Wealth Management

(As per the Revised Syllabus 2016-17 of Mumbai University for T.Y.BMS, Semester – V)

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Preface

“Genius is the ability to reduce the complicated to the simple.”

… Albert Einstien

I earnestly hope that the book will make complicated subject Wealth Management simple to understand and score high marks in exams.

I look forward for constructive suggestion from the readers and teachers.

I am thankful to one and all who have contributed directly or indirectly to make New edition possible.

This book is user-friendly and different. As one goes through the book, one will feel the difference, and this will help to master Wealth Management in an enjoyable manner, with lifetime utility.

The book covers ‘University’ Prescribed Syllabus with Practical Dimension !! Let’s L-Earn !!

Best Wishes!!

Million Thanks.

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Visiting Faculty

- Amity Business School.
- Lala Lajpatrai College.

Ex. Visiting Faculty

- Vivekanand Education Society.
- Rajiv Gandhi Institute of Technology.
- S.K Somaiya.
- Narsee Monjee College.
- Usha Pravin Gandhi.
- Bhavan’s College (Andheri).
- Rizvi College.
- S.K. Somaiya.
- Akbar Peerbhoy.
- Bhurani College.
- Poddar College etc.

Ex. Vice Principal:

- Rustomjee Business School.
Learning Objectives:
1. To provide an overview of various aspects related to wealth management
2. To study the relevance and importance of insurance in wealth management
3. To acquaint the learners with issues related to taxation in wealth management
4. To understand various components of retirement planning

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Question Paper Pattern

Duration: 2.5 hours  
75 Marks

N.B:  
5 questions of 15 marks each.  
All questions are compulsory

Q.1. Attempt any two:  
(a) Theory – Introduction to Wealth Management  
7.5 Marks  
(b) Sum – Cash Flow Analysis  
7.5 Marks  
(c) Theory – Economic Environment Analysis  
7.5 Marks

Q.2. Attempt any two:  
(a) Sum + 1LV/Belth Method  
7.5 Marks  
(b) Theory – Insurance Planning  
7.5 Marks  
(c) Theory – Investment Planning  
7.5 Marks

Q.3. Attempt any two:  
(a) Sum – CAGR/HPR/Financial Ratios  
7.5 Marks  
(b) Sum – Post tax Return/Net Worth  
7.5 Marks  
(c) Sum – Advance Tax/LGCG  
7.5 Marks

Q.4. Attempt any two:  
(a) Theory – Retirement Planning  
7.5 Marks  
(b) Numerical – Section 80C  
7.5 Marks  
(c) Theory – Pension Schemes  
7.5 Marks

Q.5 Case Study/Numerical — Personal Financial Statement Analysis  
15 Marks
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1.1 Introduction to Wealth Management

What is 'Wealth Management'?

Wealth management is a high-level professional service that combines financial/investment advice, accounting/tax services, retirement planning and legal/estate planning for one fee. Clients work with a single Wealth Manager who coordinates input from financial experts and can include coordinating advice from the client's own attorney, accountants and insurance agent. Some wealth managers also provide banking services or advice on philanthropic activities.

Breaking Down 'Wealth Management'

In general, wealth management is more than just investment advice, as it can encompass all parts of a person's financial life. The idea is that rather than trying to make sense of advice from a series of professionals, high net worth individuals benefit from a holistic approach in which a single manager coordinates all the services needed to manage their money and plan for their own and/or their family's current and future needs.

The wealth manager starts by developing a plan that will maintain and increase the client's wealth based on that individual's financial situation, goals and comfort level with risk. After the original plan
is developed, the manager meets regularly with clients to update goals, review and rebalance the financial portfolio, investigate whether additional services are needed and ideally, follow clients throughout their life.

Wealth Managers are often part of a wealth-management firm, with access to a team of in-house experts and services, but may also be solo practitioners who rely on their own network of independent experts. Management fees vary widely and should be researched thoroughly before engaging a wealth manager.

1.2 The Scope of our Wealth Management Services

– Portfolio Management

Asset Allocation

Develop an asset allocation framework addressing both strategic and tactical components.

Rigorous Security Selection

Not every investment is right for client. Through a detailed analysis, wealth manager identifies securities customized for client’s portfolio.

– Advice and Planning through Envision tool

Current and Future Income Planning

Develop a plan to generate cash flow for clients short and long term needs.

Retirement Planning

Develop a strategy for planning for retirement by incorporating clients social security, pension and assets into a comprehensive plan.
Introduction to Wealth Management

**Tax Planning**
Identify and implement tax-efficient portfolio strategies to manage capital gains and losses.

**Estate Investment, Trust and Insurance Planning**
Work with clients tax and legal advisors to develop a flexible asset and wealth preservation plan. Wealth manager thoroughly reviews and address clients life insurance, disability insurance, and long term care needs.

### 1.3 Components of Wealth Management

There are three essential components to true wealth management:

1. **A consultative process**
   An adviser’s wealth management process must be consultative to enable them to gain a detailed understanding of clients’ goals and their most significant financial wants and needs. A proper wealth management process is far more than a compliant recommendation for a financial product. An industrialized wealth management process involves counseling, challenging, educating, advising, and leading clients to better manage their financial circumstances and/or more effectively develop the opportunities in their financial lives. An obvious consequence is the development of close and trusted relationships with clients, who then rely upon a Wealth Management firm over time as their financial lives evolve.

2. **Customized choices and solutions**
   Wealth management advisers offer their clients solutions designed to fit the full range of each client’s needs. These services might include several of the following: investment management, insurance, estate planning, taxation, cash flow management, debt management, leasing, stock brokering, retirement planning, mortgages, banking, charitable giving, financial structuring, gearing and specialist products.

3. **Delivery in close consultation with your clients**
   Wealth managers provide their services by working closely with clients on an ongoing basis to identify their specific needs and how those needs change over time, and design solutions around those needs. True wealth managers continue to help their clients make smart decisions regarding their money over a period of time.

   If, like many, you have been focusing on investment management, you can see that you need to expand the scope of your offerings if you want to be a wealth manager. In its simplest terms, wealth management can be summed up using a single, all-encompassing formula:

   \[
   \text{Wealth management} = \text{investment consulting} + \text{advanced planning} + \text{relationship management} \\
   \text{(or } WM = IC + AP + RM) \]

**Investment consulting**
Investment consulting is the core offering for many wealth managers, and the foundation upon which they begin the client relationship.

**Advanced planning**
Advanced planning addresses four key areas of financial needs that clients have beyond investments: wealth enhancement, wealth transfer, wealth protection and charitable giving.
**Relationship management**

Relationship management focuses on three areas: fully understanding and meeting clients critical needs over time; assembling and overseeing a network of financial experts to help you meet client needs; working effectively with your affluent clients’ other professional advisors, such as their lawyers and accountants.

Wealth management breaks the familiar mould in which clients must contract with a range of professionals, each specializing in a single area: the investment advisor managing portfolios, the insurance agent selling life insurance, the accountant handling taxes, and the lawyer taking care of estate planning. As their finances have grown ever more complex, this compartmentalized approach has become less appealing to clients wishing to streamline their affairs.

I have never known a better time than today to be building a wealth management firm where the value delivered to clients is based upon the quality of the advice provided rather than the quantity of the product sold.

### 1.4 Process of Wealth Management

During your initial meeting with us we will present our terms of business and explain how we work. If we agree to work with each other and prepare a Wealth Management Plan we will commit to a rigorous six step planning process.

1. **Data Gathering**: Establishing details about your assets and liabilities, income and expenditure. Understanding arrangements already in place and attitude to investment risk.
2. **Goal Setting**: Establishing your goals and aspirations for the short and long term. Understanding your commitment to meeting your objectives.
3. **Define the terms of engagement**: Wealth Manager for providing his services has to define the terms of engagement, the service deliveries and the fees the wealth manager is going to charge the client for his services.
4. **Identification of Needs**: We will analyze your current position and assess any gaps in your situation. Next we will identify what needs to be done to meet your objectives.
5. **Report Preparation**: Our analysis and recommendations are presented in a written report. This forms the basis of a formal review at which we agree on an action plan.
6. **Analyzing the opportunities and challenge**: Analyzing the opportunities and challenges is explaining the client the risk factors associated with each investment alternative that the wealth manager purposes.
7. **Implementation**: Effecting the plan will invariably involve new and changed arrangements. We liaise with providers and other professionals to implement the agreed plan.
8. **Review and Revision**: Wealth management is a long term plan that requires regular annual review. Changes in your circumstances are considered as well as fund performance.

### 1.5 Need for Wealth Management

**Wealth Management Needs of Clients**

If you were to ever lose your pension plan, a wealth manager can help you create your own benefit plan. You can also work with your manager to get a better idea of what your liabilities are, which allows you to insure yourself better and plan your financial future better.
Something else to think about is that your wealth manager can also teach you exactly what your retirement fund is and how you should use it. For instance, it’s much better to look at your retirement fund as something that produces an income during your retirement years. Retirement accounts aren’t ATMs for you to use before you actually retire, and they also aren’t simply something for you to gradually use during retirement.

**Not One and the Same**

Something else to bear in mind is that a wealth management firm in Mumbai isn’t the same as investment management. Investment management has more to do with bonds, stocks, mutual funds, and exchange traded funds. It’s better to think of wealth managers as the individuals whose work starts where an investment manager’s work ends. Any money you make from your investments needs to be spent, saved, and reinvested wisely, and that’s where wealth managers can help.

Wealth management can also be seen as a type of risk management. For example, a physician can open himself up to malpractice by creating a specific type of trust account. Managers are often more aware of certain state laws and can help a client decide whether it would be more beneficial to forgo a tax benefit. No matter how much or what you’ve read online about financial and insurance vulnerabilities, nothing beats the education and opinion of a wealth manager.

No matter if you’ve just graduated from college and are about to start your first professional job or if you think you’re already well on track for your retirement, seeking out the professional services of an experienced wealth manager is in your best interest. It’s never too early or too late to start thinking about your golden years or the best way to spend your personal wealth.

Hence, reasons of need of Wealth Management are as below:

1. **Growth of HNWI and UHNWI:** High Net Worth Individual (HNWI) are generally defined as private individuals with more than USD 1 million or ₹ 7 crore of investable assets.
   
   Ultra High Net Worth Individuals (UHNWI) are private individuals with more than USD 30 million or ₹ 200 crore of invest-able assets.
   
   India ranks 14th in the McKinsey Global wealth survey and India are expected to be the top 10 HNWI and USNWI population destination in the world. Which shows scope for wealth managers to provide need based advisory services to clients to manage and grow their wealth in order to achieve their financial objectives.

2. **Time Constrains:** Research shows time and expertise are the two major constrains for any individual to manage his/her own wealth. Time is a major constrains for almost all HNWI’s as they are usually busy with their business or profession.

3. **Expertise:** Many HNWI’s and UHNWI’s may have the time at their disposal however may lack the expertise to do informed asset allocation so they require services of wealth management firm.

4. **Complexities in Financial Products:** Financial Markets are getting more and more complex global and so are the offerings. It requires more than just basic knowledge to understand the risk associated with complex financial instruments like derivate and swaps, Hence services of wealth management firm are desirable.

5. **Rise of Fee Based Services:** Globally and India there is a huge rise in fee based services v/s commission. Also the regulator SEBI is in favour of transparent fee based services v/s commission model.
6. **Goals**: Financial Goals like Starting business, getting married, holiday abroad, buying a home, a new car, retiring comfortably require the assistance of wealth management services to plan scientifically for attainment of each goal.

7. **Wealth Transfer**: There is a strong need for wealth transferring from one generation to another or charity in a tax efficient manner and also in a manner which does not give rise to family disputes. Wealth managers provide Estate planning services where wealth transfer becomes smooth and without any hurdles.

### 1.6 Expectation of Clients

#### Client Goals and Constraints

**Client Profiling**

How do the managers find out what is most important to their clients? The best way to do that is to begin by listening without asking. The wealth manager should try to go beyond what the client specifically tells to develop an even deeper level of understanding.

In the initial meeting with the client, the wealth manager should try to understand the clients' needs, expectations, constraints and fears.

Client profiling is a useful concept that helps in establishing a relationship with the client. It helps in figuring out the financial personality of the client. While clients within each profile may be dissimilar, they can be broadly identified as following types:

**Relationship clients**

These people want to form a bond with someone whom they trust. They tend to be easy to talk to at the initial meeting. Much of the interaction is informal and conversational. Getting to know these clients as individuals is of utmost importance. They want to feel comfortable. They tend to be very good, long-term clients and very nice to work with. While they may defer to the recommendations of financial advisor, it is the responsibility of financial advisor to keep them involved in the process.

**Fear-based clients**

These people tend to have very little financial experience or have had bad financial experiences. These clients are also reliant upon financial advisors. They often need educating, although they may seemingly not want it. The job of the financial advisor is not to take care of them but rather to work with them. They have to be helped in gaining confidence in the money arena.

**Curious clients**

They are knowledgeable clients. They are working with financial advisors because of time constraints. They take a great interest in what a financial advisor does. These clients would have formed their opinions through what they have read or heard. They often will continue to focus on items that validate their thinking.

**Greedy clients**

These are often the clients who are only interested in some in-articulated and ever-changing objectives, usually measured by short-term results. They may appear to be charming initially because they are often marked by high energy and a quick mind.
After getting to know clients and developing an understanding of their predilections, the next step is to delve into the facts of their individual situations. This is typically done through a fact-finding form and copies of all their financial statements. As the financial advisor goes through the assembled data and continues to ask clients why they own this or that, he should be very careful not to criticize or attack past financial decisions of the client.

### 1.7 Challenges to Wealth Management in India

#### Regulations and client expectations change status quo in wealth management industry, finds PwC research

The status quo in the private banking and wealth management industry is changing as the focus shifts to client service and value delivery, according to our 2011 Global Private Banking and Wealth Management survey -Anticipating a New Age in Wealth Management. New competitors are challenging the dominance of established firms, and the impact of new regulations and more demanding client expectations are forcing private banks and wealth managers to change their client service infrastructures and the way they operate. Those who can master change will be in a position to lead the industry and we believe that clear industry leaders and losers will emerge by the middle of this decade. Some highlights:

- Today’s client is cautious, smart, less loyal and expects excellent service and clear value.
- Regulation has become the not-so-invisible hand, increasing the cost of operations.
- Greater operational efficiency and effectiveness are required, not just to compete but to survive.
- Standing still is no longer an option and institutions must now quickly adapt or face being left behind.

In PwC's 2011 biennial report, which surveyed a record 275 institutions from 67 countries, we found that wealth management continues to be a lucrative business with untapped potential for significant growth if institutions can be agile in adapting to meet changing demands. Our 2011 survey found that the industry faces multiple pressures in five key areas, as follows:

#### Performance and change

The DNA of the wealthy investor has been transformed as a result of the global financial crisis and recent scandals. The result is higher expectations of service and value. Clients are more active in managing their own financial affairs and they are paying increased attention to reputation, regulatory compliance and risk management.

#### Markets and clients

Shifting patterns of world wealth between emerging and established markets and tougher regulatory oversight present challenges for some wealth managers and creates new opportunities for others. Wealth managers must adapt their networks and businesses.

#### Client relationship managers and human capital

The shortage of talent is one of the biggest barriers to future growth. Top quality people are becoming more valuable, more difficult to source, and more expensive to train. The industry is getting better at institutionalizing client relationships. Links between performance and pay are becoming critical. New strategies, incentives, and support are needed to attract and retain qualified professionals.
Operations and technology

The industry remains historically under-invested and respondents are at different stages of their operational evolution. Many continue to run legacy systems and manual processes. Technology budgets are being directed to better support client relationship managers and the front-end client experience.

Risk management and regulation

Risk management systems and processes are being upgraded to provide integrated approaches to better align risk and value. The global wealth management industry is now at the forefront of regulatory change. Cross-border standards, customer protection and transparency are anticipated to impact the front-end client experience and increase costs.

Wealth Management Market in India

Demographics

- Sustained GDP growth has created wealth in many sectors, like gems and jewellery, I.T, Pharma, E-retailing, financial services, and BPO.
- GDP growth is concentrated in Urban Centres.
- Mumbai alone accounts for 50% of the deposits held by foreign banks.

![Wealth Pyramid](image)

- High net worth individuals (HNWI) are defined as those with financial assets of at least $1 million excluding residential property.
- Estimated 70,000 HNWI are there in India (compared to 8.3 million worldwide).
- Number of HNWI in India has increased by 14.6% in 2004-05.

There is no precise definition of how much net worth entitles an asset-holder to be called HNWI. Generally, however, if a person has liquid financial assets over 1 million dollars, the person is considered an HNWI. A person having less than 1 million but more than 1,00,000 dollars is called affluent. On the other hand, an individual with more than 5 million dollars is liquid financial assets may be considered ultra HNWI.
Introduction to Wealth Management

Major Product Offerings

- Portfolio management services (PMS)
- Mutual funds

Select Players

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- Insurance products
- Equity
- Fixed income instruments
- Mortgage lending
- Real estate
- Art funds
- Derivatives and structured products

Key Trends

- Rapidly growing market
- Clients becoming increasingly sophisticated
- Open product architecture approach adopted by wealth managers
- Wealth managers are being looked upon as “trusted advisors” rather than “money managers” for their clients.

Key Limitations

- Market is in its nascent stage.
- There is lack of required Trust. Financial Scams & Malpractices when it happens reduces Trust further.
- In India 85% of the financial assets are still in the form of bank deposits
- Low usage of technology tools by wealth managers.
- Shortage of skilled and experienced wealth managers.
- Many clients feel fees charged by wealth manager are exorbitant.

1.8 Code of Ethics for Wealth Managers

A code of ethics issued by a business is a particular kind of policy statement. A properly framed code is, in effect, a form of legislation within the company binding on its employees, with specific sanctions for valuation of the code. It may be a document which may outline the mission and values of the business or organization, how professionals are supposed to approach problems, the ethical principles based on the organization’s core values and the standards to which the professional will be held.
(i) Association of International Wealth Manager (AIWM) Code of Ethics

The Association of International Wealth Management (AIWM) is a non-profit association established to encourage, promote and strengthen global education in the private banking industry and to set a globally recognized standard for the qualification of private banking professionals. The AIWM objectives seek to ensure the highest ethical conduct of its members and thus contribute to the integrity of global capital markets.

Rule 1 Principle of Professional Ethics

Members shall exercise their profession in an independent, diligent and professional as well as ethical manner. They undertake in all cases to give priority to the interests of the clients and commit to treat them fairly. The principles of professional ethics can be divided into four fundamental principles:

- **Independence**: Members must exercise independent and objective judgment in their professional activities.
- **Integrity**: Members must preserve their professional and personal integrity.
- **Professionalism and diligence**: Members must always act as qualified professionals and perform their activities with the diligence required from qualified professionals.
- **Loyalty and priority of the clients’ interests**: Members owe a duty of loyalty to the clients. They must under all circumstances give priority to the clients’ interests and ensure that they are treated fairly and equitably.

Rule 2 Compliance with Applicable Rules

Members shall know and comply with the provisions of the laws, regulations and self-regulatory rules as well as all internal rules of their employer that are applicable to their activities. Members must comply with the provisions of laws, regulations and rules enacted by self-regulatory bodies. They must also abide with the internal guidelines issued by their employer.

Role 3 Duty of Information

Members must ensure that the information they provide to clients and investors is clear, timely and accurate. They are prohibited from promising a given return.

Rule 4 Conflicts of Interests

Members shall avoid any situation of conflict with interests of clients. If a conflict cannot be avoided, priority has to be given to the interests of the clients. Members treat the interests of clients and investors in accordance with the principle of equal treatment. Members have to disclose any fact affecting their objectivity and their independence.

Rule 5 Duty to Inform the Employer

Members shall inform their employer that they have to comply with these Rules of Conduct and Fundamental Principles of Professional Ethics. As a general rule, members should inform their employer that they are a member of the Association of International Wealth Management and are therefore bound by these Rules of Conduct and Fundamental Principles of Professional Ethics.

Rule 6 Sanctions

The effectiveness of regulating professional conduct by professional standards arises from the existence of efficient penalties, recognized as such by and in the profession.
(ii) FPSB Code of Ethics

Financial Planning Standards Board India is a Public - Private Enterprises and a Professional Standards Setting body that proactively guides the professionals to benefit and protect the public in the country. FPSB India closely works with all the stakeholders' viz. the Government, the Regulators, the Industries/Associations, the Corporate, the Media and the General objectives.

Code of Ethic 1 - Client First

Place the client’s interests first. Placing the client's interests first is a hallmark of professionalism, requiring the Financial Planning professional to act honestly and not place personal gain or advantage before the client’s interest.

Code of Ethic 2 - Integrity

Provide professional services with integrity. Integrity requires honesty and condor in all professional matters. Financial Planning professionals are placed in positions of trust by clients, and the ultimate source of that trust is the Financial Planning professional’s personal integrity.

Code of Ethic 3 - Objectivity

Provide professional services objectively. Objectivity requires intellectual honesty and impartiality. Regardless of the services delivered or the capacity in which a financial planning Professional functions, objectivity requires Financial Planning professionals to ensure the integrity of their work, manage conflicts and exercise sound professional judgment.

Code of Ethic 4 - Fairness

Be fair and reasonable in all professional relationships. Disclose and manage conflicts of interest. Fairness requires providing clients what they are due, owed or should expect from a professional relationship, and includes honesty and disclosure of material conflicts of interest.

Code of Ethic 5 - Professionalism

Act in a manner that demonstrates exemplary professional conduct. Professionalism requires behaving with dignity and showing respect and courtesy to clients, fellow professionals, and others in business-related activities, and complying with appropriate rules, regulations and professional requirements.

Code of Ethic 6 - Competence

Maintain the abilities, skills and knowledge necessary to provide professional services competently. Competence requires attaining and maintaining an adequate level of abilities, skills and knowledge in the provision of professional services. Competence also includes the wisdom to recognize one’s own limitations and when consultation with other professionals is appropriate.

Code of Ethic 7 - Confidentiality

Protect the confidentiality of all client information. Confidentiality requires client information to be protected and maintained in such a manner that allows access only to those who are authorized.

Code of Ethic 8 – Diligence

Provide professional services diligently. Diligence requires fulfilling professional commitments in a timely and through manner, and taking due care in planning, supervising and delivering professional services.
1.9 Review Questions

Q.1. Concept Testing
   (a) Wealth Management
   (b) Financial Planning
   (c) High Net worth Individuals
   (d) Ultra High Net worth Individuals

Q.2. Long questions
   (a) Explain Scope of Wealth Management in India
   (b) Explain the components of wealth management.
   (c) What is Code of Ethics? Explain the code of ethics in wealth management by different bodies