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FUTURES COMMISSION
證券及期貨事務監察委員會

Survey on Engagement of Investment Advisers

Hong Kong
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1. Executive Summary

From November 2005 to April 2006, the Securities and Futures Commission (SFC) engaged the Centre for Corporate Governance and Financial Policy of the Hong Kong Baptist University to conduct the Survey on Engagement of Investment Advisers (IAs). This survey aimed to explore retail investors' considerations in choosing IAs and their sense of consumer responsibilities, information investors relied on to make investment decisions and their product choices, whether the IAs fulfilled their obligations during the advising process and quality of post-sale services.

In this survey, IAs referred to bank staff, representatives of SFC-licensed investment advisers/fund houses, insurance agents/brokers who sell or provide advice on investment products (such as managed funds, structured products and investment-linked assurance schemes but excluding general life insurance policies, term and foreign currency deposits, mortgages and personal loans). Stockbrokers and bank staff who merely distribute product leaflets for clients' information were not considered as IAs in this survey.

Those Hong Kong adults aged 18 or above who invested in one or more SFC-regulated investment products or Mainland/overseas stocks and used services of an IA during the last two years were the target respondents of this survey (called investors thereafter). Interviews with 100 investors were successfully conducted face-to-face or over the phone. 89 of them were identified from the SFC's Retail Investor Survey 2005¹. The remaining 11 investors were identified from calls made to a number of randomly selected residential phone numbers.

Utilization rate and demographic profile of respondents

- The SFC's Retail Investor Survey 2005 estimated that 7.0% of Hong Kong adults or 19.2% of retail investors used the services of IAs during the last two years.
- Of the 100 investors participated in this survey, 55% were female; 34% were aged between 40 and 49; and 60.6% had tertiary education or above.

¹ Conducted from September to November 2005, the Retail Investor Survey 2005 estimated retail participation rates, level of financial understanding and perceived usefulness of the SFC's investor education work. In that survey, retail investors were defined as adults aged 18 or above who traded SFC-regulated investment products or Mainland/overseas stocks during the last two years.

Choice of investment advisers

- Based on the IA that investors dealt with most recently during the last two years, 64% dealt with personal financial advisers or planners of banks. 25% dealt with SFC-licensed persons. The rest dealt with insurance agents/brokers (11%).
- In selecting an IA firm, the top three factors considered were: reputation (79%); service quality (66%); and whether the firm is SFC-licensed (64%).
- When choosing an IA representative, most investors looked at: product/market knowledge (74%); willingness to understand client's circumstances and address client's concerns (68%); and ability to explain matters clearly (62%).
- 66% of investors perceived their IA provided continuous advice. 15% indicated their IA offered discretionary management services. 11% said their IA provided pre-trade investment advice without any post-trade review. 7% stated their IA offered one-off trade execution only services without giving any investment advice.
- 47% of investors viewed that the client agreement clearly set out the scope of services provided by their IA. 57% was satisfied with the agreement's clarity in the terms about the client's rights and obligations. A lower percentage, 44%, found the terms about the IA's rights and obligations clear enough in the client agreement.

Investors' sense of responsibilities and IA obligations

- During their first consultation, investors most likely told their IA risk tolerance (88%), age (87%), occupation (85%), income level (83%) and investment objective (82%). 49% of investors provided such information to their IA verbally. 33% completed a questionnaire. 18% adopted both means.
- Nearly half (48%) of investors had investment goals in mind before discussing with their IA. 32% set their goals based on the results of "financial health" analysis conducted by their IA. 11% had no clear investment objectives in mind as they just followed what their IA recommended.
- 56% of investors received a written financial plan from their IA. 44% did not recall receiving one. 64% of investors supported the idea of requiring IA to provide a written financial plan. 15% did not agree. 21% did not know or had no comment.

- Among those who received a written financial plan, the same proportion (46.4%) either read the plan carefully or just flipped through it. However, 7.2% did not read the plan.
- When asked what they wished to learn from a financial plan or an IA's verbal recommendations, 87% of investors cited expected return, followed by investment amount (82%) and products' key features (79%).
- Only 7% of investors indicated that their IA disclosed the commission/rebate arising from selling an investment product to them. 88% said no. 5% responded they were not sure. 54% of investors supported that IA should make such a disclosure. 34% considered this unnecessary. 12% did not know or had no comment.
- 91% of investors indicated that they were not advised by their IA to take out a loan to increase their investment. 7% received advice to gear up. 2% said that they were not sure.
- 34% of investors claimed that they read the documents (e.g. client agreement, subscription form, etc.) carefully before signing. 39% admitted that they just flipped through the documents before signing. Another quarter (25%) signed the documents after listening to their IA's verbal explanations. Only 2% said that they signed the documents without reviewing the terms therein or listening to their IA's verbal explanations.

Product choices and investment decisions

- Funds (87%), stocks (35%) and investment-linked assurance schemes (30%) were the three most popular investment products that investors bought through their IAs. Among those fund investors, 71.3% bought SFC-authorized funds only, 3.4% purchased both SFC-authorized and unauthorized funds. 25.3% were not sure whether the funds were SFC-authorized.
- Expected return and calculation method (80%); fees and charges (79%); and historical performance (79%) were the top three product attributes that investors knew before buying an investment product.
- In ranking the three most important product attributes that investors should know before investing, 50% of investors selected capital risk; 45% picked expected return and calculation method; and 38% chose historical performance.

- 38% of investors mainly relied on their IA taking the initiative to explain a product's upfront and ongoing fees as well as redemption penalty. 34% took the initiative to ask their IA instead. 19% first asked their IA and then cross-checked the explanation against the product advertisement or leaflet.
- Three-fifths of investors (60%) were of the view that the risk warning statements in product advertisements and offering documents were not sufficient to alert them of the risk of their investments. 35% considered these statements sufficient. 5% said they did not know.
- Most (72%) of investors referred to IA's verbal recommendations or financial plans when making their investment decisions. A lower percentage (63%) looked at the product's offering documents or fact sheets. 39% also heeded recommendations or reporting by the media.

Post-sale services

- The largest proportion (33%) of investors maintained contacts with their IA once every three months, largely for performance update or new investment opportunities.
- 88% of investors were satisfied with their IA's services. The three major reasons for dissatisfaction were: lack of follow-up services after product sale (58.3%); poor performance of the products bought (41.7%); and IA too pushy in selling products (33.3%).
- 63% of investors agreed with the statement "The services provided by IAs are a good value for the money". However, 21% disagreed. 12% replied they had no comments and 4% said they did not know or were not sure.
- In evaluating different aspects of IA's services, the three best-rated areas were: friendliness and helpfulness (88.7%); easy access to account information (81.3%); and returning phone calls promptly (80.9%). In contrast, the less satisfactory areas were: fees and commissions and financial planning skills.
- Regarding service improvement, investors hoped to see more suitable product recommendations (57%), lower charges (48%) and more frequent updates of portfolio or product's performance (47%).

2. Utilization Rate and Demographic Profile of Respondents

The SFC's Retail Investor Survey 2005 estimated that 7.0% of Hong Kong adults or 19.2% of retail investors used the services of IAs during the last two years.

This survey invited 100 users of investment advisory services (called investors thereafter) to complete an interview either face-to-face or over the telephone. In the sample of 100 respondents, 55% were female; 34% were aged 40-49; 60.6% had tertiary education or above (Table 1).

Table 1: Demographic Profile of Respondents

	<u>Investors (%)</u>
<u>Gender</u>	
Male	45.0
Female	55.0
<u>Age group</u>	
18-29	8.0
30-39	28.0
40-49	34.0
50-59	25.0
60 or above	5.0
<i>Median</i>	45
<u>Education</u>	
Lower secondary or below	8.1
Upper secondary	18.2
Matriculation	13.1
Tertiary: Non-degree	13.1
Tertiary: Degree or above	47.5

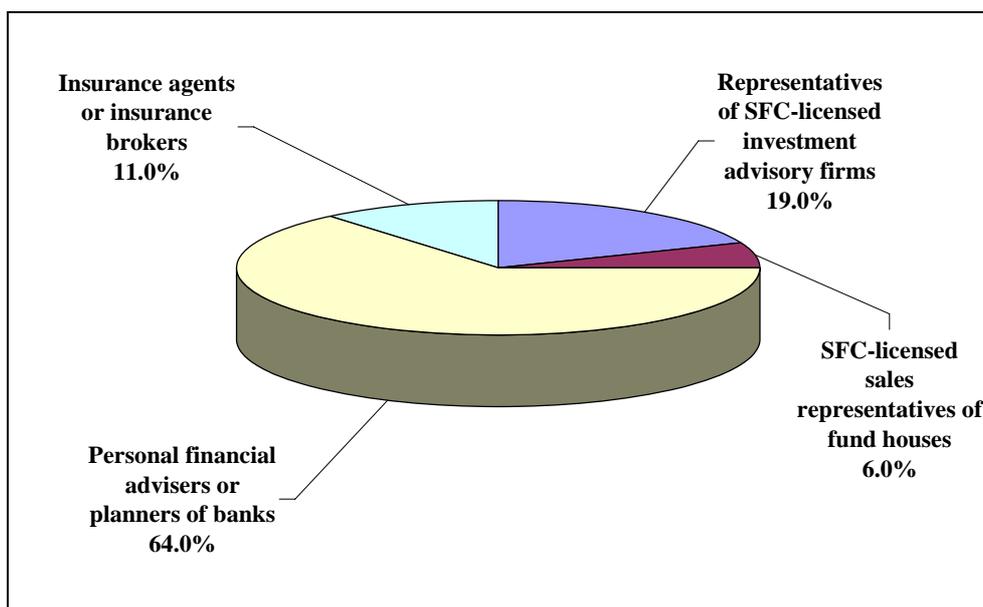
(Base: All answers excluding refusal cases)

3. Choice of Investment Advisers

Types of IAs

Investors were asked to indicate the type of IA that they dealt with most recently. 64% dealt with personal financial advisers or planners of banks. 19% dealt with representatives of SFC-licensed investment advisory firms. 11% dealt with insurance agents or insurance brokers. 6% dealt with SFC-licensed sales representatives of fund houses (Figure 1).

Figure 1: Type of IAs Investors Dealt With Most Recently

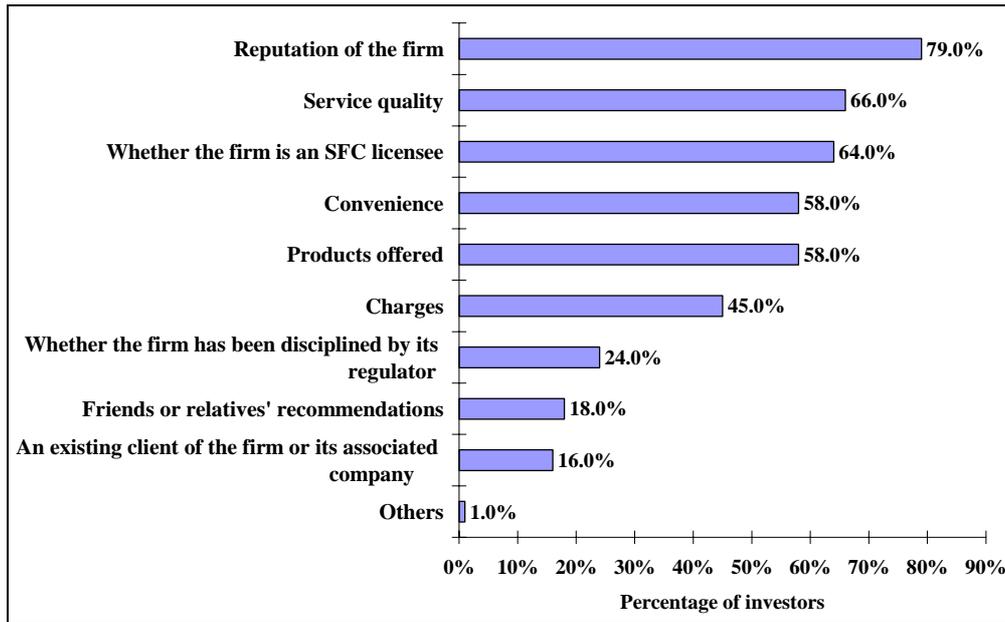


(Base: All investors)

Choosing an IA Firm

In choosing an IA firm, nearly four-fifths (79%) of investors considered the firm's reputation. 66% looked at service quality. 64% checked "whether the firm is SFC-licensed". Relatively fewer investors considered previous disciplinary records (24%). Even fewer (18%) relied on their friends or relatives' recommendations (Figure 2).

Figure 2: Factors Considered in Choosing an IA Firm

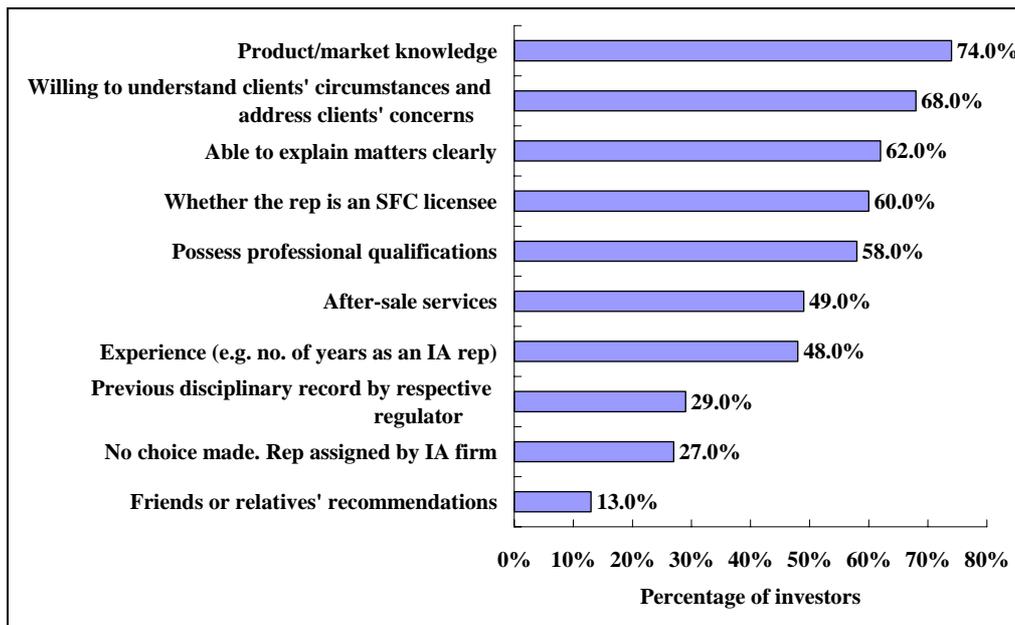


(Base: All investors)

Choosing an IA Representative

In selecting an IA representative, investors were most concerned about the representative's product/market knowledge (74%); willingness to understand clients' circumstances and address their concerns (68%); ability to explain matters clearly (62%), as well as "whether the representative is an SFC licensee" (60%) (Figure 3).

Figure 3: Factors Considered in Choosing an IA Representative



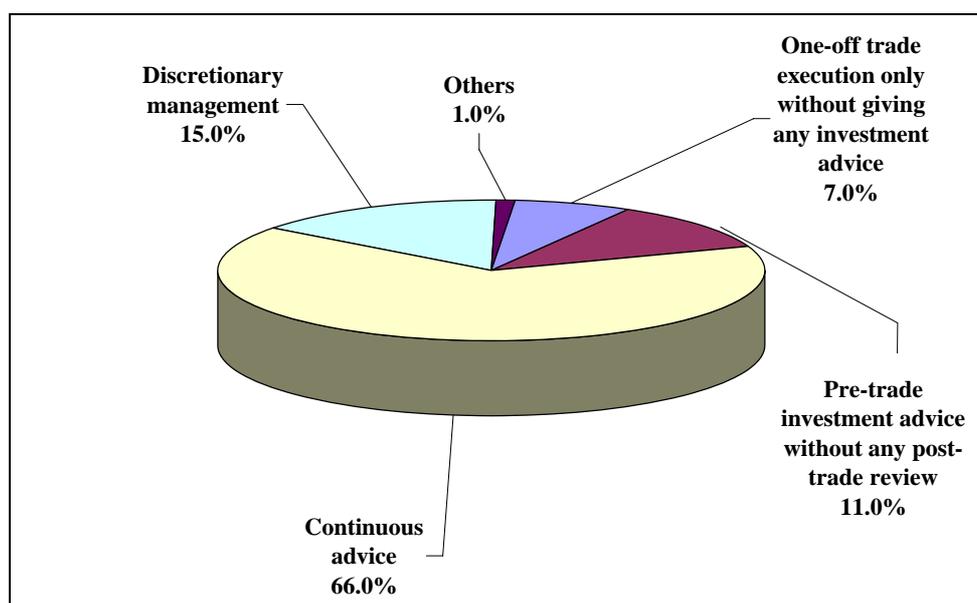
Note: Multiple answers allowed

(Base: All investors)

Nature of IA Service

When investors were asked about their understanding of the exact nature of their IA's services, 66% of investors stated continuous advice, followed by discretionary management (15%), provision of pre-trade investment advice without any post-trade review (11%) and one-off trade execution only without giving any investment advice (7%). One respondent (1%) cited that it was hard to tell the exact nature of the service, which depended on the type of investment he invested through the IA (Figure 4).

Figure 4: Nature of Service Provided by IA



(Base: All investors)

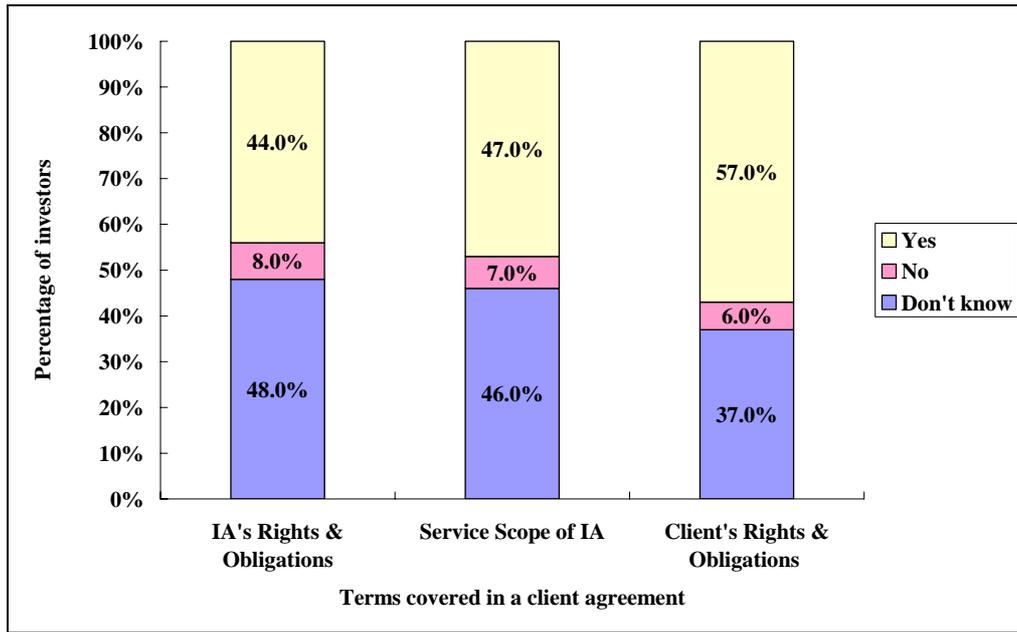
Clarity of Client Agreement

47% of investors affirmed that the scope of their IA's service was clearly set out in the client agreement. 7% opined that the client agreement had not spelt out the service scope. 46% did not know.

In regards to clients' rights and obligations, a higher proportion (57%) of investors found the client agreement clear enough. 6% gave an opposite view. 37% said they were not aware.

Concerning the IA's rights and obligations, 44% opined that the client agreement clearly indicated such terms. 8% said "no". 48% had no idea whether the client agreement had such terms (Figure 5).

Figure 5: Whether Client Agreement Clearly Set Out Terms & Conditions



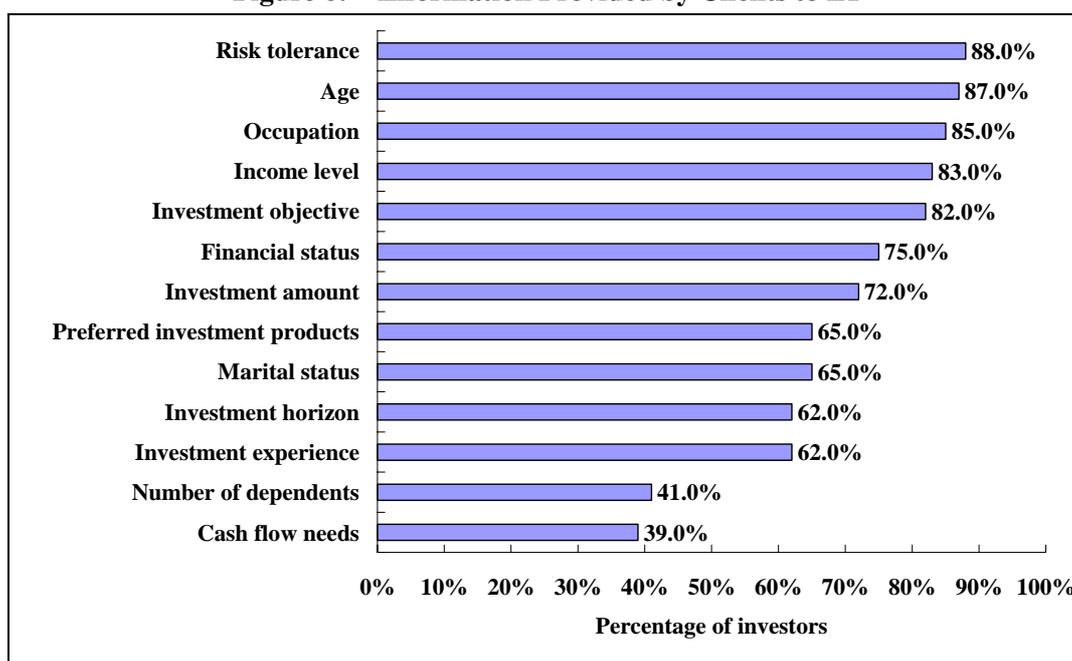
(Base: All investors)

4. Investors' Sense of Responsibilities & IA Obligations

Information Provided to IA

During the first consultation, over 80% of investors told their IA risk tolerance (88%), age (87%), occupation (85%), income level (83%) and investment objective (82%). On the contrary, only around two-fifths of investors mentioned cash flow needs (39%) and the number of dependents (41%) (Figure 6).

Figure 6: Information Provided by Clients to IA



Note: Multiple answers allowed

(Base: All investors)

49% of investors told their IA the information verbally. 33% completed a questionnaire. 18% adopted both means.

Setting Investment Objectives

48% of investors claimed that they had investment goals in mind before discussing with their IA. 32% set their goals based on the results of “financial health” analysis conducted by their IA. 11% had no clear investment objectives in mind as they just followed what their IA recommended. 5% said that while they had their investment objectives in mind, nevertheless, they modified their objectives after discussion with their IA. The remaining 4% had no clear investment objectives in mind but would take into account market situation and cash flow needs.

Financial Plan

56% of investors recalled that their IA provided them a written financial plan. 44% did not recall receiving one. 64% of investors supported the idea of requiring IA to provide a written financial plan. 15% deemed this unnecessary. 21% had no idea or no comment.

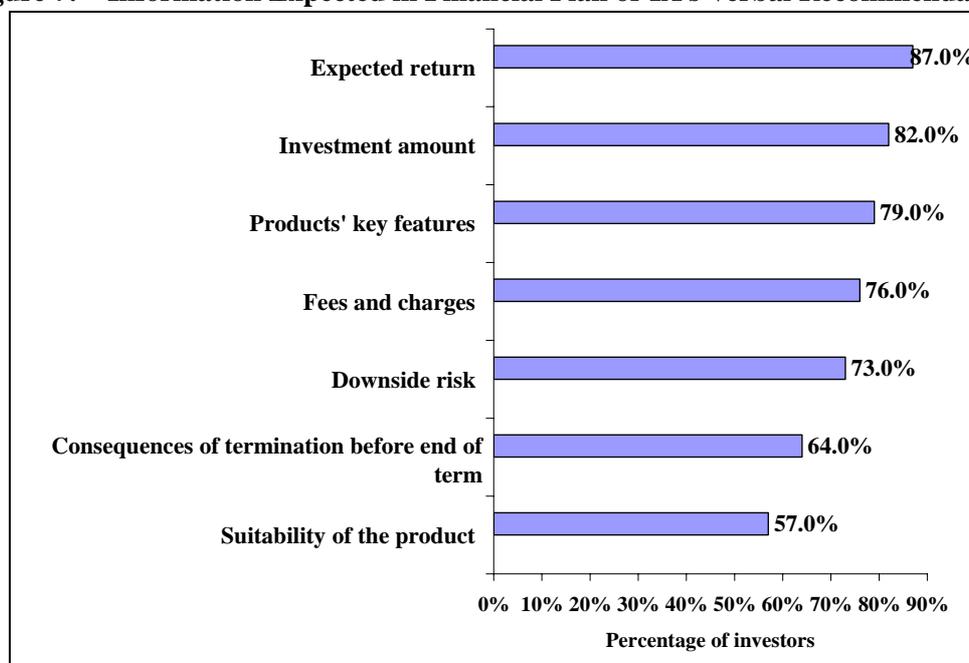
Among those who received a written financial plan, 46.4% read the plan carefully. Another 46.4% just flipped through it.

7.2% (4 investors) admitted that they did not read it. Three of them cited that their IA's verbal explanations were already sufficient for them to understand the suggestions, thus, they did not consider it necessary to go through the plan. One investor indicated that he had no intention to adopt the plan and therefore did not read it.

Information Provided by IA

When asked what they expected to learn from a financial plan or an IA's verbal recommendations, investors were most interested in expected return (87%), followed by investment amount (82%) and products' key features (79%) (Figure 7).

Figure 7: Information Expected in Financial Plan or IA's Verbal Recommendations



Note: Multiple answers allowed

(Base: All investors)

Disclosure of Commissions/Rebates

Investors were asked whether their IA disclosed the commission/ rebate arising from selling an investment product to them. Only 7% of investors indicated “yes”. 88% responded “no”. 5% replied that they were not sure.

54% of investors agreed requiring IA to make such a disclosure. 34% considered it unnecessary. 12% said they did not know or had no comment.

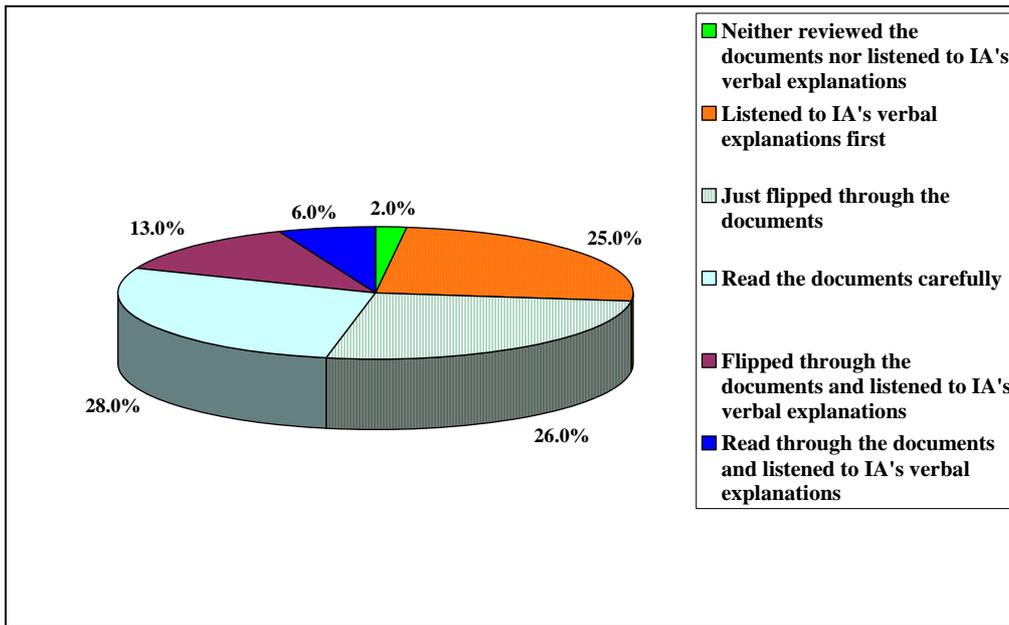
Gearing Up

Most of the investors (91%) indicated that they were not advised by their IA to take out a loan to increase their investment. 7% had received advice to gear up. 2% stated that they were not sure.

Signing Documents

Before signing any documents (e.g. client agreement, subscription form, etc.) to start up their investments, 28% of investors claimed that they read the documents carefully. 26% admitted they just flipped through the documents. 25% listened to their IA’s verbal recommendations first. 6% claimed that they did both, i.e. read through the documents and considered IA’s verbal recommendations. 13% flipped through the documents only and relied on IA’s verbal recommendations. 2% said that they just signed the documents without reviewing the terms therein or listening to IA’s verbal explanations (Figure 8).

Figure 8: How to Handle Documents Before Signing Them



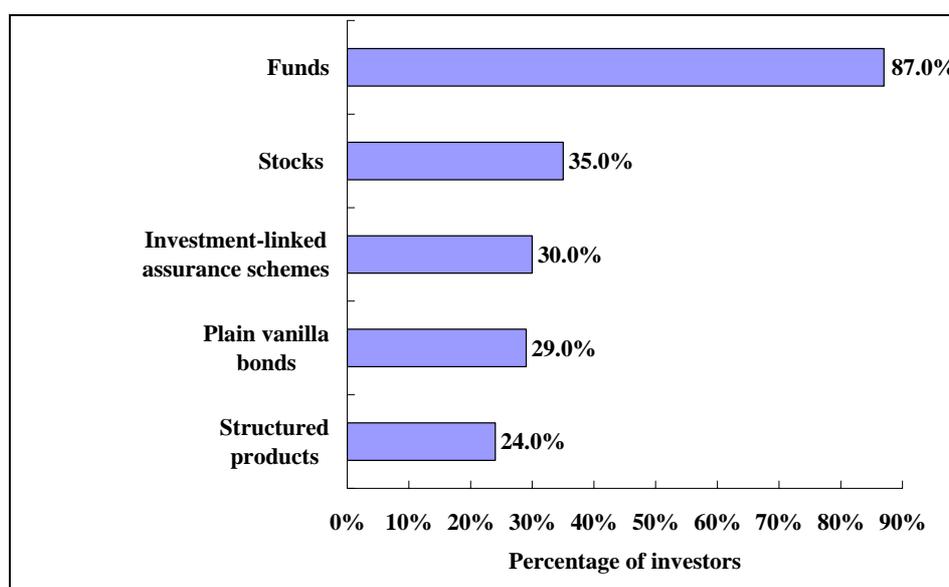
(Base: All investors)

5. Product Choices and Investment Decisions

Types of Investment Products Bought

87% of investors bought funds through their IAs. Stocks ranked second (35%), followed by investment-linked assurance schemes (30%) and plain vanilla bonds (29%). Structured products like equity-linked instruments, credit-linked notes and interest-rate linked deposits were relatively less popular (24%) (Figure 9).

Figure 9: Types of Investment Products Bought Through IAs



Note: Multiple answers allowed

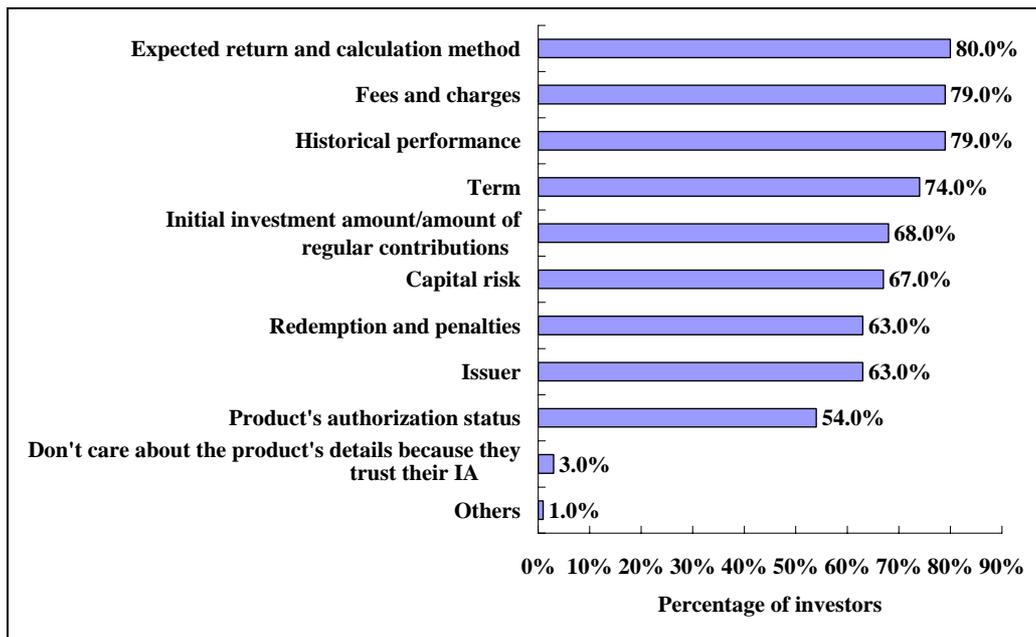
(Base: All investors)

Among the fund investors, 71.3% bought SFC-authorized funds only, 3.4% purchased both SFC-authorized and unauthorized funds, while the remaining 25.3% did not have any idea whether their funds were SFC-authorized.

Knowledge and Importance of Product Attributes

Before buying an investment product, 80% of investors said that they knew the expected return and calculation method. Similarly high percentages of investors (79% each) were aware of fees and charges as well as historical performance. Relatively fewer (54%) knew about the product's authorization status (Figure 10).

Figure 10: Attributes That Investors Knew Before Buying an Investment Product



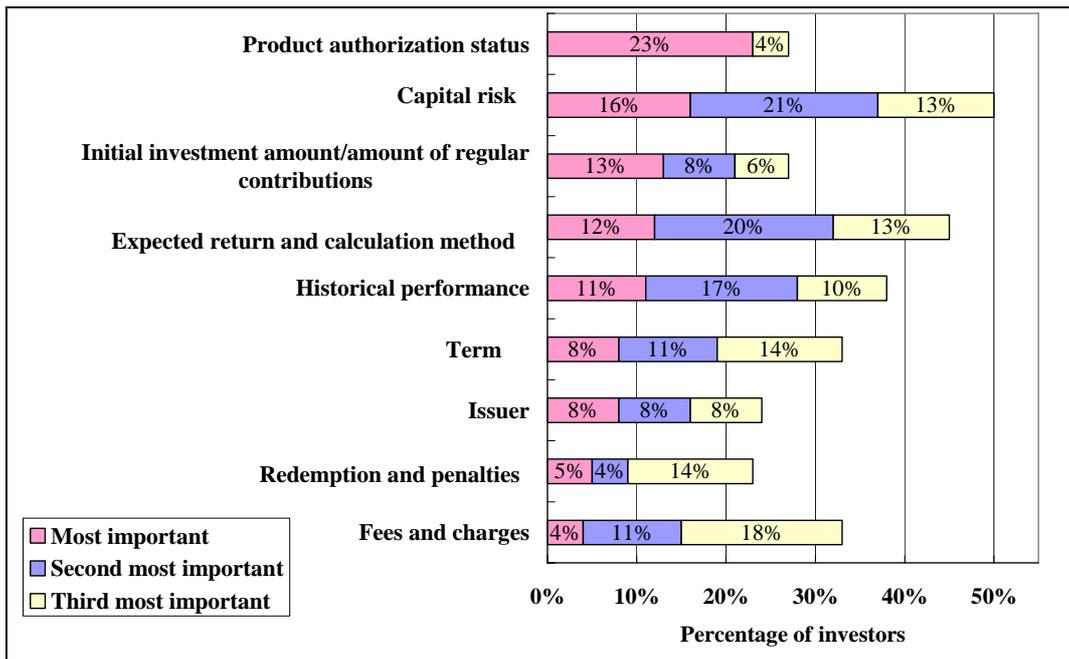
Note: Multiple answers allowed

(Base: All investors)

Investors were asked to rank the three most important attributes that they should know before investing. 23% of investors considered product authorization status the most important attribute. 16% picked capital risk. 13% chose initial investment amount or the amount of regular contributions.

When investors' choices of the second and third most important attributes are also taken into account, overall speaking, 50% of investors selected capital risk. 45% chose expected return and calculation method. 38% picked historical performance (Figure 11).

Figure 11: Perceived Importance of Product Attributes

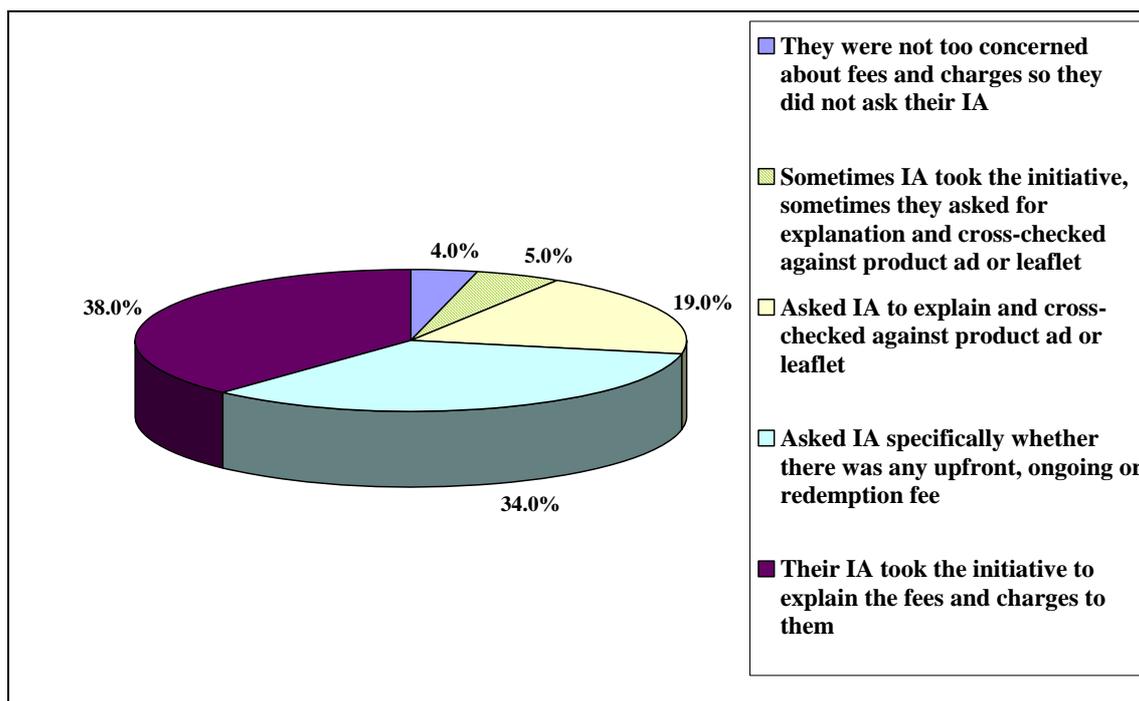


(Base: All investors)

Understanding of Fees and Charges

38% of investors stated that their IA took the initiative to explain a product’s upfront and ongoing fees and charges or redemption penalties. 34% took the initiative to ask their IA specifically about the relevant fees and charges. 19% first asked for the information and then cross-checked the IA’s explanation against the product advertisement or leaflet. 5% responded that sometimes, their IA took the initiative, and sometimes they asked for explanation and cross-checked against the offering document. The remaining 4% indicated that they were not too concerned about fees and charges, so they did not specifically ask their IA for the information (Figure 12).

Figure 12: How to Find Out Information about a Product's Fees and Charges



(Base: All investors)

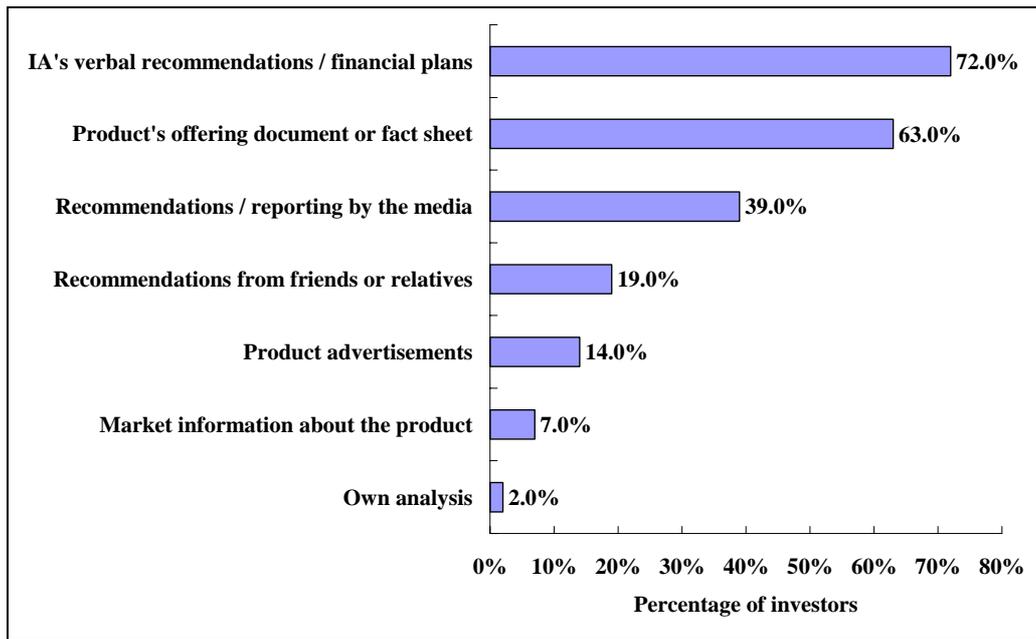
Risk Warning Statements

Investors were asked whether the risk warning statements in product advertisements and offering documents, such as the past performance figures shown were not indicative of future performance, were sufficient to alert them of the risk of investing. 60% of them opined that these statements were not sufficient. 35% considered sufficient. The remaining 5% did not have any idea or said that they did not know.

Making Investment Decisions

Most (72%) investors relied on their IA's verbal recommendations or financial plans in making their investment decisions. 63% looked at the product's offering documents or fact sheets. 39% also heeded recommendations or reporting by the media. Very few investors relied on their own analysis (2%) or market information about the product (7%) (Figure 13).

Figure 13: Sources of Information that Investors Relied on in Making Investment Decisions



Note: Multiple answers allowed

(Base: All investors)

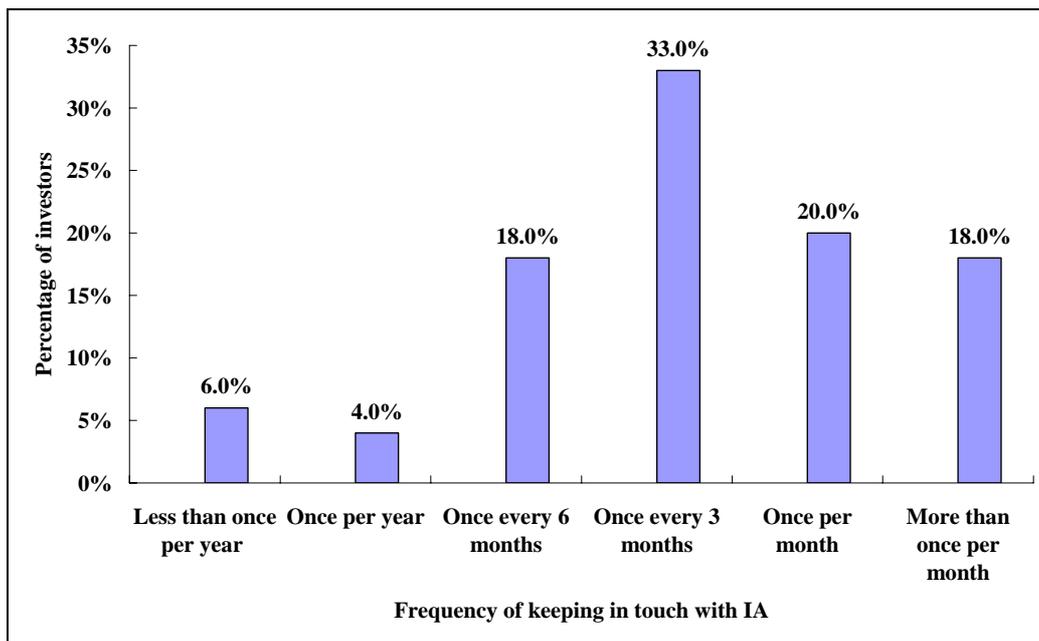
Among those who did refer to the product's offering document or fact sheets to make their investment decisions, 60.3% of them considered the information about the product's fees and charges was clearly presented in those documents. 39.7% held an opposite view.

6. Post-sale Services

Regular Contact with IA

The largest proportion (33%) of investors maintained contact with their IA once every three months. Similar percentage of investors met their IA once per month, more than once per month or once every six months (Figure 14).

Figure 14: Frequency of Keeping in Touch with IA

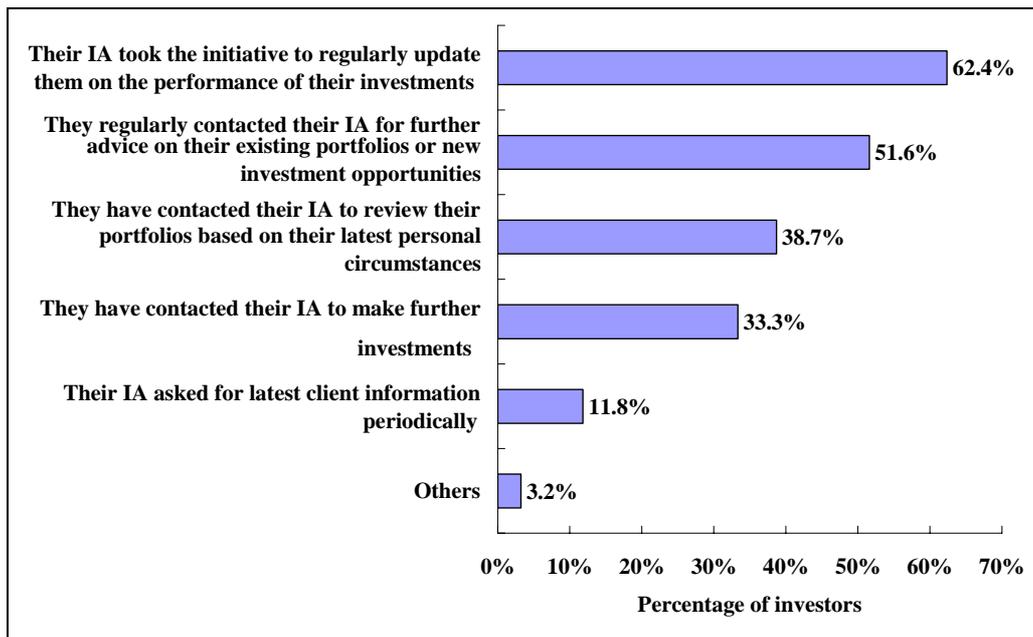


Note: One investor responded it was hard to specify the frequency. He contacted his IA on a need basis.

(Base: All investors)

For those investors who contacted their IA at least once per year, 62.4% said that their IA took the initiative to regularly update them on the performance of their investment. 51.6% said they approached their IA to obtain further advice on the existing portfolio or new investment opportunities. A much smaller percentage of investors (11.8%) advised that their IA approached them for client information update (Figure 15).

Figure 15: Reasons for Keeping Regular Contact with IA



Note: Multiple responses allowed

(Base: All investors who contacted their IA at least once per year)

Among those six investors who contacted their IA less than once per year, two of them explained that their IA only provided pre-trade investment advice. Another two said that they could not reach their IA easily given the high turnover. One said that he did not monitor his investment closely. Another one said that he contacted his IA only on a need basis.

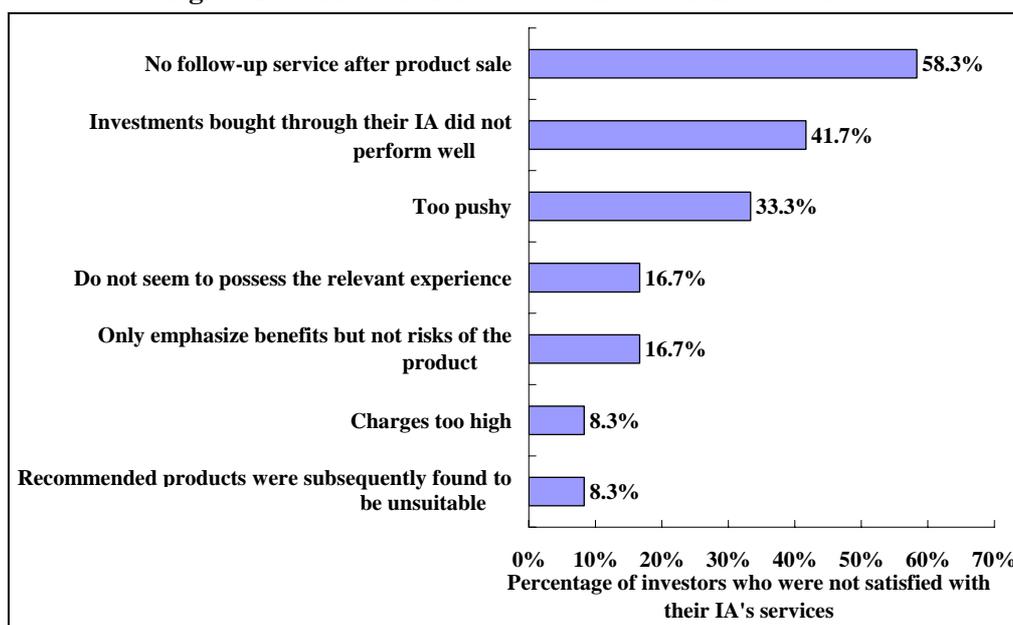
Satisfaction with IA's Services

88% of investors expressed that they were satisfied with their IA's services.

Also, 63% of investors agreed with the statement "The services provided by IAs are a good value for the money". 21% disagreed. 12% opined that they had no comments. 4% said they did not know or were not sure.

Among those 12 investors who were not satisfied with their IAs' services, seven of them (58.3%) cited lack of follow-up services after product sale was the major reason for their dissatisfaction. Five of them (41.7%) were not happy with the poor performance of the investments bought. Four of them (33.3%) found their IA too pushy (Figure 16).

Figure 16: Reasons for Not Satisfied with IA's Services



Note: Multiple responses allowed

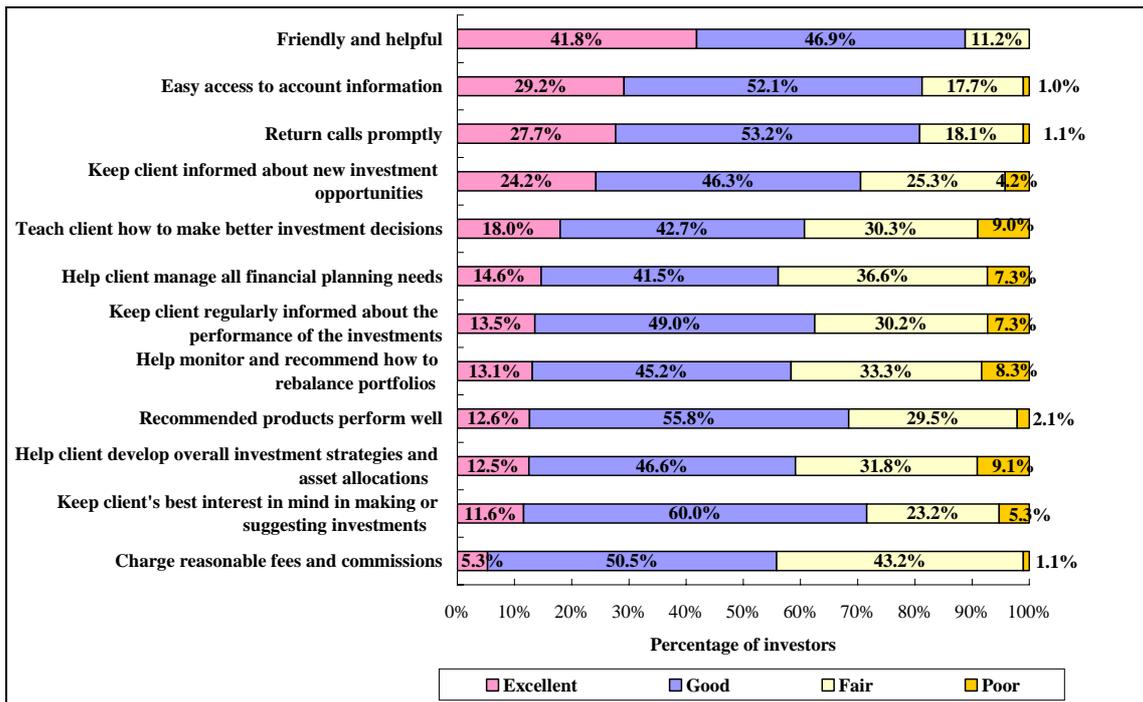
(Base: All investors who were not satisfied with their IA's services)

Evaluation of IA's Services

Investors were asked to rate on different aspects of their IA's services. They were most satisfied with their IA's attitude towards clients. IA's friendliness and helpfulness got the highest rating (88.7% of investors rated excellent or good), followed by easy access to account information (Excellent/Good: 81.3%) and returning phone calls promptly (Excellent/Good: 80.9%).

On the other hand, they were least satisfied with their IA's fees and charges (Excellent/Good: 55.8%). They also had reservations on their IA's financial planning skills, including their capability to help clients manage all financial planning needs, develop an overall investment strategy and asset allocation, as well as monitor the client's portfolio performance and recommend how to rebalance the portfolio (Figure 17).

Figure 17: Evaluation of IA's Services

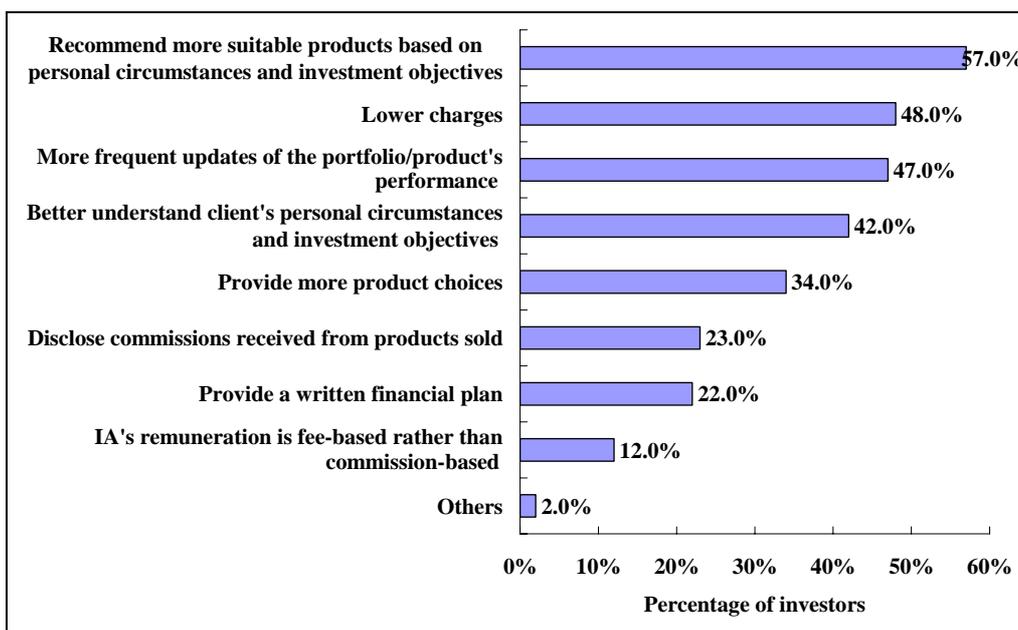


(Base: All investors excluding not applicable cases)

Preferred Improvements in IA's Services

When asked what their IA should do to improve their services, 57% of investors expected more suitable product recommendations. 48% hoped to see lower charges. 47% requested more frequent updates of portfolio or product's performance (Figure 18).

Figure 18: Ways to Improve IA Services



Note: Multiple answers allowed

(Base: All investors)

Survey Design

Target Respondents

Adults who invested in one or more SFC-regulated investment products or Mainland/overseas stocks and used the services of an IA during the last two years.

Data Collection Method

The survey data were collected through face-to-face or telephone interviews during the period from November 2005 to April 2006. A structured questionnaire with multiple-choice answers was used to collect information from the target respondents. These respondents were provided with the questionnaire at the beginning of the interview. They were then asked to select their responses for each question contained in the questionnaire. They were also allowed to give their own opinions in certain questions.

Sampling Method

The 100 respondents were identified from two sources. The first source was the 367 investors identified in the SFC's Retail Investor Survey 2005 who used the services of an IA during the last two years. Of these 367 investors, 89 ultimately participated in this survey.

To achieve the target number of respondents, a number of calls were made to a random sample of residential telephone numbers. Finally, 11 investors were successfully interviewed in this booster sample.