Factors Influencing Investments of HNWIs: A Study of Select Investors

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Abstract

This is a market research paper on investing behaviour of High Net-Worth Individuals (HNWIs) based on various factors like age, annual income, awareness level, past experiences of investments, benefits received from various investment options, etc. The information gathered from customers through a questionnaire is used to understand what factors influence HNWIs to determine their investments. This paper lays emphasis on the key factors that influence individual HNWIs in determining various investments that they make. Factors that play a major role in the investment decisions of HNWIs include -- trust, transparency of data, portfolio of investments, disclosure of data on costs of transactions and switchover costs, and relationship of the manager with the HNWI customer and ability to convince him/her in terms of performance. Reputation of the fund manager also marks an impression on the mind of the HNWI.

Keywords: *Investment Behaviour; High Net-Worth Individuals*

Introduction

The Asset Management Industry is at the threshold of a paradigm shift that would model its future. The report on the Asset Management Industry by PWC (Benjamin, B., 2017) forecasts a huge rise in assets and the emergence of several game changers that would dramatically alter the industry's landscape. The factors influencing the industry could be many including policies of the government in terms of improving corporate governance, enabling transparency through technology, shift from traditional investments to stock markets, improvement in relationship banking and conversions through personal selling of retail products, innovations in financial products and schemes of the asset management companies. Additionally, government policies which have resulted in formalising businesses in the economy (major steps initiated and notable could be demonetisation, GST Act, Gold Bonds, hints of land and property documentation and The Benami Transactions (Prohibition) Amendment Act, 2016) have further improved the sector's situation. There is also a big shift witnessed in the recent past with more and more people channelizing their investments towards capital markets and financial assets.

Fundamentally, the management of assets is the art and science of choosing different asset classes like stocks, bonds and derivatives based on an assurance of returns being commensurate with the risk that the investors are ready to take. This involves combining different investment vehicles in meeting the client's risk-return needs. Investment managers of the financial services firms offer wealth management or portfolio management services to meet the above-mentioned goal. Over the past few years, the industry has grown and progressed significantly in various dimensions with product innovations and service improvisation to customers.

We can observe from Table 1 below the tremendous increase in banks' business over the years from wealth management of High Net-Worth Individuals (HNWIs) and Most Affluent individuals. The HNWIs business of asset management rose from $37.9 trillion to $67.8 trillion by 2015, in about eleven years, and is expected to touch $83.5 trillion by 2020. The penetration rate of assets under management has been increasing at approximately 40%.

Table 1: Assets under Management

In USD trillion

Clients	2004	2007	2012	2013	2014	2015	2020	2020(new)
Pension Funds	21.3	29.4	33.9	35.8	38.7	38.2	56.5	55.8
Insurance Companies	17.7	21.2	24.1	26.1	26.2	27.1	35.1	38.8
Sovereign Wealth Funds	1.9	3.3	5.3	6.1	6.3	6.7	8.9	10.0
HNWIs	37.9	50.1	52.4	59.2	69.6	67.8	76.9	83.5
Most Affluent	42.1	55.8	59.5	64.2	67.2	62.5	100.4	96.3
Total Client Assets	120.9	159.8	175.2	191.4	208	202.3	277.8	284.4
Global AUM	37.3	59.4	63.9	71.9	78.0	78.7	101.7	112.0
Penetration Rate	30.9%	37.2%	36.5%	37.6%	37.5%	38.9%	36.6%	39.4%

Sources: PwC Market Research Centre analysis. Past data based on City UK, Insurance Europe, Financial Stability Board (FSB), Credit Suisse, Towers Watson, OECD and World Bank. 2020 estimate from the report Asset Management 2020 – A Brave New World*

HNWIs in India are much more influenced by non-financial factors than maturity of investments in products, and lack awareness of sophisticated financial products. Wealth management providers in India continue to provide innovative products that offer access to opportunities in other regions and are predicted to perform well. They place more importance on political stability and the local regulatory environment when making investment allocation decisions than wealthy investors do elsewhere in the Asia-Pacific region. Also the major sources of wealth of Indian HNWIs are business ownership, inheritance and earned income. Strong fundamentals and decent returns have also drawn investors to the Indian stock market. This has increased the percentage of allocation to equities and equity related products.

The key findings of the Worth Wealth Report 2016 by Capgemini are--

- The wealth of HNWIs accelerated across the globe. World over, the three regions i.e. Asia-Pacific, North America, and Europe contributed equally in pushing HNWIS population and wealth up by 7.5% and 8.2% respectively in 2016. While Asia-Pacific remains the world's largest-HNWIs market, its growth slowed slightly.
- Big Techs are casting a long shadow in wealth management as 56.2% of HNWIs globally say they would be open to working with them.
- HNWIs benefitted from robust returns (global average of 24.3%) on investment portfolios overseen by their wealth managers, earning substantial gains over lower-cost, passive index funds. Trust and confidence in all aspects of the wealth management industry increased.
- Hybrid-advice solutions in wealth management are making an impression on HNWIs, becoming as valued as wealth manager-led offerings and even more so in some areas.
- The youngest and wealthiest HNWIs, along with those in Asia-Pacific (excl. Japan) and Europe, exhibited the greatest preference for hybrid advice.

A better understanding of behavioural processes and outcomes is important for financial planners because an understanding of how investors generally respond to market movements should help investment advisors devise appropriate asset allocation strategies for their clients. According to Ahmad, S (2017), the ten factors that positively influenced the behaviour of investors in making their decisions were corporate earnings, expected dividends, dividends paid, stock marketability, condition of financial statements, current economic indicators, past performance of the firm's stock, broker recommendations, firm's status in the industry and the expectation of quick gains. The negatively influencing factors were found to be religious reasons, political party affiliation, environmental record, perceived ethics of the firm and family members.

Okech, T. C. & Mukoba, M. T. (2016), addressing the questions of whether gender differences influence investment decisions and whether there is any gender difference in financial literacy, find that gender differences do influence financial behaviour and that there is a negative relationship between gender differences and investing decision; additionally, socialization and financial literacy were found to significantly influence financial behaviour among employees irrespective of the gender.

The study “Gender Differences in Investment Behavior” (Hira and Loibl, 2006) identified a number of significant environmental and personal factors that influence investment behaviour in America. This study paid particular attention to the investment actions, attitudes, motivations, needs, and wants of women in high-income households, and also revealed knowledge about the investment behaviour of minorities in America. Sharma, K (2006) found that high net worth individuals are channelizing funds into mutual funds on a large scale in India and looking for better services from asset management companies. Mason, R & Facer, B. (2012) stated that superannuation funds should focus on the judicial obligation on agents to perform with due concern for members and beneficiaries.

Hassan Al Tamimi, A. H & (2005) examined the factors that influence the UAE investor behaviour on the Dubai Financial Market and Abu Dhabi Securities Market. In the study, the questionnaire covered five categories, namely, self-image/firm-image coincidence, accounting information, neutral information, advocate recommendation and personal financial needs. Six factors were found to be the most influencing factors; they were, by order of importance: expected corporate earnings, 'get rich quick', stock marketability, past performance of the firm's stock, government holdings, and the creation of organised financial markets (i.e. Dubai Financial Market and Abu Dhabi Securities Markets). The least influencing factors were: expected losses in other local investments, minimising risk, expected losses in international financial markets, family members' opinions and gut feeling on the economy. The most influencing factors were, by order of importance: accounting information, self-image/ firm-image coincidence, neutral information, advocate recommendation and personal financial needs. Two factors unexpectedly had the least influence on the behaviour of the UAE investor, namely, religious reasons and the factor of family members' opinions.

Julia, R & Mathai, R (2002), in their thesis on the changing investment patterns of High Net Worth Individuals (HNWIs) observe that HNWIs look for alternate investments with increasing stock market volatility; therefore, the financial institutions have started marketing both private and public real estate products to HNWIs. Institutions have been successful in marketing these products due to investors' desire to migrate out of volatile assets into an investment that provides both fixed income and growth opportunities. They also find that there exist age-wise variations and preferences in the asset allocations of HNWIs in various options like real estate, stocks, bonds and cash. There was a need to know the preferences of HNWIs with respect to equity related products.

Sugiharto, Inanga & Sembel (2007) survey investment practices and perceptions by major portfolio investors (fund managers) active at the Jakarta Stock Exchange (JSX) in Indonesia and offer some perceptions of the most important metrics used in valuation and their observation on social, political, economic, regulatory, technological, environmental and legal (SPERTEL) factors that influence the fundamental factors (EM metric) and values of equity shares (EV) of LQ45 firms quoted at JSX. The findings of the survey help to shed light on the adequacy of the information, which JSX provides investors to improve the quality of their hold, sell or buy decisions on their LQ45 portfolio.

The axioms of utility theory developed by Von Neumann and Morgenstern (1947) argue that investors are completely rational, able to deal with complex choices, risk-averse and wealth-maximising. Utility theory further assumes that investors maximise expected utility – measured in terms of anticipated returns and variances from these expectations (the mean/variance approach), that is, each investor selects the portfolio that maximises expected return while minimising risk.

Nagy, R A & Obenberger, R W (1994) observe in their study that classical wealth-maximisation criteria are important to investors even though investors employ diverse criteria when choosing stocks. Contemporary concerns such as local or international operations, environmental track record and the firm's ethical posture appear to be given only cursory consideration. The recommendations of brokerage houses, individual stock brokers, family members and co-workers go largely unheeded. Many individual investors discount the benefits of valuation models when evaluating stocks.

The primary objective of the study is to identify different factors that influence the investment behaviour of HNWIs and to measure the awareness levels of investors. A questionnaire was administered to collect information including age, annual income, awareness level, past experiences, benefits received from various investment options, financial responsibilities and liabilities, demographic data, the source of information for various investment products and the selection criteria for investments. Data was collected from 137 respondents hailing from Mumbai, Hyderabad, Delhi, Pune and Kolkata. All the respondents are HNWIs who have invested minimum of Rs. 10 lakh with different financial services firms in India.

Analysis And Findings

The investors were grouped into three different groups based on their portfolio size to identify differences in the investment pattern. The three groups formed were: Cluster one – investors with portfolio size of less than Rs. 20 lakh; Cluster two –

investors with portfolio size from Rs. 20 to 40 lakh; and Cluster 3 – investors with portfolio size greater than Rs. 40 lakh. The results reveal KMO value at 0.610 that is greater than 0.5 indicating that the factor analysis can be considered in drawing inferences and conclude that the underlying factors have a significant impact on the buying behaviour of HNWIs. The chi-square value is 1313.711 which indicates that the variables are unrelated and hence, the data is suitable for factor analysis. Also the significance level was 0.000; hence, we can conclude that the test is highly significant, and hence, factor analysis is appropriate.

Table 2: Cluster wise consolidated results of the investor survey

Factors	Cluster 1 (Up to Rs. 20 lakh)	Cluster 2 (Rs. 20-40 lakh)	Cluster 3 (Above Rs. 40 lakh)
Reason for investing	Lack of knowledge (37%) Time and personalised service (7%)	Lack of time (22%) and Personalized service (55%)	Lack of time (16%) and Personalized service (50%)
Reliable source of information	Internet and newspapers (27%) and Investment advisors (8%)	Investment advisors (28%) and Research (19%)	Investment advisors, Internet and research (55%)
Motive for investment	Wealth creation (50%) Capital protection (21%)	Wealth creation (53%) Capital protection (17%)	Wealth creation (55%) Capital protection (14%)
Medium of communication	Telephone (42%) and Meeting at their place of convenience (36%)	Telephone (50%) and Meeting at their place of convenience (33%)	Meeting at their place of convenience (58%) and Telephone (25%)
Time horizon	1-3 years (63%) 3-5 years (20%) Above 5 years (10%)	3-5 years (44%) 1-3years (37%) Above 5 years (17%)	3-5 years (55%) 1-3years (33%) Above 5 years (10%)
Risk tolerance	Low (15%)	Medium (28%)	High (53%)

Source: Authors' compilation

The test resulted in eight important factors which directly or indirectly have an impact on the investment decisions of HNWIs and accordingly, we may conclude that HNWIs decide to invest with any financial organisation in the Indian environment on the basis of the following factors:

- From the results, we can conclude that the disclosure of the scheme's performance, investment objectives, sales data and performance on daily basis form an important aspect of an HNWI's investment decision.
- The second comes the satisfaction level of the HNWI in terms of cost of switching and strategies of the fund manager with whom the HNWI is investing.
- Convenience forms a very important component as the timing of decision to buy or sell the investment in a specific lot can be decided by the HNWI only if it is convenient to him/her; hence, this has taken the third position.
- In a nutshell, we can observe that the HNWI is intelligent and wants his/her investments in safe hands and would also love to cautiously and continuously monitor the performance of the fund that he/she has invested in.
- The reputation of the fund manager is also important for an HNWI since he/she is not in a position to regularly watch and analyse the investments on a continuous basis.
- Innovativeness of the schemes floated by the funds also plays a vital role in attracting an HNWI to invest.
- All investors want safety of their investments first; secondly, they expect growth on a continuous basis with information being available to them for analysis.

The trust factor is a very vital component in an HNWI's investment decision. It is the responsibility of the relationship manager to convince the client with true data and performance reports. An investor prefers to invest with a firm, which is transparent with respect to its investment objectives and performance. Also the company's website plays an important role in disclosing its investment objectives and sales data on a regular basis; most HNWIs keep a track of various investment firms by visiting their websites regularly.

When it comes to physical convenience, investors always prefer financial institutions with a wide presence spread across most of the cities. This factor has a fairly high loading. Additionally, the organisation's efficiency and speed in responding to the client's queries is an important factor for the HNWI in his/her choice of investment firms. Word-of-mouth referrals, publicity and reputation building are an important source of building a firm's credibility. This has compelled investment firms to hire managers with good communication and convincing skills.

Conclusion:

HNWIs are attracted to investment firms which they can trust. Trust is built by transparency of sharing information, portfolio, investment and switchover costs, etc. The firm's relationship managers play a key role in communicating the firm's performance and inculcating trust with their HNWI customers. The reputation of the fund manager marks an impression on the minds of these clients who believe in regularly updating themselves on the performance of various financial firms and rely on research reports of fund managers (mostly HNWIs from Cluster 2 in our research i.e. HNWIs with current portfolio size of Rs. 20-40 lakh). Existing clients should be regularly sent copies of important research reports which can be a medium for building their knowledge and an important value addition over and above personalized services from the firm. The research reports which are genuinely valuable should also be published in magazines, journals and newspapers which creates brand awareness and marks an impression on the investors' mind.

The study has some limitations in terms of the sample size as HNWIs are not easily accessible and also levy restrictions on data sharing (maintaining data confidentiality); additionally, the responses are subject to market conditions.

Table 3: Results of Factor Analysis
Factors Influencing Investor Buying Behaviour

S.N.	FACTORS		LOADINGS
1	Disclosure	A-Disclosure of Scheme's Performance	0.603
		J- Disclosure of investment objectives and methods	0.774
		K- Disclosure of scheme's sales data	0.837
		L- Disclosure of deviation of the investments from the original pattern	0.814
		M- Disclosure of scheme's performance on every trading day	0.55
2	Satisfaction Level	R- Satisfied with current financial provider	0.868
		S- Continue the current financial provider to avoid switching costs.	0.749
		T- Satisfied with the investing strategies of my fund manager	0.858
3	Convenience	N- Efficiency in responding to investors' queries	0.516
		P-Tailored benefits and offers	0.698
		Q-Physical convenience	0.84
4	Liquidity	G-Liquidity	0.806
		H-Flexibility	0.807
5	Reputation	B- Fund Manager's reputation	0.806
6	Innovativeness	C-Scheme's Innovativeness	0.807
7	Fees	E- Entry and Exit Loads	0.836
8	Capital Protection	F- Capital Protection products	0.931

Table 4: Results of KMO and Bartlett's Test

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.610
Bartlett's Test of Sphericity	Approx. Chi-Square	1313.711
	Df	190
	Sig.	.000

Component	Initial Eigen values			Extraction Sums of Squared Loadings			Rotation Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	4.859	24.294	24.294	4.859	24.294	24.294	3.818	19.092	19.092
2	2.447	12.235	36.529	2.447	12.235	36.529	2.607	13.037	32.128
3	2.191	10.954	47.483	2.191	10.954	47.483	1.929	9.645	41.773
4	1.692	8.462	55.946	1.692	8.462	55.946	1.920	9.600	51.373
5	1.409	7.045	62.990	1.409	7.045	62.990	1.798	8.990	60.363
6	1.141	5.707	68.697	1.141	5.707	68.697	1.450	7.249	67.612
7	1.068	5.340	74.038	1.068	5.340	74.038	1.285	6.426	74.038
8	.940	4.699	78.736						
9	.876	4.381	83.118						
10	.705	3.524	86.642						
11	.569	2.845	89.487						
12	.407	2.037	91.523						
13	.367	1.833	93.356						
14	.277	1.385	94.741						
15	.260	1.302	96.043						
16	.233	1.164	97.207						
17	.181	.903	98.111						
18	.160	.800	98.911						
19	.136	.681	99.592						
20	.082	.408	100.000						

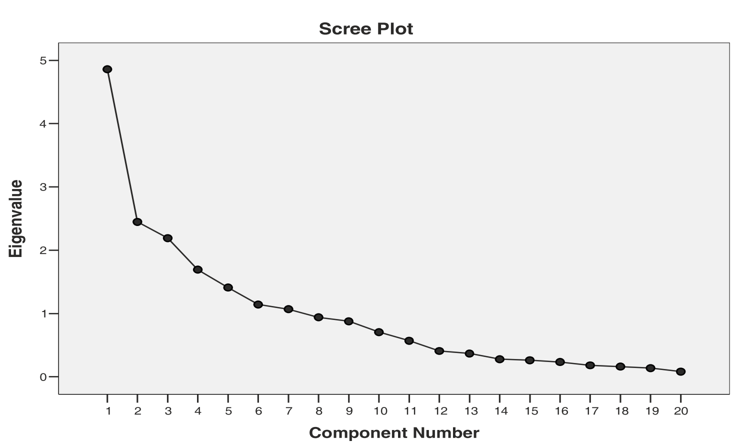

Table 5: Results of Extraction Method: Principal Component Analysis

	Component						
	1	2	3	4	5	6	7
A	.603						
B					.806		
C					.807		
D				.692			
E						.836	
F							.931
G				.715			
H				.820			
I							
J	.774						
K	.837						
L	.814						
M	.550						
N	.516		.658				
O		.574					
P			.698				
Q			.840				
R		.868					
S		.749					
T		.858					

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