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INDIA'S LARGEST TEST PREP PLATFORM

Module-D Unit-1

JAIIB PAPER-4

Retail Banking and Wealth Management (RBWM)

JAIIB RBWM Module D Unit 1 Importance of Wealth Management

Wealth Management- An Introduction

Wealth management is an investment advisory service that combines other financial services to address the needs of affluent clients. Using a consultative process, the advisor gleans information about the client's wants and specific situation, then tailors a personalized strategy that uses a range of financial products and services.

In brief Wealth Management Services can be summarized in three stages,

- Wealth management is an investment advisory service that combines other financial services to address the needs of affluent clients.
- A wealth management advisor is a high-level professional who manages an affluent client's wealth holistically, typically for one set fee.
- This service is usually appropriate for wealthy individuals with a broad array of diverse needs.

Wealth Management – Broad View

Wealth management is not just investment advice rather more than that. It can encompass all parts of a person's financial life. Instead of attempting to integrate pieces of advice and various products from multiple professionals, high net worth individuals may be more likely to benefit from an integrated approach. In this method, a wealth manager coordinates the services needed to manage their clients' assets, along with creating a strategic plan for their current and future needs—whether it is will and trust services or business succession plans.

Following are some of the important aspects of wealth management:

- Understanding Investment needs: Clarity of the investment needs should be of the utmost priority to set the direction.
- Products and Services: Knowing the right products and services suitable for you will enable you to take the right decision to achieve your financial goal.
- Advisory Services: Involving the professionals will enable you to take advantage of their professional experience and expertise.
- Estate Planning: Estate Planning is also a very essential part of your wealth management as it ensures and preserves wealth for a longer term.

Wealth Management Process

Wealth Management process involves the following steps:

- Assessing the current financial situation of the client.
- Identifying financial goals.
- Designing a customized solution to achieve the goals.
- Implementing the financial strategies into the plan.
- Monitoring the results and reviewing the plans.

Wealth management provides direct and dynamic Customer Services. Wealth management deals in Asset Allocation Management, Tactical Management, and Diversified Management.

- **Asset Allocation management**: The Asset allocation management is an investment advisory fully dedicated to managing investment portfolios with the only focus on initiating the income generation. It aims to balance the risk by moving among investment categories.
- **Tactical Management**: Tactical management helps in selecting the appropriate ways to achieve financial strategies by choosing the best alternatives and tactics.
- **Diversified Management**: Diversifier management team help its clients in providing a flexible model which helps in meeting the need of the client.

Wealth Management Products and Services

There are so many wealth products and services in the market. Traditionally, customers have been investing large amount of money in bank deposits owing to convenience and safety. we shall discuss here a few important and common products and services which are generally offered by wealth management professionals.

- Alternative Asset
- Bonds, Corporate Fixed Deposits, Fixed Maturity Plan & Debentures
- Insurance
- Mutual Funds
- Systematic Investment Plan
- Portfolio Management Services
- Real Estate Services
- Retirement planning
- Strategic Business Strategy
- Will Writing

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Alternative Asset

It is any non-traditional asset with potential economic value that would not be found in a standard investment portfolio. Due to the unconventional nature of alternative assets, valuation of some of these assets can be difficult for most people, examples of alternative assets would include:

- Art and Antiques
- Precious Metals
- Fine Wines
- Rare Stamps
- Coins
- Sports Cards
- Other Collectibles

BOND

Bonds are fixed-income instruments derived from a loan forwarded by an investor to a borrower. In case of a bond, the issuer promises to pay a specific interest for the life of the bond and the principal amount or the face value at maturity to the investor. Bonds are generally issued by governments, corporations, municipalities and other sovereign bodies. Just like securities, bonds are tradeable.

Bond Market and Types

Convertible bond

A convertible bond gives the purchaser a right or an obligation to convert the bond into shares of the issuing company. The quantum of shares and the value of the shares are usually predetermined by the issuing company. However, an investor can convert the bond into stock only at certain specified times during the bond' stenure. It features a fixed tenure and pays out interest payments periodically at predetermined intervals.

Convertible bonds can be further classified as:

- **Regular convertible bonds** - Regular convertible bonds come with a fixed maturity date and a predetermined conversion price but they give the investor merely the right, and not an obligation, to convert. Companies generally prefer to issue these types of convertible bonds to the public.
- **Mandatory convertible bonds** - Unlike regular convertible bonds, these bonds obligate the investor to convert them into equity shares of the issuing company upon maturity. Since investors are essentially forced to convert their bonds, companies usually offer a higher rate of interest on mandatory convertible bonds. Reverse convertible bonds - With reverse convertible bonds, the issuing company holds the right to convert them into equity shares upon maturity at a predetermined conversion price.

Government Bonds

Bonds are issued by the Central as well as state governments of the country in order to tide its liquidity crisis which can be used to develop infrastructure. Serving as long-term investment tools they can be issued **for periods that range from 5 to 40 years**.

Types of Government Bonds

- **Fixed-rate bonds** – The interest rate applicable on these government bonds is fixed for the entire tenure of the investment regardless of fluctuating market rates. The lock-in period for such bonds is usually one to five years.
- **Floating rate bonds (FRBs)** – These bonds have variable interest rates based on periodic changes experienced by the rate of returns. The intervals within which these changes occur are made clear prior to the bonds being issued. These bonds can also exist with the rate of interest being split into a base rate and a fixed spread. This spread is determined via auction and remains stable right up to maturity.
- **Sovereign Gold Bonds (SGBs)** – Under this scheme, entities are allowed to invest in digitized forms of gold for an extended period of time without having to avail of gold in its physical form. Interest generated via these bonds is tax-free.
- **Inflation-Indexed Bonds –** the principal and interest earned on such bonds are in accordance with the inflation. Ordinarily, these bonds are issued for retail investors and are indexed in accordance with the consumer price index (or CPI) or wholesale price index (or WPI).
- **Zero-Coupon Bonds** – These bonds don't earn interest. Instead, investors accrue returns via the difference that exists between the issuance price and the redemption value. They aren't issued via auction but are created via existing securities.

Municipal Bonds

Municipal bonds are debt instruments that are issued on behalf of municipal corporations or bodies associated with them across the country aimed at socio-economic development. Municipal bonds can be purchased with a maturity period that amounts to three years.

Types of Municipal Bonds in India

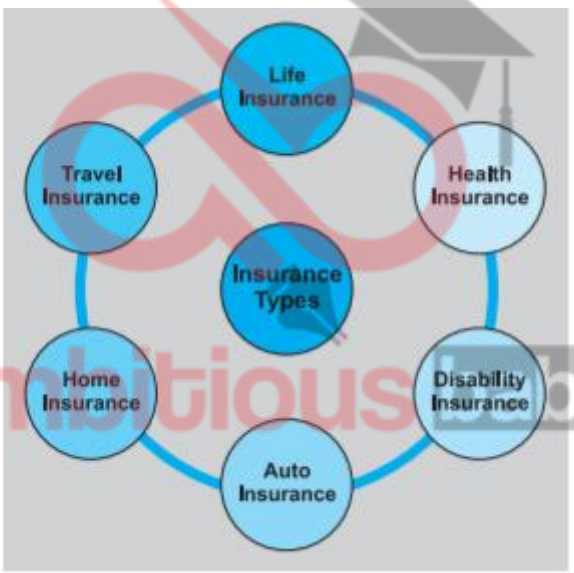
- **General Obligation Bonds** – These bonds generate finance for various projects in general and therefore their repayments are made from the general revenues of the municipality.
- **Revenue Bonds** – These bonds are focused on generating funds for specified projects and the repayment and interest issued to bondholders are processed via revenue explicitly generated via the projects declared in the bonds. They have extended maturity periods of upto 30 years and higher returns than GO bonds.

Retail bonds

- A retail bond offering allows a company to raise additional capital by borrowing at a fixed rate from an investor for a specific length of time. Companies typically issue retail bonds to expand their business, pay off debt, or fund a specific project, as with any capital raising. Retail bonds are typically listed and can thus be bought and sold during regular market hours, allowing investors more flexibility.

Insurance

- Protecting or safeguarding loss is done through Insurance. Insurance is a policy representing a contract in which an individual or entity receives financial protection from the insurance company against any losses.
- An insurer, or insurance carrier, is a company selling the insurance; the insured, or policyholder, is the person or entity buying the insurance policy. The amount of money to be charged for a certain amount of insurance coverage **is called the premium.**
- The insured receives a contract, called the insurance policy, which details the conditions and circumstances under which the insured will be financially compensated.



Types of Insurance Policies:

- Life insurance protects our family in unforeseen situations like death or accidental death.
- Term life insurance is one of the types of life insurance for financial safety which provides a lumpsum benefit to the nominee of the insured person after the death of the insured.
- Health insurance facilitates a person to insure coverage against surgical and medical expense.
- Disability insurance will insure a person for coverage against physical disability for longer period with no productive work.

- Auto insurance facilities you to cover car or any vehicle against damages or accidents.
- Home insurance will protect one's house against any damages like structural damage, fire, earthquake, etc.

Insurance provides protection against the following:

- Protecting family from loss of income from premature death.
- Ensuring obligation repayment after death.
- Covering unforeseen liability losses.
- Protecting business against the loss or disability of a critical employee.
- Buying out a partner or co-shareholder after his or her demise.
- Income protection insure from one's job, business against unforeseen business stoppage.
- Protecting one against unforeseeable medical, health or hospital expenses.
- Protect one's property from fire, thief, or any other natural calamities like flood, etc.
- Protecting assets against employee lawsuits.
- Protecting oneself in the event of disability.
- Protecting one's car against theft or losses incurred because of accidents.
- And many more types of risk.

Mutual Fund

Mutual Funds are the funds created with the mutual requirement needs of the investors. It is a basket created with varieties of investment options. similar to basket of shares, bonds, money market or a mixture of all instruments or a basket of shares based on sectors like Bank, IT, Infrastructure, FMCG, etc. or basket of diversified shares.

Types of Mutual Funds

In India, Mutual Funds are categorized based on various fundamentals like investment objectives and structure. Based on investment objectives, mutual funds are categorized into, Equity

- **Mutual Fund**: It will invest money in the stock markets. The investments under this category of mutual funds in primarily in stock markets and returns on investments are purely based on stock performance of the fund. These funds are off the record best type of mutual fund in long run.
- **Debt Mutual Funds**: It will invest money in debt instruments like Treasury bills, Government Bonds, etc. These investments ensure you fixed rate of returns.
- **Balanced Mutual Funds**: It will invest money partially into equities and partially into debts. Investor prefers this sort of investment when they want to minimize the equity investment risk.
- **Sectorial Funds**: It will invest your money as per selected sector like IT, Banks, FMCG, Pharma, etc.
- **ELSS or Equity Linked Savings Schemes**: These are commonly known as Tax saving funds. Investment made towards ELSS funds are exempted from Income

tax under section 80 C. However, **ELSS funds have 3 years of lock-in period**. Further, on the basis of structure, mutual funds are classified into,

- **Open Ended Fund**: These are funds that allow you to invest money and redeem anytime as per one's needs and one's strategies regardless of any time circumstances.
- **Close ended Funds**: These are funds allowing a person to invest with some lock-in period, **mostly within 1 to 3 years**; before that one cannot redeem the fund since there is a time-bound investment horizon involved with it.

Systematic Investment Plan (SIP)

- Systematic Investment Plan, most popularly known as SIP is a disciplined way of investing offered by mutual funds, where one invests a fixed amounts at a regular frequency (say, every month). It allows an investor to invest a fixed sum of money in a selected scheme of mutual fund at pre-defined intervals like monthly, quarterly, etc.

Systematic Withdrawal Plan (SWP)

- A Systematic Withdrawal Plan (SWP) is a facility which allows an investor to withdraw a fixed amount at pre-determined intervals. One can choose the amount and frequency of withdrawal also. At the set date, units from the portfolio are sold and the funds are transferred to your account.
- Portfolio Management Services (PMS) It is a tailor-made professional service offered to cater the investment objectives of different investor classes. The investment solutions provided by PMS caters to a niche segment of our clients.

Private Banking

Private banking involves providing banking, investment, tax management, and other financial services to high-net-worth individuals (HNWIs). Unlike mass-market retail banking, private banking focuses on providing more personalized financial services to its clients, through banking personnel specifically dedicated to providing such individual services.

Benefits Of Wealth Management

Function on a relationship-based approach

Wealth manager is constantly thinking of our financial well-being which is why, when the need arises, they level with us like a friend would. They are not interested in impressing us with financial jargons but rather invest their time to help us navigate through troubled financial waters. They also help us to make better investment decisions. Wealth managers use this relationship based approach through which we can have a healthy exchange of ideas and perceptions and formulate various financial strategies.

- **Creation of a financial plan:** Wealth management services help investors calculatedly and systematically create their corpus. Wealth managers come armed with the skills that help them understand client requirement and financial goals. These are taken into account when financial strategies are formulated. Wealth manager puts in a lot of time to comprehend our needs and helps us to meet as many of your financial goals as possible.
- **Elimination of financial stress**: Wealth advisors have a deep understanding of financial uncertainties. They have expertise in the field of taking critical financial decisions for us, should the need arise. Wealth advisors can help us to manage our finances during the roughest market conditions, which can often lead to stress. They help us to prioritize our financial decisions based on a timeline. Wealth advisor takes all our financial considerations in account while creating our goals and also helps us to organize our funds from time to time.
- **Personalized services:** Wealth managers understand that there is no "one size fits all" formula when it comes to wealth management. As such, every individual client gets personalized services of a dedicated wealth manager.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