Wealth Management an Analysis of Client Segmentation and their Need

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Abstract

In the financial globe, the industry has walked up to have a pace matched with the rules and regulations compliance considerably. The price of failing to comply with is very high. Financial experts in the industry today have recognized that it's not viable to successfully undertake the job of managing risk and compliance in the financial industry without changing the age old and rigid means of managing wealth with financial goal based means. They are aware of that this will facilitate them to make best use of the prospects of global financial avenues at the same time optimizing the related financial risks. Affluent individuals have numerous and multifaceted financial requirements. Wealth managers facilitate to meet their requirements, maintain continuing associations in which recommendation and suggestions are provided. These wealth managers set up several contact points with clients and naturally assist clients.

Keywords: -*Financial Globe, Wealth Manager, Global Financial Avenues*

Introduction

Any financial set is a kind of web of affairs between various markets and financial plans and the movement of funds invested by clients may take many in forms, including money, financial assets and securities like Equity, Debt etc. These set together form a financial portfolio. However, it is not an easy task to form a portfolio and it is very hard to form a portfolio, which gives constant returns and satisfies a client need and requirements. A layman do not have that kind of knowledge nor they have enough time to send hours analyzing stock or commodities prices and apply their logical senses in order to invest their money into various forms of investment avenues. So, in order to do so, we require services of a wealth management company or a wealth planner. As per recent Annual World Wealth Report-2011-12, Equity-market capitalization plunged in as India in 2011, wiping out asset values and levels of investable wealth. This helped to reduce the size of the country's HNWI population by 18.0%. But this doesn't mean that demand of wealth planner and manager will fall, rather due to this there are more chances of increase in demand of such peoples and firms as every year new rich people emerges.

Today this wealth and financial planner concept is growing very rapidly, the reason are

1) More people are getting richer so, they require their money to be managed
2) Numbers of investors are increasing day by day.
3) Spectrum of investment opportunities is also expanding.
4) Competition in this sector is increasing due to this various kinds of services are introduced by firms.
5) High Net Individuals seek highly customized and sophisticated wealth management plans for them.
6) Technology advances also created an environment as today's generation are more active participate into various financial avenues.

These are few reasons why today demand of such institutions as well as professional wealth planner is increasing. However, if we see same coin from another angle, it reveals that there is a huge scarcity of good professional people in market who can do this job efficiently and effectively. Another fact is that this kind of job is not possible for a single person, it's a team effort. Every person in that team i.e. financial or wealth planning team plays their roles profoundly only if the results come out as per the planning. A financial planner prepares financial plans for their clients according to their needs, objectives and goals. These planners are generally specialized in tax planning, assets allocations, risk management, retirement planning and estate planning. If any of them does not put their efforts into their prescribed task then the whole outcome could be negative. So, it is equally essential for a company or team leader to keep a keen eye upon all the team members' task and define their key responsibilities according to their roles. A team leader as well company's responsibility is to monitor them, reward them, and praise their work on frequent basis to get optimum results.

Literature Review

Muhammad Ridhwan Ab. Aziz (2012) had explained various advantages of estate planning: 1) Able to distribute property estate to beneficiaries quickly, 2) Minimize expenses, 3) Ease the strain on your family, 4) Reduce taxes on your estate, 5) Provide assurance to the family after the death. According to him, when Muslims had planned their wealth distribution, all unnecessary hassle can be avoided. Moreover, the advantages of a living trust is that assets or funds therein will not freeze upon the death of the person who created the trust. Besides that, the beneficiaries would able to receive and have access to the assets or funds of the trust whatever circumstances.

Pompian (2012) has explained irrational investor behavior and creating individual investors portfolios that account for these irrational behaviors.

Fatin and Mohammad (2011) claims that there are six main possible causes that contribute to the delay distribution of estate. In this paper, the researchers provide detailed explanation on each possible cause. Compared to other researchers who are agreed lack of awareness and knowledge is the main factors triggering to freezing assets problem, however, the authors have opposite opinion on the main causes of this problem. Both of them agreed that the main possible causes are due to the complexity of law followed by the lack of knowledge. Thus, overall of their studies, they propose (1) the complexity of law; (2) the lack of knowledge; (3) lengthy process; (4) the lack of cooperation and/or contact between various parties; (5) the lack of a cohesive mechanism; and (6) attitude that needs to be discovered are the main possible causes contribute to delay of distribution estate. At the end of the study, the researcher proposed to reform of the law and procedure is needed.

Amenc, Martellini, Milhau, & Ziemann, (2009) had thrown light on the potential benefits of asset-liability management techniques, originally developed for institutional money management, in a private wealth management context.

The wealth management strategies were compared by (Pang & Warshawsky, 2009) for individuals in retirement, focusing on trade-offs regarding wealth creation and income security.(Driga, Nita, & Cucu, 2009) examines the features of private banking business focusing on the substantial growth in private banking over the last decade as commercial banks have targeted up market high net worth individual.

Budge, (2007) addressed a segment of the wealth management market, which he believes is not yet served adequately: business owners who are facing a number of unique challenges surrounding management of their overall balance sheet through time.

Isdale, (2006) discusses the steps that wealthy individuals and their advisors can take to increase the efficiency and effectiveness of their wealth management efforts.

Shamsuddoha, (2005) in his paper looks at the key strategies being applied by wealth management and their competitive position.In his study Ceru, (2004) suggests that financial service institutions' interest in the "new wealth management" is a natural evolutionary response of institutions seeking to regain and renew their competitive advantage and discuss the business and technology drivers that should be considered by financial institutions when deciding to implement technology solutions to enhance their wealth management business.

Brunel, (2002) in his book identifies the factors, which demand a different approach from that of traditional portfolio management strategy. He suggests a new approach to wealth management, proposing practical steps which will take a person beyond the role of portfolio manager to that of "wealth manager". The data in the interview study by (Hamilton, 1992) address investment patterns, criteria for selecting investment managers, cash management, and investment strategy.

Incorporate Analysis of Client Segmentation and Need Analysis

A financial planner or a wealth planner has to first analyze his client informants through various means like – personal interview, questionnaire, past investments or life style etc. and collect all the relevant information's. Such information will further help them in order to make an optimum wealth plan according to the needs and requirement of a client.

Effective financial management necessarily involves some investment like decisions. For example, a person decide how much to spend on current consumptions, and how much to spend on durables like electronics goods (TV, Stereo, Mobile Phones etc.) and how much to save for future. This all activity involves taking decision at right time and on right thing. Each investment opportunity has advantages & disadvantages and it depends upon individual to individual. This means each investor has a unique set of needs, goals, attitudes and resources. The key to a successful financial planning practice is the ability to understand client's need, attitudes and fears.

Any kind of investment involves three basic steps – Selection, Implementation and Timing. As per the client profile, planner must decide which investments to buy or sell or hold. Since financial & planning is an ongoing process of relating the client's changing financial position to financial objectives within a constantly changing financial environment so, it is very important firstly to understand how to segment clients and later how to analyze their needs.

Client Segmentation

Client Segmentation is an essential function in a wealth management practice. Available time is perishable, this means frequent change not only in planning but also into client divisions. Firstly, we have to identify segmentation variables and secondly develop segment profiles accordingly. In order to make successful and impactful client segmentation one have to ensure that it should be Measurable, Sustainable, Accessible and Actionable.

An illustration of client could be

Gender	Age Group	Requirement
Male	18-25	Interested in Equity investments
Male	26-35	Interested in Equity investments
Male	36-50	Interested in Equity and Debt investments
Male	50 & Above	Interested in Debt investments
Female	18-25	Interested in Equity investments
Female	26-35	Interested in Equity and Debt investments
Female	36-50	Interested in Debt investments
Female	50 & Above	Interested in Debt investments

The more you segment, the smaller will become the target. All these factors should be presented in all client segments.

Client segmentation based on their characteristics

1) **Geographic:** Since a planner advise many clients so, as per their geographical i.e. locations he must maintain a record as this also reflects client's profile as well.

2) **Demographic:** Clients age, gender, occupation, income group, religion etc. are few of the things by which a planner can segment their clients.

3) **Risk Profile:** Assessment of client's risk profile is one of the most important tasks a planner should do. How much a client can bear loss and how much they can tolerate risk? This is important to know because not only do clients need to understand the risks; they need to accept them as a part of their investment process. A client need to explain risk associated with each asset class in the light of the client's needs and objectives.

Categories of Clients:

a) Conservative	-	Highly risk averse
b) Moderately conservative	-	Risk averse
c) Moderate	-	Risk neutral
d) Aggressive	-	Risk tolerant
e) Very Aggressive	-	Risk Seeker

a) Pre and Post Retirement Planning: Financial planning should occur both before and after retirement. Before retirement, clients usually focus on wealth accumulation. Generally, in the accumulation stage investors can afford to take higher risks. They have the time to work through peaks and troughs in the investments markets. Each client will have different attitudes to risk, and these attitudes might change over time.

Need Analysis

Need analysis here implies to financial needs as well as those important needs or requirements which a person seeks in his life cycle like – money to purchase home or office, money require for children higher education, money require for marriage, money require for emergency and money required for retirement planning. All these things can only be fulfilled through money. In today's scenario, it has become more difficult to maximize investment returns in these uncertain economic times. In market there are several complex financial products/services are available to choose from, tax rates are getting higher in every financial year, both for a client as well as for a financial planner to manager properly as it is a golden rule of service, you cannot make every customer happy and satisfied. A proper analysis of a clients need not only benefits to the clients themselves but also help to make better wealth management plans to accomplish these requirements.

Financial Needs Analysis:

Best way to gather information of a client is to know their current situation, then to identify potential threats of their wealth. Following things required for a Financial Needs Analysis:

a. Personal details: Age, Gender, No of dependent and independent family members, current and past Business/Job details etc.
b. Current assets valuation and current liabilities
c. Monthly and annual income less expenses to determine any available income with which to work
d. All Financial needs that need to be addressed and the order of their importance or priority
e. Factors such as emergency funds, life and disability insurance, retirement capital, short-term insurance, a Will and so on
f. A schedule of current insurance policies and investments
g. Client's beneficiary nominations
h. Realistic assumptions as to future inflation and interest rates

i. Client and entire family member's health history
j. Short-term saving goals
k. Client's risk profile in order to present the investment funds best suited to your profile.

After collecting all the above facts, a planner must position his client on "Life Cycle" scale. Life cycle scale refers to different stages of a person's life like – Young and unmarried, Young and married or Young married with a child etc. A young person age between 18-25 will have less liabilities in compare to a person who is 35years old, but the fact is that if a person starts his financial planning in early age, it is considered to be best time for a person to do it as it will give more room to think of various options, investor at this stage can take more risk and earning and loosing will not affect him much whereas a person who is 35 years old cannot bear that level of risk due to his current life cycle stage.

Another task is to position client on the scale of "Wealth Cycle". In this there are three stages described as follows:

- **Accumulation:** This stage a person does an act of accumulating or collecting wealth from various sources. Generally person age of 25 to 55, we can identify this phase as the time in which client will do the bulk of income producing work, save as much as he can, and implement an investment strategy designed to provide for himself in later years. A person is tend to be more risk tolerant during early phase of this stage. Later of this phase are usually marked by an increase in savings and accumulation.

- **Preservation:** This stage is close to retirement and also paying off all liabilities like loans, children marriages and others. Thus, the usual age associated with this stage is of 55 to 65. In this stage, most of the preparations will have been accomplished in the prior phase as a client work with his planner to make will, establish a living trust and otherwise plan for your retirement. A person will want from his accumulated wealth to support him for the rest of his life.

- **Distribution:** Allocating of collected pool of money in different resourced like investing in property, buying gold or may be paying back loans etc. are few of the examples of things could a person do in this stage.

- **Transaction:** This is a part of distribution stage, where a person does several transactions from the collected pool of money in order to grow and also in order to buy new assets for future security purpose.

Apart from all above mentioned need analysis, a good planner also see what his clients investment preferences are like if a client wants to invest in either in Equity or Real Estate, so in the same direction a planner should make them understand the importance of diversification in a portfolio and also ensure to give priority to his clients investment preference.

Range of Services Provided by Wealth Management Firms and Pricing/Profitability of these Services

There are server kinds of products and services available in market for a person who wants to manage his/her wealth through these financial institutions. General bank and non-banking financial institutions are providing such kinds of services also lots of Charted Accountant is also providing such kinds of services but their focus is upon saving taxes rather increasing wealth.

In general, a wealth management firm provides following range of products and services to their clients:

a. Funds & Investments: Mutual Funds, Portfolio management services, Systematic Investment Plans, Alternative Investments and Deposits

b. Insurance & Risk Protection: Life Insurance, General Insurance and Health Insurance

c. Portfolio Advice: Personalized relationship manager, Customer service manager, Team of expert, on call home/office visits and dedicated customer care

d. Banking Products & Services: Savings Account, Family Wealth Account, Home Loans, Car Loans, Foreign Exchange Services, iMobile, iWealth, Lockers, e-Locker and De-mat Account

Wealth and financial planning encompasses a wide range of products as mentioned above and a specialized professional planner required special skills and knowledge drawn from many disciplines such as accounting, risk management, economics and small business management.

Role of Alternative Investments

Portfolio Design:

Studies show that a balanced portfolio can have a bigger impact on long-term performance than individual stock picking. As per the risk profile of the client, a planner needs to ascertain the appropriate asset allocation. An illustration of the same is given in below table:

Details	Conservative	Moderately Conservative	Moderate	Aggressive	Very Aggressive
Indian Equity Share Market	10%	26%	35%	45%	55%
Foreign Equity Share Market	5%	17%	22%	33%	45%
Real Estate	15%	7%	7%	5%	0%
Indian Debt Market	18%	13%	12%	4%	0%
Foreign Debt Market	37%	27%	18%	9%	0%
Cash	15%	10%	6%	4%	0%

The more a client is going towards aggressive; his portfolio is getting more towards equity investment and reverse of the same if a client is conservative his portfolio is more emphasize on fixed incomes like Debts or Real estate investments.

So, in order to design a perfect portfolio, one need to follow some certain steps mentioned below:

1) Collect client data

2) Client's goals, objectives, and risk tolerance profile

3) Identification of issues and problems

4) Assumptions

5) Balance sheet and Net worth

6) Cash Flow management

7) Tax impact

8) Risk management and Insurance

9) Investments avenues

10) Estate planning

11) Recommendations

12) Implementation

13) Periodic reviews and plan updates

14) Compliance, fees and commission

Financial Regulatory Regimes and Future Developments

All business involves risk. The regulation of financial markets seeks to increase investor confidence by ensuring that investors have all the requisite information they need to make their own informed assessment of the risks involved. Threat of penalty and punishment by the regulators provides a deterrent to fraud by market participants. Existences of safeguards don't remove responsibility of an investor to ignore self-safety measures while doing investment transactions. So, it is very important for all investor to be careful while doing such kind of transaction. A regulatory body will always be there for the safeguard of all investors as well as for the brokers and companies as well. India has made significant gains in regulatory arena since reform process started in 1991.

There are mainly three financial regulatory bodies present in our country, they are:

1) Reserve Bank of India (RBI)

2) Securities and Exchange Board of India (SEBI)

3) Insurance Regulatory and Development Authority (IRDA)

All these three regulatory bodies keep a sharp eye on all kinds of financial activities happening in market.

RBI is a central bank of India and it is responsible for formulating monetary policy, financial system stability, confidence and effective performance of all Banks. Liquidity support, control on payment system and supervision of entire banking sector are few key functioning of RBI. Apart from this foreign exchange dealings and control over non-banking financial companies also monitored by RBI.

SEBI regulates entire Equity, Debt, monitoring stock exchange activities and capital market of our country. Major role of SEBI is protect customers and responsible for consumer protection issues in related to financial products and services in relation to capital market. It manages the collective investment schemes and it also monitors mutual fund industry, merchant bankers, foreign venture capital investors, credit rating agencies, portfolio managers, and various stock exchanges and stock brokers of our country.

IRDA role is to grant insurance selling license to brokers and agents and to all new insurance companies both general and life. Moreover ensuring faster death and fair claims to all customers and impartial selling of insurance products as per the need of the customer rather selling it just to meet the sales target etc.

In near future SEBI is planning to implement Self Regulatory Organization (SRO). The proposed regulatory framework intends to regulate the activity of providing investment advisory services in various forms by a wide range of entities including independent financial advisors, banks, distributors, fund managers etc. The investment advice may be provided for investments in various financial products including but not limited to securities, insurance products, pension funds, etc. While the activity of giving investment advice will be regulated under the proposed framework through an SRO, issues relating to financial products other than securities shall come under the jurisdiction of the respective sectorial regulators such as action for mis-selling, violation of code of conduct, conflict of interest etc. The SRO set up for the regulation of Investment Advisors shall follow the rules/regulations laid down by respective regulators for products falling in their jurisdiction, including but not limited to suitability and appropriateness of the products. Complaints / disputes arising out of investment advisory services will be taken up by the SRO with the respective regulatory authority, while the complaints regarding the financial products and their manufacturers will be handled by the respective regulators.

Such and including several amendments like SEBI, with effect from August 01, 2009, had banned entry loads in mutual fund investments and had mandated that the upfront commission should be paid directly by the investors to the distributors based on factors like assessment of the service of the distributor.

Therefore, the future of entre investment market seems very secure and safe but still an investor should be conscious and alert while doing their investment.

Key Issues In Relation To Tax Planning

Taxation issues play a major role in financial planning. A planner need to be able to show the after tax results of any financial plan they construct. A client might be able to instigate legal action if a planner has not properly considered the implication of taxation in his portfolio. Many of the clients see tax minimization as one of the most important attributes of wealth plan. Achieving client's objectives for quality investments, appropriate levels of risk and returns, flexibility, liquidity and income needs is important.

The complexity of taxation has spurred much of the growth there has been in the financial planning industry. Relatively high rates of personal income tax dramatically affect investments strategies. A thorough understanding of personal taxation, including capital gains tax, tax rebates and deductions and the superannuation tax regime, is necessary before offering any advice.

Future Trends in Wealth Management Industry

Globally, wealth management is a very fragmented business, with the top 10 banks serving a big chunk of the market and then a very long tail of small firms that each has a tiny market share. From last two decades, a similar market share distribution is emerging in India. There are over 100 "wealth management" firms, from single person outfits to dedicated family offices to boutique firms to large banks. Given the strong wealth creation in the Indian economy and the savings culture of India, the wealth management market in India is flourishing. It is viewed as very attractive by global firms as well. Hence, we anticipate competitive intensity to keep growing in this market.

With large numbers of Indians joining the Rs 5 crore "Dollar Millionaire" club and with global products being introduced in a fast liberalizing India. Huge and fast growing market with space for every firm with all kinds of business models due to the very beneficial macro conditions there is a wide scope of Wealth Management in India. Today around 70% of ultra-high net worth individuals are based in the four metros and in the next six cities namely Bangalore, Ahmedabad, Pune, Nagpur, Hyderabad and Ludhiana.

New Trends

The macro is very positive with huge wealth creation and value unlocking happening in India. With a stock market capitalization less than the GDP, India is still a very emerging market for wealth management and the potential is huge. The focus by wealth managers is to expand the client coverage and deepen the product basket while enhancing the coverage teams continuously. Various surveys have shown that less than 20% of the private wealth segment takes formal advice from financial advisors. With the emergence of certified and regulated financial advisors with cutting edge qualifications like CFP (certified financial planner), this trend will turn very positive for the future growth of this segment. The scale of wealth creation will rival that of the Asian tigers within this decade and reach developed nations' levels in the next two decades. As capital account convertibility further brings international products to India, there will be massive opportunities for wealth managers.

Indian clients are highly globalized, very aware of international trends and risk takers. This will help when international products are allowed to be offered in India, as the adoption will be very quick and smooth. Foreign investors view India as a very attractive, high growth market with immense growth potential for decades, not just years. The domestic consumption based economy; the strong service sector and huge young population make India one of the best opportunities of the 21st century for all service providers, especially so wealth managers, who remain the most cutting edges, client centric amongst financial service firms. This is not only the Indian century it is the Indian wealth management century.

Conclusion

The retirement of the present young generation will become the origin for the wealth management job to put better prominence on the allocation stage of investment management. This move from wealth accrual during pre-retirement to wealth allocation to sustain expenditure requirements during retirement carries an exclusive set of challenges that necessitate supplementary research and management techniques.

Markets have verified that they can drift randomly from their long-term expansionary mode for extended time periods. The considerable instability of equity markets, revealed in the significant standard deviation of periodic returns, increases sequence risk. The conventional approach to deal with the outlook and ability for market inconsistency is to evaluate the client's risk tolerance. The sharp market decline give stress to risk tolerance requirements to be further strongly associated with the actuality of market unevenness and client financial goals. One of the acceptable approach to exposing clients to less market inconsistency is asset-liability matching. This technique has been engaged by majority of organizations, mutual funds and individuals to specifically pair expected cash-flow liabilities with fixed income assets. The use of asset- liability matching to individual client may decrease sequence risk and better bring into line investment portfolio asset allocation with client risk tolerance. To conclude, the forecast of family unit expenses requirements during retirement is an important contribution to wealth management. Conventional hypothesis of increasing income requirements during the retirement period may not be suitable. Study leading to enhanced hypothesis for family spending model during retirement could lead to improved investment and expenditure assessment by the clients.

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