

Analysis of the Risk and Return of alternative Investment Opportunities available to High Net worth Individuals – A Case Study of ING Vysya Bank Limited

Ande Rama krishna

¹Student, University College of commerce & Business Management, Osmania University, Telangana, India

Abstract:

Portfolio Management has been an integral part for any investor. Each Investor, whether small or big is trying to maximize his/ her returns by making a diversified investment. To diversify the investment the risk and return trade off of each investment avenue has to be studied. Therefore the study of portfolio management and risk and return is very important of an investor. Now days there are professional investment advisors who study the risk and return portfolio of each investor and design the most well suited portfolio from him/ her. Banks also provide professional investment advice. This has opened up a huge market for the advisors and has become very competitive. In this paper ING Vysya Bank has considered for study. The ING Vysya Bank also provides professional advise to its clients. A common problem faced by the bank's advisors is that they have a low conversion rate on the advice given by them. Therefore a study and analysis has been conducted on a sample of 10 HNI's of the bank to analyze their investment portfolio and risk appetite. An analysis of the bank's products is also conducted to understand them in detail. Then the required suggestions are made to the investment advisors to improve the conversion rate and retain HNI's.

Keywords

Portfolio management, Risk and return analysis, Investment Opportunities, HNTs.

1. Introduction

Headings should be numbered and in Times New Roman with 12 in size, bold and left alignment. These guidelines include complete descriptions of the fonts, spacing, and related information for producing your proceedings manuscripts. Please follow them and if you have any questions, direct them to the production editor in charge of your proceedings at the IEEE Computer Society Press: Phone (714) 821-8380 or Fax (714) 761-1784.

Area of Management:

The area of study, which my project report covers, is financial management. In financial management my project report covers two subjects:

- ♦ Portfolio management of ING Vysya bank's HNI clients and;
- ♦ Risk and return analysis of each investment avenue open to a HNI client.

Financial Management

Finance is an area of study which is namely concerned with two distinct areas i.e. financing and investing. We will be dealing with financial management relating to investment activities. This area of finance deals with finding out the best combination or portfolio of financial assets and thus focuses attention on the allocation of funds once they are acquired. This area focuses attention whether an investor should put all his money in one financial asset or in a combination of different financial assets.

It studies and addresses the ways in which individuals raise, allocate and use monetary resources over time, taking into account the risks entailed in their projects. It is the application of a set of techniques that individuals use to manage their financial affairs, particularly the differences between income and expenditure and the risks of their investments.

An entity whose income exceeds its expenditure can lend or invest the excess income. On the other hand, an entity whose income is less than its expenditure can raise capital by borrowing or selling equity claims, decreasing its expenses, or increasing its income. We will be focusing on those entities who have surplus income and are looking for avenues of investment. Therefore we will further go into portfolio management of individuals and risk and return analysis of each investment avenue.

Risk and Return Analysis

The most important motive for an investor to invest is to earn a return on their investment. However, selecting investments on the basis of maximization of return is not enough. The investor also considers the risk associated with the investment.

Return means the benefit, which arises out of any investment or undertaking. In financial management we are primarily concerned with the return paid to an individual investor. Return can be paid in one go or at regular intervals. Return is the foremost important reason for an investor to make an investment. The investor is always ready to undertake new investment opportunities if the return paid are high.

Risk means the variability of an investment or security returns. It means that the future returns of the investor are unpredictable. It can be stated as the possibility that the actual outcome of the a financial decision may not be the same as estimated. It refers to possibility of receiving or not receiving the estimated return which can be quantified

and measured. We will be discussing the risk and return of each investment avenue.

2. Portfolio Management:

A portfolio is a mixture of investment avenues. An investor usually maintains a portfolio. The aim of managing a portfolio is to diversify and reduce risk and maximize return, which is also otherwise known as 'not putting all your eggs in a single basket'.

Portfolio Management is the processes, practices and specific activities to perform continuous and consistent evaluation, prioritization, budgeting, and finally selection of investments that provide the greatest value and contribution to the strategic interest of the investor. Through portfolio management, the investor can explicitly assess the tradeoffs among competing investment opportunities in terms of their benefit, costs, and risks.

The portfolio of each ING's HNI has been analyzed and on the basis of that various investment options open for these customers through the bank have been suggested. Each customer has the limit of risk he/she can undertake. This has also been looked into and under the limitations, which are the best options available have been advised.

Company Profile

ING Vysya Bank Ltd. is a joint venture between Vysya Bank Ltd, a premier bank in the Indian Private Sector and ING, a global financial powerhouse of Dutch origin. ING Vysya Bank was incorporated in October 2002, after obtaining necessary clearance from the Reserve Bank of India. Vysya Bank was founded in 1930 to extend a helping hand to those who were deprived of banking services. Since then the Bank has made rapid strides and has carved a distinct identity of being India's Premier Private Sector Bank. In 1985, the Bank became the number one private sector bank in India. ING Group is a global financial services company of Dutch origin with 150 years of experience, providing a wide array of banking, insurance and asset management services in over 65 countries. ING's over 114,000 employees work daily to satisfy a broad customer base: individuals, families, small business, large corporations, institutions and governments. Based on market capitalization, ING is one of the 20 largest financial institutions worldwide and ranked in the top-10 in Europe. ING is the number one financial services company in the Benelux home market. ING services its retail clients in these markets with a wide range of retail-banking, insurance and asset management services. ING's wholesale banking activities operate worldwide but with a primary focus on the Benelux countries. In the United States, ING is a top-5 provider of retirement services and life insurance. In Canada, they are the top property and casualty insurer. ING Direct is a leading direct bank with over 15 million customers in nine large countries. In the growth markets of Asia, Central Europe and South America we, for example, provide life insurance. We are also a large asset manager with assets under management of around EURO 500 billion.

ING Vysya (as a group) has 3 businesses in India:

- ING Life Insurance
- ING Vysya Bank
- ING Mutual Fund

ING Vysya Bank is a premier private sector bank with a 70-year heritage and 1.5 million satisfied customers. ING Vysya Mutual Fund is a mid sized asset management company with a retail investor focus.

The Immediate Benefit to ING Vysya Bank Ltd:

- Pride of having become a member of global financial services giant, with an asset base of Rs.4849 thousand crores
- Presence of the group in over 65 countries, serving over 60 million customers across the globe.
- Pride of this global identity, the back up a financial power house and the status of being the first Indian International Bank, would also greatly enhance productivity, profitability resulting in improved performance for the bank to translate into higher returns, to all stake holders

ING Vysya group a customer-oriented company with a clear organization and strategy that is founded on value based management. They have a strong position in mature markets where we want to generate further growth through proper execution of our business fundamentals and we focus on growth in retirement services, direct banking and life insurance in developing markets. That way we try to offer our share holders a higher return than the average of our peers.

Theory on Risk, Return and Diversification

There are many types of risk involved in financial decisions:

- Capital Risk: the risk of incurring a capital loss due to downward changes in the market price of a security is defined as the capital risk of a security. Investment in most of the equity shares has this type of risk running with them.
- Income risk: this is the risk of variation in return available from the security. This risk is almost nil in bonds, debentures and preference shares
- Default risk: the risk involved in default in payment of interest or repayment of principal amount by the company is called default risk. This risk is nil in government bonds.
- From the point of view of nature and attitude investors can be classified as:
- Risk averse: those investors who avoid taking risk and prefer only those investments, which have nil or relatively lower risk.
- Risk seekers: those investors who are ready to take risk if the return is sufficient enough. If given the choice between two risky investments, a risk seeker investor would prefer the riskier one.
- Neutrals: those investors who do not care much about the risk. Their investment decisions are based on other factors other than risk and return.

Several factors are to be considered while deciding the portfolio as shows:

1. **Liquidity and Marketability of the Portfolio:** The portfolio must be such as to provide liquidity whenever required. All funds should never be blocked in long-term debt securities even if they are less risky.
2. **Tax Planning:** Portfolio selections are made in view of tax provisions in relation to revenue incomes as well as capital gains. The investor should plan the portfolio in a way as to minimize tax liability.
3. **Capital Gains:** Certain securities may provide lower returns in the short run, but have a great potentiality of capital gains in the long run and also provide a hedge against inflation.
4. **Minimization of the Total Risk Position:** While selecting a portfolio, an investor should consider the total risk of the portfolio rather than the risk of any particular investment only. The investor should minimize his total risk.
5. **Industry Diversification:** An efficient portfolio should consist of an investment made in different industries of diverse nature. 'Never put all the eggs in the same basket' is the principle.

The total risk of a portfolio can be bifurcated into two parts as follows:

1. **Systematic or Market Risk:** It is that part of total risk which cannot be eliminated by diversification. The part of the risk that arises because every security has a built in tendency to move in line with the fluctuations of the market. The systematic risk refers to the fluctuations in return due to general factors in the market. The systematic risk refers to fluctuation in return due to general factors in the market such as money supply, inflations, economic recession, industrial policy, interest rate policy of the Government, credit policies, tax policies etc.
2. **Unsystematic Risk:** The unsystematic risk is one, which can be eliminated by diversification. The risk represents the fluctuations in returns of a security due to factors specific to the particular firm only and not the market as a whole.

Diversification: is a risk-management technique that mixes a wide variety of investments within a portfolio in order to minimize the impact that any one security will have on the overall performance of the portfolio. Diversification lowers the risk of portfolio. Academics have complex formulas to demonstrate how this works, then comes up the concept of portfolio management.

There are three main practices that can help you ensure the best diversification:

1. Spread your portfolio among multiple investment vehicles such as cash, stocks, bonds, and mutual funds and perhaps even some real estate.
2. Vary the risk in your securities. You're not restricted to choosing only blue chip stocks. In fact, it would be wise to pick investments with varied risk levels; this will ensure that other areas offset large losses.

3. Vary your securities by industry. This will minimize the impact of industry-specific risks

We will now discuss what risk-return trade-off means.

RISK/RETURN TRADE-OFF - The balance an investor must decide on between the desire for low risk and high returns, since low levels of uncertainty (low risk) are associated with low potential returns and high levels of uncertainty (high risk) are associated with high potential returns. Each investor tries to reach a point of risk/return in his portfolio where the risk is minimum and return is maximum.

High Net worth Individuals

A high net worth individual is a person with large personal financial holdings. Traditionally the term used was *millionaire*, but in recent years the term *High Net Worth individual* (HNI) has become the descriptor of choice. A classification used by the financial services industry to denote an individual or a family with high net worth. Although there is no precise definition of how rich somebody must be to fit into this category, high net worth is generally quoted in terms of liquid assets over a certain figure. The exact amount differs by financial institution and region. The categorization is relevant because high net worth individuals generally qualify for separately managed investment accounts instead of regular mutual funds. HNWI's are in high demand by private wealth managers. These individuals generally demand (and can justify) personalized services in investment management, estate planning, tax planning, and so on.

HNI's Investible assets refer to all fixed and current assets of the individual but exclude his primary dwelling. They include a simple savings or fixed deposit account with a financial institution, a securities account with a brokerage firm or an investment-linked policy with an insurance company. If the HNI has more than one account with the entity, the total net investible assets would mean the aggregate net invest able assets of the accounts. India now is home to 83,000 millionaires and the country saw the world's second fastest growth, at 19.3 per cent, in the number of high net-worth individuals in 2005.

Services wanted by High Net Worth Individuals:

HNI's are looking for professional advice on wealth management. This is termed as priority banking. Priority banking provides two major services to HNI's. First is wealth management and second is portfolio management. Private Banking in a sense expands the definition of portfolio to wealth management. Wealth includes existing as well as fresh funds and apart from the traditional equity (both listed and private equity), debt and mutual funds, comprises art, real estate, jewellery etc. The advantage banks have in providing this service is that there is a certain seamless ness in the entire operation, from making an investment decision to the proceeds, including charges being credited or debited to your account. Further, the essence of this business is security and confidentiality, which is what good banking essentially, is all about.

The portfolio management product itself which bank's offers can typically, be broken into:

- Advisory services: Flexible, unbiased investment advice customized to meet client needs.
- Transaction support: All transactions, both in the primary and secondary markets facilitated through a panel of brokers.
- Custodial services: Important from the point of view of removal of settlement hassles and efficient follow-up of all corporate actions.

These are a few services demanded by HNI's from their financial advisors:

- Wealth preservation and risk management
- Estate planning
- Tax planning
- Retirement planning

When it came to selecting a financial provider or advisor - the criteria for high-net-worth investors, in order of priority are:

- Service quality;
- Personal relationships with their financial advisors;
- Valued advice; and
- Investment performance.

The ING Vysya's team offers customized portfolios for clients that take into account tax constraints and the overall risk tolerance of each individual or family office. Risks within each portfolio are carefully controlled via a disciplined investment process and sophisticated risk management tools. ING Vysya provides priority banking to its HNI's

Priority banking is meant for the customer who is not really 'mass market'. The products and services offered remain the same, but the customer gets to deal with a dedicated Relationship Manager (RM) instead of a faceless entity. He or she can get his queries answered on the phone, is visited at his home/office by his RM and, of course, is invited to a host of events organized by the bank.

For ING Vysya bank an individual with an investment of 15 lakhs and above is categorized as HNI.

Investment options of HNI's:

There are many investment tools an HNI can add to his/her investment portfolio. The investment avenues suitable of each individual will be different. The investment type undertaken by a person can be explained with the help of the risk-return trade off. Risk-return trade off can be defined as "The balance an investor must decide on between the desire for low risk and high returns, since low levels of uncertainty (low risk) are associated with low potential returns and high levels of uncertainty (high risk) are associated with high potential returns".

Most investors take into consideration this trade-off before making their investments. An investor who seeks higher returns would generally venture into the stock markets, while one seeking stable and secure returns is likely to stick to fixed income securities. This depends upon the person's social background, age, sex, work designation, family, running income, future monetary

requirements and various fixed commitments in life. If you're investing to accumulate wealth by buying individual securities, there are two questions you need to answer in order to limit your risk while seeking a satisfactory return:

1. What investment should you buy?
2. When should you buy them?

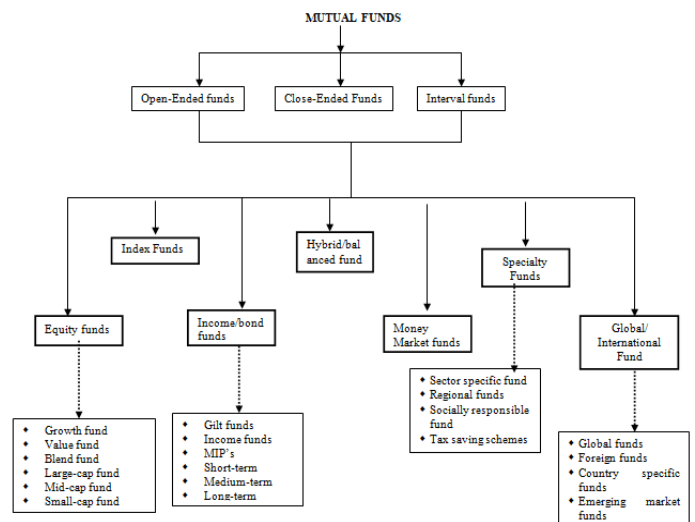
The only sound way to make these choices is to research the possibilities until you know as much as you can about:

- Overall market
- Various sectors of the market
- The company issuing the individual stock or bond your considering
- The supply and demand of the securities your considering

For a thorough investigation, you need to do both fundamental and technical analysis, either on your own or working with an adviser. Some of the techniques may seem intimidating, and the details overwhelming. But the information you need is readily available.

Every bank and financial institute provides investors with various instruments of investments. They are enumerated below:

1. Mutual funds
2. Insurance policies
3. Government securities
4. Corporate bonds
5. Fixed deposits
6. Land and property
7. Gold
8. Equity
9. IPO's
10. Preference shares



3. Instruments of investment provided by ING Vysya Bank Ltd

ING Vysya in India is active in life insurance, asset management and banking. ING Vysya Bank intends to bring to its customers in India a range of integrated financial solutions tailored to meet customer needs in banking.

ING Vysya provides a wide range of investment opportunity to its high net worth individuals. ING Vysya

Bank Private Banking aims to give the best advice on portfolio by giving customized solutions and exclusive client management. The 3-stage process followed by our wealth managers is:

1. Wealth Creation
2. Wealth Preservation
3. Wealth Transmission

Action programmed for wealth creation

- Portfolio Management on non-discretionary basis
- Optimum asset allocation, without excessive concentration or diversification
- Investments in equity market done through Direct Equity and Mutual Fund route
- Regular comprehensive reports and face-to face portfolio status meetings
- Identification of the best investment opportunities based on individual preferences
- Exclusive banking privileges including access to lending resources from the bank for developing business, exploiting investment opportunities, or personal spending
- Optimization of risk-reward opportunities; risk management through sophisticated risk control mechanisms
- Asset structuring, financial advisory, legal and tax planning

Range of services for wealth preservation

- Exclusive Banking Privileges
- Investment Advice and Financial Planning
- Asset Structuring
- Portfolio Management
- The portfolio most suitable to meet your specific goals is adapted
- Portfolio diversified to spread risk, and designed with an optimal blend of equity, fixed income, securities, insurance and pension schemes

Action programmed for wealth transmission

- Portfolio Management Services
- Estate Planning
- Legal Advice
- Inheritance Planning
- Creating an appropriate framework for a legally binding wealth transmission
- Exclusive Banking Privileges
- Investment Advice

The bank provides the above-mentioned services to its HNI's through the selling of various products. The products offered by ING Vysya bank are:

1. Mutual fund services
2. Life Insurance Policy
3. Bank deposits
4. Government bonds
5. Demat Account
6. Advisory services
- 7.

We will briefly discuss each product:

Mutual fund services provided by ING Vysya bank:

ING Vysya Bank sells various mutual fund schemes. It sells its own mutual fund, which is ING Vysya Mutual fund along with all other mutual funds. It is an intermediary between the customer and the mutual fund house.

From the beginning mutual fund house have relied extensively on intermediaries to market their schemes to investors. It would be accurate to say that without intermediaries, the mutual fund industry would not have achieved the depth and breadth of coverage amongst investors that it enjoys today. Intermediaries have played a pivotal and valuable role in popularizing the concept of mutual funds across India.

They make the forms available to clients, explain the schemes and provide administrative and paperwork support to investors, making it easy and convenient for the clients to invest. Intermediaries play a pivotal role in promoting sale of mutual fund schemes.

To name a few mutual fund schemes sold by ING Vysya bank are:

1. Franklin Templeton
2. SBI
3. DSP Merrill lynch
4. Reliance
5. ING Vysya
6. TATA
7. UTI
8. HDFC
9. Optimix

Life insurance Policy sold by ING Vysya bank:

ING Vysya bank sells the insurance policy of its own brand i.e. ING Vysya Life Insurance Company Private Limited (the Company). It entered the private life insurance industry in India in September 2001, and in a short span of 4 years has established itself as a distinctive life insurance brand with an innovative, attractive and customer friendly product portfolio and a professional advisor sales force. At ING Vysya Life, there is nothing we hold higher than life itself. They therefore view their plans not as tax saving devices but as a means to add protection to life. They believe in enhancing the very quality of life, in addition to safeguarding your security. Their products are designed in a way that helps you bear heavy expenses while building your home or providing for your children's education and marriage. They make sure your post retirements years are carefree and secure, ensuring your family and loved ones are protected against financial difficulties in the event of a premature death.

Depending on your personal needs, priorities and individual responsibilities, you can go for a Protection, Saving or Investment plan. If you were not sure of which plan would suit you best, you could use the **Life Maker**, an application we developed for that very purpose.

What are these plans?

Protection

Protection plans safeguard your income and your family's financial future in case you are not around. They shield you

from heavy economic loss and reduce the impact of financial risk on you and those dependent on you.

- Conquering Life

Saving

Saving plans act as a compulsory savings instrument for families when the premium is paid regularly. They work as long-term savings, enhanced by tax benefits, which give you the financial strength to achieve your life goals.

- Reassuring Life (Cash Bonus)
- Reassuring Life (Reversionary Bonus)
- Creating Life
- Maximizing Life
- Safal Jeevan
- Creating life Money Back
- Safal Jeevan Money Back

Investment

Investment plans act as wealth creation instruments helping to create big estates for the family. It is a long-term investment, free from the risk of market swings. At the end of the term, you or your family can enjoy added returns on investment.

- Rewarding Life
- Powering Life
- Fulfilling Life
- Freedom Plan- Unit Linked
- One Life
- New Fulfilling Life
- Platinum Life
- ING Positive Life

Retirement

These plans ensure that your post-retirement years are spent in peace and comfort. They make sure that you have regular income after you retire and also help you maintain your standard of living.

- Best Years
- Future Perfect

Bank deposit of ING Vysya Bank:

By investing in ING Vysya Bank Fixed Deposit, your money not only stays secure but also accumulates good interest over the period of deposit. Partial withdrawal from your Fixed Deposits before maturity can bail you out in times of need.

Features and Benefits:

- ◆ Tenor based Rate of Interest – Higher interests can be accrued for longer periods of deposits.
- ◆ Compounded Interest can be earned by reinvesting the principal amount along with the interest earned during the period.
- ◆ Premature withdrawal allowed at a nominal penalty.
- ◆ Option to place deposits in multiples of Rs.1000 as units under Vysunits, enabling withdrawal as per need, in multiples of Rs.1000.
- ◆ Higher rate of interest on Fixed Deposits for Senior Citizens.
- ◆ Option to draw interest by way of DD / PO / Credit to own SB account with ING Vysya Bank, Monthly (at a discount) or Quarterly, as per choice.

- ◆ Loans upto 90% of the deposit would be available at 1% above the underlying interest rate on Fixed Deposit.
- ◆ Nomination facility is available.
- ◆ Free transfer of deposit between branches is available.
- ◆ Automatic renewals on maturity.

An Initial deposit of Rs.10000 is required to open a Fixed Deposit.

Demat account provided by ING Vysya bank

The ING Vysya Bank Demat Account offers you a secure and convenient way to keep track of your shares and investments, how much you've bought and sold over a period of time, without the hassle of handling physical documents that get mutilated or lost in transit.

Feature and benefits:

- ◆ Settlement of securities traded on the exchange as well as off market transactions.
- ◆ Shorter settlements thereby enhancing liquidity.
- ◆ Pledging and Hypothecation of Dematerialized Securities.
- ◆ Electronic credit in public issue.
- ◆ Receipt of non-cash benefits in electronic form.
- ◆ No stamp duties on transfer of securities held in demat form.
- ◆ No concept of Market Lots.
- ◆ Change of name, address, dividend mandate, registration of power of attorney, transmission etc. can be effected across companies held in demat form by a single instruction to the DP.

Government securities

The bank also sells government securities on behalf of the government. It remits the proceedings to the RBI. The interest rate on government bonds is 8% p.a.

6. Advisory services:

Our starting point in the portfolio management process is the analysis of your requirements and goals. What are your basic investment objectives? What are your personal preferences with respect to risk taking and yield? What proportion of your wealth should be invested for the short term versus the long term? The answer to fundamental questions like these provides the main building blocks for professionally managing your assets. The following decision factors will determine the investment strategy that suits your needs the best:

- **Investment objectives:** An assessment of your need for income versus potential appreciation and how this fits with your overall asset and liability position.
- **Investment time horizon:** The longer your time horizon the less concerned you should be with daily price fluctuations. The greater your willingness to adopt a long-term strategy, the greater the likelihood of higher portfolio returns.
- **Risk tolerance:** It is crucial to find out what short- and medium-term swings in value you can tolerate in order to reach your investment goals. The higher the risk you are able to bear, the higher your return will normally be.

- **Reference Currency:** By reference currency we mean the currency in which you normally conduct your daily business. This currency will determine how you measure the success of your strategy and your investment decisions.
- The bank's relationships managers provide advise to their clients on their investment portfolio by structuring the exposure in various investment instruments so as to maximize the return with minimum risk.

Investment Facilities Not Provided By ING Vysya Bank

- Online trading facility
- Real estate advisory services
- Bullion trading

4. Methodology

In depth analysis of all the investment opportunities (instruments) that ING Vysya bank offers to its HNI clients. Also a sample study has been conducted on 20 HNI's of the bank to understand their individual risk appetite and investment preferences. A comparison study of investment instruments offered by ING Vysya bank with that of other competitive banks has also been conducted. Based on these an in depth analysis was carried out to suggest/help the bank's investment advisors to cater to the needs of the HNI's in a better way thereby increasing the customers satisfaction and high HNI acquisition.

5. Motivation

ING Vysya Bank, in its pursuit to establish itself as a leading retail bank in Eastern India, is conscious of the fact that other competitive banks are very aggressive and focused in offering structured portfolio management/ investment advisory services to their HNI clients ING Vysya bank, which also offers such investment advisory services to its HNI, through its subsidiary called ING Vysya Financial Service (IVFSL). The specialized investment advisors under the payroll of IVFSL are accommodated and placed in all the branches of ING Vysya bank to cater to the requirements of the bank's HNI clients.

However since the conversion rate of HNI into investment advisory services is low. This project was commissioned with the sole motive of analyzing the products, services and risk analysis of each investment instrument with the aim to augment the Financial advisors with in depth analysis of all these factors which will help them in understanding the needs/requirements of the HNI's to boost the conversion rate. This will not only help the bank in retention of its HNI's but also lead to an increase in acquisition of HNI's.

6. Body/Analysis

6.1 SWOT analysis

6.1.1 Equity shares

Strengths:

- Long term growth through capital appreciation

- High rate of return
- Has aggressive growth
- Provides ownership in the company in which investment is made
- Share holders are entitled to profit made by the company
- Suitable for risk seekers

Weakness:

- Very risky
- Volatile rate of return
- No security of investment
- Security transaction tax has to be paid
- Suitable for risk seekers
- Dividends received on shares depend on profit made by the company. If there is no profit there is no dividend
- Share prices are subject to market

Opportunity:

- It gives the shareholder a right to vote in the company
- The market may be volatile due to many factors, however returns are generated by equity shares of earning potential i.e. P/E ratio. Therefore an investor investing in equity in a systematic manner over a long period of time can easily expect double digit return
- Returns generated by equity investment has outperformed all other investment avenues in the long run

Threats:

- Fixed income securities are preferred when markets are down
- Rate of return is more stable and there is more security in other investment avenues

6.1.2 Bank Deposits:

Strengths:

- Stability of Fixed income rate with assured rate of interest
- Provides with a high level of security
- Fixed deposits also give a higher rate of interest than a savings bank account.
- Anyone with a minimal appetite of risk can consider investing in fixed deposits
- Bank deposits are fairly safe because banks are subject to control of the Reserve Bank of India (RBI) with regard to several policy and operational parameters
- It is possible to get a loans up to 75- 90% of the deposit amount from banks against fixed deposit receipts
- The time of maturity and amount to be received on maturity are known in advance
- Provides relatively low risk profile; for investors with a low risk appetite, fixed income instruments should form the mainstay of the portfolio
- The pick-a-date feature lets you choose the date on which you would like you investment to mature

Weakness:

- Premature withdrawal is charged with a penalty. As a result the interest promised is reduced at the time of payment
- Does not provide regular income flow
- Fixed income instruments tend to be intrinsically illiquid
- Consider the rate of inflation before depositing money in fixed deposits because the inflation might eat up the savings
- Tax is deducted at source on the interest earned from fixed deposits
- You can't add to your investment. If you have more money to deposit then you need to open a another investment deposit account
- The interest rate is fixed for your full period of investment

Opportunities:

- Some of the facilities offered by banks on the amount deposited in form of fixed deposits are overdraft (loan) facility, premature withdrawal before maturity period (which involves a loss of interest) etc
- It can be pledged by business people for obtaining bank guarantee for opening of LC's.

Threats:

- Short-term floating rate funds score over fixed deposits on the liquidity front; they will especially appeal to investors who wish to wait on the sidelines till better investment opportunities emerge
- NSC/NSS can be preferred over bank's fixed deposits which forces the banks either to keep their fixed deposit rates high to protect their deposit. Tax benefit is also provided by NSC/NSS. It provides higher level of security
- With the booming capital market, equity mutual funds are posing the biggest challenge to FD's as they offer higher rate of return.

6.1.3 Life Insurance Policy:

Strengths:

- Provides high level of security- guaranteed by the issuing authority
- Not affected by market volatility
- Sum assured at maturity is known
- Investor can decide the maturity period and the sum of premium to be paid
- Tax benefit is availed twice- once when premium is paid and other on maturity benefits

Weakness:

- Fixed rate of return on premiums
- Does not provide any liquidity
- A lot of paper work has to be done when entering the insurance contract
- If a wrong claim is made on the policy, penalty has to be paid

Opportunity:

- Only investment avenue which offers life risk cover

- It sustains the economic loss suffered by the family in the uneventful death of an income earning person of the family
- Unit linked insurance plans also offer market linked returns
- Helps in developing investment habit among customers

Threats:

- Unit linked insurance plan are market linked and therefore prone to market volatility
- One may not be able to maintain the risk cover commensurate with his/her human life value

6.1.4 Land

Strengths:

- The Law of Diminishing Returns never apply here
- There is a high rate of return
- Relatively low risk investment

Weakness:

- Not a very liquid investment
- There are many government regulations involved with in investment into land
- There are possibilities of litigations

Opportunities:

- High rate of industrialization and urbanization
- It has multiple usage- residential, agricultural and commercial
- It can be provided as a collateral security

Threats:

- Government take-over
- Private builders
- Natural calamity

6.1.5 Mutual funds

Strengths:

- No taxes are charged on dividends received in the hands of the investors as well as the mutual fund house
- There is a stable average rate of return
- Functions of the mutual fund are regulated by SEBI, thus are well governed
- High liquidity is there as invested money can be withdrawn at any point of time
- Long term capital gains are also tax free
- It is an easy way of investment as paper work is minimum
- No charges for early withdrawal
- Allows small investors to invest in capital market, with professional management
- Short term capital losses can be set off against short term capital gains

Weakness:

- ◆ Cannot be provided as a collateral security
- Long term capital losses cannot be set off against capital gains
- Suitable for no risk tolerance investors
- Maturity amount not known as rate of return fluctuates

- Payment of entry and exit load and high maintenance charges

Opportunities:

- Investors can write cheques out of their money market mutual fund account
- Suitable for investors and corporate to park their surplus funds for a short period of time
- Allows investors with small amount of money to invest in a number of schemes

Threats:

- Fixed deposits are safer and more stable- regulated by RBI
- Investors looking for higher return will prefer investing in Equity market
- Investors ready to make long term investments will look at land, government security as other options as they are safer and can be provided as a collateral security

6.1.6 Gold

Strengths

- It is worldwide accepted
- Has multiple usage
- Does not involve a tedious investment process

Weakness

- Offers low rate of return

Opportunity

- Can be provided as a collateral security
- Threats
- Land, which provides a higher rate or return as of today
- Quality of gold provided can be below the standard
- Bank and financial institutions hesitate in investing in gold because cost of

6.1.7 Preference Shares Strengths:

- Dividend to be received is assured
- Safer means of investment than equity shares
- If company is liquidated payments to preference share-holders will be ranked ahead of equity share holders

Weakness:

- Usually issued by companies to institutes, so is not easily available to retail investors
- They don't provide liquidity
- Does not hold the right to vote in the issuing company
- Relatively less attractive in rising interest rate environment

Opportunities:

- They have an option to be converted into equity shares
- They can be redeemed by the issuing company
- If dividend is not paid for one year there is an option of carrying forward the dividend to the next year.

Threats:

- Equity shares, which offer higher rate of return and provide more ownership rights in a company

6.1.8 IPO's

Strength

- Suitable for risk-seekers
- Suitable for short-term investors

Weakness

- Very risky and speculative investment
- No stable rate of return

Opportunity

- IPO allows the investor to gain maximum with the growth of the company
- Threats
- Volatile market conditions at the moment of IPO issues cause high concerns among the investors

6.1.9 Government securities Strengths:

- Highly secured- backed by the RBI
- Rate of return does not fluctuate
- Cash flow at maturity are known

Weakness:

- Low rate of return
- Not a liquid investment avenue
- Only suitable when markets are not doing well
- Investment on G- securities is a tedious transaction process
- There is no TDS, but interest income up to only Rs 3000 is exempt from tax
- Suitable for risk averse investors
- No early withdrawal is allowed

Opportunity:

- Can be provided as a collateral security
- Loan can be taken against investment in government security

Threats:

- Fixed deposits, which are more liquid than government securities
- RBI relief bonds, which offer higher interest rates

6.1.10 Corporate Bonds

Strengths:

- Provides security cover under rating agencies
- Not very volatile
- Simple Administration

Weakness:

- Does not provide any liquidity
- Does not provide any tax benefit

Opportunity:

- It is a contract between the issuing company and the clients

Threats:

- Government Securities which offer more security

6.2 Analysis of Each Investment Avenue

In the investing world, the dictionary definition of risk is the chance that an investment's actual return will be different than expected. Technically, this is measured in statistics by standard deviation. Risk means you have the possibility of losing some, or even all, of our original investment.

Given below is the table, which states the kind of risk, return, tenure and other benefits of different investment avenues. This helps us further suggest the kind of

investment an investor can make based on the personal profile

Type of investments	Risk	Returns	Tenure	Other benefits
Equity	High	High	Long	Low
Gold	Low	Moderate	Long	High
Preference Shares	High	High	Long	Low
Corporate Bonds	Low	Low	Moderate	Low
Mutual Funds	High	High	Short	Low
Government Securities	Low	Low	Long	High
Land	Low	High	Long	High
Bank Deposits	Low	Moderate	Moderate	High
IPO's	High	High	Short	Low
Insurance Policy	Low	Low	Long	High

Risk-Return Trade – Off Between different Investment Avenues:

The relation between risk and return that usually holds, in which one must be willing to accept greater risk if one wants to pursue greater returns also called risk/ reward trade-off. A common misconception is that higher risk equals greater return. The risk/ return tradeoff tells us that the higher risk gives us the possibility of higher returns. There are no guarantees. Just as risk means higher potential returns, it also means higher potential losses. Low levels of uncertainty (low risk) are associated with low potential returns. High levels of uncertainty (high risk) are associated with high potential returns.

- The highest return investment is Equity
- The highest risk investment is Equity
- The lowest risk investment is Government Security
- The lowest return investment is Government Security

On the lowest end of the spectrum is government spectrum which offers no or minimum risk. It offers investment at the minimum risk –rate of return. On the highest end of the spectrum is equity, which offers maximum return with maximum rate of return. Government securities set the rate for minimum rate of return and equity sets the rate for highest risk. All other investment opportunities lie in the middle. They are the extreme poles of the spectrum.

Risk as earlier discussed can be minimized through investing in various avenues. When an investor invests he set his limits either for risk of return. He tries to achieve highest possible return for a given level of risk or tries to get minimum possible risk for highest level of return

6.3 Analysis of Investment Habits of ING Vysya's High Net Worth Clients:

A questionnaire containing questions on the investment habits was prepared. This questionnaire was taken to and filled by 10 HNI customers of the ING Vysya Bank. The findings through the questionnaire are to be used while

structuring the financial plan (investment portfolio) of a HNI. The most important aspect in the personal discussion that the Relationship Manager with the HNI is to understand his/her risk appetite, investment horizon and the source of income.

We will analyze the factors, which a HNI keeps in his/her mind while undertaking an investment and the kind of investment advisory services required by them. These can be found out based on the various questions asked to them in the questionnaire. Then on the basis of the analysis relevant suggestion to the Relationship Managers will be made to improve his/ her investment advisory services.

Findings from the same of 10 HNI clients are:

1. Risk appetite of HNI's:
 - a. 50% of the sample doesn't invest in FD's: This shows that HNI's are more concerned about the returns rather than the safety aspect of the investment.
 - b. 25% of the respondents are invested in a mixed portfolio, thereby signifying the importance of spreading the risk while looking for better returns.
 - c. 15% of the respondents are interested in investment in real estate, which signifies high degree of security with returns.
2. Investment period of HNI's:
 - a. More than 50% of the respondents are in short term investment horizon.
 - b. Only 15% of the respondents are actually interested in long-term investments.
 1. HNI's Investment Habits
 - a. 54% of the investments in the stock market are done directly
 - b. The rest 46 % of the respondents invest through the mutual funds
 - c. 77% of the respondents make equity type investments signifying high degree of risk with high degree of return.
 - d. The balance 23% prefers having a balanced investment.
4. HNI's perception of the Stock Market:
 - a. 53% of the respondents view the stock market as not a safe avenue of investment.
 - b. 16% don't have any views about the stock market. These respondents remain the untapped segment of the HNI's.
5. IPO's as Investment Avenue:
 - a. 65% of the respondents invest in IPO's
 - b. About 66% of the ones who invest, invests on their personal views.
 - c. Around 33% make investments based on professional advice. This goes to show that a small segment of the HNI's relying on professional advice for IPO investments.
6. Profile of HNI's investment advisory services:
 - a. 60% of the respondents are not making investments based on advisory services offered by the bank.
 - b. More than 50% of the above mentioned respondents are prospect clients of the bank and are waiting to be given the right kind of advisory services.

7. Profile of HNIs Insurance Services

- a. 40% of the respondents are prospects customers for taking insurance advice through the bank.
- b. Around 55% of the respondents are taking insurance advices from the bank signifying that the bank offers good quality investment advice.

Based on the above facts: It is recommended to the IVFSL RM's to structure the Investment Portfolio of the HNI's with the following compositions:

1. Not to have a high percentage of FD's
2. The RM's should include investment instruments which are of shorter duration with high growth potential
3. Since more than half of the sample invests directly into the stock market they should be highlighted the importance and the benefits of MF's since direct equity is very tricky and high risky.
4. RM's should include small percentage of investment instruments in HNI's which are of long-term opportunity to trade-off between risk and return.
5. Also the study reveals that constant follow-up by the banks RM's to the HNI's will result in roping in more no of HNI's to the advisory service, as 30% of the respondents have indicated the same.
6. If the Banks RM's expose the benefits of professional managed investment services another 45% of the bank's HNI can avail such facilities from the bank
7. 55% of the respondents don't use IPO as a investment avenue, since they are HNI's with large chunks of money the RM's have got huge opportunity to explain them the benefits associated with IPO's and try to add it to the customers investment portfolio
8. 16% of the respondents are not aware of the movements in the stock market, this leaves a whole lot of opportunities for the RM to tap this segment of the HNI's

The classification of HNI's can be divided as follows

- Only land: Long Term – Low Risk – High Return
- No Gold: Short Term – High Risk – High Return
- No FD's Short Term – High Risk – High Return
- Mix : Short Term – Moderate Risk – High Return

The above classification of investor profile has been formed based on their investment pattern. From the sample population we can also divide the HNI;s into four categories based on their horizon of investment:

- Less than 1 year – Speculative Investors
- 1 to 3 years: Short Term Investors
- 1 to 5 years : Medium Term Investors
- 1 to 10 years : Long Term Investors

6.4 Threats Posed to Professional Investment Advisors

- Driven by the expectation of better returns and mitigating risks, HNI's are becoming more aware of wealth management opportunities and strategies abroad. In fact, 65 percent of HNI relationship managers surveyed said their clients are increasingly aware of how wealth is managed internationally.

- Investors do not want reams of paper work, but do want easily accessible and customized information that allows them to immediately check on their investments. They want access to a new “family balance sheet” that shows them all their assets and liabilities across all asset classes in a simple, easy-to-view format. Though this is a relatively straightforward request, it is not being met everywhere today.
- No matter how complex the investment options may become, the client-facing solution must remain simple, transparent and understandable to best-serve clients and advisors, this will require investments in technology to enable an efficient global organizational operating structure and, most importantly, ensure the advisor, the institution's face to the client, has the tools to support the client without increasing the administrative burden.

4. Conclusion

This project analyzes the portfolio of ING's HNI customers. A sample study of 10 HNI's was conducted and on the basis of which the recommendations were made. The risk and return of each investment instrument available to a HNI on the whole and through the ING Vysya Bank was conducted. The products and services of the bank are compared to other banks also. It has been noticed that HNI's provide a huge opportunity to the RM's of the bank for giving professional investment advice. Now a days the customers are well aware of the surrounding market and don't really take any type of advice. They are looking for investment advice, which are supported by strong conviction. The market of professional advisors are growing at such a huge rate that if the client is not happy with the services of the RM he/she can easily look for a better advisors. Therefore the RM's along with personal advice have to also provide quality advice. An enthusiastic relationship manager should show computation of the risk of HNI's by using statistical computations like Standard Deviation, which shows how much on an average, the return has moved away from an average number. Basic tents one should understand before taking a risk argument to a client. Risk, popularly measured by Standard Deviation, tells us about the range of return that can probably occur. Its interpretation is appropriate for an asset class. For example if we say that equity is more risky than PPF, we will substantiate that by saying that the probability that the investor will get a return different than 8 % is low in a PPF. However, in equity while he may look at a 20% coverage. It can swing between 4% and 46%, indicating the presence of risk. The risk to the investor is always distilled in terms of his goals, investments and the target rate that his investments must achieve to meet the goal. Therefore, the investor will not care for standard deviation in itself, but about the risk that his investment will fall short. If one is planning for the child's education or retirement, such shortfalls are too tough to make good, on a

later date. So, to the investor, risk is only about down side deviation from a target rate. How does one put the two together? The choice of asset classes and percentage allocation will have to be driven by standard deviation and its understanding. But the subsequent monitoring and review of the portfolio will have to be in terms of the investor's goals, and the possibility that such allocation will fall short. Movement from one stock to another is unlikely to alter the risk profile of the portfolio in any significant manner. But adjusting the proportion that is invested in equity is likely to impact both the risk and return of the portfolio. Relationship managers need to train their eyes to watch if the investor's goals are best served by the current allocation, or should a change be made, given downside risks. Learning investment concepts is all fine, but to apply them to an investor's situation, one has to view the portfolio from the investor's angle rather. My work does not go into the details of calculating the risk and returns of each investment avenue, as it would have been very technical and cumbersome. The sample study of 10 does not really show the true findings, as there could be other clients with different opinions about the investment instruments than the ones stated.

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