Wealth Management Compliance in India

The size of the wealth management industry in India is expected to rise steadily and touch about USD one trillion by the year 2012.Following the estimated Rs. 400-crore fraud carried out by a relationship manager at a Gurgaon branch of Citibank, the government is planning to set up a reforms commission to frame comprehensive guidelines for wealth management advisers.

Apart from RBI and SEBI, the government is seeking suggestions from commodities regulator FMC, insurance regulator IRDA and pension fund regulator PFRDA. There are no comprehensive rules in India to regulate wealth managers for services provided over various sectors such as banking, markets, insurance, commodity and pension funds. Wealth managers are regulated by various regulators according to the sectors in which they are offering their services. There is an urgent need for a super-regulator to oversee all facets of the wealth management industry in India. In this article, we outline the wealth management regulations that exist in several foreign jurisdictions and summarize the best practices that Indian regulators can possibly adopt.

The *US* follows basic regulations such as KYC (Know Your Customer) and anti-money laundering (AML) as well as market-specific ones such as Sarbanes Oxley. In recent years, wealth management firms in the US have also invested in a wide variety of technology solutions to meet compliance requirements. An example is the adoption of trade compliance systems which ensure that trades placed do not violate regulatory or ethical rules. There are also pure wealth management systems that ensure inter alia that suitability norms are met. Other compliance measures that wealth management firms in the US undertake are email retention and surveillance systems, document retention systems, and internal audit systems.

In *China*, the People's Bank of China has also developed a set of guidelines for wealth management that is titled *Provisional Administrative Rules on Personal Wealth Management Business.* The bank has undertaken to conduct the personal wealth management business keeping in mind the relevant internal control system and risk management system. The wealth management unit of the bank discloses to investors a comprehensive investment plan, features of the products and related risks at the time of selling investment products in order for investors to make independent decisions. They are also required to disclose to investors the position and performance of investment and the risk situation. In addition, China's securities regulator has prescribed guidelines for the wealth management industry that stipulate, among other things, that brokerages are limited to investing no more than $28.8 million of their own money in a single wealth management scheme.

In *Singapore*, there are various laws and regulations that come into play depending on the type of banking structure. Acts such as the Banking Act, the Securities and Futures Act and the Trust Companies Act have been designed to keep in check the powers of private banks, fund managers and private trusts. The Monetary Authority of Singapore has issued guidelines on fair dealing outcomes to customers under the Financial Advisors Act. In *Hong Kong* as well, the Hong Kong Monetary Authority (HKMA), the Securities and Futures Commission (SFC) and the

Insurance Authority are responsible for the regulation of the banking industry, securities and futures, and insurance industries, respectively. In fact, there is a separate licensing regime administered by SFC which applies to firms wishing to engage in securities related business or asset management.

Indian businesses should also adopt best practices from foreign jurisdictions in order to maintain a transparent and accountable face while dealing with clients' money. Some of the guidelines that could be adopted are:

- Establishing an appropriate regulatory mechanism to oversee all facets of the wealth management industry.
- Maintaining internal audit systems.
- Investing in technology solutions such as trade compliance systems, email retention and surveillance systems and document retention systems.
- Maintaining a risk management system.
- Involving the investor at various levels of management.
- Disclosing to investors a detailed investment plan, characteristics of the products being sold and their inherent risk.
- Keeping investors updated on the performance of their investments and resolving queries.

As can be seen, India is lagging behind other jurisdictions when it comes to regulating wealth management. There is a lot of work ahead for India to proclaim that it has solid wealth management regulations in place. By adopting best practices from foreign jurisdictions, India can slowly aim to bridge this glaring gap and at the same time inspire confidence in the minds of investors.