



Certified Wealth Manager

Sample Material

V-Skills Certifications

**A Government of India
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V-Skills



1. INTRODUCTION TO WEALTH MANAGEMENT

1.1 Understanding Wealth Management

Wealth Management is a combination of financial planning, investment management, estate and tax planning and risk management of an individual's money. The wealth is usually handled by a wealth manager who has the certifications to handle and operate with funds.

Financial planning includes goal setting, retirement planning, college funding, business planning or whatever the client's needs may be. The manager also takes care of his/her client's investments by way of asset allocation, preparing individual stock and bond portfolios, monitoring and rebalancing the portfolios and tax management. The tasks of optimizing family and charity gifts, IRA and retirement plan distribution and retirement plan design fall under the category of estate and tax planning by the manager. As a final set of tasks, but very important, risk management cannot be negated from wealth management, one must analyze insurance; stock options exercise strategy, manage concentrated positions, and protect assets.

In short, wealth management is a comprehensive devise to optimize and effectively put to use an individual's wealth to help maintain and meet his/her goals.

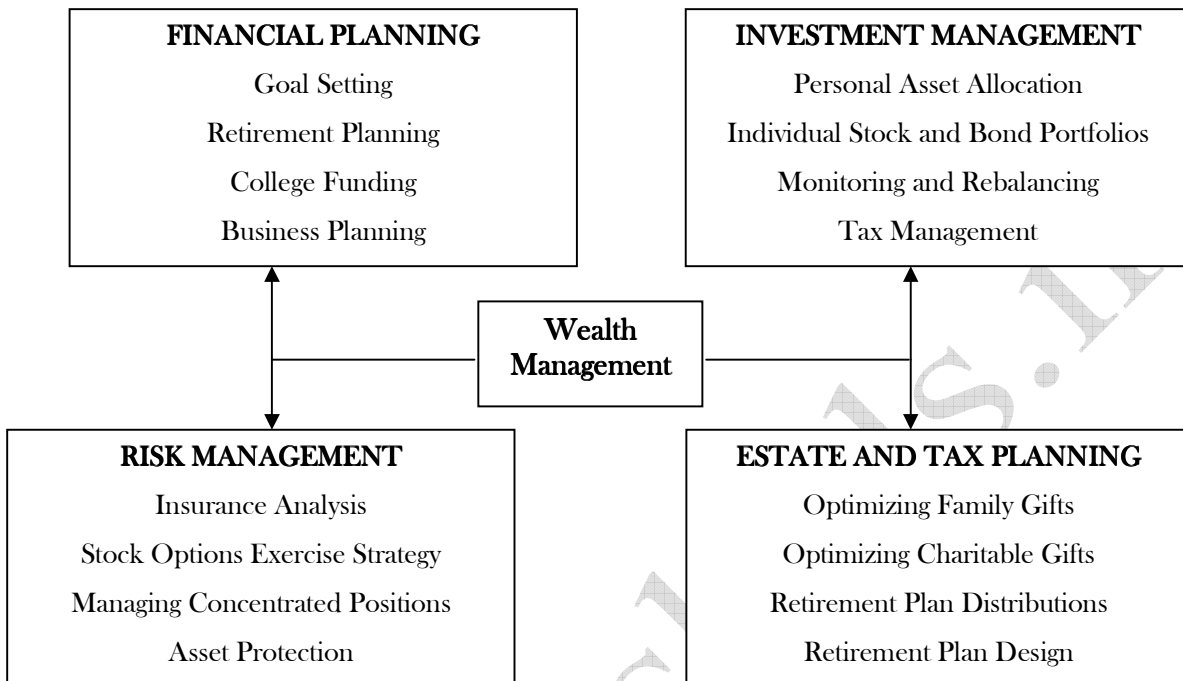
The formula for wealth management is given by,

$$\mathbf{WM = IC + AP}$$

The wealth management (WM) approach is comprised of Investment Consulting (IC) plus Advanced Planning (AP). The first part of the equation, Investment Consulting, plays an integral role in the long term success of goals and objectives. Investments are the mechanisms behind the other planning of an individual financial affair.

The second part of the equation is Advanced Planning. The intention here is to ensure that the financial house is in order so that one can fully achieve the goals. Industry research is clear that financially successful people are concerned with much more than just their investment assets. In fact, preserving wealth is often more important than growing wealth. Thus, the various components of advanced planning address the key concerns of many clients, including wealth

enhancement through income tax mitigation, wealth transfer via estate planning, and wealth protection through insurance.



1.1.1 Wealth Management Process

The designation of a wealth manager requires him/her to profile the client and place his/her in the appropriate segment. The client's asset is allocated and a review is done of the existing portfolio. The portfolio is then optimized. Investment proposal, execution, monitoring and updating, and periodic restructuring are all tasks that fall into the process of wealth management. The process of wealth management involves a cycle with 3 broad stages.

- ✓ Money Management (Accumulation)
- ✓ Personal Financial Planning (Protection)
- ✓ Integration of Life Goals & Financial Planning (Distribution)

Stage I: Money Management (Accumulation)

During this stage the wealth manager becomes acquainted with the client's current position and needs, through the process of investment goals analysis. The needs may comprise of education, insurance, retirement, homes and mortgages, emergency funds, savings etc. According to his/her age, goals and risk taking capacity, portfolio risk analysis is carried out followed by a process to stabilize the client's current portfolio consisting of bonds, mutual funds, indices,

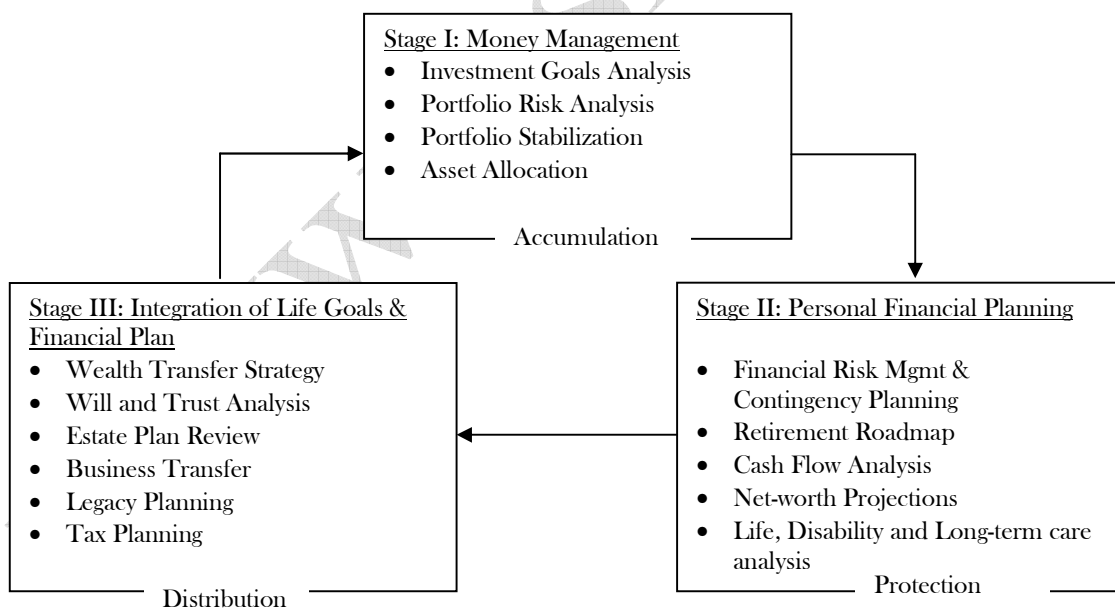
annuities, stock options, short-term assets and stocks. Once this is done, assets are allocated to provide the best returns possible.

Stage II: Personal Financial Planning (Protection)

Having an overall view of how the money will be managed, a wealth manager can start putting together the finer details to achieve the goals. He/she manages the financial risk management and plans for contingencies. A roadmap for retirement is drawn followed by life, disability and long-term care analysis. A cash-flow analysis is also done that leads to projections for the client's net-worth.

Stage III: Integration of Life Goals and Financial Plan (Distribution)

Once the goals and the plans have come into light, plans can be executed according to the strategy devised by the manager. Here, another set of analyses is done for the purpose of the client's will and trust that needs to be put in place along with the legacy planning. Reviewing is done on a regular interval to monitor the estate plan and tax plan. The wealth transfer strategy and business transfer process must be laid out by the manager and explained to the client for approval.



The initial process of the wealth management is usually allotted 90 days for all actions to take place between the client and manager. The break up for which is as follows.

Two weeks: Discovery Meeting

A complete discovery process takes place to know the client and his/her goals, background, current financial status, and risk taking ability. A diagnostic of the current situation, manager's recommendations and details on the investment approach is set.

Third week: Investment Plan Meeting

A presentation of investment plan is provided to the client to work out the means to achieve client's financial goals.

45th day: Mutual Commitment Meeting

A confirmation of commitment is given by both, the client and the manager toward the financial plan lay out.

90th day: 45-day Follow-up Meeting

Organization of the account paperwork is carried out in order to execute the wealth management plans.

After this, regular review meetings are scheduled to address issues as appropriate. The client is able to ask questions at each meeting, and the manager reviews and explain the portfolio's performance relative to the client's long-term goals.

In between all the meeting gaps, the wealth manager(s) apply expertise to evaluate all aspects of the client's financial situation and devise appropriate solutions. For the final plan, a comprehensive evaluation of the entire range of financial and clinical needs with recommendations is provided for attaining such goals.

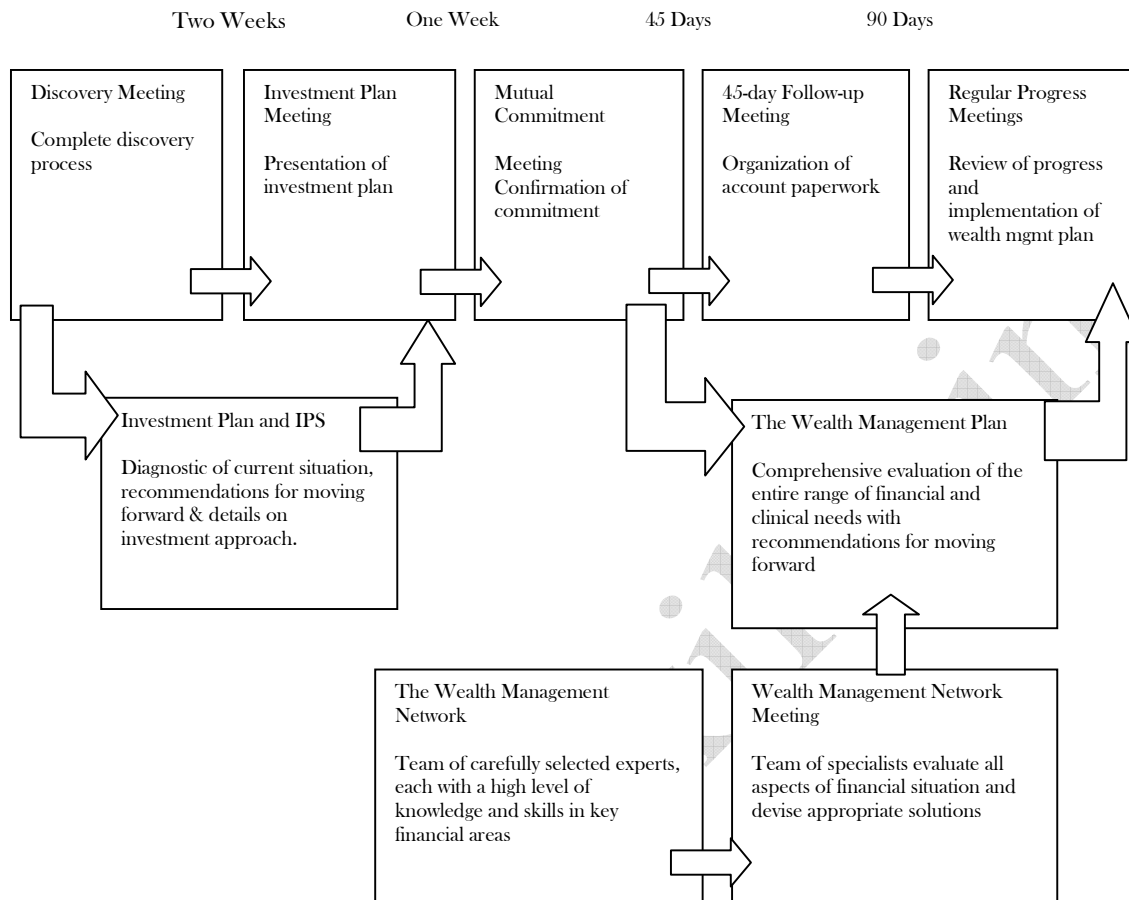


Fig: Wealth Management Process

1.2 Wealth Management Market in India

Demographics

- ✓ Sustained GDP growth has created wealth in many sectors like gems & jewellery, retailing, financial services and BPO.
- ✓ GDP growth is concentrated in Maharashtra, UP and WB.
- ✓ Mumbai alone accounts for 50% of the deposits held by foreign banks.
- ✓ High net worth individuals (HNIs) are defined as those with the financial assets of at least 1 million dollar excluding residential property.
- ✓ Estimated 70,000 HNWI are there in India compared to 8.3 million worldwide.
- ✓ Number of HNIs in India is increasing by 15 to 20% yearly.

Major products offerings

- ✓ Portfolio management services (PMS)
- ✓ Mutual funds Insurance products
- ✓ Equity Fixed income instruments
- ✓ Mortgage lending Real estate
- ✓ Art funds
- ✓ Derivatives and structured products

Though wealth management has been largely practiced by foreign banks, Indian banks have also come at par with international standards. Banks that render wealth management services in India are listed below.

- | | |
|--------------------------------|----------------------------|
| ✓ Barclays PLC | ✓ ICICI Bank limited |
| ✓ BNP Paribas Groups | ✓ ING Group N.V. |
| ✓ Citibank Credit Suisse Group | ✓ JP Morgan Chase & Co |
| ✓ Deutsche Bank AG | ✓ Merrill Lynch & Co. Inc. |
| ✓ HDFC bank limited | ✓ SG Asset Management |
| ✓ State Bank of India | ✓ Standard Chartered PLC |
| ✓ HSBC Holding PLC | |

The trend of wealth management in India is going up as clients are becoming increasingly sophisticated. Open product architecture approach has been adopted by wealth managers and they are being looked upon as “trusted advisors” rather than “money managers” for their clients.

The key limitations are due to the market being in its nascent stage. In India, 85% of the financial assets are still in the form of bank deposits. Unlocking the wealth management potential in the number of high net worth individuals (HNI's) is necessary as this segment has grown to be large in number. Wealth management services have become attractive to financial institutions offering an array of products. Growing economies like India have been responding to stimulus.

- ✓ Rising stock prices
- ✓ An influx of foreign investments
- ✓ Increase in salary and spending power
- ✓ Stock market trading

- ✓ Entrepreneurship
- ✓ Technology and services
- ✓ First generation new class of affluent

The basket of activities that a wealth manager carries out includes asset allocation, cash flow planning, rebalancing existing portfolio, execution of debt, equity and other investments, tactical rebalancing, maintain asset allocation, and review investment objectives.

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