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Wealth Management
The Next Frontier for Indian Banks

With a GDP growth rate hovering around the 7%+ mark and a strong future outlook, India's growth story is making it an increasingly attractive market for wealth management firms. This trend is expected to continue, with India estimated to become the third largest global economy by 2030.

While the percentage of wealthy individuals in India is very small compared with developed markets, forecasted growth figures point toward a very high potential for asset accumulation over the foreseeable future.

India has the key ingredients of a high-growth wealth management market, namely a very large and young mass affluent segment; an increase in the wealth of global Indians; the Indian government's push to curb illicit leaks and more tightly regulate markets; and an increasing share of the organized market players (e.g., independent wealth advisors and small brokers/agents who double as financial advisors).

So it was not surprising to see newspapers reporting recently that the wealth management market in the country will have a target size of 42 million households by the end of this year (2012), as against just about 13 million in 2007.

This statistic is based on the research from the international consultancy firm Celent. What the report suggests is that India is set to become a huge hunting ground for wealth managers.

"The wealth management sector is poised to witness tremendous growth," said the report. "India's economic growth is making larger sections of the population prospective customers of wealth management providers," it added. What is more, Celent expects growth to happen across all income-levels.

Fast-Growing Wealth in India

			US	
Key Indicators	**2009****	**Forecast CAGR (2005-2012)****	**2009**	**Forecast CAGR (2005-2012)#***
HNWI Wealth (USD billion)	US$ 143	20.7%	US$ 9,700	2.2%
HNWI Population (in thousands)	53,000	20.5%	2.8 million	1.3%
Aggregate Liquid Assets (USD billion)	US$ 481	19.8%	US$ 17,749	2.8%
Wealthy Individuals (in thousands)	2.5 million	18.6%	60.5 million	1.5%

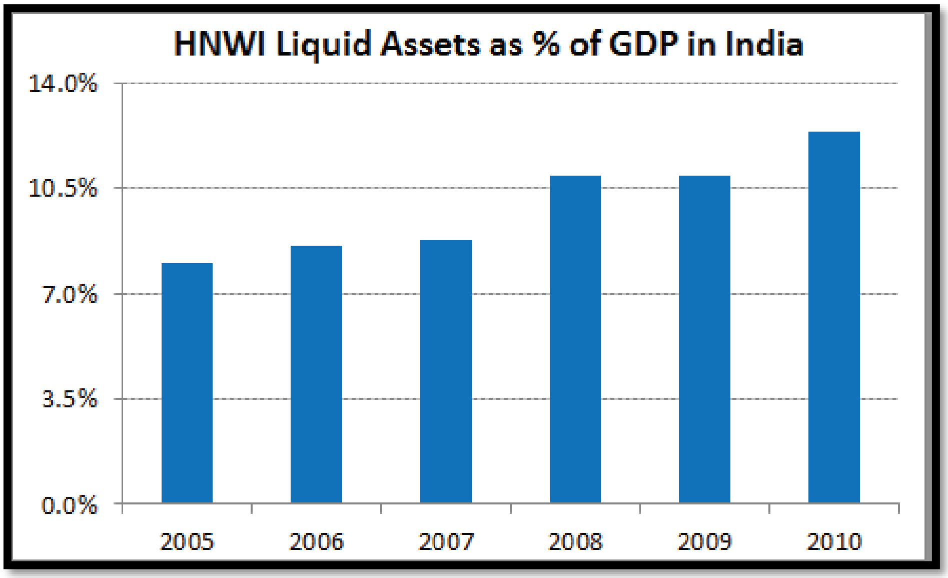
HNWI: High Net-Worth Individuals;

Sources: *Datamonitor Global Wealth Market Database 2008; **Datamonitor;

"U.S. Wealth Management Survey: Trends and Emerging Business Models," Booz & Co., May 19, 2010

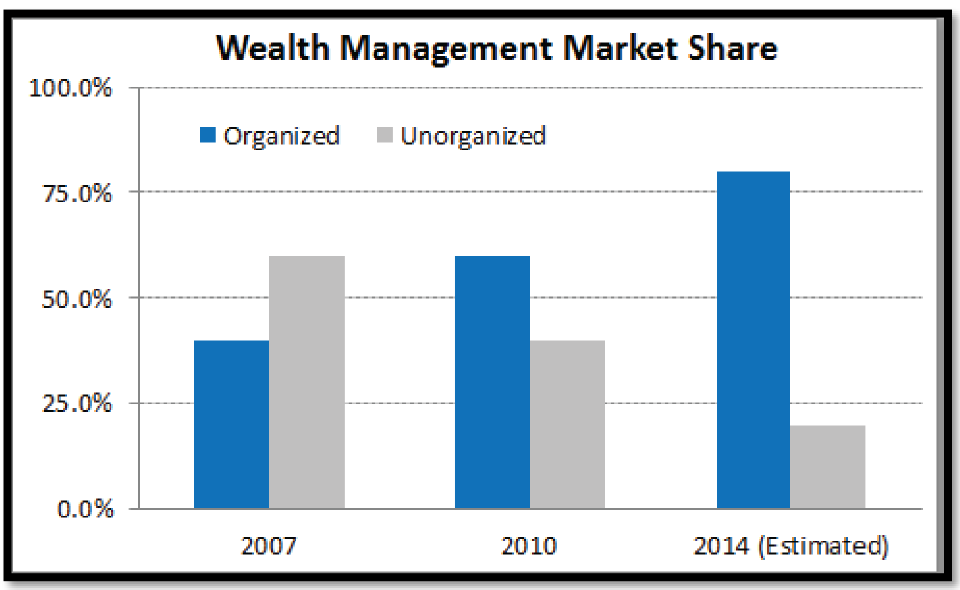
As the above table suggests, the total size of the HNWI population in India is just 53,000, which is very small compared to the much more mature market such as the US. However, with the total HNWI population presently growing at an average annual rate of over 20%, and the value of liquid assets expected to grow at almost the same pace, India is expected to be one of the fastest growing wealth management markets worldwide.

Also, overall HNWI liquid assets (when measured as a percentage of Indian GDP) are increasing at a healthy pace, indicating the expansion of investable wealth in the economy (see chart below).



Sources: World Bank, Data monitor

The outlook looks bright for banks to venture into wealth management business The wealth management market in India was earlier dominated by unorganized players, whose share was 1.5 times that of the organized market (financial institutions, banks, etc.). However, a structural change is taking place and organized players are drawing clients away from the unorganized layers.



Source: "Key Trends in the Indian Wealth Management

Market," Celent, December 2010.

This is where the opportunity for Indian banks looking to enter the wealth management space lightens up. In fact, some leading public and private sector banks are already lining up to enter the wealth management market, looking to tap the huge base of customers (across income groups) that they already have for their banking operations.

However, for all the banks lining up for a pie of the fast growing wealth management industry in India, it is important for them to understand that the success mantras required here will be vastly different from what they've employed all these years in their bread-and-butter business of banking.

Wealth management is a knowledge business and deals with customers who have specific short and long-term investment plans and cash flow requirements. They need to feel valued and unique; unsurpassed investment performance is one of their key expectations.

So it is critical for banks looking to enter this field to understand not just their clients' risk disposition, wealth base and funds flow requirements, but also their investment requirements,
and then arrive at a structured plan tailored to the clients' needs.

Apart from growing the net worth, banks also need to address unique challenges in dealing with HNWIs. As established players in the market would vouch form managing an HNWI relationship requires a different orientation & positioning from standard retail banking.

Such a relationship is primarily driven by personalization, readiness of information, and high degree of confidentiality, and is based on a long-term relationship with the customer.

Also, each HNWI is unique, and thus requires specialized products, services and treatment. This would require banks to use tailor-made wealth management solutions, which have various aspects of the wealth management integrated together:

- Banking
- Brokerage
- Financial planning
- Estate management
- Taxation
- Risk management
- Reporting

Capability and Strategy

The challenges all institutions will face in developing viable wealth management offerings can be grouped into three areas, namely - customer strategy, operational effectiveness, organizational design and technology strategy. While retail banks will face some of the same core challenges as other players, the following challenges are particularly pertinent to banks:

Business & Customer Strategy	Organizational Design	Operational Effectiveness	Technology Strategy
• Identifying and migrating appropriate customers from banking services to more lucrative wealth • Overcoming negative image in advisory capabilities and ability to provide best-of-breed investment products • Assessing the viability of providing a wealth management offering to the mass affluent	• Breaking out of silos to transition from a productcentric to a customercentric organization • Integrating different components of offering to provide a single point • Creating an environment that is focused on customer service	• Building or partnering to offer more complete asset management, retirement and estate planning and protectiaon capabilities • Leveraging physical footprint • Ensuring more rigorous adoption of “know your customer rules”	• Improving customer relationship management (CRM) implementation to enable the identification of potential wealth-management clients and provide an integrated view of customer information across all product groups • Using technology as a platform for serving the mass affluent • Improving information and data exchange to share information across silos • Integrating legacy and new systems

Challenges for retail banks developing wealth management offerings

The affinities found between the capabilities of each individual company and the needs of various customer segments suggest one of three strategic alternatives: remaining a traditional wealth management provider, becoming an expanded wealth management provider or refocusing to become a best of breed product manufacturer.

The traditional wealth management provider

The capabilities of private banks and trust companies and independent advisors match up well with the needs of the traditional wealth-management client base. These providers are characterized by strong personal touch and perception competencies, complemented by robust advisory and retirement and estate planning skills. To remain competitive, these firms should align their strategy to that of a traditional wealth management provider. Such firms employ proven means to offer comprehensive wealth management services to the top-tier customer segments, the UHNW and HNW.

Firms already operating in this space have a distinct and well-established lead over potential new entrants. By continuing to focus on the wealthiest customers, they take full advantage of their established reputations and relationships and reduce the degree of organizational and infrastructure change necessary to stay competitive. By deciding not to go down market, they avoid diluting their brands. That said, many established firms will face declining margins as new competitors enter the marketplace and will need to attract the new generation of wealthy as the traditional wealthy client group transfers wealth to younger generations.

Firms considering entry into this already crowded market must carefully consider what it will take to be successful. Not only must new entrants create a comprehensive suite of wealth management products, they must package these around the rare talent that can build a core advisory relationship with a demanding customer segment and supply a new level of customer service that most established firms are unaccustomed to providing.

The expanded wealth management provider

Mega groups, brokerages and retail banks, match up well against the needs of the affluent and young affluent. The affluent particularly value the wide breadth of product offerings of the mega groups and their relative strength in planning for retirement; the young affluent value the strength in multichannel access displayed by retail banks and the leadership role brokerages have taken in adopting new technologies.

The role of expanded wealth management provider represents the best route for most mega groups, retail banks and brokerages. While these firms typically have a wide client base overall, they lack an existing wealth-management offering dedicated to the client base in the HNW and UHNW customer segments. By using technology to expand down market to serve the needs of the affluent and young affluent, these firms have the potential not only to increase their potential customer base by a factor of four, 6,7,8 they can also establish important relationships with potential HNW customers before they are targeted by traditional wealth management providers.

However, these firms face a range of challenges specific to their individual capabilities. Brokerages will have to broaden their product offerings, mega groups will be forced to address significant gaps that exist in integrated information and tax planning, and retail banks, especially, face an uphill battle. They must significantly improve the competencies of perception and personal touch, as well as offer stronger protection and tax planning products to successfully provide a comprehensive wealth management solution.
While there are clearly opportunities and profits to unearth with down market offerings, the challenge is how to serve the corresponding customer segments profitably. Because no one has yet done it well, expanding down market is a high-risk strategy. On the other hand, a down market strategy specifically highlights and attacks the critical competencies that make this business costly for traditional providers.

The best of breed manufacturer

A narrow focus on specific products and a lack of strong competencies limit the strategic options for all but the largest and most client-focused insurers and asset managers. Building an entirely new set of capabilities and competencies is risky, and firms might be better served by focusing on their core manufacturing competency. A best of breed manufacturer strategy provides the greatest chance of success to the bulk of asset managers and insurers.

For these firms, competition in the wealth management space should center on the design of new and innovative products and distribution through the firms that own the primary advisory relationship. Insurers and asset managers can choose to compete on the basis of scale or by distinguishing their products with value-added services. Either way, forming partnerships with primary advisors is critical to achieving success as a product specialist. Developing new and innovative products to address the evolving needs of clients at a segment-specific level is also critical.

Technology will play a crucial role

Technology will play a crucial role here as banks plan to enter this arena. The idea must be to use technology that not only improves the overall efficiency of a bank's wealth management practice, but also helps it in consolidating data and processes for distributed asset structures, manages risks for highly diversified portfolios, and increase reaction speed despite rising market complexities.

As per industry reports, a lot of the technology spending within the wealth management community in Asia, including India, has been around hardware, running the bank, maintaining existing systems and compliance. However, there is a trend towards banks beginning to spend more on improving their current offerings and services to existing customers (in other words, towards empowering customers), which is an important sign of the things to come.

Key focus areas

Wealth management is a way of looking at customers and how you provide service to customers. It's all about approaching it in a holistic manner. You have to have a holistic view of your customers to succeed in the wealth-management space. It is hard to pin down a single system or definition of wealth-management technology. That's because the solutions you need really depend on how you approach the wealth management space. Are you going after the mass affluent, the high-net-worth individual, those between $1 and $10 million or the ultra-high-net-worth clientele?

The ultra-high-net-worth client is "more sophisticated." While calculators and planning tools might work for the mass affluent, the higher up the wealth food chain, the greater the need to deliver complex financial solutions to clients, such as separate accounts, asset modeling, risk management and tax and estate planning. It's all about delivering the right technological tool to the client at the right time or stage in the client's wealth cycle.

A basic wealth-management-technology platform needs to meld with the way an advisor delivers service. They need to see a full picture of their client's holdings i.e., think account aggregation. Once they know that, they need to provide financial planning advice and make investment recommendations, which require asset modeling and advisory tools. Once the portfolio is developed, it needs to be monitored using portfolio management tools and the advisor needs a contact/sales system for customer-relationship management.

Technology Must Haves

Advisor technology to improve productivity

A sound and well-designed financial advisor technology enhances advisor productivity by minimizing the time spent on administrative and compliance activities. This allows advisors to focus on client servicing. Modern advisor technology platforms offer much needed tools like lead management, portfolio management, financial profiling, asset allocation and transaction management for advisors to offer differentiated services to their clients, reduce time to market and improve overall experience.

A 360-degree view of the customer

A 360-degree view of customer data generates loads of insight, enabling advisors to correctly identify client needs and provide the right solutions. Advisors can access client data in real time and deliver a seamless, high-touch service experience.

Employ mobility solutions

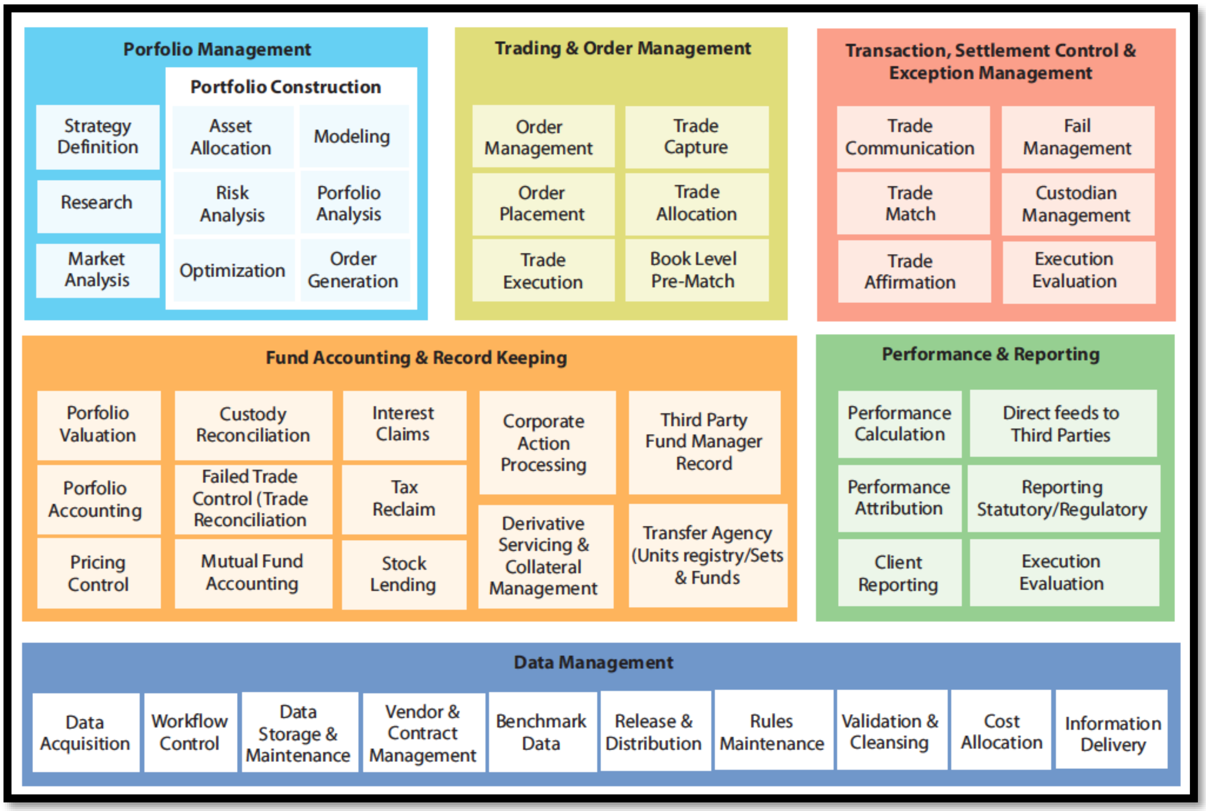
With mobility solutions, wealth management companies can conduct their business even in areas outside the branch network. Financial advisors can also work from anywhere and still access client information on a real-time basis to ensure that they know as much about their customers' financial situation as the customers themselves.

Use of analytics

A robust analytic solution gives advisors a holistic view of their business and individual clients, the details necessary for effectively managing client relationships, and the predictive capabilities that identify potential growth opportunities.

Portfolio Management

Once a plan is in place, asset-allocation models have been selected and the investments chosen, the advisor needs a robust system to manage it all. A good wealth-management platform must have a "leading-edge portfolio-management system." When dealing with wealthy clients, your technology must be robust and capable of pushing out information, providing real-time contact with the client and calculating returns across multiple accounts.



Components of a Wealth Management Solution

Beyond products and services: Five competencies, five chances to differentiate

Many financial institutions currently view wealth management as an integrated set of products: cash management, asset management, protection, credit, retirement and estate planning, and tax planning. While a product-centric approach to wealth management is sensible in some respects (because products drive profit), this approach fails to address a large portion of clients' needs. Given that most wealth management products are roughly equivalent regardless of who offers them, clients are less interested in product specifics – assuming they meet certain basic requirements – than in the elements of service that surround the products.

Indeed, while firms target customers with a range of products as solutions to individual wealth management needs, customers see their personal wealth management strategy as a lifelong endeavor that influences every financial and practical decision they will make from the immediate to distant future. Even customers who fail to grasp their bigger financial picture are driven by the need to plan for specific monetary events that will impact their lives. In both of these contexts, superior customer service, sound advice and an advisory relationship are valued features not easily copied by competitors.

The following five competencies address customer needs that enable banks to create sustainable competitive advantage in attractive customer segments. Technology will act as an enabler for addressing these five competencies.

Advisory relationship

The core of any successful wealth management offering is the relationship developed between the advisor and the client. Successful advisors develop a relationship with clients by demonstrating that the clients' interests are the advisor's paramount concern. In the context of an advisory relationship, the wealth management firm can work with the client to develop, implement and monitor a comprehensive wealth management strategy.

Integrated information

Very few clients maintain all of their accounts with a single provider; an integrated view of their overall financial picture is critical if clients are to be able to make informed decisions. Advisors, too, should be able to access and analyze customer data efficiently. When information is automatically integrated across accounts and across institutions, advisors can concentrate on helping customers make fact-based and insightful wealth management decisions, rather than focusing on more mundane tasks like assembling statements from multiple sources.

Multichannel access

Customers want the ability to access their account information when they want, how they want and where they want. The combination of integrated information and multichannel access empowers clients by enabling them to access constantly updated, accurate information, whether in person, over the telephone or online.

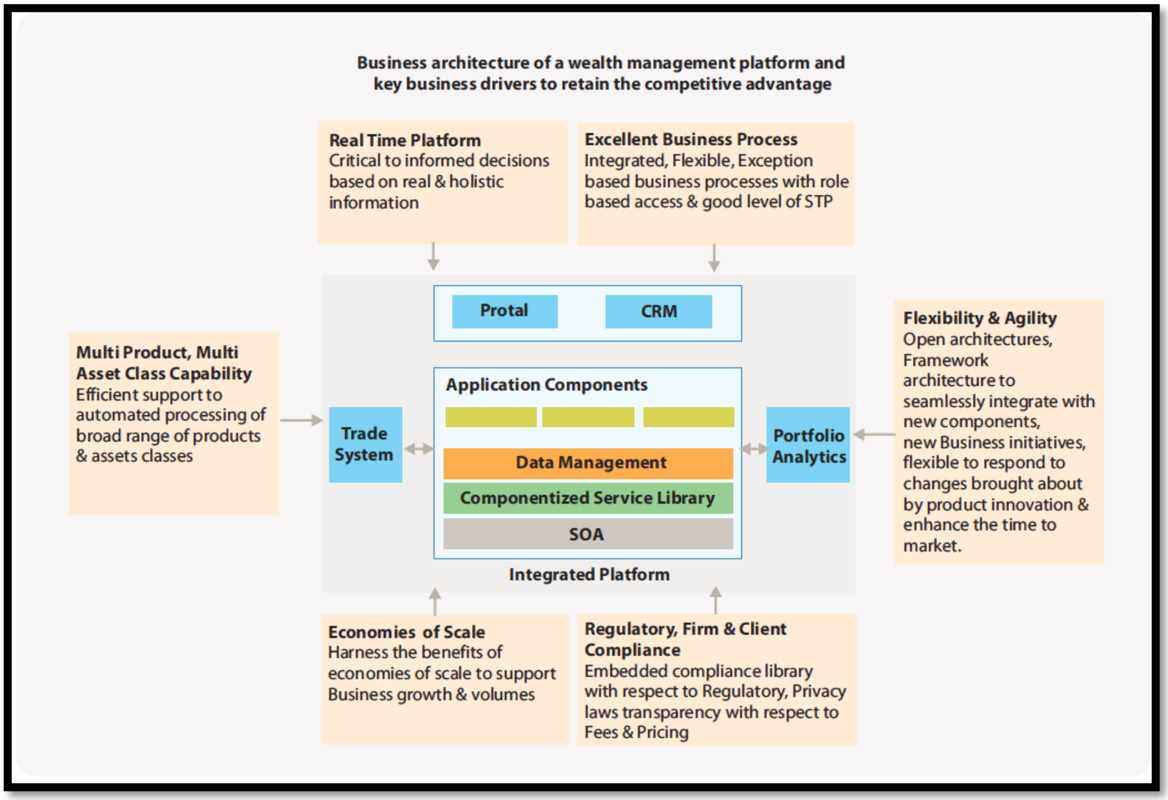
Perception

To win new customers and retain existing ones, wealth management firms must be perceived as competent, dependable and empathetic. Clients must also perceive that they are paying a justified price for the value that they are receiving. Client opinion is formed through a combination of personal experience, word of mouth and marketing. To compete effectively, the
firm must have a brand that is firmly associated with the qualities demanded of a wealth management institution.

Personal touch

A major component of successful wealth management offerings is human touch. Clients respond to charismatic guidance and a high level of attention; they feel valued when their queries are addressed promptly and personally. Firms that go above and beyond expected levels of service will reap substantial rewards. The key consideration as firms extend wealth management offerings to customer segments with fewer assets is balancing the cost to serve with the revenue opportunities associated with a particular client.

Six critical business drivers to a wealth management platform should be considered for sustaining profitability and competitive advantage



Source: Hubbis

An Integrated Wealth Management Platform

Traditionally, different technology solutions have been implemented along the wealth management value chain. For example, a wealth management firm might use different technology solutions for financial planning, brokerage processing, portfolio management and analytics, and performance reporting. Each of these applications, in turn, can have its own data model with different views on what defines/describes the client, advisor and firm. In addition, the timeliness and accuracy of the data can vary impacting the effectiveness of making meaningful investment decisions.

While the original intent of assembling best-of-breed functionality as point solutions may have provided a good level of needed functionality at one time, the resulting platform of co-mingled technology generally leads to number of critical issues:

- Data management for timely, accurate client views requires manual re-keying to create client and household consolidation
- Multiple access points into multiple applications is needed to manage a client's activities and portfolio, versus a single cohesive advisor desktop
- Scalability is often limited because of the inflexibility of extending multiple systems to accommodate business expansion. In addition, advisors often tend to use toolkits, such as Excel and Access, to address deficiencies in the disparate applications, and address client questions such as "How is my portfolio doing?"
- Advisor/client collaboration is limited since most of the point solutions used in platforms are desktop based and not distributed via web services on the Internet
- Many of these integration problems with best-of-breed platforms can be resolved through a common data services facility which can support the entire spectrum of activities across the wealth management value chain from financial planning to performance and client reporting, along with relationship management and the mid and back office operations activities.

Best Practices for an Integrated Wealth Management Solution

- Most financial service providers' use a myriad of solutions since most current solutions only partly address the gamut of wealth management needs. Integration with the core banking solution is non-existent in most banks offering a wealth management product. This results in non-availability of straight through processes, data warehousing solutions like integrated customer statements and one-view of the customer's relationship. IT companies need to work on developing a well-integrated wealth management solution.
- IT service providers should design a single support system that drives rules-based, contextual selection of investments to build personalized and compliant investment portfolios. This integrated solution should provide solutions for different asset classes like mutual funds, securities, structured products, real estate etc. with focus on integrated CRM to financial planning.
- The solution should be equipped in providing summary and detailed information across the entire relationship hierarchy including household, clients, portfolios, accounts and holdings to all the stakeholders.
- The emerging need of this domain is to streamline operations, which can enhance service levels for the end customer at reduced operational costs. This is achievable only by having a modular and functionally rich order management system, which will help achieve straight through processes with minimum turnaround times and manual dependencies.

- An integrated solution, which should enable advisors and relationship managers to capture, view, update and store complete investor profile information in a central repository and makes this data readily available for all downstream sales and advisory activities. The solution should necessarily be client centric with advanced tools for providing alerts and modeling capabilities.
- Currently, wealth management in the global financial services industry is mainly product based with different parties providing financial products via independent channels. However, the Internet is transforming the global wealth management market by integrating individual financial services that can be distributed online through a central hub (which could be a portal or an aggregator).
- Use of computational tools, mathematical and statistical techniques, artificial intelligence for asset allocation in the solution to design, develop and implement innovative wealth management products and processes.

The way forward

Wealth management is an emerging area of interest for both – Banks and their solution providers. The domain stands to benefit from technology's ability to bring to deliver unique and sustainable business solutions. An ideal technology platform should enhance client focus and drive the full-lifecycle of integrated wealth management processes including sales prospecting, planning, implementing, monitoring, managing and reporting in an integrated and streamlined manner.

The potential for Indian banks to tap in the wealth management market in the country is huge, and rising. However, so is the market's competitive intensity, as a number of new local and global players are planning to enter the market, while existing players are expanding their operations aggressively.

Given the nascent stage of the wealth management market in India, and a demographic and regulatory environment that is significantly different from elsewhere in the world, it is recommended that banks looking to enter the wealth management market must consider the following to succeed in the long term:

- They must look to build their brand and focus on overcoming the trust barrier, which is so much lacking the wealth management industry (given the number of financial frauds that have emanated over the past few years).
- Banks must invest in advisor technology to improve advisor productivity and retention.
- They must also evaluate a partnership-based model, coupled with innovative use of technology, largely to increase reach.
- They must also focus on transparency and compliance, while targeting customers with attractive, segment-focused products

Overall, to successfully tap into the potential that India's wealth management offers, banks looking to enter this space must undertake a customized approach, taking into account the specific attributes of the Indian market. This will need to be supported by a robust and cost-effective business model focused on improved transparency and compliance, synergistic partnerships and efficient technology solutions.