO HUBBIS ABOUT THE DRIVERS FOR THE BANK TO LAUNCH A SINGLE FAMILY OFFICE BUSINESS IN INDIA, AND EXPLAINS HOW IT PROVIDES ANOTHER POINT OF DIFFERENTIATION.

"The single family office service is a bespoke service tailored to empower leaders of business families to make the most of the unique strength of a family enterprise."

Hubbis - *What client segments does Credit Suisse service in India?*

Rajan Sehgal - At Credit Suisse, our services are tailored towards meeting the requirements of a typical high net worth (HNW) individual and ultra high net worth (UHNW) individual.

Our integrated bank approach associated with our direct access to Credit Suisse international experts and expertise allows us to respond to the complex needs of our client base in a holistic manner.

Hubbis - *Why have you launched a single family office (SFO) service in India now?*

Rajan Sehgal - The single family office service is a bespoke service tailored to empower leaders of business families to make the most of the unique strength of a family enterprise: the synergy between strong family owners and a well-run family enterprise.

The increasingly sophisticated needs of these clients, coupled with rising economic and social complexity, provides the foundation of there being a more organised and an institutional framework in place to manage their wealth and legacy. The single family office service aims to address these needs.

As a part of our focus on Indian clients, the family office service will be a core part of our offering in India.

Hubbis - *What services does the SFO service offer?*

Rajan Sehgal - We mentor and lead the process of establishing a family office and provide customised investment, structuring and monitoring services.

Where family offices already exist, we will provide services in areas such as creating holding and governance structures, estate planning, legal and administration services, philanthropy initiatives, etc.

Hubbis - *How will clients pay for these services?*

Rajan Sehgal - As the family office service offers bespoke solutions, commercial arrangements could range from advisory, consultancy, structuring or portfolio management fees, depending on the scope of the mandate.

Hubbis - *How else does Credit Suisse differentiate itself from other private banks?*

Rajan Sehgal - Our main “USP” and what distinguishes us greatly from other players is our integrated bank providing private banking and wealth management services including asset management as well as investment banking.

UHNW individuals and wealthy families are traditionally under-served by the classic private banking model owing to their complex financial requirements. These complex needs require a holistic approach.

This is exactly where our integrated business model serves to the benefit of our clients. Our relationship managers know their clients very well and aim to provide the best services from a single source.

Further, Credit Suisse remains committed to a long-term international growth strategy, focusing on fast-growing and large onshore markets, like India, and the UHNW client segment.

In light of increasing regulatory and capital requirements, and continued challenging market and economic conditions, we have a client-focused, capital-efficient strategy which is working.

Rajan Sehgal
Credit Suisse

“Commercial arrangements could range from advisory, consultancy, structuring or portfolio management fees, depending on the scope of the mandate.”

PRODUCTS FOLLOWING SEGMENTATION STRATEGY

SOMEWHAT FORCED BY REGULATION, THE PRODUCT LANDSCAPE IS CHANGING WITH CLEARER SEGMENTATION. THE THREE PRODUCT STRUCTURES – MUTUAL FUNDS, PORTFOLIO MANAGEMENT SERVICES AND ALTERNATIVE INVESTMENT FUNDS – ARE CLEARLY TARGETED. ETFS AND REITS WILL COMPLETE THE PICTURE.

Surajit Misra
Bajaj Capital

"We are now moving towards simpler, goal oriented or solution oriented products."

The Indian regulator tightened the product structures quite significantly in the past 12 months, such that there are now three structures for asset management -

- Mutual funds aimed at retail segment, with full fee (with trail commissions built in) and direct plans
- Portfolio Management Services (PMS) aimed at affluent/HNW segment, with minimum investment amount of INR 25 lakhs (~ US$40k)
- Alternative Investment Funds (AIF) aimed at HNW segment, with minimum investment amount of INR 1 crore (~ US$150k)

While the regulator appears to have forced the segmentation through the fee structures and minimum investment amounts, the asset management industry is also responding to the changed structures by adapting their product offers.

The other structures available to investors are exchange - traded funds (ETFs), which provide exposure to gold as well as listed equities.

Retail investors who miss out on real estate exposure through mutual funds will also be able to get exposure to the stable rental income stream through Real Estate Investment Trusts (REITs), once the proposal to launch that structure is finalized. The asset management industry is excited about the opportunity to launch a wider variety of products.

Srinivas Jain, of SBI Funds Management, said, "With three legal vehicles - mutual funds, PMS and AIF - SEBI has allowed asset managers to launch different products with various degree of complexity. The opportunities will be in passive space (ETFs), geographical expansion (global products), asset allocation (strategic and tactical asset allocation), quantitative techniques and absolute returns (private equity, hedge Fund, PIPE).

MUTUAL FUNDS TO OFFER SOLUTIONS

Until now, the asset management industry has offered mutual funds as 'building blocks', providing exposure to the listed markets – cash, fixed income and equities.

Based on market feedback, some have started considering solution-oriented products for the retail segment, and international funds for the affluent segment. Institutional investors have shifted to direct plan version of cash and fixed income funds. The product trend that dominated the year was the flows into fixed

Aashish Somiyaa
Motilal Oswal AMC

"We believe there is going to be a move towards solutions."

income, rather than the usual equities category. Ajit Menon of DSP BlackRock summarized the trend by, "People discovered fixed income not by design but by default. Flows on fixed income increased. But the biggest issue is the fact the how you set expectations right in the MF industry."

On the issue of sticking to building blocks versus offering simpler solution-oriented products, the wealth and asset management industry players appear divided.

Speaking at the Hubbis Indian Wealth Management Forum, Nitin Rao at HDFC Bank agreed with the forum agenda focusing on embedding advice into the product, saying "products will have to be packaged like asset allocation products, fund of funds, or SIPs, which have advice built in."

"Clients see us as vehicle to achieve lifetime goals, but what we're selling them gives only short-term performance," said Rajiv Bajaj, vice chairman & managing director of Bajaj Capital. "So we need to simplify, package and bring solutions."

Surajit Misra, executive vice president at Bajaj Capital, observed "Over the last couple of years there has been a lot of consolidation, partly due to the regulatory changes, and partly due to the intent of the investment companies. The same is happening across insurance products. We are now moving towards simpler, goal oriented or solution oriented products, which is a positive change."

Misbah Baxamusa, national sales head at NJ Group, endorsed this, explaining that "retail investors want products they can understand".

Sumeet Vaid, chief executive officer of Ffreedom Financial Advisers, added: "Retail investors are not looking for products, they are looking for solutions. We are selling them products - that's where mis-selling happens." However, some advisors are apprehensive about multi-asset class funds. Rishi Nathany of Dalmia Securities gave voice to a sentiment many advisors feel: "If a customer wants to buy a product and will not come back for two to three years, I can sell him a multi-asset class product. If he is going to come back, and I sell him a multi-asset class fund, I will be out of a job."

The asset management industry is happy to provide solution-oriented multi-asset class products, while continuing to offer single asset class funds. Kailash Kulkarni, chief business officer at L&T Asset Management, sees a place for both – "The customers are wanting simple products. You will however continue to have niche products for a segment of customers (eg: global products for HNIs).

In the current market situation, the customers are looking for safety over returns however the customers who see value in the market continue to invest in diversified equity funds."

Himanshu Vyapak of Reliance said " The mutual fund industry offers only basic products and generally refrains from providing advisory services, which is largely the domain of distributors." However, even Reliance is considering solution-oriented funds to cater to the mass segment. Vyapak said, "We are moving in the direction of offering goal-based solutions by packaging different products and features that we believe can serve specific financial goals.

Prateek Pant
RBS

"Looking at changes in real estate valuation reports - there is a little bit of learning for all of us."

We believe that the product / solution offerings have to be outright simple in order to have a mass appeal and with that thought, we are planning to offer a multi-asset allocation fund, to be positioned as an all-weather fund that could work in different market conditions."

Harshendu Bindal of Franklin Templeton said, "The case for solutions is standing out quite strongly." He believes simpler communication can help with generating interest: "There is a certain segment of distribution that believes that asset allocation is their job, especially in the high net worth segment.

Munish Randev
Avendus

"The day the product role gets complacent, you will start having problems."

In retail, there is some apprehension but it's getting interest. Partly people have been avoiding anything equity linked, and partly people are tax obsessed which takes away from balanced products. The industry communication has to become a lot simpler. "

Smaller players like Axis and Motilal Oswal, were keen on offering more packaged products to varying degrees. The Axis Triple Advantage Fund was an example of a fund that offers exposure to three asset classes, although on a static asset allocation.

Aashish Somaiyaa, chief executive officer at Motilal Oswal Asset Managemnt, said "We believe there is going to be a move towards solutions. So we are gearing up to build portfolios using building blocks, active and passive."

Indeed, Motilal Oswal is launching solution-oriented funds for both the affluent and retail segments – "The first set of wrappers is for the affluent/wealth segment under a PMS structure. Wealth firms can use our active or ETF building blocks but then also go open architecture. We will then look at doing the same on a funds-of-funds platform for the retail market."

PMS BROADENING

The PMS providers have been relatively quiet over the past couple of years. The wealth management industry has not been too happy with this segment because of poor returns and transparency.

However, there have been some instances of PMS providers, backed by asset management firms, like Birla Sun Life and ICICI Prudential, launching products investing into higher yielding fixed income investments.

ALTERNATIVES

The big news last year was the launch of the AIF structure with the promise of offering exposure to alternative asset classes. However, a year later, the industry has realized there is a long way to go for everyone in the value chain, from the manufacturers which have to build up credible track records, to product gatekeepers who need to do better due diligence, to relationship managers (RMs) who need to explain the products better to clients, and to investors who need to be educated on such investments.

Starting with the basics, the industry grappled with the definition of alternatives. The most common way to define alternatives is by lack of liquidity and low correlation to traditional asset classes. While historically, alternatives have been marketed on the basis of higher returns,

Umang Papneja
IIFL Wealth

"We are slightly too early for hedge funds."

Sriram Iyer
Religare

"It's the job of the person managing the client to communicate this clearly."

some panelists concluded that it was time for the industry to re-frame this aspect as it had led to wrong expectations.

Complexity is another criteria used for defining alternatives. There were some mixed views in the industry on whether complexity is necessary and whether alternatives should there be restricted to high net worth or sophisticated investors.

Views were also mixed on whether real estate should be included in alternatives when it forms a significant part of investors' portfolios in India. Most were of the view that similar to equities and debt, a straight forward 'long' exposure to real estate is pretty mainstream, but some of the ways of investing based on real estate are not, such as mezzanine or non-convertible debt instruments or real estate funds that take private equity-type development risk or invest in large township projects

On the topic of why investors haven't flocked to private equity type funds, product gatekeepers at leading private banks and private wealth firms say the alternatives product space is quite nascent, with private equity and real estate funds coming in only about six to seven years ago.

Unfortunately, investors bought in at the height of valuations and have yet to make the returns promised to them, and hence are quite wary about such illiquid funds.

Investors also need education about hedge funds. They expect higher returns rather than the promise of lower volatility. So the issue of absolute versus relative returns needs to be explained to investors.

On the other hand, the role of hedge funds in lowering volatility was questioned; investors can get lower portfolio volatility by investing in cash or fixed interest themselves. Investors are not the only ones who need education.

The industry also needs to learn its lessons. Product gatekeepers at private banks and wealth management firms need to do better due diligence, on not just investment risks but also counterparty risks.

Experts agreed they could look at adopting some international frameworks, which look at a number of factors when evaluating alternatives managers, such as organisation strength, team, process, back-office, etc. Said Munish Randev, executive director at Avendus: "The day the product role gets complacent, you will start having problems. Every 10 years, they need to get back to basics."

Prateek Pant at RBS Private Banking also agreed on the need of further research by the private banking industry, saying "there is a little bit of learning for all of us."

The last mile, the RMs, also need to explain the products better to clients. Even in the most recent scam hitting the Indian market, RMs had made promises of risk-free high returns. They should also explain the illiquidity aspect, including the lack of any buy-back facilities of such products. "It's the job of the person managing the client to communicate this clearly," said Sriram Iyer.

On their part, product manufacturers need to build up credible track records. They may need to adopt some standard in performance reporting to improve transparency. Umang Papneja mentioned the importance of market environment when talking to clients about alternatives by saying: "The client understanding is low, and environment has also not been really good to make people understand."

The industry agreed that the minimum investment amount hurdle set by the regulator is a step in the right direction, though some mentioned the concept of "sophisticated investor" might be a better solution to encourage smaller investment into alternatives.

Papneja raised the idea of using the AIF structure as a platform. The AIF structure is similar to the "discretionary portfolio management" service offered by global private banks where the bank manages portfolios on clients' behalf.

AIFs could be used to pool different types of alternatives to create a diversified alternatives fund, which may be more palatable to first time investors into alternatives. AIFs could also be customised for families.

In conclusion, the panel welcomed the AIF guidelines and the launch of numerous alternative products, but predicted it would take another two to three years for the industry to embrace them as it takes time to learn, and also the market environment needs to be conducive.■

USING ETFs TO BUILD PORTFOLIOS

ANUBHAV SRIVASTAVA, PORTFOLIO MANAGERS AT MOTILAL OSWAL AMC PRESENTED THE HUBBIS INDIAN WEALTH MANAGEMENT FORUM ON USINGEXCHANGE TRADED FUNDS TO BUILD A PORTFOLIO, AND A PRACTICE.

Advisers may have a philosophical view on whether it is better to invest using an active or passive strategy, but irrespective of that view, it is an undisputed fact that most of the returns from any asset class come from 'broad market exposure' or 'beta' in investment jargon.

Hence, it could be cost effective to build a portfolio using a 'core-satellite' approach, says Anubhav Srivastava, a portfolio manager at Motilal Oswal Asset Management Company. And now that some advisers might want to build a fee-based investment advisory practice, they might have even more reason to look at using ETFs.

GETTING BROAD MARKET EXPOSURE

Most experts believe in getting broad market exposure for the core of the portfolio. So within equities, most people build a core using one or more diversified equities funds. The idea is to have a high correlation with the equities market index.

Essentially, they can get this broad market exposure using a passive approach. They can do this three ways - buy stocks replicating an index, inv-esting in a passive mutual fund or buying an exchange traded fund. Passive mutual funds are relatively expensive in India, and have high tracking errors. The cheapest way to do this is through an ETF. It also becomes much easier to manage the portfolio. ETFs are fairly liquid so advisers can also do tactical tilts.

CORE AND SATELLITE

Srivastava recommends that advisers look at actively managed funds as the 'satellite' part of the portfolio. Another way is to use ETFs are the satellite for a typical portfolio of fixed income and equity mutual funds.

The simplest thing for them to do should be to add a NASDAQ type product into their portfolios because it is very weakly correlated with the Indian broad market indices. Gold gets influenced by domestic markets, the NASDAQ ETF gets influenced by the NASDAQ 100 index as well as the INR but that's it. It has little bearing on what is happening in the country.

Therefore it will do two things - it will reduce your risk and in these kinds of market scenarios when the NASDAQ is going up and the INR is depreciating it actually adds a lot more return to portfolios and it dampens a lot of the volatility. It is useful whenyields are spiking on the fixed income side or the domestic stock market are volatile.

Anubhav Srivastava
Motilal Oswal AMC

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*Investors should consult their financial advisers if in doubt about whether the product is suitable for them.

Note: Risk is represented as:

(BLUE) investors understand that their principal will be at low risk

(YELLOW) investors understand that their principal will be at medium risk

(BROWN) investors understand that their principal will be at high risk

Mutual Fund investments are subject to market risks, read all scheme related documents carefully

asset classes may not be suitable either for the adviser or that advisers' client base or that adviser may simply not be comfortable dealing with those asset classes because ultimately he is the client facing individual.

"So we help the adviser choose the asset classes, and calculate the risk/ return profile of the portfolio" explains Srivastava. The fim also helps advisers with the portfolio management decisions, such as periodic rebalancing frequency and cashflow management.

As Srivastava points out, "These are important decisions so that your risk remains constant and you are constantly bookingprofits and that your risk is not going out of whack in a particular asset class or classes."

TACTICAL ASSET ALLOCATION

As all Indian investors and adviser are aware, the Indian markets tend to be quite volatile. So they have to think about what they want to do when there is volatility within an asset class. Those policies need to be set up so that both advisers and clients are clear on the decisions to be made.

Let's say volatility spikes, returns spike or there is a meltdown in some part of the world which seems to have a fairly significant impact on dollar denominated funds, for example.

Do you do a review, rebalance, or has the market balance changed to the extent that you need to do a re-allocation itself? This means that you are actually changing the asset allocation.

"The other little bit about tactical allocation is that it's not just about taking the call and the nature of the call that you are taking. It is important to know the different tactical calls you are taking and the interaction between the tactical calls you are taking on asset classes. Let's say you are taking a tactical call on gold and the NASDAQ ETF listed in India.

> "It could be cost effective to build a portfolio using a 'core-satellite' approach"

There is something common between them, which is the INR. Now the question is purely based on the INR. Should you be taking tactical calls on the gold and the NASDAQ or do you also need to look at what the correlation is between NASDAQ and gold excluding the INR," explains Srivastava. Last but not the least, it does not mean that you get into extremely exotic investments and tag it a tactical call. It should be complementary to the core portfolio and one should also understand what one is getting into. Suddenly punting on oil futures in the US markets is a bad idea if the rest of your portfolio is between NASDAQ, gold and fixed income.

DEFINING RISK

"We define risk essentially as 'Value at Risk' rather than standard deviation, says Srivastava. "And again this will be very specific to each adviser. We don't do a value at risk calculation at the broad demon-stration level because it is me-aningless because at the moment every time you change the portfolio allocation the value at risk will change. So when you actually do the allocations at the adviser level there are different buckets that are out there and for each of these buckets you could run a value at risk calculation." ■

MARKETING SIMPLER MESSAGES

BOTH THE WEALTH AND ASSET MANAGEMENT INDUSTRIES ARE REALISING THE NEED FOR SIMPLER MESSAGES.

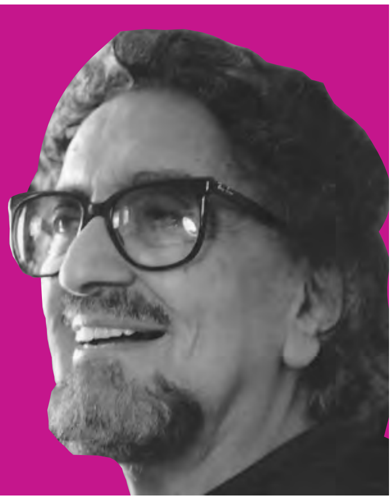
The retail segment of the wealth management industry wants not only simpler products, but also simpler messaging in the mutual fund industry's marketing and educational activities.

Simpler messaging becomes even more important as the mutual funds reach out to first time investors through various initiatives, ranging from tax incentives to higher commissions for distributers outside the top 15 cities, to a new cadre of distributers being enrolled to distribute 'simple' mutual funds.

Alyque Padamsee

AP Advertising

"Investors want a person speaking to them who has a certain authority."



SIMPLY BEAT INFLATION

"Clients see us as vehicle to achieve lifetime goals, but what we're selling them gives only short-term performance," said Rajiv Bajaj, vice chairman & managing director of Bajaj Capital, speaking at the Hubbis Indian Wealth Management Forum.

"So we need to simplify, package and bring solutions." Bajaj also suggested that banks and IFAs might learn from the insurance industry. "We got it wrong; the insurance industry got it right.

Inflation is one area that needs to be addressed. "If the industry doesn't provide a solution," Bajaj pointed out, "investors look outside." Drawing on the example of celebrity Amitabh Bachchan endorsing gold, Bajaj explained: "It's not Bachchan that sells, but the other asset players encashing the recurring investment idea, offering a solution to investors struggling with inflation."

Industry participants expressed enthusiasm about the new private and public initiatives around marketing of financial products, such as the Rajiv Gandhi Equity Savings Scheme (RGESS).

Such schemes, they agreed, encourage new investors to enter capital markets. Commented Neeraj Choksi, joint managing director of NJ Group: "The objective of RGESS is financial inclusion: getting new retail investors into financial products. RGESS is the only scheme where the investor can get a tax benefit by participating in the equity market. It's an amazing concept."

Nitin Rao, senior executive vice president, private banking group & third party products at HDFC Bank, also praised the scheme: "I need people talking about the mutual fund industry, so that when I approach the customer they will want to invest. If I talked about it, customers would ask me what a mutual fund is. If the radio talks about mutual funds first, we're a step further. And if other products follow, like education funds, like with insurance plans, that's very positive."

Bajaj commented on the importance and value of investor education initiatives. Referring to the recent advertising campaign by the Association of Mutual Funds in India (AMFI): "If the eggs industry can do it," he said, "why can't mutual funds?"

However, the industry needs to look at the effectiveness of such TV advertising campaigns, says advertising guru, Alyque Padamsee. In his opinion, a lot of such advertising is wasted because the analogies used are "trite and childish."

He said, "In today's environment, people are interested in a solid financial product with a good return and safety. They want a person speaking to them who has a certain authority, therefore designations are very important. It is reassuring if a banker or a financial adviser himself speaks directly to the client through the advert."

BEYOND TOP 15 CITIES

SEBI is keen for the mutual funds to reach out to smaller cities and towns, incentivizing them with higher expense ratios for funds that get a significant proportion of

Himanshu Vyapak

Reliance

"We believe that the product / solution offerings have to be outright simple in order to have a mass appeal."

inflows from such places. Larger asset management firms like Reliance welcomed the initiative.

Himanshu Vyapak of Reliance said, "We have been consciously investing in smaller cities, even before these regulatory reforms, with an intention to reach out to retail investors across the country. The strategy has been working well for us, with nearly 15-20% of our inflows in the retail category coming from these cities. We believe there is immense potential in these markets and we will continue to seed the markets."

Srinivas Jain, chief marketing officer at SBI Funds Management, also believed this was

Srinivas Jain

SBI

"The B15 initiative is a long-term strategy and the results will come over a period of 5 to 10 years."

a good idea, saying, "We are extremely pleased with the SEBI initiative on B15. This is a corner stone of our mass retail strategy. The B15 initiative is a long-term strategy and the results will come over a period of 5 to 10 years."

INVESTOR EDUCATION INITIATIVES

The asset management industry has also been charged with educating the end investor through a mandatory allocation of 2bps of assets under management. Firms have launched a range of initiatives depending on the size of the firm.

Larger firms like Reliance undertake face-to-face workshops. Vyapak said, "We have been conducting investor awareness programs across the country, covering thousands of participants in over 400 locations since May 2010. We have also created plans to spread the reach through using the residential-community network, and partnerships with large distribution houses and NGOs."

SBI launched campaigns across all mediums like television, print, outdoor, internet using "Fund Guru" as its investor awareness mascot. Smaller firms like L&T tried to differentiate ourselves with their advertising campaign for investor awareness. Kailash

Misbah Baxamusa
NJ Group

"Retail investors want products they can understand"

Kulkarni said, "Unlike many other campaigns, this campaign is done in five languages other than English, so we can genuinely spread the word to even smaller towns in India. Apart from this, we have come out with investor guides in simple language, tied up with Money Today to do a special Women's investment issue."

DSP BlackRock also focused on women through the launch of "Winvestor" based on a survey that 63% of women would be interested in learning more about investing. The program uses television and focus group sessions connecting women investors with women advisers.

NEW CADRE OF DISTRIBUTERS

The asset management industry is also training advisers, not only the existing distributers but also a new cadre of distributers who will focus on distributing 'simpler' mutual funds.

Vyapak of Reliance is excited about this category, saying: "Though it is a lot of hard work to identify such agents, train them and motivate them to source business, the effort is worth it as it results in penetrating into new markets and new segments."

DIRECT MARKETING

The regulator mandated mutual funds to offer direct plans to cater to investors who approach them directly. But the industry doesn't seem to want to woo them, in the retail segment anyway. Most of them prefer going through the distribution route. And as someone pointed out, the marketing costs would outweigh the commissions they give to distributers currently.

Menon of DSP BlackRock doesn't see any point to go direct with his firm's brand, saying, "Markets been hit by the financial crisis badly, led to market shrinking. The investor will think of SBI, UTI or LIC as they are more comfortable with Indian names compared to a DSP. The right way to go is through advisors."

The Motilal Oswal group, which has a large retail stockbroking franchise, doesn't want to go direct. Somaiyaa said, "I don't think it's in the best interest of the investors to deal with the manufacturers directly.

Even the best manager will form a small part of someone's portfolio. And whatever the quality of a distributor may be, you can't ignore the benefits of dealing with a third party when it is about advice."

Even one of the biggest brands in the country, Reliance, hasn't seen huge direct inflows from retail investors, confirmed Vyapak.

NEED COHESION

While everyone in the industry welcomed the various marketing and educational initiatives undertaken during the year, some believe there is a need to align these marketing, education, and investor incentive strategies.

Said Kamlesh Rao, senior executive vice president, priority banking group & third party products at Kotak Mahindra Bank: "What's the point of creating financial positive strategy in B15 markets but spending the advertising budget in the T15? .

Even if you pay more in B15, if the marketing doesn't happen there, it won't take off. AMCs now have money for investor education - they need to couple the money spend and the distributer incentives so it will be a win-win." ■

INVESTING IN CONSISTENCY AND EDUCATION

NIMESH SHAH, CHIEF EXECUTIVE OFFICER AT ICICI PRUDENTIAL ASSET MANAGEMENT COMPANY, TALKS TO HUBBIS ABOUT HOW THE AMC FOCUSES ON CONSISTENCY OF FUND PERFORMANCE BY BEING PROCESS DRIVEN. HE ALSO BELIEVES THE INDUSTRY NEEDS TO A LOT MORE DISTRIBUTER AND INVESTOR EDUCATION.

The Indian mutual fund industry has good fundamentals – good number of healthy asset management firms and extremely good regulation. However, it can do more to increase consistency of performance and differentiated products for various client segments, and better education for intermediaries and investors. This is exactly what Nimesh Shah, chief executive officer of ICICI Prudential is doing and it's paying off in increasing market share.

INDUSTRY CHALLENGES

Shah is an optimist. He strongly believes that the mutual fund industry is structured very efficiently and works for the benefit of the final investor. “When I hear people stating that the number of investors in equity funds is falling, my contention is that mutual funds are derivatives to primary investments – equity and debt. Our success is a derivative of the success at the macro level. Clearly, if there is economic growth, we will grow too,” he says.

He believes the perceived challenges are actually huge opportunities for growth andfurther penetration, and this can be achieved over time using technology. The key lies in strengthening distribution networks and enhancing levels of investor education.

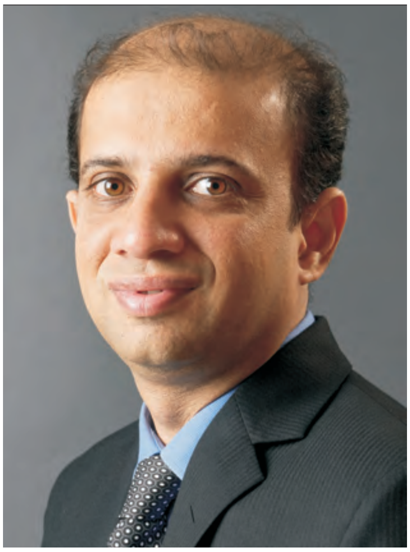
Shah's main concern right now is the way people select funds. “People look at the rear view mirror to drive the car – people look at the last year's performance and put money in those funds that have performed well over one or three years,” he says.

“On the other hand, we have received significant investments from overseas investors for whom performance was only the starting filter.”

“They performed huge process of due diligence on investment process before investing. The questions asked made us think about whether we are going in the right direction.”

Hence, one of the major challenges is for the Indian mutual fund industry to convince the distribution industry to move away from selecting products based on last year's performance and getting to ask the right questions. The questions should be 'what makes an AMC work'.

The next major issue is for the larger distributers to transmit what they have learnt to the ground level and last mile. “So the distribution industry to significantly up-skill and we have to help in that. Now with the investor education budget that we have some resources available, we need to invest in this.”



Nimesh Shah

ICICI Prudential Asset Management

FIRM FOCUS

When Shah took over as CEO at ICICI Prudential AMC about five years ago, he studied successful AMCs in the world and interacted with global gatekeepers; his conclusion was the best fund houses are those that follow a disciplined approach to funds management. So Shah has worked on changing the culture from aggressive distribution strategies to focusing on delivering consistent performance.

"Today we have clearly defined internal processes on every aspect of fund management; we asked our fund managers to follow the fund objective to the hilt and hence, no style drift is allowed and each one adheres to the stated mandate," he says.

The firm has also looked at product innovation to help clients to achieve a better investing experience.

For example, the firm launched two key products viz., ICICI Prudential Balanced Advantage Fund and ICICI Prudential Dynamic Plan, to help investors manage volatility.

As the markets have been volatile in the recent past, Shah claims he is finally seeing lot of interest from investors and wealth managers in such products.

CUSTOMER SEGMENTATION

Being a leading brand, Shah wants to have an offer in all investor segments, and he is happy that the regulator has finally brought out regulation to help with this.

Mutual funds are clearly a retail product. Indeed, manufacturers"have to be aware that any product we manufacture can reach any retail investor in the country – from a high net worth investor to a retiree with 5000 rupees.

So the products have to be appropriate," he says."While HNW investors can also invest into mutual funds, they need to be aware that all our mutual funds, with the exception of the value fund, aim to simply outperform the benchmark."

The firm offer segregated managed accounts in all three asset classes – equities, debt and real estate - aimed at the affluent and high net worth investors. And it is now working on some Alternative Investment Funds aimed at the HNWI for the higher risk investments in debt and real estate.

"To be honest, I am not very happy with the segmentation we currently have, but with the AIF license, that should improve," says Shah, explaining that he thinks HNW investors prefer absolute return.

INVESTOR EDUCATION

Shah is excited about the opportunities in investor education. His firms does roadshows across the country in about 200 cities and towns, for both intermediaries and final investors. "Now that the regulator has incentive the distributers in smaller towns, we feel we need to work more with the partners in these," he says. Indeed, he gets personally involved by visiting a new place himself every month.

"We are doing our bit but we can do more. Talking to you - the media - is part of the strategy. To reach the last mile, we need to talk to the media, the platforms, the distributers and the investors," he says with a smile.The firm's education and communication strategy is about partnering with distributers so they can go up the value chain. Shah's view is distributers should be confident when facing investors, not matter what the market conditions are. "Distributers should not feel embarrassed; they should have all the tools to talk to investors."

> "We are excited about converting more savers into investors - that's the infinite opportunity for us."

As an AMC, ICICI Prudential is working with third parties to come up with a range of tools. The firm already uses face to face workshops, mailers, print and outdoor advertising, and social media for its investor education campaign. It is now looking at more tools for intermediaries.

Shah is infinitely optimistic - "If the operational cost per transaction can be controlled, India is an infinite market for any business. We are excited about converting more savers into investors – that's the infinite opportunity for us." ■

INDICATING VALUE

AASHISH SOMAIYAA, CHIEF EXECUTIVE OFFICER AT MOTILAL OSWAL ASSET MANAGEMENT, TALKS TO HUBBIS ABOUT ITS NEWLY LAUNCHED VALUATION INDICATOR - MOTILAL OSWAL VALUE INDEX.

Aashish Somaiyaa
Motilal Oswal Asset Management

Hubbis - *What is MOVI?*

Aashish Somaiyaa - The Motilal Oswal Value Index (MOVI) helps gauge equity market. It's a proprietary index designed to be a valuation indicator.

The Index is calculated taking into account price-to-earnings, price-to-book and dividend yield of the CNX Nifty Index.

A low MOVI level indicates that the market valuation appears to be cheap and one may allocate a higher percentage of their investments to equities.

A high MOVI level indicates that the market valuation appears to be expensive and that one may reduce their equity allocation.

Hubbis - *How is MOVI different from market indices such as CNX Nifty Index and BSE Sensex Index?*

Aashish Somaiyaa - Most market indices such as CNX Nifty Index, BSE Sensex Index are price indices that provide a measurement of the market level.

As time elapses, fundamentals of the markets change. Therefore, even when markets may be at a certain measured level, they may have become cheap or expensive.

Hubbis - *How is MOVI different from other valuation metrics such as P/E Ratio?*

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An equity manager with a focused investment philosophy

Name of the scheme	This product is suitable for investors who are seeking*
Motilal Oswal MOSt Focused 25 Fund (MOSt Focused 25 Fund): An Open Ended Equity Scheme	• Return by investing in upto 25 companies with long term sustainable competitive advantage and growth potential • Investment in Equity and equity related instruments subject to overall limit of 25 companies • High risk (BROWN)
Motilal Oswal MOSt Ultra Short Term Bond Fund (MOSt Ultra Short Term Bond Fund): An Open Ended Debt Scheme	• Optimal returns consistent with moderate levels of risk • Investment in debt securities and money market securities with average maturity less than equal to 12 months • Medium risk (Yellow)

*Investors should consult their financial advisers if in doubt about whether the product is suitable for them.

Note: Risk is represented as

(BLUE) investors understand that their principal will be at low risk	(YELLOW) investors understand that their principal will be at medium risk	(BROWN) investors understand that their principal will be at high risk

IISL Disclaimer: Motilal Oswal Value Index (MOVI) is not sponsored, endorsed, sold or promoted by India Index Services & Products Limited (IISL). MOVI has been developed by MOAMC and IISL has calculated and maintained as per the specifications and requirements of MOAMC. IISL does not make any representation or warranty, express or implied regarding the advisability of investing in the products linked to MOVI and availing the services generally or particularly or the ability of MOVI to track general stock market performance in India. Please read the full Disclaimers in relation to the MOVI in the Scheme Information Document.

Mutual Fund investments are subject to market risks, read all scheme related documents carefully

Aashish Somaiyaa - MOVI takes into account not only P/E but also P/B and dividend yield within a single number.

Nifty MOVI looks at the market levels in conjunction with the fundamentals of the markets and comes up with normalized - 90 days average of MOVI index - levels of the market.

This helps investors gauge the investment attractiveness of the markets. In essence, MOVI helps investors in understanding if the markets are cheap or expensive.

Hubbis - *What were the back-testing results? What sort of returns would investors have made using this index?*

Aashish Somaiyaa - The range for the index is 50 to 150; according to our back-testing, if you enter the market below 100, you should get positive returns.

The table below shows the historical analysis from January 1999:

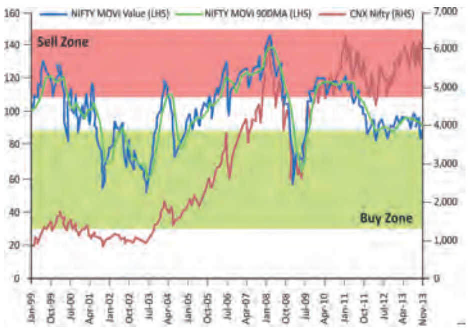
Return/Time Period Matrix		**NIFTY MOVI Value Range**							
		<70	**70<80**	**80<90**	**90<100**	**100<110**	**110<120**	**120<130**	**130<**
Historical Returns	6M	45.2%	13.4%	9.8%	8.3%	5.3%	2.2%	8.9%	-23.1%
	12M	47.6%	33.5%	19.5%	23.8%	15.3%	7.5%	3.2%	-43.8%
	24M	35.1%	32.3%	30.1%	23.3%	12.4%	0.8%	-4.6%	-1.9%

Data as on 30th November, 2013. Inception date of MOVI is 1st January, 1999. Returns are gross of fees and expenses and are ***based on 90-day moving average of*** Nifty ***MOVI.***

Source: IISL, MOAMC Internal Analysis.

Say the MOVI value was at 75, i.e. in the 70 < 80 range. The equity returns were 13.4%, 33.5% and 32.3% over the following 6, 12 and 24 months. On the other hand, say the MOVI value was 140. Equities returns were negative over the following 6, 12 and 24 months.

The 'indicative buy' and 'indicative sell' zones are highlighted in the next chart, showing the historical movement of MOVI vis-à-vis Nifty:



Data as on 30thNovember, 2013. Inception date of MOVI is 1st January, 1999. Allocation matrix is based on the 90 Day Moving Average of MOVI.

Source: IISL, MOAMC Internal Analysis.

Hubbis - *How can one invest using the MOVI?*

Aashish Somaiyaa - We have launched the MOVI Pack Plan, which enables allocations between debt and equity asset classes based on MOVI levels. It's basically a systematic transfer plan between the Motilal Oswal MOSt Ultra Short Term Bond Fund and Motilal Oswal MOSt Focused 25 Fund. The indicative asset allocations are shown below:

MOVI Levels		**Equity**	**Debt**
Less Than 70		100%	0%
70	<80	90%	10%
80	<90	80%	20%
90	<100	70%	30%
100	<110	55%	45%
110	<120	40%	60%
120	<130	25%	75%
Greater Than 130		0%	100%

REAL ESTATE NOT JUST PROPERTY

REAL ESTATE IS THE BIGGEST ASSET CLASS IN INDIA. DUE TO THE FAMILIARITY OR BELIEF IN SUPERIOR LONG TERM RETURNS, INVESTORS PREFER REAL ESTATE TO OTHER ASSET CLASSES.

"Of the US$420 odd billion dollars that Indian households save each year, a staggering US$160 billion is invested into real estate; no other asset class comes close," according at Ramesh Nair, chief operating officer at real estate consulting firm Jones Lang LaSalle India, speaking at Hubbis Indian Private Banking Forum 2013.

Since real estate forms a large part of any investor's portfolio, it is only natural that the wealth management industry would want to include it in its scope of advice.

Whether it can add value is another question. The real estate market is unorganized, inefficient and non-transparent – hallmarks of a market where experts should be able to add value.

But buoyed by good returns, investors believe they can invest just as well themselves. However, the real estate market is also starting to get securitized.

There are now different ways to get real estate exposure including through real estate funds and financial instruments.

As the structuring gets more complex, there is more scope to add value by wealth firms that can bring specialist expertise – whether in-house or through partnerships with real estate experts.

Ramesh Nair
Jones Lang LaSalle

"The most important thing is relationship-worthiness of the developer."

DIFFERENT VEHICLES

Indian investors have been exploring different ways of investing in real estate over the past six to seven years, starting with high risk/return private equity type real estate funds in 2007/08 and mezzanine and non-convertible debt last year to lower risk investments into pre-leased commercial assets.

According to Anand Moorthy, head of real estate services at RBS Financial Services, some investors have done a full cycle of investing in land, then annuity-based commercial assets, then real estate-based securities including funds and debt structures. However, they have been disappointed and are now going back to investing in direct real estate.

The industry needs to develop a better framework to classify and evaluate different ways of investing in real estate, especially the debt investment opportunities that have emerged as a result of the real estate industry restructuring.

Some leading real estate experts caution the wealth management industry against non-convertible debt (NCD) instruments, citing interest rate and rating downgrade he risks and questioning the ability of investors to en-cash and enforce such instruments.

EVALUATING RISKS

Real estate lawyer, Parimal Shroff, highlighted that the risks in real estate are localised, with market information being scarce in smaller cities. In addition, there are emerging regulatory risks with increased focus on the environment. Political changes also lead to increased regulatory risks.

Shroff advises the wealth management industry to evaluate the real estate developers and projects much more closely including titles, construction schedules, brand and track record across projects.

He cautions against relying on past performance, saying: "Experience shows that even the most established brands tumble against the pressure of regulatory permissions held back, or withdrawn."

Nair encourages wealth managers to focus on track record in legal, marketing and construction. He also advises to evaluate organisational and financial risks, adding: "The most important thing is relationship-worthiness of the developer. How good is he in honouring his commitments?" Nair questions the capabilities of credit rating agencies to assign ratings to developers, saying the concept "hasn't even worked in more advanced markets". Any kind of ratings also has the issue of ongoing monitoring after the rating has been issued.

Anand Moorthy
RBS Financial Services

"Investors have been disappointed and are now going back to investing in direct real estate."

REAL ESTATE FUNDS

Navin Kumar, executive director at Milestone Capital Advisors, explained that the Indian real estate market is still un-organised. Hence, real estate funds add value by providing expertise and "under-standing the language". His view: "Brand names are such that you don't give them the benefit of doubt anymore. There was a time when a brand could raise money anywhere but today the scenario has changed." Real estate funds can do better legal and financial due diligence.

Real estate funds also bring a disciplined process to making investment decisions, explains Rahul Rai, head of real estate at ICICI Prudential Asset Management. A large team means not only collective decisions by an investment committee but also on the ground monitoring so the risks are better managed.

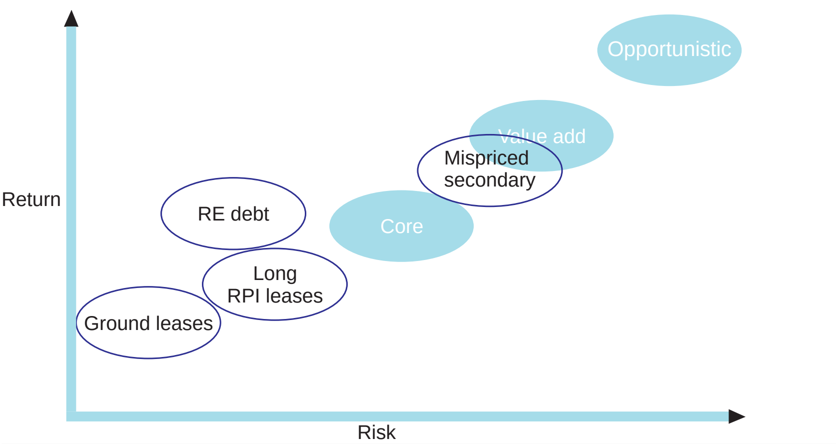
He added that a big bank-owned asset management firm can add further value by leveraging information that the bank has on developers.

Domestic real estate funds have done much better than foreign funds in preserving capital, having raised funds at the same time in 2008 when valuations were high. So they did show an understanding of local markets.

There are other reasons for lower returns such as regulatory delays, which funds can't control. The other reason could be certain markets, that looked attractive on fundamentals, didn't take off for various reasons.

The constant comparison of real estate funds performance with those of individual investments is not right, nor fair.

RISK RETURN SPECTRUM IN REAL ESTATE INVESTMENTS



Source: Mercer

However, real estate funds need to recalibrate the return expectations they set with investors.

REGULATING REAL ESTATE

During the year, the government proposed the Real Estate (Regulation and Development) Bill 2013 to establish the Real Estate Regulatory Authority to protect the interest of consumers in the real estate sector. A real estate regulator will be set up in every state to ensure that private developers get all projects registered with it before sale of property and only after getting all necessary clearances.

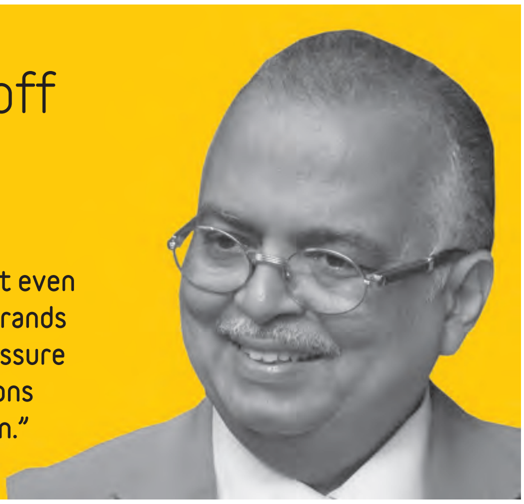
Under the proposed law, private builders cannot advertise or start a housing project before getting all necessary clearances and reporting before a regulator, addressing a major concern of buyers about incomplete or fraudulent land acquisition and pending clearances.

By requiring developers to register the project and making details available online, the proposed regulation will increase transparency. Parimal Shroff, like most of the industry, said the proposed law was a game-changer, saying it will "radically affect the entire industry" and that "it will bring some order to the marketplace."

Parimal Shroff

Parimal Shroff

"Experience shows that even the most established brands tumble against the pressure of regulatory permissions held back, or withdrawn."



However, real estate developers view some of the clauses under the bill as hurdles, including the one about mandatory procurement of all construction approvals prior to project marketing / sales.

Approvals have to be sought from multiple civic authorities – the local municipal body (separate approvals required from departments in charge of sewage, environment, water, urban planning, etc.), the Electricity Board, traffic authorities, the fire department, airport authorities and do on.

Because of the long periods involved in obtaining approvals, the cost of construction and finance rises and naturally gets passed on to the end-users. Increased purchasing prices dampen demand. The proposed bill is silent on the approval authorities coming under the ambit of this clause (or the penalties for causing delays).

Estimates suggest that the approval process in India usually takes around 1.5 to 3 years, and that it could account for 5-10% of the total construction cost of the developer on a conservative basis. With the increased delay-induced holding cost to developers, financing cost increases as well - and is passed on to the buyer.

Nair, says "Seen in this light, the concerns of developers are genuine. The government - or the market - will have to come up with some workable solutions for conundrums in order to avoid escalation of cost."

Shroff is also concerned about the possible price rises: "In my mind, this is a vicious circle; there will be some drying up of resources for the promoters which will result in new projects being few and far between." He believes that the cash crunch may delay new real estate projects aimed at retail investors, likely to be primarily residential projects, saying "So you create an artificial shortage of new housing stock, probably pushing up prices.

As it is, India is an economy of shortages. This act will result in quite a vacuum in the

Navin Kumar

Milestone

"Brand names are such that you don't give them the benefit of doubt anymore."

short term until we come to terms with the new law." While such a housing shortage may be detrimental for occupants, it may push up returns for existing investors in real estate, or savvy investors who invest before the law takes effect.

Shroff agrees that this is possible, though it depends on what point of time the investors enter the investment. Previously, they entered at planning stage while in future, "discerning investors would look for the RERA registration," says Shroff.

In order to balance out the rising cost of financing due to approval delays and due to proposed condition about guidelines of utilizing accrued money from a project towards that specific project only, the central authorities can open up new avenues of funding for developers.

One such possible avenue is the fast-tracked introduction of Real Estate Investment Trusts (REITs). REITs will not only provide institutional exits to funds that have invested in realty projects thus encouraging them and newer funds to invest as new sources of project funding – they will also help the industry to become more transparent due to the REITs model's stringent disclosure norms.

Rahul Rai
ICICI Prudential

"A big bank-owned asset management firm can add further value by leveraging information that the bank has on developers."

The wealth management industry is also looking forward to the introduction of REITs as it will shift the focus back to income. Said Moorthy: "If you have to move the market from a speculative nature, which it is today, to a fundamental perspective, you have to account any appreciation to the yield." Rai also pointed out that REITs will shift the focus from residential, which is unproductive, to commercial real estate, which is productive. ■

AIFs OFFER SCOPE FOR PRODUCT INNOVATION IN INDIA

High net worth investors in India are keen to invest in alternatives to get higher returns and diversify away from traditional equities and debt.

While the Alternative Investment Fund (AIF) regulation announcement did lead to the launch of some products across categories, the private banking and wealth management industry would like to see more credible providers with track records before advising clients to invest. Indeed the wealth industry sees AIF not only as a way to invest in alternatives, but also as a platform to invest more creatively in traditional and overseas investments.

These were amongst the many conclusions at the products and investment advisory roundtable, hosted by Hubbis, in July 2013 in Mumbai.

Chairperson

Hansi Mehrotra
Managing Director, India
Hubbis

Participants

Rupesh Nagda
Senior VP and Head-Investment Advisory and Products
Alchemy Private Wealth

Nishant Agarwal
Sr. Director and Head
Wealth Advisory Solutions
ASK Wealth Advisors

Umang Papneja
President - Products
IIFL Private Wealth Management

Anand Radhakrishnan
Product Manager
RBS Private Banking

Jignesh Shah
Executive Director
Sarasin Alpen

Yogesh Kalwani
Director and Head
Investment Advisory
BNP Paribas Wealth Management

G. Chokkalingam
Executive Director
Chief Investment Officer
Centrum Wealth Management

Vivek Sharma
Director - Head of Structured Products & Investment Advisory
Edelweiss Global Wealth Management

Gaurav Awasthi
Head – Products
Private Wealth Management
ICICI Securities

APPETITE FOR ALTERNATIVES

Hansi: The Alternative Investment Funds (AIF) regulations have now been out for a few months, and a number of products have been launched, but my sense is that inflows haven't really happened. So what is the demand you see from your clients for alternatives. Do people know what they are? Do they ask for alternatives?

Jignesh: The overall investment climate is quite challenging, so one needs to make alternatives available, one needs to position them well, one needs to showcase rather than the demand coming directly from the client. In few cases, there could be demand for the product but, by and large, one has to take initiative in terms of positioning it well.

At Sarasin, we see all asset classes in context to asset allocation. Whatever's non-traditional - that's not equity and debt - that would largely be covered under alternatives. The term is a relatively loose one and includes tangible assets such as precious metals, art, wine, antiques, coins, or stamps and some financial assets such as commodities, private equity, hedge funds, carbon credits, venture capital, film production etc.

So at Sarasin, using private equity, hedge funds and real estate funds as alternatives, we try to position on an "idea by idea" approach rather than getting through "fund" mode. Additionally, for this space, it's more like a consultative approach. We try to understand what client would be comfortable with, while highlighting risk and return possibilities. Besides these opportunities, the larger space, which is tradable and which is easy to invest, would be definitely commodity and within that larger focus has been on gold.

Hansi Mehrotra
Hubbis

The challenge is that since there is no historical data to carry out the risk return analysis on most of these asset classes within alternatives space, it becomes difficult to put it in the simple numerical risk adjusted return mode.

Umang: I want to set a different background to this conversation. When AIF regulations came out, I thought it was one of the most interesting and revolutionary changes which SEBI brought about. We are talking about alternatives, but if all of us as a community can think slightly in a wider frame of mind, I think this opens a lot many things to innovate and a lot many possibilities on this particular platform.

Why are we thinking only to launch an AIF on real estate or why are we thinking only to launch an AIF on private equity, why can't it be a mix of alternatives? Why can't it be an asset allocation strategy on alternatives? Why can't it be something like an arbitrage strategy? For investment and product people like us, it opens a whole new box of ideas. So if we create a nice product around it, there would be a demand.

Just to give you some background, we launched an AIF on the IIFL platform in March and got client commitments for over INR 600 crores or approximately US$ 100 million. Now it was a pure debt fund. The idea was taken from the mutual fund market - it's something like a FMP (fixed maturity plan) but buying high yielding debt. It could be real estate debt, it could be non real estate debt, it could be anything.

So what we need to do is to ideate, innovate and try to come out with products which are not yet bracketed under a particular asset class. If that is done in the right manner, it will be a huge industry. That's my take on the regulation.

Hansi: So the main thing is that you are just not creating a separate real estate or private equity alterative strategy but a diversified alternative strategy?

Umang: Exactly and there are many other things that I'd like to bring to your notice. Mutual funds rules say that there should be 20 customers and 25% of the assets should not be from

Vivek Sharma

Edelweiss Global Wealth Management

one client. AIFs don't have such rules. So can we customize an AIF for a family? The answer is yes. You can actually innovate from a family perspective, try and buy, for example, a rental yielding property from a fund and also do some private equity investments. So I think the innovation landscape completely changes with this regulation. We do not want to really become a manufacturing powerhouse, but customisation also would be a key.

Rupesh: Let's go back in the history to understand investors' issues with alternative investments. Private equity funds and real estate funds were in vogue in 2006-2007 and we saw many players launch different products and collected decent assets under management. Post 2009 the scenario has been quite challenging. Clients' experience with alternatives has not been good. Many players have not performed as per their promise. Further there were issue in terms of valuation reports especially in case of real estate funds.

Now SEBI has come out with new guidelines for AIFs, which I believe is in right direction. The minimum 'sponsor' contribution of 5% or INR 10 crore (~ US$ 2 million @ INR50 per US$), whichever is lower for category III funds, is very powerful point to build confidence, as now the product manufacturer is committed towards the performance of the fund. Again under category III, one can use any investment strategy like hedging, leveraging, private equity, real estate etc. This can open doors for more innovative products in future and will draw attention from savvy investors. I see a good demand for AIFs in coming times.

Many products are already out after the new guidelines. To name few, there's absolute return strategy, high yield/mezzanine debt etc. Now products are available based on different risk profiles ranging from low to high. It is now imperative to focus on how the products are positioned in clients' portfolio. It should form a part of overall asset allocation strategy depending upon the clients risk profile.

Vivek: AIF presents a great opportunity. We have to realise is that the Indian investment management industry and the clients' perspective on such products is going through a paradigm shift. Let us be honest, today I don't think there is much appetite for products which have traditionally been proposed to them as alternative, which have been traditionally been long only in India. I don't think given the experience clients have had over the last few years, there is much of appetite for products with a blind pool, products which are only long only in nature.

What clients today want to visibility of returns, and clear strategy. So it puts an onus on the investment manager, and if it's been co-created with distributors, then there is onus on the distributors as well, in terms of thought when you come out with a product strategy. I definitely feel there is good demand but what is happening is that you have a lot of me-too products. If one real estate product does well, suddenly you have ten people coming to issue similar kind of product.

The challenge is who will be able to innovate and differentiate and understand client appetite. They will definitely walk ahead in terms of the opportunity. AIF definitely allows you to do that. It allows you to experiment, allows you to be innovative.

Nishant Agarwal

ASK Wealth Advisors

At Edelweiss, one of our subsidiaries came out with a product in the distressed assets space. Now a product like that, five years ago without the AIF regulations, would have been completely unthinkable. There were restrictions on the kind of investors who could participate in opportunities like that and that to our surprise found a huge lot of acceptance because it was differentiated; it was clearly earmarked in terms of what the product strategy would do; it was specific to the kind of clients that it wanted to attract and meant for. If we can get all these things right in terms of clear client segmentation, and clear product strategy, AIF can be a great platform to innovate and bring about differentiated products to the client space.

Nishant: I think the subject should be taken from two perspectives. One, we should just look at alternatives as an asset class and see exactly how our client portfolios are positioned today and what options do they have. Then we say - in those set of options which they already had and now we are getting into an AIF as a fund category what more could be positioned to them.

So you ask a very valid question and more so in the context of Indian clients, how do we treat real estate when we talk about advisory and we talk about an institutional model of asset allocation where do we take real estate. That's one of the most dear asset classes to all kinds of investors. A lot of direct real estate is done for investment purposes but we don't take it into the financial portfolio in when doing asset allocation because that will completely make the allocation lop-sided.

We definitely do keep in mind that there is this growth asset class which is cyclical, which is variable and hence you should kind of counter-balance it with other growth asset classes like equity. What typically comes in alternate asset class, maybe 20-30% of allocation would typically be gold, could be commodities, could be real estate funds and could be private equity funds. Lending and NCDs typically go with debt.

The constraint that you are facing in adding a real diversifier in the alternatives space is that a lot of those products in true form are not available in plain vanilla form. So again if you want to invest in commodities, there is no long-only commodity exposure you can have. You can at best do arbitrage, you can keep rolling it month on month, you don't have certificates, you don't have structured notes which can give you long exposure.

The clients' needs in the last seven years have been mostly for an absolute return kind of a product. The reason why this whole real estate lending picked up was after 2007 was when those 15% - 20%+ equity returns went away and debt came back to 5% - 6%; they wanted something between 6% to 15%, which protected their downside. In any of those existing structures, without the use of excessive derivatives and leverage, that absolute return strategy was not working. The PMS' were very cumbersome to work with.

So that opens a very good, a new asset class through absolute return product where the derivatives are allowed for both leverage as well as for hedging. Once there is adequate awareness, right kinds of institutions will come in, and we will see a big market. I believe, more than real estate, because that's been this un-organised market.

I see AIF, especially the category III, will allow new kinds of features - simplicity of products, transparency like Vivek has mentioned in terms of clients who don't want to bet on a blind pool, background of the promoter, manager and fund which is going to launch it and the longevity in the system.

I don't think there is track record that is available - it's a new asset class but a background of the company and the firm which is behind it will give a lot of comfort to the client. So without making it too complicated, the world is now going back to simple things. If we innovate in those dimensions, to add to what is existing, there is a good opportunity.

So absolute return product is the one thing that is a gap today in what is available and that's a need of the client as well.

Hansi: What about return diversifiers? Are investors looking for other return drivers to those that drive equity and fixed income?

Nishant: We keep talking about diversification but then in times of extreme distress you see all those asset classes behaving in the same manner. So if there is something which can be hedged, which can be protecting on the downside, those are things where client will get comfort and it will begin slowly. You'll have small allocations coming slowly from clients once the track record builds up, once they have they have that experience, this can be a big part of the portfolio.

Gaurav: Our sense is that alternatives and AIFs are two distinct things. See AIF is essentially a platform. You can use traditional products; you can do non traditional products. Alternatives, the way we see it, essentially is a way in which you can give clients non-correlated returns to the traditional asset classes.

Gaurav Awasthi
ICICI Securities

Now the traditional asset classes that we typically invest, financially has been debt and equity and non-financial assets are typically real estate and gold. The challenge that we see today is that a lot of these products that come in camouflaged as alternative are essentially also in buckets where clients traditionally invest in.

If it is a real estate fund, all said and done, whether we can say that it is an early development or a late stage development or mezzanine lending, eventually the fortunes of that are dependent on the mainstream real estate industry. So if the client does not make money while buying a house, it is unlikely that he will make money in a lot of these funds because the fundamentals of the industry will impact it.

Similarly, you know a lot of equity based strategies, whether you put it in an AIF platform or you put it in a mutual fund or a PMS, are again correlated. As Nishant said and as you said, I think in alternatives you need to essentially look at strategies which are giving non correlated returns. Unfortunately in India, you have too many restrictions.

Currency, for example, is a natural hedge to a lot of Indian markets like debt and equity but there are a lot of restrictions in terms of what you can do with commodities or currencies. Secondly, you know even if a lot of these strategies come, I don't think clients will actually start jumping to invest because there is no track record in India.

Globally we have seen a lot of funds with history; I don't know how many of those funds have track record. See I am distinguishing history and track record. We have seen a whole kind of funds which have come in and delivered extremely good returns, came out as a lot of hedge funds positioned as absolute returns funds then eventually did not turn out to be absolute return funds.

In India we'll have to build our own history and build our own experience in terms of how things shape up but till then, I think it is a platform that you can customise. As Umang said, you can customise it for a select set of clients but I think the other challenge that I see is that the need for diversification is only not there for large clients, that need for diversification is for everybody.

If somebody has an INR 100 crore (~ US $ 20 million) portfolio he can obviously put five crores in AIF allocation across five strategies and he's diversified. What the regulator has done by putting such a high entry barrier is that people who have a INR one million threshold for example, one million investible surplus, who would be considered an HNI in most markets globally or developed markets, that guy from a asset allocation you cannot put in AIF, it is very difficult. So you say that the guy is balanced and put him in a 50-50 debt equity then you are saying 40% of his growth capital will go in AIF which is a very difficult to allocate.

So I think things are very preliminary. The initial stage has been set more because everybody is testing waters and let's see how the history and track record is.

Yogesh: I'd like to set the context in a slightly different way from two perspectives. One is the clients and the other one being the product options.

From a client perspective, why do they look at alternatives? There are conventional products available in equities and fixed income. The need for alternatives arises from the objective of yield uptick i.e. enhance returns on their portfolio as compared to conventional products. Also, the fact that equity in the last five years has given low returns, there is the need to consider alternative options to enhance returns on the portfolio.

Another parameter is to manage portfolio risks and get optimal return. One of the main objective of alternative products is to minimize volatility i.e. risk on the portfolio. There are various investment strategy like arbitrage, secured (collateral backed) fixed income portfolio and market neutral portfolio which cuts market risk by balancing long and short positions in order to get a net exposure close to zero, all these strategies help to reduce the portfolio risk.

So from a client perspective, it's return enhancement, risk management, arbitrage opportunities which are the key drivers to consider alternatives.

It is critical to understand the client profile based on their risk, return and liquidity profile to determine portfolio allocation in alternative products. If client requires yield enhancement as compared to conventional products, there needs to be a higher allocation in alternate products.

Our sense is that alternative product allocation is between 0% to 40% of a client's portfolio depending on his objectives. For a balanced to aggressive client profile, alternative product allocation could vary from 10% to 40% depending on his risk appetite, return expectations and investment time horizon.

Coming to the second part of the question which is the product availability in the market and the readiness of Indian markets to deliver alternate products. It's still too nascent and post AIF regulation announcement in May 2012, there are a few product options that have come up.

But we are yet to see product offering from credible investment managers with capability, proper infrastructure, consistent and sustainable investment team and long term business plan.

We expect interesting product offering on fixed income asset class like collateral / security backed high yield portfolio and mezzanine debt options. On the equity oriented products, we expect investment managers to offer arbitrage, market neutral strategies, 130/ 30 (130 long and 30 short) and various other long/short strategies.

In last 5 years, Indian equity markets have been anything but a conventional long-only market, which was the case in 2003- 2008. Clients have also realised that buy and hold is not the right strategy in range bound equity markets. There is divergent stock performance and strategies that focus on being long on outperforming stocks and short on underperforming stocks could deliver positive returns and manage market risk better than long only fund. We'll look for credible managers who offer long short strategy to add value to client's portfolio.

The third category can be arbitrage on commodities, which is still not clear from regulation point of view. As and when currency markets open up, you'll see more currency related products.

Real estate and private equity earlier used to get approved under the Venture Capital Fund (VCF) guidelines now that will shift to the AIF guidelines. There will be private equity and real estate products that will be offered under AIF regulation which is more structured and stringent.

We would see more credible investment managers develop and offer alternative products over next 1 to 2 years that's when we will have more product options for clients.

Chokkalingam: From 2001 to early 2008 it has been a fantastic time for all of us – the market cap of domestic equity market (BSE500) went up by 13 times during this period which coincid-

Jignesh Shah

Sarasin Alpen

ed with boom time for many other asset classes. The nomenclature matters to us - we market alternatives, equity PMS, commodities, wealth management but as long as clients are concerned they want money for money and expect performance in both absolute and relative terms.

You make money in equities say 20%, you beat the index, and still some clients are not happy, they say "look, that building which I bought for INR 50 crore (~ US $ 10 million) few years ago today it is worth INR 500 crore (~ US $ 100 million)"

Whether we invest through alternatives or equity PMS, diversification is very necessary as both fundamentals and also perception matter a lot these days thanks to the development of technology which enables both dissemination and also execution of asset transactions almost simultaneously in several asset classes.

When fundamentals come under some stress, perceptions beat down the asset prices much more than what is deserved in terms of fundamentals. In the last 5 years, we have seen huge volatility in asset prices like crude oil, gold, equities, etc.

There is also a need to be innovative in finding opportunities for investments. For example, BSE today has "periodic auction" route for transaction of so-called illiquid stocks. No PMS manager can capitalise the opportunity arising from this auction route for the equities because these stocks' market cap as well as liquidity have dried up despite many stocks in this category continue to maintain very impressive business performance.

I believe it is a huge opportunity for long term investors who have private equity mindset. There are many emerging commodity themes other than popular ones like gold, based on economic fundamentals, such as rock phosphate and natural rubber both of them are likely to emerge as scarce resources in the near future.

Anand: Historically, real estate funds and private equity funds were distributed in India to high net worth individuals (HNIs) from around 2006 onwards. These funds had tenors of over 6-7 years with no liquidity and targeted returns of around 24% internal rate of return.

However, many investors have been disappointed with these products as there does not seem to be much visibility on performance and these funds appear to be struggling with making exits from their existing investments. This has reduced investor appetite for any new launches of such products.

The AIF platform has now provided product manufactures with the opportunity to launch other alternative investment strategies like long short portfolios, quantitative strategies and hedge fund strategies amongst others. This is an evolving segment and it will probably take more time and investor education before investor interest really picks up.

Hansi: What kind of exposures to alternatives are clients comfortable with?

Jignesh: Since most alternatives are illiquid in nature, we prefer to restrict the weight in portfolio in the range of 0 to 15%. Higher allocation largely depends on client's mandate.

Umang: I think its very region specific. Delhi, for example, might be a very different market as compared to say Kolkata, because of real estate as compared to other cities but I would be in agreement with what Yogesh said that its 10-40%, not as low as 10%, more towards the 30-40% number if you include his/her physical real estate.

Gaurav: I think it also largely depends on how you define alternatives. So if you are looking at non-correlated kind of strategies that are less risky, more of absolute return, then obviously your exposure can be higher.

If you are looking at high yield strategies, like real estate lending kind of strategies, then obviously a very high exposure in those strategies would not be advisable so it largely depends on how you are actually fixing the definition of alternatives for your clients.

Rupesh: It depends upon size and intellect of clients. I have seen many family office clients with net worth of INR 50 crore (~US$ 10 million) and above are more exposed to alternative (mainly through direct deals). They have teams to source the deal and do proper due diligence. Whereas clients with investible surplus of INR 5-10 crore (~ US$ 1 – 2 million) take fund route and have lower exposure towards alternatives. Normally we suggest 15-20% allocation depending upon clients risk profile and time horizon.

Chokkalingam: In practice what allocation the clients wants is drastically different from what the product people like us want. It depends on their profile. I have a client who has 90% in equity; I have clients who have 80% in real estate. It's very difficult to get in terms of average.

Yogesh: We need to normalise alternative asset class definition across the industry. I'm sure every organisation has internal policy on the same. To standardise, we can say that conventional products should be left aside like equities, mutual funds, investment grade debt instruments.

From the balance, everything which is a financial asset, can be categorised as an alternative product. Alternative products could vary from conventional products on investment strategy, liquidity, tenure, leverage etc.

Umang: Just an example here. So there's some overseas fund manager who's been running an India fund in Hong Kong for many years, he quits his job and comes back, and he wants to run the same strategy here. What does he do? Does he go and apply for a mutual fund licence or an AIF licence? So why should the conventional things be kept aside?

Yogesh: We are just trying to normalise what can be classified as an alternative strategy or product. For example, say the investment style of long / short strategy delivers superior performance or less risk, but the underlying instrument still remains the top 100 stocks or a PIPE (Private investment in public equity), those are alternative offerings.

Vivek: Now I'll come to a practical challenge. While all this is good, if you want to create a model portfolio out of this you can't, because there aren't enough solutions for you to create and replicate what you are saying in terms of actual client portfolios. So where

Rupesh Nagda
Alchemy Private Wealth

are the products? Where are the solutions to actually replicate?

I am sure if you take any HNI today, with all wealth outfits, their portfolios are skewed to one asset class or the other. Most large HNIs today are overly skewed towards real estate and no denying they made much more money than any of us would have suggested.

So the challenge also is how you categorise a percentage allocation into what we call as alternatives. 0 to 40% may look good on paper from an advisor's perspective but in practicality, you will see it will be hugely skewed.

Jignesh: While following asset allocation model, one would assume that investors having decided a particular profile would replicate the same. So here there are two challenges - one is the replicating the model profile portfolio and another challenge is before replicating how do you do the back-testing of it?

There are challenges in India for not having any specific benchmark for different components of alternatives like say private equity or real estate. One can't put it in terms of a model unless you have done some sort of back testing of it.

I agree that most of the clients would have achieved an extraordinary return while investing into real estate or maybe into private equity. For an advisor to be comfortable with recommendations, one needs to justify in some manner and for the purpose of justification one needs to do some kind of back testing in terms of efficient frontier or a risk return module. That's a challenge.

Nishant: I think the point about asset class again goes. One level of distinction could between what clients think they will manage themselves and what clients think they would like to leave to external managers.

Umang Papneja

IIFL Private Wealth Management

If I leap on the portion the client is trying to manage themselves, the relationship of financial intermediaries is more transactional and advisory in nature and there the alternative can go from anywhere from 0 – 100 %. We have had enough families who have everything into businesses and they do no investment, everything is lying in cash.

If I take alternatives in a product format, I don't think I have seen many market participants who would advocate more than 20-30%, maybe outer limit of 35%, going through that fund route. Then it depends on the nature of the beast - if the client is conservative, you can add lot more of absolute, hedged, fixed income kind of products. If the client is very aggressive, you can put in private equity, PIPE, commodities and uni-directional leverage products.

That decision is taken from the mode that he wants the intervention to happen and from the mode where he thinks that he is independent and has a setup where he can do investments directly.

Umang: Let's talk about a hypothetical example where a client who has a total wealth of INR 500 crores (~ US$100 million). He thinks that INR 100 crores (~ US$20 million) is what he needs to do into rental yielding properties, now the point is he cannot do it alone, he cannot put 100 crores, he probably might get one floor or two floors in Mumbai or at best might get a building but that is not diversification in the true sense. So he would need partners, that's one important point to note.

There are clients who have 5-10 crores (~ US$ 1-2 million) who want a flavour of a lot of other strategies so that's why I think this pooling of strategies becomes very important. It caters to both large as well as small clients.

Do we need to build it in one kind of product? This is open for debate, but I can tell you how we are approaching it. Our business model on AIFs is going to revolve around strategies. So it could be a rental yield strategy, it could be a hedge fund strategy, etc.

Yogesh Kalwani

BNP Paribas Wealth Management

The other is customisation for large families where they would actually pick up some of rental yield, some of absolute return; some of private equity and things like that, so that I think is a larger pie which we would concentrate on. It gives a lot of flexibility on managing a large portfolio. So everything is in a fund, and the fund is paying the tax, you just have the units of the fund, and all your family members have the same investment. All of that becomes very smooth in a sense and very less cumbersome. The customisation part for the large families will be key going forward, if we don't do it the client will himself do it because there is no stopping the client to go and apply for his own AIF licence anyway. So if we as a community don't do it then they are going to do it themselves.

Hansi: As I understand it, there is a tax issue with AIFs in terms of classifying everything as business income.

Umang: Experts have been very non-committal on giving views on this subject but I would regard that it's not going to be as complex as we are making out to be. And of course, different things like how much leverage you took, how much churn you did- we anyway live with those challenges in a PMS, so those also will come and apply to the AIF.

Vivek: The lack of clarity on taxation is definitely a challenge as far as AIF is concerned. Recently, we were evaluating a product under AIF, the only reason we decided not to go ahead with it is because the tax completely convolutes the positioning of the product. All these are typically 3-4 year products, any greyness as far as that aspect is concerned could become an issue later on with clients. That is why today you see a lot of high yielding products being done under AIFs so that it can offset the disadvantage of the high tax incidence.

RESEARCHING ALTERNATIVES

Hansi: Manager skill is important in listed assets but it is even more important in the unlisted alternative space because of the illiquidity after you have invested. How do you assess skills? How many skilled managers have you come across?

Umang: That's going to be a challenge. There's no doubt about it. As and when we are going to the market we are seeing a lot of proposals which we have never seen before.

Whether we go into back testing or not is a different question but what we need to see is the due diligence process, the models which they run, the teams which they have, have they appointed engineers or computer scientists themselves to do it or the infrastructure which they have set up for us to take that call.

Today if you go by history, I don't think that might be relevant for AIFs as the industry is just starting because this is the first time we are seeing a lot of AIFs going to be launched or are being launched. So the final decision to distribute would depend on how strong the team is from an infrastructure plus a background perspective.

Hansi: Does the industry have the capability to research alternatives managers?

Yogesh: Due diligence becomes is critical. So all that we talk about the right investment team, experience, serious business plan etc, depends on due diligence. The key is to identify investment managers that are backed by established organisations that ensures continuity and business commitment. We want to see investment managers with strong setups; there should be visibility that the business will go through 10 years of existence.

We are not comfortable with a single or two person set-ups with good capability but lack an organisation structure. We look for organisations which have been in investment business, understand how investments are run and managed, are willing to put enough commitment in way of capital into their business of managing funds and also develop an infrastructure which is sustainable. Key man risk needs to be addressed.

We understand that asset management and equity broking companies are developing capabilities in alternatives space. Also, portfolio management service providers with sizable assets are considering this as a business opportunity. As of now, not too many people are ready and they are still figuring out their business plan, product offering and building up teams. Hence I would say it's still a nascent phase for this industry in India.

Jignesh: Specifically in context to the real estate and private equity - so I am just keeping aside the hedge funds

- what we have seen is because of the managerial issues and because clients feel that they can do equally well in these two spaces, they go for the co-investment. Clients want to build up their conviction before they take up such ideas. Hence, they rely on skills of PE or real estate fund manager for due diligence. Once convinced about the opportunity, they look at making an additional investment in through co-investment route. This depicts that there is a deficit of managerial skill with the clients.

Hansi: Does the market have faith in the skills of the current category III hedge fund managers? Is it the lack of faith in them which is resulting in them not getting the money?

Vivek: Yes, that's definitely one of the reasons. At Edelweiss, we were one of the first ones to identify AIF as a business opportunity, so we have one part of the wholesale asset management business within the Edelweiss group which owns the AIF space internally. It has a team of investment professionals; while at this point t in time their expertise might be limited to a few asset classes but over a period of time if it is recognised as a business driver, I am sure it will get developed into more asset classes also.

So for us as wealth management, given the lack of enough credible managers, our first dependence is on the in-house team to come out with such products because we would be reasonably assured in terms of the background and the quality of diligence which would have met for a product like this. Having said that yes, you can still go wrong it's just that your comfort level would be slightly higher.

Umang: Our challenge has been a little different. We have met a lot of managers, we might have liked very few of them which you are right, so I think there is a scarcity of managers. But also, when we talk about showing a product which is kind of a hedge fund and an absolute return, I think the understanding also from the client's side is not there. If you go and tell him you are going to make 13% with less volatility, I don't think he is going to appreciate it if markets are up 25% - so I don't think the market is yet ready for such products.

Gaurav: We are largely investment specialists. We are not manufacturers so when we look at it we don't really look at it from a business opportunity point of view we look at it in an investment opportunity point of view. But the truth is, for all the fund managers that have come in, nobody really has a demonstrable track record, so these are all bets.

For many of these managers to be taken seriously, you have to give them time to create some track record to see some sort of business cycles. It could be that the first two years, the returns look good because of a particular element in the strategy and then suddenly the market shifts, you will suddenly find that the returns go kaput. For a lot of these quant-based strategies, it is very difficult from a research point of view to actually predict when these strategies will work or not. The inherent nature of these strategies is that some of them are momentum-based so unless I can sit down and predict the momentum, up or short, we will not really want to go in for a quant strategy.

A lot of these guys, if you meet them individually, they will have sound theory and back-tested results but a lot of back tested results are also best fit. The strategy that comes out is possibly because that strategy is coming out from the data that is best fitting the last ten years. So when you actually put that strategy for the next ten years, you will find that the results are completely different. For us to go aggressively into them and talk about a lot of these strategies, we need some track record to be built.

Jignesh: In addition to what Gaurav mentioned, besides the business cycle, what is also critical is the size which can absorb the same strategy. So if you are seeing an INR 10 crore (~ US$ 2 million) fund giving decent return, moving to INR 100 crores (~ US$ 20 million) it becomes normal and upwards of that it becomes below normal.

Rupesh: To get decent assets under management, product manufacturers need to display some track record. Currently as these products are new, the track records are yet to be established.

Currently we have to rely on back testing results that product manufacturers show. It will take some time till industry showcases live performance track record. Also, currently we are living in turbulent times and markets are driven by event risks, more than fundamentals, hence many quants based strategies may not perform as per the back-tested results.

Hansi: In terms of real estate and private equity, do clients have faith in managers that they will deliver? Are there enough credible managers in real estate for example apart from HDFC and Indiareit?

Rupesh: Yes, investors invested in HDFC and Indiareit have seen good returns. Their experience has been good but there are some funds that have disappointed. We saw good products on real estate side, especially by Milestone.

Few products like high rental yield products, and high yielding mezzanine debt products collected decent money. Recently ICICI AMC launched high yielding fund and mopped up around

INR 1,000 crore (~ US$ 200 million). Clients are looking for such products.

On the private equity side, I feel the current market situation is very challenging. Investment opportunities are diminishing and exits from past investments at desired valuation are proving to be difficult. So one needs to be very careful while selecting the PE fund for investments. Past experiences of clients have not been good.

Nishant: Real estate, because the way market has performed in the last five years, has many takers and hence many people who are willing to offer that.

We have seen many people, from large institutions to individual managers to developers, turning into real estate managers.

So there we have a limitation on the number of managers available. Of course you have to differentiate on the skill level to see who can be trusted.

On the private equity side, it's just the flipside. Because you haven't seen any returns being made in the last five years, so even if there are many managers, there are not many takers. So the good, bad and ugly, are all in the same bucket.

One of the criteria we use also is to see the sustainability of the independent manager. It's a classic where you would like - like some people mentioned the skin in the game - the manager to be involved, but those are typically not the corporate sponsors or from the corporate background.

So there you would have to see whether they will be able to sustain and they will be able to raise enough assets for them to have a meaningful revenue venture that can be sustained. That is becoming a bit of a challenge now.

Another point in private equity is the public equity market - the IPO market, the entry and exit markets. In the past, people have been diversified in strategy, and everything that they have picked up, has yielded results. People now want very strong focus. If you commit a particular strategy, if this is the way you say you will deliver return, they would like to see in the initial investments whether you are sticking to the mandate or not.

That is the reason they don't like blind pools - you commit a particular strategy, you commit a particular city, a kind of investments. As the exuberance kicks in, people go along with the tide and keep changing strategy, which in bad markets comes back and bites them.

People are now getting experienced, a little more informed, they would like to see that they have specialised managers in different bucket, you spell out clearly how will you enter, what will you enter and how will you perform. The same thing is happening in real estate. You want a very defined a much laid out strategy whether it is debt or it is equity, whether it is capital return, what kind of city what kind of developer.

Specialisation in these two asset classes is going to come more and more and we have to back those players who clearly spell out and deliver on those principles.

Yogesh: On the real estate side. In the recent times, we have seen more mezzanine debt related opportunities. A few years ago, we used to see a lot of real estate equity investments. That's come off sharply and it's more debt oriented now. A lot of investors are comfortable with collateral backed real estate developer financing. It's secured lending against the project or the assets, that's where people are ok with blind pools with a credible manager. Also there is a separate segment of investors who prefer doing non-convertible debt (NCD) structures of real estate developers i.e. 'stated term sheet deals'.

The ticket sizes vary. If you look at the term sheet or a specified investment, those deals are upwards of two-three crores. When you come to the fund platform, some VCF products still offer ticket sizes of INR 25 lakhs (~ US$ 50,000) upwards. But we have seen the momentum slowing down substantially. There are leading real estate managers like HDFC and Indiareit, who are likely to launch new funds, which could revive the interest in this product.

Nishant: One part where we are missing is consolidated reporting information availability, past performance track record for anything which is not mutual fund. Be it PMS, there is a regulation that says each PMS provider has to display those things on their website but we need a common platform maybe like a Mercer, maybe a Value Research of mutual funds for alternatives space, where what are the offerings, what has been the past performance, what have they been doing in a very transparent manner can be brought forwards. It can come from an industry association, it come from regulator but that will ease out and bring up awareness in a better manner.

ANGEL AND IMPACT INVESTING

Hansi: Is there any client interest in angel and impact investing?

Jignesh: At Sarasin we have two businesses - Sarasin takes care of wealth management advisory while Alpen takes care of the investment banking. So in our case, cross selling

Anand Radhakrishnan

RBS Private Banking

- be it angel investing or PE investing or PIPE investing - happens in a synchronised manner. Basically, whenever the investment banker has been able to close a deal involving sell-off of a particular business, the promoter gets money and investment banker refers to the private banker, who helps in terms of the managing the promoter's wealth. In the same way, if private banking clients need to explore some fund-raising or some corporate M&A activity, the same gets referred to investment banking team. Even within the private banking unit, there is a case for cross selling among the private banking clients.

Nishant: There is market where people are making angel investments, but as the name and the industry origination suggest, it is happening in that private circuit of friends' network rather than coming to intermediaries. The minute there is a banker involved, there is this sense of pushing the deal. It's more of 'touch and feel' where there is some kind of a social connect of the client where it gets extended to the deal but that's a big appetite. Every INR 30-40 crore (~ US $6 – 8 million) investor will have some friend/relative/network, where they would ask for a INR 50 lakh (~ US$ 100,000), or one-two crore (~ US$ 200,000) kind of cheque and they would have invested at some stage they start getting involved operationally or strategically at a certain stage but I don't think that the market has yet come to the bankers. At least I haven't experienced anyone actively asking - I have INR 50 lakhs to invest; show me a nice new business idea.

Gaurav: A lot of these deal sizes are very small for it to come in the organised market. So we have client who say that 'I want to invest in my individual capacity' but he wants to invest one crore through the angel route. It is very difficult for you to go out and source those kinds of deals. In the conventional investments/banking space, these deals will not come through at all.

So it has to be more on a very subjective basis that incidentally if you have a client you know who is looking for angel investing then you can close the deal.

Nishant: We do get a lot of sell queries actually. Sell side people are looking to raise money or are looking for angel investors. Buy side queries not much.

Gaurav: We have both sides of the queries actually but not too many.

Yogesh: On angel investing, there is not much interest. But for private equity there is definitely an appetite. Clients are looking at unlisted small to medium size companies with good consumer oriented business models or brands, sustainable growth and earnings. We have a corporate finance team on wealth management desk. Investment banking and wealth management are normally two different business lines in any organisation. Since our client segment is mainly business owners, we have corporate finance desk in WM business setup. Our corporate finance solution team engages with the client to understand their business requirements and advise and executes various corporate finance deals for them. This team also helps clients to identify private equity opportunities based on their requirement.

Vivek: The good thing that market meltdown has provided is that it has got the investment banking guys to work closely with us. Five years ago, I could have never imagined an investment banking guy spending an hour on our floor discussing opportunities, which has started to happen. Every week we get to see at least two to three opportunities across sectors. Deal size has reduced obviously; it suits our appetite better and more such opportunities have started to come.

IDEAS FOR PRODUCT INNOVATION

Hansi: What are your suggestions to product manufacturers and regulators for product innovation?

Jignesh: In context to commodities, largely investment opportunities are available only in gold. There are restrictions in terms of having structured products based on the underlying commodity besides gold , say something like crude oil something like agri-commodities. There is an appetite but products are not able to get any step forward in that. Also, there is need for more overseas investment opportunities, knowing that historically INR has been depreciating more than 5% pa over longer term.

Anand: The AIF regulations have laid the platform for product innovation in the alternative space. However, current drawbacks include a limited range of asset classes, restrictions on the extent of leverage a fund can take and the fact the INR 1 crore (~ US$ 200,000) minimum investment in an AIF can be restricting for an investor looking at an alternative investment for the first time.
Yogesh: Commodity arbitrage is mainly offered by commodity brokers. This is cash and future arbitrage and the returns are upwards of 12-13%. This product can be offered through an AIF structure but there is lack of regulation clarity on the same.

Nishant: One thing we can look at in AIF is, I am not sure if it is allowed or not, is global allocation. Looking at the way rupee has behaved and the way people are disinterested about India per se underinvested outside of India is a big theme. The Liberalised Remittance Scheme (LRS) was introduced but I don't think there were many takers of LRS because of all the uncertainties, irregularities and the lack of clarity there on taxation structure and leverage.

Regulation permitting and if there is scope, we can have a well diversified model portfolio of global investments coming through AIF route.

G. Chokkalingam
Centrum Wealth Management

While there are a few mutual funds, they are too thematic. Whatever has been moving fast that's what comes into the frame. So that's again only long only equity based on a specific geography.

We want a globally diversified portfolio across currencies. That could be a very standard diversifier, a very core part of portfolio. You allocate 20% outside India between, bonds, between absolute return products, between long only equities spread across developed and emerging markets. So it's a whole basket and you can give one fund which has a global scale and size and present across different styles of investments. Be a one stop solution, which is what we were trying to do on the LRS platform.

Client will go overseas for two reasons. One, he really understands geopolitical risks and says 'ok some money goes outside India. So I don't even care that it is lying in a zero per cent deposit in Switzerland'. The other client is saying that 'ok I am happy as long as meets similar risk return prospective as in India so let me find emerging markets or I can find themes which are not available in India'. So those kind of things are bucketed together.

Today, even if I find a feeder fund in the mutual fund space or I go through LRS to open an account, it is a very cumbersome process. If AIF permits, and if somebody can pool them all together, a global asset could be a good demand amongst Indian clients.

Nishant: You can even have a hedged offering against the Rupee. So far you don't have a hedged offering; everybody keeps the dollar exposure open, tries to do some non-deliverable forward to hedge it. Under a fund, you can even make it a hedged offering in terms of Rupee for a client. Today if you talk about the feeder fund, the first objection from a client is 'The Rupee was at 50; now it is at 60, going to 70, do you think good time? Not a good time?' So you take a hedged product because there is not a hedged product available at all.

Vivek: Globally, emerging markets bond yields is the major theme right now. So we were speaking with somebody in Singapore, people are chasing emerging markets yields. So even Mozambique yields are somebody was telling me are trading at 7-8%. So there is a market there for emerging markets yields. I don't know how you can capture it in the Indian context, but surely there is.

Umang: The global allocation was one good point but as I said right at the start of the conversation that treat it as a platform which can do both - conventional and unconventional. I think if the tax authorities come out with a clear tax guideline it should move.

Jignesh: It makes sense from the diversification perspective, the non-correlated asset classes, more and more and where one can easily justify. There is a definitely space for alternatives within client portfolios.

Rupesh: Lot of innovation can happen under AIF. One idea may be AIF of AIFs, like fund of funds. As ticket size under new regulation is INR 1 crore, it becomes difficult to allocate more products in client's portfolio. So we structure 2-3 good ideas under one fund; it will give diversification as well as participation in different ideas with single allocation.

Vivek: The biggest risk in India is the regulatory arbitrage. Having said that, you would want more and more institutional players to come under the AIF space. Today you don't see large AMCs invested in the AIF space. That is one thing I would be keen to see - the larger guys with good investment management teams coming out with products.

Hansi: It's a catch 22 situation, where they would be saying that not much is happening so why should we get in?

Vivek: The counter logic to this is that nothing is happening on the PMS side. I don't think there are many active PMS players in the market. Mutual fund industry, apart from the top five, is in the doldrums. Why would you not want to explore a space which is till now not been explored? I guess it could be looked at either way. It could be an opportunity in disguise.

Gaurav: Clients today want to get into products where you are maintaining your purchasing parity on dollar terms, especially the way the Rupee has depreciated, and the ability of the manufacturer to go wrong is limited. So essentially we are seeing a lot of risk aversion from the clients and the clients want to essentially invest in products where in global currencies purchasing power is maintained.

Yogesh: It's still in a nascent phase so we'll have to wait and watch on how serious investment managers come forward and build their platforms, that's the first step. From client perspective, there is interest and requirement for alternative product across asset classes.

Chokkalingam: Apart from diversification I believe that there is a lot of scope in this space provided we understand the fact that we don't have experts across asset classes. In one year if we succeed then in the next year we don't, there is no consistency. So we should go for plug and play, lean product team which will be against us but if we follow that it I think the future is great for AIFs.

Anand: The alternative space in India has immense potential for growth. Hedge funds and other alternative strategies and asset classes can be significant in an investor's portfolio but may take some time and performance to gain investor interest. As providers begin to show a 3-5 year track record, distributors will be in a better position to evaluate them and make recommendations to their clients. ■

BEST PRACTICES IN LEARNING & DEVELOPMENT

ONE OF THE DIFFERENTIATORS FOR AN INDIVIDUAL WEALTH MANAGEMENT FIRM IS THE QUALITY OF THEIR PEOPLE. WEALTH MANAGERS NEED TO THEIR UP THEIR GAME TO SERVE INCREASINGLY SAVVIER HIGH NET WORTH CLIENTS. AS AN INDUSTRY, WEALTH FIRMS NEED TO ATTRACT NEW TALENT. LEARNING & DEVELOPMENT PLAYS A PIVOTAL ROLE. HUBBIS CONDUCTED A SURVEY OF LEADING WEALTH MANAGEMENT FIRMS IN THE REGION TO GAUGE THE ROLE OF L&D IN THEIR BUSINESS STRATEGY.

Learning and development (L&D) plays a pivotal role addressing competence issues in the wealth management arena. Therefore, senior management needs to ensure that their L&D function has a seat at the table and a place on the agenda. But in order for L&D to be effective and to have an impact on the bottom line, firms need to start by asking themselves:

- Do we have a culture that embraces learning beyond minimum require-ments?
- Is senior management fully committed to learning?
- Do we have an L&D strategy, and will it enable us to achieve our corpo-rate objectives?

Hubbis asked leading wealth management firms in the region about the role of learning & development in their business strategy. The firms employ different business models and operate in different markets. We asked firms to further share their insights around on boarding, assessments, continuous lear-ning and L&D formats.

SCOPE OF L&D

As a general consensus, respondents agree that the effectiveness of learning is dependent on having a culture of learning within a firm and this culture must be lead from the top i.e. senior management. But what does a culture of learning look like? It's beyond meeting minimum L&D require-ments for compliance purposes - it's having a mindset that strives for the highest capability. In an ideal world, the scope of L&D within an organization should be determined as a result of close liaison between senior management and the L&D team.

This ensures that learning is steered towards achieving corporate objectives. Expertise of the line managers helps in designing a suitable training strategy for the firm. In Singapore and Hong Kong, several stand-out organisations demonstrate their commitment to the continuous profess-ional development of staff by having dedicated infrastructures and processes that deter-mine the latitude of learning. The UBS Business University, for example, comprises physical locations, in-house facilities and an online training library. Senior managers and subject matter experts sponsor and lead programs that give employees the skills they need to implement the bank's business strategies and deliver superior client service.

In India, the scope of learning ranges from 'going little beyond ticking the regulator

Vikas Arora

Deutsche Bank

“It is unrealistic to expect RMs to be super human, to know about all of the products.”

Getting senior management buy-in

- Illustrate a clear link between the L&D and the organization's strategy
- Position the proposed L&D initiatives as enablers of specific business objectives
- Focusing on weaker areas of the business will grab senior management's attention

box' to having dedicated infrastructure for training. While the wealth management businesses of larger banks leverage the group's training infrastructure to deliver learning to their employees, the larger scale makes the efforts more challenging on the ground.

Some industry participants understand the need for investing in learning. “Training is an investment of capital upfront,” said Kanwar Vivek, head of wealth management, broking and property services at Capital First, speaking at a Hubbis forum. “You need time, resources and infrastructure. The players in the industry need to put capital upfront, knowing that once the person is trained he will be able to do a better job. In the same way that parents invest in their children's educations without focusing on an immediate return on investment, you have to accept that the investment will pay off in the long run.”

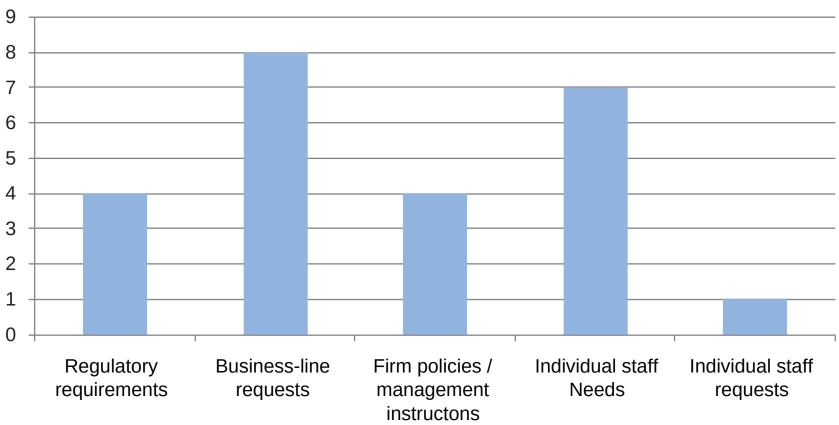
DEMONSTRATING THE VALUE OF L&D

Those 'pitching' an L&D proposal to the senior management must make it clear that the strategy is designed to reach the same goals that the firm is geared towards, because, at the end of the day those running the business will only invest resources into functions that will contribute to the achievement of business objectives.

The most significant focus area is technical knowledge. “It is unrealistic to expect RMs to be super human, to know about all of the products. It is impossible for anyone to have the width across the spectrum of products,” explained Vikas Arora, business head, investments & insurance, private and business clients at the bank. The owners of the L&D function must be able to articulate the value proposition behind their strategy so that senior management can recognize the long-term value of what is being proposed. Respondents in Asia mentioned learning was positioned as a “business enabler”.

And therefore any learning or development activities have to be related to where the firm currently is, and where it wants to go. “The learning is the software and the business is the hardware, so to speak – it's our job to make sure the software is current and continuously updated to act as a distinguishing factor for the organization.” Another respondent suggested focusing on the business objectives that the firm may currently be weak in, and to position the L&D plan as a prospective long-

TWO MOST IMPORTANT FACTORS DETERMINING THE TRAINING CHOICES



Source: Hubbis Survey

term solution, to grab senior management's attention. For example, the bank explained that one of its business objectives and areas of weakness (at that time) was around client experience. With this in mind, the L&D specialist did some research and found that customer feedback suggested they specifically needed to improve in customer questioning and listening, and value creation.

As a result, an L&D plan was designed that aimed to strengthen employee's capabilities in these areas and the strategy behind the program was positioned as a way of improving the client experience. This way, senior management could easily connect the dots and see that the proposed learning plan would directly help achieve one of their business objectives.

In India, the link between the L&D programs and business objectives wasn't as clear but leading firms did reiterate the support of senior management for L&D generally recognizing its role as a business enabler. A couple of firms mentioned there were no budget constraints for training - indeed training was given highest priority in terms of expense "over client acquisition, marketing and branch expansion." However, these were the exceptions.

After defining L&D objectives, the next question before allocating budget to this function will be around costs and ultimately the effect on the bottom line. As traditionally the results of L&D are mostly seen over the long run, it can be tricky to illustrate its commercial value in black and white.

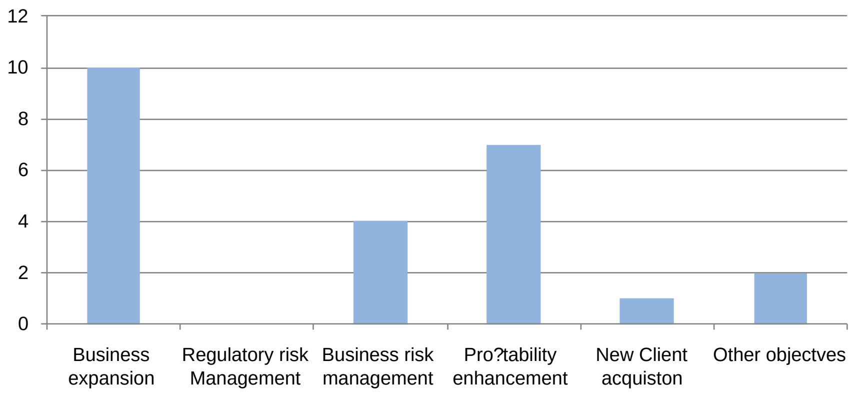
While regulation should not be the sole driver of investment into L&D and the ideal scenario would see best practice firms ahead of the curve with surplus continuing professional development hours, the reality is that compliance requirements are a major influencer when it comes to setting learning budgets. "A lot of what drives training budget now is whether it is mandatory or non-mandatory. So if it's mandatory then people tend to ask less questions because it has to be done," was the sentiment echoed across Asia and India. In India, the introduction of the Investment Adviser Regulations will mean an increase in budgets for firms that choose to apply for the new license as it requires advisers to not only have minimum qualifications but also clear the Investment Adviser certifications set by National Institute of Securities Markets. Equally, during times of financial hardship it isn't always possible to "go that extra mile" when it comes to L&D budgeting, considering the function is often the one of the first to bear the brunt of cost-cutting exercises.

"Once management buy-in is secure, you need to work on how to make things happen and justify the resources required."

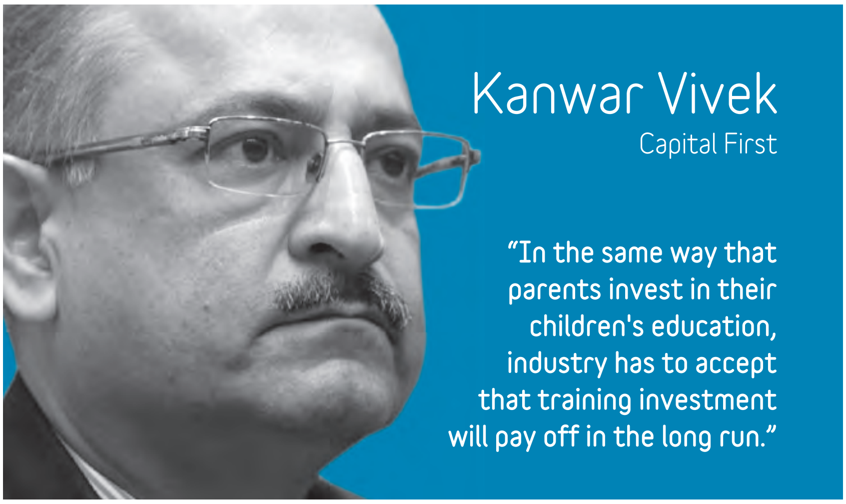
As one respondent in India put it, "Training is not necessarily inelastic but costs do play a factor." One practical way someone suggested influencing decision-makers to part with funding is by positioning the knowledge within the firm as "the muscle of the organisation" - ie. an asset that moves the business forward. So one way to monetise that "muscle" is to imagine the implications on the business if the muscle were suddenly to disappear. In other words, if one core knowledge carrier, or a team of knowledge carriers were to resign, how much business would be lost? If this answer is "a significant amount", it will soon become obvious that the firm needs to develop more capabilities, specifically in these core knowledge areas that the firm relies on for profitability. Respondents in India also struggled to clearly demonstrate the value of L&D. Most measured the increase in productivity in the absence of any other interventions.

Some were trying to find other ways to measure the effect of L&D. Kaushik Bagchi, product head, wealth management & TPD at IDBI Bank, said "Our measurement of success is not the revenue but the number of people they talk to."

TWO BUSINESS OBJECTIVES ARE FOCUSED DURING TRAINING



Source: Hubbis Survey



eLEARNING TAKEN UP SLOWLY

Among respondents, elearning emerged as one of the most talked about learning formats – not only because of the cost savings and efficiency associated with online training and assessment, but also the flexibility of combining it with other more traditional learning formats. So this is where L&D administrators need to get creative and concoct the perfect blend of online learning mixed with face-to-face elements.

For example, the online part of the training could set learners up with the basic theory of what is required to form stronger client relationships and then they could test this theory in a practical way through a classroom session or role-play scenario with their line managers. Or vice versa, employees could learn via a face-to-face seminar and then their knowledge can be reinforced and assessed through an e-learning module. When it comes to choosing which main format learning should be presented, in the L&D experts consider the following factors:

- **Topic -** Technical content and compliance training are considered most effective via online learning for reasons including convenience, ease of use, lower costs, and ability to test. Particularly for any learning that is continuing professional development related, online stands as the favourite medium since progress and completion can be more easily tracked.

Meanwhile, soft skills training that requires a degree of interaction and the understanding of a process is typically best suited to classroom style. However, some see this changing to a blend that incorporates an e-learning element. For example, presentation skills can be taught online and tested face to face.

For more general and informative learning about the industry, respondents say they consider external providers such as conferences to educate employees.

- **Efficiency -** Efficiency is a major determinant of which format the learning function chooses to go with. The headcount, costs and time restrict the number of classroom training sessions firms implement. Some make all topics available online as the 'backbone', but then supplement with conference calls, experts, classroom training.

- **Audience -** Some firms encourage employees have input into what method suits them as they are the end-learner. The younger base of people is more adept to online formats. "They have come from university like that, so it's natural for them and it's an opportunity for us to harness," said one respondent. Another said, "I think about what employees are going to need in the next three, five and 10 years once the centre of the financial universe hits Asia," he says adding that these include cognitive skills such as creativity, decision making and empowerment. "And you can't really teach these online."

ON-THE-JOB TRAINING

Whether it's using the company intranet or coping with tricky client situations – learners are bound to pick-up techniques and solutions quicker when they are immersed into the processes and forced to think on

Making e-learning more effective

One respondent provided some tips on how to make elearning more effective

- Bitesize learning - Small chunks of learning are more appealing to participants than for example two-day seminars, as they require less time away from the desk and often there is no need for a colleague to cover their work. There is also less concern about holding learners' attention for longer periods of time
- Buddies - Partner-up learners in teams so that they can motivate each other and review material together. It also encourages knowledge sharing among the learners. "Having the opportunity to have someone to discuss and learn with makes that whole process of learning more interesting," said one respondent.
- Back to school - Make elearning more interactive by applying a teach-and-discuss model - if learners are broken into groups and provided with an occasional tutor to lead discussions and clarify any complex topics then elearning will become more enjoyable and effective.
- Learning pod - A dedicated environment such as a library with computers for e-learners focuses their minds on the task and alleviates them of distractions to help make the learning time more productive.
- Incentives - Gold stars may not cut the mustard at this stage, but iPods certainly did at one bank in Asia. Even when a modest prize is at stake, a bit of friendly competition creates excitement and motivates employees to get involved.

Gaurav Mashruwala
IFA

"Only when you write the five-hour plans, do you realise the importance of cash flows."

their feet, rather reading about a theoretical situation. It's also more engaging and enjoyable -think about learning to drive a car for the first time - yes, you need to spend time on theoretical learning covering the vehicle functions, rules of the road and safety procedures, but if you don't put these lessons into play and try for yourself you'll never actually be able to drive!.

They aim is to practice in a controlled environment until the motions become second nature – and the same applies to learning in wealth management, especially when it comes to client facing roles. Learning and training are two different things, said one industry expert. "When you look at the learning component, learning actually happens on the job.

So management must ask themselves how they can transfer theoretical learning to on-the-job training," he adds. At end the end of the day, staff will only be able to dedicate limited time to e-learning, classroom sessions and seminars, so on-the-job-training ensures that the continuous learning cycle doesn't lose momentum thanks to the line managers input and the employees eagerness' to learn. However, not enough firms had formal processes in place for on-the-job-training. "People are not doing enough role-plays and mentoring internally before letting advisers out into the field," said Vivek.

ENGAGEMENT

Firms could invest all the time and money in the world in developing best-in-class learning programmes, but at the ended of the day, if only a few employees participate, then efforts are wasted. A common response that L&D administrators receive from talent is that they are "too busy" to participate in further development, often not realising that programmes are specifically designed to help them be better at their job.

Again, this is where senior management play a pivotal role – the organisation's leaders can strongly influence employee engagement through their own enthusiasm and participation. In Asia, senior management get involved at an early stage by setting the direction for the learning and "play quite a crucial role in determining any business specific learning programmes".

Equally when it comes to "inviting" employees to take part in an individual learning initiative, it's not the head of HR or the learning function that sends an email the week before - it's the business leadership team that demonstrates their commitment by including it in the strategic agenda at the start of the business year and supporting it until it's been executed. Similarly, another respondent said: "Every learning programme will be opened by seniors to give an overview of why it is important to the business." At another bank, its APAC CEO is the "role model" for staff when it comes to embracing learning, by participating in many initiatives herself, including the firm's Wealth Management Diploma Programme.

"Things that don't have the push from senior management are easier for [employees] to brush aside," said another respondent. Another best practice was to use both a bottom-up as well as a top-down approach. Bottom up, because at the end of the day, employees take charge of their own development, and top down, as all the roles we have in the organisation have a competency profile, so from a business strategy perspective, we can identify gaps using these profiles," said the respondent. In India, firms rely on make training mandatory to encourage participation. Some link it to incentives or review process.

FUTURE OF L&D

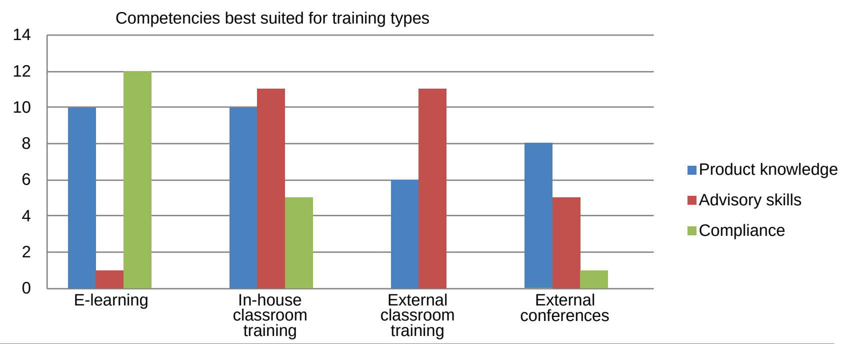
The survey also covered onboarding, assessments, on the job training, train the trainer, learning management systems. However, the bigger picture conclusion was that global regulatory changes are on the forefront of business leaders' minds and are "here to stay" according to respondents, therefore initiatives that aim to improve the quality of wealth management advice will certainly influence the future of L&D. "In the industry we have a lot of mediocre individuals that have just survived because they have been supported by strong markets or clients," said one respondent, who welcomes the increased scrutiny that financial regulators are now exercising through measures such as more stringent CPD requirements. Another respondent in India adds, "Change, in terms of the market turning from a seller's market to a buyer's market, is forcing firms to up-skill." At the same time, L&D can't be dictated by the regulator either – a different mindset is needed in Asia.

"The talent pool needs to become more willing to learn," quipped one respondent. In order to engage professionals in training beyond ticking the CPD boxes, the content and delivery of learning materials need to be re-vamped. "If you take a look at a lot of training that happens in the West, particularly in the US and Europe, business schools have put in a lot of research and done many case studies to develop world class materials.

> "No matter what learning or intervention we're doing, the success always depends on whether you have sponsorship for that project at a senior level."

While Asia can use these, they really need to work on the innovation and delivery." Use of technology surfaced as a significant influencer of L&D in the future. Respondents say they are ready to embrace new innovations, especially those that appeal to the new generation of learners asthey are the future of today's business. Equally, elearning emerged as an obvious way forward for making L&D more efficient and effective. "When it comes to elearning, we've crossed the bridge from being more complimentary to being one of the most widely used formats. E-learning is the future, as far as I'm concerned," summed up one respondent. Respondents also highlight the influence the end-client will have on the future of learning. L&D should be used as a vehicle to re-define the role of a true private banks she adds: "I think because we went through such a boom time, we have RMs but we don't know what the DNA of a real private banker looks like – L&D show help draw this out." A "true" private banker largely refers to one that is capable of giving holistic advice – "a good balance of technical knowledge, risk management, family trust planning, plus having a tight network of connections and artistic flavour to satisfy clients," said a senior banker in Asia. However, it also comes down to basic communication skills, "private bankers need to be able to articulate their value proposition and L&D as a role to play in that," said another. Finally, a number of people expressed the need for the L&D community within financial services to join forces and shape the future of learning. "L&D organisations should get together more to discuss ideas on how they can shape the business. We still have this 'don't talk to them, they're competitors attitude', but there are a lot of areas, such as responding to new regultion, where we can actually help each other." ■

FORMAT & DRIVERS OF TYPE OF LEARNING



Source: Hubbis Survey

REWARDING RELATIONSHIPS

ARJUN ERRY FROM HUNT PARTNERS TALKS TO HUBBIS ABOUT HIS INSIGHTS FROM EXECUTIVE SEARCH IN THE WEALTH MANAGEMENT AND PRIVATE BANKING INDUSTRY.

Banks have broadened the horizons in terms of hiring the right talent. One of the things that drove it is the fact that they realised that if they have to serve the needs of the ultra HNIs (high net worth individuals), they found that for the most part these were individuals who had private wealth whose corporate wealth was under the purview of the institution.

"Another way of saying it is that they found that they were going to serve the need of promoters," adds Arjun Erry, Hunt Partners.

HIRING TRENDS

"The private banks require individuals that have credibility with the promoter and the capability to sniff out opportunities, not just for the private bank but also for the investment bank and the corporate bank of the institution," adds Erry.

They have started looking at hiring people with a "wholesome banking experience, with relevant know-ledge of products, rates, lending and capital markets."

As a consequence, private banks have started hiring senior relationship managers from corporate banking and investment banks, who for their own reasons were looking for greener pastures as relationship managers. "We saw a whole new pool of talent, small to start with, but it got the ball rolling saying that you didn't have to be somebody with a prior book, didn't have to necessarily have private banking relations - hips; but you did need to understand financial products, lending as well as capital markets and you certainly needed to showcase that you had the ability to build relationships and ask for money.

That is one of the key trends that we have seen," says Erry. Some keys aspects observed while hiring at a senior level are, "who is his/her client, what is the size if assets under management, 'what is the productive book, and therefore what is the fee income that this individual is generating," says Erry.

However, such parameters are flat in nature and have remained constant in the industry for a while now. A lot of the hiring decisions are based on aspects such as, "client type, product knowledge, assets under management growth over the last two-three years and fee income growth over the last two-three years."

"The above benchmarks don't apply when you are bringing in non private bankers," points out Erry. Aspects such as net addition of clients, serves as a huge qualification. Erry highlights that just stating the number of clients handled for the bank is not enough. "To be able demonstrate that you actually have shown some delta and bagged in new clients, is essential." "An exhibit of diverse product experience and reasonable knowledge of complex fina-ncial products, shown by the potential hire, is what the private banks really search for."

Arjun Erry
Hunt Partners

ASSESSMENTS STILL INTERVIEW BASED

Erry talks about three assessment tools that some of the more "evolved banks probably use to assess and make a selection decision." Tool number one is just pure interview based. "If they are working with a search partner, they rely on the search partners capabilities and then add to that their own interviewing capabilities."

Tool number two is conducting a background check. Erry adds, "If you are talking about bankers with 15-18 years of experience then we can hit the right people that he/she has worked for in the past and conduct an in-depth confidential reference check. This again has two elements to it; one is just the pure hard stuff in terms of the abilities and numbers, and the other is anything to do with ethics and compliance. Any regulatory or compliance check is always run through the informal network." The third tool is the temperamental or the psychometric test. "Here, an individual's persona, his makeup, how they function under pressure, creativity in terms of thought and interpersonal skills are judged."

REWARDING RELATIONSHIPS

Global private banks have a more linear and set approach while deciding compensation of wealth mangers. Indian Private banks and the Wealth Management arms of NBFCs (WMs), on the other hand, are more holistic in their approach. Global private banks are far more linear in their approach.

Remuneration is linked with increase in assets- under-management and the bles seniority of the employee. "With the global banks what is base lined is their base compensation. Base compensation in the global banks is determined by your grade and variables are linked to increase in assets under management," says Erry. The Indian private banks tend to be a little wider in terms of remuneration.

As being at its nascent stage, "Indian private banks and the WMs are happy even if their wealth mangers are helping clients with asset allocation, even if that asset doesn't flow through the banks books and the bank makes no money on the transaction," adds Erry.

Advisors will still be evaluated on the total portfolio of the client, and not assets-under-management alone. The private banking arms of the Indian private sector banks tend to be less linear and compensation is not

COMPENSATION STRUCTURE FOR RELATIONSHIP MANAGERS

Grade	Profile	Role	AUM Target	Revenue Target[1]	Total Compensation	AUM Target	Revenue Target[2]	Total Compensation
			INDIA			SOUTH EAST ASIA		
Senior Client Advisor	15+years of work experience of which at least 7 has been in wealth management industry	• Maintain & grow the client base • Develop, train & mentor junior CAs • Help Structure products • Promote visibility of the Bank among target communities	INR 3,000 - 5,000mn	INR 54 - 90mn	INR 14 - 22mn	USD300mn+	USD2.4mn+	USD450 - 600K
Junior Client Advisor	Approximately 5 + years work experience	• Maintain and grow the client base in terms of. - Number of clients - AUM - Revenue	INR600 - 1200mn	INR 11 - 22mn	INR 2.75 - 6mn	USD180 – 250mn	USD1.5 - 2.0mn	USD280K - 360K
Fresh Client Advisor[3]	Fresh out of MBA school or qualified chartered Accountant	• No independent targets, assigned to a team with a Senior CA as a mentor, needs to learn processes, products, start his own client base and farm some existing clients	NA	NA	INR 1.5 - 3.0mn	NA	NA	NA

[1]We have assumed a weighted-revenue of 180 basis points of productive AUM in India

[2]We have assumed a weighted-revenue of 80 basis points of productive AUM in SE Asia

[3]Fresh graduates are not hired directly into a CA role; they transition after having spent 3-4 years in products and/or in preferred banking roles

based on seniority, as in the multinational banks. Erry adds, "I would say that the Indian private banks compensate more on product-width and other factors, such as mentoring of teams and increasing product knowledge."

According to Erry most of the Wealth Management arms of NBFCs (Wms) are promoter centric which means that "they want to do everything to be able to keep that relationship with their client, who might be a large industrial promoter."

Indian private banks "are far more flexible in terms of offering advice to clients even on products that are not offered by the bank," compared to their global counterparts.

As Erry says, "maintaining that relationship in perfect condition is of utmost importance." Where the client adviser has been able to demonstrate that "they have expanded or have helped the product teams to come up with bespoke products, or bespoke-sub products, that have been profitable for the bank," they have certainly earned brownie points.

On the organisational side, senior client advisers get bonus points if they can demonstrate that they have played an organisational role in mentoring and coaching the younger client advisers. This might change as the regulatory environment changes but for all practical purposes banks look for the book translating into fee income for the bank.

"Their approach is less transactional and more relationship-oriented. Thus the correlation between the remuneration and assets-under-management is less obvious than it is in a global private bank."

There are two different approaches adopted while managing targets for new recruits. "When they are optimistic about talent, we see a couple of different approaches, one is that they will mentor talent by giving them a slow-burn into the business, reasonable targets or nil targets in year one and then leading up to solid targets in year three, that's perhaps their way in terms of saying we will mentor you.

For other it's going to be baptism by fire, you are as good as the book that you bring and how much of it you can bring over and how

much of it you can grow in the bank," adds Erry. From a talent development point of view we see private banks and investment banks as pretty much cut from the same cloth.

"They are very producer oriented, some limited training usually around compliance and regulations but it's a very producer alpha environment and literally no one honestly has time to help the younger ones come up the curve," adds Erry.

RISK PROFILING ENCOURAGES GREATER TRUST

PAUL RESNIK, FOUNDER OF FINAMETRICA, TALKS TO HUBBIS ABOUT THE BENEFITS OF USING PROPER RISK PROFILING TOOLS TO ENGAGE CLIENTS.

A VIEW ON INDIAN ADVISERS AND RISK PROFILING

"Indian advisers are more open minded than many I have come across in the world", says Paul Resnik of FinaMetrica highlighting the need for a robust approach to the risk profiling of investors. Resnik believes that advisers in India take up new concepts as a matter of fundamental adaptability. To survive in India an adviser has to be capable of change. While many complain openly about ambiguous regulations, there is a common sense realisation that they need to change to survive.

"Risk profiling allows advisers to position themselves as caring experts. Investments are rapidly becoming commoditised and the only thing that will be differentiated will be the client relationship," adds Resnik. Advisers have gone from being mere salesmen to being professionals who have to pass exams and talk with clients as equals. "Advisers in India are starting to focus more on communicating their proposition with a lot more clarity than before," says Resnik.

BENEFITS OF RISK PROFILING

"Risk profiling is the easiest way to engage somebody in terms of personalising the advice." According to Resnik, financial planning is helping clients' have assets available to meet liabilities as they fall due. This takes the advisers towards a more life planner or needs based planner role.

Clients have to open up and trust the adviser. Trust is currently low in capital markets and advice, especially in India. Advisers have to behave showing they care to convince clients that the adviser is working for the client's benefit. Talking and listening to clients is important.

"Our risk tolerance report provides the opening conversational piece for the adviser. The major benefit of the process is about confidence." The adviser needs to be transparent about risk. Advisers should make sure that clients never be surprised by volatile markets. "Good advice is about trust," added Resnik.

"At its core good risk profiling encourages greater trust." According to Resnik, people open up because of the profiling process. They like talking about themselves. Having started with an open and honest process the adviser has to live up to it. The process facilitates a transfer of trust. By initiating a conversation the advisers get to know the clients unique situation and risk tolerance levels. This should lead to simpler portfolio recommendations.

Paul Resnik
Finametrica

WHAT NEXT AFTER RISK PROFILING

"We start off simply by teaching them to learn to ask 'why' and then let the client talk." When the risk profiling report shows variations, advisers need to discuss with clients about the conflicts and variations.

For example, they may have high return expectations and yet are not prepared to lose any money. Once the adviser has understood how the client thinks he has a better chance of matching their needs. "This is where 'why' questions are important. On the basis of the agreed risk tolerance levels, a suitable asset allocation/portfolio can be mapped."

The next thing that the adviser needs to check is whether the chosen portfolio achieves the client's goals. The adviser highlights the likely performance and volatility of the markets, the planner's services and what a change in the client's behaviour can achieve.

Resnik believes that while this approach might not be relevant to all of the adviser's existing customers, the value of a plan will be recognised by others. Clear articulation of this proposition will bring clients in.

LEARNING PROCESS

"If there is one thing that people like it's talking about themselves. If the questions help them reflect on themselves there is actually a transfer of trust," says Resnik.

According to Resnik, the learning process involves advisers reading FinaMetrica's study material and going through 5-10 tests with family, office members and clients they know. The aim is to get the 'client' to complete the test and answer questions.

The first 2-3 times they might be embarrassed and intimidated but by the 5th or 6th time they are relaxed and they realise that it's just the conversation piece that they need to work on.

The conversation revolves around questions such as 'why do you have such return expectations' or 'why are you afraid of investing in this product' and once they have started on that trust grows. It builds a sense of confidence because they are listening to clients and clients like to be listened to.

PROCESS OF INDUSTRIALISATION

"Large organisations can also use FinaMetrica through automated systems. While there are circumstances where differences between risk required, risk capacity and risk tolerance will need to be reconciled, human intermediation will be required."

According to Resnik risk profiling involves three primary components; risk required to achieve goals, the client's capacity for loss and still achieve the goals and their risk tolerance.The reconciliation of the planning process involves matching asset allocation around each of the three components.

Risk tolerance is relatively stable. Risk required is a function of the client's goals and the markets, their capacity for loss is a function of their asset allocation and their other resources.

Both vary each year "The core of planning is the matching of assets to liabilities as they fall due. At the end of that process the clients should be confident that that the financial part of their lives is under control."

Resnik believes that providing such solutions requires a lot of judgement and judgement requires a lot of experience. Therefore such a process probably works best with independent financial advisers and less with large organisations where they are more used to processes and less of judgement.

Resnik says, "If the risk capacity and risk tolerance parameters are combined it is possible to achieve a middle ground where a large organisation doesn't have to depend on adviser's judgement. Issues come up when there is a wide level differences.

Risk tolerance becomes an important issue if somebody who has long term goals takes on high levels of risk when their risk tolerance is low. The risk one runs here is that the client will panic when the markets fall. In such cases one requires quality intermediation."

> *"If there is one thing that people like it is talking about themselves"*

GOOD ADVISER TOOLS

"The five things a good adviser needs to do; needs to know the client, needs to prove that they have explored alternatives with the client, needs to prove that they know the product/invest, needs to prove that they have explored the risks in the product related to the plan and make sure that they have the clients informed consent to the risks in the product/investment and the plan"

FinaMetrica's 'Investor profiler' has three tools for advisers; a test, a method to link the test to an asset allocation solution and a history lesson linking the portfolio to historical performance so that advisers can appropriately frame client expectations to deal with the surprise elements. ■

USING TECHNOLOGY TO ENGAGE CLIENTS

FINANCIAL ADVISERS NEED TO GET BETTER AT USING TECHNOLOGY TO ENHANCE PRODUCTIVITY BUT ALSO TO ENGAGE CLIENTS, SAYS MICHAEL TAYLOR OF OMNIMAX SOFTWARE.

Technology helps speeds up the advisory, and helps in adding value to the customer. “Software sounds cold, yet can transform things if used effectively and appropriately. We focus on creating an experience for customers rather than just gathering information.

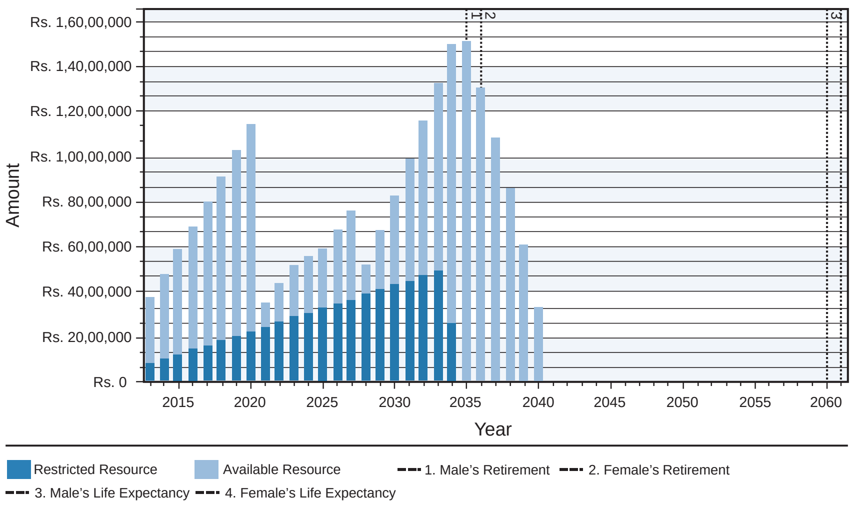
A journey – engaging in the journey and offering them an experience where they can identify financial goals, review the capacity of resources and monitor how well they are achieving their goals,” says Michael Taylor, founder of OMNIMax™ OMNIMax™ has a “pre engagement tool and acts as a conversational starter.” The advantage is that the client is engaged from the beginning, even before they have met an adviser.” It captures their personal financial position and where the client wants be. “The client is informed, sensitized to the advice process and becomes more receptive towards solutions.”

Michael Taylor should know – he has been a practitioner for 30 years in New Zealand. Not being able to find tools to help in his practice, he commissioned them. He now divides his time between advising a select number of clients and expanding the software business. The OMNIMax™ tool adds value to the advice process and, “that's where our strength lies.”

All the data collected seamlessly integrates with the OMNIMax™ AdviceMap PlanWriter where ideal solutions are documented, and life capturing “what if” scenarios underscore advice.

Michael Taylor
Omnimax Software

RESOURCE CASH FLOW



"It is a financial planning piece of software that helps advisers manage clients efficiently, both through acquisition (engagement) and helping them write dynamic, client centric plans which secure businesses," explains Taylor.

The OMNIMax™ engagement tool can be deployed online and through social networking sites to engage with prospects.

Some may question whether people would to share their private information with a website."People are intrigued to know whether their resources will meet their goals, whether their funds are sufficient or not," says Taylor. The portal allows prospects to be anonymous until they seek advice.

Taylor believes advisers should use tools like this to really understand the client rather than just ticking boxes for the KYC requirements - "It is about understanding the client and giving advice in a life context, personal interaction through technology; knowing your client well is the heart of the process."

The OMNIMax™ tool has integrated the FinaMetrica risk tolerance tool, but he believes the timing is important. "Assessing risk tolerance is critical; the question is when you do it." He recommends advisers should understand the client and only discuss risk once there is potential in the planning situation - "We have to get a sense of where they are going, and then determine their risk tolerance.

OMNIMax™ enhances the customer experience as the clients can update credentials on their own.

"The tool helps the client rework the advice experience according to their current situation, as any change in data can be updated by the client themselves." ■

ASIA AT THE TIPPING POINT

HUBBIS PUBLISHED A WHITEPAPER TITLED 'ASIA AT THE TIPPING POINT – CREATING A SUSTAINABLE WEALTH MANAGEMENT INDUSTRY' IN OCTOBER 2013.

The inflection point at which Asian wealth management now finds itself is a direct symptom of the business models, incentive structures and mind-sets which have developed within the industry, region-wide, over the past 15 to 20 years.

More broadly, the widely fragmented nature of wealth management has hampered efforts to date to collectively tackle some of the fundamental issues, such as compliance, costs, clients and sustainability.

But now there is increasing urgency within individual firms – as well as the industry as a whole – to take action quickly.

This reflects the views of more than 100 senior practitioners - with whom Hubbis interacted, in conjunction with the Asian Wealth Management Association, at a series of committee meetings in Singapore, Hong Kong, India and Malaysia in August and September – as well as at Hubbis' Asian Wealth Management Forum 2013 in Singapore in late September.

Here, we have summarized the White Paper under the following sections -

- Creating a compelling value proposition
- Ensuring credibility: ethics as the (new) starting point
- How to make fee-based advice a reality
- A question-mark over sustainability

CREATING A COMPELLING VALUE PROPOSITION

The starting point for taking a fresh look at the industry means going back to basics and understanding what wealth management means in practice – or, at least, what it should mean.

Only with a clear understanding of the end-goal is it realistic to expect to achieve it. Inevitably, there are different interpretations, but fundamentally it is about helping customers meet their needs and goals, both financial and non-financial, through a variety of products, solutions and services (again, financial and non-financial).This might be achieved in different ways and through different approaches – depending on the type of organisation as well as on the customer's risk profile, net worth and other individual factors.

But in all cases it requires regular reviews of their portfolios, personal and business circumstances, risk appetite, and investment and other objectives. Further, it entails a combination of wealth accumulation and wealth preservation, to ensure a smooth transfer to the next generation. Conceptually, practitioners across industry segments and geographies are united in these views of what wealth management should be.

Where the industry has struggled, however, is in how it has tried to execute it in reality, especially against the various competitive and other market-related pressures. This has made it difficult for many organisations to be able to effectively demonstrate – and differentiate – their value proposition to clients.

In more developed wealth centres, clients can more actively choose whether to use a broker and pay a commission, or opt for an independent adviser and pay a fee of some sort to reflect the value of the advice and service. By contrast, in Asia, most firms combine all of this into one offer of "wealth management" where the differentiation is based on the axis of AUM with the firm.

It is incumbent on participants to drive clarity knowing that this expectation gap exists – and therefore to avoid getting treated as one broad group from a regulatory perspective.

ADDRESSING THE FUNDAMENTALS

Some of the main hurdles that the industry faces in terms of being able to offer a clear value proposition can be compartmentalised into the following:

- The "Hollywood" problem – while wealth management is a lucrative and relatively glamorous industry for the actors, or RMs, the owners struggle to be profitable as a result of high costs and limited share of wallet.

- The "US congress" problem – in a similar way to how most people might dislike Congress but like their own Congress man, clients of wealth management firms tend to like their RM but view the rest of the industry as lacking in credibility. Service ratings for financial services in general – and wealth management in particular, are low, especially when compared with other industries.

- The "promise of beauty" problem – akin to how beauty products position themselves for their users, the wealth management industry has followed the path of promising returns. Yet it hasn't yet been able to deliver this in a sustainable way.

Some of these issues stem from a certain level of confusion within the industry. For example, the wide variety of firms and advisers makes it difficult to create a single description of wealth management and what services clients should expect.

SETTING THE WRONG EXPECTATIONS

Much of the blame on the product-pushing culture that continues to define most segments of wealth management in Asia gets levied at the overwhelming success that the industry broadly experienced in the mid-2000s from a very narrow product range.

That meant a lot of RMs only developed a narrow capability. It also resulted in a limited education for clients on the scope of wealth management, and set returns expectations way too high. The real issue, though, wasn't the structured products; these were the tip of the iceberg. The root of the problem was greed along with promises based on unrealistic business plans.

The effect of this continues today. Many clients find it difficult to think beyond products with which they have experience. Even when the starting point of a conversation with a client is about how to take a portfolio-planning approach, it quickly comes back to which product they should buy from a yield perspective.

LIMITED LESSONS LEARNED?

The focus on short-term revenue has led to a lot of private banks and other wealth management firms finding it challenging to remain consistently profitable. On the one hand, some practitioners believe the financial crisis in 2008 has helped the industry to learn from its mistakes.

Among the evidence for this is: a greater emphasis and spending on education for RMs as well as clients; efforts to work more closely with the next generation; the implementation of more rigorous checks and balances in line with compliance obligations; and more diversity in the product offering, for example, banks setting up own discretionary portfolio management capabilities.

However, on the other hand, there appears to be resistance to change.

For instance, working with clients to take a genuinely holistic portfolio view and add real value requires a multi-year effort. Plus, when trying to balance client interest with the need to create shareholder value, short-term behaviour quickly emerges. In addition, there are frequent displays of self-interest.

The industry has to acknowledge, therefore, that it must change the perceptions of it from being good at selling products to being genuine wealth managers capable of offering relevant advice that counts. And then it must put this into practice.

ENSURING CREDIBILITY: ETHICS AS THE ONLY STARTING POINT

If you take a broad perspective of Asian wealth management, there is widespread concern among practitioners that the industry is lacking in credibility. Many of these individuals regard the industry as being its "own worst enemy".

The motivation of (most) wealth managers was cited as the main reason for the lack of credibility, followed equally by product pushing and leadership in organisations. The regulatory regime, along knowledge levels of advisers and clients, were seen as less significant obstacles to creating a more credible industry.

Yet these hurdles all tend to exist because of a lack of focus on ethics, and doing the right thing for clients. This needs to be clearly separated from what is required by regulation, given that being ethical doesn't mean the same thing as being compliant or ensuring investment suitability according to the letter of the law.

A key component of acting ethically, for example, is being fully transparent in relation to all aspects of the process – advisory, product, fees, etc – and also disclosing anything which aligns the interests of all parties and removes conflicts of interest.

Ultimately, gaining credibility in today's environment is a tough task. RMs have grown used to being driven by the compensation structures common across many firms, so the industry's "ecosystem" has to bear a lot of the responsibility.

A NEW MIND-SET

The starting point for developing the right mind-set needs to be a clear focus and understanding about ethics in wealth management. In particular, sales and advisory processes in many organisations should incorporate this.

While some individual firms have their own ethics training or provide different types of internal communications about ethics, there is in general a lack of consistency or standard to serve as a minimum which is expected – by the organisation, clients, the regulator, and the industry as a whole.

This is only achievable by dealing with compensation structures and adapting key performance indicators (KPIs) so that RMs are not purely sales or revenue focused. This requires a wider adoption of the balanced scorecard approach – and includes a punitive component, for example if there are compliance issues, client complaints, or other failings by advisers.

Yet it isn't possible without the commitment and leadership of senior management – in terms of building the infrastructure and culture to ensure individuals approach sales in the right way. In line with this, there needs to be better understanding of what constitutes fair and appropriate advice.

Training plays a big role in upping ethical standards in the industry. First, educating RMs will give them the skill-set to provide high-quality advice that in turn enables them to be less reliant on pushing products. And secondly, introducing content specifically on ethics to any learning programmes will show advisers why such behaviour is important for all stakeholders – clients, the individual's and the organisation's reputations, and the industry's integrity.

Most significantly, when annual budgets or multi-year plans are set, if realistic revenue-mix targets are not established up front this often leads to pressure in the sales channel – as revenues actually achieved are off-budget.

This leads to pressure to sell high upfront fee-based products, which then leads to a potential compromise of what is right for the customer. So it is up to senior management to ensure that profitability objectives are set, and incentive structures aligned, so that the potential for compromise of ethical standards is not hard-coded into the organisation.

ETHICAL ATTRIBUTES

There are certain attributes that are crucial for RMs and advisers to have in order to demonstrate ethical behaviour. One of them is a solid values and morals system; an adviser should naturally have the clients' best interests at heart and not be swayed by "quick wins".

Another is objectivity; when an RM presents a product, especially if it is manufactured by their own organisation, they must showcase it and other solutions in an objective way so that the client doesn't feel like products are being pushed, or that they have little choice.

Further, when it comes to product knowledge, it's the duty and expectation that each RM can answer complex questions on proposed products – or at least source relevant expertise. Otherwise the advice will lack credibility.

In addition, communication skills are vital; a good adviser can clearly articulate their value proposition and can also decipher what's important to the client to ensure that objectives are aligned.

FOSTERING PROACTIVE AND POSITIVE RELATIONSHIPS WITH REGULATORS

Probably the biggest issue for many types of wealth management players is the fact that the regulatory playing field is not a level one. That also forces regulators into creating one set of regulations as a minimum benchmark, especially given that they can't micro-manage every type of firm. Yet for some of the boutique private banks and other organisations, such an approach makes it more difficult to meet some of the requirements.

To avoid any surprises from regulation similar to the UK's Retail Distribution Review (RDR) or Australia's Future of Financial Advice (FOFA), one of the ways to proceed includes a more collaborative approach with the relevant authorities. And one, which can be facilitated by an independent representative body.

However, just as the solution to the remuneration conundrum shouldn't be a one-size-fits-all approach – neither should the optimum regulatory model.

Different clients require different approaches, for example. Plus, since there is still a lot of value to be found in the wealth management industry, care must be taken not to blow the need for reforms out of proportion.

Some of the complaints levied by industry players include the fact that certain reforms and approaches are preventing commerciality from taking root.

For example, perspectives of practitioners are that there is a need for the regulators to have a more practical understanding of the industry and how different organisations operate within the broader wealth management landscape. There are various blockages to this, however, in the opinion of some practitioners.

Too many firms avoid direct consultation because a lot of them are wary of approaching their regulators – yet those watchdogs often simply want to learn, so welcome interaction.

Regulators also have specific priorities, which influence what they are focused on in their conversations with industry players.

In Hong Kong, for example, it has been more about risk ratings and product suitability. Meanwhile, tax evasion and related issues have been a significant influence in Singapore.

The challenge for organisations which operate cross-border businesses, is that since so many of their clients are international in terms of their outlook, assets, businesses and personal interests, they are looking to arbitrage one jurisdiction versus another.

The industry must be more proactive, too. Potential solutions to these issues can come from organisations coming together to forge closer ties with the regulators to foster an improved understanding of some of the practicalities of operating within today's environment of heavier compli-

ance burdens. In addition, discussing strategic visions and business objectives will create a better awareness of issues, opportunities and challenges.

HOW TO MAKE FEE-BASED ADVICE A REALITY

According to some experienced practitioners, the only way for RMs to be paid, in order to keep them honest, is based on their advice.

The reluctance of most Asian HNW clients to be convinced of the need to pay for advice, however – combined with the fact that they believe they can achieve better performance by themselves, and their desire to retain control of the process – can be seen from the low penetration of discretionary portfolio management overall.

The excuse frequently given is that Asian clients don't want to pay fees. While in some cases that might be true, in others they will if asked – and assuming that they see value in the offering. The main reason for this is the focus by private banks in this time zone on net new money generation. This limits the amount of time advisers have to educate their clients on the value that advisory services can add.

Despite the key differentiator for wealth managers being their ability to articulate value – this is something that many individuals find challenging. Many bankers and advisers see themselves just as order-takers, providing access to markets. But that is not sustainable in the long run and places them at a position, which is not competitive. Instead, these individuals must be able to determine the client's objectives.

This is usually accomplished through investment policy statements, the process of which involves sitting down with the client to work through what the money is for and the client's objectives. The key, therefore, is offering a variety of options for

different types of clients, and depending on their objectives. This is expected to become increasingly important as the regulatory shift, globally, towards fee-based models permeates Asia. There are other specific advantages of making the move as early as possible to incorporate fee-based models.

For private banks which are part of universal banks, for example, if they can make more of a success of fee-based models, the ultimately the higher and potentially "stickier" revenue they will generate will help them become more significant contributors to the bottom line of the overall group.

SCEPTICISM

There is some resistance within the industry to implementing full fee transparency. Some practitioners believe the advisory model in Asia is fundamentally flawed – and that wealth management will remain a transactional business based on the limited incentive for clients to adopt more of a portfolio planning approach – due to the relatively limited impact of estate duties and taxation in Asia.

That, however, is a weak and easy argument for not pushing through change. Asia's multi-banking model might be an additional hurdle for RMs and advisers in having a more rounded view to be able to offer holistic advice. They simply cannot have a view of the client's overall portfolio so will revert to old habits of more tactical product suggestions.

ARTICULATING VALUE

In short, the key themes that will influence the development and adoption of new advisory models, and justify a greater role for fee-related offerings, include the changing nature of the client experience, the role of the RM, and the further digitisation of wealth management.

So the value proposition of the future is all about advice. But if clients are paying for advice they are going to expect a top-notch client experience, which most industry professionals agree has been lacking in Asia to date. One of the biggest game-changers in delivering a more effective client experience in wealth management will be the use of technology.

It can be used, for example, to improve all aspects of the advisory and engagement process from segmenting client bases, to collating and presenting relevant information, to executing transactions.

As both the personal and business aspects of clients' lives increasingly rely on and are

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interwoven with digital channels, they are likely to expect the same from their banking relationships.

New ways of delivering advice are particularly important if firms want to take advantage of the most significant flow of inter-generational wealth ever seen in history. This is a critical time to review the way business is being done and question whether firms understand the next generation's mind-set.

A QUESTION-MARK OVER SUSTAINABILITY

Fundamental to many of the questions being asked of the Asian wealth management industry today is whether it is really able to adapt and evolve with the market. That it isn't common to find organisations with genuinely profitable Asian businesses is a telling sign.

The need to show growth and performance forces many firms into thinking they need to buy AUM. But this is a self-defeating strategy. Some remuneration packages being offered cannot be sustained. Neither can they continue to incur the types of costs they face today.

Firms of all types therefore face significant demands on all aspects of their business – ranging from the way they now need to interact with clients, structure their product offering and charge for their services, to how they report to the regulator, conduct internal checks and balances, and operate across borders. Those organisations which are unable to be nimble, innovative or committed for the long term are likely to find that they are on borrowed time.

COMPETITIVE PRESSURES

While competition continues to be rife, various trends highlight some changes already underway. It is notable, for example, that the pace of new entrants from outside Asia has slowed down from recent years.

Plus, the movement of bankers between firms is less fluid than it has been. This is partly because they have realised it is not so easy to move their client accounts with them. Chief executives of private banks now count themselves lucky if 20% of any client's AUM comes with a new RM hire.

This is due to a combination of account-switching fatigue, the fact that clients know it won't be as easy again for them to set up similar credit lines, and the success in some firms of a team approach to institutionalising the client relationship – all of which mean that the money is less attached to the banker. In addition, the compliance requirements and other administrative-related tasks that RMs are confronted with don't change from one organisation to the next.

Further, the expected industry consolidation which is now starting to take place – the most obvious example being Julius Baer and Merrill Lynch's international wealth management business – should serve as a lesson that Asia's wealth pipeline doesn't make success a foregone conclusion.

ATTRACTING NEW PEOPLE TO THE INDUSTRY

One of the biggest concerns for senior management – and the industry in general – is the lack of young, smart and enthusiastic graduates and other individuals to become the professionals of the future. The focus for many wealth management firms is the next generation of their clients – but many are overlooking the next generation of their own staff.

Instead, organisations need to put in place a more dedicated and consistent effort around promoting themselves at career forums and Universities.

It is also at these types of forums where the discussion about what it is like to work in this industry needs to include expectations about ethics and general behaviour as a banker. Those people who enter the industry must view it as a profession – which has often not been the case.

So rather than assuming a career in wealth management leads to a glamorous, high profile and well-paying job, the industry has a responsibility to make sure newcomers have the right expectations.

This can only start, however, if there is an accurate understanding by young people of what wealth management is, and why they want to work within the industry in the first place. Governments must play their part, too. For example, attracting younger people into the industry will be helped by offering specific wealth management courses at universities, or even tuition in secondary schools on financial concepts as part of the education curriculum.

The public perception of financial services generally is potentially turning away some of the more competent individuals in the younger generation.

This highlights for organisations the importance of them making much more of an effort to understand how to engage with Generation Y – in terms of how they think, what they want from their careers, and how to motivate them.

PROVIDING A MORE COMPELLING CAREER PATH

For those individuals who do want to join the wealth management industry, organisations must pay much more attention to how they onboard and train them.

On-the-job coaching and mentoring must play a much more important role, and will make it much more likely that they last. The feeling of a long-term career is also vital to keeping younger staff happy in today's environment.

The more the industry collectively conveys its focus on acting in a client's best interests, aligned with the focus on fee-paying cultures, the more success it is likely to have in attracting the right talent.

For instance, if individuals believe in the concept of a financial doctor, they can then incorporate into their outlook the fact that they can help clients add to their financial health and wealth, in conjunction with a client's family aspirations.

More fundamentally, it is important that wealth management is perceived by the professionals of tomorrow as being a “fun” industry to be a part of. Since attracting young people relies on keeping them engaged, this involves giving them opportunities to grow and be entrepreneurial. Achieving that depend on the ability of senior management and individual team leaders to foster that type of culture and capability.

If they can, the smarter and more capable staff will stay loyal to the organisation. Ultimately, the aim must be to avoid losing out on attracting capable people to help make the most of the opportunity which exists in the industry.

A MULTI-YEAR VIEW

Against the backdrop of those changes required to develop models that will stand the test of time, in terms of regulatory reforms and evolving client appetite, industry practitioners suggested that wealth management firms of the future might incorporate some of the following:

- The advisory offering will give firms a choice – especially in terms of pricing and ways to interact with the organisation
- Firms will offer clearer client segmentation based on where they can provide an explicit value proposition for different types of clients
- The impact of technology on the business will be a significant driver of how organisations – and their bankers – interact with clients, and of the overall client experience
- Technology will also create increasing opportunities for niche and nimble players, for example enabling boutiques to build the right businesses
- Organisations will offer their staff opportunities to be entrepreneurial as a result of creating a flexible working culture
- More firms will exist to act as “go-betweens” in terms of how they connect different types of organisations and third parties to bring opportunities to end-clients

CONCLUSION

In short, a more “professional” approach is essential to servicing clients, by providing advice and solutions, which are genuinely in their best interests. The value that some firms and individuals bring to clients is undisputable.

But those organisations and individuals who cannot make the paradigm shift from success being based on relationships to it being based instead on advice won't last for much longer.

The commitment required by all market players, therefore, is substantial. Long term, investment in infrastructure, resources, leadership and culture is necessary to position offerings with the right people, products, technology and systems, and both front-and back-office processes, to be able to deliver on promises of performance and service in managing and meeting client expectations.

There are many challenges faced by the industry that are frequently discussed in private and public forums alike.

These include: the multiple, and at times conflicting, regulatory requirements in every jurisdiction; rising costs relating to compliance, people and infrastructure; thin margins on many products; volatile investment markets; excessive cash holdings in many client portfolios; unrealistic expectations of firms, putting pressure on RMs to sell; and shallow talent pools, from front-line advisers to back office staff.

These are clearly practical issues that either impact the bottom-line, or impair the ability of the organisation to service clients in the

way it ideally wants to. Yet there are several other real concerns being voiced by the senior management of many firms.

And how these fundamental issues get addressed and resolved will shape the public perception–and, ultimately, the sustaina-bility – of the industry:

- The limited focus on, and importance placed in, ethics and ethical behaviour
- Minimal attention paid to installing the right culture and mind-set throughout an organisation, for example in ensuring there is a clear understanding – especially for newcomers to the industry and younger bankers – of what being a wealth manager means in practice
- The lack of credibility that many practitioners feel exists within wealth management today
- How to attract more capable, competent and enthusiastic young people to join the industry – including by learning from organisations outside the financial services industry, such as Google
- Whether advisory models can evolve to provide a variety of fee options, and at the same time ensure clients recognise the value they are getting
- How market players can communicate more clearly and collaboratively with the regulator – including a better delineation of different types of providers
- The implications for the industry of the increasing blurring of lines between different wealth management organis-ations and propositions.

ASIAN WEALTH MANAGEMENT ASSOCIATION

STANDARDISE DATA ACROSS INDUSTRY

TECHNOLOGY CAN HELP REDUCE COST OF ADVICE, WHICH IS ONE OF THE BIGGEST PAIN POINT THE WEALTH MANAGERS HAVE. MILAN GANATRA, FOUNDER OF MILES SOFTWARE, TALKS TO HUBBIS ABOUT USING TECHNOLOGY TO GAIN INSIGHTS INTO CLIENT BEHAVIOURS AND INCREASING CONSISTENCY OF ADVICE.

"The key issue for a wealth firm is cost" says Milan Ganatra, founder and chief executive office of Miles Software, getting directly into the crux of the matter. He believes wealth management firms haven't focused enough on technology being able to help reduce costs in the front office.

While they look at technology for reporting and operations, it can also help with customer acquisition and retention. Ganatra believes the industry needs to look at empowering the customer so that most things can be do-it-yourself (DIY).

"Firms have to look at serving customers through technology. It's like airline tickets – people now buy themselves rather than call travel agents. Technology can bring down cost dramatically," he says.

There are clients who are tech savvy and others, who due to age, are not. Ganatra believes that for the tech savvy, social media will play a very important role, which will allow people to receive advice.

"Today costs do not match up with the revenue. So either they increase the revenue by charging a fee to the customer or focus in reducing cost of delivery of advice. This way, the same relationship manager can serve multiple customers. Mobility will play a key role – how much can be delivered through mobile devices," he says.

DATA MINING CAN HELP ADVICE

Ganatra suggests that technology can build in 'intelligence' based on data garnered from customer behavior, which in turn, can help with the advice process. "Today the customer profile is based on 10-20 questions, which is not foolproof.

But perhaps we could use the customers' credit card and bank account transaction statement to figure what he likes and serve him accordingly," shares Ganatra about his vision.

He believes "with the right advice being delivered, people won't mind paying for advice but it has to be based on good research and data consistency.

People are not comfortable paying for that inconsistent advice." This way he feels wealth firms could avoid problems of a relationship manager or adviser who is not well trained.

He also envisions true straight-through-processing (STP). A lot of people provide online transactions but the registration process is still manual.

Milan Ganatra
Miles Software

That needs to be eliminated to scale the business. In his view, the execution just takes too long. "By the time you do the paperwork, the client can change his mind or be convinced otherwise by someone else," he said.

He is optimistic on this front saying: "Fortunately, the regulator has taken a lot of steps to enable the same."

NEED TO STANDARDISE ACROSS FINANCIAL PRODUCTS

The reason people don't think about technology in front office is because they are surrounded by challenges in the back office, he mused. Turning to reporting, Ganatra shared that his clients, including a lot of leading private banks and wealth firms, still have major issues with something as simple as holding statements across financial products.

There are hundreds of manufacturers including mutual funds, managed accounts, private equity funds, real estate etc. who don't have a standard method to deliver or authenticate data.

There is too much effort in cleaning the data, both shape and size as well as the quality. There is a huge opportunity to create a standard template.

He urges the industry to come together, perhaps through industry associations or forums, "Technology firms can create protocols but it needs to be accepted by the industry," he quips.

He suggests an alternative solution to the data inconsistency issue – custody. "In some developed markets, investors appoint a custodian to collect the data from service providers and then present it to clients. But here in India, there is a limitation on custody codes too."

NOT ENOUGH ATTENTION TO RISK

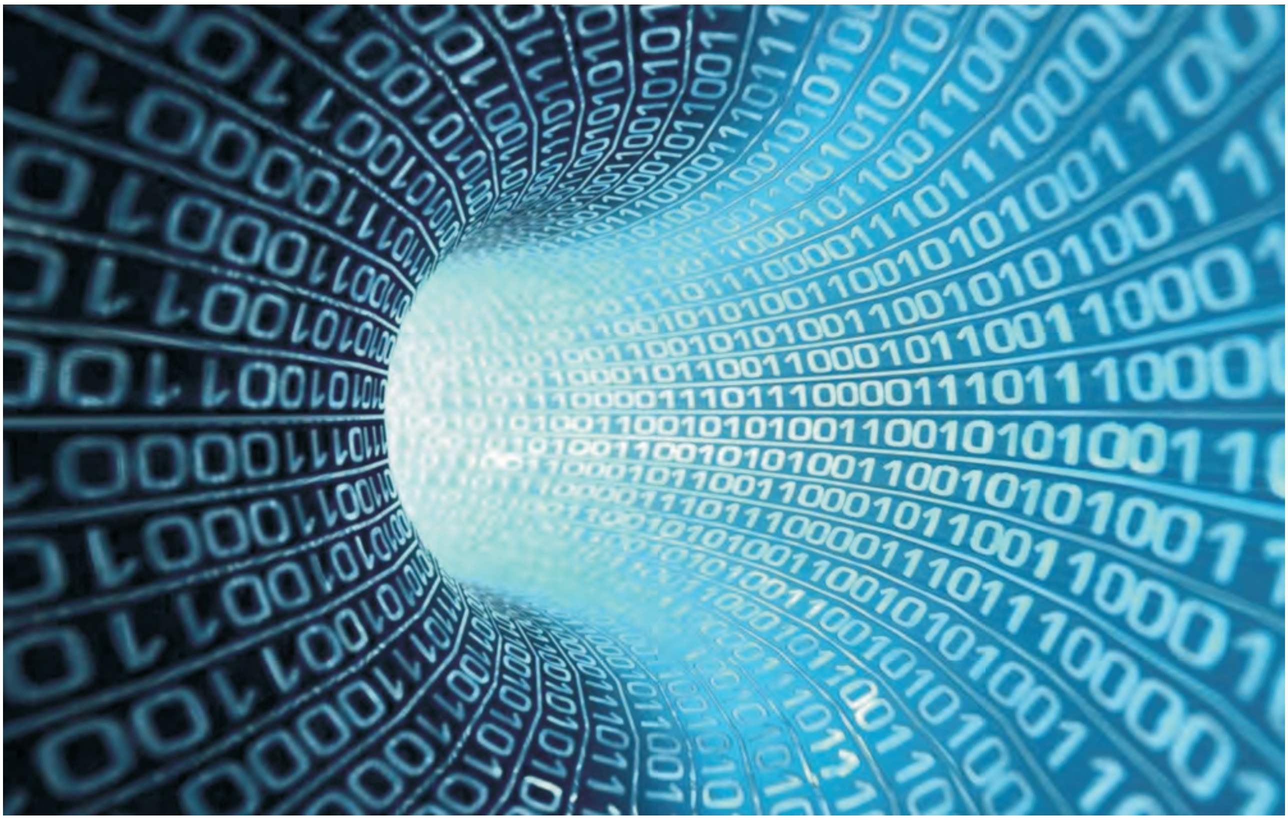
Another area where technology can help is risk, says Ganatra. "We don't even get questions on risk from customers or prospects. But we get these from our overseas clients. We were very surprised." His experience in some developed markets was that clients are very aware of a range of risks, whether it's portfolio risk or compliance risk. That's not the case in India.

"In an environment where markets are likely to remain range bound, clients are likely to ask for better returns with lower risk," he says. Surely, the wealth firms need to focus on managing and reporting risks.

QUESTIONS FOR INDUSTRY

Asked about what issues should be discussed at a CEO level forum, he listed three key issues:

- How can I empower my customer so it reduces my cost?
- Standardization of information from various manufacturers
- Risk management



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