The knowledge chasm: Educating Asia’s wealthiest investors

Welcome to the first edition of the M&G APAC Wealth Barometer in association with Scorpio Partnership, the leading insight and business consultancy to the global wealth industry.

M&G Investments launched in Asia in 2011 but our heritage dates back to 1931, when we launched the UK’s first mutual fund. Throughout our history, we have taken pride in our ability to deliver global capabilities with the benefit of local market perspectives. It is for this reason that we decided to launch the M&G APAC Wealth Barometer: to gain deeper insight into the motivations and challenges faced by Asia’s wealthiest investors.

This report is the first of two to be released in 2015 and features the views of over 1,000 High Net Worth Individuals (HNWIs) from 4 markets: China, Hong Kong, Indonesia and Singapore. In this report, we explore the themes of knowledge and network and provide insight into what information Asia’s wealthiest need and where they are currently seeking this knowledge.

The results have revealed an opportunity for wealth firms in Asia to engage more deeply with their clients, to respond to their needs in a more compelling way and to create meaningful client relationships over the long-term. We hope that this research benefits the overall wealth management industry in Asia and its end clients across the region.

Your thoughts, opinions and feedback on our content are welcome, please get in touch.

M&G Asia Team
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Key findings

- Asia’s wealthy are actively building digital networks. On average, they have 1,826 connections spread across multiple social media sites. Ultra-wealthy investors worth more than USD10 million have a digital network of 2,243 contacts, more than double the size of their peers worth less than USD1 million.

- Investors from Indonesia are by far the most digitally engaged, followed by Chinese HNWIs. Not only do they have the largest online networks, they are also the most confident about leveraging these contact bases to support their wealth creation targets.

- To Asia’s investors, the digital sphere offers an opportunity to emulate and collaborate with other wealthy individuals. 56% of respondents stated that they followed other successful people online to learn about their wealth strategies.

- When it comes to gathering financial insight, Asia’s HNWIs levy multiple sources of information. In Hong Kong and Singapore, the wealth advisor competes much less with other insight channels but in the newer wealth markets, financial firms are under threat as a resource for expertise, particularly from digital media.

- While the number of insight sources used by these investors highlights that they are hungry for financial information, it also indicates that they have failed to develop a single, trusted, source of expertise.

- The region’s HNWIs know less than they think they do. On average, they give themselves an investment knowledge rating of 6.3 out of 10. Their actual knowledge score is much lower at 4.8.

- Financial literacy in the region is not as high as might be supposed. In a five-question multiple choice survey about some key investment terms, just 8% of investors correctly answered all questions while 78% got a score of three or fewer.

- Clients who place more emphasis on digital networks and digital media as a source of investment insight have the lowest investment knowledge levels. This includes those from Indonesia and China and, surprisingly, the wealthiest investors.

- Crucially, Asia’s wealthy aspire to be investment experts with a knowledge score of 7.7 out of 10. The desire to learn more provides an opportunity for wealth managers to demonstrate their value as a provider of expertise.
No matter how large or small our ambitions, achieving success depends not only on good planning but also the right context. Just as rice cannot be grown in dry ground or trees in the shade, education cannot be cultivated without knowledge. And, a good education is vital to our ability to enhance our lives, wealth and relationships in the long term.

As some of the world’s most successful individuals, it would be easy to assume that Asia’s high-net-worth population are masters of harnessing knowledge to support their wealth ambitions. It is an assumption that is bolstered by the context for their wealth creation; this is a region where digital resources proliferate and investment information is more readily available than ever before.

The abundance of online material and the apparent digital proficiency of Asia’s investors mean that many wealth management institutions believe these clients have the insight they need to make educated decisions about their finances. But is this a safe assumption for the wealth industry? Are Asia’s wealthy really competent when it comes to understanding investments? Can these investors effectively harness digital information resources to support their wealth creation efforts?

With these questions in mind, we launched our first APAC Wealth Barometer research program. We reached out to 1,087 high-net-worth individuals from four key wealth markets in the region: China, Hong Kong, Indonesia and Singapore. On average, the respondents had a net worth of USD7 million. Our objective is to explore the needs and expectations of these investors and to understand how they could be better served by Asia’s wealth management industry.

In this first paper of a two part series, we consider the interplay between the digital world of Asia’s wealthy and their investment education. We ask how they are leveraging their online network to build their financial knowledge and what their motivations are for learning more about their money.

What we find is that, despite lofty aspirations when it comes to investment knowledge, the digital world may be causing more harm than good in helping the education efforts of Asia’s wealthy. And that financial services firms who fail to demonstrate their credentials as an insight provider risk these clients “going it alone” when it comes to their money management.
Asia’s HNWIs may stand out from the crowd when it comes to their ability to make money, but that does not mean their wealth creation efforts are entirely solitary. In fact, their formula for harnessing growth is the sum of a number of collaborators; the region’s wealthy are master networkers and they are using cyber space as the optimal environment in which to cultivate these contacts.

In fact, on average, they have 1,826 connections across multiple social media sites. By far the most networked investors in the region are those from Indonesia who have almost 50% more online contacts than those in other markets [Figure 1]. Their preferred networks are Facebook and LinkedIn, where they typically have 518 and 356 connections respectively. Their counterparts in China also have significant digital networks although they tend to prefer local platforms like Weibo and Wechat. In the financial centres of Hong Kong and Singapore, digital contact bases are smaller but by no means insignificant, totalling 1,501 and 1,496 across all sites.

These substantial digital bases reject any premise that Asia’s wealthy are too busy or too secretive to get online. Actually, it is almost the opposite as those at the very top of the wealth curve are also the most digitally active. Investors who are ultra-wealthy, with assets of over USD10 million, have a digital network of 2,285 contacts, more than double the size of their peers worth less than USD1 million.

Figure 1: Number of social media connections

<table>
<thead>
<tr>
<th>Social Media Platform</th>
<th>How many connections do you have on each of the following social media platforms?</th>
</tr>
</thead>
<tbody>
<tr>
<td>Friends on Facebook</td>
<td></td>
</tr>
<tr>
<td>Followers on Twitter</td>
<td></td>
</tr>
<tr>
<td>Connections on LinkedIn</td>
<td></td>
</tr>
<tr>
<td>Followers on Weibo</td>
<td></td>
</tr>
<tr>
<td>Contacts on Wechat</td>
<td></td>
</tr>
<tr>
<td>Other (combined)</td>
<td></td>
</tr>
</tbody>
</table>

Source: M&G and Scorpio Partnership.
Crucially, this is not just about keeping in touch with friends and acquaintances. Asia’s wealth creators believe they can reap tangible benefits by nurturing their digital contact bases.

In fact, this logbook of connections is perceived to be vital to their wealth creation equation. Over half of the region’s elite are confident that they can leverage their online network to grow their asset base (Figure 2).

Understandably, the most active network builders also have the highest confidence levels about being able to translate these connections into financial success. In Indonesia and China, 65% of respondents stated high or somewhat high confidence, compared to 42% and 39% respectively in the more established financial centres of Singapore and Hong Kong.

As we move up the wealth spectrum, we also see respondents become more positive about their use of online connections to make money. Two thirds of the ultra-wealthy cite high confidence levels, compared to under 40% of those with less than USD1 million.

Figure 2: Confidence in digital wealth creation opportunities

<table>
<thead>
<tr>
<th>How confident are you that you can leverage your digital network for wealth creation?</th>
</tr>
</thead>
<tbody>
<tr>
<td>Percentage of respondents (%)</td>
</tr>
</tbody>
</table>

Source: M&G and Scorpio Partnership.
Their belief in the powers of digital engagement extend so far that just 5% of Asia’s wealthy are not looking to their web networks at all to bolster their bottom line [Figure 3]. For the remainder, online networks provide opportunities for emulation, observation and collaboration.

In short, cyber-space is the lens they use to assess the investment activities of their counterparts. Over half of Asia’s investors follow others online to understand their financial strategies. A further 48% like to hear about the industries, regions or products that their digital contacts are investing in.

This is not just a learning exercise but also an information exchange. An almost equal proportion of them are sharing their own investment ideas to receive reactions and feedback. This activity is particularly pronounced among the more digitally engaged; those in the emerging markets, as well as the wealthiest investors.

The fact that many of Asia’s HNWIs listed multiple uses for their online network shows that they are seeking to harness the full possibilities of the digital realm. These investors are turning to the web to build a virtual peer group that they can farm for investment knowledge. Their belief is that this education will drive them towards their financial targets.

Notably, the approach in the emerging markets of Indonesia and China is more pronounced than in the older financial centres of Hong Kong and Singapore. Those in the newer wealth markets, as well as those higher up the wealth curve, are more determined to integrate their sphere of digital contacts into their future wealth creation endeavours.

The implications for wealth management firms should not be underestimated. At a minimum, financial institutions will need to be mindful of the influence of a digital network on the investment decision making of their clients. But, to really impress the region’s HNWIs, firms would be wise to start adding to their own social media sites by curating compelling content and cultivating their own connections.

Figure 3: Digital wealth creation

Which of the following features of your digital network do you leverage to support your wealth creation?

- Following successful people to learn about their wealth creation strategies: 56%
- Hearing about what others are thinking about investing in: 48%
- Using this network to validate investments I make: 46%
- Sharing my investment ideas with my community so that they may give me feedback: 43%
- Keeping track of the financial goals of my peers: 38%
- I don’t use it at all: 5%
- Other: 1%

Percentage of respondents (%)

Source: M&G and Scorpio Partnership.
The quest for investment enlightenment can easily be likened to trying to move a mountain; the sheer depth and breadth of information available makes a full understanding of all financial products, strategies and market movements an almost impossible feat. But Asia’s investors are chipping away at their investment education by drawing inspiration from a wide range of information resources.

Among these, digital media has become well-established as a prized resource, complimenting other insight channels such as friends, family and wealth management firms, as well as traditional publications. For investors in Hong Kong and Singapore, the wealth manager is the main authority on investments with scores of 6.1 and 6.2 respectively. This is followed by traditional media outlets, which have value scores of 5.7 and 6.0, and digital media, with scores of 5.4 and 5.5.

In Indonesia and China, the wealth manager competes with other insight areas more closely as a valued knowledge channel. In China, the wealth manager is given marginally more importance than web-based learning with scores of 6.4 versus 6.3. In Indonesia, cyber-space and family contacts just surpass the investment advisor as a valued resource, both receiving scores of 6.9, compared to the wealth manager’s 6.8.

Figure 4: Valued investment information resources

When it comes to investing, how much value do you ascribe to the following as sources for investment ideas and information?

Source: M&G and Scorpio Partnership.
On one hand, the assortment of resources valued by Asia’s wealthy demonstrates their hunger for investment education. They want financial insight and they are going to great lengths to find it. But their reliance on multiple knowledge outlets also indicates that they have been unable to find a single, trusted resource for their investment insights. As a result, other knowledge channels – particularly online insights – are directly challenging the role of the financial advisor.

The threat of digital media has the potential to be catastrophic for the wealth management advisory model, given that the future client actually places more value on online information resources than they do on their wealth managers. Among investors under the age of 35, online media sources are marginally less important than the advisor, by 0.1 value points.

Equally, the highest value clients are also turning to other areas of insight to support their investment education. Digital media and family contacts are almost on a par with their financial advisor.

The overall difference in value across all information sources may be small but it is certainly not insignificant. While financial advisors are not currently differentiating themselves as an insight channel from more mainstream insight outlets the potential is there for them to widen the value gap and remind Asia’s wealthy of their investment expertise.

**Figure 5: Valued investment information resources**

When it comes to investing, how much value do you ascribe to the following as sources for investment ideas and information?

Source: M&G and Scorpio Partnership.
Better to light a candle than to curse the darkness

Of course, Asia’s engagement with digital channels would not matter if they were successfully navigating these different resources to become truly enlightened about their investments. Unfortunately, there is much to suggest that many are still in the dark when it comes to understanding some of the basic concepts needed to understand financial conversations.

In a five-question multiple choice test as part of the survey about some key investment terms, just 8% of respondents got all the answers correct [Figure 6]. Far from being well informed investors, the results actually show that Asia’s wealthy are not as aware of some foundation investment concepts. Actually, a staggering 78% of those surveyed got a score of three or fewer.

This may be surprising for the wealth industry, who have typically interpreted investor appetite for certain products as confirmation of their investment proficiency. It would be easy to assume, for example, that the region’s enthusiasm for fixed income products in recent years means that they are familiar with the behaviour of this product. Yet, when asked what happens to bond prices if yields go up, less than 30% of Asia’s investors answered correctly that they would go down.

For financial providers to these clients, making inferences about their knowledge level is not just unwise but also potentially damaging to the relationship. If investors do not understand the products they are purchasing, it becomes incredibly difficult for their investment advisors to manage their performance expectations. A majority of the region’s wealthy need more explanation up front and there needs to be confirmation of comprehension of the financial issues discussed.

Figure 6: Investment test score

Respondents were asked to answer five questions relating to finance and investments. The score reflects the number answered correctly.

Source: M&G and Scorpio Partnership.
The wealth test: How do you score?

Financial terms can be confusing and misleading and are often not fully understood by investors. We’d like to ask you 5 questions to assess your investment knowledge.

1. **If a stock has ‘high volatility’ what does this mean?**
   
   Please select one option
   a. The stock is guaranteed to have high returns
   b. The value of the stock will fluctuate over a large range of values
   c. The stock’s value will remain steady
   d. Aggressive investors should only invest in this stock

2. **A price-earnings ratio (PE ratio) is a measure used by investors to understand the value of a company’s current share price. How is the price-earnings ratio calculated?**
   
   Please select one option
   a. Earnings per share / Market value per share
   b. Total revenue / Total expenditure
   c. Market value per share / Earnings per share
   d. Total expenditure / Total revenue

3. **Please complete the following sentence: When yield prices go up, bond prices go...**
   
   Please select one option
   a. Up
   b. Stay the same
   c. Down
   d. Stay the same

4. **What has been the best performing asset class since 2009?**
   
   Please select one option
   a. Equities
   b. Bonds
   c. Commodities

5. **Which of these three portfolios is the most conservative?**

   Please select one option
   - Cash and equivalents: 60%
   - Fixed income: 35%
   - Equities: 5%

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12

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The timing for changing the conversation with Asia’s wealthy could not be more critical, given how we have seen digital media sources are starting to undermine the wealth advisor as a source of investment insight. This is particularly important because online engagement actually seems to be doing more harm than good.

Investors who lean more on the digital sphere for wealth creation expertise have poorer investment knowledge levels. HNWIs who got just one question right in the knowledge test, gave a confidence score of 6.9 out of 10 that they can harness the web to meet their financial targets [Figure 7]. This slips to a score of just 5.87 among Asia’s wealthy with the most investment knowledge.

Arguably, sourcing investment expertise in the digital sphere should come with a health warning. It appears that many wealth creators are struggling to translate the abundance of information online into actual financial knowledge.

Figure 7: Knowledge score and digital confidence

How confident are you that you can leverage your digital network for wealth creation? And, what is the respondent investment knowledge score?

<table>
<thead>
<tr>
<th>Number of correct answers</th>
<th>Confidence Score</th>
</tr>
</thead>
<tbody>
<tr>
<td>0</td>
<td>6.8</td>
</tr>
<tr>
<td>1</td>
<td>6.9</td>
</tr>
<tr>
<td>2</td>
<td>6.8</td>
</tr>
<tr>
<td>3</td>
<td>6.2</td>
</tr>
<tr>
<td>4</td>
<td>6.1</td>
</tr>
<tr>
<td>5</td>
<td>5.9</td>
</tr>
</tbody>
</table>

Average confidence of leveraging digital network for wealth creation (out of 10)

Source: M&G and Scorpio Partnership.
Guiding Asia’s investors with insights will certainly earn their favour, particularly given that they have high aspirations for their investment expertise. Importantly, they realise that they have a long way to go before they reach their desired level of education. But, they are not fully conscious of just how large the knowledge gap is.

When it comes to their current understanding of investments, the region’s HNWIs give themselves a rating of 6.3 out of 10. Their ambition is to be investment experts, raising this knowledge level to 7.7. It is a reasonable uptick and goes some way to explain why they are hungrily sourcing information from multiple insight channels.

What makes the picture more complicated is that these investors know much less than they think they do. Their actual knowledge score sits at 4.8, a whole 1.5 points lower than the score they would give themselves and 2.9 marks lower than their aspired score. The knowledge gap is almost twice as large as they believe.

Significantly, those investors who are leaning more heavily on digital resources for their investment expertise have the largest knowledge gap. In China, for example, the chasm between the desired standard for education and reality is 3.2 points. In Indonesia, it is larger still at 3.8.

The more established financial markets fare slightly better. Singapore’s HNWIs were the only investors who accurately assessed their investment knowledge level while Hong Kong’s were just 0.6 points out.

Similarly, the wealthiest individuals, who are the most digitally engaged, have the largest expertise gap. Investors worth less than USD1 million actually underestimated their financial savvy, while those worth more than USD10 million overestimated their understanding of investments by 2.3 points.

Figure 8: Investment knowledge gap

<table>
<thead>
<tr>
<th>Sample average</th>
<th>Under $1m</th>
<th>$1m to $10m</th>
<th>$10m+</th>
</tr>
</thead>
<tbody>
<tr>
<td>Actual</td>
<td>3.0</td>
<td>4.0</td>
<td>5.0</td>
</tr>
<tr>
<td>Perceived</td>
<td>4.0</td>
<td>5.0</td>
<td>6.0</td>
</tr>
<tr>
<td>Aspired</td>
<td>6.0</td>
<td>7.0</td>
<td>8.0</td>
</tr>
</tbody>
</table>

Source: M&G and Scorpio Partnership.
The results indicate that these are clients who are clearly eager to learn and who are using all the tools they can find in a quest to improve their investment knowledge. By not differentiating themselves as a valued and trusted source of insight and expertise, wealth managers risk their clients choosing to go it alone.

For many of the region’s investors, a key motivation for learning more about their money is a desire for more independent financial control. This trend is most amplified in China, where 47% of investors stated that they aspired to higher knowledge levels in order to manage their money without external support. Similarly, 52% of the mass affluent want to make their own investment decisions.

Importantly, among the wealthiest investors – those with over USD10 million – the desire for independent financial control is lowest. Currently, these are the most digitally engaged clients, with the weakest knowledge levels but the highest expertise aspirations. Wealth managers have their work cut out to demonstrate their credentials and differentiate themselves as a trusted source of insight before they can really capitalise on this.

Given that investors are aware there is a knowledge gap, supporting them with education would not be unwelcome for either client or the financial services firms they work with. It gives wealth managers an opportunity to prove that they are valuable to clients and ensures that these investors are making informed financial decisions.

**Figure 9: Investment aspiration reasons**

<table>
<thead>
<tr>
<th>Why do you aspire to this level of investment knowledge?</th>
</tr>
</thead>
<tbody>
<tr>
<td><img src="chart.png" alt="Chart showing investment aspiration reasons" /></td>
</tr>
</tbody>
</table>

Source: M&G and Scorpio Partnership.
This report has sought to explore the interplay between the networks and knowledge levels of Asia’s wealthiest investors. Specifically, we have considered how digital engagement influences their financial education and why they are looking to improve their insight on investments.

What it has shown is that the wealth industry needs to rethink some of the fundamental assumptions that dictate the current client engagement model. A majority of these investors are not as financially literate as is often supposed; they do not understand some of the key investment terms that they hear in conversations with their financial advisors. Critically, these clients know a lot less than they think they do about finance so it will be up to advisors to demonstrate the value add.

This will require some reorientation on the part of wealth advisors, given that they are not currently the stand-out source of expertise. Investors are choosing to go to online insight channels to learn about their finance — whether that be through leveraging online social networks or digitised media. They have no single trusted resource to help them improve their investment education.

In part, turning to these multiple resources of financial knowledge reflects how hungry for information Asia’s wealthy are. This is a good sign for the industry. Their aspiration to become investment virtuosos means that the time is ripe for the industry to change the conversation with Asia’s wealthy.

This will not just be about wealth firms demonstrating their investment expertise, but also doing so in a way that compliments highly valued online information channels. Asia’s investors need help to filter and understand the content they engage with. The importance of this point should not be underplayed given that those engaging more with cyber space to improve their investment education have lower knowledge levels.

The opportunity is there for wealth firms to widen the value gap and become the trusted teacher to Asia’s elite. We sincerely hope that those hoping to play this role in the next stage of Asia’s wealth creation story answered: B, C, C, A, B.
Research methodology and sampling

This research was undertaken by Scorpio Partnership in March and April 2015. The participants were high net worth and ultra-high net worth individuals living in China, Hong Kong, Indonesia and Singapore. The research methodology was a 15 minute survey program online which had 1,087 respondents. Below is an illustration of the sample breakdown.
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Scorpio Partnership

Scorpio Partnership is the leading insight and business consultancy to the global wealth industry.

The firm specialises in understanding the wealthy and the financial institutions they interact with. We have developed four transformational disciplines – SEEK, THINK, SHAPE and CREATE – each designed to enable business leaders to strategically assess, plan and drive growth. The solutions Scorpio Partnership develops regularly win awards for its institutional clients and help them financially profit.

Scorpio Partnership has conducted more than 450 global assignments across wealth for institutions in the banking, fund management, family offices, law, trusts, regulation, IT and technology, insurance and charity sectors. In the course of these assignments, the firm has interviewed almost 60,000 private investors and advisors.

Scorpio Partnership has been voted best global consultancy to the wealth management industry for the three consecutive years and has been shortlisted on multiple awards including Agency of the Year*. The firm has also won thought leadership awards in Europe, Asia, and the United States as voted by industry peers. The firm is part of McLagan, an Aon Hewitt group company.

For more information go to www.scorpiopartnership.com


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Our investment edge is in our people. With approximately 1,600 professionals worldwide, 274 of which are dedicated to fund management, we remain at the forefront of investment thinking, constantly seeking to develop our product range to provide the best investment opportunities for our investors. We believe we can deliver the best returns for our clients through active management, developing a deep understanding of the companies whose equities, bonds or property we hold.

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