March 2016 meeting report card

COFP monthly meeting was held on 9th March 2016 at “The Grand Magrath”, Magrath Road, Bengaluru from 4 pm to 8 pm and followed by dinner.

The core topic for the discussion is ‘Registered Investment Advisor’ – Registration Process, Building successful business model and Compliance for RIA. Mr Rajesh Krishnamurthy from IFast Financials is invited to share his experience on the above topics.

Mr Jayesh Doshi, KM Team member, welcomed Mr Rajesh, Mr Vasu from IDFC and all participants.

All the participants have joined hands in wishing Mr Yuvaraja and Mr Gokul Shiva for their birthday. Mr T S Srinivasan, President, COFP, presented a flower bouquet to both.

T S Srinivasan, in his presidential address, on behalf of COFP welcomed Rajesh, Raju and Raghunandan from I Fast team and also Mr Anup Bansal and Mr Varun Girilal. He also extended a warm welcome to IDFC team Mr Vasu and all participants.

T S Srinivasan reminisced that COFP members are meeting constantly for last 10 years and also the tradition of having a President guest, the initiative made by Mr Narendra K. He also briefed the idea behind the ‘collaboration’ with industry. He pondered over the importance and criticality of this event.

T S Srinivasan requested Rajesh to encompass his presentation on the following points and benefit members

i. RIA or No RIA, how to manage the Damocles sword hanging on us in terms of meeting the compliance
ii. Sustainability of RIA as a business model.

He also appealed to members to be more interactive and have a productive discussion.

Jayesh introduced Rajesh, MD Ifast. Rajesh has been in the field of financial markets for more than 14 years with experience in Securitization, Money market. He is passionate about training and working on ‘RIA’ related activities. He also on the committee for NISM exams. He is licensed International Financial Analyst and holds honorary memberships of ‘Chartered Wealth Manager’ by American Academy of Financial Management. Mr Ravendran, Vice President, COFP presented a flower bouquet to Rajesh.

Rajesh acknowledged that it is a passion for him to interact with members of COFP. His understanding is that, the idea behind the event is to encourage members to become RIA.

He started his presentation, by asking the members who have become RIA and why?

Dilshad, RIA, said that when the regulations came everyone had a choice to become RIA, but the choice is what is best for the clients which most of the financial advisors are following in a fiduciary capacity. But, if regulator wants us to recognize us as a SEBI RIA working towards a common cause for the clients, that will be the best way to promote RIA. There are pro’s and cons’s.Few financial advisors are yet to decide.

Mr P Srinivasan, RIA, said that he came to this practice very late and by the time he started, these regulations have already come and he felt that there is no much choice. He felt that the future is for RIA. But, when he started practicing, he realized that he is doing the right thing.

Mr Lovaii, RIA, said that frankly, there is no choice and this is what exactly they were doing and it is like endorsing by regulators.

Uday, who just got RIA licence said that we need to have a clear recognition as markets are crowded and having those regulations make sure that you are at the other side of the line.

Mr Anup said that, when the regulations came out, the thought did not occur to me that there was a choice. It made the decision very simple and apply for registration and we got it. He asked the participants, how many of you like rules and regulations. Though most of us don’t like rules and regulations, but they are needed. And the second point is that few may don’t like rules which are not suitable for them. One can not have regulations which everything suits for everyone. When one does not like the regulations, then there could be a dilemma to decide. For us, the simple choice was, there is no choice and that is how we decided to become RIA and we were doing good. He felt that, it will help Eco system, the clients, the advisors and everybody associate with us.

Rajesh said that Knowledge Team wants him to take into drill down of RIA application and compliance. He shared that on the previous Sunday, one of the IFA, who was the earliest adopter of IFast platform, passed away in Mumbai. He met him at the peak of global financial crisis, and things are not looking so good in his office which is in the suburbs of Mumbai. The intention of the IFA was to meet and talk to youngsters in his locality, who need to get some kind of hand holding. The objective is to catch them young and ensure that IFA is there with them through their journey so that when they become wealthy enough to give him substantial portfolio, he will have lots of them.

Rajesh said that this IFA has rejected IFast platform in its earlier version and thus the IFast has evolved to suit the needs of startup advisor. And the same IFA is one of the first few who has accepted the new version of IFast platform. He is the first person in India who has migrated all client assets to a platform. This experience staring in front of him, Rajesh asked, what is the end game? Who is there for the client after you, whether one is a RIA or not? So, he insisted on KM team that he would like to touch on this aspect.

Mr Narendra K raised a question that there are people who are running companies and does this question arises is whether for individuals only or for companies also? Rajesh asked the participants what is the difference between individuals and companies? The key difference is that – continuity, successor, company is a legal entity and going concern. The company is supposed to be a professionally managed entity, company can be passed on as a legacy by selling shares or even to competent family members.

Generally, the financial planners ask the questions to the client about managing the risk like health, critical illness. The first point addressed in the pyramid of financial planning is the aspect of risk. Id we ask ourselves the aspect of risk of our practice? Before one gets into this profession, we should think about the succession. Rajesh acknowledged that in Bangalore few of the IFAs are evolved in thought process, orientation toward the client than a majority of the people who are not in this forum, leave alone in Bangalore, but across the country. He asked to take it as a rightfully given compliment which you will get from different people also.

If these evolved financial planners/advisors does not address the risk of succession, who else will start addressing this risk. If financial planner is not able to address the risk of succession, what is the point in slogging for 15/20 years and leave it just like that?

This question was raised 6 years ago in ARN committee at AMFI. What is that we could do to ensure that there is something visible when ARN is not a going concern. The industry agreed best practices is that the nominee should get the income that keeps coming after the death of the ARN holder. Is this in any way replacement for continuity? From a regulator's perspective, especially RIA, without addressing this key question, one might just jumping the gun.

The mistakes that we are getting to see, should not be the mistakes you make when get into a new phase of professional career. Is it a weird thought that because you have ARN or Insurance agent, should also be RIA? Can we ignore the concerns of continuity, successor, professional management and continue to do what you have been doing so far? Is that the right thing? What is the right thing to do to ensure that the clients will get the benefit of the processes and guidance and the financial future of the client survive you.

One of the responses from the members is that personal relationship can not be transferred. Dilshad suggested that personal relationships can be transferred by collaboration. Natty asked that whether having a company alone will solve the problem of exit plans. A company can also be a one man company. In such case it is as good as running individual practice. So, the point as Dilshad made, is to have a succession plan.

The response by Rajesh is that the question is not that the private company or individual, it is practice with or without transition plan. Sourabh is of view that it is a challenge to find the right person for collaboration.

Narendra K questioned Rajesh why IA is to be linked to estate planning or continuity of the business? The reply by Rajesh is that whether one becomes RIA or not, the concern of exit is relevant or not?

Rajesh said that internationally, in the world of financial planners there is a concept of 'contingent plan practitioner' (CPP) which is an established concept. This CPP can be one amongst this room or may be outside. The financial planner should be confident that CPP should be able to take care the clients. CPP is not the estate planner. CPP is to ensure that there is continuity or services the customers. Not having a CPP can be a disaster.

Coming back to the regulations, when it comes to providing a complete service to the customer, the better way is to become RIA. You may also decide to sell only mutual funds/insurance products, then in such cases don't call yourself investment advisor.

About the sustainability of the RIA business model, Rajesh assumed that a family needs an income of Rs. 75,000 a month to lead a decent life style, for which there were objections from members. Rajesh replied that this amount is in the general sense and there can be exceptions. On the basis of response from the members it is taken that the base income required is Rs. 50,000/- per month for respectable living in Bangalore. So the financial planner needs to make Rs. 50,000 a month.

Mr Vikas said that a Lakh or few lakhs is not the main drivers to sustain in the short term. Few persons known to him could manage for seven years without much income, where they do not have enough money to pay for insurance and taxes, built their business and sold for 100 of crores of rupees after a few years.

Rajesh replied that he was talking about the sustainability of RIA in general. The client in the example given by Vikas has a windfall gain. Everyone may not have windfall gain. There is in statistics, something known as the Normal Distribution Curve. Discussion is not on the outliers. Rajesh is on the view that unless one earns Rs.50, 000/month, it may be difficult to lead a respectable life in Bangalore.

Now, let us do the reverse math for sustainability of business. To get Rs.50,000 income every month from managing the assets, what should be the size of the asset base? If you are able to generate 0.75% to 1%, then the asset base should be 6 crores. Then add expenses that could be around Rs.20,000/- a month. With this, the corpus required is 9 crore and add regulations and compliance cost which could be around Rs.30,000/-.

The registration fee for individual is Rs. 1 Lakh and for corporate is Rs 5,00,000. The cost would go up when we move from unregulated to regulated environment. If you wish to register as an individual, then the cost is becoming a factor to take a milestone decision in your career. Financial Planners can't be talking like every other customer.Financial planners are the people who go deep into the meaning and essence of money. They guide the people what they should do today for their better future. And the very same financial planners miss the woods for the tree. Cost cannot be the reason for deciding to work together.If that was the consideration, you would not have had so many organizations in this world where people who never knew each other came together and created something awesome.

In Bangalore, there could be 6 corporate who are CFP's and who are in the room, who handle clients. What stops you all to come together and let's say to have only 6 companies. I am trying to force you to think differently. Is it necessary that each one of you is required to take a regulatory licence. Let's learn from the stock broking industry. In the history of stock broking business, India saw the largest number of broking licences surrendered both direct and sub brokers. This report also states that companies who have a strong infrastructure and network of branches are the people who are beneficiaries.

Stock brokers do not have fiduciary responsibility, whereas as RIA has. It makes a huge difference in compliance. The RIA profits in any other way other than from the client, there is a fiduciary obligation. The standard is extremely stringent. You are talking about getting into the standards like the platinum of handling clients across the world.

Sustainability should be looked into not only from a financial perspective, but from a practice perspective also. With this, viable from a financial perspective and sustainability from a practice perspective, you take a decision what you want to do. That is

- You want to do it for yourself
- You want to join the people who are working on it
- You want to force yourself to say that in the next one month to come out with a unified force.

The question one has to answer is ‘why you want to be an RIA’. If you don’t want to be, please write why? The response from the participants are collected after the presentation made by Mr Amit. Following are the responses from the participants.

- I want to help the people to realize the value of money
- I want to help them to make their money work hard for them
- I want to be their financial compass and show them the way.
- I want to be on the right side of the law
- Regulations will protect my customers from mis selling from my process
- I will be forced to ensure the best process. It will help my business as my customers will be more comfortable knowing I will be controlled from stupidity.

Coming to form ‘A’, Rajesh said that he has come across the people writing in process/ business plan in such a way that, there is a burning passion in them. The problem comes when the clarity of purpose is not there. We have legacy of practice from which commission flows which we have to preserve. We know the customers are not yet ready to pay the fees. The commission itself is not bad. It is made bad. Commission agent also can be ethical. Because, customer is not ready to pay the fees and therefore you do not become an RIA, then please ask yourself what is your why?

SEBI FAQ states that if you are a mutual fund agent, you continue to get trail commission even after becoming RIA. If the trail commission is not going to be affected, which could be a significant part of your income, then the question is not viability. I beg to differ. The next set of questions you acquire, do you want to represent the customer or manufacturer? Given that, if the regulations which says if you are registered, you represent a client by regulation and if you are not registered then by regulation you are not deemed to represent the customer. That is what to be answered.

An RIA also can be a mutual fund or insurance agent, who has disclosed and written in his business plan. The question is, do you have a strong process in your setup to prove that you have not performed the role of fiduciary. Coming back to the application, please be completely transparent if you are going to apply. If you decide not to apply for registration because the regulator is going to ask you to prove that you have not given the investment advice from the date of these regulations and continue to do what you are doing, you are adding more to non compliance.

Mr Venkitesh said that why many are not coming forward to register because of the fear factor. This fear factor is not created by advisor community, but the regulator itself. If the SEBI wants this system to really succeed, they should have some form of incubator where they support people to come out to be RIA.

Rajesh replied that, we are into third year of implementing the RIA regulations and still if we are contemplating, then we are taking high risks with our practice. Rajesh offered that IFast is pleased to support and help in the scrutiny of RIA application form on pro Bono basis.

Mr Yuvaraja, Seceratry, COFP handed over a bouquet and memento to Rajesh Krishnamurthy and thanked for his participation. Jayesh also thanked the IFast team for their support.

Then Jayesh invited new members to come on stage and introduce themselves. The new members are:

i. Mr. Naveen Fernandes
ii. Mrs Kshithija
iii. Mr Praveen

Next presentation is by Mr Amt, Head, IDFC. The topic is

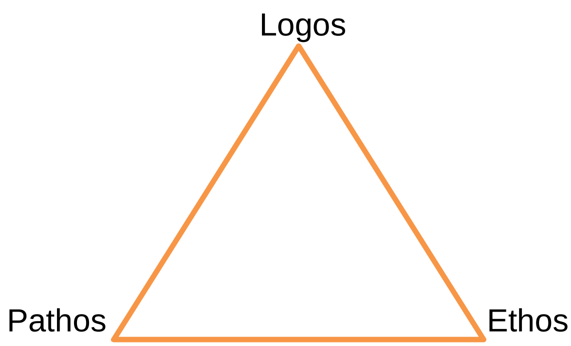
"Creating value proposition for clients"

Amit shared the uniqueness of Varanasi city from where he comes. It is the only place where river Ganga flows northwards in its entire journey from the Himalayas to Bay of Bengal. It is known as 'uttaravahini ganga'. It flows towards its source. The source of our business is clients. I see a huge commitment in this room from all of you to identify that source and be committed to that source.

He shared the story of famous violin player 'Joshua Bell'. An experiment was done on Joshua Bell by The Washington Post. He was asked to play in some railway stations in Washigton DC in the morning of 12 Jan 2007. Few days back, the same guy has played in a very renowned hall in Washington DC. The tickets were sold for >100 $. When he played on the railway stations in the morning for 45 minutes, more than 1000 people passed by. But only seven stopped and one guy recognized him. It was the same piece of music, same violin, same player, same integrity and the delivery. But, the results were different. The question is what went wrong? The response from participants are:

- Perception
- Place
- Presentation
- Audience

When you make a value proposition, it should have got 3 basic elements (Aristotle). They are



Logos refers to logic, reason, proof. The main techniques of logos are

a) Structure of the speech (opening,body, close)
b) References to studies, statistics and case studies
c) Comparisons, analogies and metamorphose

Ethos refers to credibility/trust. The main techniques are

a) Personal branding
b) Confidence in delivery
c) Cites credible sources

Pathos refers to emotions/values. The main techniques are stories, inspirational quotes and vivid languages.

Coming back to Joshua Bell, it is not logical for someone to assume that the renowned violin player in a railway station on some morning. It is expected that it will be played in a big hall. There is no emotional connect. People are not sitting in a silent mode. They are moving around and there is no trust factor. So, all our efforts to create a value proposition can go for a toss if you don't think of these three reasons.

The most important thing to create a value proposition where you have an advantage to say that 'I am RIA'

a) Ethical appeal – creates a sense of security
b) Logical appeal – which basically opens communication channels
c) Emotional appeal – which enables to open the cheque book.

Look at our industry, we are always talking about the logic and logic only. And we fail to connect emotionally and communication keeps on happening and cheque book does not open.

When someone comes from the insurance industry, they talk emotions, less about logic or might be the right mix of emotions and logic and make the client to open the cheque book. We must learn from the industry, which has learned well by mixing emotions and logic in such a way that cheque book opens and also take care of the clients.

We can draw the inspirations from

a) "it does not matter how much we know, what matters is that how clearly the others can understand what we know" – Simon Sinek
b) N=1 and R=G – Prahallad CK
c) Use of social media
d) The client doesn't care how much you know until the client knows how much you care.

In India, we found that there is a huge correlation between the quality of assets and its perceived risk. You say low quality asset has high risk and high quality risk has low risk. This is a wrong equation. Risk has gotten a little to do with the quality of the asset. Risk has more to do with acquisition price. Investment risk is derived out of the acquisition price. A high quality asset acquired at a wrong price can make you suffer and low quality asset acquired at the right price can deliver returns. How to break this myth which exists?

There is a book called 'The new age of invasion' by Prahallad CK. He says that there are two equations which will rule the world. N=1 and R=G

N=1 means that every client experience is unique. A brand may have 100 million customers, but every experience the client get is unique. You can't generalize. So, a brand can be a great band for me, but may not be a great for someone else. It is an individual experience which creates value for the brand.

To create a value, the source cannot be accumulated internally. You have to go out of the organization to acquire the sources to deliver that experience. The source can be a global and make the experience unique.

Look at the world, all resources which you can't handle yourself is taken help from outside. There is a platform, program, IFE and so many things that are available outside which helps you to give a unique experience to the clients. IDFC has a game changes tool which can give a unique experience to the client. IDFC is going to launch a series of videos on behavioral biases. It will be done by a very renowned author. Resources are globalized and experience is local.

Use of social media is a big game changer in view of Amit. There is a huge amount of information in social media about the client which can give you insights on how to connect and deal with the clients. The Facebook page can give the information about what the client likes. This helps to connect the clients emotionally.

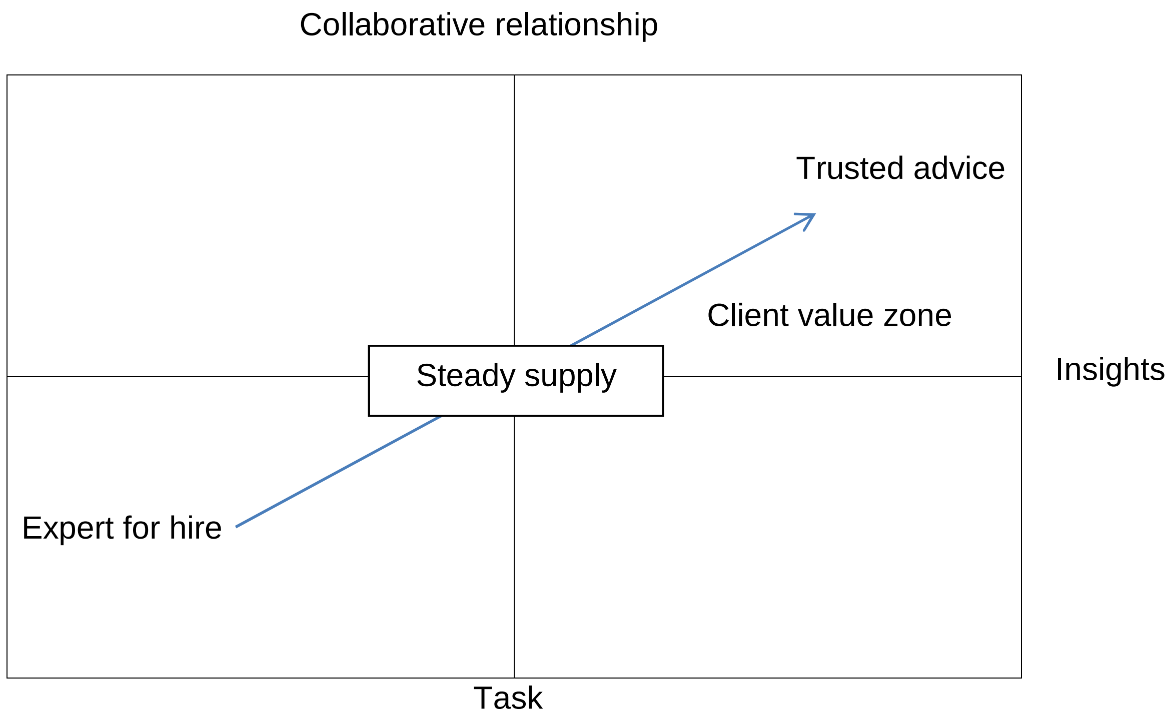
The next one is 'clients don't care how much you know until they know how much you care'. When clients know that how much you care for them, they will connect. He shared how IDFC segments the relationships. They have got four colors which typically represent four types of clients or personalities. These colors are Blue, Gray, Green, Yellow.

Client types

Prove it to me type.Knowledge seekers. Want data, analysis, concepts an logic	Do it now type. They are result and task oriented. Affirmative, focus and end result
Do it together type. Value relationships. Harmonious, relaxed and accommodating	Do it differently type. They are futuristic, new ideas and stories

Going to the clients with the same story will not work. Yourself is in one of the boxes. You know in which box you are in. You find that the box in which you are in, the best clients sit in the same box. And it will be huge difficulties in tackling the clients who are not in your box, because you don't flex and move around. We need to identify the personality type of the clients to change the value propositions.

The journey of the advisor



Amit showed the video that says that when you choose your clients, partners, associates, team and vendors, the key thing to look is the character. He said that the two things that drives the IDFC are i) focus on whether investment is short term or long term and whether it's my interest or client's interest. These two things guide IDFC AMC and that is the character of the organization.

Yuvaraja, secretary, COFP handed over the bouquet and memento to Amit and thanked him for his participation.

Mr Akash,IFast has introduced the IFast platform. He shared the video done by NAPFA in US which focuses on fiduciary. He spoke on 'Life as a RIA'.

Mr Srinivas Bolisetty, KM Team member, presented the bouquet and thanked Akash for his participation.

Mr Anup and Mr Varun are welcomed on stage to share their experiences as RIA. Both of them are promoters are 'Mitraz', a financial services company. Anup thanked Rajesh, Akash and COFP for giving an opportunity to interact on this forum.

He said that they registered a RIA because they felt there is no choice and want to be client centric. He said that if one is worried about the cost of compliance, then try to be non compliant.

Before applying for RIA, have a look of

- Net worth
- Organization structure
- Qualification
- Service model
- Processes and
- Infrastructure.

After RIA, the things to consider is

- An organization has to be trained
- Compliance
- Client agreement – they have one for advisory and one for execution
- Process check and audit regularly – The fear of audit makes us to do the right thing
- Record keeping
- Internal and external audit

What are the alternatives to RIA? Choose to be a product distributor or partner with RIA.

Varun added a few points. He said that, BNI has resolved that the financial advisor must be a RIA to be part of any RIA. He is of the opinion that the faster we act, the better. If you do not have a system for compliance, it is better to get externally and trained.

Sourab asked Anup what is the right fee structure? Is it a percentage of AUM? How you see it evolving.

Anup replied that it varies from business to business. The model could be AUM based, fixed fee or combination of these. The sustainable business model is between 1.25% to 1.5% of AUM. The cost and revenues are to be aligned.

Mr Pradeep, KM team member, presented to bouquet to Mr Anup and Mr Varun and thanked them for their participation.

Suresh A, KM Team lead announced the topics for the April month meet. The topics are i) Economic indicators, by Narendra K and ii) Real Estate – Heads on by Rajendra Deshpande. He thanked all participants for their active participation in big numbers.

Mr Pradeep gave vote of thanks and members are requested to join for dinner. Thus came to an end an eventful discussion and learning experience.

A disclaimer: The information shared in this report card are views /opinions of speakers. Members are requested to do the due diligence before acting on any information.

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