Link - https://www.moneycontrol.com/news/business/personal-finance/hdfc-bank-plans-need-based-product-sales-for-new-customers-post-merger-with-hdfc-11146811.htmll

Publication - Money Control

Journalist - Hiral Thanawala

HDFC Bank eyes need-based product sales for new customers, post merger with HDFC

The bank's private banking head says the core philosophy is all offerings on the wealth management platform have to be aligned with the customer's expectations

Rakesh Singh, Group head – investment banking, private banking, marketing and products at HDFC Bank

Effective July 1, Housing Development Finance Corporation merged with HDFC Bank. In an interview with Moneycontrol, Rakesh Singh, group head – investment banking, private banking, marketing and products at HDFC Bank, explains how the bank intends to move from a cross-selling approach to need-based sales for new customers.

He also discussed key investment trends and reasons for bullishness on the Indian markets. Edited excerpts:

What opportunities do you see for HDFC Bank's wealth management division from the merger with HDFC?

At HDFC Bank itself (pre-merger), we have 8.5 crore customers, so there is an enormous opportunity. Out of this, our managed base customers are just around one percent of the total customers. So, there is a massive scope for us to cater to existing customers of the bank and grow.

Do you plan to cross-sell wealth management services and other products to HDFC's customers?

We will do a need-based analysis for our new customers and show our offerings to them. Duty of our relationship managers is to showcase what's in the interest of the customers. Then, the customers will take a call. We're clearly moving from a cross-selling approach to need-based sales. So, no hard cross-selling at all.

What do your wealth management customers expect while investing?

Most of our customers expect us to be offering them carefully selected investment products, instead of trendy ones. The product recommended by us should stand the test of time, it should not lead to loss of principal. So, our core philosophy is that all our offerings on the wealth management platform have to be clearly aligned to customer's expectations, and demonstrate integrity and prudence.

We also recommend large-cap equity funds because we believe large companies will survive and hence it is important that we sell anything which is very close to be a consistent performer.

When you recommend mutual funds, on an average, what is the holding period of your investors?

Holding period in mutual funds is very client-specific and is often influenced by various factors such as financial goals of the investor, asset allocation, risk profile and any changes in the risk profile, fund performance, tax considerations and exit loads.

At the time of investment and periodically thereafter, we understand the requirement of the investor, risk profile and accordingly suggest the asset allocation. For equity funds, we suggest a long-term investment horizon for wealth creation. Investors should stay invested in equity mutual funds for at least three to five years for the investments made by the fund manager to play out the story. Debt funds offer steady returns, safety, stability and liquidity to a portfolio. Interest rate view is another factor which determines the holding period in debt funds. As a best practice, our relationship managers review client portfolios periodically to ensure investments are in line with risk profile and asset allocation.

Some banks were in the spotlight for mis-selling complex products. How do you ensure that mis-selling doesn't happen at HDFC Bank?

At HDFC Bank, we have taken several steps to mitigate mis-selling of financial products. We have a detailed in-house onboarding and due diligence mechanism to evaluate various investment products and assess their suitability for various risk profiles. For every client risk profile, we assess and periodically update the risk profile. We offer only those products to our clients where the risk profile and product suitability are in line.

Additionally, for complex products, we have put in place several checks and balances: clients investing in complex products are informed of various risks associated with the investment. A pre-call verification and confirmation process is done to reiterate product features and risks associated with the investment. We have thresholds for various products aligned with the client's risk profile.

What investment approach do you recommend to investors?

We advocate an investment approach based on asset allocation of the individual. The asset allocation should be independent of market conditions, and instead based on the risk appetite, age profile of the investor. Over a long period, the market movements ensure that various asset classes get their due valuations and reward investors.

For instance, gold was undervalued for a while, and now it has caught up as the highest-earning asset. Similarly, mid-cap, which was sold heavily in the rate hike cycle, has come back and given phenomenal returns. Large-cap schemes' returns are also good. We believe that instead of recommending trending assets and trying to time the market, it is better to remain invested in a prudent asset allocation.
Depending on your risk and age profile, allocation in equity, debt, gold and annuity gets divided. In the equity portfolio, we recommend investing 60 to 70 percent in large cap, 20 to 30 percent in small and mid-cap, based on the risk profiling of the investors.

What is your opinion about India's economy and markets?

We are bullish on the Indian market simply because of three large key trends. First is India's GDP growing, which should lead to a growth in consumption. So, companies will report strong earnings on the longer-term trend.

Second is government spending on better infrastructure and building long-term ecosystems… The government is also pushing production-linked incentive (PLI) schemes to various sectors and simplifying policies. We are also seeing a lot of foreign money as foreign direct investment coming into the country, as capital expenditure.

The third thing is that India has now structurally done a fair bit of work on its ecosystem in terms of policymaking. The world is looking to India as a knowledge factory and also considered being a manufacturing alternative factory beyond our neighbours. So, all these factors will lead to a significant amount of growth in India.

What category of customers do you serve in the wealth management business?

We start with a lower threshold of Rs 1.5 crore to Rs 2.5 crore. This is a target for our clients to be part of the wealth services on the physical side. However, we are not fixated on the threshold limit. We also cater to clients looking for advice. On the digital side, we cater to most customers who are there on the bank's platform.