

Wealth management growth in India is 2nd highest in the world

Sutapa Banerjee, head of the wealth management arm of Ambit Capital says that India is one of the most exciting markets in the world with respect to wealth management. In conversation with Ritu Kant Ojha of The Indian Express, she says, 'The success of entities in Wealth Management will depend primarily on the client segment they choose to cater to and how focused they are in this area'. Excerpts:

How big is the wealth management market in India? How do you categorize a client as a wealth management client (minimum corpus to avail service)?

In 2009, according to published reports the assets of dollar millionaires was around 477 billion spread across 1,26,700 households and is expected to grow to a trillion by 2012. Typically a private wealth client is defined as one with a minimum of 1 million USD of investible surplus excluding primary residence and consumables. At Ambit we target Private clients who have an investible surplus of at least 4-5 million USD.

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How is the financial planning process of a normal client different from a wealth management client?

Financial Planning of wealth management clients is different as it entails more complex execution and investment expertise particularly in products not typically available to all clients, e.g. private equity, structured notes, trusts, etc. Sensitivity to aspects like post tax returns and asset titling is higher since HNIs are taxed at the highest marginal rate of taxation. Their portfolios also require more customisation in terms of schemes and products.

What are the steps you follow to create a wealth management strategy for a client?

It starts from understanding the investment needs, time horizon and risk profile of a client. A financial plan is prepared which covers all aspects from financial goal setting and asset allocation to structuring the appropriate vehicles for routing the investments. The portfolio is then periodically reviewed for asset allocation conformity and to ensure that all investments are performing as per plan and rebalanced where required.

Banks are getting into the wealth management space in a big way. How do wealth management firms compete with the banks who have extensive branch network and large human resource?

In India it is not just Banks but also Asset Management Companies and Brokerages that have entered the Wealth Management space, many of whom have extensive network in terms of branches / offices and large 'feet on street'. The market for wealth management in India is significant and the growth rate is the second highest in the world! The success of entities in Wealth Management will depend primarily on the client segment they choose to cater to and how focused they are in this area. For entities catering to the 'mass wealth' client segment the presence of a large branch network as also 'feet on street' is certainly a distinct advantage since 'reach' is critical. However, for entities where, the business model clearly targets only ultra HNIs and the offer is holistic end to end investment management, and the structuring of vehicles for routing these investments, a distribution led model with large man power is not at all relevant.

Transparency has been a big a issue in entire spectrum of wealth management and PMS. Citibank is a case in point where the RM duped clients of crores of rupees. What are the regulatory changes you would suggest for the wealth management space and what are your suggestions for the investors?

Regulatory changes in PMS have made it quite transparent as all underlying assets are held in the client's name. The client receives hard copy of his holdings each month which is sent from the PMS team directly to the client. Periodic investment reviews are conducted to ensure that the product is performing as per expectations.

More than regulatory changes, entities in the Wealth Management space can mitigate this risk by doing the following:-

1. Statements are sent to clients from a Central Unit completely independent of RMs.
2. Follow a 'multiple touch point' model, which means the client is catered to by not just the Relationship Manager but also Product personnel, Customer Service personnel, as also the Business Unit Head from time to time.

With so many wealth managers changing jobs frequently it is a good opportunity for the IFA's operating at a local level to pitch a long term service so that the client has a luxury to speak to the owner directly and most of the times for a much longer period. Do you think the wealth management advisors working at a local level are a serious competition for you?

Fundamentally, it does not matter whether a relationship is owned by a local advisor or not. A Private Wealth relationship is intrinsically more Relationship Manager centric than other business relationships. Ambit Private Wealth is a niche business with fewer but more senior Relationship Managers who have been in the business in excess of 10 years and hence the risks as detailed above are far lower. Also our 'multiple touch point' model

ensures that we 'institutionalise' the client relationship to the extent possible, such that the relationship is not only with the RM but also with Ambit.

How important is legacy planning for wealthy families?

Since ultra HNIs have already created significant wealth, their legacy planning in terms of forming structures to create 'unencumbered wealth' which can be transferred to the next generation is important. Estate planning through trusts or wills depending on the complexity and requirement of the estate forms an important part of the

After the recent Citi Bank fraud case what is it you want to suggest to the investors?

The primary advice to investors is to avoid blind faith on just the RM. Apart from choosing a credible institution the client needs to interact with Product Personnel and the Business Head occasionally. Calling for periodic portfolio reviews where individuals apart from RMs are involved should also be demanded by the investor. He should be also be looking at his monthly statements which should be delivered to him independent of the RM.