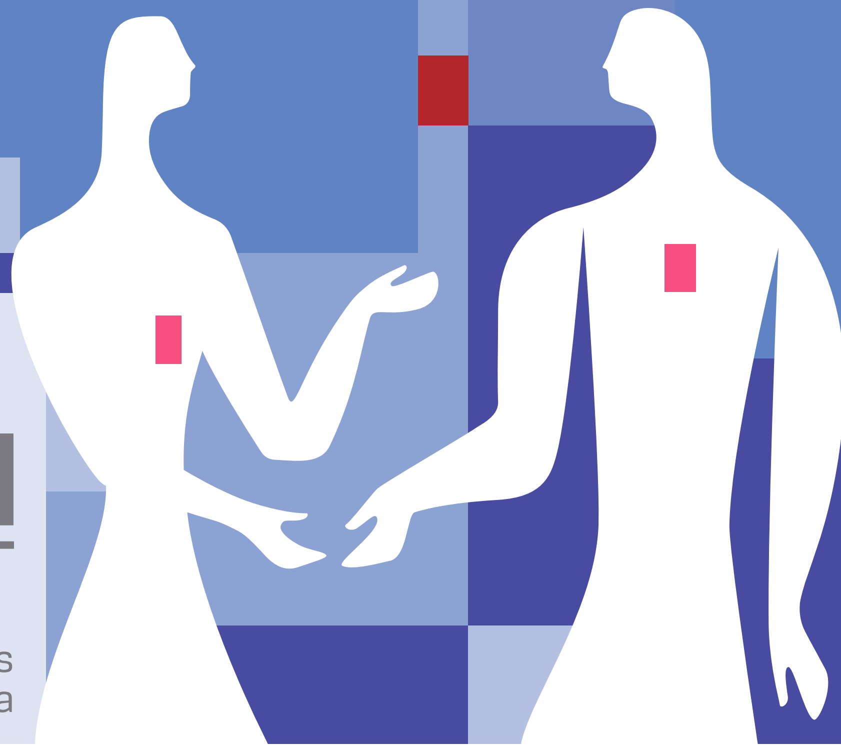
CFA Institute®
Future of Finance

THE NEXT GENERATION OF TRUST

Investor Trust in Financial Services in Hong Kong SAR, China



Trust is essential in the world of finance, where well-functioning markets are necessary to create value, and in investment services, where experts work to safeguard and grow the financial wealth of their clients. In this, the third CFA Institute investor trust study, we look at the trends in investor trust and provide recommendations for investment practitioners on how to improve trust with clients. We find that the nature of trust is changing because of a new generation of investors and a new generation of investing tools. This report outlines how individual investors in Hong Kong compare to those globally.

Investors in Hong Kong Are Skeptical and Have Low Trust in Financial Services

35%

of investors in Hong Kong "completely trust or trust" the financial services sector

This compares to **44%** globally. Furthermore, investors globally rank financial services tied for the fourth most-trusted industry, and in Hong Kong it is a distant seventh.

Within financial services, those in Hong Kong are more trusting of consumer credit providers (credit cards, mortgages) than wealth managers.

Just over half of Hong Kong investors **(58%)** believe they have a fair opportunity to profit in capital markets. The only market that was more pessimistic was Singapore **(54%)**, but globally **69%** agree the system is fair.

The Value of Advice Tested

Of investors surveyed, **48%** in Hong Kong have a financial adviser, slightly less than those globally **(54%)**. Investors in Hong Kong are constantly evaluating their adviser relationship, and may question adviser competence. Their primary investment concerns are related to fees as well as poor recommendations and ethics.

*To learn more, visit **nextgentrust.cfainstitute.org***

PRIMARY INVESTMENT CONCERNS

Paying high fees
53%

A market crash impacting my retirement savings
48%

My financial adviser making recommendations that result in losses
45%

Hiring an unscrupulous financial adviser
33%

Transparency is an issue among Hong Kong investors, with only a third saying their adviser is very transparent on fees (versus **56%** globally) and less than a quarter saying their adviser is very transparent overall (versus **59%** globally). These were the lowest responses among all markets. Similarly, only **50%** of Hong Kong investors said their adviser's fees were fair, versus **71%** globally.

This might indicate why some Hong Kong investors turn to other sources for advice. When asked about their primary source of investment information, most chose *Friends and family* and *Investment newsletters* over *My primary financial adviser*.

MOST TRUSTED INVESTMENT ADVICE

Friends and family
HK 21%
GL 16%

Investment newsletters
HK 21%
GL 8%

My primary financial adviser
HK 17%
GLOBAL 38%

Trust and the Client Life Cycle

Trust continues to be an important factor throughout the client life cycle

In the five years we have been conducting this study, trust has consistently been the greatest determinant in selecting a financial adviser by an almost 2:1 margin over investment performance. In Hong Kong, trust and performance are equally important factors.

MOST IMPORTANT ATTRIBUTE FOR INVESTORS IN HONG KONG WHEN HIRING AN INVESTMENT FIRM

Ability to achieve high returns
31%

Trusted to act in my best interest
29%

Recommended by someone I trust
14%

Compliance with industry best practices
11%

Why investors switch firms

Hong Kong investors are most likely to switch firms due to underperformance, similar to investors globally. **63%** of investors in Hong Kong are much more likely to leave a firm because of underperformance, compared to **47%** globally.

REASONS INVESTORS IN HONG KONG LEAVE THEIR INVESTMENT FIRM

Underperformance
63%

Lack of communication
33%

Insufficient technology for my needs
25%

Fee increases
23%

While performance is most important, only **31%** of investors in Hong Kong said their adviser is very accessible for questions or concerns, versus **75%** globally.

Navigating Uncertainty

Many investors in Hong Kong fear a financial crisis

Trust is tested in times of crisis, and advisers should be aware of whether their clients fear a crisis and market volatility. Hong Kong's retail investors are more fearful of an impending crisis especially related to the housing market.

INVESTORS WHO EXPECT A FINANCIAL CRISIS IN THE NEXT THREE YEARS

HONG KONG 47%
GLOBAL 38%

Unlike global investors, those in Hong Kong do not believe that their investment firm is well prepared to handle a crisis:

25%

of investors in Hong Kong believe their investment firm is "well or very well prepared" to handle the next crisis, compared with 55% of investors globally

POSSIBLE SOURCES OF NEXT FINANCIAL CRISIS

Housing bubble / mortgage crisis
HONG KONG 60%
GLOBAL 29%

National/Global politics
HONG KONG 39%
GLOBAL 51%

Tech stock bubble
HONG KONG 33%
GL 15%

Cryptocurrency bubble
HK 28%
GL 12%

Terrorist attack
HK 28%
GLOBAL 22%

Technology Increases Trust

Technology is a game changer for financial services firms, and the best firms differentiate themselves through effective use of technology

HONG KONG	57%
GLOBAL	48%

Investors that say in three years it will be more important to have technology tools to execute their own strategy rather than human advice

While this may seem to devalue the need for a human adviser, use of technology by investment firms can increase trust. For investors in Hong Kong with a financial adviser, **29%** say increased use of technology has made them trust their adviser more, but only **46%** say they are pleased with amount of technology tools currently provided, compared with **74%** globally.

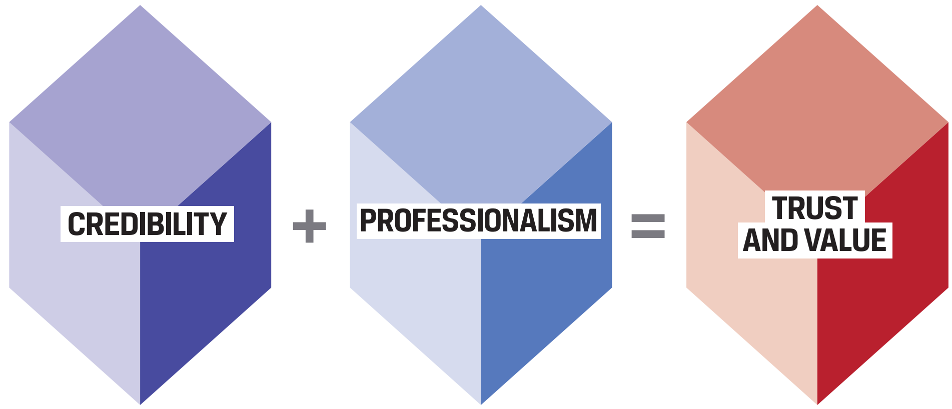
Hong Kong investors generally like technology and are less skeptical about robo-advisers.

28%

of investors in Hong Kong "distrust or completely distrust" the robo-adviser industry, compared to 40% globally

THE BUILDING BLOCKS OF TRUST

The CFA Institute Trust Equation outlines the building blocks of trust. Trust is tied to value and together they are a function of credibility and professionalism.



Credibility, which provides confidence that the investment professional or organization is qualified to provide the required service, encompasses experience, reputation, and credentials, and is closely linked to brand. Trust in the industry requires that regulators and the public view it as bringing value to society.

CREDENTIALS

HONG KONG	54%
GLOBAL	73%

Investors that believe it is important for investment professionals to have credentials from respected industry organizations

TRACK RECORD

HONG KONG	68%
GLOBAL	78%

Investors that believe it is important that investment professionals generate returns similar to or better than a target benchmark

HONG KONG	67%
GLOBAL	74%

Investors that believe it is important that fees reflect the value they get from the relationship

BRAND

HONG KONG	57%
GLOBAL	46%

Investors that prefer a "Brand I can trust" over "People I can count on"

VOLUNTARY CODE OF CONDUCT

HONG KONG	50%
GLOBAL	64%

Investors that would trust an adviser more if his or her firm adhered to a voluntary code of conduct

Professionalism is harder to quantify, but includes the trust-building elements of competency and values such as empathy, transparency, honesty, and alignment of interests.

COMPETENCY

HONG KONG	66%
GLOBAL	79%

Investors that would be more trusting of investment firms that promote continuing professional development

VALUES

HK	7%
GLOBAL	35%

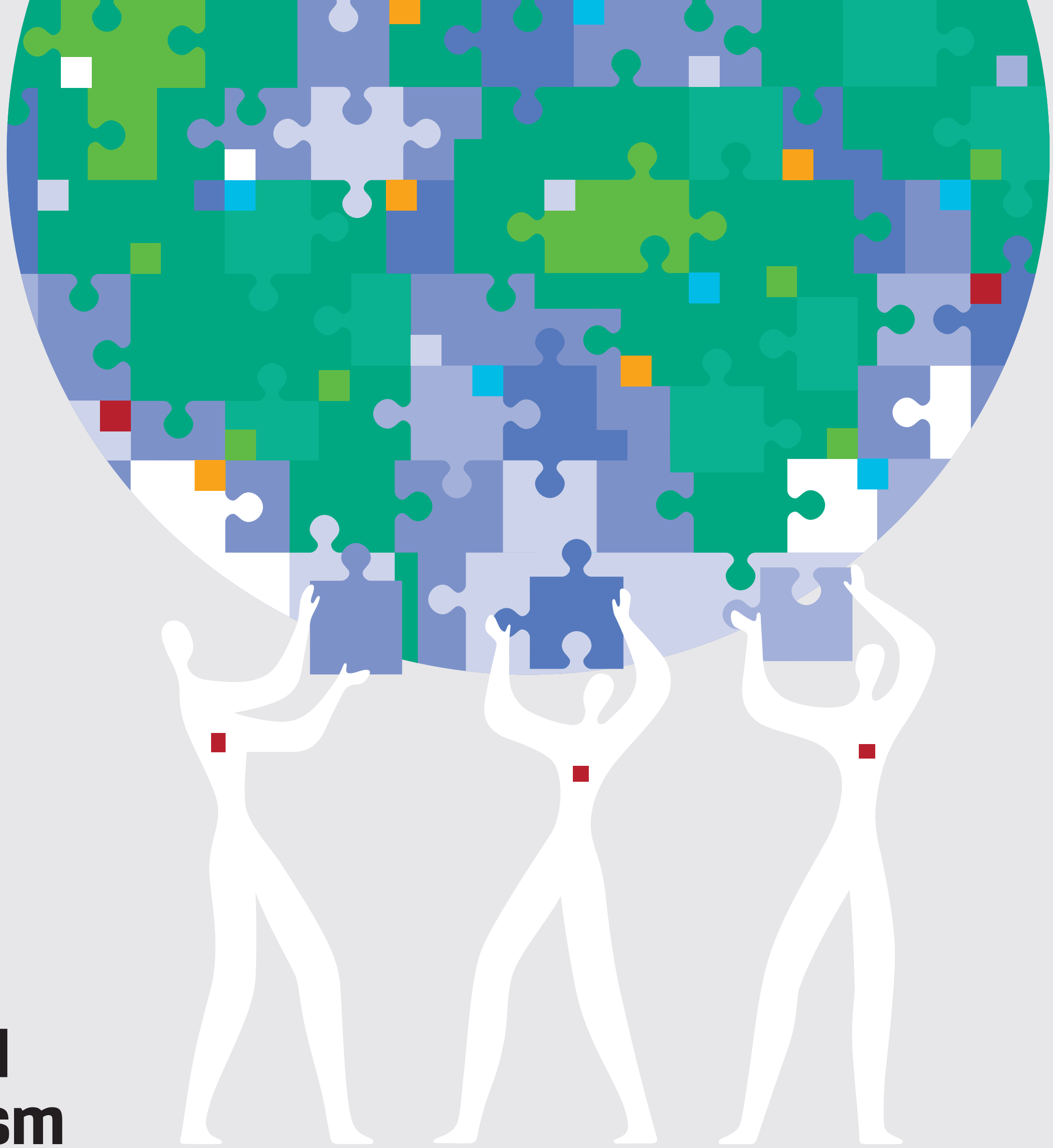
Investors that believe their adviser always puts its clients' interests first. Hong Kong investors rate this lower than any other market

29%

of Hong Kong investors say the top attribute in selecting an adviser is someone trusted to act in their best interest

7%

of Hong Kong investors believe ethical conduct is the most important factor in choosing an adviser



8 Steps to Increasing Credibility and Professionalism

Credibility

1. Maintain strong brand identity and follow through on brand promises
2. Employ professionals with credentials from respected industry organizations
3. Stay focused on building a long-term track record to demonstrate competence and deliver value for money
4. Adopt a code of conduct to reinforce your firm's commitment to ethics

Professionalism

5. Improve transparency and clarity regarding fees, security, and conflicts of interest
6. Use clear language to demonstrate that client concerns come first
7. Showcase your ongoing professional development to improve investment knowledge
8. Demonstrate your dedication to the values that clients hold dear

To learn more, visit **nextgentrust.cfainstitute.org**

METHODOLOGY In 2017, CFA Institute and Greenwich Associates conducted a global survey of 3,127 retail investors and 829 institutional investors, including 100 retail investors and 25 institutional investors in Hong Kong. The study focused on retail investors who were 25 years or older with investible assets of at least US$100,000 and institutional investors with at least US$50 million in assets under management, from public and private pension funds, endowments and foundations, insurance companies, and sovereign wealth funds. This summary only includes views from retail investors.

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