Deloitte.



Financial wealth management services in India: A US$1.6 trillion AUM growth opportunity over FY24–29

January 2025

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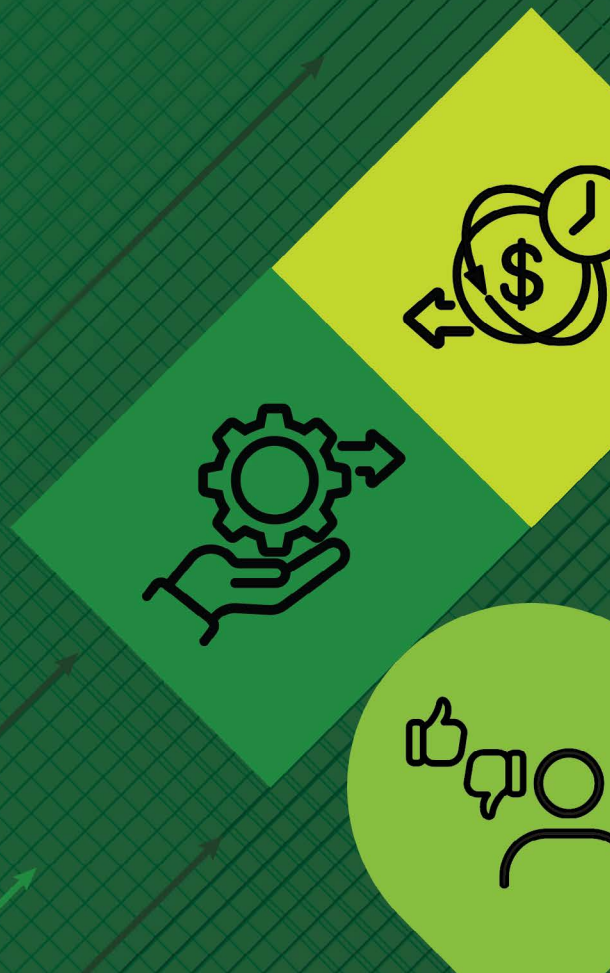
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1 Executive summary





Changing macroeconomic trends in India and the evolving consumer preferences relating to financial planning have resulted in a significant increase in the demand for financial wealth management services. The scope of this report does not include physical wealth,[1] i.e., real estate, gold, art or crypto assets. The term "wealth management services" in this report refers only to "financial wealth management services".

The aim of this report is to:

- Assess the scale of this demand for wealth management services in terms of the financial wealth of a relevant/addressable domestic customer base and likely growth over the next five years
- Provide a high-level view of the competitive landscape in India for wealth management services
- Enquire the critical success factors for growing a wealth management business in India and making it profitable

The report focuses on potential new entrants into the wealth management market in India who are looking to get a basic understanding of this market and existing wealth management providers who would like to get a high-level panoramic view of the market and its key attributes.

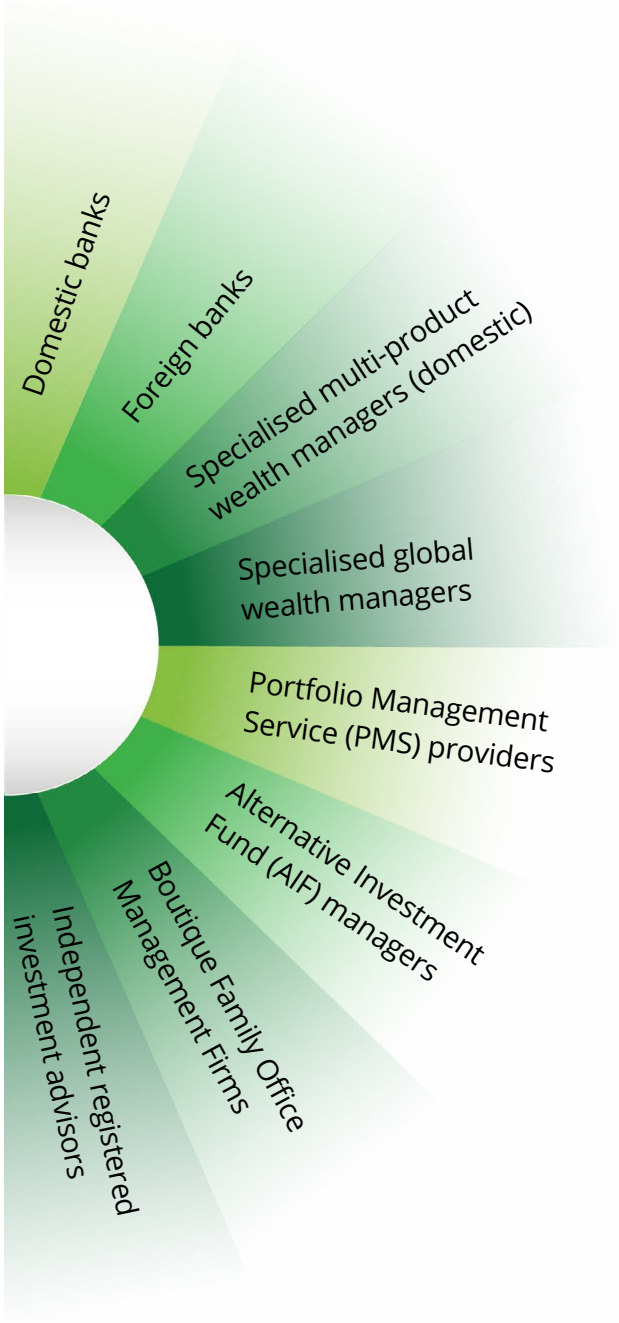
The fundamental finding of the report is that India is expected to see a significant increase in the affluent population over the next five years due to macro factors such as robust GDP growth, significant Foreign Direct Investment (FDI) inflows (despite the recent drop) and expansion of the start-up ecosystem. This is a positive trend for the wealth management business in India. Another positive trend is that Indians have steadily moved from investing in physical assets to financial assets. This is substantiated by the rise in Assets Under Management (AUM) of financial products such as mutual funds (mutual fund AUM grew at an annual rate of 16 percent from FY17 to FY24).[2] Also, AUM by portfolio management schemes grew 15 percent annually over the same period.[3] These trends bode well for the demand for wealth management services in India.

At the end of FY24, we estimated the wealth of target customer segments for wealth management services. We defined these target customer segments as the top 4–5 percent of the households in the country, i.e., ~12 to 16 million households, whom we estimate to have an average annual income of at least US$25,000. These include ultra-high net-worth households, high net-worth households and other affluent households. We estimate that the financial wealth of these 12–16 million households was at least US$1.1 trillion at the end of FY24. We take this as a proxy measure of the demand in FY24 for wealth management services. Registered wealth management service providers did not entirely address this demand; we estimate that only US$0.7 trillion of this was addressed by registered wealth management service providers (the rest being largely self-managed wealth). Accordingly, we estimate the unmet demand for wealth management services in FY24 to have been around US$0.4 trillion. Further, we estimate that the wealth of the target customer segments described earlier will rise to US$2.3 trillion by FY29, i.e., an increase of US$1.2 trillion over FY24. Accordingly, we see an opportunity for wealth

[1] Financial wealth = Total wealth, less physical wealth (i.e. real estate, physical gold, etc.)
[2] Source: AMFI
[3] Source: SEBI

management service providers (both incumbents and challengers) of US$1.6 trillion in terms of AUM growth over FY24 to FY29.

Wealth management services providers across the spectrum are likely to see a significant spurt in demand for their services. This diverse spectrum covers:



Given this highly diverse and competitive landscape, the following critical success factors must be taken into account for building/growing any wealth management business in the Indian market:

1. Clarity in choice of customer segment (UHNI, HNI, other affluent) and sharpness in tailoring offerings and channels accordingly (this includes sharpness in offering credit products—critical for growing the revenue pool and driving greater profitability)
2. Competitive pricing (more performance-linked)
3. Differentiated digital user experience (as applicable for different customer segments)
4. Modern technology stack/digital innovation for deeper insight and greater operational efficiency
5. Leading practices/digital innovation for empowerment of relationship managers and management of their performance/ productivity
6. Tax optimisation

As digital innovation becomes increasingly vital in the wealth management business, we refer to an earlier global report by Deloitte. In February 2024, in collaboration with ThoughtLab, Deloitte published a report highlighting key steps wealth management firms need to take to become future-ready.[4] Readers may refer to this global report (see link in the footnote below) for insights on digital innovation, including using AI and other leading practices to keep pace with changing market dynamics.

[4] https://www.deloitte.com/global/en/Industries/financial-services/research/building-a-future-ready-investment-firm.html?id=gx:2em:3int:4GC1000344:5:6fs:20240227

2 | The affluent population in India is steadily increasing, along with its inclination towards financial assets

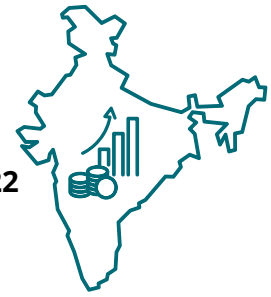




2.1 Macroeconomic trends are indicating a steady rise in the affluent population

In India, the overall affluence level is expected to steadily grow due to the following macroeconomic trends:

Strong GDP growth



India's nominal GDP has grown at a 5-year CAGR of 5.5 percent from 2017 to 2022 (from US$2.6 trillion in 2017 to US$3.4 trillion in 2022).[5] Per S&P Global, India's GDP is poised to grow **6.4 percent per annum in FY25** and **6.9 percent and 7.0 percent in FY26 and FY27**, respectively.[6] India is expected to be the third-largest economy in the world by 2030.[6] This will result in an increase in household income and an increase in affluence.

High FDI inflows



Favourable government policies improving ease of doing business and India's demographic dividend have resulted in an increase in **FDI inflows from US$60 billion in FY17 to US$85 billion**[7] **in FY22.** While there has been a drop in FDI, long-term projections suggest that FDI inflows are expected to increase, leading to significant wealth creation and greater affluence.

Expansion in start-up ecosystem



Around **102 Unicorns were added to the Indian start-up ecosystem from 2015 to 2023**[8] resulting in incremental job creation and the generation of wealth for entrepreneurs.

Rise in domestic manufacturing



Aided by government initiatives such as the "**Make In India**" programme, the Production-Linked Incentive Scheme (PLI scheme has resulted in the creation of 700,000 jobs),[9] the domestic manufacturing industry in India is witnessing significant growth and is expected to result in significant wealth creation.

Transfer of generational wealth

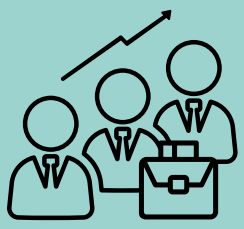


Passing on generational wealth in the form of both physical assets (real estate, gold, etc.) and financial assets will result in the rise of an affluent millennial segment.

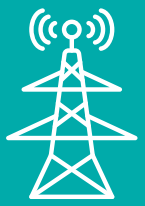
[5] https://www.macrotrends.net/global-metrics/countries/IND/india/gdp-growth-rate
[6] https://https://economictimes.indiatimes.com/news/economy/indicators/india-set-to-become-3rd-largest-economy-by-2030-sp/articleshow/105745906.cms?from=mdr
[7] https://www.ibef.org/economy/foreign-direct-investment
[8] https://www.statista.com/statistics/1238534/number-of-new-unicorns-2020/
[9] https://economictimes.indiatimes.com/small-biz/sme-sector/pli-scheme-has-benefited-176-msmes-created-7-lakh-jobs-says-governments-economy-review/articleshow/107229064.cms?from=mdr

Additionally, the following trends also point towards growing affluence in India:

Around **11 percent CAGR** in the working population with income over US$10,000 (2019–2023)[10] compared with **0.8 percent CAGR** of the overall population during the same period[11]



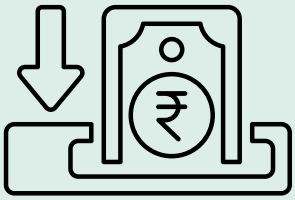
About **15 percent CAGR** in the number of broadband connections in India (FY20–23)[10]



Nearly **19 percent CAGR** in IT filings of INR1 million or more annual income (AY17–22)[10] compared with **11 percent CAGR** for total IT filings combined during the same period[12]



Around **44 percent CAGR** in number of term deposits over **INR1.5 million** (FY19–23)[10]



About **47 percent CAGR** in the supply of houses priced above INR15 million (Q3 2018–Q3 2023) compared with **17 percent** growth for the overall supply of houses during the same period[13]



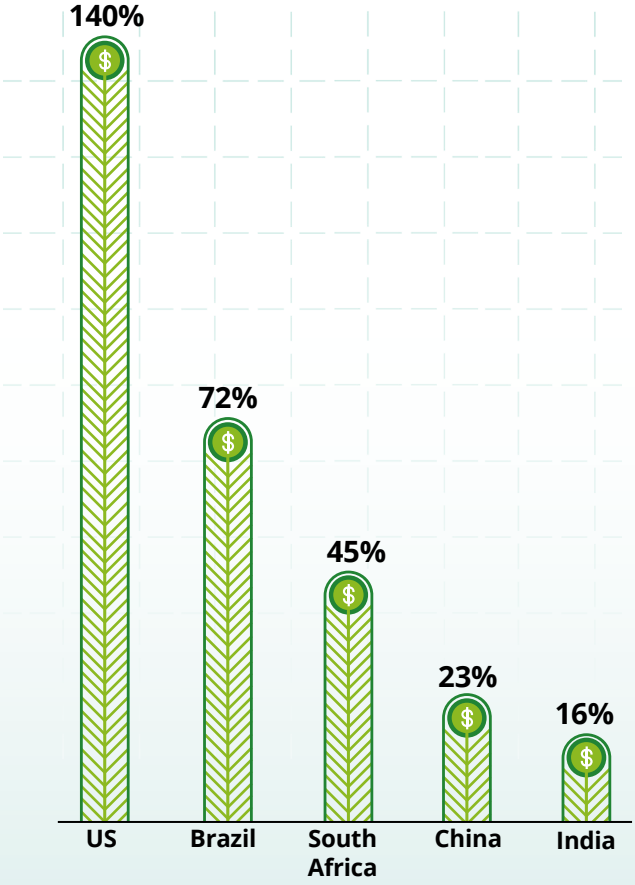
[10] Research report by Goldman Sachs – 'The rise of Affluent India'
[11] https://www.macrotrends.net/global-metrics/countries/IND/india/population#:~:text=The%20current%20population%20of%20India,a%200.68%25%20increase%20from%202021.
[12] https://incometaxindia.gov.in/Documents/Direct%20Tax%20Data/time-series-data-2021-22.pdf
[13] https://www.cnbctv18.com/real-estate/luxury-housing-supply-share-hits-5-year-quarterly-high-anarock-17993441.htm

2.2 Propensity towards financial assets compared with physical assets has been on an upward trend

Another factor that bodes well for wealth management business is the growing share of investment allocation to financial assets. Historically, Indian households have shown a higher propensity towards investing in physical assets such as gold and real estate than financial assets such as bank deposits, mutual funds, stocks and bonds. However, this trend is gradually changing with more households investing in financial assets. This is substantiated by the growing traction of financial investment products such as mutual funds, direct stocks and Portfolio Management Services (PMS).

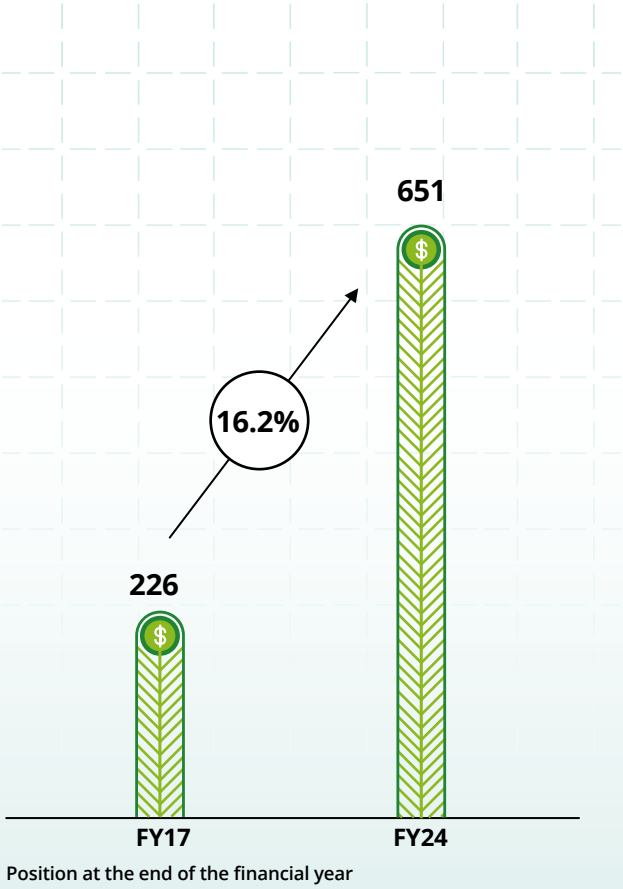
Mutual fund

Figure-1
AUM to GDP ratio of MF industry for 2023



Source: ICICI Direct, World Bank Data

Figure-2
AUM managed by Indian MF industry [US$ B]



Position at the end of the financial year

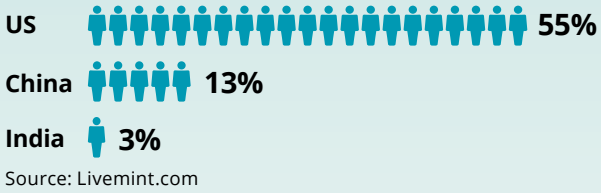
Source: AMFI

Mutual fund AUM in India registered a 16.2 percent CAGR from FY17 to FY24, reaching US$651 billion. However, comparing the mutual fund AUM to India's GDP ratio (16 percent) with other countries (see above chart)[14] shows India is still underpenetrated and presents significant growth opportunities.

[14] https://www.icicidirect.com/research/equity/finace/mutual-fund-aum-attains-new-heights-why-should-you-continue-your-mf-investing; https://databank.worldbank.org/source/global-financial-development/Series/GFDD.DI.07

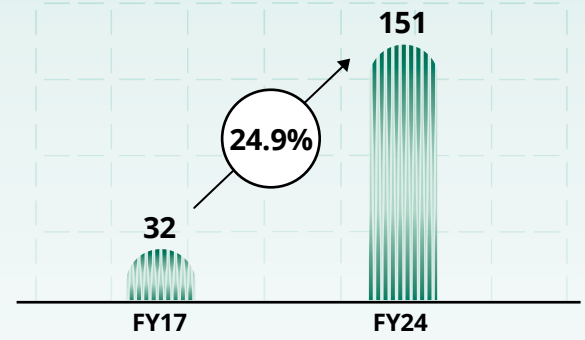
Stocks and PMS

Figure-3
Percent of population investing in stock markets



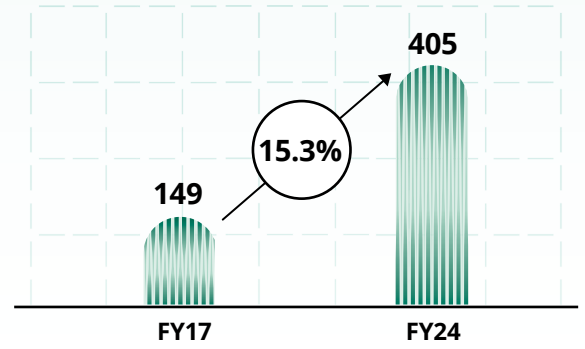
Source: Livemint.com

Figure-4
No. of demat accounts [Million]



Position at the end of the financial year
Source: SEBI

Figure-5
PMS AUM growth [US$ B]



Position at the end of the financial year
Source: SEBI

The number of demat accounts in India registered a 24.9 percent CAGR from FY17 to FY24, reaching 151 million. However, as of 2023, only 3 percent of the Indian population actively invests in stock markets, while the number is 13 percent and 55 percent for China and USA, respectively, indicating significant room for further penetration.[15]

PMS AUM has also grown from US$149 billion in FY17 to US$405 billion in FY24. Higher awareness about PMS as an investment vehicle and stock market returns post-COVID are the key drivers of this growth.

Key factors contributing to the growth of investment products:

- **Increased awareness about investment products:** Initiatives such as the "Mutual Fund Sahi Hai" campaign and marketing initiatives of major fintech players have significantly increased customer awareness about the investment market.
- **Digital first investment platforms:** New age fintech platforms have simplified UI/UX and de-cluttered asset classes, making investments simpler and luring many first-time investors.
- **Sachet investments:** Flexibility of investing in small ticket sizes with low minimum amounts for direct equity and SIPs has attracted a large number of investors with low corpus towards these asset classes.
- **Exponential rise in the Indian stock market:** India's equity market has grown tremendously. NIFTY bottomed out at 8,000 levels during COVID-19 to crossing 25,000 levels, giving significantly higher returns than bank deposits. This has fuelled an incremental jump in the number of first-time investors in the market.

This traction towards investment products will increase the demand for wealth management service providers among India's rising affluent households.

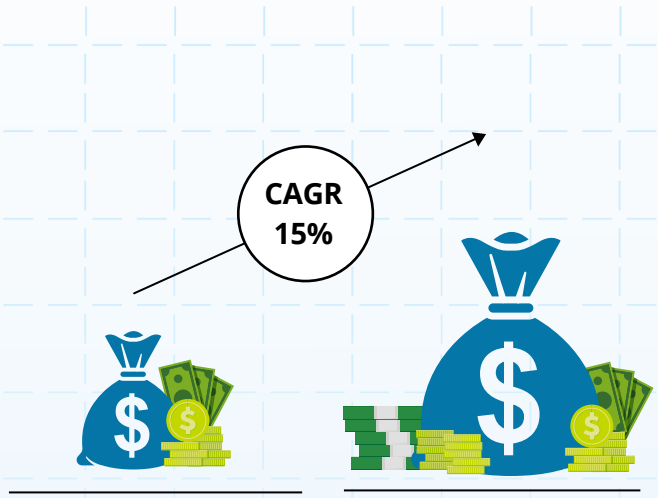
[15] https://www.livemint.com/money/personal-finance/finding-the-right-int-l-market-for-your-investments-11687105884592.html

3 There exists a significant demand-supply gap in wealth management services in India





3.1 Estimated present and future demand (FY29)



Source: Deloitte Analysis

Demand for wealth management services in India in terms of AUM is estimated to be ~US$1.1 trillion in FY24. Moreover, this demand is expected to register a 15 percent CAGR, reaching ~US$2.3 trillion by FY29. The following approach was taken to estimate the demand for wealth management services:

a) **Estimated number of households in the addressable market:**
India is estimated to have ~320 million households as of March 2024. Per industry estimates and our analysis, the top 4–5 percent, i.e., ~12–16 million households in India, have an annual income greater than US$25,000. These 12–16 million households would mostly make up India's addressable market for wealth management services. They include ultra-high net worth, high net worth and other affluent households.

b) **Estimated wealth of the addressable market:**
Along with estimating the number of households in the addressable market, we also sought to estimate their wealth. We performed this estimation using major asset classes. For each major asset class, we assumed a certain proportion of the outstanding asset values attributable to the addressable market, i.e., the top 12–16 million households. While the total outstanding value at the end of FY24 for each asset class was available from reliable public sources, the share of the top 12–16 million households within these asset classes was not; hence, we made high-level assumptions regarding such shares. These assumptions are based on intuitive judgments drawn in discussions with select wealth management service providers and are not based on empirical data.

Asset class	Value at March 2024 (US$ B) Total market	Value at March 2024 (US$ B) Addressable market*	Assumption regarding share of the addressable market
Life insurance investments[22]	1,079.0	356.1	33 percent (given that this is an asset class that has more mass appeal, than appeal for affluent households)
Listed equity[19]	441.2	352.9	80 percent (while listed equities are becoming more popular, the addressable market would have a significant value market share)
Mutual funds (retail)[16]	405.9	324.7	80 percent (same rationale as that for listed equities)
Portfolio management services (non-EPFO/PF; excluding listed equity, MF)^[18]	62.9	62.9	100 percent (this asset class would largely comprise the top households)
Alternative Investment Funds (retail)[17]	22.0	22.0	100 percent (this asset class would largely comprise the top households)
Gold (SGB + gold ETF)[21]	12.6	10.0	80 percent (same rationale as that for listed equities)
Overseas investments under the liberalised remittance scheme - LRS (for deposit, purchase of property, investment in equity/ debt)^^[20]	8.0	8.0	100 percent (this asset class would largely comprise the top households)
Total		**1,136.7**	

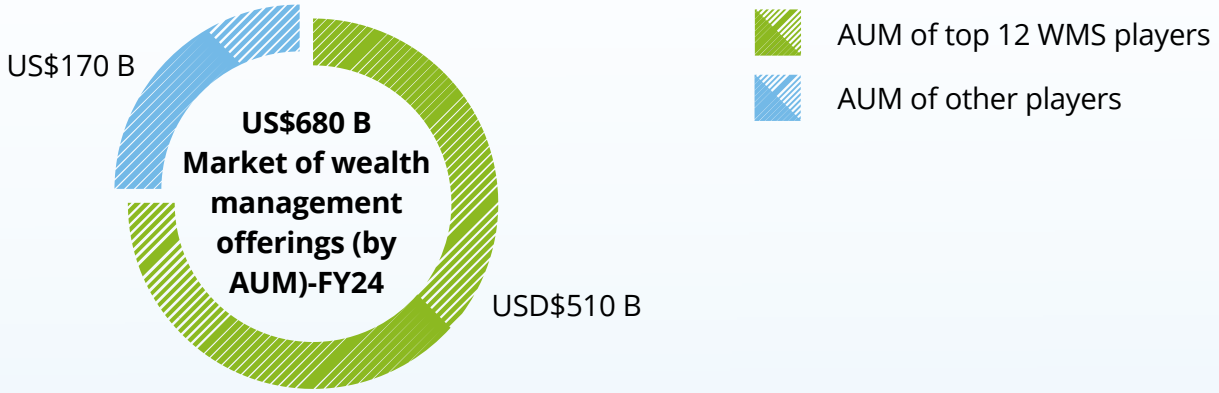
***** AUM held by target households
Source: SEBI, AMFI, RBI, IRDAI, NSE, New Articles, Research Reports, Deloitte Analysis (Refer Footnotes)
^ To avoid double counting, the listed equity and MF portion is removed from the non-EPFO PMS portfolio, leaving majorly the listed debt asset class
^^ For LRS, total o/s investment data was not available; hence, we have taken cumulative outflow from FY21 to FY24 as the proxy value

[16] https://www.amfiindia.com/Themes/Theme1/downloads/home/industry-trends.pdf
[17] https://www.sebi.gov.in/statistics/1392982252002.html; https://equalifi.org/wp-content/uploads/2024/01/40-Under-40-Report-Book-1.pdf
[18] https://www.sebi.gov.in/statistics/assets-managed/archive-month/mar-2024.html
[19] https://www.nseindia.com/regulations/listing-compliance/nse-market-capitalisation-all-companies; http://www.primedatabasegroup.com/newsroom/M674.pdf
[20] Source: RBI reports
[21] https://portal.amfiindia.com/spages/QDACVolQ4-2023-2024.pdf
https://rbidocs.rbi.org.in/rdocs/AnnualReport/PDFs/0ANNUALREPORT202324_FULLDF549205FA214F62A2441C5320D64A29.PDF
[22] https://irdai.gov.in/life

After adding the addressable market value for each of the above asset classes, we estimate the total wealth of the addressable market (the top 12–16 million households) to be ~US$1.1 trillion in terms of AUM. We take this number as indicative of the demand for wealth management services from this addressable market.[23] This demand is expected to register ~15 percent CAGR, reaching ~US$2.3 trillion by FY29. It may be noted that the asset class mix in FY29 may vary significantly from the same in FY24, i.e., asset classes such as listed equity and mutual funds are likely to grow faster than life insurance investments.

As shown below, registered wealth management service providers do not fully meet this demand.

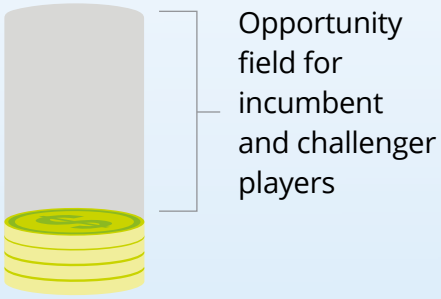
3.2 Current supply and estimated demand-supply gap



Source: Deloitte Analysis



US$2.3T
Estimated demand for wealth management services by FY29 (by AUM)



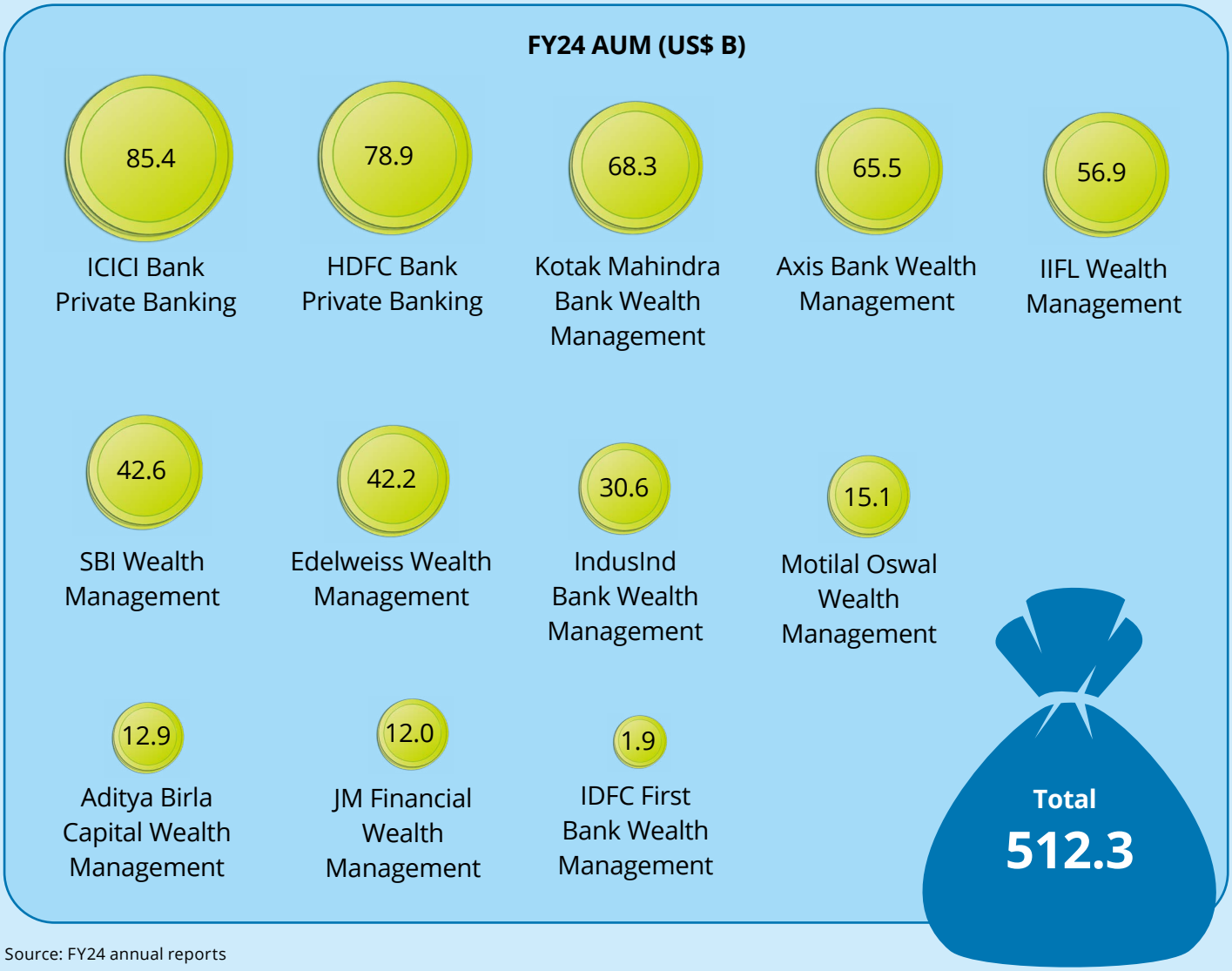
US$680 B
The market size of wealth management services as of FY24 (by AUM)

Source: Deloitte Analysis

[23] It may also be noted here that we have not included bank deposits (term deposits) as an asset class although they may be a significant part of the wealth of the target customers segments. We are of the view that adding such deposits to our estimate of wealth of the target customer segments may exaggerate the demand (i.e., addressable wealth). Hence, this has been left out.

As of March 2024, we noted that India's combined AUM of 12 major wealth management service providers was ~US$510 billion.

FY24 AUM of 12 major wealth management service providers in India



Source: FY24 annual reports

Assuming these 12 major providers accounted for 75–80 percent of the AUM, we estimated the overall AUM of all wealth management service providers in the market to be ~ US$680 billion.

At the end of FY24, there was a gap of ~US$0.4 trillion between the demand for wealth management services (as measured by the estimated wealth of the addressable market of 12–16million households: ~US$1.1 trillion) and the supply (as measured by the estimated total AUM of wealth management service providers in India: ~US$680 billion).

We now examine the diverse composition of the supply side, i.e., the various types of wealth management service providers in India.

4 The Indian market features diverse wealth management players, each targeting specific niches





Major types of wealth management players



1. **Domestic banks**
   Wealth management vertical within public/private sector banks

2. **Foreign banks**
   Wealth management vertical within foreign banks

3. **Specialised multi-product wealth managers - Domestic**
   Specialised Indian wealth management service providers

4. **Specialised global wealth managers**
   Specialised global wealth management service providers

5. **Portfolio Management Service (PMS) players**
   Discretionary/Non-discretionary management of investment corpus with a minimum ticket size of 50 lakh

6. **Alternate Investment Funds (AIFs)**
   Privately pooled investment vehicles with high min investment size

7. **Boutique family management firms**
   Family office management firms targeting UHNIs

8. **Independent investment advisors**
   Regional RIAs offering investment advisory service



Note: Non-exhaustive

The wealth management market in India today has various types of service providers, ranging from end-to-end wealth management providers to more limited/niche providers. The following paragraphs describe key types of these providers and their particular wealth management value proposition/ market positioning.

1 Domestic banks

To increase wallet share penetration within their premium customers, domestic banks in India offer wealth management services, positioning them as a one-stop shop for all customers' financial needs. Banks in India typically offer wealth management services with different levels of depth in propositions. While at one extreme, some offer broking services and access to investment advisors, at the other extreme, some offer holistic propositions covering all major investment and non-investment related requirements of the target customer segments.

Many banks today offer access to investment products such as AIF, PMS and overseas investments. They also take care of non-investment-related requirements of their premium customers, such as succession planning and philanthropy.

A major advantage for banks offering wealth management services is the presence of existing customer relationships, which can be used to cross-sell wealth management services. Moreover, a widespread branch network enables banks to provide effective customer onboarding and servicing.

While asset management fees and, to some extent, advisory fees are typical revenue sources for wealth management services of domestic banks/banking groups, the major income stream is income from cross-selling conventional banking products to wealth management customers, such as loan and deposit products and business banking products.

The top five bank-led wealth management players had an AUM of ~US$340 billion in FY24, making up ~50 percent of the total wealth management market.

Banks need to comply with specific regulatory guidelines regarding wealth management offerings.[24, 25]

For instance:

- To ensure an arms-length distance between banking activities and investment advisory services, the RBI in 2016 asked Indian banks to offer such services through a separate subsidiary instead of a department within the banks. Banks were also asked to get specific approval from the RBI to set up such a subsidiary (based on the guidelines governing para-banking activities). The subsidiary also needed to be registered with the Securities and Exchange Board of India (SEBI) and regulated by it.
- Along similar lines, if a bank plans to launch its own PMS service, it must get prior RBI approval and comply with other applicable regulations stipulated by RBI, SEBI and other concerned regulators.

[24] https://www.rbi.org.in/commonperson/English/Scripts/Notification.aspx?Id=905#:~:text=Besides%2C%20the%20investment%20by%20a,and%20other%20exchanges%20put%20together

[25] https://rbi.org.in/scripts/BS_CircularIndexDisplay.aspx?Id=10360

2 Foreign banks

Similar to domestic banks, major foreign banks operating in India also offer wealth management propositions to deepen wallet share within their consumer banking customer base. These banks offer investment management and priority banking solutions for their customers as part of their wealth management proposition.

The target customer segment for these offerings is typically UHNI[26] customers or higher-end of HNI[26] customers. For example, the wealth management service of a leading foreign bank in India is offered only to customers with more than US$2 million of overall relationship value.

One differentiated proposition of global banks compared with domestic banks is their network of global investment desks, which they use to provide customised global investment solutions to their customers. However, a limited branch network compared with domestic banks acts as a deterrent in expanding the wealth management business footprint, considering the growth of UHNI and HNI households in non-metro India.

The revenue structure of the wealth management business of global banks (focus on cross-sell income, with some advisory fee income) is largely similar to domestic banks. Similarly, global banks must comply with the regulatory guidelines stipulated by bodies such as RBI and SEBI.

3 Specialised multi-product wealth managers - Domestic

These are focused providers specialising in wealth management services, including portfolio construction and rebalancing advisory, PMS services, AIF services, broking platforms and succession planning. They largely target UHNI and HNI customers. However, several wealth tech players have entered the market recently; they are harnessing digital technology to take wealth management advisory services to a wider audience.

A major revenue source for these players includes asset management and advisory fees, which vary depending on the product type and the fee structure adopted by the player.

These players are seen as focused on wealth management services and have strong brand recall/ association (particularly among UHNIs and HNIs) related to investment advisory and portfolio management services.

The top five specialised multi-product wealth managers (domestic) had ~US$124 billion of AUM in FY24, making up ~18 percent of the total market.

Starting a specialised multi-product wealth management business would require various regulatory approvals/licenses from SEBI, such as a Registered Investment Advisor (RIA) certification, Application Reference Number (ARN) and Certificate of Registration (CoR) (for stock broking), and compliance with other applicable regulatory guidelines.

[26] UHNI and HNI refers to individuals with net worth of more than US$30 million and US$1 million respectively. Moreover, affluent population refers to individuals with net worth more than US$100,000 (per industry definitions and Deloitte analysis). It must be noted that while target segment for different players is being addressed in terms of individuals, overall demand for wealth management services has been estimated basis household level demand approach

4 Specialised global wealth managers

Global wealth managers typically cater to UHNI customers with services ranging from investment management across multiple asset classes, family office management, succession planning, tax planning, philanthropy, etc. Given the exclusive focus only on UHNI customers, the target customer base for these players is small compared with their domestic counterparts. Like global banks, these providers also use their global investment desks to provide customised global investment solutions to their UHNI clients.

The revenue model for global wealth managers largely depends on the services the customers availed. For investment management, the fee is usually a percentage of assets under advisory or assets under management.

Regulatory compliance for global players is similar to that for domestic wealth managers.

5 Portfolio Management Service (PMS) players

PMS providers invest on behalf of their clients in a customised portfolio of stocks, bonds, mutual funds and other securities based on the client's investment objectives and risk tolerance.

PMS investments are typically of three kinds:

- **Discretionary:** In this type of PMS, the portfolio manager has full discretion to make investment decisions on behalf of the client. The client does not have to approve each investment decision, but they receive regular reports on the portfolio's performance.
- **Non-discretionary:** In this type of PMS, the portfolio manager makes investment recommendations to the client, but the client makes the final decision regarding the investment.
- **Advisory:** This type of PMS is like non-discretionary PMS, but the portfolio manager only provides investment advice and does not execute trades on behalf of the client.

While independent PMS players exist in the market, specialised multi-product wealth managers (domestic) and banks have also launched their own PMS propositions. Per SEBI guidelines, PMS investments must entail a minimum ticket size of INR50 lakh (~US$60,000).[27] Hence, this proposition is aimed at HNI and UHNI customers.

High entry barriers characterise PMS businesses, given that customers typically look for historical performance before investing. Moreover,

[27] https://www.sebi.gov.in/sebi_data/faqfiles/oct-2020/1603946323909.pdf

given the larger ticket size, customers expect personalised services, resulting in a high cost to serve. It is also observed that most standalone PMS players have limited brand equity. Hence, they rely heavily on distributors such as banks and independent financial advisors to promote their products.

PMS firms' fees include a fixed fee (including entry load and management fee of ~1–3 percent of AUM). Some firms also take a share in profit beyond a defined hurdle rate. A few players also take 1–3 percent of AUM as an exit load if they exit before a defined period. However, the industry is steadily moving towards a profit-sharing model with lesser fixed fees.

Setting up a PMS business requires entities to obtain the requisite certification from SEBI, which is valid for three years. Moreover, entities must comply with other regulatory guidelines regarding appointing a principal officer, deployment of funds, fee structure, etc.

6 Alternate Investment Funds (AIF)

AIFs are privately pooled investment vehicles that collect funds from a set of retail and institutional investors to invest in specific asset classes in accordance with a defined investment policy. The minimum ticket size for investing in an AIF is INR1 crore (~US$120,000), except for angel funds, where the minimum investment ticket is INR25 lakh (~US$30,000). Hence, this product is targeted only at UHNI customers.

In India, an AIF can be registered under any of the following three categories:

- **Category I:** Funds primarily investing in start-ups, early-stage ventures, social ventures, SMEs, etc. These are closed-ended funds with a minimum tenure of three years.
- **Category II:** Funds that invest in Private Equity (PE) funds, debt funds or a combination of various AIFs. These are closed-ended funds with a minimum tenure of three years.
- **Category III:** Funds that aim for short-term capital appreciation, including hedge funds and Private Investments in Public Equity (PIPE) funds. These funds can be open-ended or closed-ended. The minimum tenure for closed-ended funds is three years.

The fee structure of an AIF typically includes a management fee of up to ~2 percent of the AUM and a share of profits beyond the defined hurdle rate. Some AIFs do not charge a management fee but only a profit share.

Registration with SEBI is mandatory for an AIF. Moreover, entities must ensure compliance with other regulatory guidelines regarding the number of investors, fund size, deployment of funds, etc.

7 Boutique family office management firms

These firms cater to the wealth management requirements of UHNI families with a range of specialised propositions. The target segment for these firms is typically families with a net worth of more than INR100 crore (~US$12 million). Services offered by the firms include investment management across different asset classes globally, real estate portfolio management, tax planning and management, succession planning, insurance planning, philanthropy management, business advisory, etc.

Family office management businesses often face high barriers to entry, as clients place significant value on experience and expertise in the field. Moreover, relationships are very sticky and generally transcend across generations.

Depending on the service required, family office management propositions include a fixed percentage of AUM charged as a fee, a performance-linked fee and, in some cases, remuneration of full-time analysts working on the investment corpus. At an aggregate level, the combined fee is typically between 0.5 percent and 1 percent of the total AUM.

8 Independent investment advisors

These are individuals or small firms that are Registered Investment Advisors (RIA) and provide services, including portfolio construction, portfolio rebalancing and reporting, and distribution of PMS and mutual funds. These are largely regional players with an affluent and HNI customer base. In India, there are ~1,300 registered investment advisors, of which ~800 are individuals and the rest are corporates.[28]

Independent financial advisors are largely local players with a limited scale. However, due to this, they can provide highly personalised services to their customers.

Individuals/members of a corporation need to get a level 2 certification from the National Institute of Securities Market (NISM) and subsequently apply with SEBI to get an RIA license. Moreover, an entity with more than 150 clients needs to register separately with SEBI.

Having described the different types of wealth management service providers in India, we now look at the critical success factors for a wealth management business in India.

[28] https://cafemutual.com/news/industry/28940-even-after-10-years-india-has-just-1300-investment-advisors

5 Critical success factors for a wealth management business in India





Where do we play?

Customer segment and geography
Focus segment for creating targeted solutions and focus geographies for maximising business traction

How do we win?

Pricing construct
Optimal fee structure maximising customer traction and profitability

Digital offerings
Use technology to create a differentiated proposition

Operating model considerations
Effective operating model structure ensuring enhanced customer experience and maximum process efficiency

Tech stack considerations
Technology infrastructure to complement core proposition

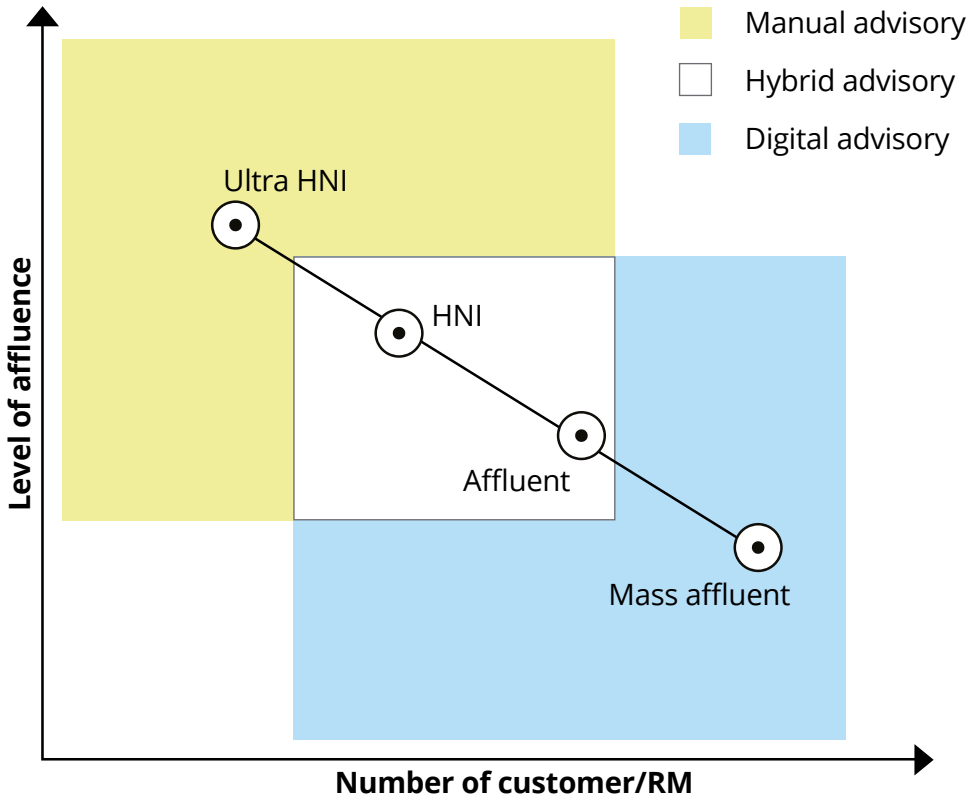
Tax optimisation
Wealth management as vehicle for tax optimisation

Critical success factors

5.1 Clarity in choice of customer segment

A clear definition of their focus customer segment(s) is critical for the success of wealth managers in India, as this has significant implications for their business and operating models.

For instance, the choice of customer segment will drive the decision on the choice of channel, keeping in mind the segment's specific requirements and profitability considerations.



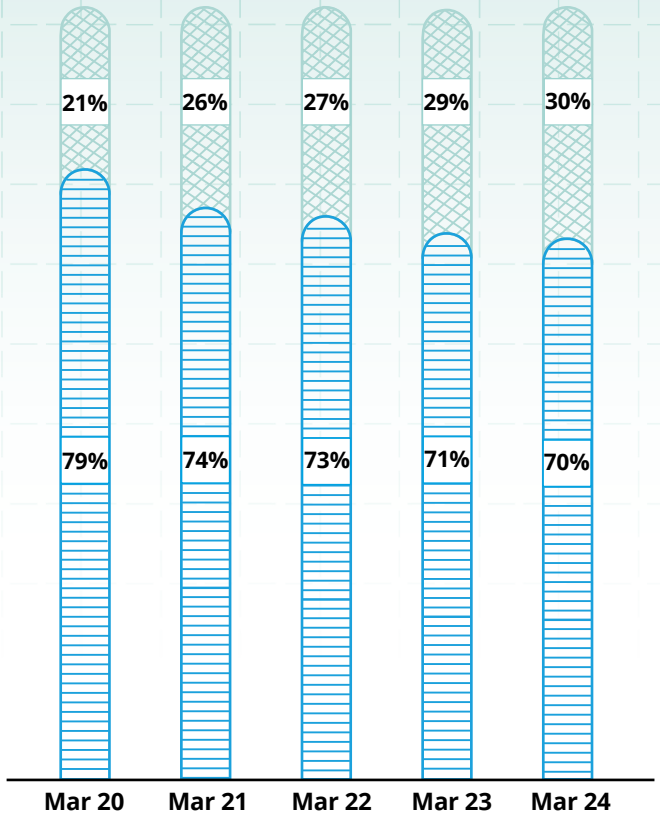
Ultra HNI customers typically require a dedicated team of wealth managers, including experts of different asset classes, for a nuanced personalised offering. However, for the other extreme of mass affluent customers, the same approach is not profitable, and hence, for this segment, players usually use digital propositions only.

HNI and affluent segments are being targeted with a hybrid approach of digital and manual propositions. Given the low average age at the affluent level (fuelled by a high number of millennials and Gen Zs entering the affluent segment), this also provides an opportunity for the service providers to build long-term sticky relationships.

Presently, most bank-led wealth management offerings focus on HNI segments through in-house capabilities (advisory subsidiary, PMS arm, etc.) and third-party partnerships (tax planning, succession planning, etc.). Few foreign banks and Indian private sector banks have a comprehensive suite of propositions for UHNI customers as well. However, there is a limited focus on providing personalised wealth management propositions for the affluent segment.

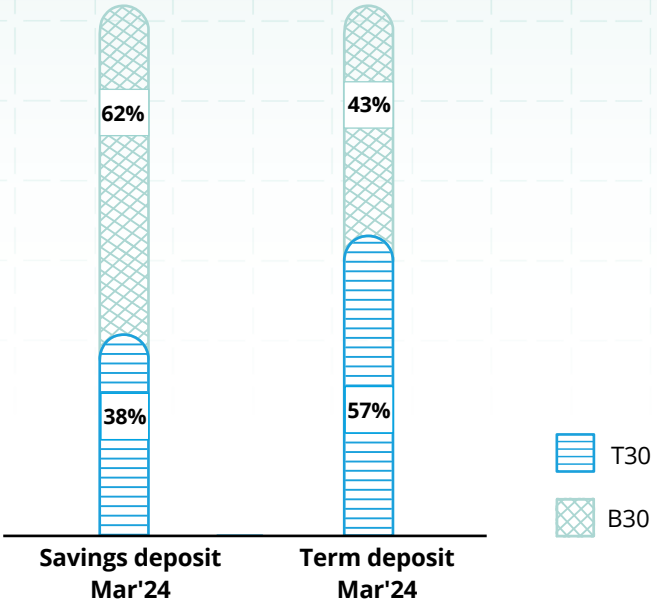
B30 cities have significant untapped potential, which is becoming the focus geography

Figure 6
Geographical split of mutual fund AUM*



Source: AMFI
* Average AUM for the respective months

Figure 7
Geographical split of deposits



Source: RBI, Deloitte analysis

Note: T30 refers to the top 30 geographical locations in India from the mutual fund AUM perspective, and B30 refers to the locations beyond the top 30

The share of B30 cities in overall mutual fund AUM has been on a steady rise, with the contribution increasing from 21 percent of the total average mutual fund AUM in March 2020 to 30 percent in March 2024. The number is expected to go further up for the following key reasons:

- Contribution of B30 cities in total SA deposits and term deposits is 62 percent and 43 percent, respectively (compared with 30 percent for MF AUM), indicating room for further MF business penetration in these cities.
- Government's infrastructure development initiatives, such as smart city projects and expressways, have increased employment opportunities and, hence, a rise in affluence levels.
- The migration of the affluent population from metro and other T30 cities to B30 cities due to work-from-home jobs, lower real estate rates, lower population density, etc.

A keen look at the location of most wealth branches, branches with wealth lounges, etc., indicates that banks are largely focusing on T30 cities for wealth management propositions. However, the gap between B30 cities' contribution to total mutual fund AUM and their contribution to total retail deposits indicates a huge untapped opportunity from a wealth management perspective. Hence, in addition to T30 cities, a targeted focus on B30 cities should be the way forward.

5.2 Competitive pricing (more performance-linked)

Wealth management propositions entail the following four key revenue streams:

- **Transaction fee:** Per transaction fee charges for placing trades via the company's investment portal. In some cases, PMS firms also charge transaction fees for each executed trade.

- **Fixed fee:** A flat fee charged to all customer segments for availing wealth management services such as investment advisory and portfolio management, irrespective of the AUM being handled. This fee is generally charged quarterly or annually.

- **Value-based pricing:**
  - **Asset management fee:** Customers are charged a percentage of AUM managed by the wealth advisors.
  - **Profit sharing:** Customers share a portion of profits beyond a defined hurdle rate. This approach is typically used by PMS firms and family office management firms, focusing on more active management and ensuring high performance. The firms end up charging nothing in case of events such as market downturns when the portfolio doesn't perform better than the hurdle rate.

- **Cross-sell income:** This includes income from cross-selling banking products such as loans, deposits and other third-party products such as insurance.

Depending on the type of solutions offered, the share of each revenue stream in the total revenue pool varies for different players. While transaction fees and cross-sell fees form a major portion of the revenue stream for banks, players with PMS, AIF, etc., as core offerings focus on different combinations of fixed fees and value-based pricing.

Recently, the industry has seen players reduce and, in some cases, completely eliminate fixed fees and asset management fees, focusing more on profit sharing. This has enhanced trust and also improved their upside potential.

Going forward, the wealth management industry is expected to move towards having lending as a key offering as well, with interest income being a major revenue stream over and above fee income. Margins of fee income businesses are expected to be increasingly stressed, with more wealth management players moving towards lending as an additional business stream.

Case study 1

Performance-linked pricing structure of major PMS and AIF players

I. A leading wealth tech player in India has a PMS proposition where it charges nil fixed management fees and only takes 10 percent of the profits generated.

II. Founders of a leading discount brokerage platform in India launched their AIF fund with zero asset management fee and a 10 percent share in the profits. It must be noted the fund had no hurdle rate; hence, a 10 percent fee would be deducted irrespective of the quantum of profits earned by the fund.

5.3 Differentiated digital user experience (where applicable)

Leading wealth management players, including some of the major private sector and foreign banks, are building digital-first propositions to enhance customer experience, create personalised solutions and ensure seamless customer servicing to onboard and retain customers. Going forward, using technology to improve cost efficiency will also be key to profitability.

Some of the key digital propositions emerging in the wealth management segment are outlined below:

1. Simplified investment platform for new-age investors

Traditional bank-led investment platforms offer a host of investment products with complicated UI/UX that might be overwhelming for a beginner investor. To address this issue, some discount brokerage firms and banks have launched their investment portals, which have only select asset classes, simplified UI/UX catering to beginner investors and clear communication of risks associated with different investment classes.

Case study 2

Investment platform for young investors by a leading private sector bank

One of India's leading private sector banks offers a no-frills digital broking platform targeting beginner investors. The unique selling proposition is its simplified UI/UX, which allows customers to place trades with a few clicks. The journeys are supported by multiple quick action buttons (e.g., intuitive links for technical/fundamental analysis, NFO investments, etc.). Another key proposition of the platform is that it provides free access to various learning materials on investing and personal finance, which gets a lot of traction among beginner and intermediate investors.

2. Robo advisory: Algorithm-led investment management

Wealth management players are increasingly adopting robo-advisory-based offerings to reduce the cost associated with traditional human advisory and cater to all customer segments. Robo advisory varies from investment advisory to end-to-end digital portfolio management. In the case of pure-play advisory, a portfolio creation strategy (asset location, time horizon, etc.) is suggested, or the existing portfolio is evaluated, and actionable insights are provided. In the case of digital portfolio management, the entire lifecycle of investing, monitoring and portfolio rebalancing is taken care of by the robo advisor. Some players also offer a hybrid advisory model, which involves a combination of robo-advisory and human advisory to different degrees of extent.

While standalone or hybrid robo-advisory models are common worldwide, the concept has recently picked pace in India, with few wealth tech players offering digital portfolio creation and portfolio rebalancing propositions.

Case study 3

Robo advisory proposition by a leading US-based wealth manager

One of the major US-based wealth managers provides full-stack digital portfolio management solutions based on the customer's goals, present financial position and risk appetite. The robo advisor creates a portfolio strategy, places investments, performs periodic rebalancing and provides performance reports. The proposition also includes 24*7 live chat support.

The company also offers a hybrid model in which digital portfolio management is complemented by periodic 1:1 sessions with human advisors. The difference between the digital-only and hybrid models is the advisory fee (which is a percentage of AUM) charged to the client.

3. Unified view capturing entire net-worth details of the customer

Traditional wealth management platforms offer their customers a dashboard view to track the investments made through their platform. However, customers might engage with multiple brokers/distributors with investments across different asset classes. Thus, providing a holistic view of the entire portfolio becomes imperative for better decision-making.

Many players in the market, including banks and fintech, have started offering this proposition to customers. Currently, the solution requires customers to upload files such as CAS and CAMS to get the required portfolio view. However, with the advent and increasing adoption of the account aggregator framework, players can provide a holistic and accurate portfolio view without requiring manual file upload.

Case study 4

Consolidated net worth view offering by leading private sector bank

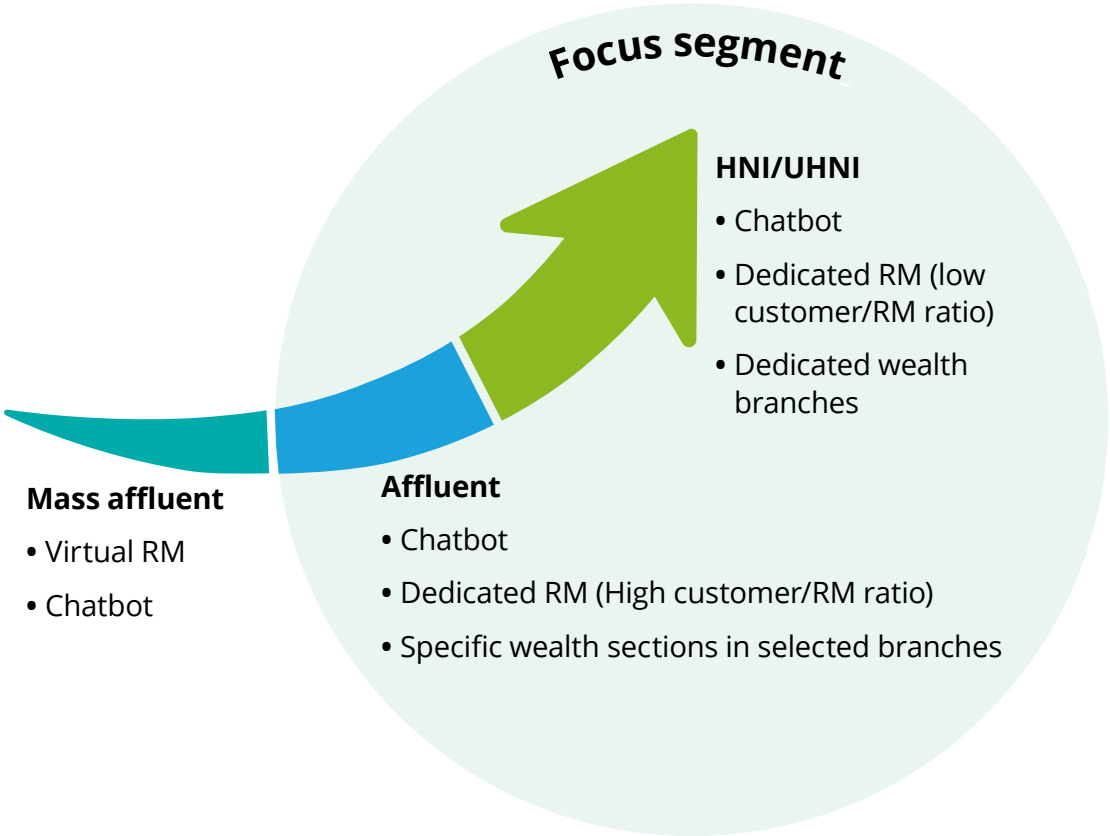
A leading private bank in India offers a comprehensive net worth view on its investment platform where the customer can view their complete investment portfolio across different platforms by uploading relevant files. Moreover, it also allows the customer to fetch details of their loans and deposits with the bank to get a detailed net worth view. Customers also get the functionality to get a similar view of their family members and have an integrated family net worth dashboard.

5.4 Leading practices for RM empowerment and performance management (where applicable)

Customer servicing construct
Different banks in India have varied maturity levels regarding the strategy for servicing wealth management customers. Some banks drive the servicing of their premium customers majorly via their branches, with branch managers tasked with wallet share penetration among existing customers and new customer onboarding. Few banks also deploy specific relationship managers to service existing premium customers based on the Total Relationship Value (TRV) . However, this construct is largely reserved for customers with very high TRV. However, few banks have adopted the "tiered phygital model" of customer servicing, in which specific RMs and digital channels are used depending on the type of customer segment (mass affluent/affluent/HNI/UHNI: generally measured through TRV levels).

While mass-affluent customers are served via digital-only tools such as chatbots, messenger chat-based query resolution and virtual RM (dedicated call centre), customers of higher affluence levels are served using a combination of digital tools and physical touch points.

"Tiered phygital model" of customer servicing

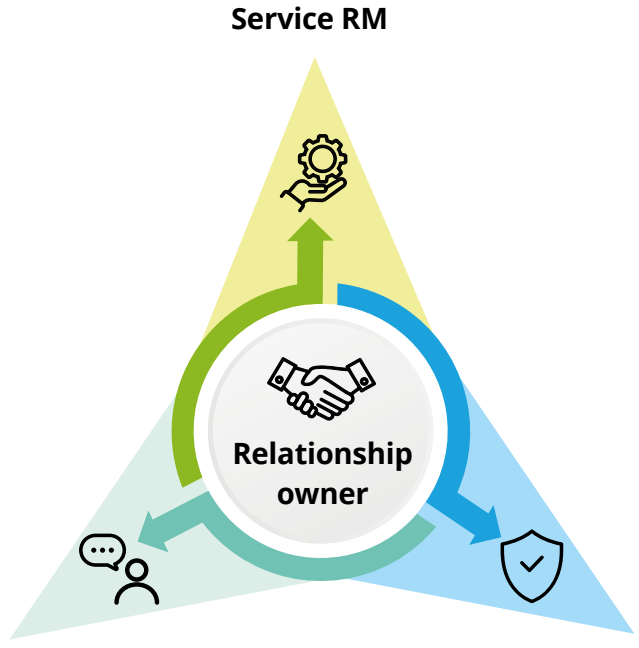


Affluent: In this segment, customers are provided with dedicated relationship managers and the digital servicing tools discussed above. Due to low TRV, the number of customers per RM is usually higher. Moreover, at select branches, there are separate wealth sections with bank SPOCs catering exclusively to affluent and above customers.

HNI/UHNI: Like the affluent segment, HNIs are also provided with digital servicing tools and dedicated relationship managers. However, given the high TRV, the number of customers per RM in this segment is usually low. Moreover, for this segment, dedicated wealth branches are also provided at targeted locations.

Relationship manager construct for effectively servicing wealth management customers

Relationship manager construct in wealth management



Relationship manager construct deployed by banks for their premium customer depends on the breadth of wealth management services offered. On one extreme, if the wealth management services include only the distribution of mutual funds and brokerage services for equity investments, the bank typically opts for either a branch manager-driven relationship management or a single dedicated RM if the customer is beyond a defined TRV. However, on the other hand, if the banks cover the entire ecosystem of wealth management services, including advisory, PMS, AIF, succession planning and tax planning, then banks typically deploy a team of professionals with specific roles and responsibilities for serving different customer needs. While the strength of the team varies depending on the TRV and the customer's requirements, all relationships are anchored by one overall relationship owner acting as a single point of contact for the customer.

Construct of a typical relationship team deployed by a leading private sector bank in India is as follows:

- **Relationship owner:** Single point of contact for all customer requirements across different products and services. Relationship owner is also tasked with deepening customer relationships and bringing in new business.
- **Service RM:** A dedicated team is tasked with all account support-related operational activities of the tagged wealth customers (e.g., loan documentation, PMS investment documentation).
- **Securities RM:** A specific team is tasked with executing trades (as approved by the customer) on the customer's behalf.
- **Advisory team:** Dedicated team of certified investment advisors guiding customers on portfolio building and rebalancing and publishing periodic research reports across different

asset classes, macroeconomic trends, etc. Per regulatory requirements, the advisory team must be housed within the bank's subsidiary.

Customer acquisition strategy

To acquire affluent and above customers, banks should look at collaborating with specific communities, platforms, etc., which have high traction in the target customer segments for their customer information. This information could be used to identify and reach out to customers effectively. Specific personas within target customer segments must be identified, and collaborations must be forged with platforms/communities/institutions having a database of individuals belonging to these personas. For example, alumni groups of top institutions for industry leaders, hospital chains/healthcare start-ups for top medical professionals, premium car dealerships for luxury auto enthusiasts, etc.

It must be noted that the stakeholders must ensure adherence to the requisite customer consent guidelines in the DPDP Act while sharing customer data.

Case study 5

Major propositions of key wealth management players in India

Leading private sector bank: As part of its wealth management offering, a major private sector bank in India provides dedicated wealth centres at select branches and discounted rates for banking products. For investment management, it offers a full-stack investment platform for placing trades and support from offline advisors for portfolio building and rebalancing. The platform can also generate leads for loans and insurance products. The bank has also collaborated with third-party players to offer tax planning and succession planning services.

The bank also has its own PMS vertical for HNI and UHNI clients. Moreover, it offers family office management solutions, including investment management, banking propositions for family businesses, real estate investments and access to exclusive education programmes for customers.

Major wealth tech start-up: A major wealth tech start-up in India uses technology to address the investment needs of customers with limited TRV who cannot afford personal investment advisors. It has an AI-driven tool that can create personalised mutual fund portfolios for investors based on their requirements. Moreover, it also has a digital portal that can analyse investors' existing portfolios and give actionable insights. The company also has a PMS arm for its HNI/UHNI customers.

5.5 Modern technology stack for data-driven insights

The evolving landscape of digital customer propositions also entails having the requisite in-house technology infrastructure in place to complement the offerings and the scale of the business. Following are the key tech stack considerations banks should majorly focus on:

- **Data modernisation:** A holistic data strategy needs to be one of the key priorities for the banks, which will be the first cog in the wheel to drive analytics and provide a superior customer experience. This also calls for establishing data governance policies to adequately define the roles and responsibilities of different stakeholders, escalation metrics, audit methodology, etc. With the DPDP Act in place, banks must also revisit their customer data-capturing journeys, third-party data-sharing journeys, internal data management construct, etc., to ensure compliance with the Act.

- **Cloud infrastructure:** While most banks have on-premise infrastructure, which provides better control, they need to consider a well-thought-through cloud migration strategy as they scale their wealth management operations, with the size of the customer base and related data increasing. Cloud infrastructure provides multiple benefits over on-premise, including the flexibility to scale on demand, reduced time to market, easier maintenance and pay-per-use pricing (Opex vis-à-vis Capex), thus streamlining the total cost of infrastructure ownership.

- **"API"fication of wealth management services:** With the success of BaaS (Banking-as-a-Service), wealth management as a service is gaining traction, with APIs becoming mainstream now. Banks need to modernise their architecture and provide a set of APIs to enable customer journeys such as onboarding, risk assessment and data capture from FIPs in account aggregators. However, compliance with requisite regulatory guidelines must be ensured while building APIs and related solutions.

- **Cybersecurity:** Given that wealth managers deal with sensitive financial information that goes through multiple internal and external stakeholders, it becomes imperative to have robust cybersecurity measures, including data encryption, access controls, anonymisation techniques and authentication protocols. Moreover, periodic cyber risk assessments and audits must be conducted to ensure the robustness of the overall cybersecurity construct.

With the increasing adoption of AI/ML models in every area, banks must exercise caution while integrating AI with their operations. The following considerations can enable banks to use AI responsibly:

- **Data audit:** Conduct periodic audits of data models and algorithms to ensure fairness and consistency of the decisions taken/insights generated by the AI engine

- **Data privacy:** Adhere to data protection policies and entities to ensure that personal information is secure

- **Governance:** Define a comprehensive policy to ensure stakeholder accountability, internal/external assessment procedures, contingency plans, etc.

- **Human intervention:** Dedicate a task force to monitor and recalibrate data models whenever required

5.6 Wealth management as a vehicle for tax optimisation

India is a high tax jurisdiction, with personal income-tax rates as high as (i) 39 percent for individuals earning taxable income exceeding INR20 million per annum (approx. US$240,000 p.a.) and (ii) 42.74 percent for individuals earning taxable income exceeding INR50 million per annum (approx. US$600,000 per annum) and who have not opted for the new concessional income-tax regime. Hence, Tax optimisation is crucial for running a successful wealth management business in India. This involves (i) having a sound understanding of the income-tax laws, (ii) designing financial products or investment holding structures that will minimise clients' tax liabilities and increase clients' wealth, (iii) educating clients on the financial benefits of tax planning and (iv) having appropriate arrangements in place to be able to assist clients with their tax compliances.

In India, tax planning for the majority of the affluent segment, HNIs and UNHIs is done by professionals who possess expert knowledge in income tax, international tax, wealth tax, etc. These individuals are primarily chartered accountants, tax lawyers and financial planners. Hence, every wealth management business needs professionals with such skill sets to provide clients with a comprehensive range of bundled services. Given the India is a price sensitive market, clients expect to receive tax inputs that are provided as part of bundled services on a pro-bono basis. Even so, HNI/UHNI clients are willing to pay proper fees to tax professionals for one-off major tax advice received. Under the Indian legal and regulatory framework, financial services groups cannot render pure tax advisory services as part of their regulated businesses. Hence, any such services offered by a financial services group must be done through a separate unregulated entity.

India is a relationship-driven market wherein individuals (irrespective of their financial standing) rely heavily on their trusted chartered accountant/lawyer to advise them and their larger family on finance and legal matters. Hence, it is important for a wealth manager to be able to work closely with such professionals who serve as clients' confidants.

Banks, professional wealth managers, and family offices play an important role in tax optimisation through (i) financial product design, (ii) recommending tax-efficient ways to separate and hold one's business wealth/professional wealth from one's personal wealth by use of family trusts/asset protection trusts and (iii) helping with running/administering these trusts per the wishes of the sponsor of the trust. Depending on the complexity of the matter, financial services groups typically seek tax advice before recommending such solutions to clients; they may subsequently advise their HNI/ UHNI clients to seek formal advice on the matter from their respective tax advisor(s).

The most common strategies to optimise one's tax liability and build wealth include (i) investing in tax-savings instruments such as PPF, NPS, ELSS and Sovereign Gold Bonds, (ii) reinvesting long-term capital gains realised on the sale of immovable property in specified bonds to be issued by select PSUs such as NHAI, REC, PFC

and IRFCL, (iii) reinvesting capital gains realised on sale of long-term capital assets (not being residential property) in a residential property up to a limit of INR100 million (approx. US$1.2 million), etc.

Cross-border wealth

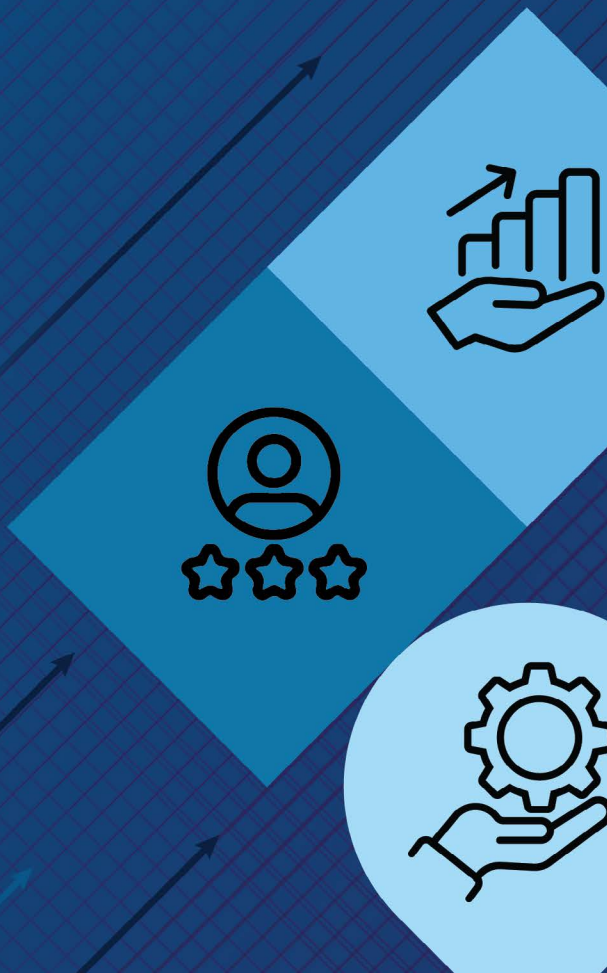
While this paper is largely about domestic investors, tax optimisation as a critical success factor for a wealth management business would be incomplete if we did not address its importance for cross-border wealth management. India is not a major booking centre globally for cross-border wealth management. However, non-resident Indians and persons of Indian origin are an important constituency for wealth management businesses in India. The following are some thoughts on tax optimisation for this important constituency.

In the case of non-resident investors, one could also look at investing in (i) the Indian capital markets and availing of tax treaty relief, if any, under the applicable Double Tax Avoidance Agreements that the India Government has signed with Foreign Governments and (ii) new products wealth managers are offering through the IFSC-GIFT City. IFSC-GIFT City has benefited fund managers who have set up a presence there and launched AIFs Category I and II from IFSC-GIFT City by enabling them to operate investment structures that are tax efficient not only for themselves (in terms of receiving their performance fees and carried interest in India) but also for the investors in their investment funds. Foreign investors have also benefited from investing in IFSC-GIFT City domiciled investment funds as they can receive most of their income from such funds with minimal tax leakage and minimal tax compliance obligations.

Fund houses and fund managers that have an active business presence in (i) mainland India through SEBI-regulated entities such as mutual funds, AIFs and PMS. (ii) IFSC-GIFT City through IFSCA-regulated FMEs, AIFs and Retail Funds, are now able to offer some tax efficient investment products to foreign investors who are willing to invest in feeder funds that are located in IFSC-GIFT City that will pool the monies of international investors to be channelised into their mainland SEBI regulated India domiciled investment funds that will onward invest in Indian securities.

SEBI-registered FPIs that are set up by asset managers in IFSC-GIFT City and which invest in inter-alia Indian securities are now permitted to raise monies from NRIs, PIOs, and RIs beyond the 25 percent individual investor limit and the 50 percent aggregate investor limit that SEBI has prescribed for FPIs in relation to this category of investors. This has made it essential for asset managers who wish to target wealthy NRIs/PIOs/RI investors predominantly to establish an active FPI investment fund structure in IFSC-GIFT City to provide them with a tax-efficient investment fund structure.

6 | Way forward: Capturing the US$1.6 trillion market opportunity





As mentioned earlier, the wealth management market in India is estimated to present an opportunity field of US$1.6 trillion in the next 5 years. While the market so far is driven by propositions for UHNI and HNI customers in T30 centres, the next wave of demand, in addition to the existing customer segments, is expected to come from affluent customers from all centres and UHNI/HNI customers from B30 centres.

Players looking to build holistic wealth management propositions must focus on building targeted product propositions and service models in line with the requirements of the target customer segment, keeping profitability, customer experience and regulatory compliance at the core of their business construct.

Glossary

AUM	Asset Under Management
AIF	Alternate Investment Fund
PMS	Portfolio Management Services
HNI	High Networth Individuals
UHNI	Ultra-High Networth Individuals
EPFO	Employees' Provident Fund Organisation
PF	Provident Fund
MF	Mutual Fund
LRS	Liberalised Remittance Scheme
SGB	Sovereign Gold Bond
ETF	Exchange Traded Fund
RIA	Registered Investment Advisor
SEBI	Securities and Exchange Board of India
ARN	Application Reference Number
CoR	Certificate of Registration
PIPE	Private Investments in Public Equity
SME	Small and Medium Enterprises
NISM	National Institute of Securities Market
NFO	New Fund Offer
CAS	Consolidated Account Statement
AMFI	Association of Mutual Funds in India
FIP	Financial Information Providers
TRV	Total Relationship Value
ELSS	Equity Linked Savings Scheme
PPF	Public Provident Fund
IFSC	International Financial Services Centre
GIFT	Gujarat International Finance Tec-City
NRI	Non-Resident Indians
PIO	Person of Indian Origin

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