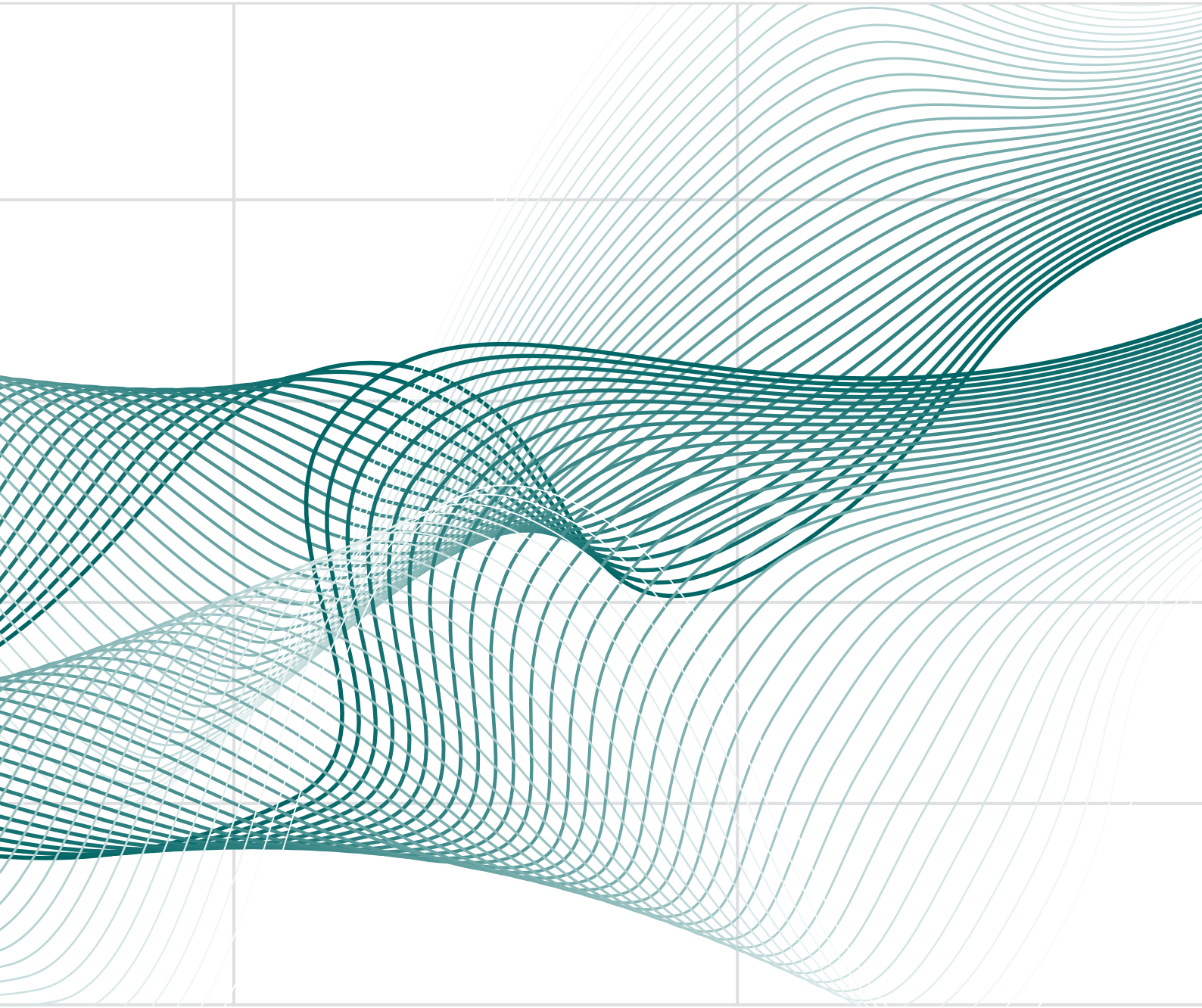
LGT Private Banking Asia Report 2012/2013

An examination of the investment behavior of high net worth individuals in Hong Kong, Singapore and Switzerland



Prof. Dr. Teodoro D. Cocca, Department of Asset Management, Johannes Kepler University Linz
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Commissioned by LGT Group

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Editorial

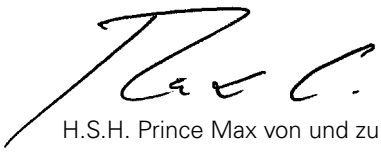
Dear Reader

Few companies are currently receiving more attention from the media and the general public than the banks. Rarely have headlines, discussions and analyses concerning the financial sector been as critical as they are now. While all this has been going on, the users of banking services, namely bank clients, have slipped off the radar somewhat. The economic and social benefit provided by the banks depends in large part on how well and how efficiently they meet their clients' needs. To do this, they need to know their expectations, objectives and attitudes inside out. For a bank to be successful, therefore, the principle "know your customer" is much more than a legal requirement.

In spring 2010, LGT Group commissioned a broad-based study in Switzerland, Germany and Austria to gather, for the first time, detailed information about private banking clients and their investment behavior. This was carried out against the backdrop of the financial crisis, which had passed its peak and been replaced by the sovereign debt crisis in the euro zone. The results of that study showed a profound uncertainty on the part of bank clients, a loss of confidence in the stability of the financial system and, as a result, a shift in portfolio weightings in favor of liquidity and commodities, particularly gold. The fact that good advisory services continue to be essential for making investment decisions was illustrated by the rather surprising revelation that private investors' risk appetite often failed to match their investment behavior and that they paid too little attention to scientific findings.

Much has changed since 2010, although the underlying situation facing investors remains just as difficult. We wanted to find out to what extent the results from the 2010 study still held true, what had changed, and what the main concerns for private investors are now. In addition, we wanted to learn more about private banking clients in Asia. With this in mind, LGT Group commissioned a new, extensive study covering private banking clients in Switzerland, Hong Kong and Singapore in autumn 2012. Some of the results are surprising; others reinforce earlier findings. Not very surprisingly, we found that clients from these three markets differ significantly in a number of ways – proof, if proof were needed, that private banking clients cannot be lumped together, but rather have their own individual requirements and expectations.

We hope that this second private banking study will contribute toward a better understanding of the needs and goals of private investors.



H.S.H. Prince Max von und zu Liechtenstein
CEO LGT Group

Management summary – key results

Under the leadership of Prof. Dr. Teodoro D. Cocca, the Department of Asset Management at the Johannes Kepler University in Linz was commissioned by LGT Group to undertake a survey of the investment behavior of private banking clients in Hong Kong, Singapore, and Switzerland during the first half of 2012. A total of 515 people were surveyed (155 in Switzerland and 180 in both Hong Kong and Singapore). The key criterion for participating in the survey was a minimum amount of available assets: in Switzerland more than CHF 900 000 excluding real estate, in Hong Kong and Singapore more than USD 1 million including real estate provided that this was not used as the first or second home.

Portfolio make-up

- Large cash portfolios in Asia: Private banking clients in Singapore currently invest around half their assets in cash funds. In Hong Kong this share is around one third, and around one quarter in Switzerland.
- Commodities and gold popular in Asia: The share of assets (excluding cash) invested in commodities/gold or precious metals is 28% in Singapore and 14% in Hong Kong. In Switzerland this share only amounts to 8%.
- Popularity of shares varies in Asia: The proportion of assets (excluding cash) invested in shares is 61% in Hong Kong but only 47% in Singapore.
- Swiss tend to back bonds: The share of assets (excluding cash) invested in bonds amounts to 18% in Switzerland. In Hong Kong the share is just 14%, and only 13% in Singapore.
- Low diversification also common in Asia: 67% of interviewees in Singapore do not have sufficient diversification, i.e. less than four asset classes. In Hong Kong this group accounts for 45%, and in Switzerland for 53%.

Correlation between return, risk and knowledge

- Willingness to take risks in Hong Kong: A feature among interviewees from Hong Kong is their willingness to take risks. Almost half of those questioned describe themselves as being comfortable with risk (Singapore: 26%, Switzerland: 23%).
- Very good level of knowledge in Hong Kong: The proportion of interviewees who stated that they have a very good knowledge of investment matters is at 30% considerably higher than in the other two countries.
- Positive correlation between risk appetite and knowledge: A statistically positive, significant correlation can be established between appetite for risk and level of knowledge for all three countries.
- Hong Kong and Swiss investors aim for inflation-adjusted growth in value: In relation to the current year, inflation-adjusted growth in value is the most frequently cited return-on-investment objective of interviewees in both Hong Kong (31%) and Switzerland (27%).
- Singapore is benchmark-oriented: In Singapore the majority of interviewees is guided by the average performance of the market in relation to the return on their investments (40%).
- Who wants to outperform the market? 19% of those surveyed in Hong Kong aim to outperform the market (16% in Switzerland, 5% in Singapore).

- Higher expectations for returns in Asia: The mean return strived for from assets over the next five years is 5.5% p.a. for those surveyed in Switzerland, 15.2% p.a. for Hong Kong and 13.3% p.a. for Singapore. 58% of interviewees in Hong Kong and 43% in Singapore anticipate a return of 10% or more per annum over the next five years – in Switzerland only 6% have such high expectations.
- Belief in market efficiency: A majority of interviewees believe that returns on shares cannot be predicted and that consequently financial markets are efficient (50% in Switzerland, 53% in Hong Kong and 67% in Singapore).
- Asian clients do not have faith in Europe: Taking into consideration risk and anticipated return, European blue chip equities and EUR bonds perform the worst as far as the clients surveyed in Hong Kong and Singapore are concerned.
- Singapore backs gold: Taking into consideration risk and anticipated return, gold is the asset class most attractive to interviewees in Singapore for the next two years.
- Hong Kong backs CNY bonds: Taking into consideration risk and anticipated return, CNY bonds are the asset class most attractive to interviewees in Hong Kong for the next two years.

Investment decisions and advice

- Independent investment decisions in Hong Kong: The proportion of investors who make their own investment decisions (without a consultant) is the highest in Hong Kong at 55% (Singapore 33%, Switzerland 39%).
- Low level of client loyalty towards the relationship manager in Singapore: 60% of those surveyed in Singapore would "certainly not" follow their relationship manager if the latter moved bank (Hong Kong 37%, Switzerland 33%).
- Achieving a better return is the most important need in Asia: Achieving a better return on investments thanks to advice from the bank is considered the principal need of private banking clients in both Hong Kong and Singapore.
- Need to achieve a better return is fulfilled better in Asia: In Hong Kong and Singapore those surveyed give higher ratings to the fulfillment of the need for a better return than do those in Switzerland.
- Technology-minded Hong Kong investors: Although the differences between the countries are not huge, those surveyed in Hong Kong proved to be more technology-minded than the other participants in the survey.

1 Objective and methodology

Under the leadership of Prof. Dr. Teodoro D. Cocca, the Department of Asset Management at the Johannes Kepler University in Linz was commissioned by LGT Group to undertake a survey of the investment behavior of private banking clients in Hong Kong, Singapore, and Switzerland during the first half of 2012. The survey focused on, among other things, the make-up of portfolios, attitude to risk, expectations in terms of return, and advisory needs of private banking clients.

A total of 515 people were questioned (155 in Switzerland and 180 in both Hong Kong and Singapore). In Switzerland the survey was carried out through CAWI (computer-assisted web interviews) on the basis of an online panel,[1] while PAPI (personal paper and pencil interviews) were used in Hong Kong and Singapore.[2] The key criterion for participating in the survey was a minimum amount of available assets: in Switzerland more than CHF 900 000 excluding real estate, in Hong Kong and Singapore more than USD 1 million including real estate provided that this was not used as the first or second home.[3]

The present study is based on the "LGT Private Banking Report 2012" study published in June 2012, which examines the investment behavior of private investors in Switzerland and Austria. The data on Switzerland published in that report are used in this study to provide a comparison with the two Asian financial centers of Hong Kong and Singapore.

When comparing the results of the countries we primarily comment on those differences that are statistically significant.[4]

[1] The survey in Switzerland was conducted by the LINK Institute in the German and French-speaking parts of the country using an existing online panel that is recruited by phone and represents a permanent pool of questionees about whom socio-demographic information is available and who are regularly invited to participate in online surveys.

[2] The surveys in Asia were conducted by the Research Pacific Group. In Singapore an English questionnaire was used. In Hong Kong the interviews were conducted in either English or Chinese.

[3] For details of the samples used in the different countries, please refer to figures A1, A2 and A3 in the annex.

[4] Statistical significance is examined using t-tests for proportional values and z-tests for mean values.

2 Portfolio make-up

Key results

- Large cash portfolios in Asia: Private banking clients in Singapore currently invest around half their assets in cash funds. In Hong Kong this share is around one third, and around one quarter in Switzerland.
- Commodities and gold popular in Asia: The share of assets (excluding cash) invested in commodities/gold or precious metals is 28% in Singapore and 14% in Hong Kong. In Switzerland this share only amounts to 8%.
- Popularity of shares varies in Asia: The proportion of assets (excluding cash) invested in shares is 61% in Hong Kong but only 47% in Singapore.
- Swiss tend to back bonds: The share of assets (excluding cash) invested in bonds amounts to 18% in Switzerland. In Hong Kong this share is just 14%, and only 13% in Singapore.
- Low diversification also common in Asia: 67% of interviewees in Singapore do not have sufficient diversification, i.e. less than four asset classes. In Hong Kong this group accounts for 45%, and in Switzerland for 53%.

2.1 Use of different forms of investment

The use the interviewees make of different forms of investment is illustrated in Figure 1. When interpreting the figures below it is important to note that the values relate to frequency and not to the distribution of assets on a percentage basis (cf. section 2.2).

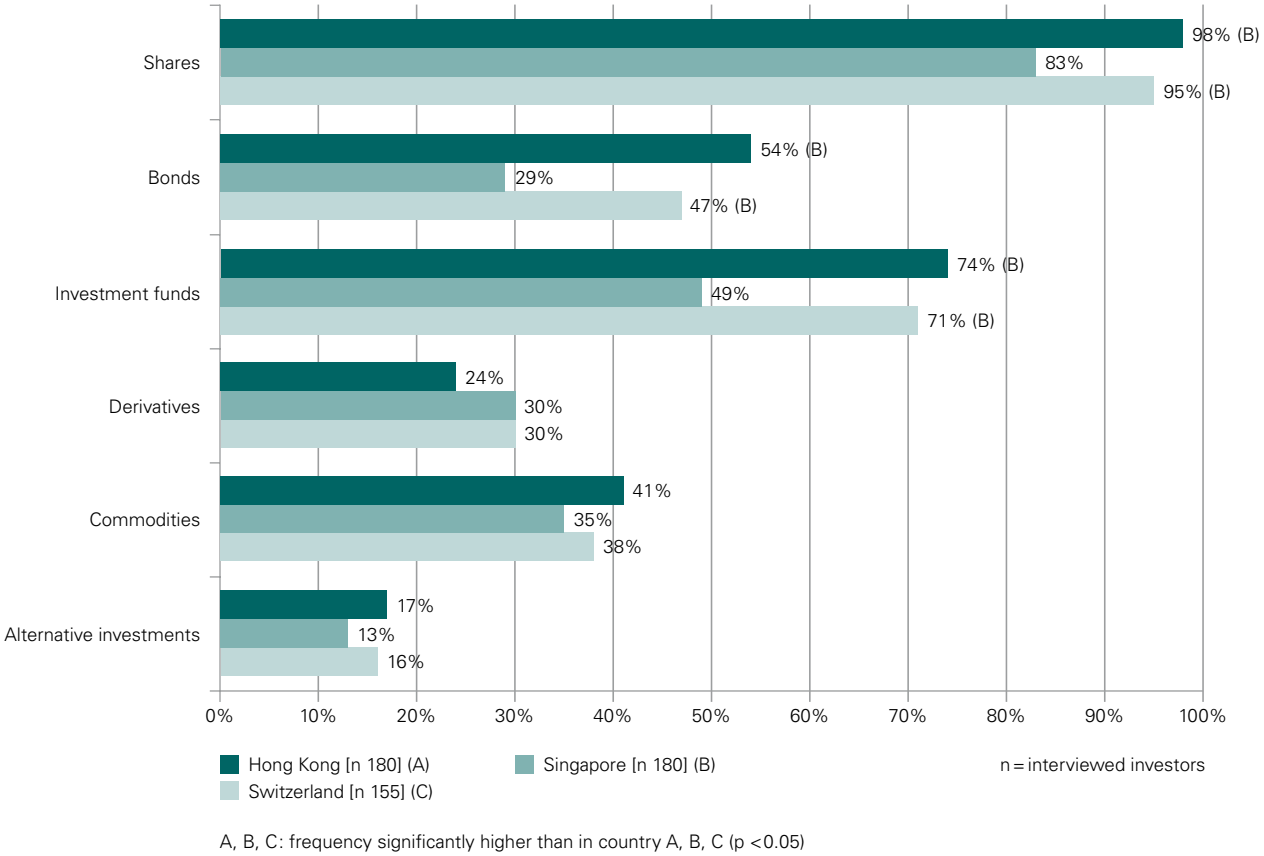
As a general principle, it can be seen that use of the different forms of investment is very similar in Switzerland and Hong Kong. However, significant differences emerge when these two countries are compared with Singapore.

In Switzerland and Hong Kong almost all those surveyed hold shares, this being the asset class with the greatest frequency. This is followed by funds[5] and bonds with a penetration of approximately 70% and 50% respectively among interviewees in Switzerland and Hong Kong. Some 40% of investors surveyed from both countries stated that they invest in commodities/gold or precious metals. Derivatives are held by 30% (Switzerland) and 24% (Hong Kong) of the interviewees, and alternative investments (e.g. hedge funds, private equity etc.) are used by some 15% of people surveyed.

Compared with Switzerland and Hong Kong, a statistically significantly lower frequency of shares, bonds, and investment funds is apparent in Singapore. Of particular note is the fact that in Singapore commodities/gold or precious metals is the third most frequent asset class, even ahead of bonds (which is the third most frequent in Switzerland and Hong Kong).

[5] The term "fund" is used synonymously with the term "investment fund".

Figure 1: Use of different forms of investment (country comparison)



A, B, C: frequency significantly higher than in country A, B, C ($p < 0.05$)

2.2 Asset allocation

2.2.1 Asset allocation (country comparison)

Figure 2 shows the average asset portfolio resulting from an aggregation of the individual portfolios of the interviewees. The individual portfolios were weighted according to size. The respective asset class contains direct and indirect assets. Fund assets are thus allocated to the respective original asset class. Only mixed investment funds are shown separately, as they cannot be allotted to an asset class. In addition, in Figure 2 the cash share is shown first as a percentage of the total assets, and below this the percentage shares of the individual asset classes are shown without regard to the cash share.

The cash shares vary significantly between the individual countries. Private banking clients in Singapore currently invest around half of their assets in cash funds. In Hong Kong this share amounts to around one third, and around one quarter in Switzerland.

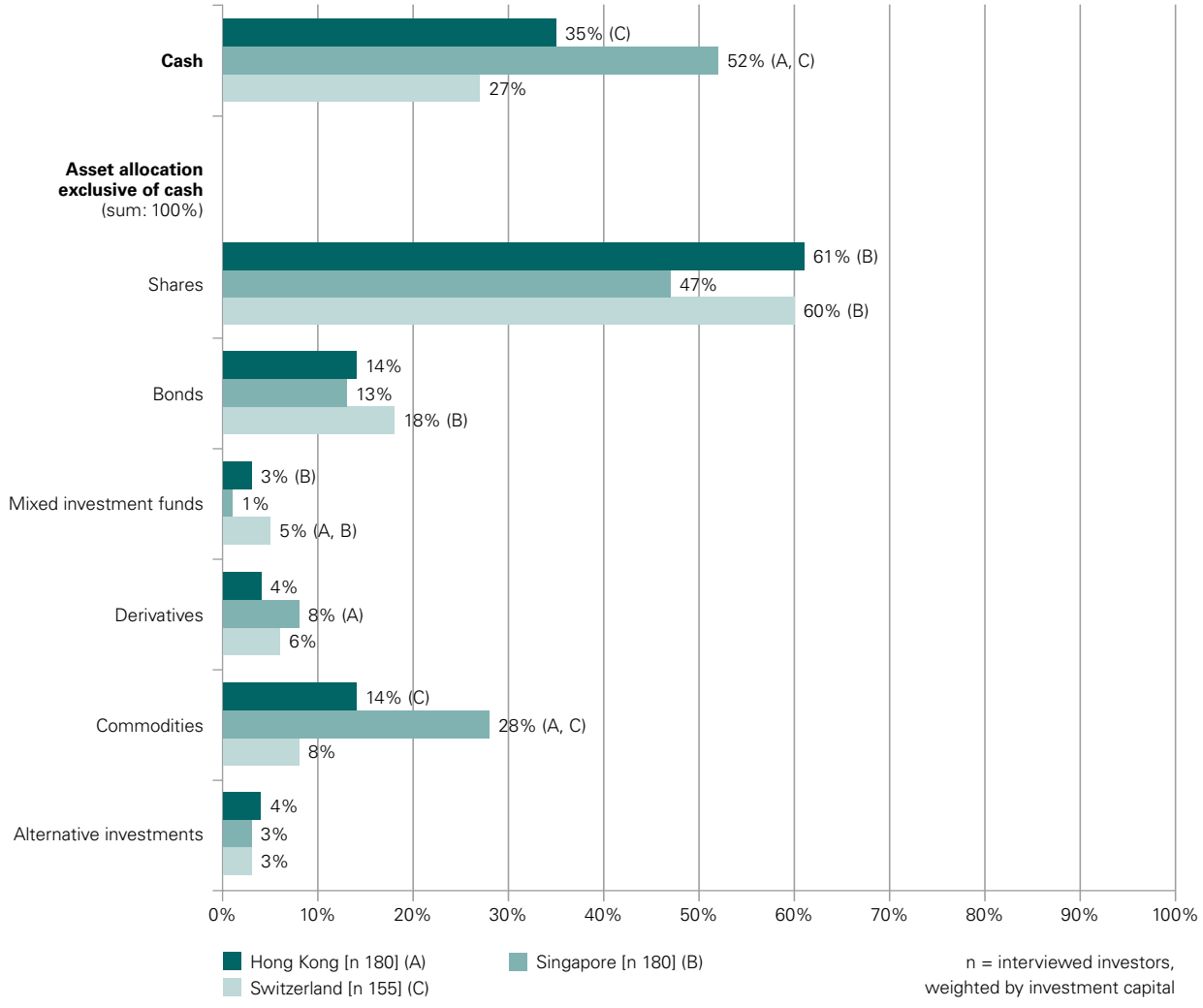
There are significant differences between the countries with regard to invested funds for 2012. Private banking clients in Hong Kong invest an average of 61% in shares, 14% each in bonds and commodities/gold or precious metals and 4% each in derivatives and alternative investments. In Singapore the average investment portfolio consists of 47% shares,

28% commodities/gold or precious metals, 13% bonds, 8% derivatives and 3% alternative investments. In Switzerland on the other hand, 60% was invested in shares, 18% in bonds, 8% in commodities/gold or precious metals, 6% in derivatives and 3% in alternative investments.

There are thus significant differences between the countries examined with regard to the percentage of shares, which is lowest in Singapore. On the other hand, the proportion of investments in commodities/gold or precious metals is substantially higher in Singapore than in the other two countries. Statistically, the percentage of derivatives is significantly higher in Singapore than in Hong Kong. The bond share is highest in Switzerland at 18%.

If a comparison were to be made between Switzerland and the two Asian financial centers, it would be apparent that Asian clients account for a higher share of cash funds, and also invest considerably more assets in commodities/gold or precious metals. In addition, bonds are less popular with Asian investors than with Swiss investors.

Figure 2: Average asset allocation (country comparison)



A, B, C: frequency significantly higher than in country A, B, C ($p < 0.05$)

Prof. Kalok Chan

It is interesting to note the lower investment percentage into derivatives for Hong Kong, given that Hong Kong investors are known to be more risk-taking and also possess good knowledge in the derivatives market. In fact, the derivatives warrant market in Hong Kong has been consistently ranked among the top in the world in terms of market turnover. The lower percentage in derivatives probably reflects the fact that Hong Kong investors have a lower appetite for structured products since the 2008-2009 financial crisis, as a lot of investors lost significant amount of their wealth in structured products such as Lehman minibonds and accumulators.[6] They have lost confidence in structured products, especially those that have more complex designs and are riskier.

Furthermore, the regulators in Hong Kong have also introduced more stringent measures to regulate the derivatives products sold by the banks and other financial institutions, making it more difficult for investors to buy structured products. For example, banks used to be able to sell structured products easily to the public, as long as the denominations were at least HKD 500 000 (around USD 62 500). The underlying assumption was that anyone buying that volume was sophisticated enough to understand the risks of the investment. As a result, a lot of investors bought Hong Kong's minibonds, and when the minibonds declined significantly, many investors went to the street to protest and demand full compensation from the banks. After the financial crisis, the Hong Kong Securities and Futures Commission and Hong Kong Monetary Authority, the regulatory agencies in Hong Kong, required the banks and other financial institutions to assess investors' experience and knowledge before selling them products. Banks will sell investment products that suit investors' needs, risk appetite and to those who understand the products. But since all structured products involve some form of optionality, this means banks also have to assess investors' experience in trading derivatives before selling them the investment products. This presents a challenge to the selling process. Investors have to fill in a questionnaire assessing their investment experience and risk appetite, along with other paperwork. The banks and financial institutions need to record conversations with investors about their trading experience before they can sell them the product.

[6] Prof. Kalok Chan: Accumulators are high-risk structured products whereby investors agree to purchase a fixed amount of securities, commodities or currency from the bank on a daily basis at a predetermined price. A minibond is not really a bond but a high-risk, credit-linked note linked to a basket of securities. It guarantees investors a regular interest payment, which makes it look like a bond. But during the 2008-2009 financial crisis, following the collapse of Lehman Brothers – an issuing bank for minibonds – the value of minibonds declined significantly and in some cases the minibonds became almost worthless.

Prof. Dr. Teodoro D. Cocca

Cultural influence on investment behavior

According to the traditional theory of decision-making,[7] an investor's asset allocation is determined by the optimization of his risk preferences, taking into account his risk capacity. From this point of view, there are no systematic biases with respect to risk perception. Traditional financial economics thus assumes that cultural factors do not play a role. According to this mode of thinking, where investment decisions are concerned investors are to be considered the same all over the world. In recent years, economists have begun to apply their analytical frameworks and empirical tools to the issue of culture and economic outcomes. Better techniques and expanded data have made it possible to identify systematic differences in people's preferences. New research results from behavioral finance show that cultural differences can sometimes have a "dramatic"[8] influence on investment behavior. The present descriptive study is in line with these works and reveals significant differences, as well as, in some cases, unexpected common features between culturally different investor groups. The fact that culture not only directly influences investment behavior in itself but also influences market returns is reflected in the finding that excess returns from momentum strategies compared with market returns can be explained by the dimension of intolerance towards uncertainty.[9] However, it is not only academic research that is increasingly concerned with these issues. In the business area of private banking, too, the increasing number of high net worth clients from Asian countries as well as increasing activities in Asian onshore banking are leading to a more detailed examination of different cultures and the implications of this for strategies and the range of products in these markets.

Prof. Annie Koh

The Singapore investor

Why overweight in cash?

Cash is an asset class which risk-averse Singaporean investors usually perceive as a safe and attractive investment with minimal risks, providing generally high liquidity and akin to a "safety net" in these uncertain times. In addition, such a significant cash portfolio provides Singaporean investors with the flexibility to fund a substantial expense or property investment outlay without liquidating assets from one's long-term investment portfolio.

Why gold?

During the period of H1 2012 when this survey was undertaken, the commodity price indices were still trending rather strongly. As such, it is not surprising that Singaporean investors have embraced gold as a safe haven investment with them allocating about 14% of their assets (excluding cash) to commodities, gold and other precious metals (vs. 9% in Hong Kong and 5% in Switzerland).

Even without yielding interest or dividend income, gold continues to be an attractive asset given that the Singapore interest rate averaged around 0.15% for 3-month SGD deposits throughout 2012. As such the opportunity cost for holding cash is so low that even without interest yields, the potential capital gains of gold are more attractive.

7 Cf. Neumann and Morgenstern (1944)
8 Cf. Levinson and Peng (2007)
9 Cf. Chui, Titman and Weil (2010)

2.2.2 Explanatory model for asset allocation

Figure 3 looks at the correlations that exist between the proportion of shares and other variables of the study. This is an attempt to understand better which factors could explain the differences in share quotas in the asset portfolio mentioned in section 2.2.1.

The regression analysis shows that in Hong Kong the readiness to assume risk[10] and the belief in the efficiency of the market have a significant correlation with the proportion of shares.[11] It reveals that an increased readiness to assume risk is associated with a higher proportion of shares. Conversely, there is a negative correlation between a strong belief in market efficiency and the proportion of shares.

This is simply because Hong Kong investors tend to buy individual stocks on their own, rather than buying into the market as a whole through ETFs. In Hong Kong, the more successful ETFs are those related to Hong Kong and China. However, the trading volume in ETFs is still small compared with the trading volume in individual stocks. It is only those investors who think that the market is efficient who invest more in ETFs and less in individual shares.

Many Hong Kong investors follow commentaries of individual stocks through different media sources. Many newspapers carry detailed coverage of the stock market and individual stocks, and there are also stock market commentators on radio and TV programs. As a result, there is no shortage of financial news and stock market analysis, even for less knowledgeable investors. As a result, the investors can have a false sense of control, thinking that they have obtained useful information that will help them to select winning stocks. The more confident that they are about the information they can receive, the less likely they believe in stock market efficiency.

Prof. Kalok Chan

In Singapore, on the other hand, different factors seem to influence the proportion of shares. It even appears that the two significant factors for Hong Kong – readiness to assume risk and belief in an efficient market – are not at all significant for Singapore. In Singapore the proportion of shares is related to a tendency to avoid losses[12] and to knowledge of investment matters. The lower the fear of losses and the greater the knowledge, the higher the proportion of shares.

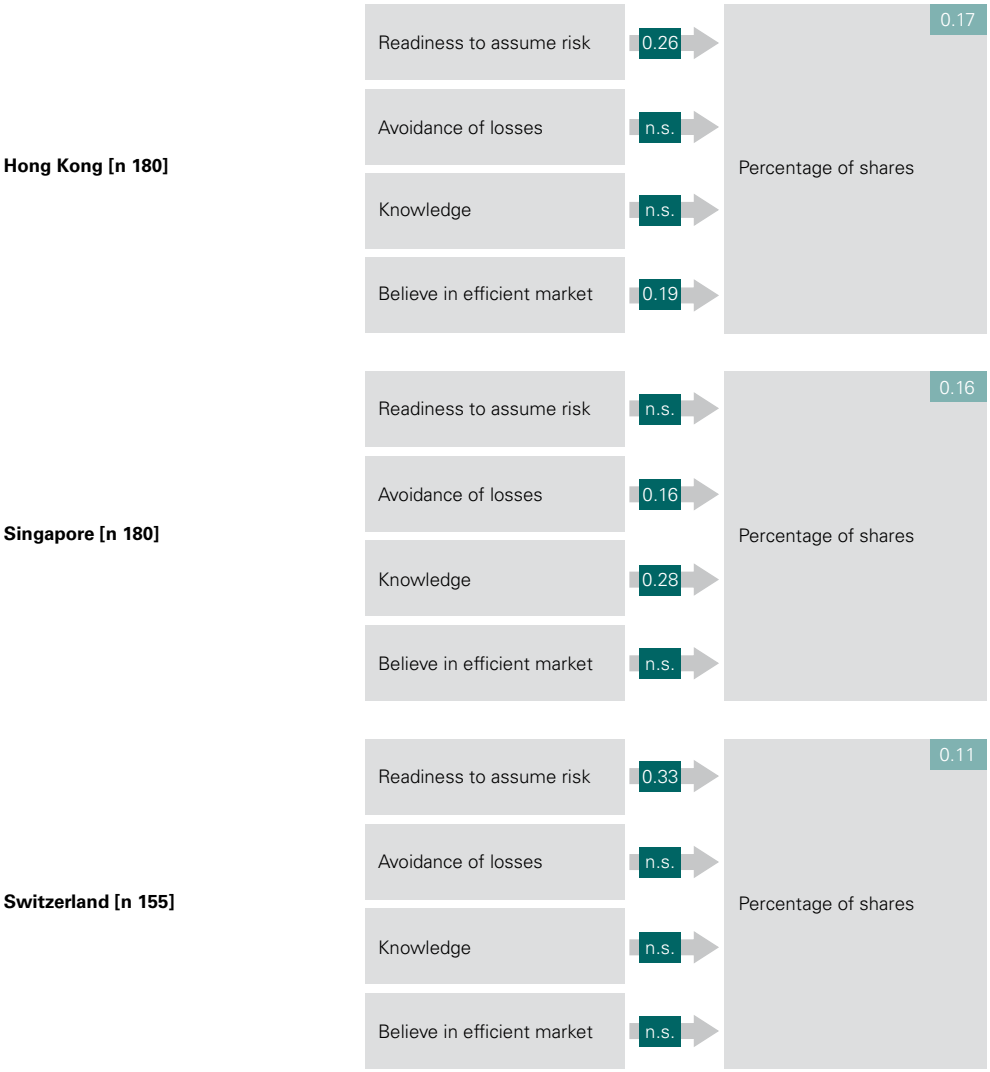
For the Swiss interviewees there is only one significant factor: the readiness to assume risk. The greater this is, the larger the proportion of shares.

[10] The questionees' own assessment of their readiness to assume risk has been used (the wording of the question was: "How would you categorize yourself with respect to your readiness to assume risk when investing? Risk averse, risk neutral, comfortable with risk?").

[11] The coefficient of determination, R-squared, of the various regressions is relatively low (between 0.11 and 0.17). This means that the proportion of variation that is explained by the regression model is small, and consequently the variables used cannot conclusively explain the differences in the proportions of shares.

[12] This refers to the question regarding the benchmark for expectations in terms of return (wording: "What is your most important objective with regard to the return on your assets in 2012?" Questionees who gave "not to suffer any losses" as an answer are expressing a high degree of fear of losses.

Figure 3: Regression analysis for the proportion of shares



x.xx Effect size: regression coefficient beta, p <0.05, n.s. = not significant
y.yy Model fit: R-squared

n = interviewed investors

The results do not indicate that different factors in the different countries are basically associated with a high proportion of shares. The two factors of "readiness to assume risk" and "avoidance of losses," which seem to exert the most influence on the quota of shares, produce very similar behavior or attitude characteristics.

Measuring cultural characteristics

Prof. Dr. Teodoro D. Cocca

Culture can be defined as "those customary beliefs and values that ethnic, religious, and social groups transmit fairly unchanged from generation to generation."[13] According to the Dutch sociologist Geert Hofstede, social behavior (investment behavior is part of social behavior) can be described using five dimensions: power distance, individualism, uncertainty avoidance, masculinity, and long-term orientation.[14] For the purposes of this study, the "uncertainty avoidance" and "long-term orientation" dimensions are considered particularly relevant. Using these dimensions, a classification of the three countries examined in this study can be carried out.[15] This is expanded on in the text boxes on page 17 and 23. A study that appeared recently in Science attempts to describe countries using different criteria. It makes a distinction between countries or societies that are "tight" or "loose." The criterion "tight" describes countries that have strong norms and a low tolerance of deviant behavior. The criterion "loose," on the other hand, describes countries that have weak norms and a high tolerance for deviant behavior. In this context, Singapore is referred to as more of a "tight" culture, while Hong Kong displays similar values to Germany or Austria (Switzerland was not included in the study).[16]

2.3 Diversification

To record the level of diversification of investments, two aspects of asset allocation were taken into consideration:

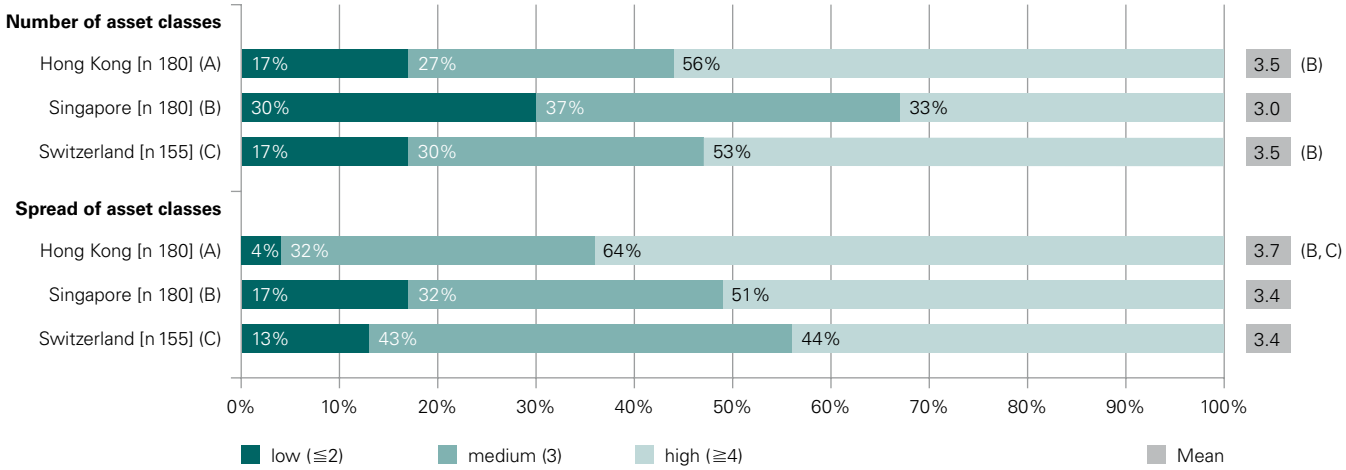
1. Number of asset classes used
2. Spread of assets over the various asset classes

From the data collected on these two dimensions that measure the distribution of the assets, an index was established which measures the level of diversification on a scale of one (minimal diversification)[17] to five (maximum diversification).[18] Figure 4 shows the results of this approach, with the numerical index values calculated for each country shown in three groups ("low" for values <2, "medium" for values = 3, "high" for values >4).

For Hong Kong we see that investments are in an average of 3.5 asset classes, with 17% investing in fewer than two asset classes and 56% in more than four asset classes. Consequently, this results on average in a good diversification as far as asset classes are concerned. For Switzerland the figures are almost identical and therefore so is the evaluation. In Singapore, on the other hand, those surveyed have a worse level of diversification. On average only three asset classes are held and 30% of interviewees are considered to have a poor level of diversification.

[13] Guiso, Sapienza and Zingales (2006)
[14] Cf. Hofstede (2001); Hofstede and Gert (2005)
[15] It should be pointed out that, in some cases, there are significant differences between the different linguistic regions of Switzerland with regard to the characteristics of Hofstede's five dimensions, which will not be dealt with in detail here.
[16] Cf. Gelfand et al. (2001)
[17] A score of 1 would mean that a questionee holds all his assets in one asset class, e.g. all in cash.
[18] A score of 5 would, for example, mean that a questionee spreads all his assets equally over all available asset classes.

Figure 4: Level of diversification measured in number and spread index



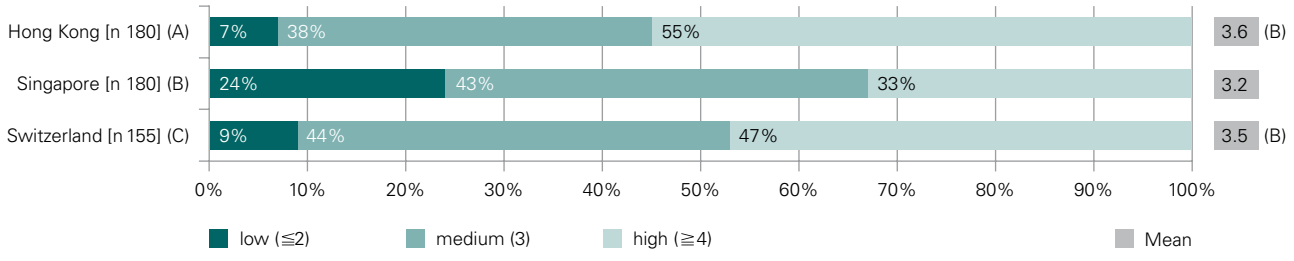
A, B, C: mean significantly higher than in country A, B, C ($p < 0.05$)

n = interviewed investors

If the spread between the asset classes is considered, rather than the number of asset classes held, it emerges that those surveyed in Hong Kong have the highest level of diversification compared with the other two countries: 64% of interviewees are considered to have a high level of diversification from this perspective.

In order to obtain an overall picture, an aggregated index of diversification level was established that is calculated as a mean from the two sub-indexes calculated in this way (cf. Figure 5). It is apparent from this that when the three countries are compared and the parameters used here are taken into account, the investors surveyed in Singapore have a narrower diversification than those in Hong Kong and Switzerland. A quarter of those surveyed in Singapore can be classified as having a low level of diversification, whereas this group is much smaller in Switzerland and Hong Kong at 9% and 7% respectively. If the clients with a medium level of diversification are also taken into account, it can be ascertained that in Singapore 67% have insufficient diversification. In Hong Kong this group stands at 45%, and in Switzerland at 53%.

Figure 5: Aggregated diversification index



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The higher level of diversification is also an indication that Hong Kong investors have more investment knowledge in different financial instruments, so they invest in different asset classes. It is quite typical for investors to invest in shares and equity mutual funds. But on the other hand, the concern about the risks of financial investments after the financial crisis pushed them into diversifying their asset classes, like buying the bonds that promise regular payments. In particular, high yield bonds have become quite popular among investors, who find that some corporate bonds provide quite attractive returns. At the same time, because investors are concerned about the inflationary pressure arising from monetary easing in the United States, Europe and China, they also invest in the commodities which provide a good hedge against inflation.

Prof. Kalok Chan

The Singaporean investor and low diversification

Given the observation that many Singaporean investors surveyed are holding a significant proportion of their wealth in cash and that another significant proportion goes to gold and other commodities, it is not surprising to observe that the average Singaporean is not diversifying beyond two or three asset classes. They are likely holding on to cash and learning about investments and increasing their knowledge and understanding of the intricacies of the diverse investment products across different asset classes before making the necessary investment commitments. The astute investment advisor should see this as an opportunity to serve as a knowledge partner and win the trust of the Singaporean investor, to help him or her learn about the benefits of diversification.

Prof. Annie Koh

Comparison of the inclination toward long-term orientation

According to Hofstede, the long-term orientation dimension is closely related to the teachings of Confucius and can be interpreted as dealing with society's search for virtue, the extent to which a society shows a pragmatic future-oriented perspective rather than a conventional historical short-term point of view. The Swiss score high on this dimension, making it a short-term orientation culture. Societies with a short-term orientation generally exhibit great respect for traditions, a relatively small propensity to save, strong social pressure to "keep up with the Joneses," impatience for achieving quick results, and a strong concern with establishing the truth. Western societies are typically found at the short-term end of this dimension. Singapore scores almost like Switzerland. Yet Singapore shows cultural qualities supporting long-term investment such as perseverance, sustained efforts, slow results, thrift, being sparse with resources, ordering relationships by status and having a sense of shame (see also again Confucian teachings). Whereas Westerners search for the truth, the Singaporeans emphasize virtue and the way you do things.

Prof. Dr. Teodoro D. Cocca

They always keep their options open as there are many ways to skin a cat. Westerners believe that if A is right, B must be wrong, whereas people from East and Southeast Asian countries see that both A and B combined produce something superior. This mindset allows for a more pragmatic approach to business.[19]

The entrepreneurial orientation described by Hofstede could be seen to be a way of explaining the high level of readiness to assume risk of those surveyed in Hong Kong for this study.

Prof. Kalok Chan

On the other hand, while Hong Kong is influenced by Confucius, its people are more short-term-oriented and more entrepreneurial. Some say this is because Hong Kong was a British colony until 1997 before the handover to China, and a lot of Hong Kong residents treated Hong Kong as a "borrowed place." Many Hong Kong residents migrated to other countries before the handover in 1997, as they were concerned about the political uncertainty and afraid of losing their economic freedom afterwards. Consequently, they adopted a short-term attitude and were much more willing to take risks, as they hoped to make money so that they could emigrate to other countries. Even though Hong Kong enjoyed a smooth handover and a lot of residents who have emigrated to other countries returned to Hong Kong, the short-term mindset still persists. Indeed a lot of Hong Kong residents who emigirated left money before they emigrated. This leads them to be more short-term-oriented and more prone to risk-taking. Even investment in real estate properties can be simply for short-term speculation in Hong Kong, as the Hong Kong's real estate market is also very volatile.

[19] http://geert-hofstede.com/switzerland.html; http://geert-hofstede.com/singapore.html; http://geert-hofstede.com/hong-kong.html

3 Correlation between return, risk and knowledge

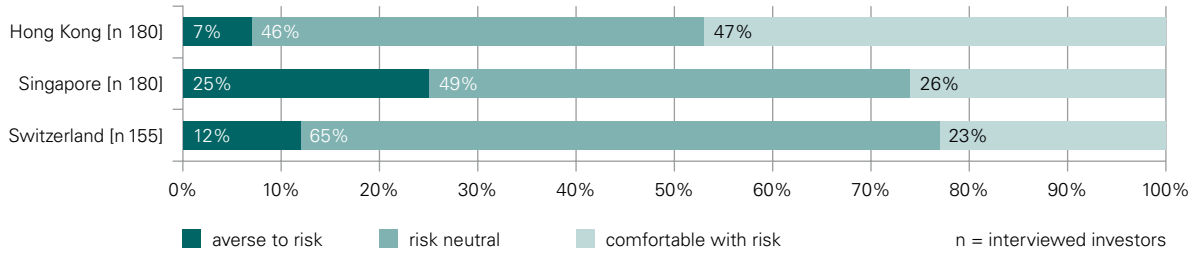
Key results

- Willingness to take risks in Hong Kong: A feature among interviewees from Hong Kong is their high degree of willingness to take risks. Almost half of those questioned describe themselves as being comfortable with risk (Singapore 26%, Switzerland 23%).
- Very good level of knowledge in Hong Kong: The proportion of interviewees who stated that they have a very good knowledge of investment matters is at 30% considerably higher than in the other two countries.
- Positive correlation between risk appetite and knowledge: A statistically positive, significant correlation can be established between appetite for risk and level of knowledge for all three countries.
- Hong Kong and Swiss investors aim for inflation-adjusted growth in value: In relation to the current year, inflation-adjusted growth in value is the most frequently cited return-on-investment objective of interviewees in both Hong Kong (31%) and Switzerland (27%).
- Singapore is benchmark-oriented: In Singapore the majority of interviewees is guided by the average performance of the market in relation to the return on their investments (40%).
- Who wants to outperform the market? 19% of those surveyed in Hong Kong aim to outperform the market (Switzerland 16%, Singapore 5%).
- Higher expectations for returns in Asia: The mean return strived for from assets over the next five years is 5.5% p.a. for those surveyed in Switzerland, 15.2% p.a. for Hong Kong and 13.3% p.a. for Singapore. 58% of interviewees in Hong Kong and 43% in Singapore anticipate a return of 10% or more per annum over the next five years – in Switzerland only 6% have such high expectations.
- Belief in market efficiency: A majority of interviewees believe that returns on shares cannot be predicted and that consequently financial markets are efficient (50% in Switzerland, 53% in Hong Kong and 67% in Singapore).
- Asian clients do not have faith in Europe: Taking into consideration risk and anticipated return, European blue chip equities and EUR bonds perform the worst as far as the clients surveyed in Hong Kong and Singapore are concerned.
- Singapore backs gold: Taking into consideration risk and anticipated return, gold is the asset class most attractive to interviewees in Singapore for the next two years.
- Hong Kong backs CNY bonds: Taking into consideration risk and anticipated return, CNY bonds are the asset class most attractive to interviewees in Hong Kong for the next two years.

3.1 Risk appetite

In answer to the question of how investors would classify themselves with regard to willingness to assume risk, 65% of Swiss interviewees placed themselves in the risk-neutral group (cf. Figure 6). The proportion of investors who are comfortable with risk stands at 23%, and those averse to risk at 12%. In Singapore the percentage of private banking clients willing to take risks is similar; however, the proportion of those averse to risk is higher in Singapore at 25%. Hong Kong, on the other hand, stands out with almost half those surveyed stating that they were comfortable with risk.

Figure 6: Self-assessment of willingness to assume risk



Prof. Dr. Teodoro D. Cocca

Risk behavior

Studies into risk behavior reveal great differences between regions with different cultural identities. Overall, these studies show that Asian investors display more risk tolerance and less loss aversion than European investors when it comes to investment risks.[20] An explanatory model of this is provided in the literature by the "cushion hypothesis" by Weber and Hsee.[21] This suggests that people in a collectivist society, such as China, are more likely to receive help from their family and friends if they are in financial need. The monetary risk is, therefore, not perceived to be so great. A higher reference point or aspiration level could also serve as an explanatory model. Higher expectations in relation to the target return would logically lead to behavior that was more comfortable with risk (and vice versa). This is clearly shown in the present study. Research is still ongoing into the way in which these expectations are formed. What has been demonstrated, however, is that Chinese investors are more prone to the so-called framing effect[22] and are more strongly influenced by their social environment when purchasing financial products.[23] In addition, it is worth mentioning Hsee and Weber's observation (1999) that Chinese investors are more comfortable with risk specifically when making investment decisions and not so comfortable in other, everyday decision-making situations.

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As Hong Kong and Singapore are international financial centers, their investors have more experience in dealing with stock market fluctuations and are more comfortable in tolerating investment risks.

[20] Cf. Fan and Jiao (2006)

[21] Cf. Weber and Hsee (1998); Statman and Klimek (2008)

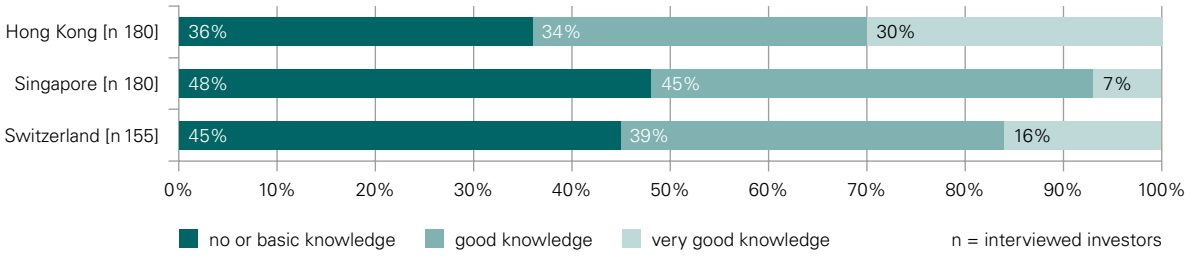
[22] Framing effects are the changes in a decision-making process based on how the decision is framed. The rational theory of choice assumes description invariance: equivalent formulations of a choice problem should give rise to the same preference order. Contrary to this assumption, there is much evidence that variations in the framing of options (e.g., in terms of gains or losses) yield systematically different preferences (Tversky and Kahneman (1986)).

[23] Cf. Wang and Fishbeck (2004); Levinson and Peng (2006)

3.2 Level of knowledge

In answer to the question of how investors rate their own knowledge of investment matters, 39% of those surveyed from Switzerland stated that they have a good level of knowledge, 16% even very good (cf. Figure 7). In Singapore the values are similar. Hong Kong, on the other hand, reveals a very different picture: the percentage of those surveyed who believe that they have a very good level of knowledge is at 30% considerably higher than in the other two countries.

Figure 7: Self-assessment of knowledge



Who is (not) similar to whom?

Prof. Dr. Teodoro D. Cocca

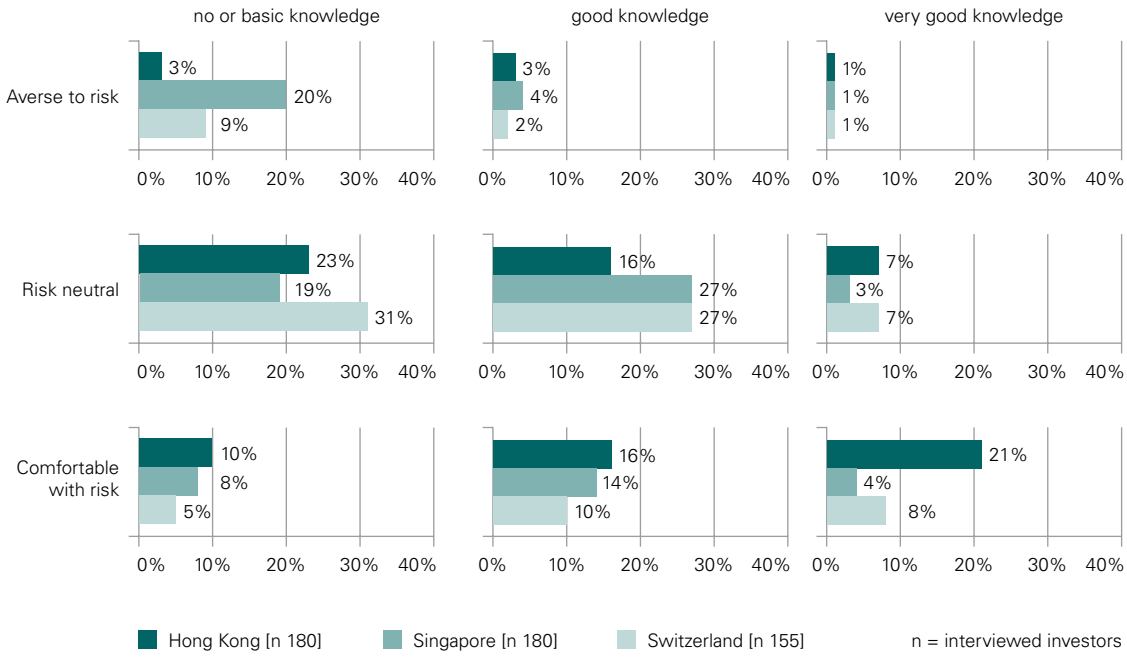
In this study, the data predominantly show a certain similarity in the behavior of investors in Hong Kong and Switzerland. This is not the case across the board, but a similarity in investment behavior is more discernible between Switzerland and Hong Kong than between Singapore and Hong Kong or between Switzerland and Singapore. This does not conclusively tally with the findings of Hofstede's comparison of the cultural dimension "uncertainty avoidance," in which Hong Kong and Singapore are closer together. What is surprising in this context is the aspect of self-assessment of willingness to assume risk. As expected, the proportion of investors comfortable with risk in Hong Kong is considerably larger than in Switzerland, but (unexpectedly) also considerably larger than in Singapore. This last fact is, to a certain extent, contradictory to the literature and could be related to the higher level of knowledge among Hong Kong investors (see section 3.2). According to findings of behavioral finance, the higher level of knowledge involves the risk of overestimating one's capabilities, which could explain the greater willingness to assume risk.[24] The greater willingness to assume risk is also revealed in a higher percentage of interviewees in Hong Kong who aim to outperform the market. And the picture of a certain "overestimation of one's capabilities" is completed by the higher target returns specified by Hong Kong investors compared with those of the other two countries. These observations are confirmed by the fact that some scientific works indicate that there is a greater tendency to overestimate one's capabilities in Asian countries than in Western nations. This can be attributed to a collectively shaped culture that promotes compliant behavior over the tendency to question knowledge.[25] It is, however, also argued that investors from individualistic cultures should be more prone to overestimating their capabilities because they are encouraged from childhood to be different from others and because self-confidence is vigorously fostered.[26]

[24] Cf. Chen et al. (2007)
[25] Cf. Wright and Phillips (1980); Yates et al. (1996)
[26] Cf. Chui, Titman and Wei (2005)

3.3 Correlation between risk appetite and knowledge

Figure 8 examines the correlation between risk appetite and the investors' level of knowledge. Those surveyed evaluated their own appetite for risk and level of knowledge. A statistically positive, significant correlation can be established: the higher an investor rates his level of knowledge, the greater the appetite to assume risk and vice versa. There are no fundamental differences between the countries.

Figure 8: Correlation between knowledge and risk

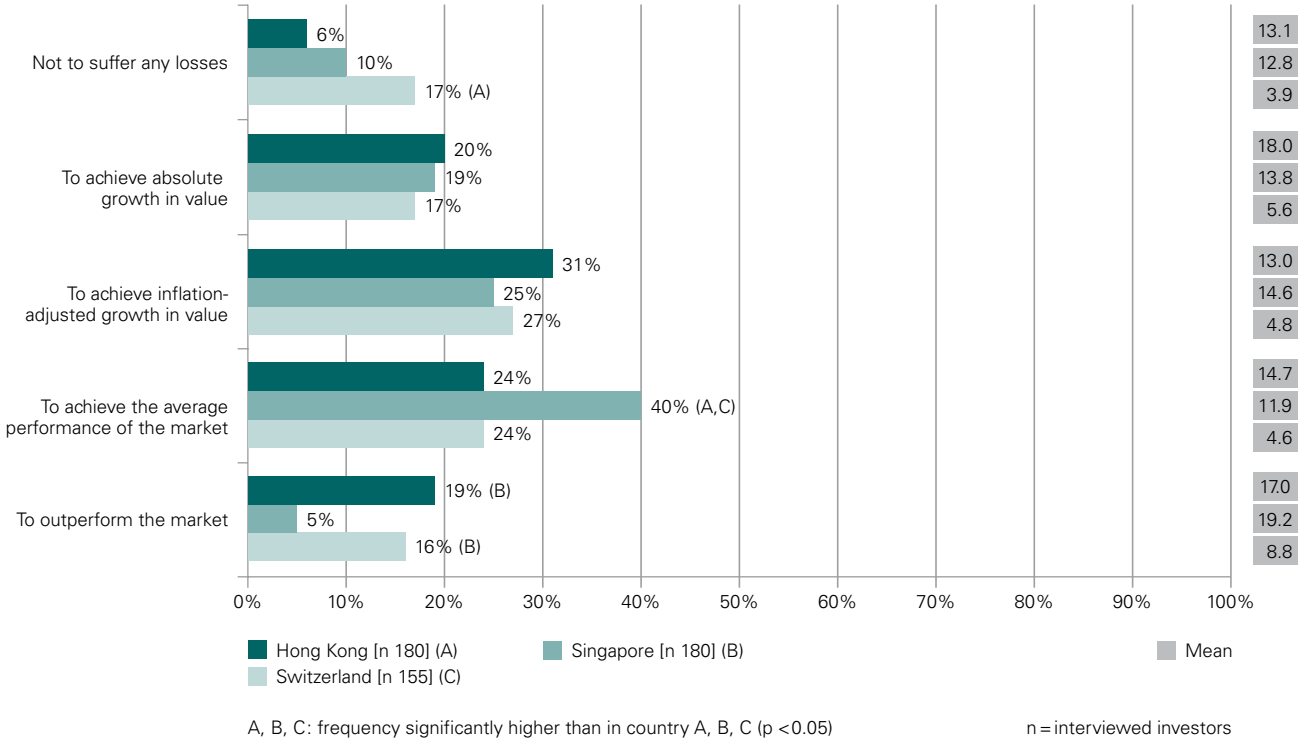


3.4 Focus in terms of return on investment

In relation to the current year, inflation-adjusted growth in value is the most frequently cited return-on-investment objective of interviewees in both Hong Kong (31%) and Switzerland (27%). However, in Singapore the majority of interviewees focuses on the average performance of the market (40%). In addition, a feature of Singapore is that a smaller than average number has the intention of outperforming the market (only 5%).

Figure 9 also shows the mean return expectation that those questioned have for the next five years. This reveals that expectations for returns are considerably higher in the two Asian countries than in Switzerland. For example, investors in Hong Kong who want to outperform the market anticipate a return of 17%, those in Singapore a return of 19.2%, and in Switzerland 8.8%.

Figure 9: Benchmark for expected returns on investment



Comparison of the inclination toward uncertainty avoidance

Prof. Dr. Teodoro D. Cocca

According to Hofstede, "(…) the dimension 'uncertainty avoidance' has to do with the way that a society deals with the fact that the future can never be known. This ambiguity brings with it anxiety and different cultures have learnt to deal with this anxiety in different ways. The extent to which the members of a culture feel threatened by ambiguous or unknown situations and have created beliefs and institutions that try to avoid these is reflected in the inclination to avoid uncertainty and is measured by a score. Switzerland scores high on this dimension and thus has a strong preference for avoiding uncertainty. Countries exhibiting high uncertainty avoidance maintain rigid codes of belief and behavior and are intolerant of unorthodox behavior and ideas. In these cultures there is an emotional need for rules, 'time is money' is an often cited slogan, people have an inner urge to be busy and work hard, precision and punctuality are the norm, innovation may be resisted, security is an important element in individual motivation. Decisions are taken after careful analysis of all available information. In contrast, Singapore scores very low on this dimension. In Singapore people abide by many rules not because they have need for structure but because people in Singapore accept that power is distributed unequally. Singaporeans call their society a 'Fine country. You'll get a fine for everything.' Hong Kong, on the other hand, has a score on uncertainty avoidance between Switzerland and Singapore. Adherence to laws and rules may be flexible to suit the actual situation and pragmatism is a fact of life. The people in Hong Kong are comfortable with ambiguity; the Chinese language is full of ambiguous meanings that can be difficult for Western people to follow. They are adaptable and entrepreneurial."[27] The data in the present study only partially agrees with the characteristic features

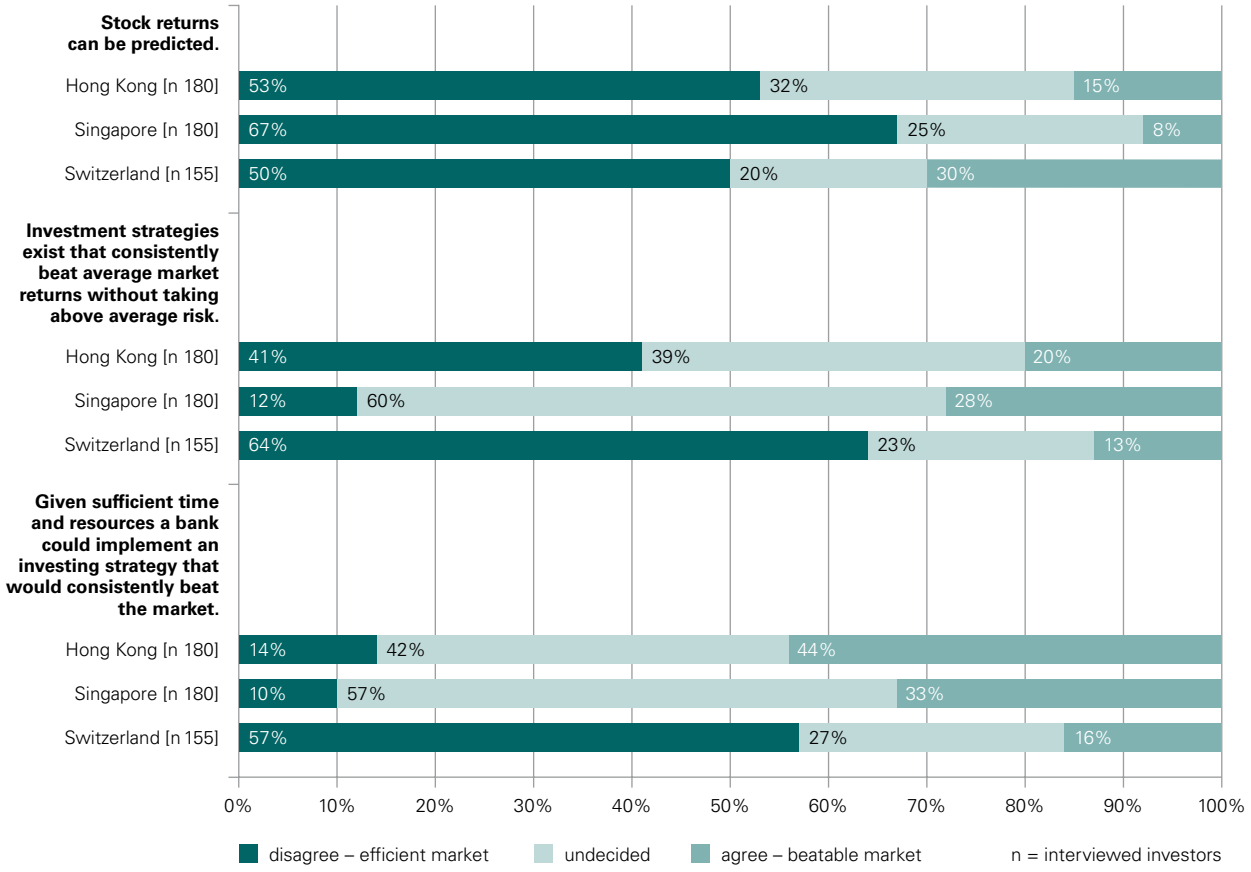
[27] http://geert-hofstede.com/switzerland.html; http://geert-hofstede.com/singapore.html; http://geert-hofstede.com/hong-kong.html

recorded by Hofstede. A significant congruency is apparent in the description of the investment behavior of Swiss interviewees, which clearly reflects Hofstede's findings (low willingness to assume risk and a high proportion who want to avoid losses). Singapore and Hong Kong lie further toward the other end of the spectrum, as is to be expected, as far as the two criteria are concerned. However, a greater inclination toward uncertainty avoidance emerges from the data for Singapore than for Hong Kong.

3.5 Belief in market efficiency

The question as to whether the financial market is regarded as efficient is hotly debated in academic circles. It is interesting to learn now what high net worth private clients think about this. If it is assumed that markets are (totally) efficient, then returns on shares cannot be predicted and outperforming the market is only possible by taking on additional risk. By indicating their agreement with the statements shown in Figure 10, those surveyed revealed their attitude to market efficiency. The questions were worded in such a way that agreement equates to expressing the belief that the market can be beaten, and thus markets are to be considered inefficient. Conversely, disagreement is seen as stating that the market cannot be beaten and so is considered efficient.

Figure 10: Market efficiency (country comparison)



The results clearly show that a majority of interviewees believe in the efficiency hypothesis of financial markets. 53% of those surveyed in Hong Kong disagree with the statement that share returns can be predicted. They are thus expressing their belief in an efficient market. In Singapore the number expressing a belief in an efficient market through this statement is as high as 67%, and it is 50% in Switzerland.

The picture in relation to the other two statements is not quite so clear-cut. Only 12% in Singapore disagree with the statement "Investment strategies exist that consistently beat average market returns without taking above average risk," whereas 64% disagree in Switzerland. A similar picture emerges for the statement "Given sufficient time and resources a bank could implement an investing strategy that would consistently beat the market": while only 10% disagree in Singapore, 57% disagree in Switzerland.

Thus it appears that Swiss interviewees gave consistent answers through all three statements, whereas the third statement in particular was assessed differently in Hong Kong and Singapore. While there is thus a belief in the two Asian states in an efficient market (in the sense of the non-predictability of returns), the banks are thought capable of finding an investment strategy that, with an appropriate use of resources, can outperform the market.

Belief in market efficiency as a cultural dimension

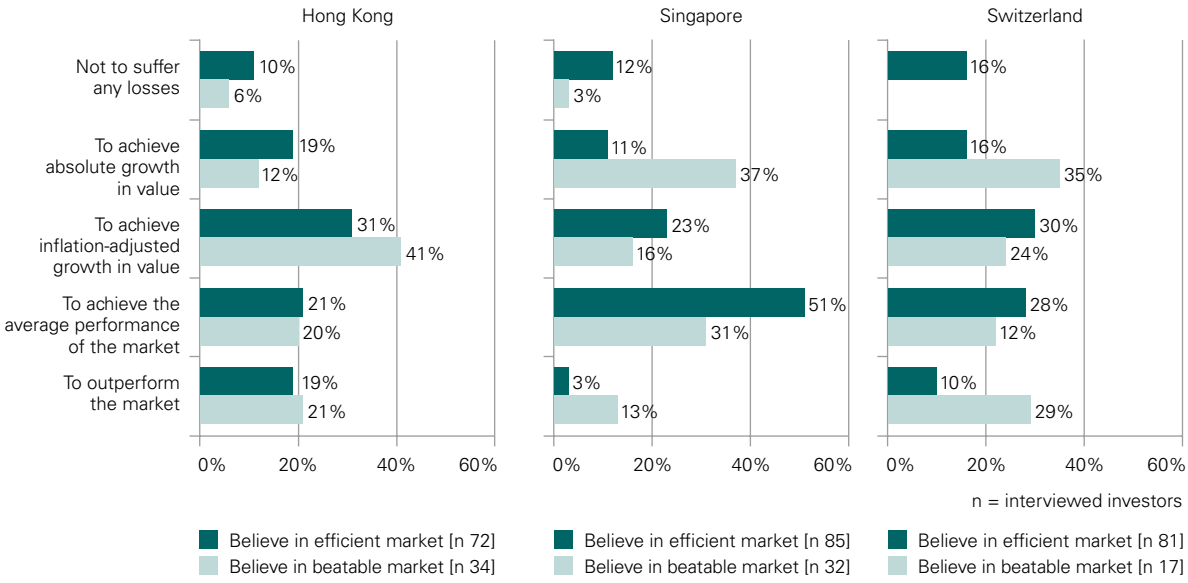
Prof. Dr. Teodoro D. Cocca

This study brings individual understanding of the nature of the equity market into the debate as a cultural dimension to be considered. In recording assessments of the market efficiency of the equity market, an absolutely fundamental element of the mental construct "equity market" emerges. Both theoretically and empirically – supported by the results shown here – the prevailing basic assumption about the ability to predict returns on shares plays a decisive role in subsequent decisions made when creating the asset portfolio. It is striking here that, unlike Swiss interviewees, those surveyed in Hong Kong and Singapore acknowledge that a bank can outperform the market. Whether the greater belief in the abilities of institutions (authorities) that generally comes from a hierarchically, strictly organized social structure can be cited for Hong Kong and Singapore or whether it is simply the lack of adeptness of those surveyed that plays a role here, is still unclear.

The replies from Figure 10 were then arranged into groups: if an interviewee agreed with at least two of the statements given he was assigned to the "Belief in beatable market" group; if he did not agree with any of the statements, then he was assigned to the "Belief in efficient market" group (cf. Figure 11).

Consequently, those in particular who represent the belief in a beatable market also try to actually outperform the market. 29% of those in Switzerland who believe in a beatable market and 13% of those in Singapore actually try to outperform the market. In Hong Kong, on the other hand, there is a contradictory group of 19% that does not believe that the market can be beaten, but nevertheless aims to do so!

Figure 11: Benchmark for returns for 2012 vs. belief in efficient market



It is furthermore worth noting that, among those who believe in a beatable market, a high proportion set the aim of achieving absolute growth as the benchmark for returns (in Singapore and Switzerland).

Prof. Annie Koh

Risk appetite, level of knowledge and belief in market efficiency – how do all these combine to affect the Singaporean investors' behavior?

Given that Singaporean culture tends to promote a safe and stable ethos, Singaporeans are generally regarded as averse to risks. This is borne out by the survey results where 25% of the Singaporean respondents acknowledged that they are risk-averse (compared to 7% in Hong Kong and 12% in Switzerland). This cultural inclination is compounded by the respondents' self-estimation of their level of investment knowledge. Whereas 30% of Hong Kong investors and 16% of the Swiss investors regard themselves as having very good investment knowledge, only 7% of Singaporean investors had similar confidence in their investment knowledge.

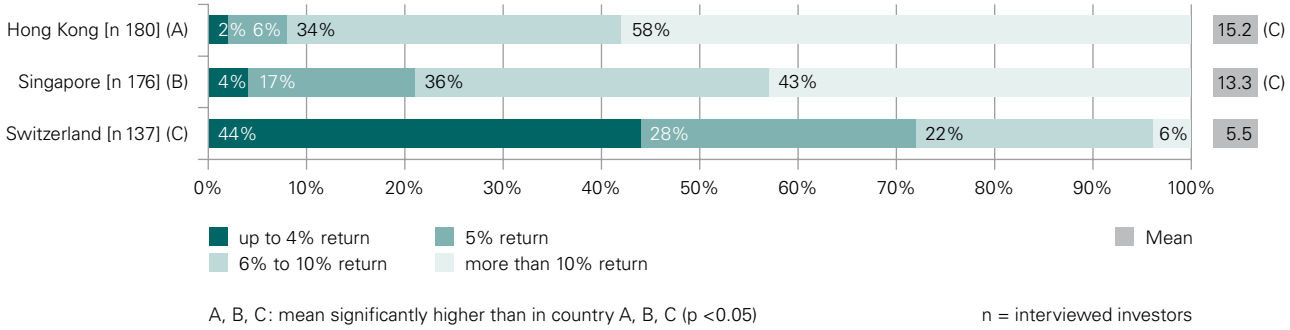
The coupling of a generally risk-averse inclination with less than optimal confidence in one's investment knowledge leads one to deduce that Singaporean investors will tend to allocate a significant portion of their investment portfolio to safe assets with moderate returns. In addition, only 5% of Singaporean investors expected their investments to outperform the market vs. 19% of the Hong Kong investors and 15% of the Swiss investors expecting their investments to do likewise. Furthermore, 67% of the Singaporean investors disagree that stock prices can be predicted, which therefore suggests that Singaporean investors are not as inclined to invest significantly in the less predictable asset class of shares is therefore considered riskier. As such, it is not surprising that Singaporean investors only invest about 21% of their investment capital in shares versus 40% for Hong Kong investors and 45% percent for Swiss investors.

3.6 Expectations in terms of returns

The mean return strived for from investments over the next five years is 5.5% p.a. for interviewees in Switzerland, 15.2% p.a. for Hong Kong and 13.3% p.a. for Singapore. The significantly higher expectation in terms of return in the Asian countries is also apparent in the fact that in Hong Kong 58% and in Singapore 43% of those surveyed anticipate a return of 10% or more p.a. for the next five years – in Switzerland only 6% have such high expectations.

> The higher return expectation in Hong Kong reflects the fact that Hong Kong investors are confident of their investment skills, and that they might over-estimate their ability in stock picking or choosing the best performing asset class.
>
> Prof. Kalok Chan

Figure 12: Expectation in terms of returns for the next five years (country comparison)



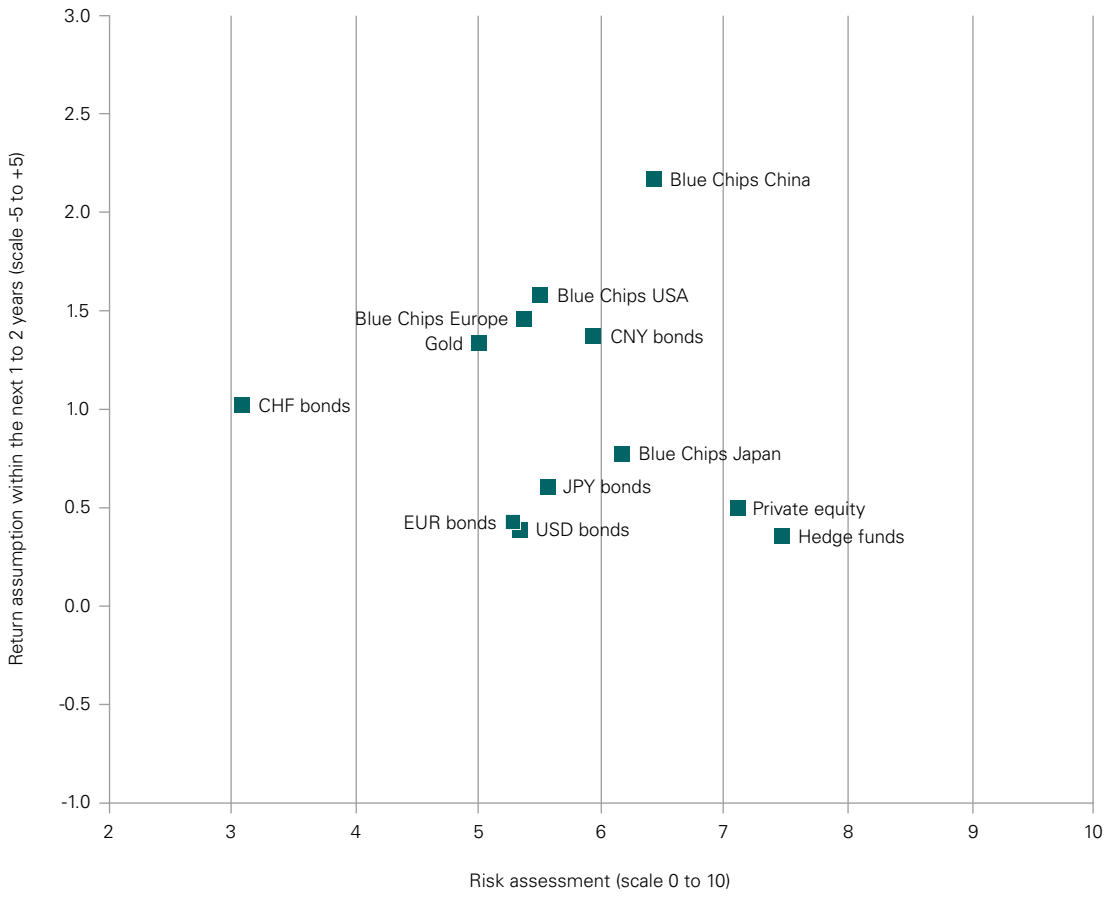
A, B, C: mean significantly higher than in country A, B, C ($p < 0.05$)

n = interviewed investors

In addition to the mean total return expected, investors' expectations for returns from individual asset classes are also of particular significance. As the anticipated risk of each asset class was also ascertained for each interviewee, both elements can be combined.

The investors surveyed were first asked about the return they expected in the next one to two years for various asset classes. They were then asked about the general risk from fluctuations in value for the corresponding asset class. Figures 13 to 15 show the average return/risk graph produced in this way for various asset classes for the three countries.

Figure 13: Anticipated return and risk assessment of asset classes (Switzerland)

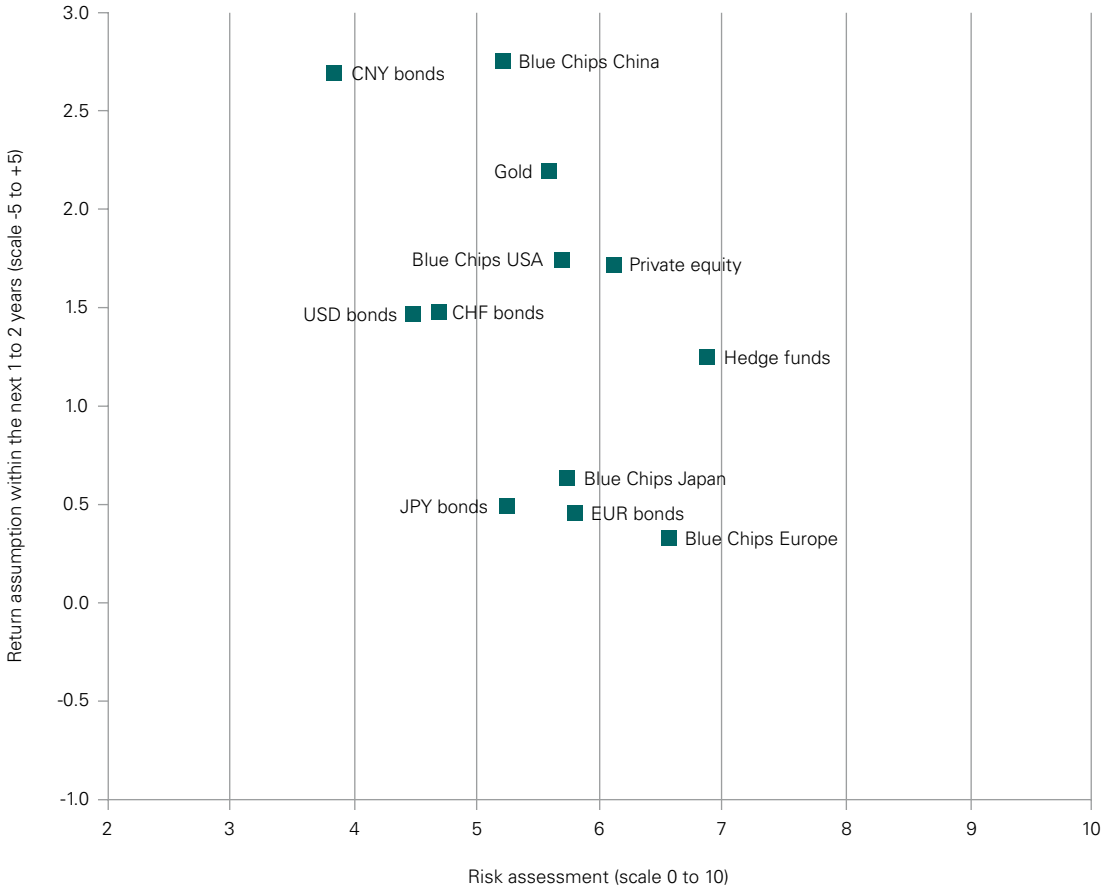


n = 155 interviewed investors

The average assessments made by the investors surveyed in Switzerland show that the following asset classes are to be categorized as inefficient[28] from the point of view of risk/return: EUR/JPY/USD bonds, blue chips Japan, private equity and hedge funds. The investment universe should therefore be made up only of CHF bonds, gold, blue chips USA/Europe and China. It is furthermore worth noting that many equity classes are rated the same as bond classes in terms of risk. Investments in gold enjoy a unique positioning. Moreover, there is an obvious focus on the domestic market with a preference for domestic bonds, and for the European equity markets. In this respect the very similar assessment of European and USA equity markets is striking. In addition, the attractive classification of CNY bonds should be noted.

[28] An asset class is described as inefficient if there is another asset class that realizes a higher return for the same risk, or if there is a higher risk for the same return.

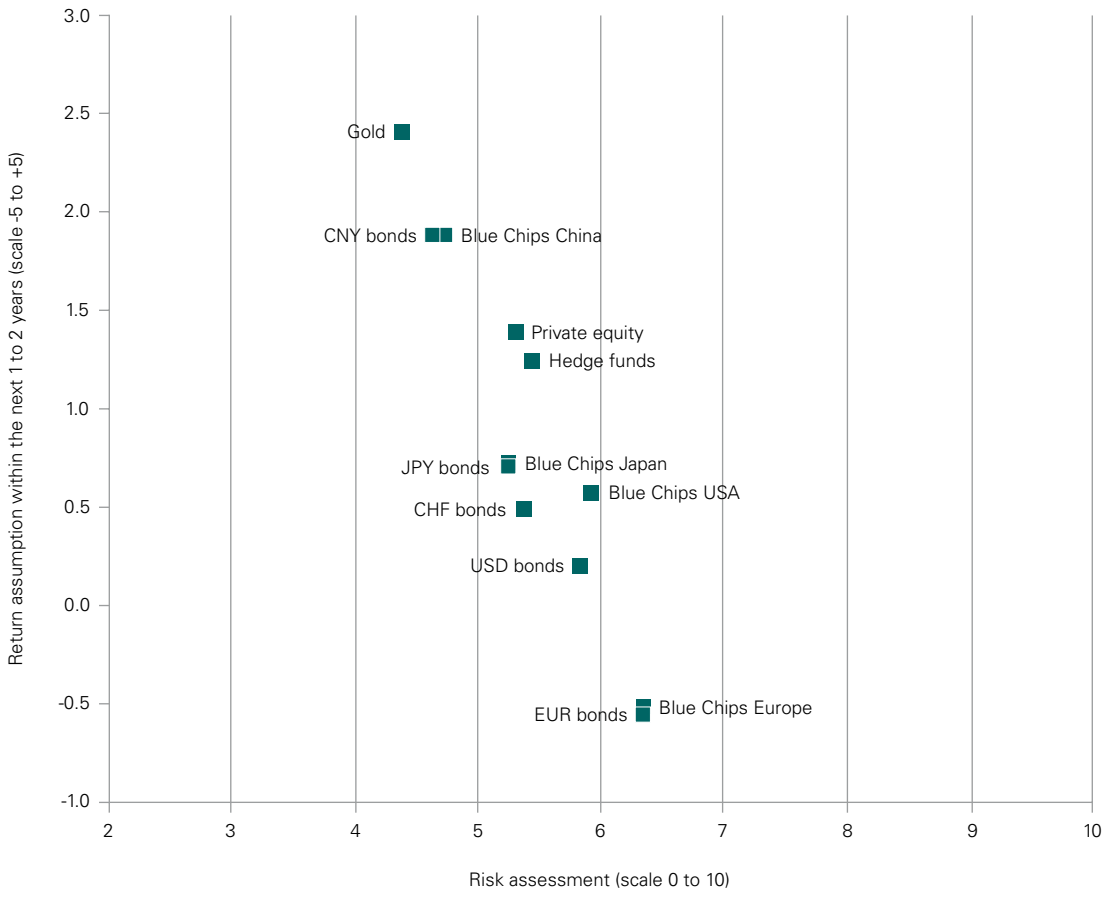
Figure 14: Anticipated return and risk assessment of asset classes (Hong Kong)



n = 180 interviewed investors

Investors interviewed in Hong Kong differ strikingly in some of their risk/return ratings from those in Switzerland. The efficient asset classes are CNY/USD and JPY bonds. Differences in the assessment can be attributed to the "home-bias effect," by which "local" bonds and shares are regarded as the most attractive. Alternative investments and private equity fare slightly better than in Switzerland. Of particular note is the consistently very negative assessment of European investments (shares and bonds), which come out the worst when compared with other asset classes.

Figure 15: Anticipated return and risk assessment of asset classes (Singapore)



n = 180 interviewed investors

Those questioned in Singapore differ in their assessments from the questionees in both Switzerland and (to a lesser extent) Hong Kong. In general it is noticeable that the expectations of those questioned in Singapore reveal a linear, inverse correlation between risk assessment and return expectations. This cannot be observed to such an extent with the samples from the other countries.

Compared with the evaluation made by the Swiss interviewees, it is striking that gold offers the most attractive expectation in Singapore. The home bias (despite Singapore not being right next to China) comes into play in the positive assessment of CNY bonds and Chinese shares. Private equity and hedge funds are also regarded much more positively than in Switzerland. European investments, on the other hand, perform very poorly.

In a comparison between Hong Kong and Singapore, the riskier rating given to gold by the interviewees in Hong Kong stands out. Private equity and hedge funds, on the other hand, are viewed positively in Singapore in particular. USD and CHF bonds, by contrast, are regarded as being more attractive in Hong Kong. Interestingly, blue chip equities in China and Japan are considered by investors in Singapore to be less risky than USD and CHF bonds. In Hong Kong, on the other hand, bonds are generally given a lower risk rating than shares, as would be expected. The only exception to this is the assessment of European securities.

Explaining Singaporean investors' behavior by looking at risk-return expectations across different asset classes

Prof. Annie Koh

For an overall perspective, Singaporean investors have indicated in H1 2012 that they expect average returns of 13.3% for the next five years and that they expect gold, blue chip PRC shares and top-rated RMB bonds to deliver the most positive returns over the next one to two years. This captures what is termed a home bias in terms of what investors feel most familiar with when it comes to their risk perceptions of asset classes. Given Singapore's proximity to China and the expected growth opportunities in Asia over the next decade, it was not surprising to have Singaporean investors rating the above three asset classes as being the least risky, compared with blue chip EUR shares and top-rated EUR bonds that are seen as the most risky asset classes.

Willingness to assume risk, home bias and gold

Prof. Dr. Teodoro D. Cocca

The results of this study support the view that artifacts of the willingness to assume risk (measured on the basis of "readiness to assume risk" or "avoidance of loss") when allocating invested funds is a highly significant factor for all three countries considered (see section 2.2.2). Nevertheless, clear differences emerge first in the general willingness to accept risks at all (see section 3.1), and second in the perception of the risks of individual investment instruments (see section 3.6). In relation to the latter, the home bias[29] plays a central role, which has been substantiated in many studies including with regard to countries outside of Asia.[30] However, the home bias cannot be cited as an explanatory model for investments in gold. Whereas gold is considered to be the investment with the lowest risk in Singapore, those surveyed in Hong Kong judge gold to be as risky as US blue chip equities. Thus there is an astonishingly wide variation in the assessment of commodities/gold or precious metals: from less risky than bonds to more volatile than shares.

[29] Cf. Grinblatt and Keloharju (2001)
[30] Cf. Anderson et al. (2011)

4 Investment decisions and advice

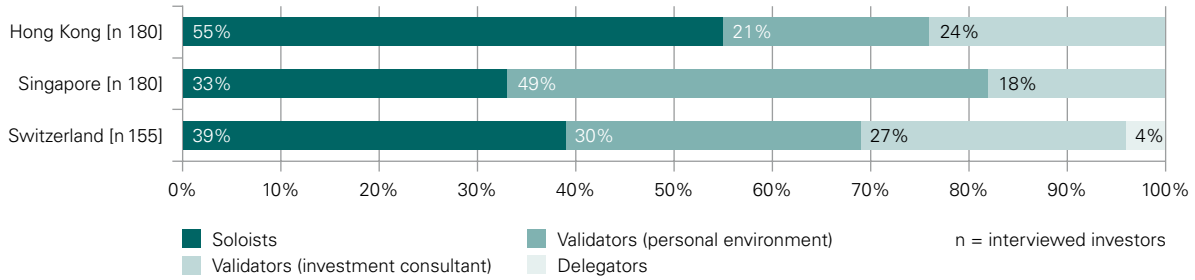
Key results

- Independent investment decisions in Hong Kong: The proportion of investors who make their own investment decisions (without a consultant) is highest in Hong Kong at 55% (Singapore 33%, Switzerland 39%).
- Low level of client loyalty towards the relationship manager in Singapore: 60% of those surveyed in Singapore would "certainly not" follow their relationship manager if the latter moved bank (Hong Kong 37%, Switzerland 33%).
- Achieving a better return is the most important need in Asia: Achieving a better return on investments thanks to advice from the bank is considered the principal need of private banking clients in both Hong Kong and Singapore.
- Need to achieve a better return is fulfilled better in Asia: In Hong Kong and Singapore those surveyed give higher ratings to the fulfillment of the need for a better return than those in Switzerland.
- Technology-minded Hong Kong investors: Although the differences between the countries are not huge, those surveyed in Hong Kong prove to be more technology-minded than the other participants in the survey.

4.1 Investment decisions

In Switzerland 39% of private banking clients surveyed generally make their own investment decisions (soloists) (cf. Figure 16)[31]. 57% make investment decisions with others or an investment consultant (validators) and a very small proportion of 4% leaves investment decisions completely to the investment consultant (delegators).

Figure 16: Investment decisions

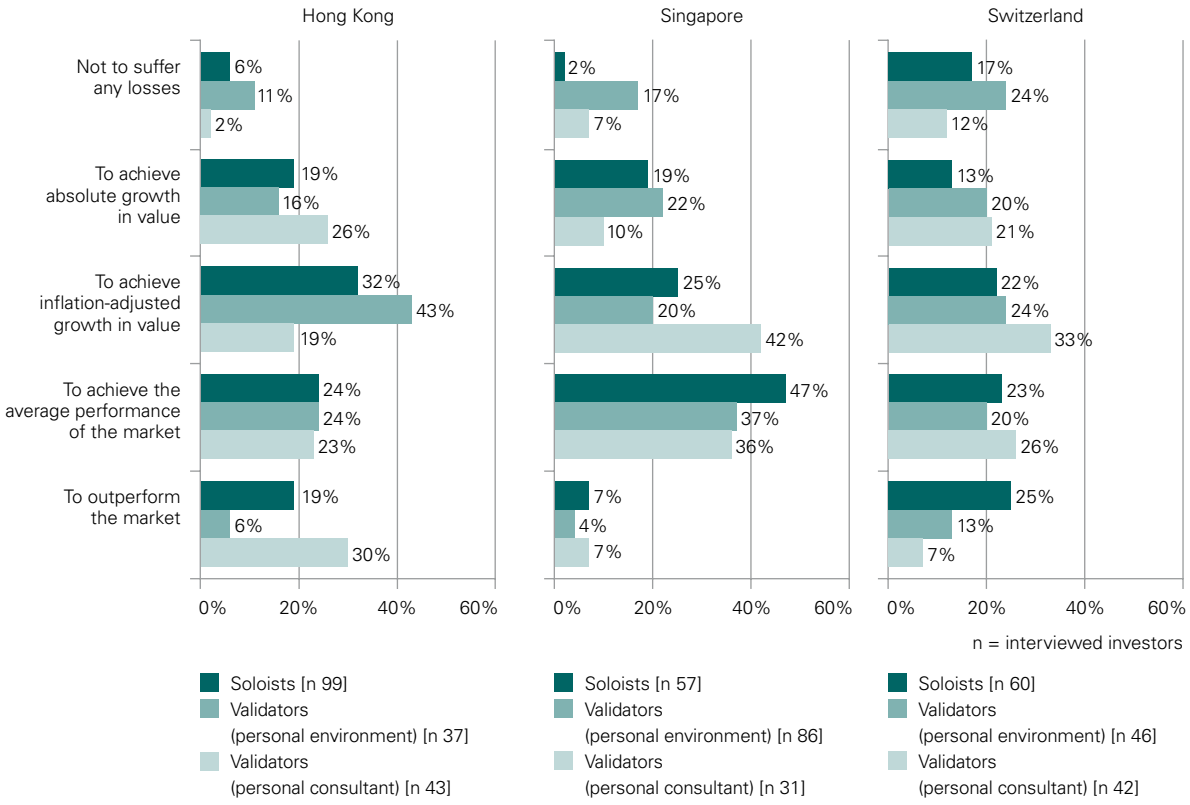


[31] cf. Koye, 2004, p. 142f.

In Hong Kong, the number of soloists is high at 55%; a total of 45% count themselves as validators. In Singapore, on the other hand, the proportion of soloists is somewhat lower at 33%; in all a high 67% count themselves as validators. In addition, in the case of validators we can differentiate between those who make investment decisions with an investment consultant and those who make them with people from their personal environment. In Singapore the latter form the largest group at 49%. In Singapore and Switzerland, the number of validators who make investment decisions with those from their personal environment is greater than the number of validators who make decisions with an investment consultant.

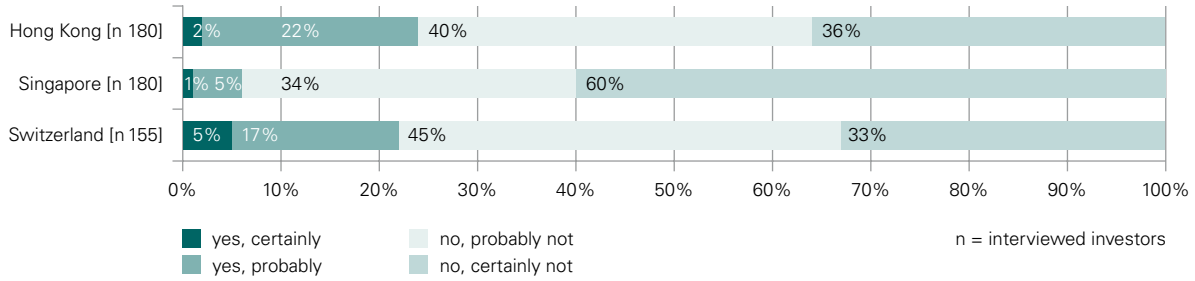
It should be noted that the results shown here could in part be affected by the methodology used. Thus it should be taken into account that the study primarily involves onshore clients, as these are characterized by a higher degree of involvement in the decision-making process than are offshore clients.

Figure 17: Investment decisions and benchmark for returns



It is instructive to consider the relationship between the various typologies relating to investment decisions and the benchmark chosen for returns. Figure 17 shows clearly, for example, that it is primarily soloists who set themselves the target of outperforming the market. Validators (decisions with investment consultants) in Switzerland and Singapore tend towards inflation-adjusted growth in value. In contrast, validators (personal environment) in Hong Kong tend towards inflation-adjusted growth in value. In Singapore, this same group predominantly tends towards achieving market returns.

Figure 18: Move because of the relationship manager



The loyalty of a client towards his relationship manager can be established by asking whether the client would follow his relationship manager if the latter were to move to another bank. Figure 18 illustrates that in Switzerland only some 5% of clients state that they would definitely follow their relationship manager and 17% would probably follow them. The numbers are very similar for Hong Kong: 2% would certainly follow their relationship manager and 22% probably would. However, a completely different picture emerges in Singapore, where loyalty to the relationship manager is considerably lower: only 1% would certainly follow their relationship manager and 5% would probably go with him. 60% of those surveyed in Singapore were quite forthright in saying that they would "certainly not" follow their relationship manager.

Prof. Dr. Teodoro D. Cocca

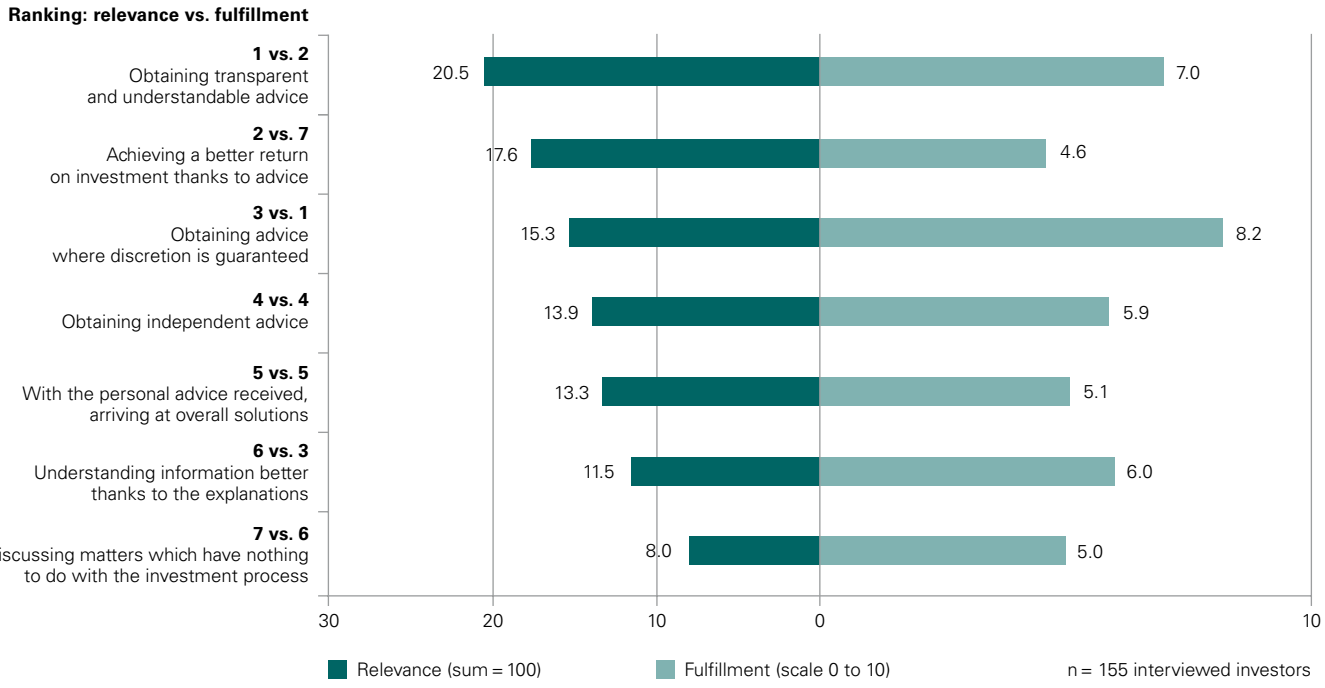
Client loyalty

Clients in Hong Kong and Singapore seem to have significantly less of a bond with their relationship managers than in Switzerland. This indicates that a private banking culture does not yet exist along the same lines as in Switzerland, where a close bond with the relationship manager is achieved through long-term relationships. The question as to whether this type of private banking will be established or accepted in the Asian countries is still uncertain. From the point of view of business policy, the outcome is very relevant, because it calls into question the frequently pursued strategy of European banks aimed at enticing senior private bankers away from the competition at a high price. If there is a low level of client loyalty, success will not be achieved using this strategy.

4.2 Relevance and fulfillment of advisory needs

The question as to the needs relevant to a private banking client and how these requirements are weighted in respect of their importance is a subject that has been much debated for the purposes of banking practice as well as among researchers. In addition, the extent to which these needs are met is an important indication of the client's perspective of the services provided by the bank. These questions are examined in Figures 19 to 21, where the interviewees were asked to allocate 100 points to various requirement categories as a way of indicating their personal preferences (the higher the number of points allocated, the greater the relevance of the corresponding aspect). On the right of the chart, the level of fulfillment of the respective criterion is contrasted with its relevance from the interviewees' point of view.

Figure 19: Advisory needs: relevance ranking and fulfillment (Switzerland)



From the point of view of a Swiss private banking client, the primary need when using the services of a private banking provider is to obtain transparent and understandable advice, and to achieve a better return on investment thanks to that advice. Transparent advice was considered of the greatest relevance with an average of 20.5 points. It appears that the main criterion – the expectation of transparent advice – is fulfilled well (fulfillment ranking of 7.0).[32] Less satisfactory is the fulfillment of the second-most important need, namely the achievement of a better return on investment. With a fulfillment ranking of 4.6, this need is the least met of any.

For those surveyed in Hong Kong, achieving a better return on investment is the most important need. Compared with Switzerland, this achieves a higher level of fulfillment. Understanding information better is the second-most important aspect, while getting transparent, understandable advice is the third most important. The level of fulfillment of these two needs is consistently satisfactory.

[32] Fulfillment is measured on a scale of 0 to 10, with 0 for poor fulfillment and 10 for very good fulfillment.

Figure 20: Advisory needs: relevance ranking and fulfillment (Hong Kong)

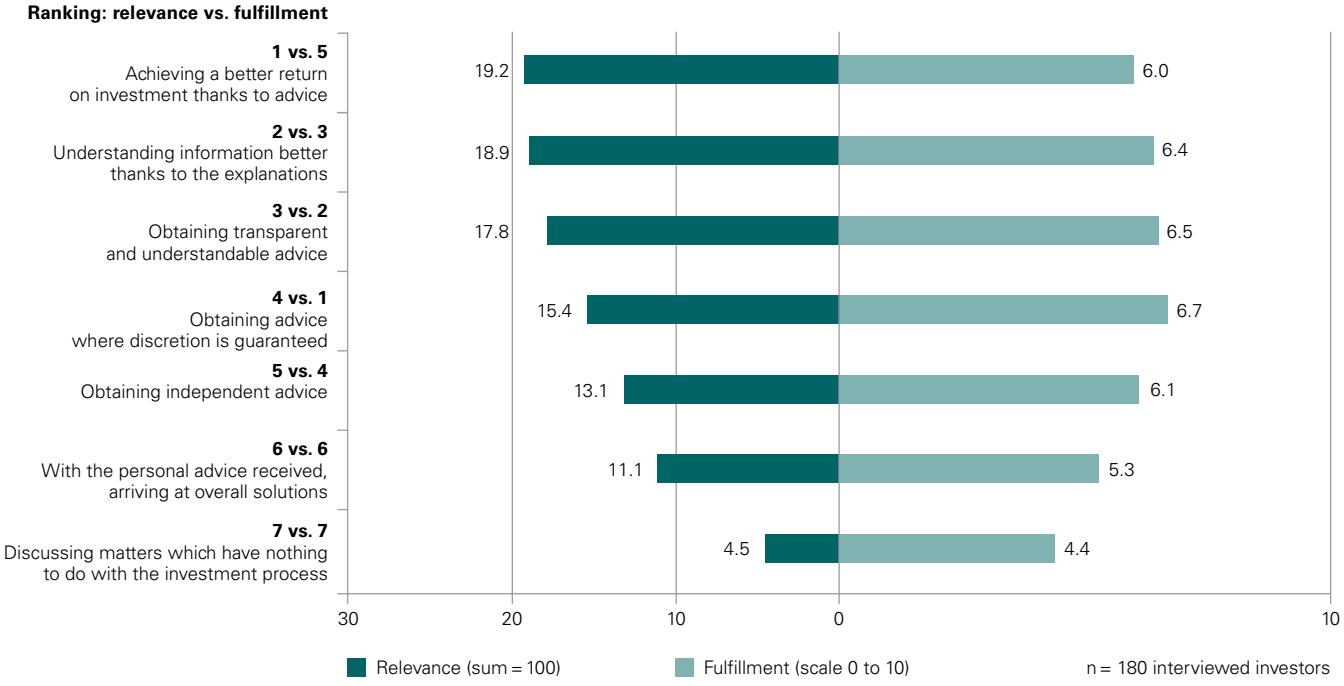
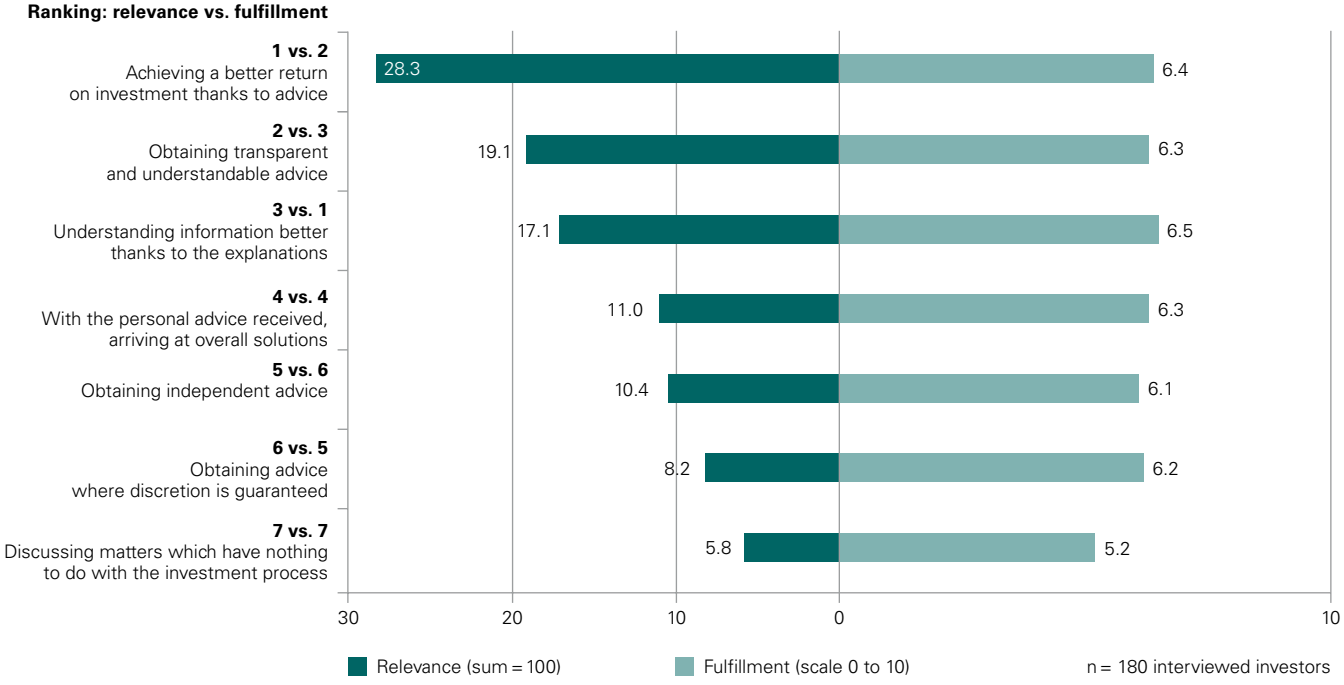
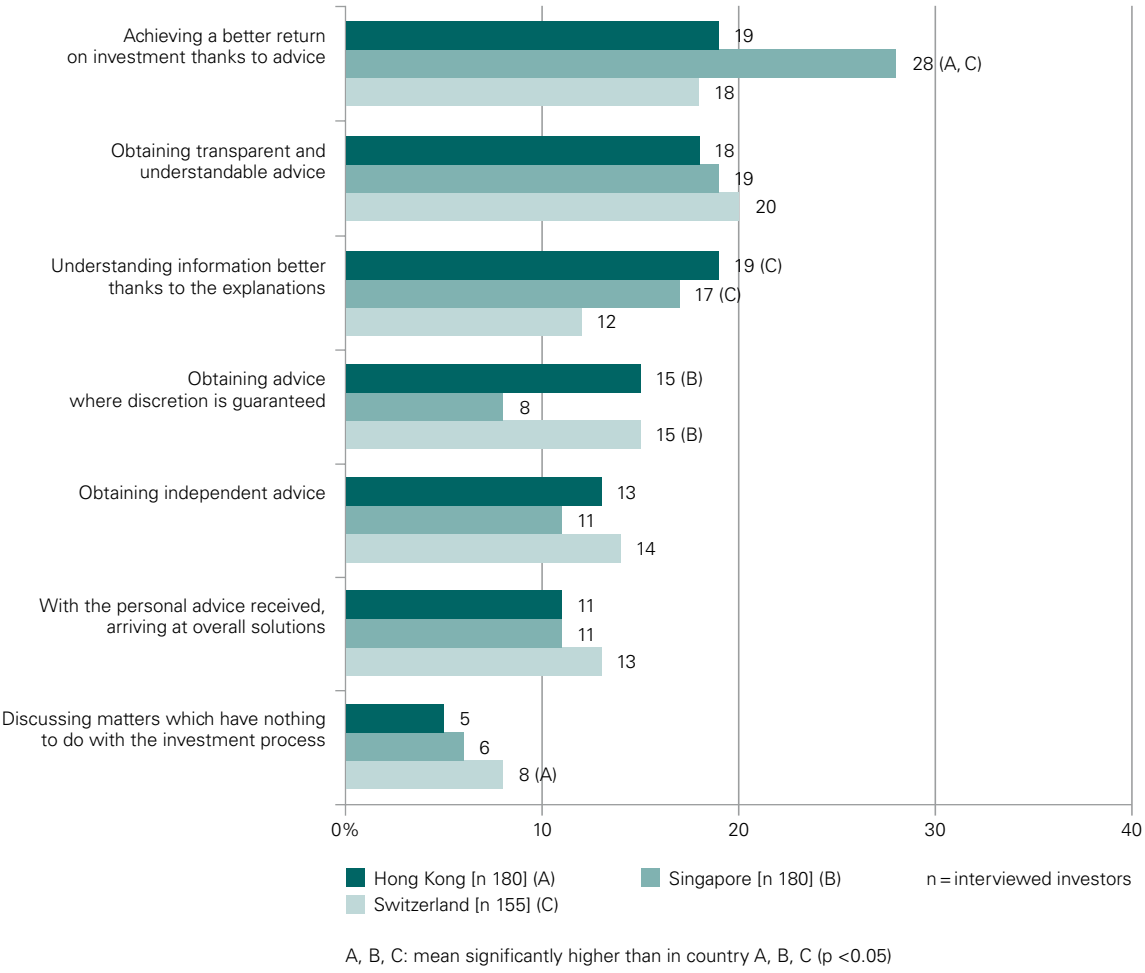


Figure 21: Advisory needs: relevance ranking and fulfillment (Singapore)



In Singapore, achieving a better performance thanks to advice is the most important need by a long way. It is met to at least a satisfactory level. Transparent and understandable advice comes next as the second most important aspect, and a better understanding of information as the third most important point. Fulfillment of these two needs is consistently satisfactory. In contrast, the need for discretion is of less importance.

Figure 22: Advisory needs: relevance ranking (country comparison)



A, B, C: mean significantly higher than in country A, B, C ($p < 0.05$)

The biggest differences between the countries (cf. Figure 22) appear in the aspect of investment performance, which is much more important in Singapore. A better understanding of information thanks to the explanations of the relationship manager is an important aspect primarily in Hong Kong and Singapore (less so in Switzerland). Discretion, on the other hand, plays a lesser role in Singapore than in Switzerland or Hong Kong. Also of note is the fact that no great importance is attached to the aspect of independence in any of the three countries, although this criterion is discussed time and again in the banking world.

Prof. Dr. Teodoro D. Cocca

Performance

The challenges Asian clients pose for Swiss and Liechtenstein private banking are apparent from the great importance private banking clients from Hong Kong and Singapore attach to investment performance. In addition, the expectations regarding target returns are, on average, considerably above a 10% return per year and are therefore very ambitious, at least from a European point of view. This shows unequivocally that the investment product range must be tailored to these local requirements and that very different investment products are required to meet the expectations of Asian clients. There seems to be a paradox in the fact that the lower target returns in Switzerland are accompanied by a very low degree of fulfillment of the requirement for a better return, whereas the high target returns in Asia are rated as being fulfilled to a satisfactory extent. The various macroeconomic conditions of the European and Asian markets must be considered as an explanatory model for this. They differ considerably with regard to interest level, inflation and historic growth rates for the past few years, so historical experience has led to higher expectations on the one hand and higher realized returns on the other.

Prof. Annie Koh

Managing Singaporean private banking clients – opportunities and challenges

Everyone speaks about the Asian opportunity in wealth management, especially in the growth markets of Hong Kong and Singapore. That said, wealth management in Asia also presents private banks with considerable challenges. For one, it is often said that private banking is a marathon and not a sprint which means that private banks should set priorities and value client relationships beyond the short term. However, this often-accepted truism seems to be at odds with internal performance pressure within private banks and with external client expectations in Asia, including Singapore.

The survey results, for example, confirmed that the most significant objective of Singapore investors in engaging a private bank is to achieve a better rate of return on investment – 28% scoring amongst Singaporean investors – and private banks' performance was perceived to be only at a satisfactory level for this objective. With this paradigm, managing wealth profitably has become an increasingly complex activity for both private banks and their private clients alike. These (often short-term) investment pressures were exacerbated by the 2008 financial crisis when Asia's wealthy lost their trust in their private banks, arising from unhappiness with less-than-satisfactory investment products and returns relative to the high-growth performance of Asia's economies.

It would appear that Asia's private clients come with unrealistic expectations as well – 67% of Singaporean investors believe that markets are efficient and yet only 12% disagree when asked if investment strategies exist that can consistently beat average market returns without taking above-average risk! We are still some way from regarding private bankers as long-term trusted advisors who could provide their private clients with independent, transparent and discreet advice on an entire range of issues, and not merely investment advice.

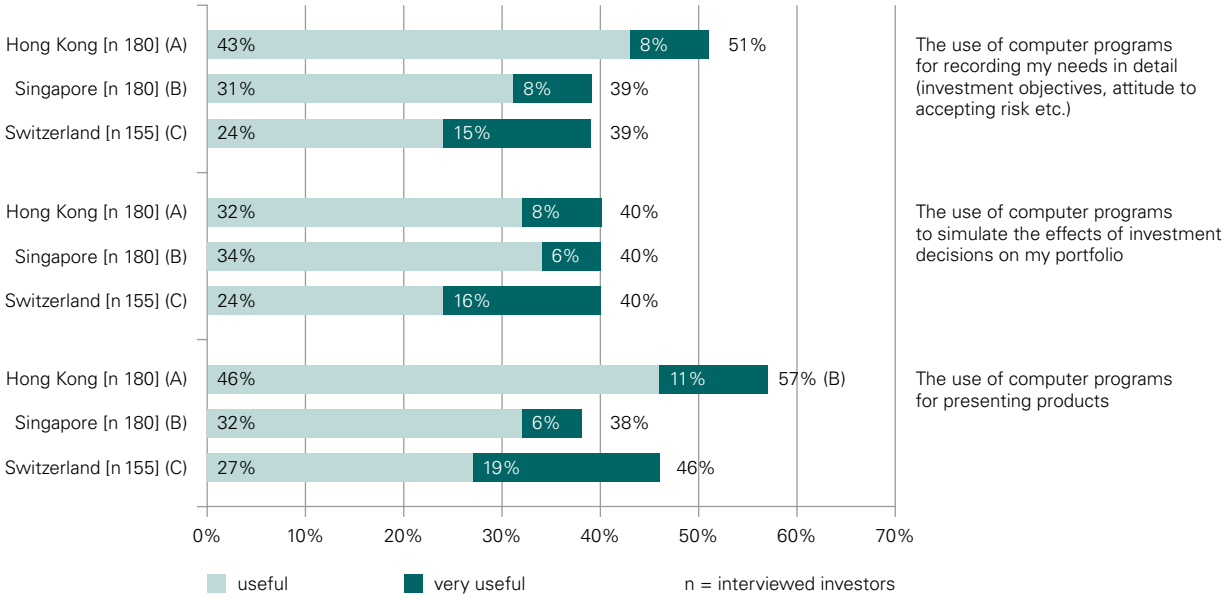
The challenge is to personalize the impersonal nature of private banking in Asia. The survey results indicated that 60% of the private banking respondents would not follow their private banker to his/her new bank which means that it would be challenging to invoke client loyalty among

Singaporean investors. Truly, the private banking landscape is still evolving in Asia and culture, family and business drivers in diverse countries in Asia will be key variables shaping private investment behavior going forward. Deep knowledge about these variables will enhance the overall value proposition that private banks can offer to private clients in Asia.

4.3 Use of technology in the advisory process

"New technologies and devices – e.g. the iPad – enable computer programs to be used even in advisory meetings. In your opinion how useful are the following applications in advisory meetings with relationship managers?" The attitudes to this issue are presented in Figure 23. Three possibilities for the use of technology in the advisory process were addressed. The use of computer programs for recording a client's needs in detail is only considered to be useful by a small majority of 51% in Hong Kong; in Singapore and Switzerland this proportion only amounts to 39%. The use of computer programs to simulate the effects of investment decisions on a portfolio is considered useful by 40% of those surveyed in all three countries. The use of computer programs for presenting products again found the highest level of agreement in Hong Kong, at 57%. In Switzerland and Singapore only 46% and 38% respectively regarded such applications as useful. Although the differences between the countries were not huge, those surveyed in Hong Kong proved to be more technology-minded than the other participants in the survey.

Figure 23: Use of technology in the advisory process



A, B, C: mean significantly higher than in country A, B, C ($p < 0.05$)

5 Conclusion

Despite all the trends toward globalization, the present study shows that, when it comes to money matters, the principle that investors are all the same does not apply. On the contrary, it is clear that deep-seated cultural characteristics play a decisive role in financial matters, leading to a variety of attitudes and behavior. This reflects on the design and strategy of a private banking offering in Asian markets. It should also be noted here that the often used term "Asian market" is insufficient and does not cover the variety of attitudes and behavior in the different Asian countries. The data obtained reveals many differences between the two financial centers of Hong Kong and Singapore and Switzerland. However, it also reveals differences between Hong Kong and Singapore, which are no less diverse. Many common features are also apparent between the financial centers. Due to the deep-rootedness of the cultural features, a fundamental change in investment behavior cannot be expected in the short term. As Becker (1996, p. 16) writes: "Individuals have less control over their culture than over other social capital. They cannot alter their ethnicity, race or family history, and only with difficulty can they change their country or religion. Because of the difficulty of changing culture and its low depreciation rate, culture is largely a 'given' to individuals throughout their lifetimes." The study does at least reinforce the fact that a detailed understanding of the perceptions, attitudes and characteristics of the clients of a region is essential for successful market cultivation. An impartial perspective can help here to avoid being deceived by ready-made clichés.

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Teodoro D. Cocca is Professor for Asset Management at the Johannes Kepler University Linz. Previously he worked for several years at Citibank in investment and private banking, was a research fellow at the Stern School of Business in New York and taught at the Swiss Banking Institute in Zurich.

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In 2010, Teodoro Cocca was elected as a banking expert to the Board of Directors of Zurich-based Geneva Group International, one of the largest alliances of independent audit, legal and trust firms in the world. Since April 2011, he has been a member of the Board of Directors of Verwaltungs- und Privat-Bank in Vaduz. In October 2011 he was appointed Dean of the Faculty of Social Sciences, Economics and Business at the Johannes Kepler University Linz.

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Professor Chan actively participates in the profession. He has been serving as the Chairman of the HKIB Organizing Committee for Outstanding Financial Management Planner Awards in the last few years, and is currently a member of Hang Seng Index Service Limited, Hospital Authority Investment Committee, and the FTSE Asia Regional Committee. He was the President of the Asian Finance Association from 2008 to 2010, and has served as a member of the Advisory Committee on Human Resource Development (Financial Services), the Risk Management Committee of Hong Kong Exchanges and Clearing Limited, the Committee on Unit Trusts and the Committee on Investment-Linked Assurance and Pooled Retirement Funds of Hong Kong SFC. He served as a panel member of the Hong Kong Research Grants Council from 2004 to 2009.

Professor Chan obtained his BSc in Economics from the Chinese University of Hong Kong, his Ph.D. in Finance from Ohio State University, and taught at Arizona State University from 1990 to 1997 before joining the HKUST. He is also a CFA charterholder.

Annex

Figure A1: Age (country comparison)

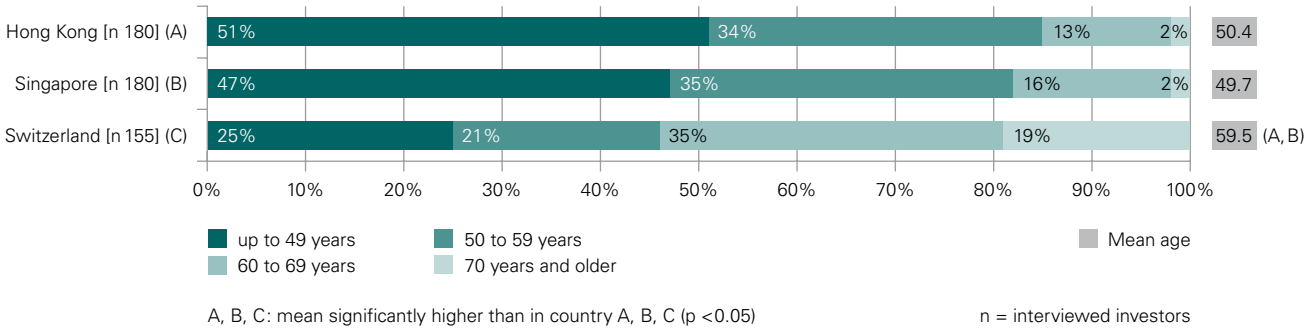


Figure A2: Gender (country comparison)

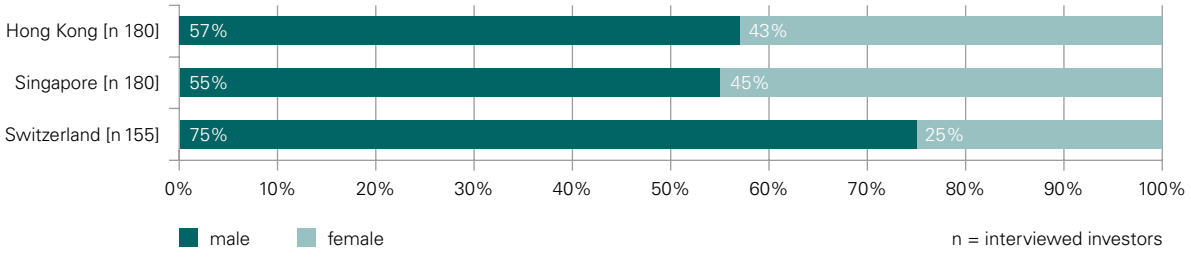
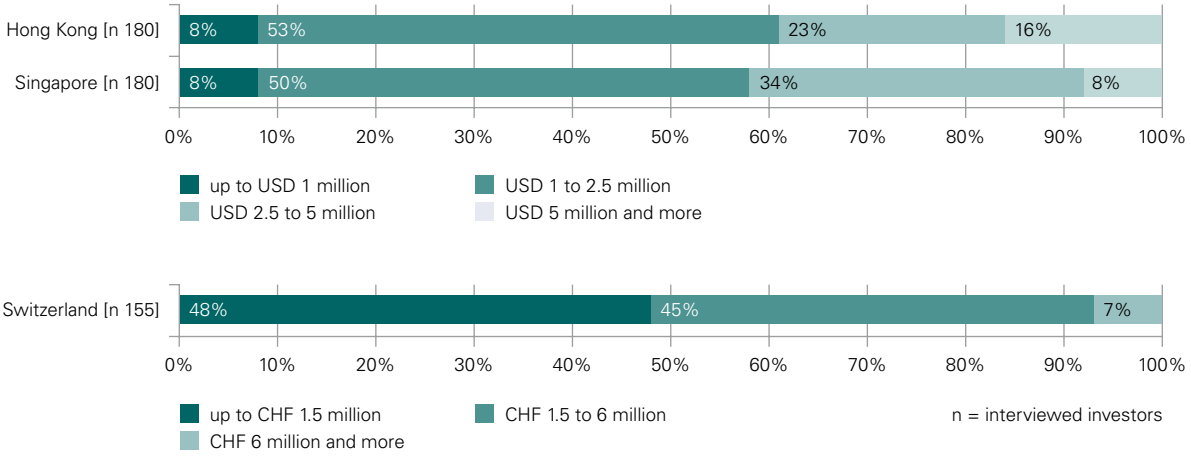


Figure A3: Available assets excluding real estate (country comparison)



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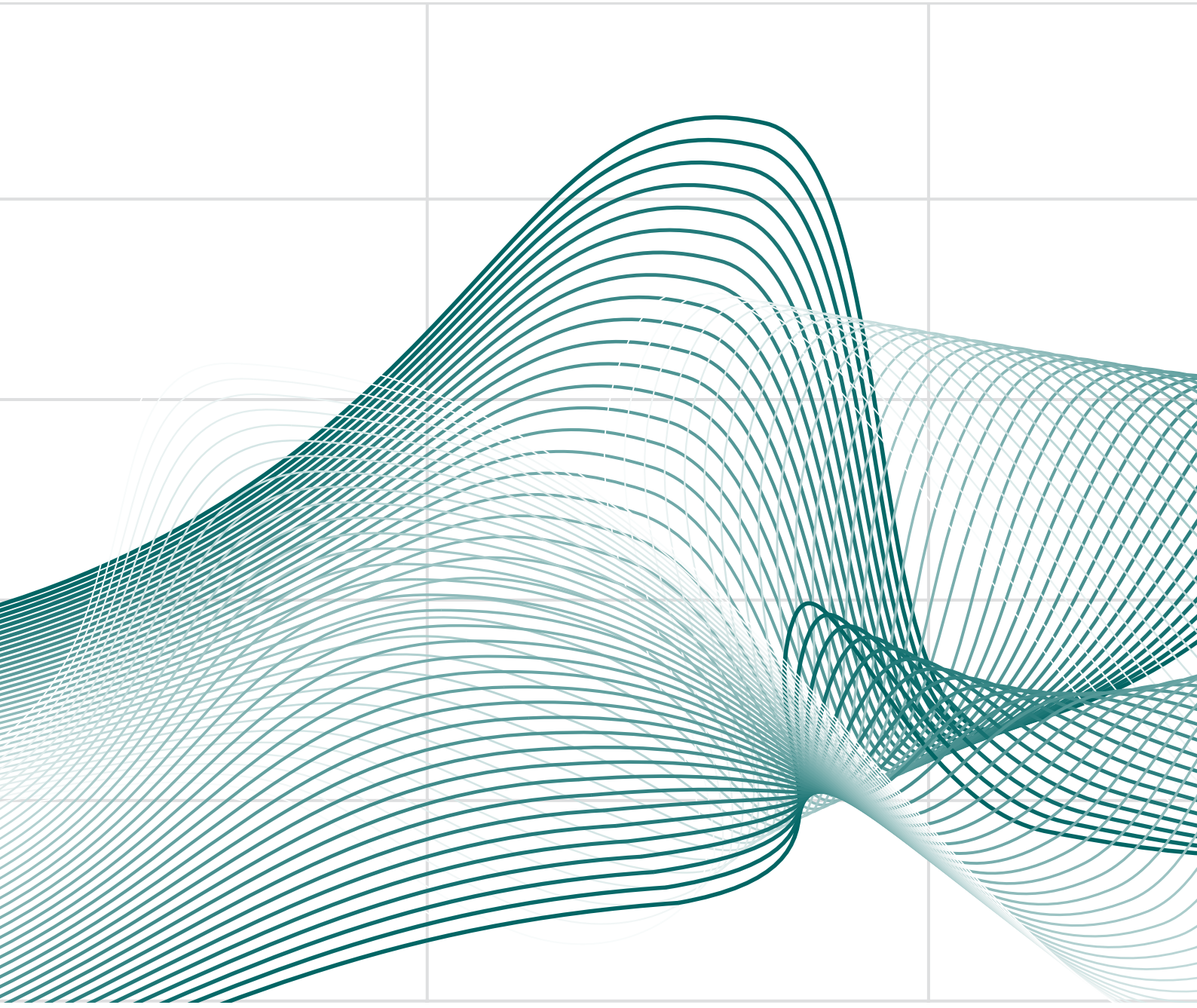

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