Wealth Management and Private Banking
Management Level 2

Cognizant Technology Solutions

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Chapter I:

Introduction to Wealth Management and Private Banking

1. Introduction to Wealth Management

1.1 Wealth Management

Traditionally, the wealthiest retail clients of investment firms demanded a greater level of service, product offering and sales personnel than were received by the average clients. With an increase in the number of affluent investors in recent years, there has been an increasing demand for sophisticated financial solutions and expertise throughout the world. Private Wealth Management (PWM) is the term generally used to describe highly customized and sophisticated investment management and financial planning services delivered to high net worth investors. Generally, this includes advice on the use of trusts and other estate planning vehicles, business succession or stock option planning, and the use of hedging derivatives for large blocks of stock.

The CFA Institute curriculum on "Private Wealth Management" indicates that there are two primary factors that distinguish the issues facing individual investors from those of institutions. Firstly, time horizons are different. Individuals face a finite life as compared to the potentially infinite life of institutions. This fact requires strategies for transferring assets at the end of an individual's life. These transfers are subject to laws and regulations that vary from place to place and therefore the strategies available to address this situation vary. Another factor contributing to different portfolio management strategies for individuals and institutions is the fact that individuals are more likely to face a variety of taxes on investment returns that vary in different places. Portfolio management techniques that provide individuals with after tax returns that meet their objectives are necessarily going to be specific to the tax structure of that place.

The term "Private Wealth Management; was first used by the elite retail (or "Private Client") divisions of firms such Goldman Sachs or Morgan Stanley to distinguish themselves from mass market offerings, but since then has spread throughout the financial services industry. Certain larger firms(UBS, Morgan Stanley and Merrill Lynch) have "tiered" their platforms - with separate branch systems and advisor training programs, distinguishing Ultra Private Wealth Management from "Private Wealth Management ", with the latter term used to describe the same type of services, but with a lower degree of customization and delivered to mass affluent clients. At Morgan Stanley, "Private Wealth Management" is the retail division focused on serving clients with greater than $10 million in investment assets, while "Global

Private Wealth Management " focuses on accounts smaller than $10 mil. The overall umbrella of Wealth Management can be classified into Corporate Wealth Management and Private Banking.

1.2 Importance of Wealth Management

Driven by market capitalization growth in emerging economies, the wealth of the world's high net worth individuals (HNWIs1) increased 9.4 percent to US$40.7 trillion in 2007, according to the 12th annual World Wealth Report, released by Merrill Lynch (NYSE: MER) and Capgemini. The number of HNWIs in the world increased 6 percent in 2007 to 10.1 million, the number of ultra high net worth individuals (Ultra-HNWIs) increased by 8.8 percent. Global high net worth wealth totals around $37 trillion, and is expected to reach $51.6 trillion by 2011, growing at an annual rate of 6.8% a year. The growing wealthy population means profitable times ahead for the world's private banks if they manage to win a share of the assets.

According to PricewaterhouseCoopers' (PwC) 2007 Wealth Management Survey, CEOs of private banks and wealth managers expect the industry's assets under management (AUM) to grow by a staggering 23% per annum over the next three years, with their own businesses growing at an even faster rate of 30% a year.

The global economy had a transitional year in 2007, characterized by sharply opposing Macroeconomic environments. While momentum carried over from 2006 helped to sustain unabated growth in the first few months of 2007, the economy faced heightened uncertainty by year-end. Global growth remained solid in 2007, in terms of both real GDP and market capitalization– the two primary drivers of wealth generation. Strong worldwide gains in the first half of 2007 boosted HNWI growth across the globe; while in the second half of the year, resilient emerging economies offset slowdowns in mature ones. The global economy grew by 5.1 percent, down slightly from the 5.3 percent global growth in 2006.

Impressive growth of emerging economies was boosted largely by thriving export sectors and Heightened domestic demand. The largest regional growth of the HNWI population occurred in the Middle East, Eastern Europe, and Latin America, with increases of 15.6 percent, 14.3 percent, and 12.2 percent, respectively. Gains in commodity exports, paired with growing international acceptance of emerging financial centers as significant global players, contributed to the growth rates of emerging economies.

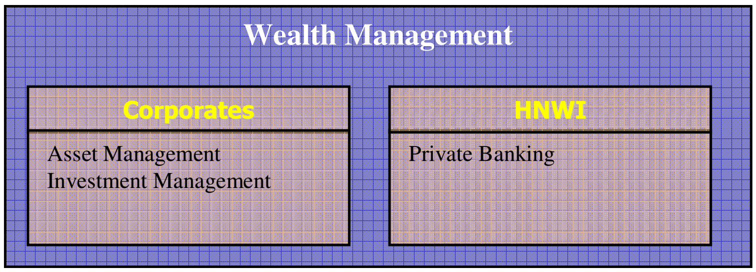
The BRIC nations (Brazil, Russia, India and China) continued to play pivotal roles in the global economy in 2007, driven by impressive economic gains and robust market capitalization growth.

“India led the world in HNWI population growth at 22.7 percent, driven by market capitalization growth of 118 percent and real GDP growth of 7.9 percent. Although India’s real GDP growth decelerated from 9.4 percent in 2006, current levels are considered more stable and sustainable. India’s two largest exchanges – the Bombay Stock Exchange and the National Stock Exchange – ranked among the world’s top 12 exchanges in terms of trade volume by end of 2007, boosted by initial public offering markets and heightened international interest.

China experienced the second largest expansion of their HNWI population, advancing 20.3 percent – an increase fueled by market capitalization growth of 291 percent and real GDP growth of 11.4 percent. Significant price increases and strong IPO activity propelled the Shanghai Exchange to become the sixth largest exchange in the world in terms of market capitalization. But while market capitalization and real GDP growth rates were higher in China than India, the HNWI population of India grew faster in 2007. The Merrill Report suggests that as market capitalization and real GDP in China were spread over a larger population, there were smaller per capita gains in China. In 2006, India had a larger market capitalization growth than gross national income, significantly impacting HNWI population growth in India. In addition, China is currently experiencing explosive growth in its “mass affluent” population, which has yet to break the HNWI threshold of US$1million. Brazil enjoyed the third-highest HNWI growth rate in 2007, with a 19.1 percent increase, spurred by a wave of robust market capitalization growth of 93 percent and real GDP growth of 5.1 percent. Net private capital flows to Latin America doubled in 2007, contributing to the Bovespa Stock Exchange’s fourth place ranking among the world’s largest IPO markets and 7.2 market share gain. This, according to the Report, lent support to the establishment and global integration of the Brazilian financial system. Russia was home to one of the world’s 10 fastest-growing HNWI populations, despite growth deceleration from 15.5 percent in 2006 to 14.4 percent in 2007. Solid gains of 37.6 percent in market capitalization and 7.4 percent in real GDP represented the growing international interest in the country as a global player, suggesting that the ongoing development of Russia’s external relationships will likely improve the economy’s fundamentals.

1.3 Private Banking

Private banking is a term for banking, investment and other financial services provided by banks to private individuals disposing of sizeable assets. The term "private" refers to the customer service being rendered on a more personal basis than in mass-market retail banking, usually via dedicated bank advisors.

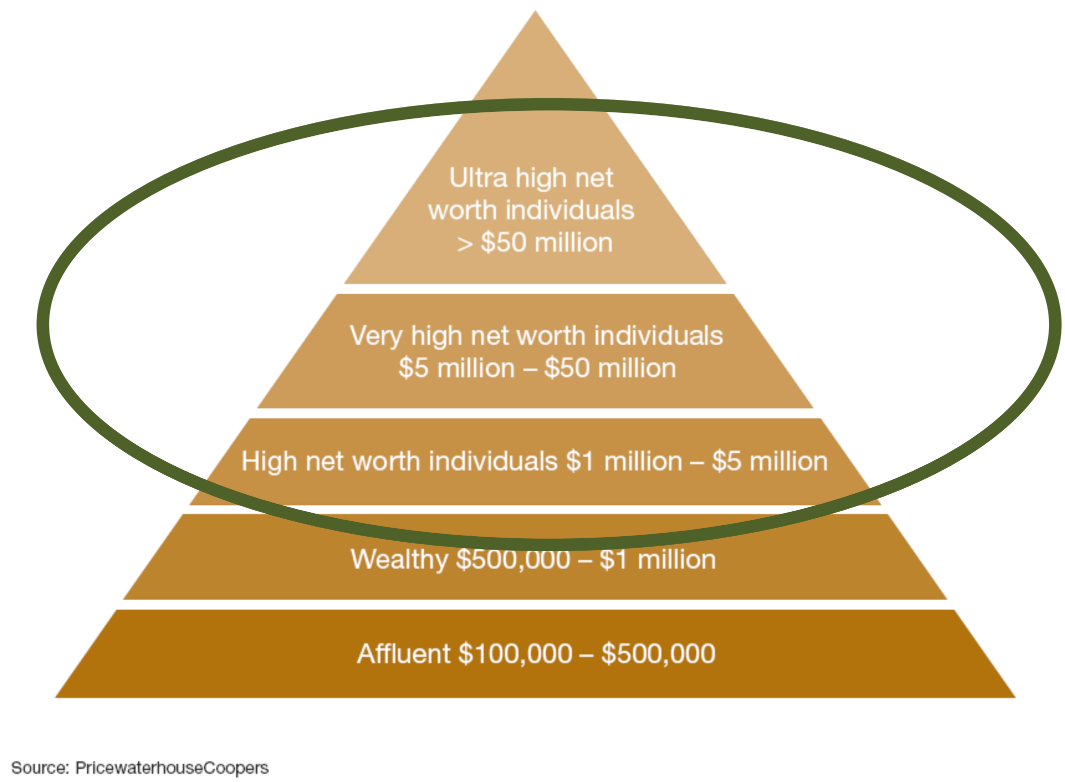


Private Banking as a part of Wealth Management

1.3.1 Definition of “HNWI”

Although there is no precise definition of how rich somebody must be to fit into this category, high net worth is generally quoted in terms of liquid assets over a certain figure. The exact amount differs by financial institution and region.

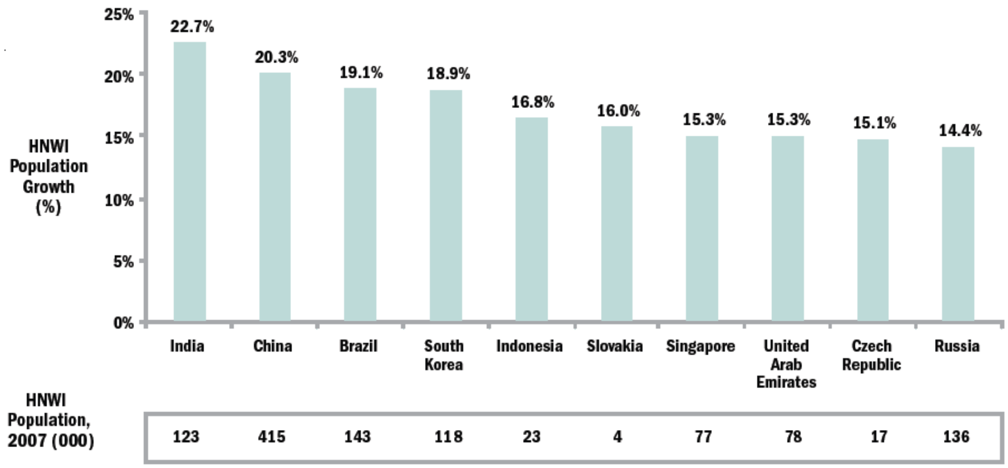
A High-net-worth individual (HNWI) is a person who has a high net worth. In the private banking business, HNW individuals typically are defined as having investable assets (financial assets not including primary residence) in excess of US$1 million. The U.S. Securities and Exchange Commission has promulgated a different definition of "High Net worth Individual" for regulatory purposes.



Definition of HNWI in the Wealth Pyramid

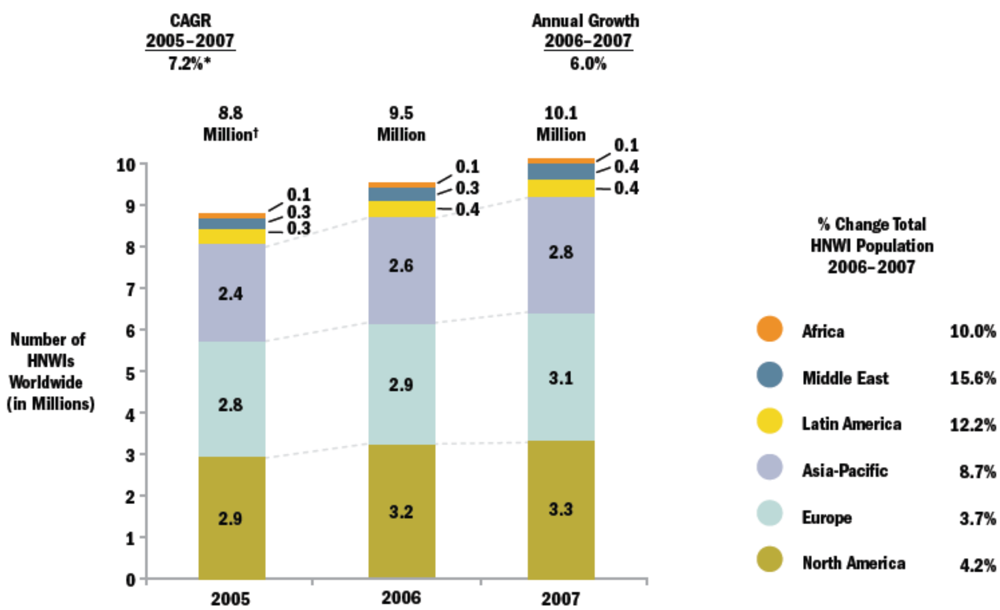
The classification of individuals into these categories is subjective with respect to the bank (or financial institution) and the country. For example, many banks classify an individual as HNWI only if the liquid assets are over $ 1 million. Also, some institutions prefer using the overall assets of the individual for classification. Generally in such definitions, an individual with overall assets greater than $ 5 million is classified as HNWI.

HNWI Population Growth, 2006 – 2007 (by Market)



Note: Growth rates and absolute HNWI numbers are rounded
Source: Capgemini Lorenz curve analysis, 2008

Global Trends in HNWIs



Note: High Net Worth Individuals (HNWIs) hold at least US$1 million in financial assets, excluding collectibles, consumables, consumer durables and primary residences

Ultra-High Net Worth Individuals (Ultra-HNWIs) hold at least US$30 million in financial assets, excluding collectibles, consumables, consumer durables and primary residences

HNWI Population 2005-2007 by region (In Millions)

1.3.1 Importance of Private Banking

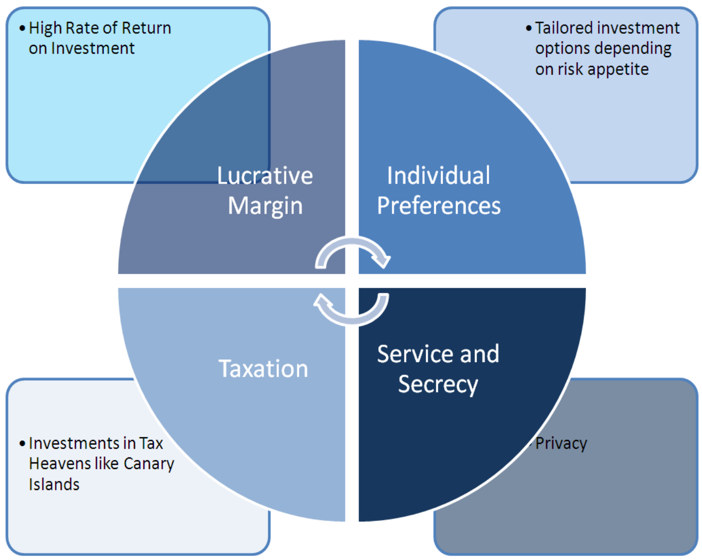
Private Banking covers the basic banking services as well apart from wealth management. Private banking primarily is a credit service, and is less dependent on accepting deposits than retail banking.

Private clients trade in larger volumes, the fees and commissions are larger. Banks offering these services charge anything between 1-4 % for their service, depending on the nature of the service rendered. Return on equity for banks offering these services could be as high as 25%.Most private banks segregate their clients based on net worth, investable assets, age etc. For example, one classification could be between young affluent and retired affluent.

Private clients typically demand higher returns on their investment, and as a result banks offering these services are heavily dependent on efficient Portfolio Analysis and Asset Allocation techniques to achieve this. The consequent investment in technology is also very high.

Private banking services almost always involve a high level of confidentiality for client information. Lending to HNIs and their business concerns often takes on unique characteristics. Most private banking lending is fully secured. Nevertheless, extensions of credit to wealthy individuals, even if secured, should not compromise sound underwriting standards. Even if the collateral is cash, it may be subject to government forfeiture if it came from illicit activities.

Typically, private banking clients want to choose from the entire frontier of investment choices; frequently, they ask for higher-yield products. This request for a broad portfolio balance typically includes alternative investment strategies that require extensive portfolio optimization analysis. The most elite private banks have invested heavily in technology to develop optimal asset allocation models. Most private banks target return on equity of at least 25%, considerably higher than that of the average commercial bank.

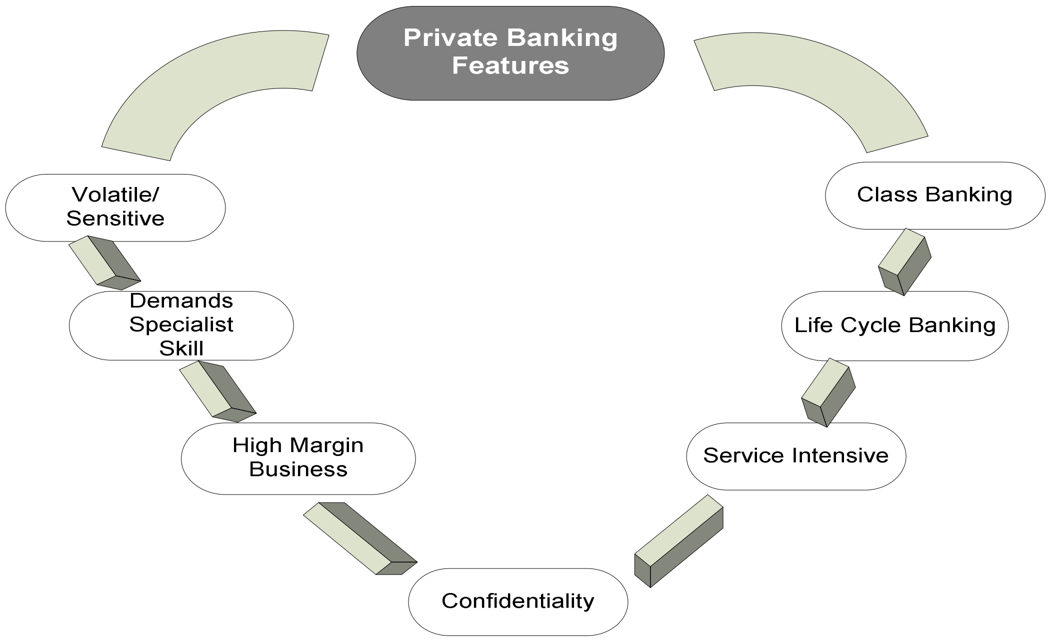


Private banking real drivers

The dual impact of greater wealth and of worry about having enough means for comfortable retirement ensures that plenty of money comes in to the orbit of professional fund managers. Moreover as the affluent people diversify from real estate property and gold into bonds, equities and may be alternatives investments offered by banks and hedge funds, the range of investment possibilities increases.

Because a person with positive cash flow, for which he or she must look for a secure and rewarding home, is in all likelihood a professional or a manager, he or she demands high standards with regard to personal investment advisory and wealth management services; average will not do. Affluent, self made people know and appreciate the value of money. Therefore they desire comprehensive financial advice as well as a significant amount of documentation. They also expect specially tailored financial solutions, including the bank's ability to address in an able manner questions regarding:

- Investments
- Financing
- Taxes
- Pensions
- Inheritance Law



Features of Private Banking

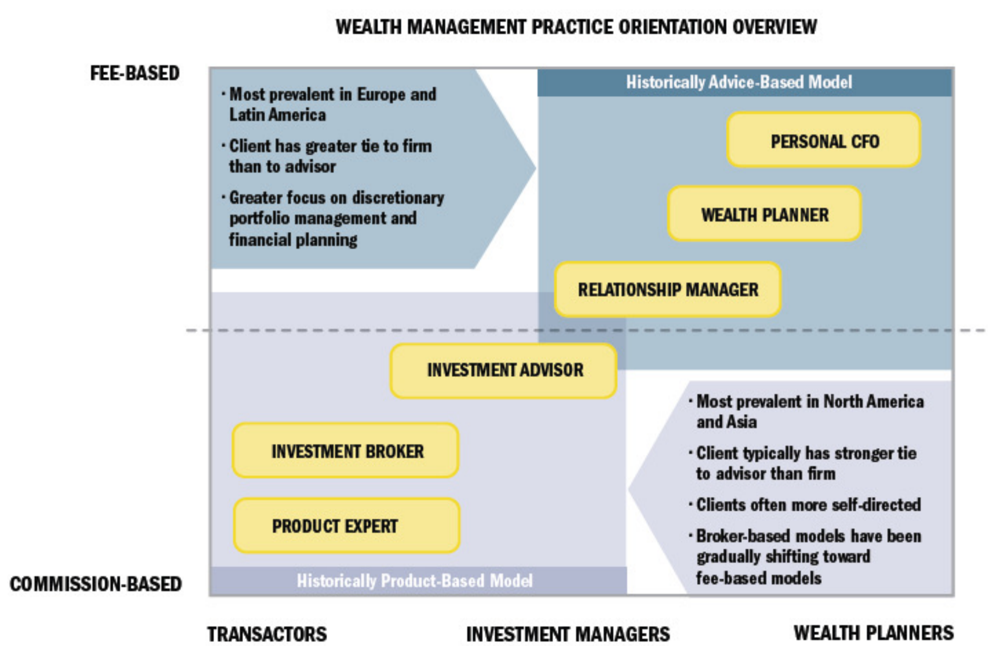
The core services under private banking comprise of:

- **Asset / money management**: Since this is extended to Retail, high-net-worth customers, hence Private Banking is also often termed as 'Retail Asset Management.'
- **Lending:** The majority of lending to Private bank clients is secured i.e. it is backed by assets. Extension of credit is a prime service in Private Banking.
- **Financial advice:** ranges from tax-planning to estate management, and art advisory.
- **Investment management services**: this may be self-directed (non-discretionary) or discretionary. These are described below:
  - **Self-directed or non-discretionary:** This is largely investment advisory in which the bank offers investment recommendations based on the Client's approval. The client may choose to ignore this.
  - **Discretionary:** In this case, the bank's portfolio managers make investment decisions on behalf of the customer.

  In either case, there would be separate agreements between the bank and the client.

1.3.2 Private Banking: Business Model

Service-delivery models can offer significant potential for driving value in new markets. Leading wealth management firms have always known one-size does-not-fit-all in the HNW segment, but the imperative when targeting new markets is to design a service-delivery model that is flexible enough in its architecture to accommodate diverse client needs and the diverse advisors serving them—even for firms that are not able or keen to invest heavily in the underlying technology. A closer look at the typical wealth management business models highlights how firms operate and deliver value. Business models generally fall into three major categories: Transactors, Investment Managers and Wealth Planners. Each has a direct correlation to the preferred pricing structure—i.e., fee- versus commission-based.



Source: 2008 Wealth Report

Transactors:

- Product Expert: Handles high-volume transactions involving sophisticated products or asset classes, such as foreign exchange derivatives
- Investment Broker: Handles transactions involving basic asset classes, such as equities, fixed income and options

Investment Managers:

- Investment Advisor: Offers strategic investment planning, as well as playing a hands-on role in constructing, reviewing and rebalancing client portfolios
- Relationship Manager: Establishes and nurtures client relationships, delegating portfolio management to internal or external managers

Wealth Planners:

- Wealth Planner: Offers holistic advice in accordance with client's finances and short-/long-term goals, such as real estate, retirement and generational wealth transfer
- Personal CFO: Aspires to provide quasi family-office services, often acting in a lead discretionary role coordinating with the client's other trusted advisors

The significance of these practice-model categories is that each reflects a different advisory approach, borne of a different perspective. While some firms claim to have a single practice orientation, many actually use multiple models in and across regions—and often leverage different models within their core markets to capitalize on the strengths of individual advisors.. Importantly, practice orientations need not be mutually exclusive, but the mix of intra-firm practice models does need to be consciously managed.

1.3.3 Private Banking: Drivers

Private Banking business can be viewed two dimensionally- one from client perspective and other from that of the banks. The main drivers for the clients are the individual preference and the tailor made services offered to them. In select geographies -Private banking enables the client to keep his/her transactions away from the taxation authorities.

From bank's point of view private banking is a high volume and higher margin business. In this sector a bank can earn a net margin of 20% without much of a fuss. As private banking is more of service banking than a fund-based banking, the return on capital employed is phenomenal. Yet another factor that makes banks prefer private banking is the fact that it does not demand a huge network of branches as retail banking does. In fact, even a bank with one branch can carry on private banking business provided it has competency.

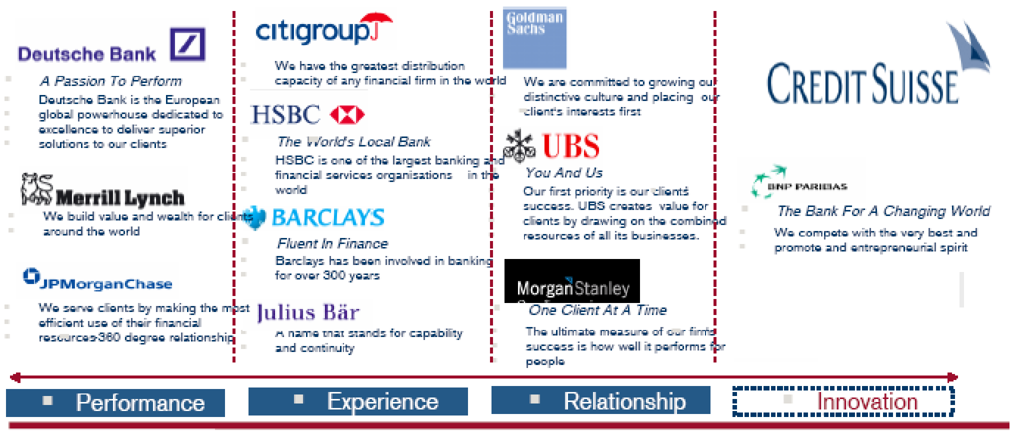
1.3.4 Private Banking: Differentiators

The various private banks differentiate their services on the basis on the following:

1. Performance

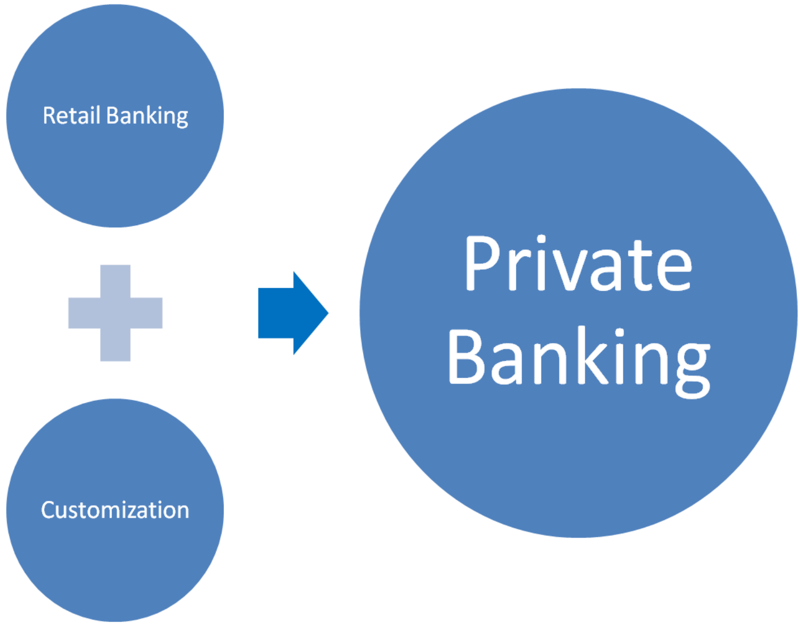
2. Experience
3. Relationship
4. Innovation

Following figure describes several Private Banks operating at different service levels



1.3.5 **Private Banking vs Retail Banking**

Banks offer products and services under both private banking and retail banking. But the distinction is in details. In the case of retail banking, banks design their deposit/credit products and services and offer them to their customers without actually bothering about the uniqueness in the preference of individual customers. On the other hand, in the case of private banking, in the first place, banks study the profile of individual clients and then design products and services to meet their needs in total. Moreover, a private banker goes all out to be the guide of the client. In a sense the bank's relationship manager shadows the client so that none of the client's financial demands are left unmet. This is possible for a private banker because private banking is 'class banking' while retail banking is 'mass banking'. In the case of mass banking, it is for the customers to make his/her needs amenable to the offerings of the bank. Customized solutions and products are not there for a retail customer, while 'customization' is the raison d'être of private banking.



Private Banking Vs Retail banking

Chapter II:
Major Business Entities

2. Wealth Management - Major Business Entities

Major Business Entities in Wealth Management

2.1 Wealth Management Firm

The wealth management firm provides various services to its clients. The firm has a group of research analysts, who provide inputs to its Wealth managers for consultative services. The Wealth Management firm can be a bank, a brokerage house or any other NBFC. The firm generates a sense of trust within its clients due to its reputation, such that they can entrust the firm with a significant portion of their wealth for proper wealth management.

2.1.1.1 Wealth Management Firm Segmentation

The traditional wealth management boutiques and specialists provide secrecy and a personal touch in their relationships. These firms tend to offer a smaller mix of investment products and are usually technology averse, relying on third-party tools and services. Their client base tends to be wealth inheritors who take a passive role in investment management.

The fully integrated, trust-driven private banks differ from the boutiques and specialists primarily in their wide range of investment products and access to global markets. They are not as technology averse but do typically outsource execution services. The large, fully integrated global investment houses dominate the HNWI client bases, especially wealth creators. They offer the widest reach in terms of markets, products and services and are savvy technology users.

The fully integrated and brokerage-driven providers are the latest entrants in the wealth management industry and are trying to broaden the scope of wealth management to include Mass Affluent and under-serviced portions of HNWI. Like private banks, they provide access to a full range of investment products and markets, but their service offerings are typically technology-driven though not as rich as investment houses. Like investment houses, they too are savvy technology users.

2.2 Client (HNWI) and Client Segmentation

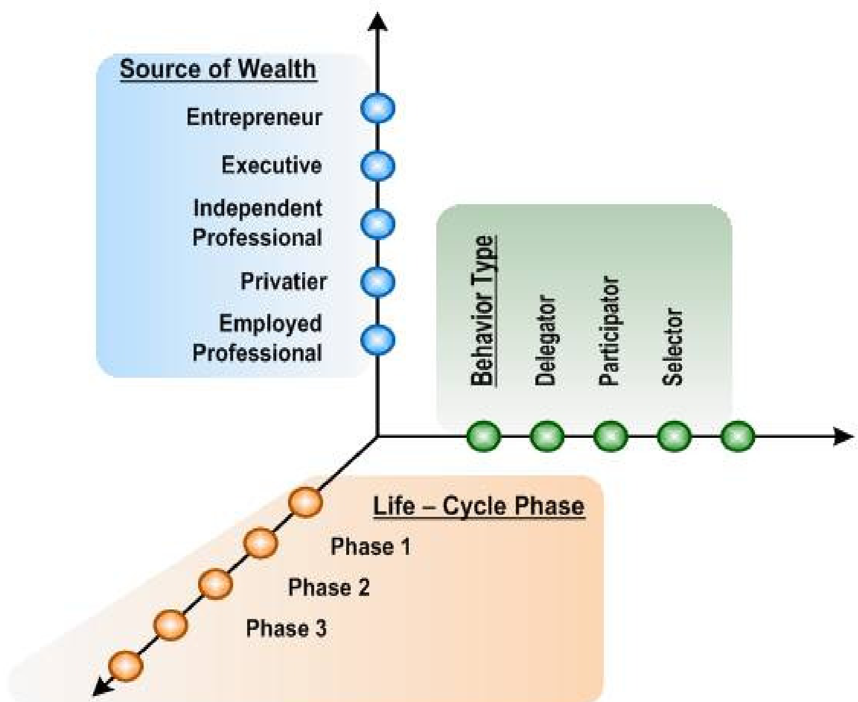
At the core of Wealth Management lies the client whose funds are used by the Wealth management firm in an optimum manner to generate a suitable return. A client becomes a high net worth individual (HNWI), when he has liquid assets above a particular level. The generally accepted definition of liquid assets (also known as “investible” or “discretionary” assets) includes savings, checking, money market accounts, certificates of deposit, stocks, bonds, mutual funds, and real estate other than a primary dwelling.

Various financial institutions and industry reports categorize the HNWI in different ways, but the most accepted categorization based on the amount of investible assets is as follows:

- Ultra high net worth individuals (NWIs) with over $50mn of investible assets
- Very high NWIs with assets between $5mn and $ 30mn
- High NWIs with assets between $1mn and $ 5mn
- Mass affluent with assets between $100,000 and $ 1 million

The international private wealth market is usually defined to include those individuals with disposable assets of at least $1m, while the mass affluent is largely a domestic market.

Apart from the Quantitative Model given above there is also a Qualitative Model used by certain Private Banks like Credit Suisse for client segmentation



Quantitative Model of Client Segmentation

2.3 Financial Entities

A wealth management firm can offer either proprietary products or establish a linkage with financial entities to provide best of the breed products to its clients. These financial entities include insurance companies, asset management firms, mutual funds, commercial banks, pension funds, etc.

2.4 Regulators

The purpose of security regulations is to protect investors in securities markets that operate fairly and to ensure that investors have access to disclosure of all material information concerning publicly traded securities. The Commission also regulates firms engaged in the purchase or sale of securities, activities of broker/dealers, people who provide investment advice, and investment companies.

2.5 Information Providers

The internal research team of a Wealth Management firm receives stock information from external agencies like Bloomberg, Reuters etc. The research team tracks the market performance as well as stock specific information including current price, price history, 52 week high/low, CUSIP etc. of a particular stock. Research teams receive information from multiple agencies to keep abreast of the latest market developments, and other important data like bond yields, benchmark portfolio compositions which closely resemble reference data available in other sectors. Besides these, Wealth Management firms also get security and sector specific research from their parent company's Investment Research divisions.

2.6 Custodians

For settlement of trades, a Wealth Management firm involves Custodians. Custodians are clearing members but not trading members. They settle trades on behalf of their clients that are executed through other trading members. A trading member may assign a particular trade to a custodian for settlement.

2.7 Depositories

A depository can be compared to a bank. A depository holds securities of investors in electronic form. Besides holding securities, a depository also provides services related to transactions in securities. A depository interfaces with its investors through its agents called depository participants (DPs). If an investor wants to utilize the services offered by depository, the investor has to open an account with a DP. This is similar to opening an account with any branch of a bank in order to utilize the bank's services.

2.8 Brokers / Dealers

A Wealth Management firm executes trade through Brokers and Dealers. Brokers and Dealers are the operational people who are responsible for the buying and selling of various securities through the exchanges. They may be trading for their own proprietary book or on client's behalf. The brokers/dealers operate on a commission basis with the Wealth Management firms and these costs are shown to the client. In the case of discretionary accounts these commission costs are built into the fees charged for assets under management. Most of the wealth management arms of the big integrated banking firms use the trading desks/systems managed by their asset/investment management arms for execution services from the broker/dealer community.

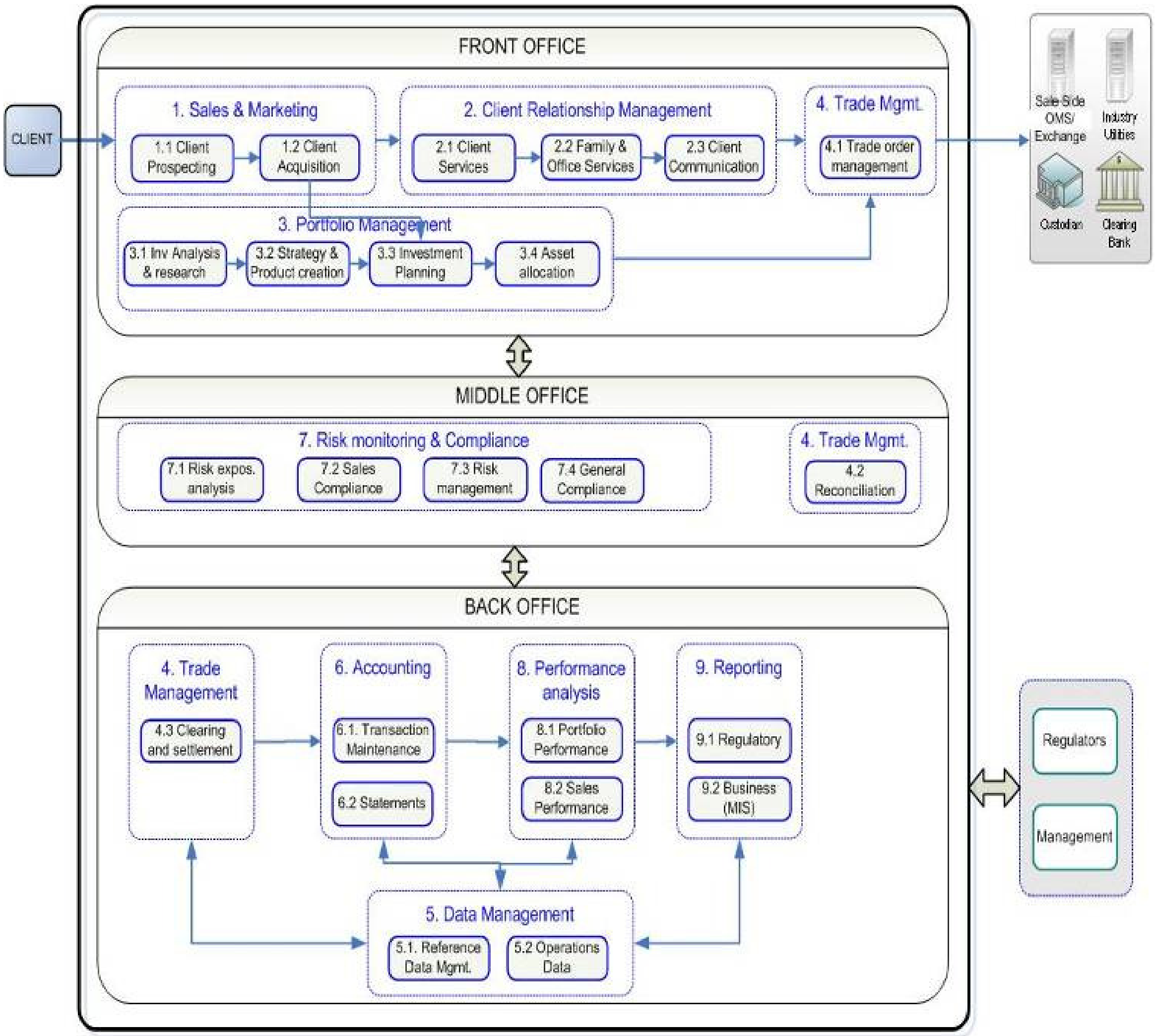
Chapter III:
High Level Processes

3. Wealth Management – High Level Processes

A successful wealth management firm would have to carry out all the following activities efficiently to offer best services to its clientele.

- Sales and Marketing
- Client Relationship Management
- Financial Planning
- Data Management
- Risk Management
- Performance Analysis
- Fund Accounting and Administration

A great deal of these processes have now been automated as a result of mass-proliferation of the web, new technologies etc. This has affected almost all departments and functions, particularly client servicing (CRM), Portfolio Analysis (proprietary and off-the-shelf models) etc.

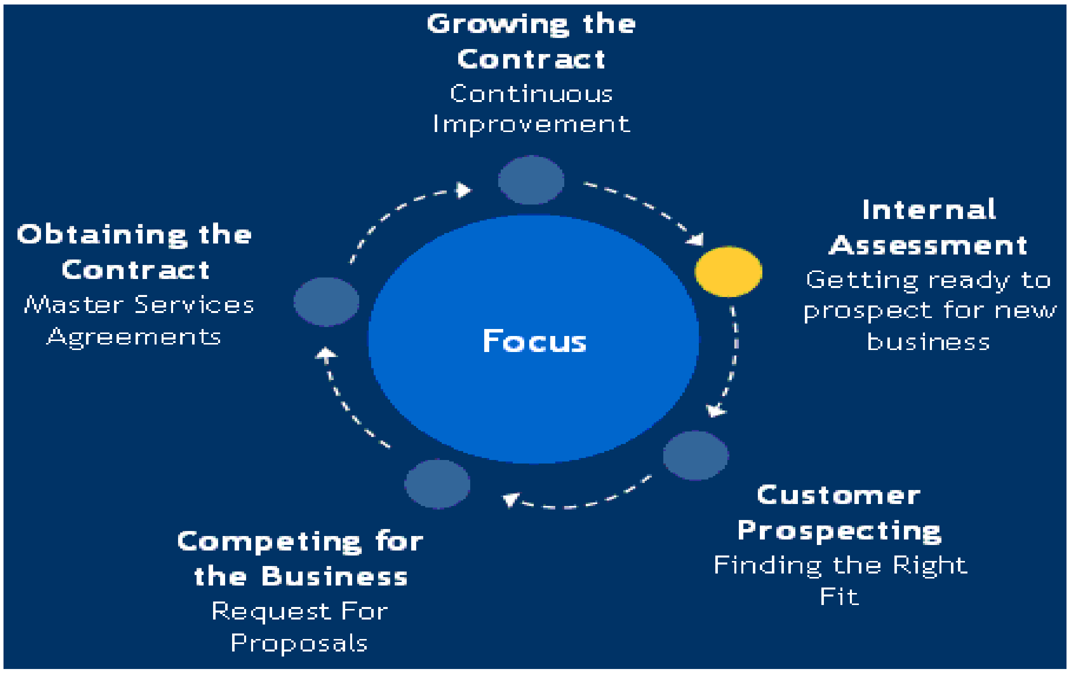


Private Banking functions

3.1 Sales and Marketing

The Federal Reserve defines private banking as personalized services such as money management, financial advice, and investment services for high net worth clients.

Private Banking covers the basic banking services especially lending apart from wealth management. Private banking primarily is a credit service, and is less dependent on accepting deposits than retail banking. The different private banking functions and the way they are linked are illustrated in the figure below:



New client acquisition, retention and growth model (source – JP Morgan Chase)

The sales and Marketing process of a wealth management firm are segmented into 2 main parts: -

- Client Prospecting and
- Client Retention

3.1.1 Client Prospecting

The client prospecting activity can be seen as a combination of three exercises:

- Qualifying the prospect
- Qualifying the financial institution
- Pursuing the opportunity

Various investment products and asset classes have different levels of risk associated with them, which results in a wide range of returns and volatility. Investors have varying expectations when it comes to returns and ability to take risk. It is therefore important to understand the client's attitude and preferences towards risk and his return expectations. The client risk profiling process aims at understanding the client's attitude towards risk and expectation of returns so as serve the client better. It also serves as an important tool in resolving dissonances in terms of the return expectation and the appetite for risk the client is willing to assume.

Investor Profiling

A client profiling questionnaire is administered to all clients by the Relationship Managers as the start of the profiling process. The questionnaire is designed so as to help in identifying the risk aptitude of the client. Generally, clients are categorized into 1 of the following groups based on the risk appetite:

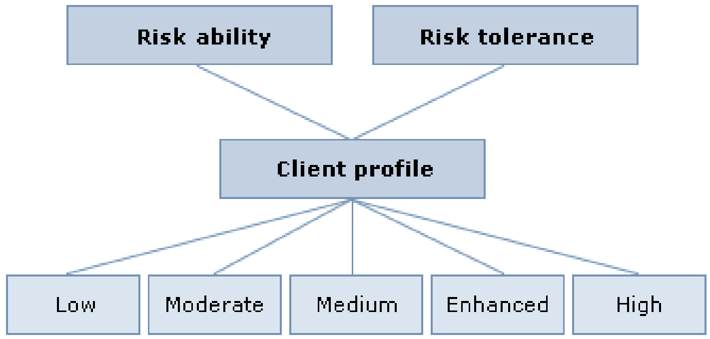
- Low
- Moderate
- Medium
- Enhanced
- High

Risk Ability

Risk Ability is the economic ability of the investor to take risks and possible losses on board. To establish the risk ability, the relationship manager analyses the financial strength of the client, his financial flexibility, and the extent to which he is able to countervail short-term fluctuations in investment value.

Risk Tolerance

Risk tolerance addresses the willingness of the investor to take risks and possible losses on board.



Determining Client Profile (Source: Credit Suisse)

Financial advisor would typically administer the client a questionnaire, which would help the advisor decide what kind of the risk the client can take. Using the answers provided by the client, the financial advisor would arrive at a metric commonly known as Customer Investment Suitability Profile (CISP). It is sometimes referred to as Risk Profile as well.

CISP defines how much risk the client can take on a sustainable basis. CISP is a function of demographic factors like age and family structure, economic factors like current earning potential and psychological factors like response to financially negative events.

A sample questionnaire to determine CISP is presented below. A score is attributed to each response, and the score itself depends on the option chosen by the client.

1	The client's age is :	Under 30 30 – 40 41 – 50 51 – 60 60 or over
2	The client's current annual take-home income is :	(a) Under $100,000 (b) between $100,000 and $200,000 (c) between $ 200,000 and $ 500,000 (d) between $ 500,000 and $10,00,000 (e) over $ 10,00,000
3	The number of years the client have until retirement is :	(a) 3 years or less (b) 3 to 5 years (c) 5 to 10 years (d) 10 to 15 years (e) 15 years or more

4	The client's present job or business is :	(a) Is not dependable (b) Is relatively secure (c) Is secure (d) Doesn't matter as the client already have enough wealth (e) Doesn't matter as the client can easily find an equally good new job / career
5	What is the client's expectation of how the client's future earnings would be :	(a) It would far outpace inflation (b) It would be somewhat ahead of inflation (c) It would keep pace with inflation (d) It may not be able to keep pace with inflation
6	How would the client describe himself as a risk-taker?	(a) Careless (b) Willing to take risks for higher returns (c) Can take calculated risks (d) Low risk taking capability (e) Extremely averse to risk
7	How good is the client's knowledge of finance?	(a) I'm an expert in the field of finance (b) I'm proficient in finance (c) I don't know much about finance but I keep myself updated about the developments through newspapers, journals, TV (d) Limited to knowing things like how the stock market or certain select script is / are moving (e) I'm totally zero as far as knowledge of finance is concerned
8	If the client loses his job or stop working today, how long does he think his savings can support the client?	(a) less than 3 months (b) 3 - 6 months (c) 6 months to 1 year (d) 1 - 3 years (e) More than 3 years
9	If the client had $50000 to invest, which of the following choices would the client make?	(a) Put the money in Bank Fixed Deposit and Bonds (b) Invest the money in Mutual Funds (c) Invest the money in Shares (d) Invest in a combination of the above with higher proportion of Bank FDs and Bonds (e) Invest in a combination of the above with higher Proportion of Mutual Funds and shares

10	The client has a market tip on the price appreciation of a certain scrip, the client :	(A) Immediately invest in the scrip (B) Invest if the client feel that the source of the tip is an experienced / expert market player (C) Do some enquiry and analysis and then decide (D) Want to invest but are generally unable to take a decision in such cases (E) The client don't rely on such tips or totally ignore it
11	The client is on a TV game show and the wins $10000. The client has a choice to keep the money or risk it to win a higher amount. The client :	(i) Are happy with the $10,000 that the client would've earned (ii) Risk the $10,000 on a 50% chance of winning Rs.30,000 (iii) Risk the $10,000 on a 25% chance of winning Rs.75,000 (iv) Risk the $10,000 on a 10% chance of winning $1,00,000
12	Which one of the following best describes the client's feeling immediately after making an investment, the client :	❑ Are not bothered - its just another investment for the client ❑ Are satisfied and content with the decision ❑ Are not very sure whether the client made the right decision ❑ Are worried ❑ Generally regret the client's decision
13	The stock market has dropped 25% and a share that the client own also dropped 25%, but the market expects the share to go up again. What would the client do?	• Sell all the shares • Sell some of them • Buy more of them • Keep all of them as the client expect the price to reach the earlier level • Keep all of them as the client are afraid of booking a loss
14	The client has a substantial sum of money spare for about 6 months after which the client need this sum to repay a loan, this s sum is currently not invested anywhere. The client would:	• Keep the money in the client's Bank Fixed Deposit or Open ended Debt Mutual Funds • Invest the money in Open ended Equity Oriented Mutual Fund • Invest the money in Equity Shares • Loan the money at market rates to businessmen • Invest the money in a combination of above
15	The client is financially responsible for (exclude dependants who can be supported by the client's spouse's income)	• Only the client himself. • 1 person besides the client himself • 2 to 3 persons besides the client himself • 4 to 5 persons besides the client himself • More than 5 persons besides the client himself

Sample Risk Profiling Questionnaire

Based on the responses, the financial advisor can determine a risk score. An example of the scoring process is given below:

Risk Profile Name	**Risk Taking Ability**	**Recommended Investment Time Horizon**	**Minimum Score**	**Maximum Score**
Short Term	Low	1-2 years	1	4
Conservative	Moderate	1-2 years	5	9
Moderate Conservative	Medium	3-5 years	10	14
Moderate Aggressive	Enhanced	At least 4 years	15	19
Aggressive	High	More than 5 years	20	24

Risk Profile Definition

The above questionnaire and the scores are only examples. Different Banks and financial advisors would have their own models and means to determine the client's risk appetite. An example of the different investment models that could be designed based on the risk appetite is as below:

Total Score	Risk Category	Allocation
1-4	Low	100% Debt
5-9	Moderate	70% Debt 20% Equity 10% Others
10-14	Medium	45% Debt 45% Equity 10% Others
15-19	Enhanced	30% Debt 60% Equity 10% Others
20-24	High	10% Debt 80% Equity 10% Others

Sample of Investment Model based on score

Client On-boarding

Client On-boarding is the first step in controlling the risk involved in undertaking a new business relationship. Specific information regarding the client, the nature of the business to be transacted and the parameters within which that business will be conducted, must be recorded and verified in a manner that facilitates the regulatory requirements, such as 'Know the Client', Patriot Act, as well as completing the due diligence required to pass internal standards. Know Your Customer (KYC) norms would be complied with in the step of Relationship Opening. A separate KYC screen is a part of the Relationship Opening module that is accessed & primarily used by the RM.

The process inherently generates a large volume of external; as well as inter-departmental communication over a protracted period of time and a strong process control model provides appropriate levels of transparency and ensures that all parties are operating with the most relevant information. Client On-boarding also ensures that the relevant technology systems are correctly set up and the appropriate operational procedures are in place to support the new business in a way that simultaneously mitigates risk and meets the client's service expectations. Through a structured customer orientation program supported by a series of proactive contacts with customers, its purpose is to ensure that the products they purchased match their needs, the rates and fees on the accounts are transparent and understood, the fulfillment process is smooth, accurate and timely, and any problems associated with the account opening process is addressed immediately.

Client Documentation

Client documentation refers to the documentation of all the processes leading to the agreement between the client and the financial institution. This typically involves documenting the following:

- Opening accounts
- General considerations
- Legal perspectives
- Facility letters
- Transaction-specific considerations
- Collateral-specific considerations
- Cross-border elements in transactions

Cross Selling

Cross selling is the strategy of pushing new products to current customers based on their past purchases. Cross-selling is designed to widen the customer's reliance on the company and decrease the likelihood of the customer switching to a competitor. The Investment Banks and Private Banks generally use the following key Cross-Selling strategies:

- Leveraging Investment Banking relationships for client referrals to Private Banking and Asset Management
- Provide UHNW clients with customized solutions and access to Investment Banking and Asset Management services
- Marketing alternative capital products to pension funds leveraging Investment Banking relationships
- Growing sales of alternative products and other services to Private Banking clients
- Offering prime services / execution to hedge and mutual fund managers leveraging Private Banking relationships

3.1.2 Client Retention Strategies

Customer retention is difficult to manage because there are a multitude of drivers that prompt customers to terminate relationships. Often these key drivers are interconnected, meaning that customers decide to defect due to a combination of circumstances that build up over time. The common controllable drivers of customer attrition include service quality problems, dissatisfaction with product pricing and/or minimum balance requirements, unexpected fees, and the attraction of a competitive product offer.

In response to these attrition drivers, institutions have deployed a variety of initiatives, such as: identifying and fixing the causes of recurring service breakdowns; using attrition risk models to proactively intervene before customers close accounts; and establishing specific account-closing protocols designed to retain customers who have expressed the intention to defect. This is done by identifying the most valuable clients in order to better align service efforts and cost distribution; and identifying the controllable behaviors that drive client loyalty and replicating those behaviors.

Client retention is typically achieved through use of extensive Customer Relationship Management (CRM) software's and tools. These tools help in mining relevant information about the customers which results in focused service to the customers based on individual needs.

3.1.3 Client Handover

Clients may have to be reassigned between RMs (Relationship Manager) and Senior RMs under the following circumstances:

- Change in client status.
- RM has exhausted allowable limit of clients.
- RM / Senior RM leaves the organization.
- Client complaint against RM / Senior RM.

In all the above cases, RMs must follow a Client Handover process. The typical process that is followed in case of handover of clients is as follows:

- Hand over of access to the client file.
- Any additional information. The new RM should then enter this into the client file.
- Letter to the client from the outgoing RM or RSM.
- Letter to the client from the new RM.
- Joint call on the client by outgoing and new RM. This should be done by way of personal meeting, if possible, or else a conference call.

3.2 Client Relationship Management

The relationship opening module primarily captures the Client Details. It also provides for creation of Portfolios as specified by the Client .The RM arranges & organizes the asset into the specified portfolios. The Client Relationship Management module also provides for a 360 degree view of all the assets & liabilities / positions of the Client in a single view. (Generally a single page view but a downward scrollable pane displays the entire holdings & exposures for the given Client).

3.2.1 Client Services

Wealth management firms adopt a multi-disciplinary team approach to client servicing. The main services provided by a wealth management firm are as follows: -

- Banking and Cash Management

- Custodial Services
- Fiduciary Services
- Tax Advisory Services
- Investment Advisory Services
- Securities and Funds Transfers Services
- Structured and Treasury Products Offerings

3.2.2 **Financing and Credit Services**

The Credit Dept (Credit Module Application) plays a significant role in creation of facilities based on PB Client requirements & provides credit on various parameters based on the Client holdings & computation of the available surplus. The available surplus is the difference between the Gross Collateral Value & the resulting Client Exposure (MTM). Private Banks clients have access to dedicated specialists who offer standard and tailored credit options. Clients may borrow against qualifying collateral to capitalize on attractive investment opportunities, to enhance portfolio yields, to reinvest in or expand their business, to acquire assets, or to free up liquidity for personal use. These can be structured on a fixed- or floating-rate basis in appropriate currencies as either loans or lines of credit. These services may be used virtually anywhere in the world. The private banks also help in tailoring appropriate financing for high end needs like primary, secondary and vacation residences, as well as home equity lines of credit wherein the clients may chose from numerous fixed and adjustable rate structures.

Some of the credit services offered by private banks to their clients are:

- Commercial loans
- Term commercial mortgages
- Loans and lines of credit secured by marketable securities
- Unsecured, revolving lines of credit
- Mortgage loans and real estate financing
- Wealth transfer financing
- Specialty financing

3.2.3 Family and Office Services

A family office is a private company that manages investments and trusts for a single wealthy family. The company's financial capital is the family's own wealth, often accumulated over any family generations. Traditional family offices provide personal services such as managing household staff and making travel arrangements. Other services typically handled by the traditional family office include property management, day-to-day accounting and payroll activities, and management of legal affairs. A family office can cost over $1 million to operate, so the family's net worth usually exceeds $500 million. Recently, some family offices have accepted non-family members.

The first noteworthy family offices in the United States were formed during the late 19th and early 20th century as a result of the tremendous wealth created during the Industrial revolution. Four of the most well known of these are the Robert Pitcairn, John D. Rockefeller, Henry Phipps and Andrew Carnegie families, who made their fortunes in railroads, glass, oil, and steel, respectively.

More recently the term "family office" or multifamily office is used to refer primarily to financial services for relatively wealthy families. A traditional family office is a business run by and for a single family. Its sole function is to centralize the management of a significant family fortune. Typically, these organizations employ staff to manage investments, taxes, philanthropic giving, trusts, and legal matters. The purpose of the family office is to effectively transfer established wealth across generations.

Sometimes (but less often these days), the family office is not a separate company. The family office invests the family's money, manages all of the family's assets, and disburses payments to family members as required. The office itself either is, or operates just like, a corporation (often, a limited liability company, or LLC), with a president, CFO, CIO, etc. and a support staff. The officers are compensated as per an arrangement with the family, usually with overrides based on the profits or capital gains generated by the office. Often, family offices are built around direct (like real estate) or indirect (like equity investments or funds), professionally managing a large portfolio of real estate or securities, often both. In addition, a more aggressive and well-capitalized office may be engaged in private equity placement, venture capital opportunities, and real estate development.

The concept and practical delivery of private banking services by international banks has in some ways evolved rapidly over the last three decades, in response to changes in the nature and quantum of wealth generation globally, resulting primarily from economic and demographic changes but also impacted by the policies of governments around the world. The result is a complex picture made up of several different market segments, wider than in the "early days" of the 1970s and also deeper in terms of the product/service/advice mix which banks make available to each of these different segments. The most recent development is the emergence of the family office as an identifiable market segment, to which international banks are now seeking to offer services, primarily through their private banking arms.

The rise of the Family Office:

The family office, an idea originally more prominent in the US (and still developing strongly there, with some reports suggesting there are over 3,000 family offices in the USA), has now become a rapidly growing feature for families in Western Europe, Eastern Europe and the Middle and Far East. As a result, a number of international banks are focusing part of their private banking efforts on this market segment, including the setting up of departments within their private banking operations exclusively to service the family office client.

Those banks which have kept relationship management rather than product at the heart of their approach to their private banking clients will have a head start in building meaningful business relationships with the family office market segment. Moreover, the best positioned are those most experienced in "partnership" solutions, working alongside other trusted advisers with whom the client operates, and demonstrating flexibility in combining their own service offering with solutions outside those they can directly "manufacture" themselves.

Whilst large international banks will be able to participate in the provision of services to family offices, arguably it is the medium and smaller sized banks that will be able to adapt alongside their clients more quickly. Whether among the large or the smaller players, private bankers have to remember the key element in service provision – listening to and really understanding the needs and interests of their clients (in this case, the family office as potentially having additional and, to an extent, distinct needs from the requirements of family members individually). The individualization of the offering to each individual family office's specific context is paramount.

This focus on customization of service to provide a specific and tailored outcome, rather than on delivery of product, is a return, of course, to the original approach of traditional private banking organizations. However, whilst the international private banker's offering for the family office is an overall service, which needs to be integrated with the services of the Family office's other providers to create the total solution for the client family, international banks do need to be able to demonstrate a menu of product/ service/advice content which encompasses at least the following key components:

- Flexible deposit products, in a growing range of currencies.
- Short and long term lending solutions, to include property financing solutions and lending against alternative investment products, as well as lifestyle lending.
- Treasury products including hedging and foreign exchange management.
- On-line access to information, as and when the family office and/or individual family
- Members require it.
- Portfolio management advice, though only as an overlay for the family office's in-house management capabilities.
- Fiduciary administration for a range of asset holding structures, from foundations for charitable giving, through trusts for generational planning, to companies and segregated asset vehicles for asset holding. This extends further to the administration of the clients' own private trust company, and can also lead the private banker into providing support in the area of family governance.
- Custody of international assets across a widening spectrum of investment types.
- Administration of stock exchange listed corporate structures evolved from clients' businesses and asset holding needs.
- An awareness of the family's interests in philanthropy, fine arts and other less standard and arguably non-financial areas, which nonetheless need to be supported by financial planning within a coherent overall wealth management strategy.
- The risk management element, be that specific and insurable or more general in nature and requiring risk control measures and changes in the way services and communications are delivered.

3.2.4 Client Communication

Communication is the bedrock of a quality relationship between wealth managers and their clients. High-net-worth investors both value and expect ongoing communication with their wealth managers — even on non-financial topics. Firms can encourage relationship-building communication and contact by supporting their advisors with the client service applications, investment tools and information that assist advisors in personalizing the client service experience. Once the advisor has identified his target market and begun positioning, he needs to deliver the right message to the right prospect at the right time. The right message should touch upon a client's emotional as well as financial needs.

There are two main channels for communication with the client:

- Client Reporting
- The Mass Marketing channel

Client Reporting

The requirement for sophisticated client reporting has spread from the confines of the ultra high net worth and institutional client to the mass affluent market. Investors at all levels are demanding greater accountability from their investment manager. They have become more and more knowledgeable and require increasingly sophisticated reporting.

This demand places greater need on the investment manager to offer detailed breakdowns and analysis of the performance of their clients' portfolios in order to retain their custom and add value to their service.

Common reports applicable to PB are:

- Countrywide distribution of assets
- Country-wise Exposure Report
- List of Clients where margin has been exceeded (Top Up & Sell Out Status)
- NPL Reporting
- Top Customer Assets/ Top Customer Liabilities
- Distribution of liabilities as per assets products
- Distribution of liabilities as per specific asset products.

The Mass Marketing Channel

The private banks keep their clients abreast of the latest financial news and happenings through emails or in the form of weekly and monthly updates through posts. They also give comprehensive reports on the market data relevant to the portfolio of the client. The private banks achieve this through strategic tie ups with leading news agencies like Reuters.

3.3 Financial Planning

Investment Planning is the process of identifying and implementing effective investment strategies to create and accumulate the financial resources for achieving financial planning goals. This section includes in-depth information related to investment planning over the following three main functions: -

- Needs Analysis
- Goal Planning
- Asset Allocation

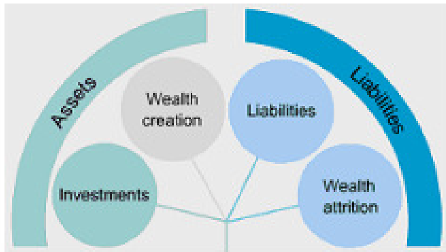
3.3.1 Needs Analysis

The relationship manager of a private bank systematically goes through with the client the four areas which together represent the client's financial situation:

- Investment
- Asset accumulation
- Liabilities
- Asset attrition

On the basis of this, the relationship manager will then analyze the client's individual situation in order to draw up a comprehensive investment concept.

Needs Analysis process thus focuses on definition of what client wants to achieve in a defined time frame. The relationship manager would understand what needs the client is trying to fulfill by making investments. This is an important process because no two clients are alike. The investments to be made should be channelized in instruments, which help the client achieve his overall investment objective. For this a "Needs Wheel" can be employed. A needs wheel of client's choice is then activated to find out more about assets and liabilities. The following are the parameters typically considered while doing the needs analysis for the client in each of the above four areas.



INVESTMENTS

- Bankable assets
  - Discretionary mandates
    - Risk profile
  - Non-discretionary mandates
    - Risk profile
  - Insurance policies
  - Option plans
- Non-bankable assets
  - Real estate
  - Participation in non-listed companies
  - Collections (art, jewelry, etc.)
  - Other
- Asset development
- Risk tolerance/risk acceptance
- Yield expectations

WEALTH CREATION

- Earned income
  - Salaries
  - Bonus payments
- Income from movable assets
  - Securities income, dividends
  - Income from patents and licenses
- Earned income from immovable assets
  - Income from real estate
- Other income (e.g. pensions)
- Contingent interests
- Earning stability and progression

WEALTH ATTRITION

- Living costs
- Usual, regular expenditure
- Unusual, one-off or irregular expenditure
- Taxes

LIABILITIES

Fixed liabilities (existing or anticipated)

- Mortgages, mortgage interest, amortization
- Other loans
- Support services

Flexible liabilities (plans, desires)

- Investments (construction, purchase or renovation of a home)
- Donations/lifetime bequests
- Children's education
- Donations to charitable institutions
- Shortfall in cover in the event of regular or early retirement

.

Figure: Needs Wheel (Assets & Liabilities vs. Needs)

3.3.2 **Goal Planning**

The Private Banks help the clients reach their financial goals. Whether the goal is buying a home, saving for retirement, income generation, tax savings or asset protection, a comprehensive plan is developed and timely financial advice is given to implement that plan.

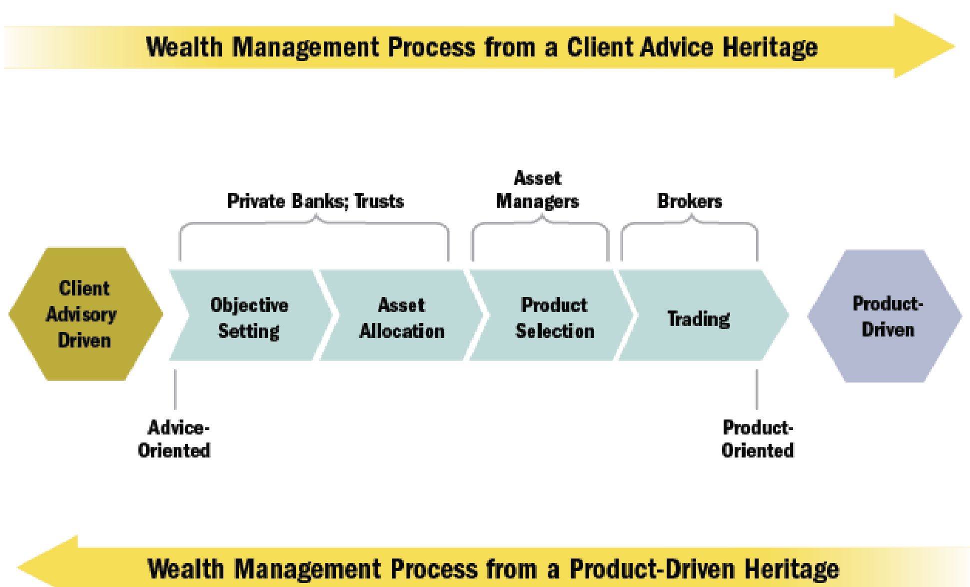
For example, if the goal is saving for retirement, then the relationship manager would show the client the importance of starting early as how a $1 deposited monthly can grow at various rates of interest:

Years	3% Rate	6% Rate	9% Rate	12% Rate
1	$12.36	$12.72	$13.08	$13.44
3	$38.20	$40.50	$42.88	$45.35
5	$65.62	$71.70	$78.28	$85.38
10	$141.69	$167.66	$198.72	$235.86

Also, the power of compounding would be explained as – if the client begins investing $2,000 a year at age 25 and earn 8 percent annually, in 40 years at age 65 the client would have $559,562. If the client delays the start of investing ten years until age 35, the value of investment after 30 years is now less than half that value, only $244,691

Thus based on the above two explanations, a comprehensive plan is developed for the client to save monthly so as to achieve the planned goal of retirement amount. This could be selecting a mix of investment options among:

- Stocks, bonds and mutual funds
- Qualified tax-deferred investments
- 401(k) and IRA rollovers
- Annuities
- Insurance



Wealth Management Value Chain

3.3.3 Asset Allocation

Once the client and the financial advisor have determined the asset allocation that is best for the client, it has to be implemented via the investments chosen for the portfolio. At this point, the most important question to answer is whether to take an active or a passive approach to investing, which represent the two fundamental approaches to asset allocation.

The asset allocation approaches have been explained in details in the following table:

Type of Approach	Characteristics
Passive Approach	It focuses on the characteristics of the client to derive the investment avenues. This approach goes by fundamentals of global and country specific economies, overall macro environment and then identifying the right asset classes Proponents of passive allocation argue that markets are efficient and that it is impossible to predict asset class performance. Therefore, it is unwise to engage in active asset allocation, especially in light of the higher transaction costs and tax liabilities that result from more frequent portfolio changes.
Active Approach	This approach believes that investment managers move in and out of asset classes to take advantage of market opportunities, subject to the limits of the strategic ranges as per the client's needs. This approach is based on the principle of "reversion to the mean" - the tendency of financial markets to return to historical norms or averages following periods of extreme divergence. The strategy seeks to add value by taking active decisions in asset class, sector and security selection. The key drivers of returns in this strategy are security and sector selection

	within asset classes and, to a lesser extent, asset class selection.
Top-Down Research Approach	The "top down" investor begins by looking at the "big picture" - economy or broad trends in society to identify individual countries and then sectors that will benefit from the prevailing conditions. A "top down" investor may also make investments based on what he or she thinks lies ahead for the economy. So, for example, if a "top down" investor believed that a resurgent economy might re-ignite inflation fears, then he or she might consider buying gold or natural resource stocks, or jettisoning long-term bonds in favor of Treasury bills.
Bottom-Up Research Approach	"Bottom up" investor would try to find investments that are attractive because of something particular to them i.e., their terrific growth potential, say, or the fact that their assets are selling for less than their intrinsic worth. The idea is to select individual securities. From a variety of methods, forecasted winners are purchased and forecasted losers are sold. So an investor who practices the "bottom up" approach might screen through a long list of stocks to find ones that look like a buy on the basis of their fundamentals.
Momentum Timing	This approach believes that it is possible to forecast the direction of markets (i.e. to time markets) using identified variables like market timing models/indicators. Such financial advisors usually take large bets on the market (in either direction), attempt tactical Asset Allocation in sectors, and use hedging (selling overvalued and buying undervalued asset classes).
Contrarian Investing	This approach believes that markets tend to correct themselves; if prices have gone up (down) quickly, they will tend to go down (up). If investors are too bullish (bearish),

	stocks are more likely to go down (up).

3.4 Enterprise Data Management

Enterprise Data Management refers to the management of data in the Private Banks. The data could be of all kinds – Customer related, internal process related, market related, transaction related etc. Strong competition and regulatory constraints are putting more pressure on banks to know their customers better and leverage this knowledge to create improved customer experience and raise profitability. KYC (Know Your Customers) and AML (Anti-Money Laundering) initiatives require the implementation of systematic compliance/due diligence procedures to enhance the acquisition and management of client data. The management of client data emerges as a key enabler of both compliance/due diligence and marketing initiatives.

The Client Data Management module is divided into three different components:

- Data gathering and management
- Contract and e-form management
- Client/Account opening and update procedures
- Role-based collaborative workflows

  The detailed explanation of each of the modules is given later in section 6.8

3.5 Performance Measurement

Performance measurement is a stage in the investment process common to all combinations of investor, vehicle, strategy, and asset class. Individual and institutional investors, investing via customized portfolios or commingled accounts, using a myriad of strategies and asset classes, use a variety of tools to measure and analyze investment performance.

The need for performance measurement is perspective driven. There are two perspectives to performance measurement - those from the investor and the investment manager. From an investor's perspective performance measurement is used to monitor the progress that his\her savings are making towards pre-defined (personal financial) goals, to select and evaluate the work of investment managers, and to provide inputs for future asset allocation and manager selection decisions. From the investment manager's perspective performance measurement is required to help evaluate and control their investment process and to facilitate the marketing of their services and communication with their clients.

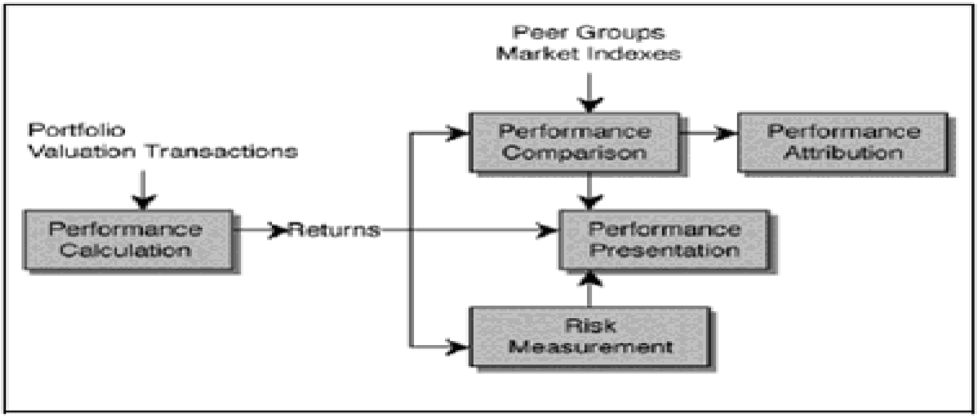


Figure: Performance Management Process

3.5.1 Methods of Calculating Performance Returns

There are a number of methods followed to calculate returns on an investment. Each of these also has its own drawbacks and limitations and thus these measures are very context specific.

- **Simple Measures of Return :** The return on an investment includes both income (in the form of dividends or interest payments) and capital gains or losses. The return is calculated by taking the change in a fund's net asset value.

- **Period-by-Period or Holding Return Period:** Holding Period Return (HPR) is the simple percentage change in a portfolio's total market value over a given period. It is the simplest measure of return for reviewing a portfolio.

- **Money-weighted Return :**Money-weighted return is the constant rate of return of all cash flows over the whole period of performance measurement. It is the rate of return method that measures changes in total currency value, treating any additions or withdrawals of capital as a part of the return along with income and capital gains/losses.

- **Modified Dietz Method :** Firms may use an approximation method to calculate the total return of the individual portfolios for the periods and sub-periods. The Modified Dietz method overcomes the need to know the valuation of the portfolio on the date of each cash flow by assuming a constant rate of return during the period. Each cash flow is weighted by the amount of time it is held in the portfolio.

- **Time-Weighted Return :** Time-weighted Return is the rate of return that eliminates the effect of additions and withdrawals that can distort money-weighted returns, by measuring the performance as a percent of capital at work during each interval between cash flows, and then linking them together to produce a return for a stated period. It allows an investor to directly measure his portfolio's true performance and compare the performances of different money managers over a given time frame.

- **Multi-Period Return :** There are many different multi-period return measures, but the most famous and widely used (by far) is the "internal rate of return" (IRR). The IRR reflects the effect of having different amounts of dollars invested at different periods in time during the overall lifetime of the investment.

3.5.2 Measures of Performance

There are several calculative measures of performance as follows:

Risk-adjusted return is the ratio of the average return of a portfolio over a period of time to the volatility of the return over the same period. Thus, it is the return per unit risk, and may be expressed as:

- **Sharpe Ratio** is a modification to the risk-adjusted return, based on the idea that investors should not be able to earn returns over and above a risk-free return without taking on risk.

  Sharpe Ratio = $(Rp - R_F) / \sigma p$ where R_F is the annual mean risk-free return

- **Treynor Ratio** is one application of the beta (as in the context of the Capital Asset Pricing Model) is in the calculation of the Treynor Ratio, which is nothing but the ratio of the portfolio's excess return to the beta of the portfolio (which is the weighted average of the betas of all assets in the portfolio).

  Treynor Ratio = $(Rp - RF) / \beta p$ where βp denotes the beta for the portfolio

- **Jensen's Alpha** (or the CAPM Alpha) is the factor of return that reconciles the actual returns of a portfolio to its expected return, as predicted by the CAPM.

- **M^2** measure is the Sharpe Ratio scaled by the standard deviation of the benchmark return. To calculate it, we calculate the Sharpe Ratio for the period and also calculate the standard deviation of the benchmark returns for the specified period. These are multiplied, and the mean risk-free return is added to the product to obtain the M2 return

M^2 return = (Sharpe Ratio x σm) + RF where σm denotes the volatility of the market (benchmark) portfolio

- **Sortino Ratio** is a modification to the Sharpe Ratio that uses downside risk as a denominator and the target return as the hurdle rate in the numerator

  Sortino Ratio = (Rp – T) / ((Σ (Rpi - T) 2 where Rpi < T) / N) ½ where Rpi denotes the individual portfolio returns, T is the target return; N is the number of data points.

- **Information Ratio** is a measure of the benchmark relative return gained for taking on benchmark relative risk. It is analogous to the role that the Sharpe Ratio takes in measuring absolute returns, but adjusted to support a benchmark relative reward to risk analysis

  Information Ratio = (Value Added) / Standard Deviation (Rpi – Rmi)

3.6 Risk Management

Risk Management is an integrated function at a corporate hierarchy structure & interacts /supervenes with all business areas within the PB. Risk ratings are defined for every portfolio & every facility. The Risk Management Group (RMG) is responsible for all internal & regulatory risk management practices within PB.

Risk in an investment is generally associated with the possibility that realized returns will be less than the returns that were expected. The source of such risk is the failure of interest ('dividends', as applied to securities, for example), and/or the failure of the asset's price to materialize as expected. Some influences that contribute to variations in return are external to a firm, cannot be controlled, and affect a wide variety of assets in a given asset class. In investment parlance, such forces are referred to as sources of systematic risk. Conversely, controllable, internal factors somewhat peculiar to industries are referred to as sources of unsystematic risk.

3.6.1 Quantitative Measures of Risk

Standard Deviation	Standard deviation indicates dispersion around the mean value; the greater the dispersion, the greater is the uncertainty of the returns.

Covariance and Correlation	Covariance is a measure of the degree to which two variables move together relative to their individual mean values over time. In investment performance analysis, we are concerned with the covariance of rates of return rather than the prices.
Risk/Return Trade-Off	Low levels of uncertainty (low risk) are associated with low potential returns. High levels of uncertainty (high risk) are associated with high potential returns. The risk/return trade-off is the balance between the desire for the lowest possible risk and the highest possible return.
Value at Risk	It answers the question, “How much can the value of a portfolio decline with a given probability in a given time period?”
Volatility	Volatility refers to the amount of uncertainty or risk about the size of changes in a security's value. A higher volatility means that a security's value can potentially be spread out over a larger range of values.
Tracking Error	This measure reports the difference between the return you received and that of the benchmark you were trying to imitate.

3.6.2 **Factors Driving Risk Management**

Several factors are behind the focus on risk:

- Regulatory and reporting frameworks have put risk on the agenda of institutional investors.
- Investment consultants are being increasingly seen as drivers, pressing for more measures of risk and tying performance to risk.
- A growing sophistication on the part of trustees and institutional investors is cited as a driver behind the demands for risk measures including VAR.
- The growing complexity of assets in portfolios (e.g., global assets, structured products) is adding to risk.
- The recent volatility in both asset classes and styles is increasing the need to monitor tracking error in an effort to limit downside risk.
- The contribution risk modeling makes in defining mandates and in implementing risk-return optimization as prescribed by modern investment theory.

Over the last few years, risk management has moved out of the marketing or auditing/compliance departments. A vast proportion of active management firms now boast of a separate risk management function sometimes combined with other functions such as quantitative analysis, performance measurement or operational risk. In some instances, however, it is the fund manager himself, eventually assisted by in-house personnel or brokers, who are responsible for monitoring the risk in the portfolio.

The situation is different inside firms with a passive management style, where the risk management function is embedded in an automated process. The resultant risk control is considered to be quite tight: adding a separate risk manager on top of the process is not seen to add value.

3.7 Fund Accounting and Administration

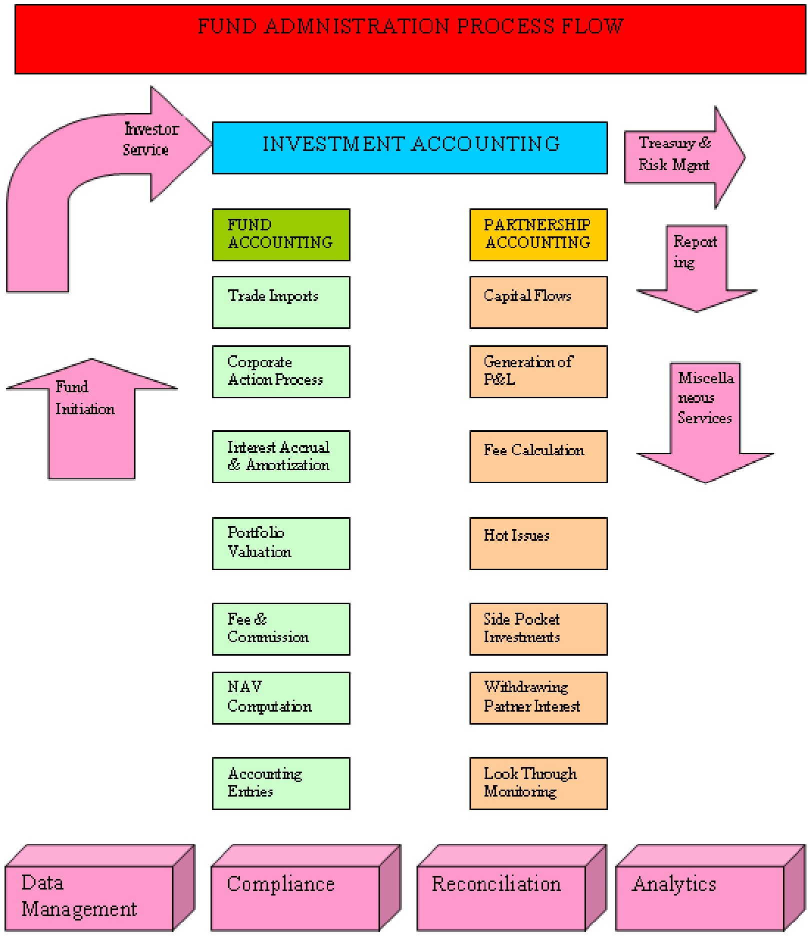
Fund accounting, billing fees, and many such related functions can be classified under the gamut of Fund Administration. The following section describes the activities involved.

3.7.1 Processes Flow Diagram

The activities in Fund Administration can be categorized unto six basic headers:

- Investment Relation
- Investment Transactions
- Portfolio Pricing
- Fee & Billing
- Reporting Activities
- Reconciliations

A typical process flow diagram for Fund Administration is as below:



Process Flow diagram for Fund Administration

Chapter IV:
Products and Services

4. Wealth Management: Products and Services

Wealth Management entails taking care of the needs of affluent clients, their families and their businesses as part of a long-term, consultative relationship. Its basic definition covers advice on loans, investments and insurance and tax advice to give a broad picture of how individuals should best deploy their financial resources. A broader picture may include tax advice, estate planning, business planning, retirement planning, charity foundations and other financial needs.

Services		Products
Wealth Management	Financial Advice and Planning	Formulating Investment Strategy
	Investment Management	Annuities
		Alternative Investments
		Concentrated Stock Services
		Education Funds
		Fixed Income
		Mutual Funds
		Equities
		Short Term Cash Equivalents
		Managed Accounts
		Investment Services
	Retirement Planning	Accumulate Assets
	Estate Planning	Passing on wealth / Trust , Fiduciary Services
	Banking and Lending	Mortgages, Loans and Deposits
	Business Financial Services	Integrating Finances
	Tracking Services	Regular Portfolio / Account Review

Typical Wealth Management Products and Services

4.1 Financial Advice and Planning

As the affluence of an individual increases, so does the sophistication required in approaching the management and disposition of his assets. Detailed financial planning is the basic foundation for formulating a prudent investment strategy. The financial-planning services respond to client's financial goals, including planning for retirement, saving for education, managing stock options, and considering the specific planning concerns of domestic partnerships or families with special needs. A Financial Advisor understands client's financial goals and develops an up-to-date plan and the appropriate strategies to help him achieve his financial goals.

4.2 Investment Management

Investment management can be summed up as building, managing and preserving the client's wealth. The key to investing client's funds to maintain his preferred lifestyle before and even after retirement is a proper investment strategy. This should take care of capital appreciation though a managed portfolio that takes into account the projected income needs inflation and tax implications. This strategy is decided based upon client's financial goals, his time horizon for each of those goals and his risk tolerance.

4.2.1 **Products**

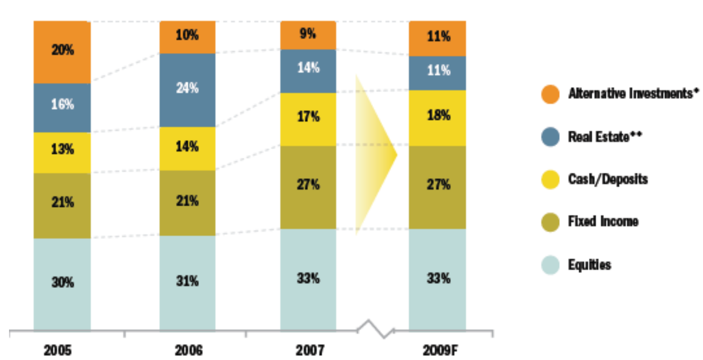
The investment management encompasses advising a client on asset allocation, managing risk and tracking the performance of the portfolio to meet his financial goals. A balanced investment plan could cover a wide array of products options which have been discussed hereafter.

There are two kinds of service providers, the Producers who offer their proprietary products and services to the customers and the Distributors, who do not generally have their own products but are 3rd party vendors of the products of Producers. Now Producers gain from the enhanced market coverage of the Distributors and till the time they can cover most geographies, they have distributors to help them cover diverse geographies.

Allocation of Financial Assets by Product

The following diagram depicts how the HNWI's have invested in various products available in Private Banking space over a time frame.

HNWIs' Allocation of Financial Assets, 2005 – 2009F (by Category)

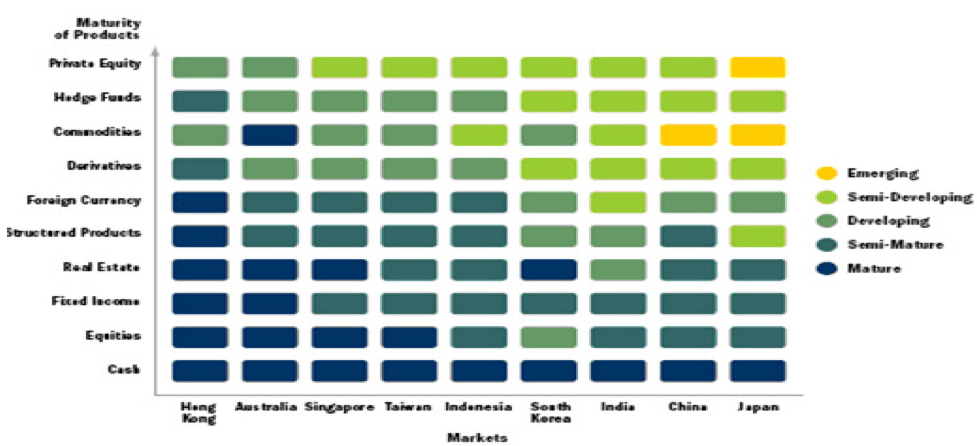


* Includes: Structured products, hedge funds, derivatives, foreign currencies, commodities, private equity, venture capital, other (may include: structured credit, managed futures, investments of passion, etc.)
** Includes: Commercial real estate, REITs and other investment properties

Source: Capgemini/Merrill Lynch Financial Advisor Surveys, March 2006, March 2007, April 2008

Allocation of Financial Assets by Geographies

The following figure depicts how wealth is getting distributed in different products across various geographies



4.2.1.1 Forward Rate Agreements (FRA's)

Forward Rate Agreement (FRA) is an agreement between two parties that determines the forward interest rate that will apply to an agreed notional principal (loan or deposit amount) for a specified period.

FRA's are basically OTC equivalents of exchange traded short date interest rate futures, customized to meet specific requirements. FRA's are used more frequently by private banks for applications such as hedging their interest rate exposures, which arise from mis-matches in their money market books. FRA's are also used widely for speculative activities.

Characteristics of FRAs

- Achieves the same purpose as a forward-to-forward agreement.
- An off-balance sheet product as there is no exchange of principal
- No transaction costs.
- Basically allows forward fixing of interest rates on money market transactions
- Largest market in US dollars, pound sterling, Euro, Swiss francs, yen BBA (British Bankers Association) terms and conditions have become the industry standard.
- FRA is a credit instrument (same conditions that would apply in the case of a non-performing loan) although the credit risk is limited to the compensation amount only.
- Transactions done on phone (taped) or telex.
- No initial or variation margins, no central clearing facility.
- Transaction can be closed at any stage by entering into a new and opposing FRA at a new price.
- Can be tailoring made to meet precise requirements.
- Available in currencies where there are no financial futures.

4.2.1.2 Interest Rate Swaps

Interest Rate Swap is a contract which involves two counter parties to exchange over an agreed period, two streams of interest payments, each based on a different kind of interest rate, for a particular notional amount. Interest rate swaps are used to hedge interest rate risks as well as to take on interest rate risks. If a treasurer is of the view that interest rates will be falling in the future, he may convert his fixed interest liability into floating interest liability; and also his floating rate assets into fixed rate assets. If he expects the interest rates to go up in the future, he may do vice versa. Since there are no movements of principal, these are off balance sheet instruments and the capital requirements on these instruments are minimal. Generally HNI's use these strategies to manage interest rate variations in Capital Markets.

Typical Characteristics of the Interest Rate Swaps:

- The principal amount is only notional.
- Opposing payments through the swap are normally netted.
- The frequency of payment reflects the tenor of the floating rate index.

4.2.1.3 FX Products

FX with conversion risk

The structure and cash flows of a standard Dual Currency Deposit is explained with an example with the US Dollar ("USD") as the Deposit Currency and Euro ("EUR") as the Reference Currency wherein the investor has a bearish view on USD and bullish view on EUR.

The DCD has a fixed interest rate. The Issuer has the option to pay back the deposit together with the interest in either USD or EUR. The conversion to EUR would be done at a pre specified strike rate of EUR/USD. The strike rate is fixed such that it implies an appreciation of USD against the EUR compared to the EUR/USD exchange rate prevailing on the date of issuance. For example, if the EUR/USD spot is 1.165, the EUR/USD strike rate may be 1.13.

Possible outcomes at maturity:

- If spot at expiry is above the strike (i.e. the USD has either not appreciated against EUR or has appreciated but not to the extent of the strike rate), the principal plus interest is repaid in the Deposit Currency i.e. USD.
- If the spot at expiry is at or below the strike (i.e. if the USD has appreciated against EUR beyond the strike), the principal plus interest is repaid in the Reference Currency (EUR). The amount payable is equal to the principal plus interest converted at the strike price regardless of the underlying spot rate. As a result, the effective return in Deposit Currency (USD) is less than the nominal fixed rate. The effective

yield may fall below the corresponding money market yield and could even be negative depending upon the extent of USD appreciation against the EUR.

FX with Principal Protection

In case of these products, the investor is assured of the principal and minimum interest (if any) in the deposit currency itself. The overall return would be linked to some option strategy vis-à-vis a Reference Currencies or a basket of such currencies. These option strategies are effectively net long position for the investor i.e. the investor is a net buyer of the option. Typically, the payment of the overall return is also in the Deposit Currency. The extent of principal protection could be less than 100% also though this would be accompanied by potential higher returns. For the purpose of this note, the category of these products is referred to as Principal Protected Deposits (PPD).

The PPDs are broadly classified into three categories depending upon the option strategy embedded in them:

- PPDs with unlimited profit potential: These deposits have simple put / call options and/or knock-in or knock out options.
- PPDs with limited profit potential: These deposits have characteristics of a bull/bear spread options and/or knock-in or knock out options.
- PPDs with fixed profit potential: These deposits have binary options or features of a range accrual product.

For example, if the deposit is embedded with a Call EUR/ Put USD option being bought by the investor. The strike of the option implies an appreciation of EUR against the USD compared to the spot exchange rate prevailing on the date of the issuance. This is consistent with the investor’s bullish view on EUR and bearish view on USD since he is buying the option. The investor gets an enhanced return if the option turns out to be in-the-money at expiry. The investor is assured of a minimum return anyway.

4.2.1.4 Credit Linked Structured Products

Credit Derivatives

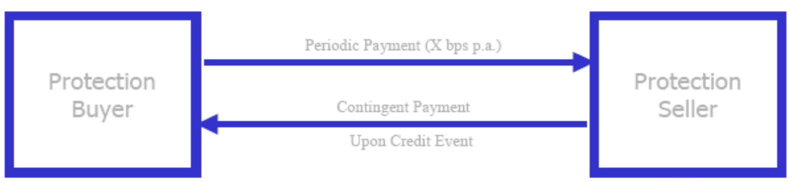
Credit Derivatives are instruments that enable the trading/management of credit risk in isolation from the other types of risk associated with an underlying asset.

Credit	Interest Rate	Currency /Commodity	Securities
- Credit Linked Note - First to default basket	- Reverse Floater - Step Up - Range Note - CMS - Target Redemption - Snowball	- FX linked note - Commodity linked note	- Equity linked note - Equity Accumulator - Equity Linked Deposit - Bond Linked Note - Bond Linked Deposit

Types of Credit Linked Structure

Credit Default Swap

A Credit Default Swap is a financial contract that enables the credit risk of a specified Reference Entity to be transferred from one party to another. The protection Buyer pays a quarterly fee to the Seller in return for a contingent payment by the protection seller if a defined credit event occurs with respect to the reference entity



Credit Default Swap

Credit Linked Notes

Credit Linked Notes can be thought of as:

- Credit Default Swap (CDS) with 100% cash collateral.
- A fixed income issuance providing synthetic exposure to specified reference entity (Synthetic Bonds).
- A fixed income security with principal and/or coupon payments linked to a specific reference entity.
- CLNs transfers pure default risk on a single Reference Asset or basket of Reference Asset(s).
- CLNs can be structured to meet investors requirement for desired currency and tenor.

- The investor is a seller of the CDS to the issuer. The investor receives premium for giving protection against the occurrence of credit event of the Reference Entity(s). The investor is not capable of giving a protection for such entities; therefore he gives cash collateral for the full amount of protection in the form of the principal value of the Notes on which he earns interest.
- These notes can be made callable or non-callable as per the needs of the investors. In the callable structure, the issuer would have the right but not the obligation to call the Notes during the tenor of the Notes.

First To Default Credit Linked Notes

A First to Default Basket CLN is a note with an embedded CDS in which the returns of the note is linked to the first defaults in a basket of Reference Entities. It is similar to a single name CLN with the difference being that here the returns are linked to the first to default Reference Entity (in the basket of Reference Entities) instead of a single Reference Entity.

FX Linked Note

This allows investor to obtain gains when Forex rate changes in an anticipated direction. The amount paid out at maturity depends on the exchange rate between two pre-defined currencies.

Commodity Linked Note (CLN)

Allow investors to obtain exposure or hedge to Commodities. During the period of high inflationary pressures, commodities such as gold are regarded as good hedges for inflation. Investors can buy a CLN linked a commodity or a basket of commodities.

Equity Linked Note (ELN)

Allow investors to obtain equity linked returns with fixed income instruments. Usually ELNs are linked to an equity index such as S&P 500. The note will provide the investor with the upside movement of the underlying equity index but he will give up part of the coupon that a conventional note would usually pay

4.2.1.5 Commodities

Three distinct features make the commodity assets an indispensable tool in portfolio management:

- Over the long-term commodities have often historically yielded returns commensurate with stocks;
- In the past, commodities have been negatively correlated with stocks and bonds;
- Commodities have historically lowered the overall volatility of a portfolio when blended with traditional assets.

Commodities trading offer a hedge against inflation. Because commodities prices usually rise when inflation is accelerating, they offer protection from the effects of inflation. As demand for goods and services increases, the price of goods and services usually rises too, as does the price of the commodities used to produce those goods and services. Futures markets are then used as a hedging bet to buy these commodities at a later date to at a price which would hopefully be lower than the spot price prevailing at that time. However commodities' trading is done not only by those dealing in commodities but also by pure investors, who have to intention to actually take the delivery of commodities on a future date.

Two of the most common commodity indexes are the Goldman Sachs Commodities Index (GSCI) and the Dow Jones AIG Commodity Index (DJ-AIGCI).

4.2.1.6 Collective Investment Schemes

Mutual Funds

A mutual fund is a group of investors operating through a fund manager to purchase a diverse portfolio of stocks or bonds. Mutual funds are highly cost efficient and very easy to invest in. By pooling money together in a mutual fund, investors can purchase stocks or bonds with much lower trading costs than if they tried to do it on their own. Also, one doesn't have to figure out which stocks or bonds to buy. But the biggest advantage of mutual funds is diversification.

Diversification means spreading out money across many different types of investments. When one investment is down another might be up. Diversification of investment holdings reduces the risk tremendously. On the basis of their structure and objective, mutual funds can be classified into following major types:

- Closed-end funds

- Open-end funds
- Equity funds
- Balanced funds
- Growth funds
- No load funds
- Exchange traded funds
- Value funds
- Money market funds
- International mutual funds
- Sector funds
- Index funds
- Fund of funds

Hedge Funds

A hedge fund is a fund that can take both long and short positions, use arbitrage, buy and sell undervalued securities, trade options or bonds, and invest in almost any opportunity in any market where it foresees impressive gains at reduced risk. Hedge fund strategies vary enormously -- many hedge against downturns in the markets -- especially important today with volatility and anticipation of corrections in overheated stock markets. The primary aim of most hedge funds is to reduce volatility and risk while attempting to preserve capital and deliver positive returns under all market conditions.

There are approximately 14 distinct investment strategies used by hedge funds, each offering different degrees of risk and return. A macro hedge fund, for example, invests in stock and bond markets and other investment opportunities, such as currencies, in hopes of profiting on significant shifts in such things as global interest rates and countries' economic policies. A macro hedge fund is more volatile but potentially faster growing than a distressed-securities hedge fund that buys the equity or debt of companies about to enter or exit financial distress. An equity hedge fund may be global or country specific, hedging against downturns in equity markets by shorting overvalued stocks or stock indexes. A relative value hedge fund takes advantage of price or spread inefficiencies. Knowing and understanding the characteristics of the many different hedge fund strategies is essential to capitalizing on their variety of investment opportunities.

4.2.1.7 Alternative Investment Schemes

An **Alternative Investment** is regarded as an investment product other than traditional investments such as stocks, bonds, money markets and cash. Alternative investments include: commodities, financial derivatives, hedge Strategies (or absolute return strategies), real estate and private equity and venture capital. The alternative Investments are supposed to have very low correlation with traditional investment products. The scenario is fast changing and this form of investments might see a substantial modification.

The various types of alternate investment schemes are as follows:

Exchange Traded Funds

ETF is a security that tracks an index, a commodity or a basket of assets like an index fund, but trades like a stock on an exchange, thus experiencing price changes throughout the day as it is bought and sold. Because it trades like a stock whose price fluctuates daily, an ETF does not have its net asset value (NAV) calculated every day like a mutual fund does.

By owning an ETF, a portfolio manager can get the diversification of an index fund as well as the ability to sell short, buy on margin and purchase as little as one share. Another advantage is that the expense ratios for most ETFs are lower than those of the average mutual fund. When buying and selling ETFs, you have to pay the same commission to your broker that you'd pay on any regular order.

Some of the most widely known ETFs are the SPDR (Spider), which tracks the S&P 500 index and trades under the symbol SPY and QQQ, the NASDAQ-100 Trust(an ETF).

Private Equity

Private Equity is made available to companies or investors, but not quoted on a stock market. A more accessible for of private equity is a Venture Capital Fund which is an investment fund that manages money from investors seeking private equity stakes in domestic and international leverage buyouts, structured equity investments, mezzanine investments, real estate investments, venture capital investments, and investments in other private equity funds.

Real Estate

Real estate is the most imperfect of all asset classes. It is heterogeneous since each property is unique, suffers from subjective valuation, and involves a high level of transaction costs such as brokerage, legal, recording and banker fees for buying / selling real estate. But it can diversify investors' total portfolio and increase risk-adjusted expected returns over the long term.

Direct real estate investment may be made by outright purchasing land or property or by taking a lease on one. Institutional investors looking at this asset class for investments will typically look for industrial or commercial properties and farmland/woodland rather than residential properties. There are also a number of ways to make indirect real estate investments:

Hybrid Structures

Hybrid structures are becoming popular because they provide an efficient means of gaining exposure to a variety of asset classes in one product, combining interest rates, currencies, gold prices, commodities, etc., along with equities. As such, hybrid investments stand for efficient investment solutions, because they offer the opportunity to take advantage of the different economic cycles of various asset classes and therefore receive optimum performance in any market conditions, especially via structures like 'best ofs' or 'look-backs'. They also lower the overall portfolio volatility and allow investors to achieve diversification when the underlying assets are loosely correlated.

To obtain a hybrid payoff adapted to their specific portfolio management needs, investors can choose structures based on multi-asset class baskets. These are the best way to achieve efficient diversification and optimize the risk-return according to investors' particular objectives:

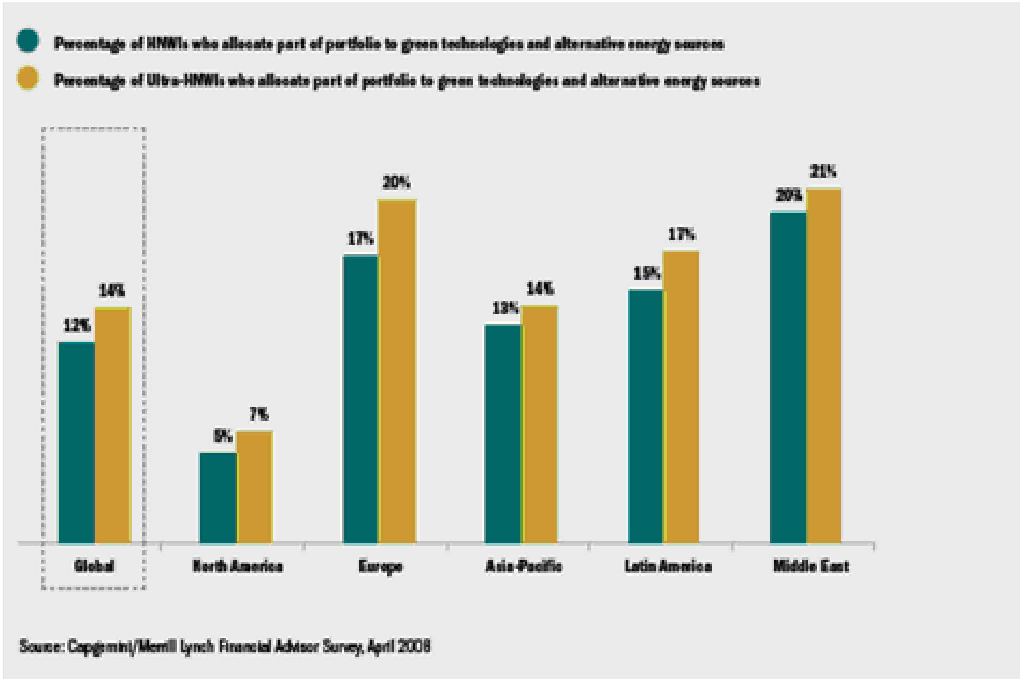
- Diversification of directional risk: hybrid structures replicate the returns from a diversified portfolio;
- Protection against inflation: several equity-based structures provide inflation-linked minimum returns;
- Arbitrage between different asset classes: investors can take advantage of return differentials between various asset classes without putting the invested capital at risk,

by switching from one strategy to another, e.g. sale of bonds against purchase of equities within the framework of a structured solution**.**

Green Investing

As the world community has grown more attentive to environmental concerns, such as global warming and climate change, the presence of related investment opportunities has greatly increased, driving robust growth of green investing in 2007. Whether perceived as an investment opportunity or a responsibility of global citizenship, overall participation in green initiatives has risen rapidly in recent years due to the fundamental need for sustainable development, and, as a result, the undeniable growth potential of the green sector. Furthermore, it seems the era of economically viable green power has finally arrived, as the impact of soaring oil prices on consumer attitudes and the widespread acceptance of global warming implications converge. Individuals, businesses and governments alike are actively pursuing the integration of green initiatives into everyday systems and investment strategies, adapting to and preparing for what is quickly becoming the way of the future. Capitalizing on the fundamental strength of demand for green initiatives, the investment community has been particularly invigorated by the attractive financial returns of green investments that have accompanied the already appealing environmental and social benefits generated.

The following diagram depicts the % of assets invested by HHWIs and Ultra-HNWIs in Green Technologies and Alternative Energy Sources.



Allocation to Green Investing

4.3 Estate Planning

The main aim of estate planning is to pass on wealth constructively. Estate planning is not limited to making a will and making preparations for next generations. Estate planning can provide solutions to a variety of financial needs, including handling a concentrated stock position, tax-efficient wealth management and philanthropic desires.

Extensive estate planning and fiduciary services are offered to give the customers greater control over the wealth, whatever the personal, family and business circumstances or the political situation in the home country is. With Trust Company locations in Tax heavens like Cayman Islands (Grand Cayman) and Guernsey (Channel Islands), the Private bankers make the following services available to ensure a smooth transfer of assets from one generation to another.

4.4 Philanthropic Services

Philanthropy is the act of donating money, goods, services, time or effort (often referred to as time, talent or treasure) to support a charitable cause, usually over an extended period of time and with a defined objective. In a more general sense, philanthropy may encompass any altruistic activity intended to promote good or improve human quality of life.

Philanthropic vehicles include:

Direct Gifts – Typically substantial one-time or annual gifts to a foundation, religious organization, museum or other charitable or non-profit organization

Donor Advised Fund – Flexible charitable giving vehicle with benefits similar to a private foundation, but without the administrative burden

Charitable Remainder Trust – Provides income for the remainder of the donors life, creates a current charitable deduction and leaves the remaining assets to their chosen charity (ies).

Charitable Lead Trust – A way to benefit a charity today and move assets to your heirs with little or no gift/estate tax.

Supporting Organization – A vehicle used to support a specific public charity

Charitable IRA (Applicable to US markets) – Uses the donor's IRA to benefit charity today while avoiding a current taxable distribution

Family Foundations – A complex charitable giving entity that gives a donor and his family complete control over their charitable giving. A private foundation can better incorporate other family members, insulate family members from direct solicitation and create an ongoing family legacy

4.5 Banking and Lending

While purchasing a home, financing an education, exercising ESOP(Employee Stock Option) or making a luxury purchase, a client is offered a wide range of mortgages, home loans and lines of credit, in addition to securities-based financing and margin so that the client can make smart choices. The following are some of the options offered by many wealth management firms

- Mortgages- A mortgage is the pledging of a property to a lender as a security for a mortgage loan. While a mortgage in itself is not a debt, it is evidence of a debt.
    - Adjustable-Rate Mortgages - An adjustable rate mortgage (ARM) is a mortgage loan where the interest rate on the note is periodically adjusted based on a variety of indices. Among the most common indices are the rates on 1-year constant-maturity Treasury (CMT) securities, the Cost of Funds Index (COFI), and the London Interbank Offered Rate (LIBOR).
    - Fixed-Rate Mortgages - A fixed rate mortgage (FRM) is a mortgage loan where the interest rate on the note remains the same through the term of the loan, as opposed to loans where the interest rate may adjust or "float."
- Financing – Financing is the act of providing funds for business activities, making purchases or investing.
    - Equipment Financing - Equipment finance gives business the equipment, software, and furniture it needs in order to operate successfully and make a profit. One excellent way to obtain equipment finance is through a lease.

- Line of Credit / Business Financing - An arrangement between a financial institution, usually a bank, and a customer that establishes a maximum loan balance that the bank will permit the borrower to maintain. The borrower can draw down on the line of credit at any time, as long as he or she does not exceed the maximum set in the agreement.
- Commercial Real Estate Financing - The purchase of a property through borrowed or equity funds
- Securities Based Financing - Using securities as collateral for getting finance, especially if one need to borrow more than a lender is willing to provide or if one wants to avoid selling off personal assets. Increases borrowing power without liquidating investments by pledging eligible securities in portfolio to secure financing for your business.
- Home Financing – Banks credit finance against the collateral of an existing real estate of the client.

- Term loans - A loan from a bank for a specific amount that has a specified repayment schedule and a floating interest rate. Term loans almost always mature between one and 10 years.
- Treasury Products - This enables the bank to provide its clients with favourable conditions for all types of foreign exchange and money market transactions.
- Hedging Strategies - Hedging strategies generally involve the use of complicated financial instruments known as derivatives, the two most common of which are options and futures.
- Fiduciary Deposits- These are unique deposits often offered by banks in countries like Switzerland and Luxemburg. In such deposits, a bank takes money from the depositors and it doesn't keep the funds with itself, instead it invests the entire money on behalf of the depositing clients in money markets. The bank just acts as a pipe for routing the funds of the client. When the money market deposits mature the bank returns the fund along with whatever return generated to the client.

4.6 Business Financial Services

An advisor who has a good understanding of the client's financial needs and aspirations can help him to integrate all his finances into a single account and help in corporate cash and investments, financing working capital, equipment or business expansion, business retirement and pension planning.

- Acquisition Financing Client is advised on leveraged financing opportunities

- Commercial Real Estate Financing
- Succession Planning
- The client is advised on the best way to exit his business, like selling, recapitalizing or going public etc.
- Personalized Advice

4.7 Other Wealth Advisory Services:

Depending on the market traits and individual business patters of clients, Private Banks offer special services. These services are tailored to its individual customers' needs. A few examples of special private banking services are:

Curatorial Management

This service evaluates and manages preservation and maintenance of art collections, including: insurance, conservation and framing, research, cataloguing, providing loans to exhibitions, shipping and security.

Art Finance

The first product of this category was introduced by Citibank to enable collectors to leverage their art collections. In most cases, the art remains in a client's home or office. With more than 20 years experience, Citibank remains the leading art lender.

Family Advisory Practices/Home Advisory & Concierge Services

This kind of private banking product may involve the following services:

- Domestic Household Searches
- Asset Inventory of Valuable Furnishings
- Preventative Maintenance Calendars for Equipment and Structures
- Customized Furniture Care Guides
- Real Estate Research for Leasing or Purchase

Chapter V: Key Challenges

5. Key Challenges with Wealth Management

5.1 Making the Difference in Service

According to IBM Business Consulting, the following factors make difference in winning customers:

Advisory relationship

The core of any successful wealth management offering is the relationship developed between the advisor and the client. Successful advisors develop a relationship with clients by demonstrating that the clients' interests are the advisor's paramount concern. In the context of an advisory relationship, the wealth management firm can work with the client to develop, implement and monitor a comprehensive wealth management strategy.

Integrated information

Very few clients maintain all of their accounts with a single provider; an integrated view of their overall financial picture is critical if clients are to be able to make informed decisions. Advisors, too, should be able to access and analyze customer data efficiently. When information is automatically integrated across accounts and across institutions, advisors can concentrate on helping customers make fact-based and insightful wealth management decisions, rather than focusing on more mundane tasks like assembling statements from multiple sources.

Multichannel Access

Customers want the ability to access their account information when they want, how they want and where they want. The combination of integrated information and multichannel access empowers clients by enabling them to access constantly updated, accurate information, whether in person, over the telephone or online.

Perception

To win new customers and retain existing ones, wealth management firms must be perceived as competent, dependable and empathetic. Clients must also perceive that they are paying a justified price for the value that they are receiving. Client opinion is formed through a combination of personal experience, word of mouth and marketing. To compete effectively, the firm must have a brand that is firmly associated with the qualities demanded of a wealth management institution.

Personal touch

A major component of successful wealth management offerings is human touch. Clients respond to charismatic guidance and a high level of attention; they feel valued when their queries are addressed promptly and personally. Firms that go above and beyond expected levels of service will reap substantial rewards. The key consideration as firms extend wealth management offerings to customer segments with fewer assets is balancing the cost to serve with the revenue opportunities associated with a particular client.

All these are possible to be implemented with the help of an effective IT solution or a combination of them.

5.2 Competitive Business Arena

5.2.1 Drive to increase share of wallet

Wealth managers are seeking an increased share of wallet for two fundamental reasons.

- This is an excellent source of new assets, revenue and increased profitability, with the added benefit that acquisition costs are low.
- The greater the share of wallet, the more institutionalized the client becomes, leading to increased loyalty, or at least making it more difficult for the client to leave. For wealth managers this is a 'win-win' situation. Not only do revenue and profitability increase but, perhaps even more importantly, the model can be leveraged. A larger share of wallet has a negligible impact on the wealth manager's scarcest resource - the CRM. Furthermore, providing that this goes hand in hand with greater client satisfaction, it should significantly help with the acquisition of new clients through cross-referrals, as well as supporting the organization's proposition to new clients.

5.2.2 Expansion with new clients and new markets

Growth in profitability and AuM (Asset Under Management) has been exceptional over the last few years. New client relationships are a significant driver of growth across all territories. Growth is fastest in developing countries, with wealth managers in Asia Pacific adding on average 28% more clients and 34% more assets. Such significant growth is driven by clients new to wealth management services, and buoyant markets maximizing the wealth creation of individuals. Unlike more mature markets, where inheritance is still a major source of new assets, the primary source of new assets for new markets is entrepreneurs who have sold businesses or own rapidly expanding businesses.

5.2.3 Client Segmentation to Provide the Right Service

Improving the overall client experience, and so increasing client satisfaction, is becoming a key driver. Central to this is the importance of really understanding clients' needs and delivering appropriate products and services. Better segmentation analysis is clearly important to achieve this aim and is likely to remain so, with wealth managers currently undertaking such analysis, and intending to do so during the years..

5.2.4 **Managing Ever Demanding Customers**

The importance of capturing client feedback will become even more critical as a greater share of clients' wallets leads to larger average account size balances. The loss of a client in these circumstances will become more significant. Wealth managers still cite dissatisfaction with client service as the single most important reason for clients leaving their organizations.

Private banking clients remain cautious and are now more willing to switch private banks. For the private bank the client experience is a key differentiator for success. Quality of service, reporting and quality investment advice still remains very important for clients. The provision of broader holistic advice across the full range of products is also becoming essential.
Investors are looking not for order takers but for knowledgeable advisors who can explain their investment choices in detail and support recommendations with fact-based analysis. Furthermore, clients at all levels are demanding top-tier advice and services. Demographics also complicate the picture: the number of current and potential clients is skyrocketing as the population ages.

5.2.5 **Getting the Right Data**

Wealth management strategies will be successful only if accurate and clean data are integrated within these systems. Internal and external aggregation as well as consolidation of data is strategies taken by technology providers in the space to address this important aspect.

Aggregation is supported at different levels including individual, household, account, and goal views. But how can financial institutions make sure to address the data quality issue? Data quality guarantee is provided by monitoring systems, data technology infrastructure, and exception management systems. Account aggregation companies such as Yodlee and CashEdge have taken the lead in this field developing more direct data feeds and improving application integration.

Most financial institutions have integrated account aggregation technology into a wealth management platform or financial planning solution. The majority of these account aggregation companies have established partnerships with selected wealth management providers to provide a seamless integration. A number of examples can be cited, including NorthStar/Yodlee, SunGard/Albridge Solutions, and eMoneyAdvisor/CashEdge/Albridge. Some of the key services provided by these vendors include the support for manually completing transactions if necessary, identifying suspicious activity, account ownership verification, and the ability to log automatically all work that is completed. Transaction and account data are made available in real time to manage risk internally.

Chapter – VI:

Risk and Compliance Environment

6. Risk & Compliance Environment

The financial services industry worldwide has been, and will continue to be, subject to significant public-authority regulation and supervision due to the fiduciary nature of the business, the key role of financial systems in driving economic performance, the potential for financial fraud, and the possibility of serious social costs associated with financial failure. We know from our experience that even small changes in financial regulation can bring about large changes in financial system activity. We also know that, to the extent that information flows among participants in financial activities are imperfect, regulation can significantly improve the operations of financial systems.

A Multi-Disciplinary Approach

In order to ensure regulatory compliance, there needs to be a coordinated risk management effort among a number of groups within an enterprise, including the legal department, IT, Finance, and those responsible for internal applications or business processes.

A Critical Business Issue

Compliance should be viewed as a critical business issue, and as part of a larger corporate governance initiative. When leveraged correctly, the business process and technology changes brought on by compliance have the potential to significantly and positively impact the business.

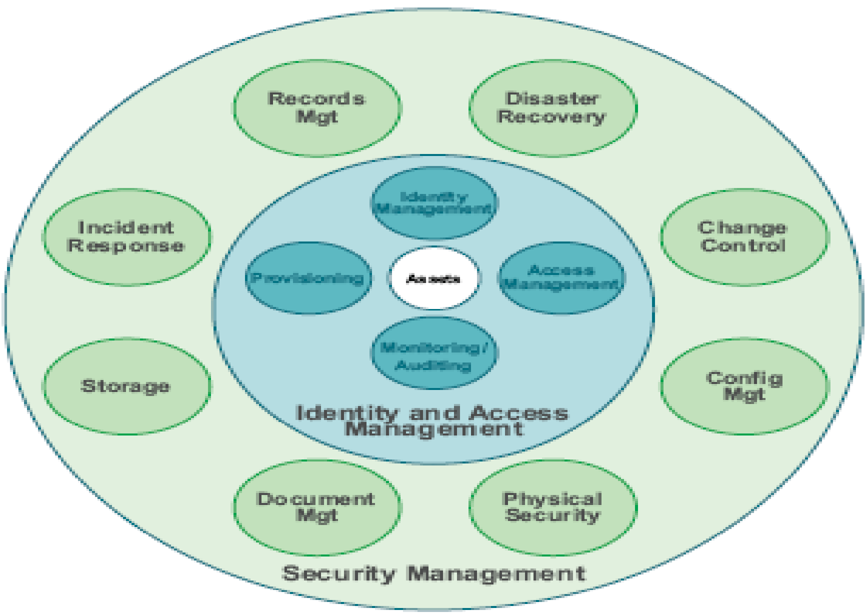
Centralized Identity Management

An automated and sustainable compliance effort requires a centralized way of managing user identities, and controlling access to protected resources, whether they are enterprise applications, platforms, system services, databases, or Web services

Security Management

Governmental regulations cover almost all aspects of corporate operation; scrutinizing and controlling everything from how the physical security of computer labs is managed to how new employees are trained in their security responsibilities. Security Management is at the heart of all almost regulations. Without a strong security infrastructure that protects systems, applications, data and processes from unauthorized use or access, compliance with any regulation is very difficult.

Figure below illustrates a number of areas that are covered by some of the major regulations.



Aspects to consider when complying with regulations

To illustrate the importance of security management to governmental regulations, consider the next Figure, which illustrates the areas of IT (among others) covered by each regulation. Note that the requirement for strong security management cuts across all major regulations.

Regulation Technology	SOX	HIPAA	Gramm-Leach Bliley	Sec 17A-4	21 CFR Part 11	Basel II	USA Patriot Act	CA SB 1386	Canada PIPEDA
Business Intelligence	✓					✓	✓		
Document Management	✓	✓	✓	✓	✓	✓	✓	✓	
Records Management	✓	✓		✓	✓	✓		✓	
Archiving	✓	✓	✓	✓	✓	✓	✓	✓	
Security	✓	✓	✓	✓	✓	✓	✓	✓	✓
Storage	✓	✓		✓	✓	✓	✓	✓	

Example coverage of major regulations

The importance of security management for regulatory compliance is clear, and there are four components that comprise an effective security management platform.

Identity Administration

The essence of any internal control is being able to effectively administer user identities. Administrators need to know who their users are and what access rights they have been granted. Managing user profiles includes services such as user enrollment, user de-enrollment, and self-service and delegated administration of your user population.

Provisioning

The heart of any compliance platform is provisioning of new users with appropriate accounts and access rights to corporate resources, as well as de-provisioning them (preferably in an automated way) at the appropriate time (e.g., when they leave the company).

Access Management

Assuming that user profile access rights have been properly granted to users through a series of processes, a platform that actually enforces access policies is essential to having effective internal controls. This policy enforcement must include not just application access, but also access to specific systems, as well as specific protected system services. Control of user access must also be done across all platforms (that are relevant to the regulation being considered) in your environment, including mainframes.

Monitoring/Auditing

The essence of any compliance program is to know how your systems are operating at any given time, and being able to monitor, audit, and control it effectively. It must be easy for the Administrator to define which events are of interest to them, as well as to create policies for filtering and correlating these events. Sometimes, individual events are not suspicious by themselves, but when viewed holistically might indicate a security problem that needs to be addressed quickly. The ability to easily visualize the current state of the entire security infrastructure is critical to being able to not only identify events of interest, but to be able to respond to them effectively.

Regulatory Requirements

The following are some regulatory norms applicable to private banks :

Wolfsberg Principles

Some of the largest international private banks took the initiative in the year 2000 and agreed upon a set of principles to be adhered by all of them in their dealings with their private banking clients. They require any bank carrying out private banking transactions to adhere to the following:

- Proper ‘due diligence’ for every client before account opening.

- Compliance with ‘Know Your Customer’ (KYC) norms and satisfactory verification of customer identity at the time of account opening.
- To get to know the name of the beneficial owner when an account is allowed to be opened in the name of a juridical entity.
- To unravel and understand the structure of companies/trusts when accounts are opened in their names.
- To get established to its satisfaction the source of any fund remittance into an account maintained with it.
- To increasing the intensity of monitoring whenever an account/transaction looks suspicious.
- When suspicious transactions are noticed, to block the account, report the matter to the authorities and/or terminate the account relationship.

The Patriot Act:

Anti-money laundering guidelines came into prominence globally after the September 11, 2001 attacks and the subsequent enactment of the USA PATRIOT Act. Today, all financial institutions globally are required to monitor, investigate and report transactions of a suspicious nature to the financial intelligence unit of the central bank in the respective country.

Following are the provisions of the Patriot Act:

Customer Identification Program: The act makes it mandatory for all banks to put in place a customer identification program.

Foreign Bank correspondent Account: The Act expressly prohibits opening of ‘correspondent account’ by a US bank in the name of a foreign shell bank. Every foreign bank intending to have a correspondent’ account in US should give evidence of its identity and should also nominate a natural person in US as the contact point. ‘

Suspicious Activity Report: All banks, securities dealers, brokers, investment advisors are required to File Suspicious Activity Report (SAR) if they observe anything unusual in a client’s account/transaction.

Concentration Accounts: The act expressly prohibits banks using from concentration accounts for routing their client’s transactions.

Miscellaneous Provisions: The act also mandates banks to share whatever information they come across about money laundering and terrorist activities with other entities/regulators.

AML

Anti-money laundering (AML) is a term mainly used in the financial and legal industries to describe the legal controls that require financial institutions and other regulated entities to prevent or report money laundering activities.

Anti Money Laundering (AML) solution is based on the following key elements:

- An identified set of data elements to be captured in the system, according to the lines of business of financial institutions. This will ensure that AML requirements are fulfilled.
- Phased implementation for compliance with KYC requirements and transaction analysis
- A modularized, flexible and scalable architecture
- A flexible, business rules-based workflow system

Chapter VII:
Wealth Management Technology

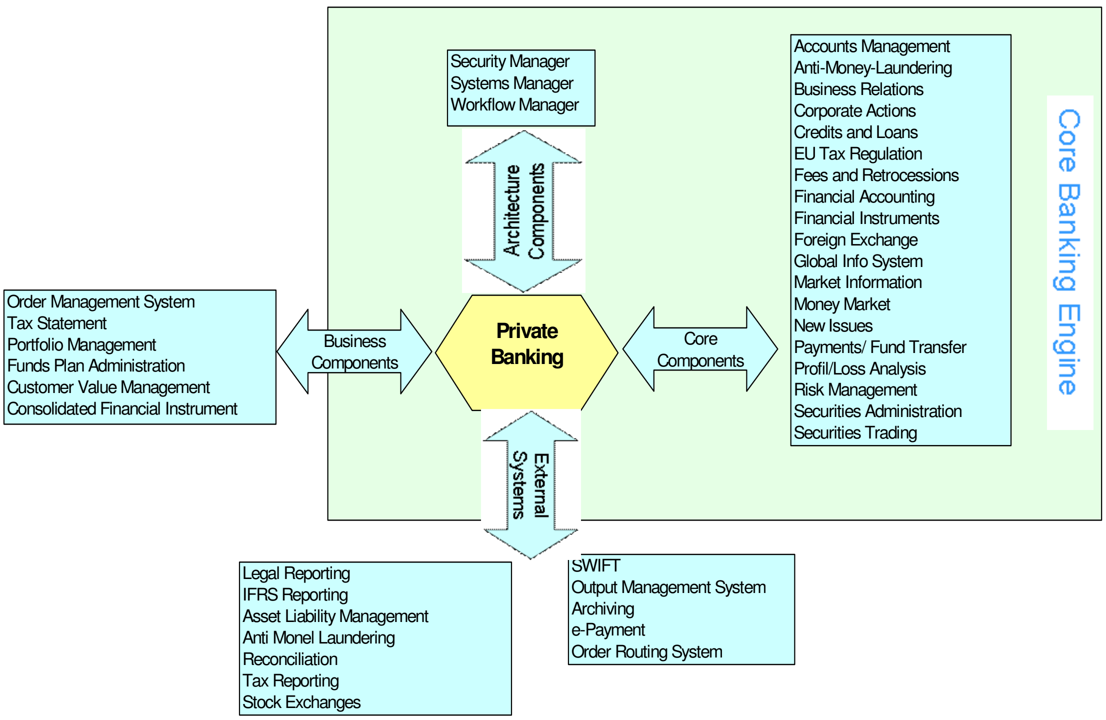
7. Wealth Management Technology

7.1 Wealth Management Components

Front office components of a Wealth Management Solution support the advisor's relationship with the client and include contact management (customer relationship management), account aggregation, client prospecting (sales tools), financial planning, and advice tools. These components support the advisor with the acquisition, ongoing maintenance, and retention of clients. The goal is to be able to provide consistently high quality service and advice.

Middle/back office components focus on the advisor's link to the home office. Key areas include portfolio construction, model administration, compliance, document storage, and central data repository. These components support the development and implementation of the optimal investment solution for a given client case. The goal is to meet or exceed the clients risk/return expectations.

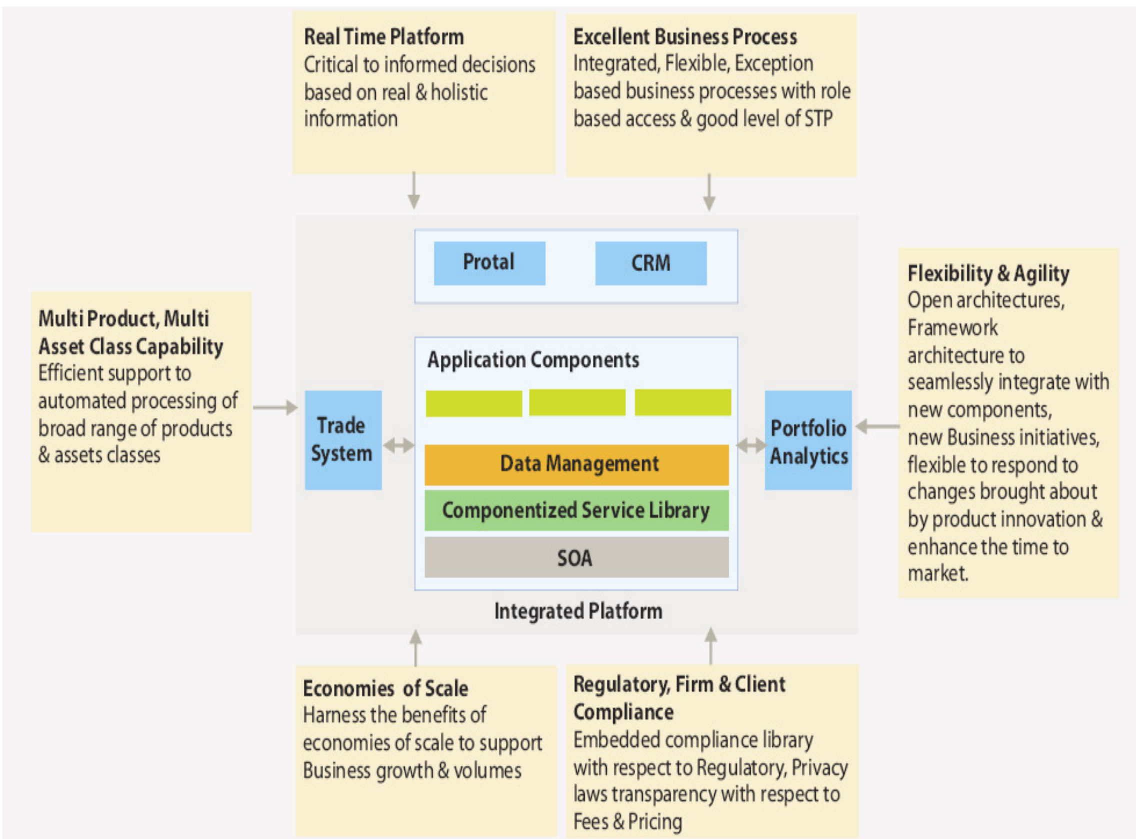
Wealth management platforms are integrating front office and middle/back office components to an end-to-end solution. Platforms provide the technical infrastructure for a wealth management service. Designed with an open architecture, platforms offer the ability to integrate with third party solutions, adding a broad range of features and functionalities.



Components of a Wealth Management Solution

7.2 Key functionalities of a Wealth Management Platform

Six critical business drivers to a wealth management platform should be considered for sustaining profitability and competitive advantage.



Real-time updates and data feeds are essential to enable investors to make informed decisions at critical times. Intraday pricing will allow adjustments to portfolios and support investment activities that must be proactive and timed with movements of the markets.

Excellent business processes will enable the wealth manager to operate from an efficient cost base, reduce error correction, and support more complex products. Staffing is more effective with less training. In addition, wealth managers will be able to provide better and more responsive service to clients with more transparency.

3-Ms, Multi-Asset, Multi-Product, and Multi-Accounting/Currency is critical for processing the various classes of investments in different geographical regions and reporting in the client's resident accounting and currency base. While the multi-base accounting and currency is attributed more to overseas clients of global wealth managers, investors domiciled in the same geography as the wealth manager are also asking more frequently for portfolios stated in multiple accounting/currency bases.

Open Architecture to support flexible and agile platforms will allow a wealth manager to add business services as needed. Technology components can also be upgraded with improved functionality more easily with a Services Oriented Architecture (SoA). Open platforms also better support powerful data management capabilities for aggregating, exchanging, and presenting both internal and external data, and more robust alternatives in portals and web services.

Compliance and Risk Management for the wealth management firm and client to meet regulatory requirements and manage credit, market, and operational exposures to events that can negatively impact portfolios and profitability. These issues become more crucial to alternative asset classes and complex portfolio strategies.

Economies of Scale to support increases in levels of business volume and extending the business into other market segments and geographies without a corresponding increase in the wealth manager's cost base. Premiere business services must be appropriately-scaled to support and attract wealthy investors who transition from a lower segment into a higher segment, such as when going from Affluent to HNW due to a wealth creating event.

7.2.1 Private Banking Platforms

Some of the private banking platforms are described below:

Reuters, has built its **ReutersPlus** workstation utilizing web services, .Net and ActiveX, so that content from its workstation can integrate with existing applications. Reuters brings real-time market data content that can integrate seamlessly with financial planning software. The Reuters workstation can access the books and records of clients and allow advisors to execute trades based on recommendations suggested through the financial planning tool. AdviceAmerica's application server has a standard-based open architecture supporting XML and Web services that enable clients to integrate any back-office application to its WealthVision platform including legacy mainframe applications, CRM systems, and clearing and custodial systems. WealthVision also integrates with any data source or back-office application, either in real time or in batch mode..In the financial planning area, Financial Profiles has recently introduced its Matrix consolidation server middle-tier solution, which integrates internal and external account data feeds, as well as analytical and pricing information. This allows the system to populate client account and asset data automatically.

InvestEdge ASP is web-based software for managing, measuring, and reporting upon high net worth and ultra high net worth portfolios. InvestEdge ASP is designed specifically for banks, trusts, brokers, and investment firms that manage $1bb or more in individual accounts. The advisor-facing system enables a better, broader, more consistent view of accounting and performance data, client reporting, risk management, and compliance monitoring.

In the past, a number of financial institutions tended to view wealth management as synonymous with CRM, and so were trying to build their wealth management platform around existing CRM systems. However, in practice this has been a challenging experience. Within a wealth management solution CRM functionalities are limited, typically including a basic contact management system to enter client information and managing clients, alerts, and email messaging between clients and advisors. More sophisticated components are typically handled by a more specialized CRM system.

7.3 Enterprise Data Management

The Client Data Management module is divided into three different components:

- Data gathering and management
- Contract and e-form management
- Client/Account opening and update procedures
- Role-based collaborative workflows

Data gathering and management

This component aims at systematically and consistently acquiring and managing all confidential and KYC client and prospect data in a single, secure, encrypted repository. The module allows relationship managers and similar profiles to create, store, maintain and protect all client-related data, including scanned identification documents. Data security management is designed specifically to meet the extremely high confidentiality constraints prevailing in Private Banking.

Contract and e-form management

The contract and e-form management tool is used to automate the generation of contractual documents and internal forms. It supports the generation and printing of a full set of documents automatically, the generation of specific documents and the printing of empty documents. It loads data from the client data base and saves changes or additions back to the client data base so that no data is input more than once. When a Relationship Manager or assistant launches the preparation of contracts and internal forms from the web user interface, the system loads the information collected in the database and implements the various rules defined in order to automatically determine which contracts and internal forms must be generated. It then produces these for the relationship manager to present to the client. The complexity of the various rules is therefore fully hidden to the Relationship Managers. Not only is the bank certain that all the necessary information has been collected before the client's account is opened, it can be sure that the correct contracts have been completed and that all the requirements for opening an account have been fulfilled. The module also provides conformity checks for contractual documents and e-forms and notifies relationship managers of nonconformist events.

Client/Account Opening & Update Procedure

Most banks have implemented a strict but costly procedure to approve the opening of new clients/ accounts. Those procedures generally imply the circulation of various printed documents between different actors in the bank, such as head relationship managers, compliance/due diligence, customer information file and the client opening committee. The module supports the enforcement of compliance rules by automating due diligence procedures that are associated with the client relationship opening process (KYC, Anti-Money Laundering) and the mutation of specific client data. The module makes use of a workflow engine.

Role-based collaborative workflows

The workflow engine enables banks to work on a collaborative mode and to implement systematic control, validation (4-eye principle) and escalation procedures. Through a workflow, the system assigns work items to other professional users if control, validation or escalation is needed. All decisions made through the process are systematically stored for documentation purpose.

Chapter VIII:
Appendices

8. Appendices

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