Financial Services

Financial Services: Concept

- Financial services refer to services provided by the finance industry, including banks, credit card companies, insurance companies, stock brokers, investment funds, and more.

- It involves mobilization and allocation of savings, transforming savings into investment.

Financial Services: Nature

- Intangibility: Financial services are intangible and cannot be standardized. Example: A bank’s reputation plays a critical role in its services.
- Inseparability: Production and consumption of services happen simultaneously. Example: Financial advisory provided during a consultation.
- Perishability: Services cannot be stored; they must be provided when demanded. Example: Loan processing needs to be timely to meet customer needs.
- Variability: Services must be tailored to different customer needs. Example: Customizing insurance plans for different clients.
- Human Element: Significant involvement of skilled personnel. Example: Financial planning requires expert advisors.
- Information-Based: Relies on accurate and timely information. Example: Stock market advisory based on current market trends

Financial Services: Scope

Wide Range:

Includes both fund-based and non-fund-based services.

1. Fund-Based: Underwriting, leasing, hire purchase, venture capital, bill discounting. Example: Providing loans for equipment purchase.
2. Non-Fund Based: Credit rating, securitization, loan syndication, portfolio management. Example: Advising a company on creditworthiness.

Innovative Products:

Development of new financial products and services. Example: Introduction of digital payment solution

Regulatory Framework of Financial Services

Exhibit 5.1 : Different Levels of Regulation on Financial Services

Level I	**Government of India**
	Appellate Authority and Regulator in certain cases
Level II	**Legislation passed in the Parliament**
	Banking Regulation Act, SCRA, Insurance Act Indian Trust Act, etc.
Level III	**Institutions under an Act of Parliament**
	UTI Act, LIC Act, GIC Act, etc.
Level IV	**Regulators**
	RBI, SEBI, IRA, Forward Market Commission
Level V	**Regulations given by the Regulators**
	RBI Directions to Commercial Banks, NBFCs Directions issued by the RBI, SEBI Regulations, Guidelines, Notification, etc.
Level VI	**Self-Regulation**
	By-laws, Rules and Regulations and Code of Conduct issued by the various Financial Service Industry Associations.

Types of Regulations

- Structural Regulations: Define the types of activities that different financial institutions can engage in. Example: SEBI requires merchant bankers and stockbroking institutions to separate their fund-based activities.
- Prudential Regulations: Focus on the internal management of financial institutions concerning capital adequacy, liquidity, and solvency. Example: Minimum net worth requirements for financial service firms.
- Investor Protection Regulations: Aim to protect investors from fraud, malpractice, and institutional collapse by demanding larger disclosure of information. Example: Ensuring transparency in financial statements and operations to protect investors

Growth of Financial Services in India

- Liberalization and Economic Reforms: Before liberalization, financial services were dominated by public sector banks. Post-reforms, private banks, and non-banking financial companies (NBFCs) emerged as significant players.
- Expansion of Mutual Funds:
- Development of Insurance Sector: The insurance sector saw major reforms with the establishment of the Insurance Regulatory and Development Authority and the entry of private players, enhancing competition and efficiency.
- Growth of Non-Banking Financial Companies (NBFCs)
- Introduction of New Financial Instruments and Services: The sector saw the introduction of innovative financial products and services, including venture capital, credit rating agencies, and portfolio management services.

Growth of Financial Services in India: Recent Developments

- Digital Transformation and Fintech Innovations
- Regulatory Developments and Financial Stability: Example: Focus on Asset Quality in Banking
- Emergence of New Financial Players: Example: Launch of Jio Financial Services
- Adoption of Advanced Technologies: Example: AI and blockchain
- Emphasis on Environmental, Social, and Governance (ESG) Criteria

Merchant Banking

- Merchant banking involves financial services and advisory activities such as managing securities, underwriting, project counseling, portfolio management, and corporate advisory services.

- These services are offered primarily to smaller enterprises that cannot access traditional IPO-based funding.

Merchant Banking-Types

- Category I: Full-fledged services including issue management, advisory, consultancy, underwriting, and portfolio management.
- Category II: Advisory, consultancy, underwriting, portfolio management but no independent issue management.
- Category III: Limited to advisory and underwriting; no portfolio or issue management.
- Category IV: Acts as an advisor or consultant only

Merchant Banking-Responsibilities of Merchant Bankers

- Protect investors' interests
- Maintain high standards of professionalism and ethical conduct
- Ensure timely and accurate disclosures
- Manage public and private issue processes including compliance with regulatory frameworks

Role of Merchant Bankers in Issue Management

- Management of public issue for raising share capital or debt capital is much regulated activity - SEBI, Companies act
- have to appoint merchant banker- based on terms of contract
- Merchant bankers can assist in project selection, preparation of project reports, feasibility reports, appraise the project.
- They may assist in
  - designing the capital structure and propose the debt-equity mix; what instrument is to be floated. Pricing- Companies are free to price the equity shares but SEBI guidelines

- Company secretary of a company, as a principal representative of the company, should be clear in his mind about what task is to be assigned to merchant bankers.
- One may have to decide whether only one or more merchant bankers are to be appointed.
- Thus, any company making a public issue has to appoint a merchant banker who acts as a ‘Lead Manager’.

Lead Manager

- Negotiations for public issue start with the choice of “lead manager” which
- means a merchant banker
- his role is catalytic for making of the issue a success.
- Hence companies coming with new issue of capital decide about Issue manager after due diligence and carefully analysing the competence and capabilities of the merchant banker to handle the issue.
- service- preparation and drafting the prospectus, preparation and drafting the prospectus, pricing the issue, marketing and underwriting the issue, coordinating the activities, listing of shares on stock exchanges

- broadly has divided public issue activities into two groups i.e., Pre- issue activities and Post-issue activities.

Pre -issue management

- Appointment of Lead Manager:
- Drafting Prospectus:
- Pricing the Issue:
- Submission of Draft Offer Documents:
- Permission of Stock Exchange:
- Appointing Various Agencies:
    - Bankers to the issue:
    - Brokers to the issue:
    - Underwriters to the issue:
    - Advertising agents to the issue:
    - Printers to the issue:
- Consent of Board of Directors:
- Submission of Due Diligence Certificate:
- Printing of Prospectus and Other Forms:
- Advertisement and Publicity:
- Opening Bank Account:
- Interaction with Depository:
- Timing of the Issue:

Appointment of Lead Manager:

authorised by SEBI.
memorandum of understanding (MOU) with the company making the issue (issuer)
rights, liabilities and obligations relating to the issue.
may appoint more than one merchant banker

Drafting Prospectus

an invitation to public to subscribe to the shares/debentures of the company.
There are two types of public issues, one is fixed price issue (- ‘prospectus’-) and the other is book built issue (-‘red herring prospectus’-)
The lead manager (s) shall ensure that the information contained in the draft offer document are not more than six months old from the issue opening date.

Pricing of an issue

The issuer may determine the price of equity shares in consultation with the lead manager(s)

The issuer may mention a price or a price band in the offer document (in case of a fixed price issue) and a floor price or a price band in the red herring prospectus (in case of a book built issue) and determine the price at a later date before filing the prospectus with the Registrar of Companies.

Submission of Draft Offer Documents:

The lead manager(s) shall file three copies of the draft offer document with the Board along with fees as specified.

If the Board specifies any changes or issues observations on the draft offer document, the issuer and lead manager(s) shall carry out such changes in the draft offer document and shall submit to the Board an updated draft offer document.

Permission of Stock Exchange

Merchant banker initiates with the assignment of getting permission from stock exchange where the issue to be made is to be listed.
The stock exchange authorities grant the approval if they are sure that the said documents do not contain provisions contrary to investors interest and contain the provisions in conformity with guidelines as to listing.

Appointing Various Agencies:

Registrar to the issue: responsible for receiving the share applications from various collection centers, analyse, and recommending the basis of allotment
Bankers to the issue: receive the share application money along with the share application forms
Brokers to the issue: These are the people who actually bring the prospective investors and the issuer company together.
Underwriters to the issue: The underwriters are the people who actually ensure that the company is able to raise the capital issued
Advertising agents to the issue: Publicity
Printers to the issue: print the prospectus, the application forms, the brochures and other publicity material

Consent of Board of Directors

Merchant banker has to ensure that before proceeding further, the board of directors of the issuer company gives a formal consent to prospectus and other documents.

In its absence the issue may become invalid.
approval and acceptance of the appointment of Brokers, Bankers to the issue, Registrars of Issues, etc.,
approval of the draft prospectus,
approval of the format of the share application form,

Submission of Due Diligence Certificate:

He is to study the aspects like: industry over
view, competitor’s product, market and marketing, organisation and management, human resource potential business operations, accounting and legal matters.
They are to issue a ‘Due diligence certificate’ certifying
that all documents, information and material relevant has been examined.

Printing of Prospectus and Other Forms:

The merchant banker has to place an order with the appointed printer to print the approved prospectus with other forms etc.

Advertisement and Publicity:

To bring to the notice of the public at large, merchant banker has to take necessary steps to advertise the public issue

The text of these advertisements has to be approved by the company and the Managers to the Issue.

Under the stock exchange guidelines, a public limited company is required to announce in newspapers before 10 days of the opening of the subscription, list about the public issue.

It shall also be the responsibility of the lead manager to ensure strict compliance with the code of advertisement

Opening Bank Account

The merchant banker on behalf of the company proceeds to open an account of the company with the controlling branch of the banker to the issue.

Details are also to be given about the issues like opening date, closing of subscription, amount of issue, face value, type of securities etc.

Launching of a Public Issue:

Once the legal formalities for Issue of Capital are complete, the process of marketing the Issue starts. Lead Manager has to arrange for distribution of public issue stationery to various collecting banks, brokers, investors, etc.
Public Issue is launched formally by conducting Press Conference, Road shows, Brokers Meets, issuing advertisements in various newspapers and mobilising Brokers and Sub- Brokers.

Timing of the Issue

One of the most critical factors for the success of the issue is the timing of the issue.
The merchant bankers as part of their marketing efforts have to decide the timing of the issue keeping in view the various factors.

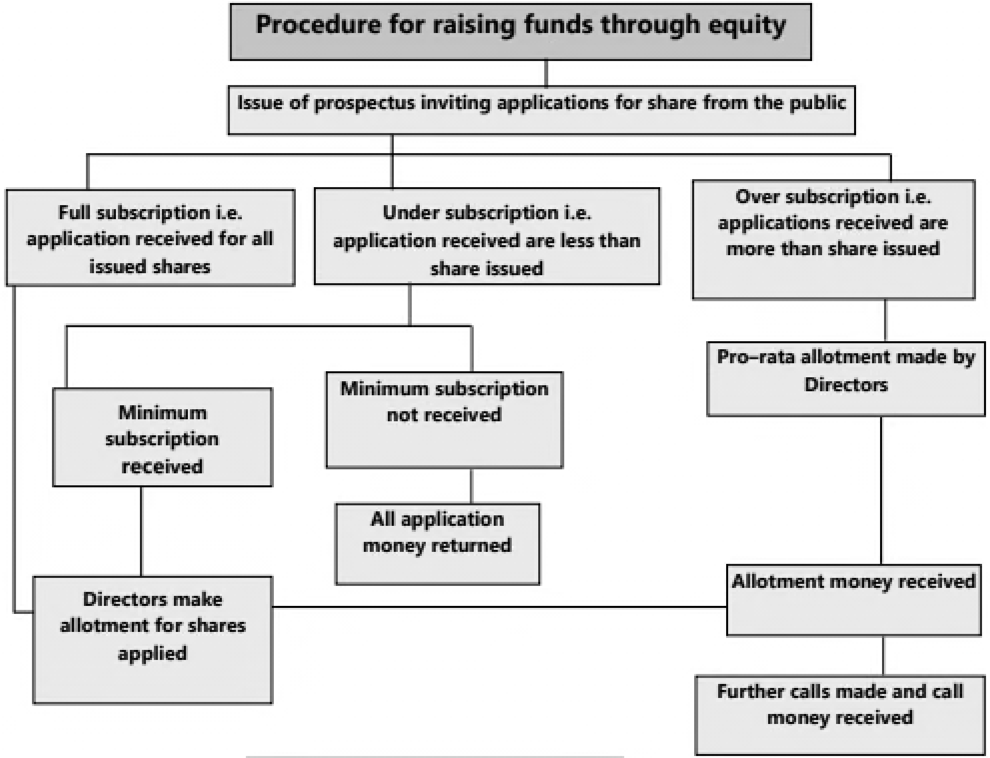
Post-Issue management

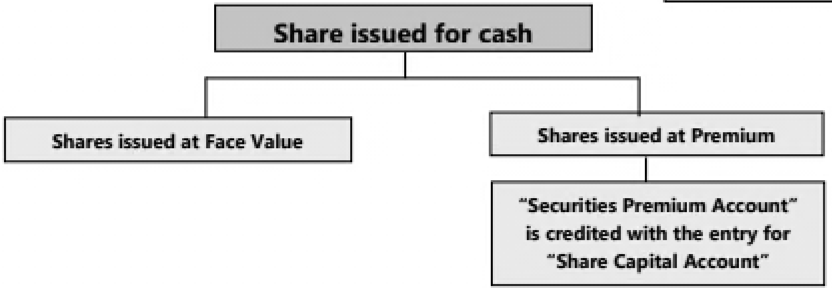
- allotment of securities or refunds in respect of any issue

- continue to be associated with the issue till the subscribers have received the share or debenture certificates or refunds of excess application money.

- ensure that the whole assignment is performed in accordance with the provisions of Companies Act and listing agreement with the stock exchange.
- follow-up with bankers to the issue and self-certified syndicate banks to get quick estimates of subscription
- advising the issuer about the closure of the issue, finalisation of the basis of
- allotment

- The responsibility of the lead manager(s) shall continue until completion of the issue process and for any issue related matter thereafter.
- regularly monitor redressal of investor grievances arising from any issue related activities.
- co-ordinate with the registrars to the issue and with various intermediaries
- monitor the flow of applications from syndicate member(s) or collecting bank branches


Procedure for raising funds through equity
Issue of prospectus inviting applications for share from the public
Full subscription i.e. application received for all issued shares
Under subscription i.e. application received are less than share issued
Over subscription i.e. applications received are more than share issued
Minimum subscription received
Minimum subscription not received
Pro–rata allotment made by Directors
All application money returned
Directors make allotment for shares applied
Allotment money received
Further calls made and call money received


Share issued for cash
Shares issued at Face Value
Shares issued at Premium
"Securities Premium Account" is credited with the entry for "Share Capital Account"

Regulation of Merchant Banking in India

- Governed by SEBI under the SEBI (Merchant Bankers) Regulations, 1992.
- Mandatory registration and adherence to operational and capital adequacy norms.
- Regular amendments ensure investor protection and market discipline

Wealth Management System

- Wealth management is a high-level professional service helping individuals build, preserve, and transfer wealth to future generations in a tax-efficient manner.
- It integrates financial planning, investment management, tax strategies, estate planning, risk management, and other advisory services to meet clients' needs

Wealth Management System- Key Components

- Core Services:

Investment Planning; Trust and Estate Planning; Tax Optimization; Risk Management; Retirement Planning.

- Supporting Services:

Legal Advice; Cash Flow Management; Charitable Giving; Debt and Mortgage Management.

- Relationship Management:

Collaboration with financial experts like accountants, attorneys, and tax consultants; Understanding and meeting client needs through consultative processes

Scope of wealth management services in financial planning

Investment Management
Retirement Planning
Estate and Legacy Planning
Tax Optimization:
Risk Management:
Philanthropic Planning
Debt Management
Cash Flow Management:

https://www.nism.ac.in/2023/09/understanding-of-the-wealth-management/

Key elements of wealth management strategy

Clear Financial Goals and Objectives
Comprehensive Financial Planning
Investment Strategy and Asset Allocation
Risk Management and Insurance
Tax Optimization
Estate and Legacy Planning
Retirement Planning
Cash Flow Management
Philanthropic and Charitable Giving
Continuous Monitoring and Adjustments
Client Education and Communication

Wealth Management System- Features

- Customized Solutions: Tailored plans based on clients' financial goals, risk tolerance, and asset status.
- Holistic Approach: Combines financial planning, estate structuring, and philanthropy.
- Long-term Relationship: Clients, particularly HNIs (High-Net-Worth Individuals), are served across various life stages.

Wealth Management System- Processes

Step 1: Client Assessment → Understanding financial goals
Step 2: Strategy Development → Designing a custom plan
Step 3: Implementation → Investing and executing financial strategies
Step 4: Monitoring → Tracking portfolio performance
Step 5: Review & Adjustment → Updating strategies based on changing needs

Challenges in Wealth Management Services Sector in India

- Changing Demographics and Client Expectations
- Low Financial Literacy Levels
- Technological Disruption; Digital Disruption and FinTech Competition
- Regulatory Burdens/changes
- Reach
- Entry barriers
- Market Volatility and Economic Uncertainty
- Fee Compression and Cost Management
- Data Management and Security
- Talent Acquisition and Retention
- Client Trust and Relationship Management
- Globalization and Cross-Border Challenges

How Wealth Management Firms Can Evolve

- Enhancing Financial Literacy & Client Education- financial literacy programs, webinars
- Adopting a Digital-First Approach - AI-driven robo-advisory platforms, big data analytics
- Hybrid Advisory Model - Robo-advisory for mass-market clients with human advisory for HNIs and complex portfolios.
- Expanding Product Offerings - ESG funds, alternative assets (REIT) and goal-based portfolios, insurance and estate planning
- Personalisation through AI & Data Analytics - machine learning, behaviour-based, goal-based investment recommendations

Impact of Macroeconomic Shifts on Wealth Management Firms

Effects of Recession on Wealth Management Firms

- **Market Volatility & Declining Asset Values**: A downturn in stock markets leads to lower portfolio values, reducing client confidence and AUM (Assets Under Management).
- **Reduced Client Risk Appetite**: Investors may shift from equities to safer assets like bonds or cash, limiting advisory firms' revenue from active investment management.
- **Liquidity Crunch**: Clients may withdraw funds to cover personal or business expenses, reducing firms' fee income.
- **Fee Compression**: Clients demand lower advisory fees or shift to passive investment strategies.

Impact of Macroeconomic Shifts on Wealth Management Firms

Effects of Inflation Surges

- **Erosion of Real Returns**: Rising inflation reduces the purchasing power of investment returns, impacting fixed-income assets.
- **Higher Interest Rates**: Central banks may raise interest rates to combat inflation, increasing borrowing costs and reducing demand for credit-driven investments.
- **Shifts in Asset Allocation**: Inflation may make traditional bond investments unattractive, pushing investors toward inflation-protected securities, commodities, or real estate.

Defensive and Adaptive Strategies for Wealth Management Firms

Diversification Across Asset Classes

- Encourage **multi-asset diversification**, including stocks, bonds, commodities, real estate, and alternative investments.
- Use **low-correlation assets** (e.g., gold, REITs, global equities) to mitigate volatility.
- Increase exposure to **inflation-protected securities** like TIPS (Treasury Inflation-Protected Securities) or commodities during inflationary periods.

Defensive and Adaptive Strategies for Wealth Management Firms

Defensive Investment Strategies

- **Sector Rotation**: Shift towards defensive sectors like healthcare, utilities, and consumer staples during economic downturns.
- **Dividend Stocks & Bonds**: Focus on stable dividend-paying stocks and investment-grade bonds to generate income during market declines.
- **Hedging with Derivatives**: Use options, futures, and other derivatives to hedge against market volatility.

Defensive and Adaptive Strategies for Wealth Management Firms

Inflation Protection Strategies

- Recommend **real assets** like real estate, infrastructure investments, and commodities to hedge against inflation.
- Encourage **floating-rate bonds** and **short-duration debt funds** to mitigate rising interest rate risks.
- Incorporate **inflation-linked annuities** into retirement plans.

Defensive and Adaptive Strategies for Wealth Management Firms

Strengthening Client Communication & Education

- **Proactive Risk Communication**: Provide regular market updates, webinars, and reports to manage investor expectations.
- **Behavioural Coaching**: Prevent panic-driven decisions by educating clients on market cycles and long-term investment strategies.
- **Scenario Planning**: Offer customised financial plans considering best-case, worst-case, and most likely economic scenarios.

Defensive and Adaptive Strategies for Wealth Management Firms

Leveraging Technology for Agile Decision-Making

- Use **AI-driven portfolio analytics** to identify risk exposure and optimize asset allocation dynamically.
- Develop **Robo-advisory services** with adaptive models that adjust portfolios based on economic indicators.
- Implement **big data-driven predictive models** to anticipate macroeconomic changes and adjust strategies proactively.

Defensive and Adaptive Strategies for Wealth Management Firms

Cost Optimization & Business Model Adjustments

- Diversify revenue streams by offering **financial planning, tax advisory, and estate planning services** beyond investment management.
- Shift towards **fee-based models** rather than commission-based services to maintain steady income.
- Invest in **operational efficiency**, such as automating compliance processes and using AI for customer service.