Wealth management for the mass affluent - A new paradigm in the Indian wealth management industry
Disclaimer
CRISIL Research, a division of CRISIL Limited (CRISIL) has taken due care and caution in preparing this Report based on the information obtained by CRISIL from sources which it considers reliable (Data). However, CRISIL does not guarantee the accuracy, adequacy or completeness of the Data / Report and is not responsible for any errors or omissions or for the results obtained from the use of Data / Report. This Report is not a recommendation to invest / disinvest in any company covered in the Report. CRISIL especially states that it has no financial liability whatsoever to the subscribers/ users/ transmitters/ distributors of this Report. CRISIL Research operates independently of, and does not have access to information obtained by CRISIL’s Ratings Division / CRISIL Risk and Infrastructure Solutions Limited (CRIS), which may, in their regular operations, obtain information of a confidential nature. The views expressed in this Report are that of CRISIL Research and not of CRISIL’s Ratings Division / CRIS. No part of this Report may be published / reproduced in any form without CRISIL’s prior written approval.
Wealth management for the mass affluent- A new paradigm in the Indian wealth management industry

Executive summary
Wealth management services in India have been predominantly oriented towards the Ultra HNIs (High Net-worth Individuals) and HNIs. However, the size and demographics of the Indian population reveal a skew towards the Mass Affluent segment hailing from the salaried or entrepreneurial backgrounds. This segment lacks an organised delivery channel for wealth management services that directly addresses its investment advisory needs. The requirements of this segment are unlike the Ultra HNI and HNI segment. While wealth maximisation is the key objective for Ultra HNI and HNIs, a goal-based advisory approach, with a broader asset mix, defines the key needs of this growing segment. Moreover, the distribution model in India is going through a transition with greater focus on investment advice and a requirement for advisors to have multi-vendor and multi-product offerings in their product suite.

CRISIL believes that the changing scenario is pro Mass Affluent segment and presents a win-win situation for both investors and distributors. A scientific wealth management offering by distributors can offer mutual benefits to investors and distributors. It will enable a large base of investors to diversify across asset classes by moving from conventional bank deposits to high yielding investments. At the same time, large distributors and Independent Financial Advisors (IFAs) can collaborate to provide greater value-added services to a larger section of investors. The IFA’s bring in a deeper understanding of the investor along with a retail networking capability, while larger institutions possess research capabilities and infrastructure.

According to CRISIL, the new paradigm in wealth management is a modern investment management style with a delivery model that follows a three pillar approach involving partnering between IFAs and large institutions; involvement of independent research providers and a self regulatory framework to govern the industry.
**Background**

As per the Asia-Pacific Wealth Report 2010, wealthy individuals in the region can be segmented into three categories based on investable surplus (refer Chart 1). Starting from the top, Ultra HNIs constitute the segment with the highest investable surplus, followed by HNIs and the Mass Affluent segments.

![Chart 1: The Wealth Pyramid of India based on Investable surplus](image)

In terms of volumes, the burgeoning Mass Affluent segments (retail segment) in India form the largest proportion of wealthy individuals across Metros, Tier 1 and Tier 2 cities. This can be attributed partly to the size and demographic skew as nearly 65 percent of India's population is below 35 years of age and is largely consumption driven. The Mass Affluent segment consisting of the working population from salaried and business backgrounds, juggle between spending in the present and saving for the future, however they lack a financial advisor or planner to achieve their financial goals.

Wealth management services such as family offices and private banking divisions of foreign banks cater exclusively to the Ultra HNI segment. HNIs, on the other hand, are typically serviced by wealth advisory firms, distributors, private banks and brokerages. The Mass Affluent segment, however, does not have a specialised delivery mode or touch point for meeting its financial needs. Money management for the retail investor continues to be practiced through unorganised channels such as the traditional family advisor, tax consultant, Chartered Account (CA) and IFAs, among others.

1Source: Asia-Pacific Wealth Report 2010 by Capgemini and Merrill Lynch Global Wealth Management
Asset composition in India is predominantly tilted towards non-financial (real) assets. Nearly 85 percent of total assets held by an adult in India are non-financial assets, which are either in the form of a house or land (refer Chart 2). While the investor’s taste is maturing towards other asset classes such as equity, there is still a preference for investments in tangible asset classes like real estate, cash and fixed deposits and gold to some extent (alternative asset classes). Investments in the capital market, including mutual funds, account for a relatively smaller proportion of their overall investments. Further, following the financial crisis of 2008, many retail investors, holding equities and mutual funds incurred losses which have in turn led to an aversion to take risks. This can be partly attributed to a combination of mis-selling by distributors and lack of financial literacy amongst investors.

The needs of the retail investor have to be better understood. This segment looks at goal-based investments such as education, marriage, retirement, asset and life protection and not merely wealth maximisation as is the case with Ultra HNIs and HNIs. A goal-based advisory approach, with access to multiple investment avenues, defines the key needs of this segment. Advisors have to assess the needs of the retail investor in terms of wealth generation, tax planning and retirement planning while preparing financial plans.

Both product manufacturers and distributors (including IFAs) have witnessed major regulatory changes over the past few years. Sellers today have lesser bargaining power as compared to investors. Both distributors and IFAs have had to revisit their business models. They are today required to offer advice and not simply sell products to investors. They are also required to move towards multi-product and multi-vendor offerings and thereby provide a single point of distribution. This is however easier said than done in India, where any form of an "investor pays" model in the retail space has faced resistance. CRISIL however believes that investors would be willing to pay for the right advice. In this context, the growing Mass Affluent income bracket offers a huge opportunity for wealth management services. This transformation in the investment profile of the enormous Mass Affluent segment, presents a win - win situation for both investors and distributors.
The new paradigm
In CRISIL’s opinion, a modern investment management style, with a delivery model targeted towards retail investors, would be the new paradigm for the wealth management industry. A scientific wealth management offering by distributors can offer mutual benefits to investors and distributors. We believe that the industry will rely on three pillars - partnerships between IFAs and institutions, involvement of independent research agencies and formation of a self regulatory body.

Collaboration between IFAs and institutions
Asset managers and large wealth managers have the necessary infrastructure and research capabilities for scientific product development and wealth management. IFAs, on the other hand, understand the investor and possess the retail network for investor reach. Bringing the two together can provide a much-needed delivery platform for retail investor that is both cost efficient and trustworthy.

Involvement of independent research providers
Involvement of independent research providers in investment selection can help establish credibility with retail investors. Apart from the selection of mutual funds and insurance products, asset allocation and financial planning is also offered by independent research providers. These services can be used by wealth managers to provide goal-based investment advisory services.
Self regulation for wealth managers
A self-regulatory body (SRO) for the wealth management industry similar to Association of Mutual Funds of India (AMFI) for mutual funds, Life Insurance Council for insurance, among others, can help in addressing the requirements of wealth managers. A fair and full participation from all these bodies in the formation of an SRO can ensure that investors have a mediator to resolve grievances and benefit the wealth management industry at large. Mandatory certification through financial planning examinations, such as the Chartered Financial Planning (CFP) for IFAs can help reduce mis-selling and create greater trust among investors. Training IFAs so as to increase product knowledge, sales skills and advisory skills is also essential for building long term relationships.

Benefits of the three pillar approach
CRISIL believes that the wealth management system as described above can benefit both investors and wealth managers.

To investors: A large base of investors can achieve diversification across asset classes by moving from conventional bank deposits to high yielding investments such as mutual funds, equity and alternate asset classes. Also, post the crisis of 2008, investors refrain from investing in products without complete knowledge of its risks. Under an advisory-based delivery model, these investors can be educated. Further, the IFA will make money only if the investor has benefitted from the advice and sees value in the services offered by the IFA.

To IFAs: IFAs receive the support of large established players as well as technology infrastructure at a single click. The necessary transition to an advisory model will thus become possible for them along with expertise in research and technology.

To institutions (AMCs, Wealth Advisory firms, Brokerages): The larger players will be able to tap the huge retail segment, which has been largely out of its reach. AMCs can increase their investor base and also the assets under management (AUM) towards equity, while wealth advisors can increase clientele and penetration. Distribution houses, on the other hand, can increase revenues with the support of IFAs.

Conclusion
While the change in paradigm suggested above may be slow in coming, it is inevitable. This is because, as business and consumer sentiment strengthens, the common man becomes optimistic in setting higher aspirations in lifestyle. CRISIL believes that for the right advice, the investor is willing to pay a fee, provided they see value in it. Moreover, for the survival of the wealth management industry, the paradigm lays out collaboration between the large players and IFAs to ensure that the traditional interface of a personal advisor is retained, yet it is cost effective to the seller.
About CRISIL FundServices
CRISIL FundServices is India’s leading provider of fund evaluation and research to the Indian Mutual Fund industry. Widely acknowledged as the industry standard, CRISIL FundServices is the official provider of valuation tools and market benchmarks. Through its innovative analytics, benchmarks and analytical tools, CRISIL FundServices has played a significant role in shaping investor confidence and facilitating the introduction of best practices in the Mutual Fund industry.

About CRISIL Limited
CRISIL is India’s leading Ratings, Research, Risk and Policy Advisory Company

CRISIL offers domestic and international customers a unique combination of local insights and global perspectives, delivering independent information, opinions and solutions that help them make better informed business and investment decisions, improve the efficiency of markets and market participants, and help shape infrastructure policy and projects. Its integrated range of capabilities includes credit ratings and risk assessment; research on India’s economy, industries and companies; investment research outsourcing; fund services; risk management and infrastructure advisory services.

For further details or more information, please contact:
Client Servicing
CRISIL FundServices
CRISIL House
Central Avenue
Hiranandani Business Park
Powai, Mumbai – 400 076, India.
Phone: +91 (22) 3342 3000
Fax: +91 (22) 3342 3001
E-mail: mfresearch@crisil.com