

Business India

THE MAGAZINE OF THE CORPORATE WORLD

April 9, 2006

Rs15

Anniversary Issue

28
years

making money



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Kohli: controlling the clients' balance sheet

Opportunities galore

THE BOOMING INDIAN ECONOMY HAS CREATED INVESTMENT OPPORTUNITIES AND PUSHED THE GROWTH OF WEALTH

During the last 18 months, the Indian stockmarket has been northbound, with wealth in the hands of investors increasing by leaps and bounds, leading to intense competition among intermediaries. The market is opening up day by day and all entities are getting carried away – be it stockbroking firms, money managers, investment and portfolio managers, or private and foreign banks. All of them, in order to get a share of this growing pie, have started focussing at

positioning and segmentation, adopting various business models. So, it's no surprise that all these market participants, with an opportunity to make money, have started wearing a 'wealth management' coat in the marketplace, offering services to different category of investors.

Generally, the investor audience is segregated by the size of the portfolio – high net worth individuals (HNIs, with over Rs5 crore), affluent (Rs25 lakh plus), mass affluent (above Rs5 lakh) and retail (less than Rs5 lakh). "This indicates that wealth is being created in a dispersed manner and, with the market opening up, the investment avenues have become more complex. Windows of high return, like 9 per cent on government bonds, are shut, forcing investors to look for professionals to manage their portfolio", says Pradeep Dokania, executive vice-president and head of global private client division, DSP Merrill Lynch. Till date, he has been focussing on HNIs offering research-driven capital market products (equity, debt and mutual funds), concentrating on 150 stocks and not the entire balance sheet of the client. "We will first create the expertise and capabilities to advise a client on an asset class; then only, we will enter it", adds Dokania.

SG private banking launched its operations for onshore wealth management business in India in December 2005. Three months into its foray, Daniel Truchi, CEO, SG private banking for Asia Pacific, is pleased by the progress. "Our major strength lies in acquiring a deep understanding of each client and structuring solutions based on this knowledge."

The rapid growth pattern reflects SG's global development of private banking, in which Asia Pacific plays a key role. The organisation has provided clients with a broad range of financial products and services, whilst ensuring that they benefit from the advantages of the key financial marketplaces. It has a 40-member team across offices in New Delhi, Mumbai and Bangalore, under the leadership of Sandeep Sharma, head, SG private banking (India). "India is among the fastest growing economies in the world and is becoming an increasingly attractive market for many industries, and wealth management is no exception. Without any balance sheet involvement, wealth management is fee-based income business. We at SG private banking (Asia Pacific) are enthusiastic about India and believe that the country has a promising onshore wealth management services market", says Sharma.

As with many of the Asia-Pacific region's financial services markets, wealth management has become a hot topic in India. Until recently, many of the larger financial institutions have been

focused more on China, but there are some indications that foreign players are now beginning to divide their attention between the two giant markets. "Indian economy is growing at plus 7 per cent and millions are entering into the middle class," reasons Dokania. "Its wealth market is in a nascent state and the nouveau rich are an emerging segment".

Wealth management business in the private banking division of foreign banks is one of the fastest growing segments. Some of the major players in this area are Citibank, HSBC, Deutsche Bank, ABN AMRO bank and Merrill Lynch, to name a few. They have made strides into the market, though in a limited way (catering to the HNIs and the affluent). Many of the foreign players in India, such as Citibank and UBS, which are well entrenched in the overseas markets, have announced plans to enter the entire wealth management chain (financial planning, wealth protection, private wealth management, estate planning and family office). But they still have to get there.

Currently, there is only one private firm in India – the four-year-old, Delhi-based, Pioneer Client Associates – which operates a niche boutique model, offering services to HNIs and ultra wealthy families. Starting with six families, today the company has developed relationships with close to 160 clients of an average balance sheet size of \$2.5 million each. "In a segment that is not easy to crack down, we have become the CFOs of these families, taking overall control over the clients' balance sheet," says the 31-year-old Himanshu Kohli, partner of the company. He, together with Rohit Saran and Arjun Gupta, quit the financial planning advisory divisions of Deutsche Bank, ANZ Grindlays and DSL Merrill Lynch, to lay the foundation of Pioneer Client Associates, which today has \$350 million in assets under control. "We manage the families' wealth, getting into the diagnosis, analysis and advice functions for the clients – right from financial planning to family office", adds Kohli, who feels that knowledge alone will drive this business. He has plans to



PALASH RANJAN BHADURICK

touch 1,000 clients in the next three years.

Whilst foreign banks and companies like Pioneer Client Associates provide services to the crème de la crème of the Indian community, a few new generation private banks like ICICI and HDFC too have forayed into wealth management. But they are not at the top in terms of the profile of clientele and are focussing on the mass affluent and retail investors, with relatively simplistic products and services, as against global wealth management propositions. "We do not go by the deposit size of the customer and accept deposits as low as Rs10,000. We also match the profiles with returns and advice. We need to be flexible, as the Indian market is different from international markets and wealth management is still evolving here", explains Abhay Aima, country head (equities, private banking and third party products) at HDFC bank. He has developed a model that is looking at growing the clientele in smaller towns.

"In comparison to more developed countries, the sophistication of Indian investors is low. At retail level, deposits have historically been the mainstay of savings and investments. Investors

"We will first create the expertise," says Dokania



here have yet to understand complex products and lack knowledge of investment options", adds Aima, who feels that, in India, wealth management providers need to identify groups that require products and services to match specific financial needs. He feels that the reality of the Indian economy has to be looked at and one needs to be flexible to cater to a country with such diverse culture.

Above all, driving the growth in wealth management has been the country's exceptional economic performance over the last decade. The booming economy has precipitated into innumerable opportunities and pushed individual wealth growth. To substantiate the point with numbers, according to secondary research, India has witnessed a high net worth individuals' population growth of 14.6 per cent in 2004 vis-à-vis the world growth rate of 7.3 per cent. Besides, the penetration level of wealth management services in India is only 10 per cent, in comparison to the European markets – which hover in the range of 60-90 per cent.

In a nutshell, the Indian wealth management market is relatively immature, with few dedicated propositions. Investors lack sophistication to demand complex products and competitors lack the authority, knowledge and impetus to push these products and generate demand. The real competition is clustered around the mass affluent segment, with just a handful of domestic brokerage houses and private retail banks (mostly offering free advisory services, seeking to earn a fee on the transaction) really penetrating into the interiors of the country.