1 INTRODUCTION TO WEALTH MANAGEMENT

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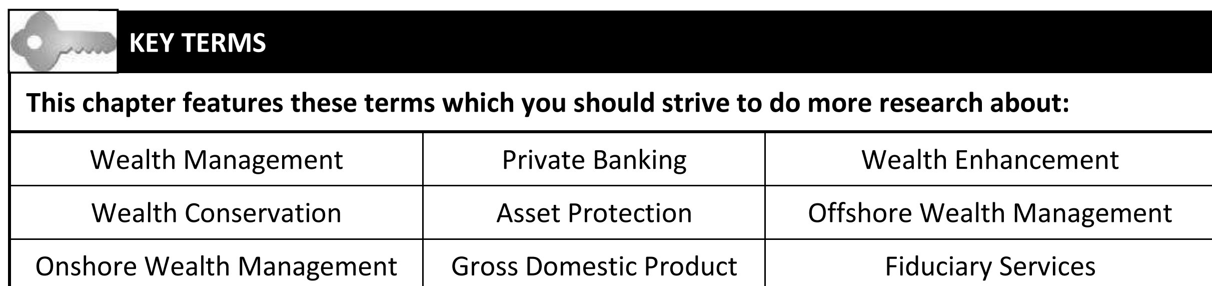
LEARNING OBJECTIVE

After studying this chapter, you should be able to:

- Understand the concept of the wealth management
- Able to differentiate between wealth management and private banking
- Describe the importance of comprehensive wealth management
- Understand different segments of wealth management business
- Understand the dynamics of the global wealth management markets
- Understand the verticals of the wealth management
- Explain the functions and role of the wealth manager



KEY TERMS

This chapter features these terms which you should strive to do more research about:

Wealth Management	Private Banking	Wealth Enhancement
Wealth Conservation	Asset Protection	Offshore Wealth Management
Onshore Wealth Management	Gross Domestic Product	Fiduciary Services

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WHAT IS WEALTH MANAGEMENT?

Wealth management is an investment advisory discipline that incorporates financial planning, investment portfolio management and a number of aggregated financial services. High Net worth Individuals (HNWIs), small business owners and families who desire the assistance of a credentialed financial advisory specialist call upon wealth managers to coordinate retail banking, estate planning, legal resources, tax professionals and investment management.

Private banking forms an important, more exclusive, subset of wealth management. At least until recently, it largely consisted of banking services (deposit taking and payments), discretionary asset management, brokerage, limited tax advisory services and some basic concierge-type services, offered by a single designated relationship manager. On the whole, many clients trusted their private banking relationship manager to take care of their wealth, and took a largely passive approach to financial decision making.

Private banking has a very long pedigree, stretching back at least as far as the seventeenth century in the case of some British private banks. It is, however, only really over the last 15 years or so that the term 'wealth management' has found its way into common industry parlance. It developed in response to the arrival of mass affluence during the latter part of the twentieth century, more sophisticated client 'needs' throughout the wealth spectrum; a desire among some clients to be more actively involved in the management of their money; a willingness on the part of some types of financial services players, such as retail banks and brokerages, to extend their offerings to meet the new demand; and, more generally, a recognition among providers that, for many clients, conventional mass-market retail financial services are inadequate.

There is no generally accepted standard definition of wealth management – both in terms of the products and services provided and the constitution of the client base served – but a basic definition would be financial services provided to wealthy clients, mainly individuals and their families.

Wealth Management is therefore a broader area of financial services than private banking in two main ways:

1. **Product Range:** As in private banking, asset management services are at the heart of the wealth management industry. But wealth management is more than asset management. It focuses on both sides of the client's balance sheet. Wealth Management has a greater emphasis on financial advice and is concerned with gathering, maintaining, preserving, enhancing and transferring wealth. It includes the following types of products and services:
   (a) Brokerage.
   (b) Core banking-type products, such as current accounts, time deposits and liquidity management.
   (c) Lending products, such as margin lending, credit cards, mortgages and private jet finance.
   (d) Insurance and protection products, such as property and health insurance, life assurance and pensions.
   (e) Asset management in its broadest sense: discretionary and advisory, financial and nonfinancial assets (such as real estate, commodities, wine and art), conventional, structured and alternative investments.
   (f) Advice in all shapes and forms: asset allocation, wealth structuring, tax and trusts, various types of planning (financial, inheritance, pensions, philanthropic), family-dispute resolution etc.
   (g) A wide range of concierge-type services, including yacht broking, art storage, real estate location, and hotel, restaurant and theatre booking.

   Based on research by BCG, non-cash investments may account for no more than 36% of the global wealth management revenue pool.

2. **Client Segments:** Private banking targets only the very wealthiest clients or high net worth individuals (HNWIs). Broadly speaking, those with more than around $1 million in investable assets. Wealth management, by contrast, targets clients with assets as low as $100 000, i.e. affluent as well as high net worth (HNW) clients.

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Robert J. McCann, President of the Private Client Group at Merrill Lynch, provided a very precise definition of wealth management at a recent industry conference.

"Wealth management addresses every aspect of a client's financial life in a consultative and a highly individualized way. It uses a complete range of products, services and strategies. A wealth manager has to gather information both financial and personal to create an individualized series of recommendations, and be able to make those recommendations completely tailored to each client. What wealth management requires is connecting with clients on a personal level that is way beyond the (retail financial services) industry norm.

When asked to describe the factors that distinguish their services from other types of retail financial institution, wealth managers emphasize the uniqueness of their client relationships – relationships that are broad, in that they encompass all areas of a client's financial life, and deep breadth and depth of relationship enables the wealth manager to develop and implement highly tailored solutions that address all aspects of a client's financial well-being.

At a minimum, the following three criteria differentiate a firm as a wealth manager:

1. The relationship that wealth managers have with their clients, both in terms of breadth (where providers emphasize terms such as 'holistic', 'comprehensive' and 'all-inclusive') and depth ('intimate' and 'individualized').
2. The products and services provided, with a particular emphasis on estate planning and multi-generational planning services, as well as tax advisory expertise and alternative investments.
3. The specific objectives of wealthy clients, such as investment performance, wealth preservation or wealth transfer.

Need for Wealth Management Services: Most people are in need of wealth management. They have various financial and personal goals they want to attain for themselves, their families, and perhaps for charitable entities and others. Of course, some persons and families have situations and objectives that are more complex than others. But virtually everyone has a need for planning to some degree.

To help meet their goals, the public is offered a sometimes-bewildering array of investment products, financing plans, insurance coverage, tax saving ideas, retirement plans, trusts, charitable giving arrangements, and other products and ideas. However, these financial arrangements and ideas often are presented in a piecemeal fashion without overall coordination and planning. In contrast, the concept of private wealth management is the development and implementation of comprehensive plans for achieving a person's overall financial and personal objectives.

Wealth Management over a Family's Economic Lifecycle: People deal with their objectives over their entire economic lifecycle. This cycle encompasses their early years as an income earner when they often are purchasing a home, concerned with debt management, protecting a young family with adequate insurance, and hopefully beginning their wealth accumulation program. When they enter their higher-earning years, they should have significant capital accumulation, but at this midlife period, they also often are faced with financing their children's higher education, planning in earnest for their own retirements, and perhaps needing to provide financial support (including possible custodial care) for aged parents or other relatives.

Then there are their immediate preretirement and retirement years, when they must organize their affairs so that they will have adequate retirement income during the lifetimes of both spouses. They also may want to arrange their retirement plan distributions so that they can meet both their retirement income needs and their wealth-transfer objectives in a tax-efficient manner.

Depending on how old people are when they have their children and the ages of their parents, they also may be faced with higher education expenses and the cost of caring for aged parents at the very time they need to be primarily concerned with income for their own retirements. Finally, people normally plan for the transmission of their wealth during their lifetimes and/or after their deaths to their children, grandchildren, or other heirs, again in a tax efficient manner (estate planning).

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Need for financial planning

Financial planning can be said as a regular approach to meet one's life goals. A financial plan acts as a guide as you go through life's journey. Essentially, it helps you be in control of your income, expenses and investments such that you can manage your money and achieve your goals.

A financial planner is the one who is a qualified investment professional who helps individuals and corporations meet their long-term financial objectives. These professionals do their work by consulting with clients to analyze their goals, risk tolerance, and life or corporate stages, then identify a suitable class of investments for them. They can also set up a program to help the client meet those goals by distributing their available savings into a diversified collection of investments designed to grow or provide income, as desired.

What are the benefits of financial planning?

There are numerous practical benefits to financial planning. It helps you to:

1. **Increase your savings:** It may be possible to save money without having a financial plan. But it may not be the most efficient way to go about it. When you create a financial plan, you get a good deal of insight into your income and expenses. You can track and cut down your costs consciously. This automatically increases your savings in the long run.
2. **Enjoy a better standard of living:** Most people assume that they would have to sacrifice their standard of living if their monthly bills and EMI repayments are to be addressed. On the contrary, with a good financial plan, you would not need to compromise your lifestyle. It is possible to achieve your goals while living in relative comfort.
3. **Be prepared for emergencies**: Creating an emergency fund is a critical aspect of financial planning. Here, you need to ensure that you have a fund that is equal to at least 6 months of your monthly salary. This way, you don't have to worry about procuring funds in case of a family emergency or a job loss. The emergency fund can help you pay for varied expenses on time.
4. **Attain peace of mind**: With adequate funds at hand, you can cover your monthly expenses, invest for your future goals and splurge a little for yourself and your family, without worry. Financial planning helps you manage your money efficiently and enjoy peace of mind. Don't worry if you have not yet reached this stage. If you are on the path of financial planning, the destination of financial peace is not very far away.

Financial Planning for life goals

The importance of personal financial planning in India cannot be ignored. It is not just about increasing your savings and reducing your expenses. Financial planning is a lot more than that. This includes achieving your future goals, such as:

1. **Wealth creation:** The rise in the price of everyday items means that if you want to maintain or increase your current standard of living in the future, you need to create a sufficient corpus of wealth. You may also want to purchase a better car or a new house in the future. All this requires money, and it merely highlights the importance of wealth creation. It is possible to achieve these goals by carefully investing your money in the right avenues. Equity mutual funds can be a suitable option for long term goals. These funds could help the investor to accumulate wealth in the long run.
2. **Retirement planning:** Your retirement may be 25 or 30 years in the future. But that does not mean you plan for it when you retire. To enjoy a happy and comfortable retired life, you need to start building your safety net right now. Planning at an early stage in life can help secure your future against financial uncertainties. Also, you invest lesser amounts if you start early and gain from the power of compounding which helps to build a large enough corpus over the 25-30 year period.
3. **Child's education:** Education has become very expensive, not only in India but across the world. And in future, this cost is only going to rise. This is why it is necessary to start planning from the moment your child is born. Calculate how much you wish to earn and start investing in long-

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term investment avenues that can help you achieve this goal. You can approach a financial advisor for advice if you are not sure how to proceed further.

4. **Saving tax**: Every year, you are probably paying a substantial amount as tax. But you can now lower your tax outgo legally. The Indian Income Tax Act provides various provisions for people to reduce their tax outgo. By planning your taxes in advance, you can identify the best avenues to invest your money and reduce your taxable income. Mutual funds provide a tax efficient avenue for investing for your life goals.

Roles and duties of a Financial Planner

1. Provide financial planning and investment advisory services.
2. Research and present investment strategies.
3. Develop and execute retirement planning.
4. Implement risk management and tax planning strategies.
5. Coordinate estate planning.
6. Manage client relationships.
7. Identify and cultivate new clients.
8. Develop and grow a book of business.
9. Open, transfer, and manage client accounts.
10. Prepare financial policy and procedure documentation.
11. Identify financial process improvement.
12. Generate and process paper and electronic documents.

Distinction between Financial planning and Wealth management

Financial planning and wealth management are inherently very similar. Yet, there are some key differences.

Wealth Management	Financial Planning
Undertaken by the wealthy	Undertaken by everybody
Needs existing wealth	Does not need existing wealth
Deals with preservation and increase in wealth	Deals with all things
More active management	Comparatively passive management

COMPREHENSIVE WEALTH MANAGEMENT

Comprehensive Wealth Management addresses investment planning, life planning, retirement, estate planning, child support, tax issues, insurance issues (life, medical, disability, etc.), and charitable giving. Going further, the best wealth managers will also keep a number of “advanced planning” perspectives in mind, including:

Wealth Enhancement: Ways to maximize the tax efficiency of current assets and cash flow while achieving capital growth and preservation goals.

Wealth Conservation: Legally structuring the future disposition of current assets to minimize taxes and maximize the benefits to chosen beneficiaries.

Asset Protection: Using insurance and other strategies to make sure your wealth is not unjustly taken from you, your partner, or your children.

Charitable Gifting: Maximizing your charitable intent so you can best support important causes, including those related to gay and lesbian rights.

Wealth managers may serve clients under different types of investment mandate.

At the most basic level, the wealth manager may act as a pure custodian for a client’s assets. That involves, essentially, asset safekeeping, income collection, fund disbursement and associated

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reporting. Under an **execution-only mandate,** the wealth manager executes, or selects brokers to execute, securities transactions on behalf of the client. The wealth manager does not provide investment advice, so this service is aimed primarily at self-directed clients. The wealth manager is typically required to seek 'best execution' for client transactions, i.e. executing transactions so that the client's total cost, or proceeds, in each transaction is as favorable as possible to the client under the particular circumstances at that time.

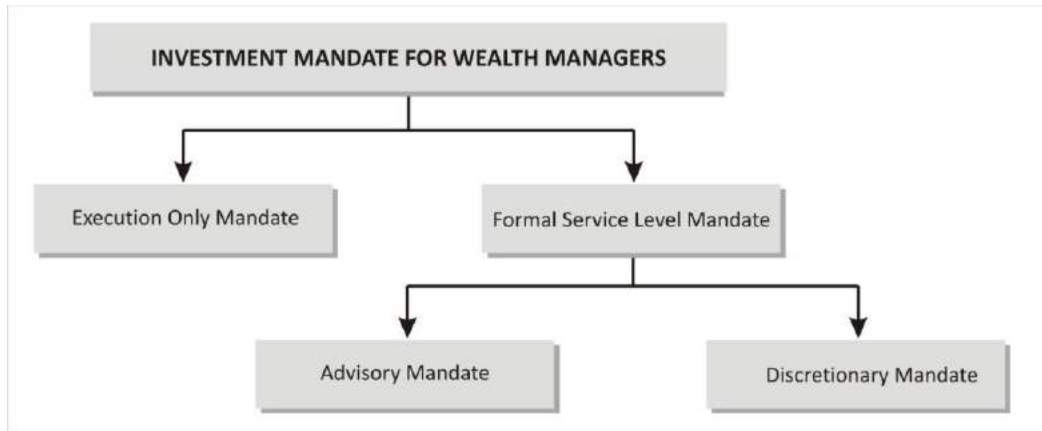

Exhibit 1.1: Investment mandate for Wealth Managers

The next level of investment mandate is a formal service-level mandate, of which there are two types:

Advisory mandate, under which the wealth manager will discuss and advise the client on investment opportunities. The client then makes the buying and selling decisions based on a combination of his or her own ideas and the investment advice of the wealth manager. The wealth manager will not make any investment decision without the client's prior approval. The wealth manager is generally paid a commission based on the volume of executed trades, plus custody fees.

Discretionary mandate, under which the wealth manager usually has sole authority to buy and sell assets and execute transactions for the benefit of the client, in addition to providing investment advice. Discretionary management works by starting off with the construction of a brief with the client, detailing investment aims, level of risk-aversion and other factors that will influence the portfolio. In some discretionary accounts, the wealth manager is given only limited investment authority. However, in all cases, major investment decisions, such as changing the account's investment strategy or asset allocation guidelines, may be subject to the client's approval. The wealth manager is generally paid on the basis of a flat-fee arrangement linked to the value of the assets under management. The gross revenue margin of a discretionary mandate is typically at least double that of an execution-only mandate. The proportion of clients using advisory mandates is, in general, relatively stable across the various client wealth bands. Execution-only mandates become more prevalent, and discretionary mandates less prevalent, as client wealth rises. That typically reflects a greater degree of financial sophistication among the wealthier clients.

Offshore versus Onshore Wealth Management: A fundamental distinction within wealth management is onshore versus offshore. Onshore wealth management is the provision of products and services within the client's main country of residence. Offshore wealth management, by contrast, serves clients wishing to manage their wealth outside their main country of residence for reasons such as: financial confidentiality, legal-system flexibility, tax considerations, the lack of appropriate products and services onshore, a low level of trust in domestic financial markets and governments and the need for safety and geographical diversification in response to domestic political and macroeconomic risks. Indeed, some clients treat their offshore account(s) primarily as a 'vault'.

Some practitioners go further and refer to four types of wealth management. Take the example of an Indian wealth manager. It will, of course, have a presence in India: its domestic business. Its domestic business will typically serve two types of clients. First, there are Indian clients seeking to

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keep assets within their own country of residence, which is referred to as the wealth manager's domestic onshore business. Its domestic business may also serve clients from outside India, which is referred to as the wealth manager's domestic offshore business for example serving NRI Clients. The Indian wealth manager may also have a presence outside India: its international business. That may include a presence in Italy, serving both Italian clients (i.e. its international onshore business) and non-Italian clients (i.e. its international offshore business)

So the Wealth Manager Business can be divided into:

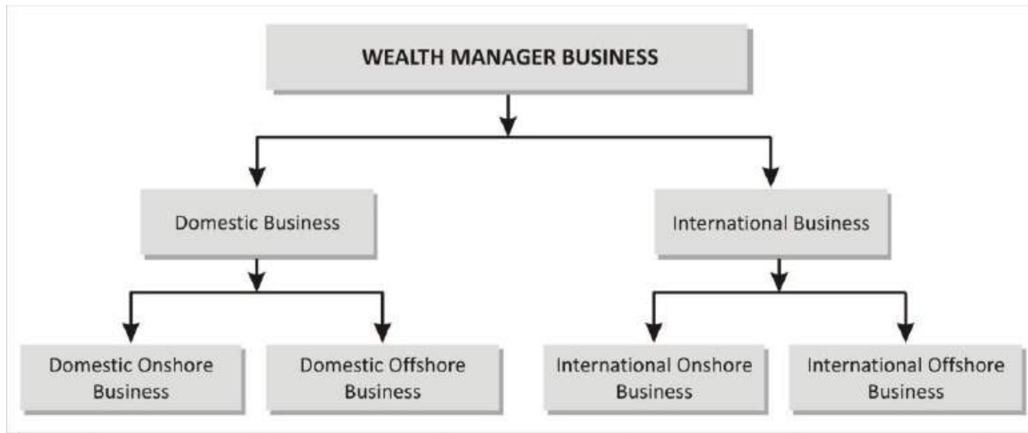

Exhibit 1.2: Wealth Manager Business

The onshore/offshore distinction matters because these two types of wealth management have very different client appeal, dynamics, product sets and economics. Exhibit 1.3 illustrates that offshore private banks need, in particular, strong brands, trustworthiness and a high degree of professionalism. For onshore private banks, there is greater emphasis on local branch presence, strong relationships and 'user friendliness'. As Exhibit 1.4 illustrates, the proportion of wealth managed offshore varies significantly across regions. There is a general trend for assets to shift onshore, particularly in Western Europe, which is primarily driven by a series of global tax initiatives. But that shift is happening at different speeds, and some regions – including Africa, the Middle East, Latin America and Eastern Europe – continue to have a sizeable offshore wealth component.

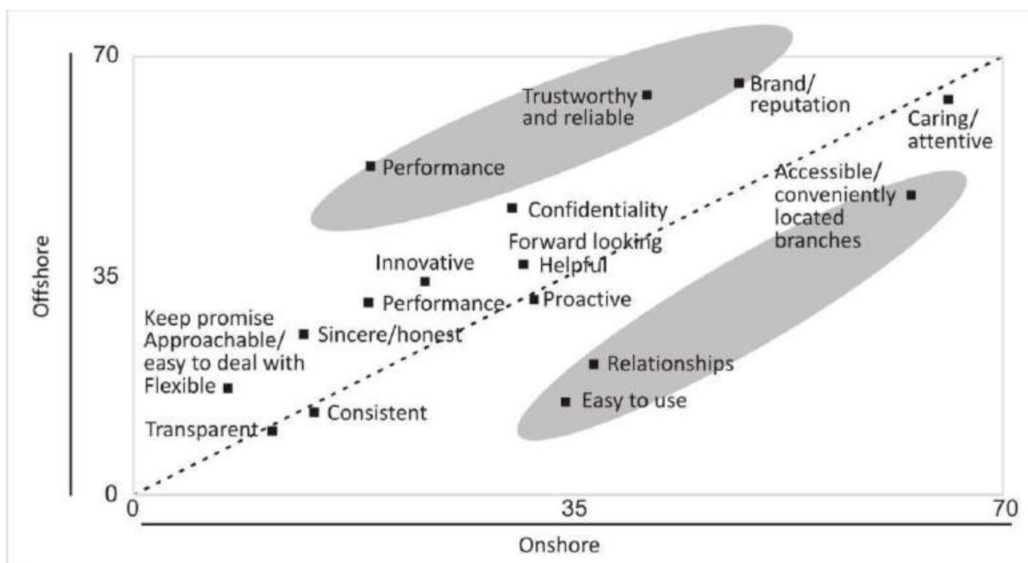

Exhibit 1.3: Importance of brand attributes for given types of bank

At the client level, the proportion of wealth held offshore tends to rise in line with the level of wealth. In terms of offshore wealth destinations, the main offshore centers are Switzerland, the United Kingdom (including the UK Channel Islands – Jersey, Guernsey and Isle of Man), Hong Kong, Singapore, Luxembourg, Gibraltar, Monaco, Cayman Islands, the Bahamas, New York and Miami.

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There are different types of offshore centers. Some – such as London, New York and Miami – offer a comprehensive range of private banking services in their own right. Others, such as the Cayman Islands, are principally booking centers, where funds and transactions are registered.

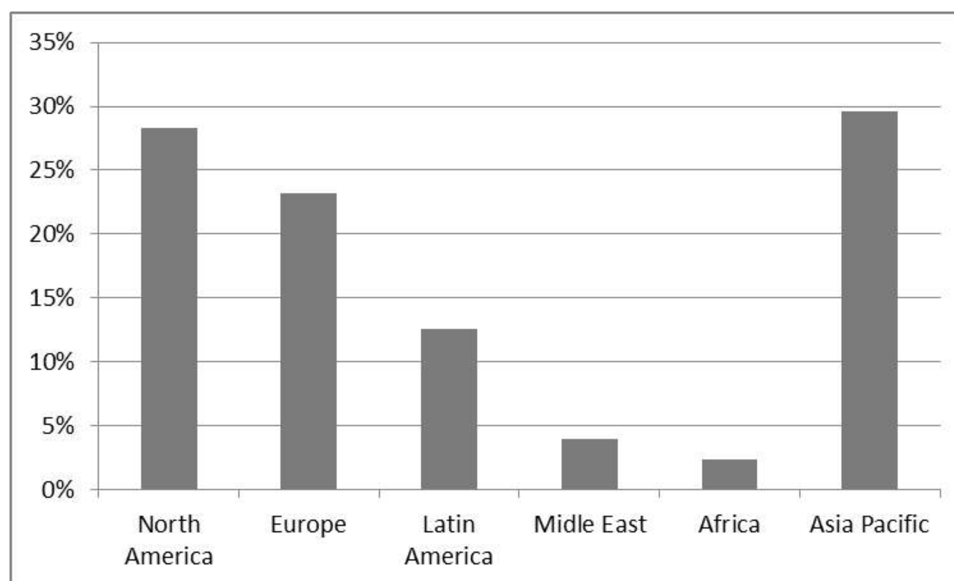

Exhibit 1.4: Percentage of total Wealth from Given Region

Region	HNWI Wealth (Billion)	% of Total Wealth
North America	16600	28%
Europe	13600	23%
Latin America	7400	13%
Middle East	2300	4%
Africa	1400	2%
Asia Pacific	17400	30%
Total HNWI	58700	

Market size and growth: Primary questions for wealth managers the world over is: who are the wealthy and how much wealth do they have? Measuring the size of the wealth management market is certainly no easy task. For a start, as noted above, there is no generally accepted market definition. Individual institutions differ widely both in the level of the wealth threshold they use to separate a wealth management 'client' from a mass-market 'customer', and in how they define wealth itself. Frequently used metrics include: annual gross income, liquid financial assets, investable assets, net worth (i.e. assets net of debt) or some combination of these. The thresholds are sometimes defined by the geographic market that the wealth management provider is targeting. The wealth management market is probably best thought of as a group of distinct submarkets, based on client wealth bands. Again, institutions vary considerably in how they define these wealth bands and in how they label them. Broadly, the market can be divided into two subgroups – affluent and high net-worth – with, in turn, further sub segmentation within each.

Segment	Investable Assets
Retail	USD50,000
Mass affluent	USD100,000
Affluent	USD200,000

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Segment	Investable Assets
Medium Net worth	USD500,000
High Net worth	USD1,000,000
Super HNW	USD3,000,000
Quite HNW	USD3,000,000
VHNW	USD5,000,000
VVHNW	USD10,000,000
UHNW	USD20,000,000
Multi-family office	USD50,000,000
Family office	USD100,000,000

ESTIMATING WEALTH MARKET FOR A COUNTRY

Most estimates of the wealth market for a given country (or region) follow a two-step methodology:

- Estimate the stock of total wealth.
- Estimate how that wealth is distributed across the adult population.

To estimate the stock of total wealth, basic source data are typically available from national statistical offices, central banks and investment industry associations. In the absence of wealth-stock data, one approach is to cumulate national accounts-based private savings flow data. Another approach is to rely on the relationship between net private investment assets and nominal gross domestic product (GDP). For both approaches, the financial asset data are captured at book value, so a market-value adjustment is required, based on movements in equity, bond and real estate prices. To the extent that offshore investment flows are not accurately reflected in all national accounts data, a further adjustment will be required. Total wealth is then distributed within each country using the relevant official statistics for those countries where such data are available. For countries without such data, estimates are made on the basis of the wealth distribution patterns of countries with similar income distributions. Income-distribution data can be summarized by the 'Gina coefficient', which measures the extent to which the distribution of income (or, in some cases, consumption expenditure) among individuals or households within an economy deviates from a perfectly equal distribution. The coefficient falls between zero for perfect equality and one for extreme inequality. Gina coefficients for individual countries vary between close to 0.25 for egalitarian high-income countries such as Japan and Sweden and close to 0.6 for Brazil, which is one of world's most in egalitarian countries. The World Bank provides estimates of the Gini coefficient for most countries in its World Development Indicators publication; its most recent estimates show the US coefficient as 0.41 and the UK coefficient as 0.36. (Calculating the Gini coefficient is based on the Lorenz curve, which plots the cumulative percentages of total income received against the cumulative number of recipients, starting with the poorest individual or household. The coefficient measures the area between the Lorenz curve and a hypothetical line of absolute equality, expressed as a percentage of the maximum area under the line.)

Within this general methodology, approaches vary, particularly with regard to how wealth is defined.

Data monitor defines wealth by reference to onshore liquid assets only, including cash, equities, bonds and funds. Its typical approach is to use the UK as a base country. The UK is one of the few countries that have relatively robust liquid-asset distribution data (sourced from HM Revenue and Customs). For other countries, it calculates total wealth from public data sources, and then establishes a distribution for that wealth based on a skewed version of the UK's wealth distribution. The degree of skew applied is determined by a series of multipliers, which take into account factors such as population, asset holdings per capita and relative Gini coefficients. Data monitor defines 'mass affluent' individuals as those with liquid assets of \$54k–\$360k, HNWIs as those with liquid

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assets of $360k–$9 million and UHNWIs (ultra-high net worth individuals) as those with liquid assets of more than $9 million.

- Driven by accelerating economic and equity-market performance in key regions, global HNWI wealth grew 10.6% to surpass the US$70 trillion threshold for the first time - registering its sixth-consecutive year of gains. Strong equity markets supported wealth generation as global market capitalization grew 21.8%.
- Asia-Pacific and North America powered the growth in HNWI population and wealth. At 42.4%, Asia-Pacific contributed the most to global HNWI population growth (664.7k of the 1.6 million global increases in HNWI population) and accounted for 41.4% of the increase in global HNWI financial wealth (US$2.8 trillion of the total global increase of US$6.7 trillion). North America was not far behind, accounting for 27.4% of the global increase in HNWI financial wealth.
- The positive story in Europe, the third-largest region, carried on in 2017. The majority of European markets performed well, with Ireland the leader in HNWI population growth (15.3%) and HNWI wealth growth (16.3%). Stagnant economic performance combined with slowing equity-market growth and falls in the value of real estate led to the U.K.'s relatively flat performance in 2017.
- Ultra-HNWIs6 continued their traditional role as global growth drivers with an 11.2% increase in global population and 12.0% wealth expansion. 2017 was the second- consecutive growth year for the ultra-HNWI segment, which outperformed all wealth bands.
- HNWI wealth remains on course to reach US$100 trillion by 2025. Hitting such a landmark requires primary growth driver, Asia-Pacific to continue its momentum with 8.7% annual growth through 2025. In this scenario, North America and Europe would need to grow at an annual rate of only 3.3% and 2.9%, respectively

Global HNWI wealth surpassed the US$70 trillion threshold for the first time, registering its sixth-consecutive year of gains to grow at 10.6%.7 Speeding past the 2015–2016 growth rate, 2017 was the second- fastest year of HNWI wealth growth since 2011 (bested only by the 13.8% growth rate in 2012–2013).Strong HNWI wealth growth was also buoyed by strong equity markets, as global market capitalization grew 21.8% in 2017. The top three global economies (by GDP) witnessed market capitalization increases of 17.4% (United States), 19.0% (China), and 22.9% (Japan).

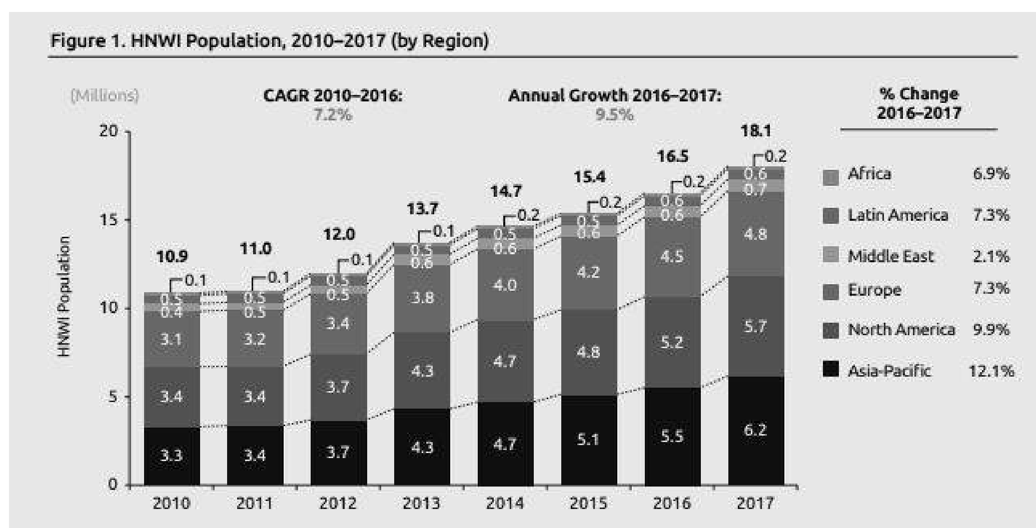

Figure 1. HNWI Population, 2010–2017 (by Region)

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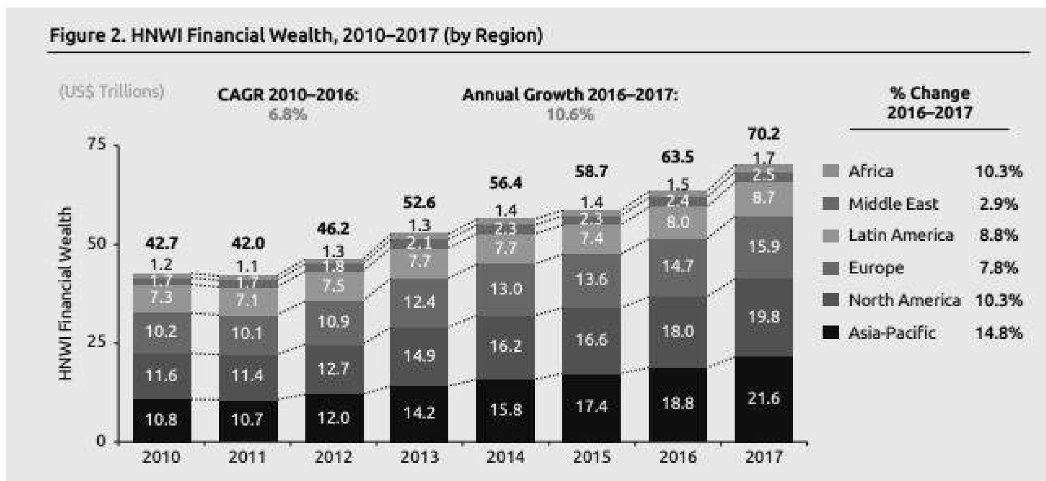

Asia-Pacific and North America powered the growth in HNWI population and wealth, accounting for 74.9% of the increase in global HNWI population (1.2 million new HNWIs) and 68.8% of the rise in HNWI wealth (US$4.6 trillion in new HNWI wealth) (Figure 1).India was the fastest-growing market globally in 2017, with a 20.4% HNWI population expansion and 21.6% HNWI wealth growth

WEALTH MANAGEMENT VERTICALS

The following provides a brief overview of the main types of wealth management players. There are huge differences among them in terms of the types of clients served and the types of products and services offered. They also differ in terms of distribution channels, participation within the industry value chain, geographic coverage and scale. It is a complex patchwork.

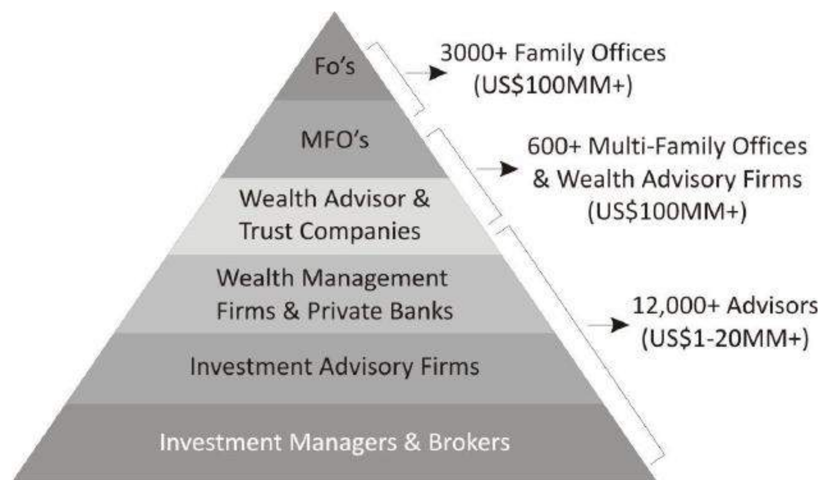

Exhibit 1.7: Wealth Management Verticals

The main types of player are:

1. **Pure Private Banks:** These are a broad category of players that includes the classic Swiss private banking partnerships and other independent players. Mainly targeting HNWIs, these institutions offer clients end-to-end capabilities via a relationship with a senior banker (the relationship manager) that is confidential and founded on trust. Typically, the relationship manager is the client's sole contact point and handles all aspects of the relationship. But private banks, though important, are by no means the only player in the wealth management industry. In fact, recent research by Scorpio Partnership shows that private banks manage only around $4.6 trillion, or 16%, of global HNW wealth.
2. **Trust Banks:** These are essentially the US equivalent of the traditional European private bank. Most have their roots in providing trust and custody services, but have broadened their product range over the years. They now also provide asset management, insurance and financial, tax and

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estate planning. Their core target client segment is UHNWIs, but many have also developed tailored propositions for HNWIs.

3. **Retail and Universal Banks:** These target affluent clients who need comprehensive advice and who value a close banking relationship. Most of them have been shifting their focus up the wealth curve. They offer products across the full client balance sheet, but often struggle to integrate and coordinate them effectively. The emphasis is on 'farming' their existing customer base, including business banking clients. Examples include Citigroup, HSBC, Bank of America and ABN AMRO.

4. **Family Offices:** These serve the very wealthiest clients, acting as an integrated hub for the family's financial administration.

   They perform, essentially, three main functions:

   (a) Specialist advice and planning (including financial, tax, strategic and philanthropic);

   (b) Investment management (including asset allocation, risk management, investment due diligence and analysis, discretionary asset management and trading)

   (c) Administration (including coordination of relationships with financial services providers and consolidated financial reporting).

   From the client's point of view, the family office's key attractions include independence, control and highly tailored, specialist expertise. A family office may be dedicated either to a single family or serve a small number of families. Some of the major private banks, such as Picket and JP Morgan, have developed their own multifamily offices, but the vast majority are independent specialists (and have, in some instances, evolved from single family offices). Family offices are particularly well developed in the US, and are starting to evolve in Europe and to some extent in Asia.

5. **Financial Advisors:** These focus on clients who seek independent investment advice. Their distribution traditionally relies heavily on a mobile sales force of well-trained and highly incentivized advisors. Over recent years, a number of web-based advisors have emerged. They offer above-average advisory quality and act as a gateway to third-party product providers.

6. **Stockbrokers and Wire Houses:** These target self-directed investors and traders for their day-today transaction execution and investment needs. They offer low-cost access to a range of investment products as well as to extensive investment research. But they are not exclusively dedicated to affluent clients, do not typically offer much in the way of customized advice and often lack transaction banking products It is a diverse group, including firms that have the roots in online broking such as E*TRADE, as well as full-service brokers such as Merrill Lynch.

7. **Direct Banks are Specialist, Low-Cost, Remote-channel Attackers:** Although these models are targeted generally at self-directed clients and do not all focus exclusively on affluent clients, some have nevertheless been able to attract and retain significant numbers of mass affluent clients through aggressive pricing and product innovation and simplification. Examples include ING Direct, which now operates in nine countries, and Egg in the UK.

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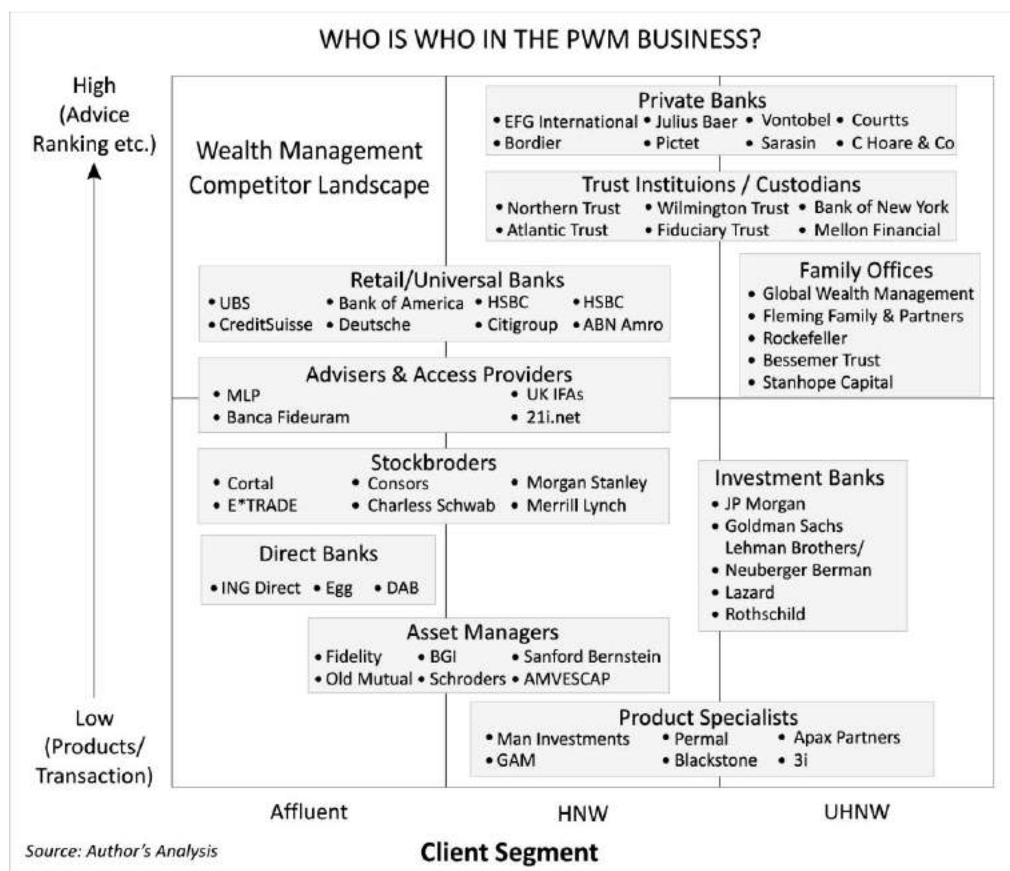

Exhibit 1.8: PWM Business

8. **Asset Managers**: These include independent money managers and divisions of financial services groups. They serve wealthy clients directly through their own captive sales forces, and act as product providers/packagers to third-party distributors seeking best-of-breed and specialist fund management expertise. Examples include Fidelity, Old Mutual and AMVESCAP.
9. **Product Specialists**: These include hedge funds, private equity funds, mutual funds and structured product providers. Lacking their own captive distribution channels, they manufacture products for distribution across a range of HNW channels, including private banks and financial advisors.
10. **Investment Banks:** These include banks like Goldman Sachs and Lehman Brothers. These are stretching their institutional capabilities and targeting it at UHNWIs and, increasingly, the HNW segment. That has been driven, in part, by investment banks' desire to reduce their dependence on volatile trading revenue. To UHNWIs, they offer exclusive access to sophisticated institutional-quality products, including co-investment opportunities. To HNW business owners, for example, they offer sophisticated wealth-diversification products, often as an extension of their corporate finance work. They are also able to leverage their product structuring capabilities (often white-labeling products for private banks) and can connect HNWIs to hedge funds via their prime-brokerage operations.
11. There is also a range of other players, which include insurance companies, accountancy companies and attorneys. Insurance companies, such as Skandia, primarily target the mass affluent client segment. In establishing distinct wealth management operations, they have been motivated by the desire to sell additional products to their existing client base, retain maturing life insurance assets and leverage their distribution networks. Accountants, solicitors and other professionals offer financial planning, trusts and fiduciary services, tax advice and specialist services; some also directly manage wealth themselves.

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FUNCTIONS & SERVICES OF A WEALTH MANAGER

Wealth management is a practice that in its broadest sense describes the combining of personal investment management, financial advisory, and planning disciplines directly for the benefit of high-net-worth clients. But it also is an increasingly popular self-branding reference that advisors and financial representatives of many different stripes adopt, often to describe a wide range of possible functions and business models.

In the narrowest context, a wealth manager helps a client construct an entire investment portfolio and advises on how to prepare for present and future financial needs. The investment portion of wealth management normally entails both asset allocation of a whole portfolio as well as the selection of individual investments. The planning function of wealth management often incorporates tax planning around the investment portfolio as well as estate planning.

More expansive definitions of the term append other tasks to the wealth management relationship, such as philanthropic counseling or coordination of the governance and routine administrative matters of large families. Other wealth managers add banking and lending capabilities or legal advice to their service mix.

The key difference between investment managers, who handle financial products, and wealth managers, who look after personal finance portfolios, is in performance targets and its measurement. Investment managers benchmark themselves to market indices. Their performance is relative and can move up or down depending on the asset class in which they invest. They focus on making the right selection and timing decisions for the securities in their portfolios so that they are able to post returns higher than their chosen benchmarks.

Wealth managers have to deliver an absolute performance within the return and risk range agreed upon with their investors. The financial needs of investors cannot be left to the vagaries of market performance, and therefore, the responsibility of a wealth manager is superior to that of an investment manager. This distinction is lost when wealth managers work as agents selling financial products to investors.

The wealth managers who manage the balance sheets of investors advise them primarily on the assets to be built. Assets are created for their ability to deliver income or grow in value so that it can be realized when needed. The extent to which the value of the assets exceeds the value of the liabilities is the net worth of the investor. Financial decisions should lead to the maximization of net worth in the long run; this is also the index of wealth.

This is the larger objective of wealth management. The fundamental personal finance decisions are about generating a steady income (through investment in human, physical and financial assets), ensuring that a surplus is created regularly (by keeping expenses and repayments in check), and creating an asset portfolio whose value exceeds any borrowings (positive net worth).

Buying insurance is a risk management decision to reduce risk to income (life insurance) and manage any unexpected expense that impacts the surplus (general and health insurance). These are basic housekeeping decisions which a wealth manager should aid.

The next level of strategic decisions is about the quality and composition of asset portfolio. The target rate at which the asset portfolio should grow is determined by the uses to which the assets are to be put in the future. Wealth managers call these financial goals. A personal portfolio has to deliver a target return within a tightly defined range to make sense to a household's finances.

The key responsibility of the wealth manager is to deliver this return through asset allocation. He can do it passively using a model allocation, or actively through a tactical allocation. Wealth management firms differentiate themselves on the basis of these approaches, but the responsibility for managing the target return remains the core. The asset portfolio features risks of various kinds. To the investor, these have to be pre-defined as tolerance limits for loss or maximum downside in the value of assets.

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Wealth Managers use risk profilers to determine these levels. However, they need a deep understanding of the assets they have chosen to see how the risks come together to impact the investor's wealth. Since risk and return are two sides of the same coin, advisers and investors have to redefine how much risk should be taken given a desired return or the maximum return possible given a desired level of risk tolerance.

Exhibit 1.9: Functions of Wealth Manager

Services provided by a Wealth Manager include:

Fiduciary Services: A fiduciary is generally defined as a person or firm that has agreed to act for and on behalf of someone else in a role and manner that produces a relationship of trust and confidence. A fiduciary relationship exists in a wide range of circumstances, including between an attorney and his/her client, a corporate board and the company's shareholders, a trustee and the trust's beneficiaries, an executor and the estate's heirs, and an investment manager and its clients. An individual or firm that agrees to serve as a fiduciary has a legal and ethical duty to act in the best interests of the owners or beneficiaries of the assets entrusted to his/her/its care. Personal fiduciary services are often referred to as private trust, private client, private wealth management, or private banking services.

Fiduciary capacity is defined as the following:

- Trustee, executor, administrator, registrar of stocks and bonds, transfer agent, guardian, assignee, receiver, or custodian under uniform gifts to minors act
- Investment adviser, if the bank receives a fee for its investment advice
- Any capacity in which the bank possesses investment discretion on behalf of another

These services are provided by a person or firm – such as a bank, trust company or registered investment adviser (RIA) — serving as a trustee, executor, personal administrator or discretionary agent having direct responsibility for managing assets for or on behalf of individuals and families, as well as estates, trusts, private foundations and other entities they establish or control. Providers of these services ("personal fiduciaries") also may serve as a trust protector or non-discretionary advisor having an indirect impact on the management of such assets. In contrast, institutional fiduciary services involve managing assets for or on behalf of public corporations, government entities, employee retirement plans and other institutional investors.

Regardless of their role, personal fiduciaries are required to understand the personal characteristics of the owners or beneficiaries of the assets entrusted to their care so that they can apply the relevant standards of performance in a manner that is in the best interests of those owners or beneficiaries. It is this "personalization of application" that most clearly distinguishes personal fiduciaries from institutional fiduciaries.

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Cash Flow Management: Cash flow is the cornerstone of a clients' Wealth Management Plan. Without a clear picture of what money is flowing in and out each month, it is impossible for clients to make informed decisions with respect to the other Wealth Management issues that affect them. In addition to cash flow, the client's debt level and credit history are also important barometers of financial health. Good debt management ensures clients have credit when they need it, make wise borrowing decisions, and avoid disaster if they become overextended.

By working with clients, a Wealth Manager identifies where their cash is going each month and evaluates potential opportunities to improve their cash flow through tax strategies and proper debt management. As a client's Advisor, Wealth Manager helps in determining whether certain strategies such as refinancing, debt consolidation, or changing your clients' tax withholding could be advantageous to their situation. Sometimes a Wealth Manager discovers that clients have more resources than they might have thought to help them pursue their other wealth management goals.

Investment Planning: Investment management is the professional management of various securities (shares, bonds and other securities) and assets (e.g., real estate) in order to meet specified investment goals for the benefit of the investors. Investors may be institutions (insurance companies, pension funds, corporations, charities, educational establishments etc.) or private investors (both directly via investment contracts and more commonly via collective investment schemes e.g. mutual funds or exchange-traded funds).

The term asset management is often used to refer to the investment management of collective investments, (not necessarily) while the more generic fund management may refer to all forms of institutional investment as well as investment management for private investors. Investment managers who specialize in advisory or discretionary management on behalf of (normally wealthy) private investors may often refer to their services as wealth management or portfolio management often within the context of so-called "private banking".

The provision of 'investment management services' includes elements of financial statement analysis, asset selection, stock selection, plan implementation and on-going monitoring of investments. Investment management is a large and important global industry in its own right responsible for caretaking of trillions of Yuan, dollars, euro, pounds and yen. Coming under the remit of financial services many of the world's largest companies are at least in part investment managers and employ millions of staff and create billions in revenue.

Fund manager (or investment adviser in the United States) refers to both a firm that provides investment management services and an individual who directs fund management decisions.

Trust and Estate Planning: Estate planning is the process of anticipating and arranging for the disposal of an estate. Estate planning typically attempts to eliminate uncertainties over the administration of a probate and maximize the value of the estate by reducing taxes and other expenses. Guardians are often designated for minor children and beneficiaries in incapacity. Estate planning involves the will, trusts, beneficiary designations, powers of appointment, property ownership (joint tenancy with rights of survivorship, tenancy in common, tenancy by the entirety), gift, and powers of attorney, specifically the durable financial power of attorney and the durable medical power of attorney. They also advise clients on creating a living will. Specific final arrangements, such as whether to be buried or cremated, are also often part of the documents. More sophisticated estate plans may even cover deferring or decreasing estate taxes or winding up a business.

Tax Planning: other problem wealthy clients often encounter is taxes. None of us likes paying taxes. For most of us, however, we would willingly pay additional taxes if it meant that we were making additional income. For the wealthy it isn't quite so simple. When managing large pools of assets, small differences in tax rates can translate into big changes in after-tax returns. Various types of investments used are treated and taxed differently by the Tax Collecting Agencies. For example, income derived from the interest rates of bonds is taxed differently than long-term capital gains derived from selling stock. It is the private wealth manager's job to balance assorted types of investments to create the most tax efficient combination for the client.

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Wealthy people are also subject to inheritance taxes in developed countries. Accordingly, private wealth managers must help their clients select from a number of products or legal entities, such as trusts or insurance, to preserve their estates after their death. Though the private wealth manager does not offer legal strategy (it is against the law for anyone other than a lawyer to offer legal advice), the manager must be well versed on the various laws regarding trusts and estates. Additionally, private wealth managers often have insight and experience in managing charitable investment entities, such as endowments and foundations.

Table 1.1: Products and Services Offered Through Third Parties

Basic banking products and services		Private banking products and services		Wealth management products and services	
Custody Service	11	Insurance Products	33	Hedge funds	33
Money Market	7	Third Party Mutual Funds	27	Private Equity	33
Term Deposits	3	Real Estate Investments	22	Structured Products	19
Portfolio Valuation Reporting	3	Investment Research	19	Trust and foundation	19
Lending Products	2	Brokerage Services	12	Derivatives	14
Foreign Exchange	2	Securities Lending	3	Tax and Estate Planning	14

Source: IBM Consulting services, European Wealth and Private Banking Industry Survey 2005.

Table 1.1 above shows products and services offered by third party entities and the number of these entities tied up with a typical wealth management service provider in Europe.

These were some of the core services provided by a wealth manager but generally the level and type of services vary according to the entity providing the service and the level of wealth being managed by them.

The Exhibit 1.10 below gives a general insight on the type of services provided by different players in the wealth management domain it is evident that level of services becomes more complex as the wealth of the client increases. We also see the breadth of services increases and the relationship becomes more pronounced as the wealth of the client increases.

Exhibit 1.10: Different Players in Wealth Management

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In recent years, there has been substantial innovation in how wealth managers organize and structure their front-line staff. Key trends here include moves to allocate the number and type of staff more effectively across the client base (e.g. matching senior relationship managers with key clients or potential clients) and a widespread shift to team-based client coverage models.

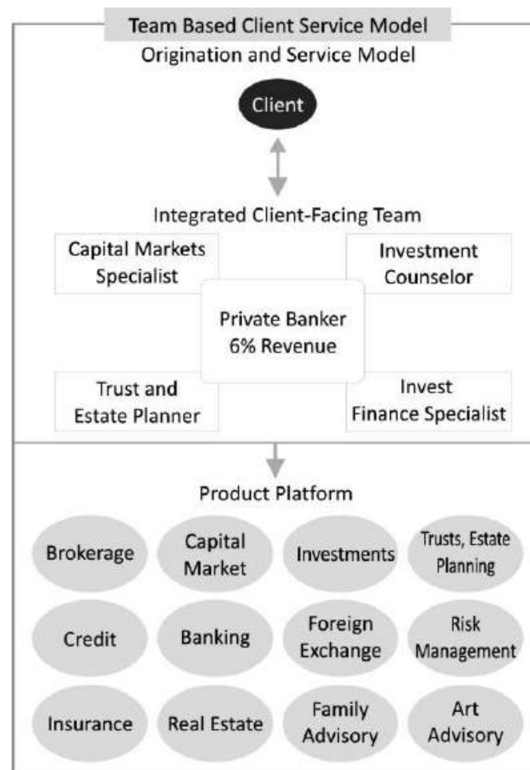

Exhibit 1.11: Typical Wealth Management Structure

Relationship Managers

As the main interface between the client and the supplier of wealth management services, the relationship manager performs an essential function in attracting new clients, servicing existing clients and generating value from such relationships. That, of course, is easier said than done. Wealth Managers not only have to define their target markets and related product offerings but also have to be extremely diligent in attracting top-caliber relationship managers who have to perform a multitude of demanding tasks. It is through the relationship manager that information and advice on products and services are provided – reactively and proactively.

The new model means that relationship managers need to have deeper knowledge, collaborate more effectively with other relationship managers and specialists, and be more results oriented.

The relationship manager has the difficult task of

(a) Acquiring new clients ('hunting')
(b) Serving and retaining existing clients ('farming').

Clients that work well with their relationship manager are more likely to make referrals to the same firm. By understanding client needs and aspirations, relationship managers are best placed to learn about potential new clients and their wealth management requirements. Relationship managers are therefore encouraged to prospect for new leads, learn about clients' experiences with other firms (as most HNWI clients have multiple banking relationships) and identify potential new products and services that may help to attract new clients.

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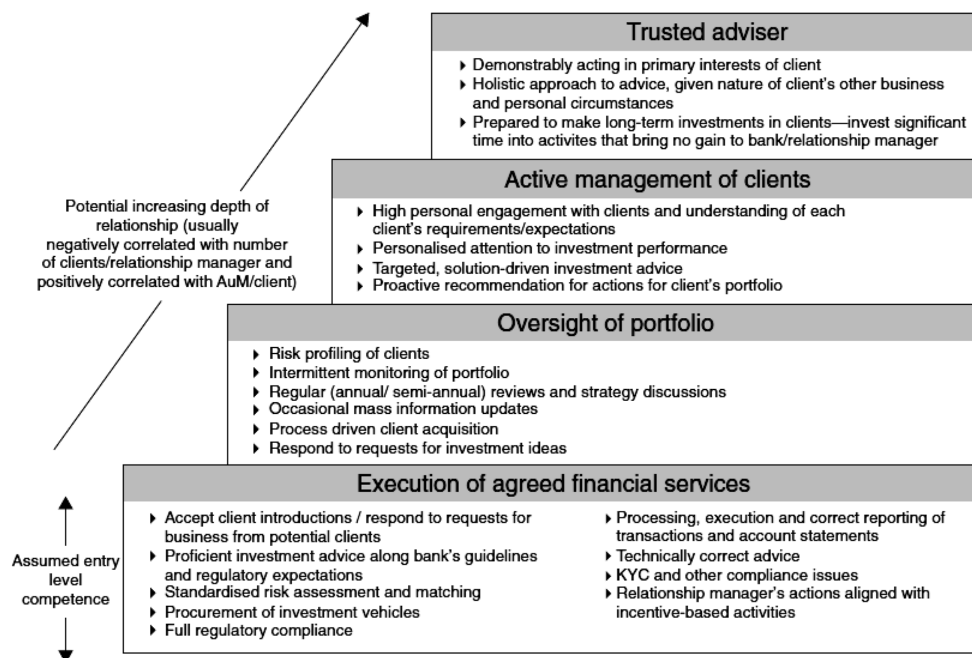

Exhibit 1.12: Step to Excellence in Client Relationship Management

Exhibit 1.12 above shows how a typical relationship manager manages the client relationship and increases the depth of the relationship.

In the past, relationship managers were perceived as self-driven professionals who could be left to function essentially independently. There is a growing trend among private banks to develop team-based approaches to serving clients. In part, this reflects the growing complexity of the role of the relationship manager and the view that relationship managers should dedicate themselves solely to client-facing activity–marshaling, as necessary, appropriate expertise and resources from around the firm. In other words, the relationship manager should be part of a group of experts, including product and other specialists. In some respects, this is a reflection of private bankers aiming to emulate the family office concept, whereby UHNWIs have their own dedicated teams of advisors providing wealth management solutions. For large, integrated wealth management firms, establishing team-based client coverage models can be away of leveraging resources from other parts of their parent organization more effectively. The team-based approach also helps to 'institutionalize' the client relationship, reducing the bank's dependence on individual relationship managers.

Merrill Lynch is a good example of a firm that has developed various team-based approaches to the provision of wealth management services. Its Global Private Client Group recognizes that there should be no single approach to team-based development, and focuses on developing successful teams of various shapes and sizes. The team structures it employs include:

1. **Law Practice Model:** In this model teams are organized like a law firm, with one or more partners at the top of the practice supported by a range of associates who often specialize in different areas of expertise. The latter are typically paid using a salary and bonus structure. For the associates, it can be a good training ground to establish their own practice eventually or there is the possibility of progressing to partnership status. For the team, that can provide a natural succession plan.
2. **Hub-and-spoke Model:** At the center of the team are one or more relationship managers who focus on the areas in which they personally have the strongest skills. Around them is a circle of specialists who are organized and brought in on an ad hoc basis to complement the team' score skills and address specific wealth management requirements. That provides an added level of expertise and differential value for the team.
3. **The Corporate Model:** These teams are organized like companies, with a CEO, a chief operating officer and a structure below performing very specific, well-defined functions. Merrill Lynch

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notes that some of their most successful teams serving corporate executive clients have organized themselves in this way. It provides a service structure that corporate executives are often familiar and comfortable with.

4. **The Family Office Group:** This group is organized to serve the specialist requirements of a small number of UHNWIs and families, whether it be in estate planning, trust management, alternative investments, etc.

Table 1.2: Integrated Wealth Management

Asset Management	Structured Investments	Financial Planning	Bank Services	Other Services
Portfolio Management	Hedge Funds	Tax Strategies	Branch Banking	Economic Research
Asset Allocation	Private Equity	Estate Planning	Credit	Equities Research
Equities Sales (Aus and int) Brokerage	Capital Protected Products	Retirement / Pension Planning	Transaction Management	Int Rates and FX Research
IPO Access	Sophisticated Investor Products	Self-Managed Super Funds	Interest Rate & FX Risk Management	Corporate Advisory
External Investment Funds	Structured Transactions	Investment Structures	Cash & Fixed Interest Rate Products	Real Estate Advisory
Internal Investment Funds			Foreign Currency Accounts	Art Advisory
Derivatives / Asset Monetization			Internet Banking	
			Portfolio Administration	

Today we have moved to integrated wealth management where the wealth management firm acts as one stop shop for the client's financial, banking and legal requirements as can be seen from Table 1.2 above.

The Table 1.3 below gives an insight into how a typical private banking is structured to provide services to clients.

Table 1.3: How is Private Banking Structured?

Origination Relationship Manager	Asset Manager	Specialist Products	Research	Trading
A Relationship Manager develops business with High Net Worth Individuals	Constructs portfolio in accordance with client wishes • Currency • High Low Risk • Debt/Equities • Deposit • Brokerage	Available to clients who wish to pursue specialist areas of investment • Foreign Exchange • Fine art • Real estate • Trust creation • Islamic Investments	Provides investment ideas to the asset managers	Execution of client orders

Management of Wealth Management Services: Wealth management businesses are growing increasingly complex. A typical player must deal with multiple client requirements, business locations, booking centers, operating models and platforms. Business complexity, in turn, leads to

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higher costs. Driven in large measure by recent pressure on economics, Wealth Managers the world over are taking a more proactive approach to operational efficiency and effectiveness. The main aim here is to re-engineer the cost side of their businesses – to produce a lower, flexible, and more variable and scale able cost base. Another aim, just as important for some, is to improve the quality and effectiveness of client service delivery.

Many wealth managers are finding that a joined-up, well-aligned operating model provides an opportunity to:

1. Reduce business complexity and costs, and better manage capacity across the business.
2. Improve client service quality.
3. Support strategic priorities and provide a platform for profitable growth going forward.

Operational efficiency improvements, in turn, enable banks to free-up back-office resources and reallocate them to more productive front-office functions.

Table 1.4: The Wealth Management Value Chain

	SUPPORT FUNCTIONS	BACK OFFICE	MIDDLE OFFICE	FRONT OFFICE
Main Activity	Business administration	Transaction processing	Product manufacturing & management	Client relationship management
Key component functions	• Executive mgmt. • Finance • Planning & Strategy • HR • Marketing & Branding • Legal • Compliance • Audit • Risk • IT • Change	• Operation – Processing – Payments – Custody – Settlement – Clearing – Trust Admin – Reconciliations • Client Reporting	• Investment mgmt. – Research – Asset Allocation – Trade Execution • Product mgmt. – Proposition development – Wealth Structuring – Product Sourcing • Sales administration – Sales performance mgmt. – Sales compliance – Channel mgmt.	• Relationship mgmt. – Advisory – Sales • Client Servicing • Sales Planning & Business development
Indicative % of total cost*	**15%**	**32%**	**8%**	**45%**

*Note: there is substantial variation across business models and individual players

Best-practice wealth managers recognize that there is no improvement without first achieving standardization and stabilization of processes. Without standard processes, it is impossible to improve on any dimension or, for that matter, to measure improvement.

Future trends in Wealth Management

Table 1.5: Transformation of Wealth Management

From	To
➢ Products sale force	➢ Trusted wealth advisor
➢ Secrecy and asset preservation	➢ Value added solutions
➢ Proprietary Products	➢ Open architecture
➢ Investments focus	➢ Full client balance sheet
➢ Stocks and bonds	➢ Alternatives, derivatives, etc.

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From	To
➢ Transactional pricing	➢ Annuity pricing
➢ Off-shore dominant	➢ On-shore dominant
➢ Fragmented	➢ Consolidated
➢ Research as generic service	➢ Research driving investment insights
➢ Research paid through trading execution	➢ Research paid explicitly

Table 1.4 above shows how wealth management is being transformed from a transaction driven service to advisory based model and how this basic change in thinking has brought about a sea change in the Wealth Management organization structure.

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