

CAPCO

WEALTH MANAGEMENT IN INDIA A CAPCO PERSPECTIVE



a wipro company

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Although the wealth management market in India is growing and presents a huge opportunity for both domestic and foreign players in India, the competitive landscape is only becoming more intense with fintech players posing bigger threats to the traditional players with their product, pricing, and digital differentiation.

Wealth management players in India would need to respond both strategically and innovatively to be able to compete in an environment fraught with ever-increasing customer expectations – fuelled by shifting demographics and ongoing technological disruption – for digital experiences and personalized goal-

oriented offerings. If correctly executed, notably through recourse to redefined technology and data insight capabilities, incumbent players including banks will be well placed to give competitors old and new a run for their money.

In this paper, we will offer an overview of the wealth management market in India and then discuss the trends shaping that market in light of digital disruption. We will also recommend key actions across strategic, operational and technology fronts required kick off the transformation journeys that will allow players to remain relevant and competitive.

INTRODUCTION

The Indian wealth management market is on a sustained path of growth, driven by India's long-term economic prospects, positive demographics, rising income levels and existing low levels of penetration. Although, the percentage of wealthy individuals in India is small relative to developed markets, India has the second highest number of high-net-worth individuals (HNIs) amongst the BRICS nations, and hence is well positioned as an attractive destination for wealth managers globally.

India's high net worth individual (HNI) population is expected to grow by 75% from 3.5 lakhs in 2020 to 6.11 lakhs in 2025¹.

Ultra-high net worth individuals (UHNIs) are predicted to grow by 39% from current 13,637 in 2021 to 19,006 in 2026¹. Wealth in India is likely to grow by 10% annually and reach US\$5.5 trillion by year 2025². New segment of Millennials called digital natives is growing fast. It is interesting to note the emergence of wealthtech players disrupting the market for incumbent players. These wealthtech players are serving a significant customer base of four million most of which are Millennials. Number of investors in wealthtech products is expected grow three-fold to 12 million by 2025³. This presents a golden opportunity for incumbent players' expansion goals.

Share of APAC Financial Wealth

2.9%

6.1%

6.5%

6.5%

7.2%

Growth of AUM of Wealth Management in India⁴

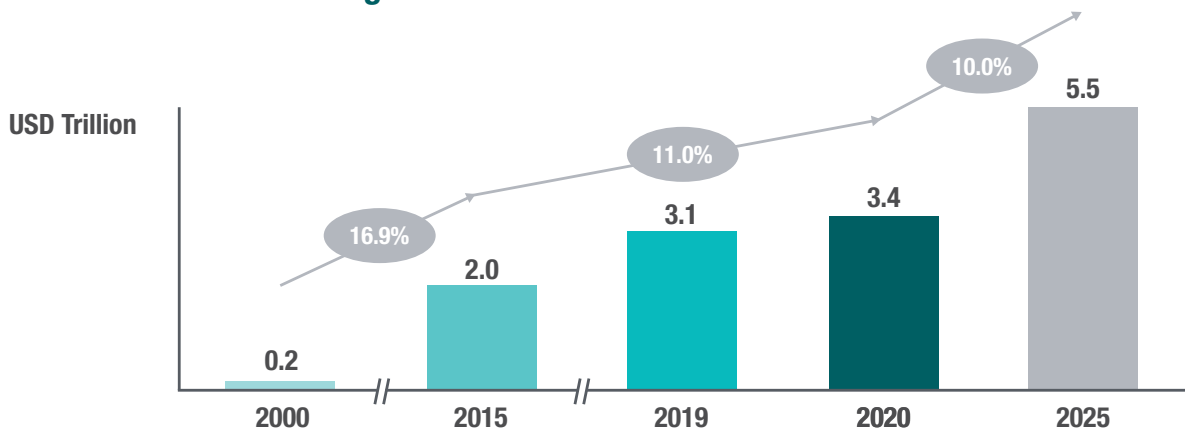


Table 1

Today, India is much more integrated with global markets and likewise aligned with geopolitical and regulatory developments than in the past. Over the past two years, that has been demonstrated by how the Indian equity, bond, and commodity markets have witnessed huge volatility due to geopolitical events. However, as global central banks continue to impose

interest rate hikes to arrest inflationary pressures, and despite nine continuous months of net Foreign Institutional Investors (FIIs) outflows through to July 2022, Indian equity markets are showing resilience and demonstrating the increasing influence of Domestic Institutional Investors and retail investors participation.

Demographic segmentation in India has altered significantly

The wealth management market is driven by a very large and young mass affluent segment, with a growing number of millennials (those born after 1982) and women emerging as a significant potential customer base in the near future. Despite challenges, Indian women now have high aspirations – and India's millennial women are no different. A recent Bankbazaar survey reveals that many women are fulfilling their financial aspirations and rank higher on aspirations compared to men⁴.

India's more than 400 million millennials presently account for a third of the country's population and 46% of its workforce⁵. According to a recent survey 'Millennial Mood Index 2021' by

CASHe, 84% Millennials are more cautious amid the pandemic about savings and 35% youngsters are taking up health and life insurance policies⁶. Millennials are tech-savvy and when it comes to managing finances, they aspire to manage on their own. They also prefer to have a hi-tech banking experience driven by ecosystem integration, mobile apps, goal-based personalized financial management, tools to compare products and digital payment mechanisms for their purchase journey.

Moreover, they give a higher preference to gamified dashboards and recommendations over social media, and it is no surprise that 70% of customers of the new fintech platforms in the wealth management space are millennials.⁷

India's Millennials



Table 2: Snapshot of India Millennials⁸

Wealthtech disruption continues

Fintech players in wealth management space – 'wealthtech' – are continuing to disrupt with technologies, such as AI-led platforms backed by strong analytics that are challenging traditional products and services, while offering full digital

customer experiences across devices. Players such as Zerodha, Smallcase and Groww stand out in the wealthtech innovation space, and there is a lot of activity on the venture capital and strategic investment fronts in this market segment.

The breadth and depth of products and services offered by wealthtech is immense and is characterised by a high degree of personalization, seamless UX, built-in cybersecurity components, and collaboration across the wider wealth ecosystem. Players such as Switzerland's 3rd-eyes analytics AG, Adviscent and UK-based AlphaSwap are some of the international players which have been cited as disrupting the market with highly relevant wealth propositions for customers⁹. These companies are mustering their digital innovation capabilities and have been very successful in out-flanking traditional players to snatch a good slice of the wealth assets under management pie.

ESG becoming a factor in investing criteria

The environmental, social, and governance (ESG) investing trend is accelerating globally and Indian retail investors are no exception. According to the 2020 CFA Institute Trust Survey of 15 markets including India, a significant 69% of retail investors expressed interest in ESG, though only 10% of those investors currently invest in products that incorporate ESG factors¹¹.

To compete, these players will need to clearly understand four key imperatives for growing and sustaining market share, innovating around customer acquisition, and servicing, unlocking latent data and analytics potential, and redefining the roles of data and technology within their organization. This will allow them to determine a roadmap for transformation that will ensure a smoother path forward in the future.

KEY IMPERATIVES FOR LEGACY INDIAN WEALTH MANAGERS

1. Grow market share amidst the competition driven by overwhelming digital disruption

Wealth management players in India would need to be more vigilant in future with respect to their market share since they face a daunting task of transforming themselves to address challenges such as siloed operating model, value propositions out of sync with customer needs which have changed significantly because of shifting demographics in India and increasing customer preference for digital experience.

Limitations of wealth management players' traditional models restrict them from tailoring their product strategies to align with segment-specific characteristics, and consequent inability to offer level of personalization in products to attract key client segments such as millennials.

As a result, we continue to see a focus on product-led marketing and sales strategies when today's customers are looking instead for more engaging experiences and relationship

driven, goal-based financial solutions that span their needs across savings, insurance, health, food, and entertainment. In short, traditional operating models are misaligned to emerging customer personas and no longer fit for purpose.

It is also worth noting that, when it comes to making investment decisions, Groww survey¹⁰ found that friends and colleagues were the key influencers for 30.6% of respondents, followed by news coverage (27.4%) and social media influencers (23.4%). In contrast, family were less influential (13.9%) – while investment agents/advisors were rock bottom, cited by just 4.6% of respondents respectively. The survey also found that close to two-thirds (59.8%) of respondents placed wealth creation to secure their future expenses and retirement as their number one priority, while 30.7% have invested to fulfil evolving lifestyle (travel and other personal goals) and 9.5% of respondents said they were investing to pursue their higher education ambitions.

These trends are pushing Indian wealth management players to shift focus to relationship-driven strategies and tune in more closely into customer priorities and aspirations around buying financial solutions and interacting via digital channels. This also presents a transformation opportunity for the current wealth advisor model to pivot towards digital tools and technologies and to differentiate themselves in the market via a 'phygital' model combining physical and digital approaches. Though the Indian wealth management market itself is growing, impact of such misalignment between offerings and segments is clearly seen when we see steep growth in number of active users of new fintech players.

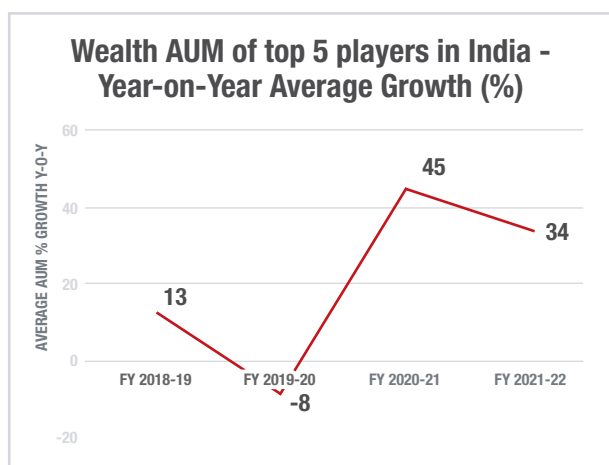


Table 3: Trajectory of wealth AUM of top 5 players in India (average growth % YoY)

2. Innovative digital customer acquisition and servicing capabilities

The pandemic has amplified and accelerated ongoing digitalization around customer acquisition, servicing and experience, and the business environment over this period exposed the limitations of some wealth managers in India in terms of the maturity of their technology and digital capabilities. Market players with greater degrees of digital readiness were able to engage with customers in very cost-efficient ways, and their wealth manager businesses outshone the competition thanks to capabilities such as digitized account opening, e-KYC, e-signatures, and payment integration, leading to superior customer experience and more effective relationship management. Digital tools have demonstrated a positive impact on customer engagement due to error free smart processing, elimination of rework and impressive turnaround times.

While wealth management players are prioritizing the digitalization mandate, fragmented strategies and a lack of ecosystem integration will not translate into a meaningfully differentiated digital experience for the customer. They need to up their game with digital intervention across current customer journeys from discovery right through to post-servicing feedback.

This means exploring untapped digital channels and enhancing existing channels for digital customer sign up, automating data capture, leveraging optical character recognition (OCR) technologies for digital verification of customer identities, addresses and signatures, collaborating for instant KYC and AML verification, onboarding, and confirmation with easy tracking throughout customer journey.

3. Leverage AI and machine Learning (ML) to boost data & analytics capabilities to unleash the power of hyper-personalization for advisory as well as non-advisory services, such as customer acquisition and servicing

As Indian financial markets progressively integrate more deeply with global markets, wealth management players have been forced to enhance their advisory capabilities by introducing AI/ML into customer acquisition, portfolio recommendations, risk management and identifying investment trends early, allowing them to respond more dynamically before scenarios unfold in financial markets.

We are aware of one large global investment bank that is exploring partnerships with robo-advisors to deliver data-driven monitoring for risk and exposure levels without diluting human touch attribute. Other banks have been investing in data and are now able to explore AI/ML initiatives to provide automated portfolio recommendations and tax planning models. Other examples of this trend include JP Morgan's purchase of robo-adviser Nutmeg, Barclays' partnership with Scalable Capital and Lloyds partnering with Embark. On the non-advisory front, Indian wealth management players will need to design the data and analytics component of their operating model to empower personalization driven by AI/ML, right from discovery to product recommendations with interactive dashboards in the customer journey¹².

Few other wealth management players have started exploring AI/ ML use cases to enhance customer journeys through a better understanding of customer interactions and behaviour patterns. Customer servicing scale issues can be handled smartly to resolve queries by leveraging NLP-based tools which access similar customer queries in a databases. AI/ML is also helping organizations to allocate the marketing funds to target right customer personas to enhance efficiency of marketing campaigns.

Other interesting use cases for wealth management include implementing blockchain technology, both for storing golden copies of reference data in a decentralized manner and rebalancing portfolios based on smart contracts. Global wealth players have taken the innovation agenda seriously and they are going extra mile to cater to emerging customer segments and their digital needs leveraging NFTs, Blockchain beyond the AI / ML space. For example, a Canadian metaverse company Terrazero is addressing customer aspirations to buy virtual real estate and collateralize/ every transaction with underlying non-fungible tokens (NFTs) as digital assets¹³; and a South Korean bank that is expanding emerging customer segments such as creators, artists, and gamers by offering a range of financial products within the Cyworld metaverse platform¹⁴.

Global digital leaders who possess massive customer data and the experience to hone it are well positioned to advance their aspirations of disrupting the wealth management market,

and incumbent players need to be wary and prepare for such developments in the future.

4. Reimagine Technology as business partner

Incumbent players in Indian wealth management (banks and large national distributors) have grown over time with fragmented technology platforms and infrastructure, which is fraught with limitations stemming from this mix of large legacy applications and architecture. Such challenges are not easy to address, not least because implementing change is a slow process.

Organizations have not been able to leverage the full power of all their data due to siloed nature of IT applications and data systems. Over the years, banks have been investing in digitalization – but the investment has not been balanced across all components of technology capability. We see a lot of investment in front-end areas supporting journeys, virtual KYC and digital onboarding, whereas investment in middle and back office technology has lagged.

Pioneering new wealhtech leaders possess operating models centred on data and technology capabilities that can match customers' aspirations around digital experiences. For incumbent players, a conscious effort – at the leadership and culture levels – will be required to facilitate a shift in organizational mindsets. If big players get this right, they can offer a suitable response to counter fintech players.



A PATH FORWARD FOR FUTURE TRANSFORMATION

Wealth management players will need to establish a realistic, long-term transformation roadmap underpinned by the building blocks of a future state model. This transformation roadmap will require a behavioral step change at the executive level to establish an environment which fosters agile innovation while progressing through their change journey.

In India, big banks and large brokers offering wealth management products that currently dominate the landscape should consider five building blocks for a future digital operating model that will allow them to remain relevant and compete. These are targeted at:

- **Addressing** the shift in wealth customer demographics and gaps in their wealth products strategy
- **Differentiating** the wealth customer experience through real-time personalized mobile and social connectivity
- **Deploying** rapid innovation by integrating data, AI/ML and analytics for wealth advisory and services
- **Mobilizing** the right mix of technology and platforms, with a focus on cloud
- **Fostering** agile working across Business, Technology & Data teams of within the enterprise.

The Five Building Blocks Of A Transformed Wealth Model

Wealth Management Operating Model

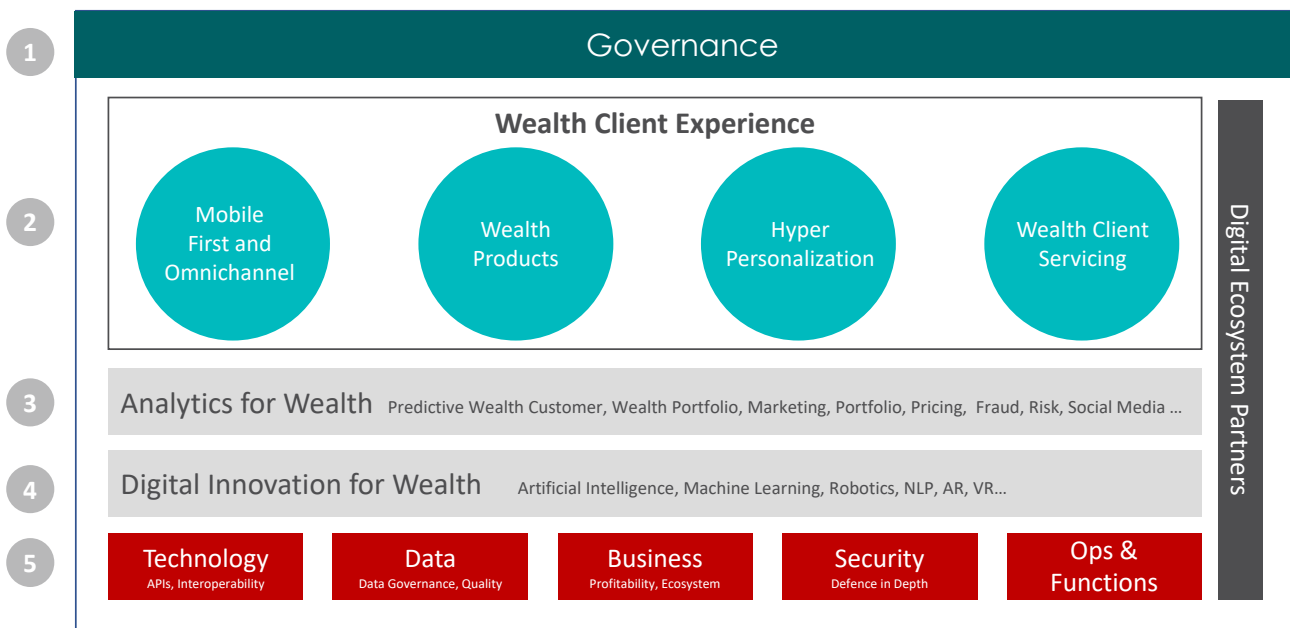
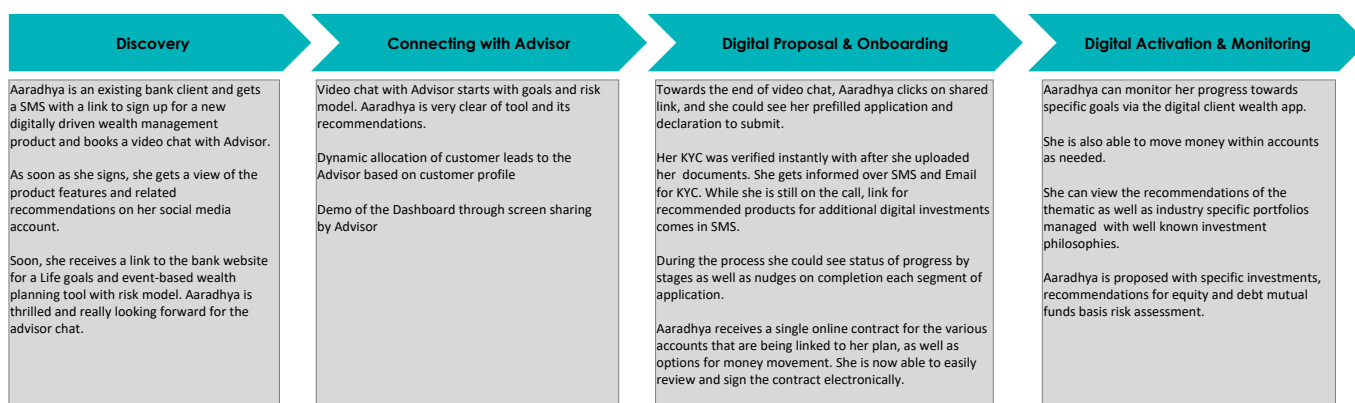
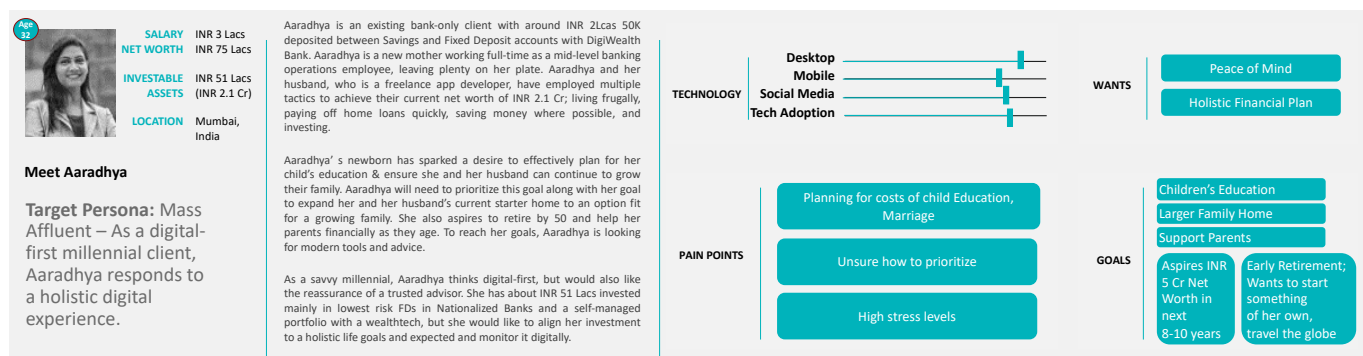


Table 4

1. Governance – this comprises players' vision, mission, guidance on revenue and profitability and commitments to shareholders. Governance will ensure sponsorship and commitment to setting up and running the model in the best interest of the stakeholders, driving customer-centricity and digital focus within the organization.

2. Wealth customer experiences – the new operating model will place the customer at the forefront to ensure full alignment with their evolving aspirations. Players should focus on building upon customer experiences by prioritizing mobile first, omnichannel engagement and hyper-personalization alongside their products and servicing offering, with a focus on providing life stage and life event-based recommendations. AI-driven customer segmentation, the ability to track

Operationalizing Digital Innovation in Wealth Journeys



Digital Innovation Intervention

- Tool to set Life stage oriented and risk based goals for wealth
- Tool to see model portfolios aligned to risk scores and target wealth goals
- DIY scenarios for targeting growth over time various horizons as well as product combos as per recommendations
- DIY Tool to compare products from return and risk perspective
- Ready for instant service Chatbot
- Remote Advisor Anytime
- Social Media Integration for profile analysis and recommendations
- Advisor appointment for digital / in person

- Ability to complete online wealth service application across Mobile / Omnichannel
- Dynamic application saving with flexibility to pause and complete it later on other devices,
- Online wealth management service contract
- Demonstrated advisor proficiency in handling digital tools in engagement
- Continuous engagement with always available chatbot / remote advisor
- Nudges on wealth management application stage completion
- Digital tools enabled Advisor engagement

- Online document submission
- Digital verification – HNI or HNO Family Office / Trust / Business entity
- Paperless and fully online compliance declarations submission
- AI driven customer profiling
- AI led Product Recommendations

- HNI Personas powered Hyper-Personalized options for login screen and portfolio dashboard with rich visualization and customizable settings
- APIs driven integrated Wealth Portfolio dashboard with investment across other banks, mutual funds, Insurance, Bonds
- 'Always on Wealth Advisor - Human'!
- Very relevant insights & recommendations
- Digital self service – DIY,
- Instant customer services
- Hyper-personalized Offers

Digital Technologies

AI driven Social Media Integration, AI driven Customer profiling Integrated digital marketing Voice Assistant Chatbots	Social media integration for application pre-fill via APIs and profile analysis Intelligent Auto allocation of lead to Advisor based on profile analysis Dynamic Omnichannel switch Smart contracts / Blockchain Digital Compliance Submission Digital / Social Payment capability Trained advisors for digital experience	Biometric Authentication (AR/VR) based login with 2 FA authentication across digital platforms, Integrated Payment across mobiles apps, web, Online document submission (OCR and Open APIs) Digital verification – Individual or business entity Online compliance declarations AI driven customer profiling	Personas applied to APP designs Visualization capability for Dashboards integrated across banks and Financial companies NLP for Customer service Recommendations by Roboadvisors AI led offers
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Table 5

3. Analytics for wealth – this powers the conversion of data into predictive and meaningful business insights. When you consider the dimensions of the customer experience set out above, a powerful and state-of-the-art analytics capability will be key, driving the hyper-personalization of product recommendations, customer interactions and communications, as well as providing enhanced control in respect of risk and fraud.

This capability will need to match the requirements for AI/ML models to drive insights and decisions by provisioning for big data. Players would need to integrate analytics at a specific maturity level to support AI/ML, NLP, AR, VR based programmes that differentiate the customer journeys. Analytics at this level will have implications on organization's other capabilities such as data, channels, marketing, and ecosystem partnerships.

4. Digital innovation – Leveraging a variety of tools and technologies, digital innovation will act as the catalyst to deliver impactful real-time and personalized elements within the customer journey. Organizations must ensure seamless integration and working of the joint products of Business, Technology Analytics and Digital Innovation capabilities as depicted in the above wealth customer journey.

5. Redefined operating models – Spanning Technology, Data, Business, Security and Operations & Functional teams, this model serves to bind together and foster partnerships across different domains within the organization, and addresses 18 key priorities, as set out in Table 6.

Wealth Management Operating Model: Teams

Technology	Data Data Governance, Quality	Business Profitability, Ecosystem	Security Defence in Depth	Ops & Functions
1. Rationalising existing legacy applications	7. Advanced Data Architecture	11. Strategy	15. Zero Trust Model	17. Deploy Robotic Process Automation across mid and back office functions
2. Cloud focus	8. Streaming	12. Profitability	16. Defence-in-Depth led Security Architecture for Data, Application, Compute, Network, Perimeter, Identity and Access, Physical Security	18. Automate operations based on workflows and standard input/outputs
3. Integrated API Management	9. Customer One View	13. Ecosystem View		
4. Interoperability	10. Data Quality and Governance	14. Monitoring		
5. DevOps				
6. SaaS and Automation across Services				

Table 6

Teams across the five domains will be empowered to work synergistically and in alignment with the organization's digital and innovation objectives. The adoption of Agile methodologies will allow for superior performance through planning Minimum Viable Products.

To conclude, transformation based on these recommended five building blocks will ensure full alignment with market forces such as customer dynamics and fintech competitors, drive trusted digital experience for customers powered by Innovation, Data, and Technology through a collaborative agile organization culture.

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ABOUT CAPCO

Capco, a Wipro company, is a global technology and management consultancy specializing in driving digital transformation in the financial services industry. With a growing client portfolio comprising of over 100 global organizations, Capco operates at the intersection of business and technology by combining innovative thinking with unrivalled industry knowledge to deliver end-to-end data-driven solutions and fast-track digital initiatives for banking and payments, capital markets, wealth and asset management, insurance, and the energy sector. Capco's cutting-edge ingenuity is brought to life through its Innovation Labs and award-winning Be Yourself At Work culture and diverse talent.

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