CFA Institute

CFA Society India

INDIA INSIGHTS

ROUNDTABLE ON EARNING INVESTORS' TRUST

May 2022

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Executive Summary

CFA Institute released its 2022 Investor Trust Study (the Trust Study), the fifth in our biennial series based on a survey of 3,588 retail and 976 institutional investors across 15 markets, including 200 retail and 75 institutional investors in India. We found that trust levels in financial services among retail and institutional investors have increased significantly since 2020 except for India. Although trust levels have marginally declined in India, it continues to have the highest trust level of any market (83%).

CFA Institute, along with the CFA Society India convened a roundtable on the Trust Study to discuss Indian retail investor–focused findings and the experience of market practitioners during the pandemic. The participants included registered investment advisers, mutual fund distributors, and private wealth managers. Within financial services, the trust levels remain consistently high across industries, with robo-advisers scoring the lowest at 71%. The participants identified a clear link between trust levels and performance but said that the recent market events around frontrunning potentially could affect trust, if it proves to be systemic.

Our survey shows that technology can be a significant driver of trust, and Indian respondents are most likely to prefer technology over a person to execute their strategy, among all markets. But the same respondents also value human advice over robo-advice. The participants confirmed that these findings resonated with them. Some people are comfortable with technological tools for search and due diligence, but they still want to consult an adviser or visit a branch before making a significant financial decision.

Trust is complex because it is personal. Personal connections can develop through the relationship with one's financial adviser. According to our survey, 67% of Indian respondents said it is important for an adviser to share their values, the second highest response among the markets in our study, behind only China (74%). The roundtable participants echoed this finding and suggested that, in some settings, getting into the same space with the client (language, culture, or other characteristics) is a precondition to having conversations around personal finance.

We also debated the modes of communication between advisers and clients in several high-trust situations. Indian respondents prefer interacting with their adviser remotely (emails, chats, phone calls, and video calls), but the start of a working relationship and life-changing events are the two most important times to establish a basis of trust in an adviser through in-person interaction. The participants felt these findings were intuitive, but suggested that client preferences are heterogenous, and it is important to avoid making assumptions about preferences based on income levels, age, or other characteristics.

The participants also shared their experiences handholding their clients during the March 2020 market disruption. Some felt the short-lived disruption made it easier to prevent clients from redeeming their investments at the wrong time. Others felt that clients who did not have a lot of market knowledge were exposed to less noise and stuck to their plans, whereas people with greater knowledge required more handholding.

The high level of trust among Indian investors is a positive finding in the Trust Study. The participants stressed the need for alignment with their clients and the importance of human connection as an enabler of trust.

Introduction

Trust, in some form, is at the heart of all financial transactions. Without it, financial interactions would become more inefficient and costly or cease altogether. Trust is especially important for investment management because client outcomes manifest only over a future horizon. Industry leaders must understand the drivers of investor trust so they can deliver the most value.

In the 2022 CFA Institute Investor Trust Study (the Trust Study), the fifth in our biennial series, we assessed the trust divide among investor cohorts, including differences across geographic markets, between generations, and between retail investors with and without an adviser. We also examined how technology can be a trust multiplier in the provision of investment services. Last, we looked at the plus factors of values and personal connection in building and maintaining trust.

CFA Institute, along with the CFA Society India, convened a roundtable on the Trust Study on 17 May 2022, to discuss Indian retail investor–focused findings as well as the various aspects of trust and the experience of market practitioners during the pandemic. The participants (numbering eight) included registered investment advisers, mutual fund distributors, and private wealth managers.

The following are the minutes of the discussion.

Survey Methodology

We surveyed 3,588 retail investors and 976 institutional investors in October and November 2021 from 15 markets around the globe, including 200 retail investors and 75 institutional investors in India. Charts 1 and 2 show the profile of Indian retail respondents.

Chart 1. India retail respondents' age

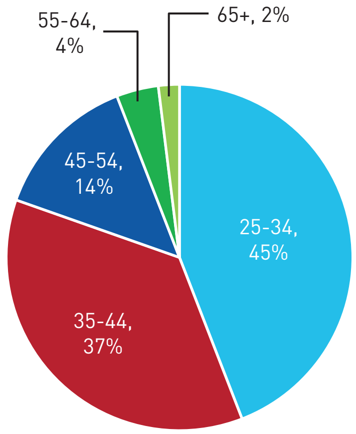
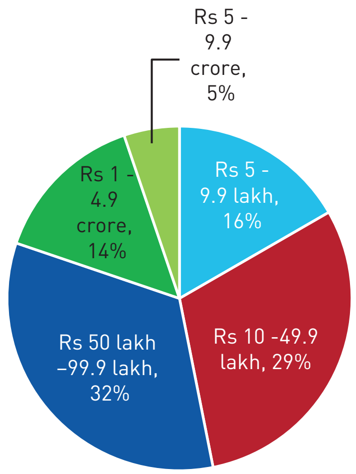


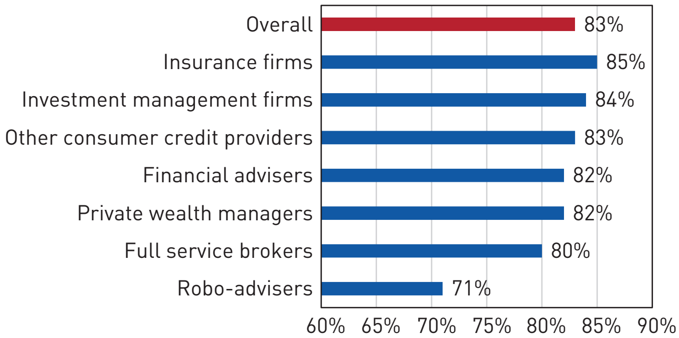
Chart 2. India retail respondents' investible assets



Trust in Financial Services

Trust levels across all industries have increased from 2020, and trust in financial services is at an all-time high. Retail trust levels in financial services have increased in every market except for India (see chart 3). Although trust levels have marginally declined in India, it continues to have the highest trust level of any market (83%). Within financial services, the trust levels are consistently high across industries with robo-advisers scoring the lowest (71%).

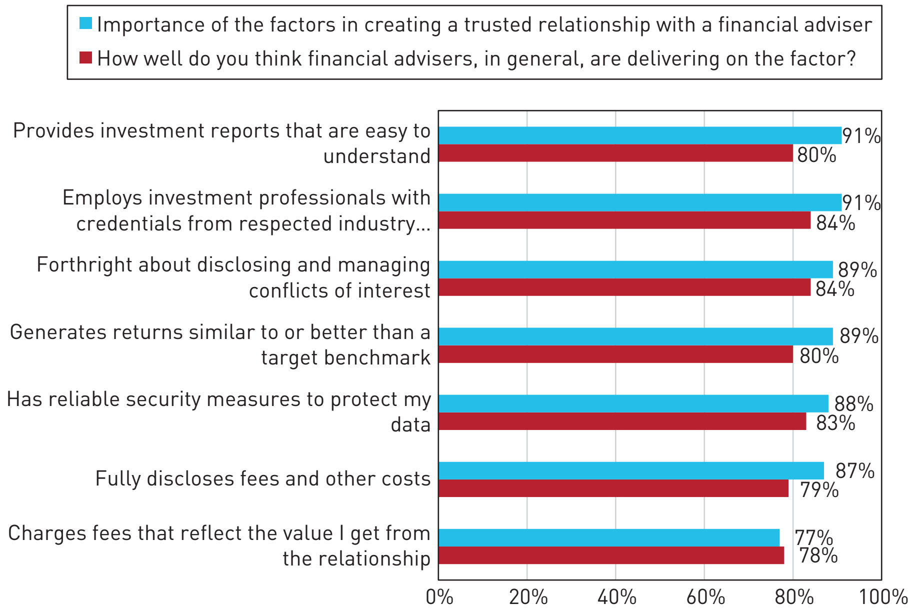
Chart 3. Trust levels for various industries within financial services



Note: This chart shows the percentage of respondents selecting 4 or 5 on a scale of 1 (completely distrust) to 5 (completely trust).

With respect to retail investors with advisers, gaps remain between what investors believe is important to get from their advisers and what advisers are delivering. Easily understandable investment reports and employing investment professionals with credentials are of the highest importance; interestingly, the level of fees charged was not considered to be an important criterion (it was also the criteria for which no gap exists). Large expectation gaps exist in factors such as providing easily understandable performance reports; delivering on, or managing clients' return expectations; and disclosure of fees and costs (see chart 4).

Chart 4. Importance of adviser trust factors and how well advisers are delivering on those factors



Participants debated the link between market performance and trust levels. One participant said that his firm conducts similar surveys with clients every two years, and they found a relationship between trust levels and performance. Outcomes, whether in stock markets or cryptocurrencies drives sentiment and influences views on trust. Significant market events, however, also could affect trust negatively. For example, we found that trust levels in Australia fell in 2020, following the investigation and findings of the Royal Commission Report into Misconduct in the Banking, Superannuation, and Financial Services Industry.

One participant raised the recent frontrunning issue with a couple of asset management companies and reported that a few clients were asking about their exposure to these funds and whether they should redeem their investments. The participant felt that there could be repercussions on trust, if these issues turn out to be systemic.

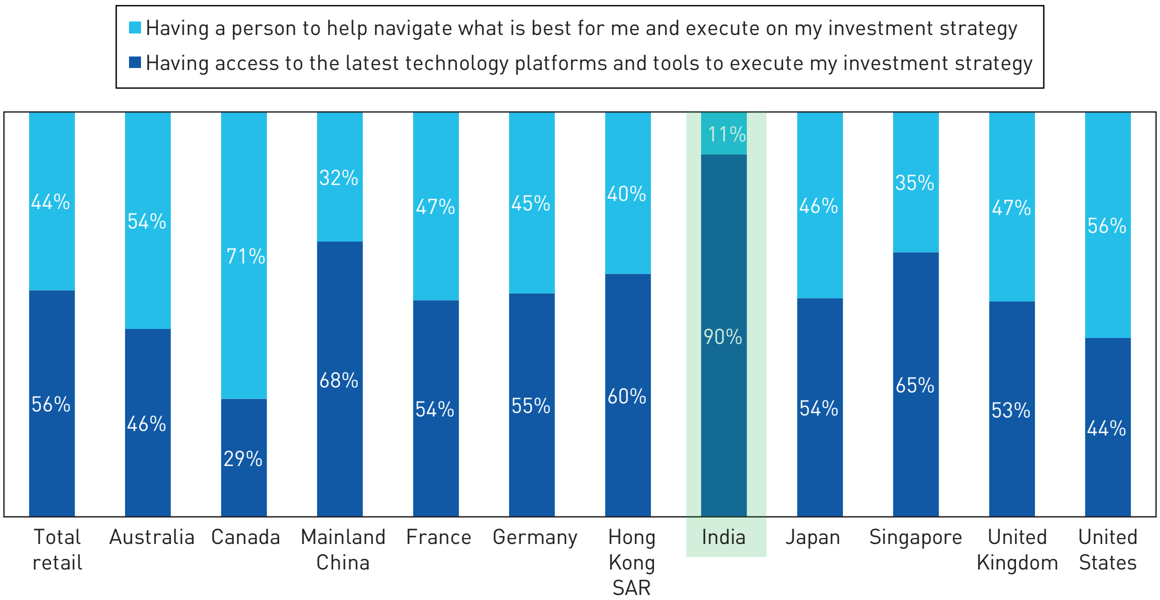
Technology as a Trust Multiplier

The role of technology to develop and leverage trust in the financial services industry continues to grow. Investors, both retail and institutional, view technology as a tool through which trust not only can be enabled but also can be multiplied. Globally, 50% of retail investors and 87% of institutional investors said technology increases trust in their financial adviser/asset manager, a trend that has risen steadily over recent years.

Trust and Tech Adoption

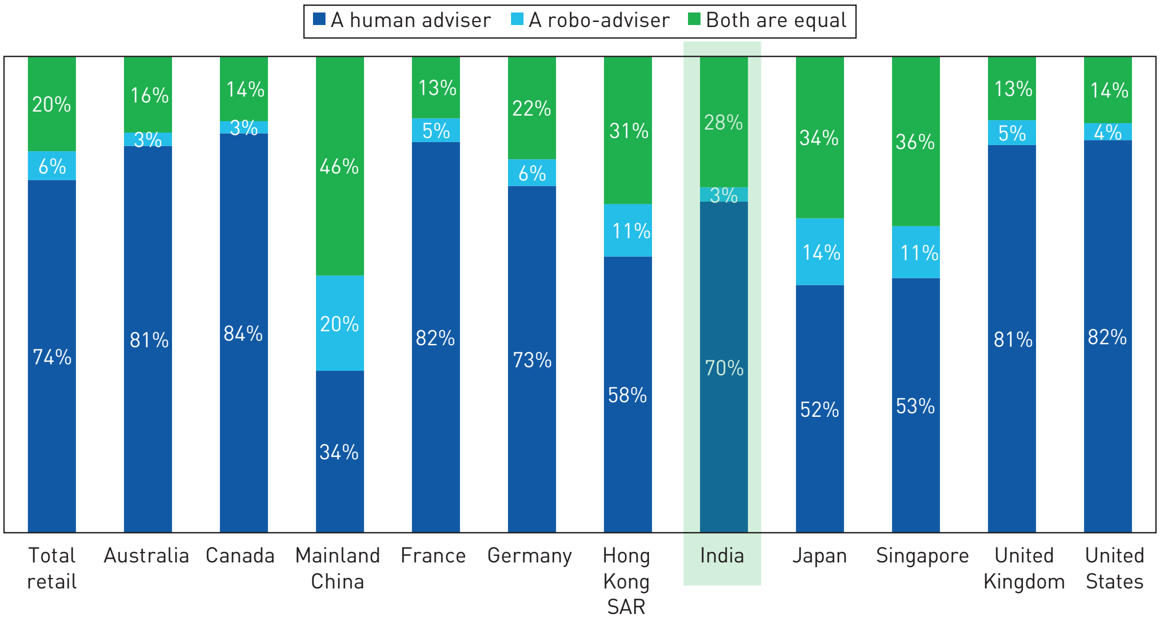
Technology and human expertise are both important components of trust. Over time, we have tracked the relative importance of technology. For the first time since our research began, more investors believe that within three years, access to technology platforms and tools will be more important than human assistance (see chart 5). That belief is highest among Indian respondents, with 90% opting for technology than a person.

Chart 5. In three years, which of the following do you think will be more important to you?



The increasing use of technology and increasing trust in technology, however, has not changed the need for human advice. Chart 6 shows that three-quarters of retail investors still prefer a human adviser to a robo-adviser, with 70% of Indian respondents preferring a human adviser.

Chart 6. Are you likely to trust recommendations from which of the following?



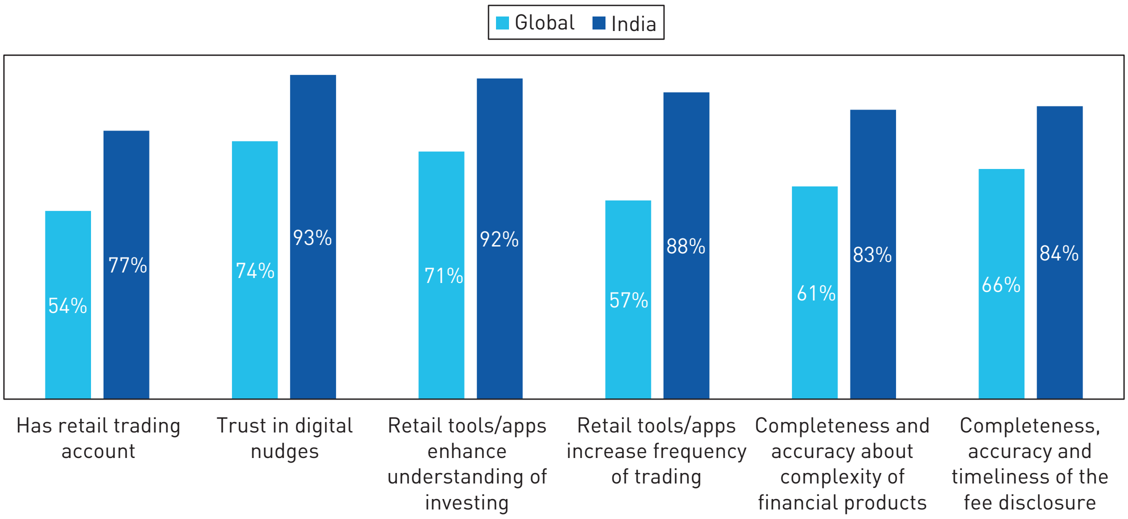
The participants said that the finding that people trust humans rather than a robo-advisers resonated with their experience. People with a financial background may trust apps with better user interfaces and user experiences. These apps that create a portfolio list based on goals are preferable to handholding, but do-it-yourself investors are still in a minority. Most people have a limited understanding of finance and investing. Some investors do not know what a mutual fund is, let alone how to download an app that allows you to invest directly in these funds. Another participant cited the experience of Wealthfront and other robo-advisers. When they started, they were fully digital, but over time, those online firms have added human advisers as well.

One participant suggested human advice might be costly in a market like India. Although technology might reduce these costs, it simultaneously could create a barrier for most people. Others felt that with a little effort clients could select an adviser who matches their costs with the value they are seeking. Unlike buying or assembling furniture, which comes with an instruction manual, financial products are complicated. Most people do not know what questions to ask, which is exactly where the value of advice comes from.

Participants also debated the dichotomy between technology, which most respondents believed increases trust and foresee using more of, and the continuing need for human advice. One person noted the distinction between research and decision making. People are happy to conduct research using mobile apps and to look at various options. At the point of sale, however, they would rather use their desktops than a mobile app or head toward a brick-and-mortar branch.

Indian respondents have led the way in using retail trading accounts. More than three-quarters of Indian respondents surveyed had trading accounts, versus 54% of retail investors overall (see chart 7). These investors are very likely to trust in digital "nudges," such as alerts like push notifications that providers send to share new investment opportunities and increase trading. Overall, a majority of retail investors said that apps have increased their trading frequency. This response was higher for Indian respondents, which has implications for market integrity and investor outcomes.

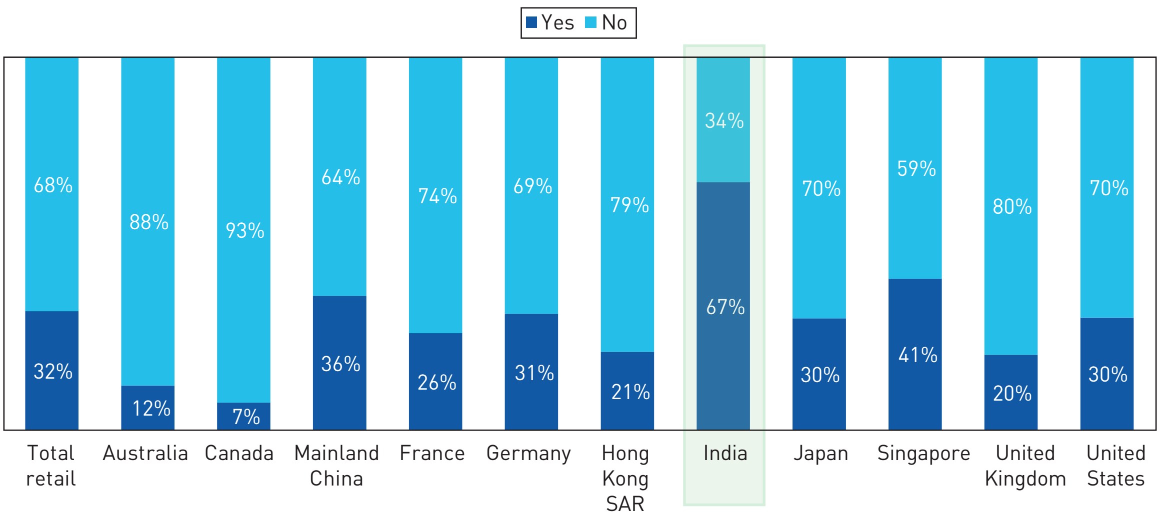
Chart 7. Regional trust and tech adoption: Global versus India



Trust in Cryptocurrencies

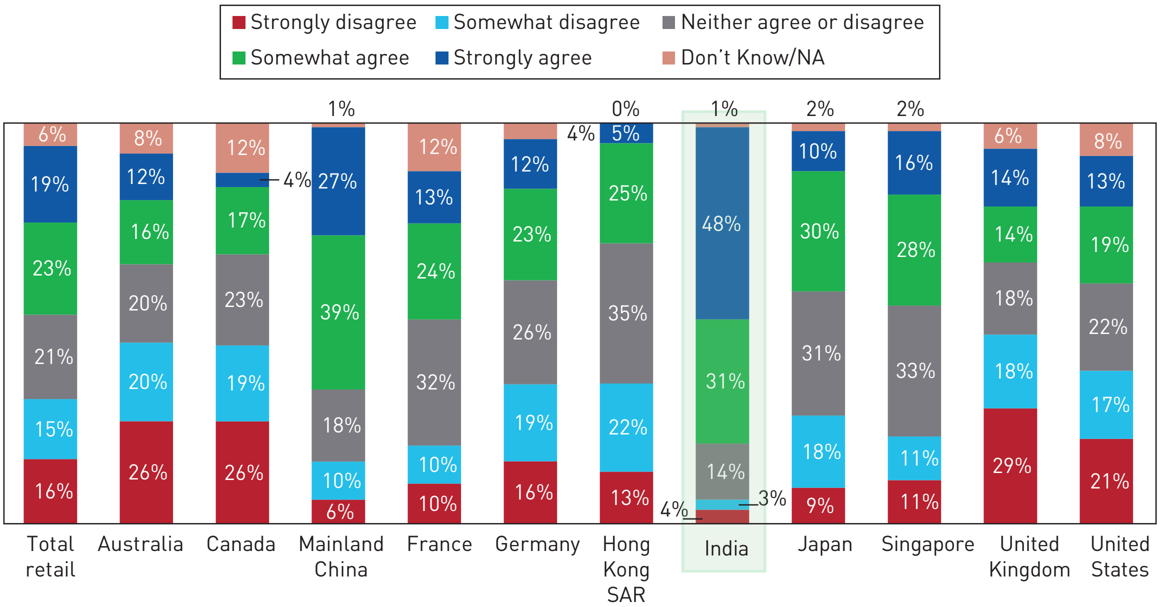
Driven by pervasive advertising toward retail investors, 67% of Indian retail investors invest in cryptocurrencies, the highest among the markets surveyed (see chart 8).

Chart 8. Do you invest in cryptocurrencies?



Indian respondents also placed a high level of trust in cryptocurrency stability, with 79% agreeing with the statement, "I agree that they will hold their value," compared with 42% among global retail investors (see chart 9). Given their recent drop in value, however, as well as regulatory interventions that have made cryptocurrencies harder to access, these figures may have changed.

Chart 9. Indicate your level of agreement with the statement, "I trust cryptocurrencies will hold their value."

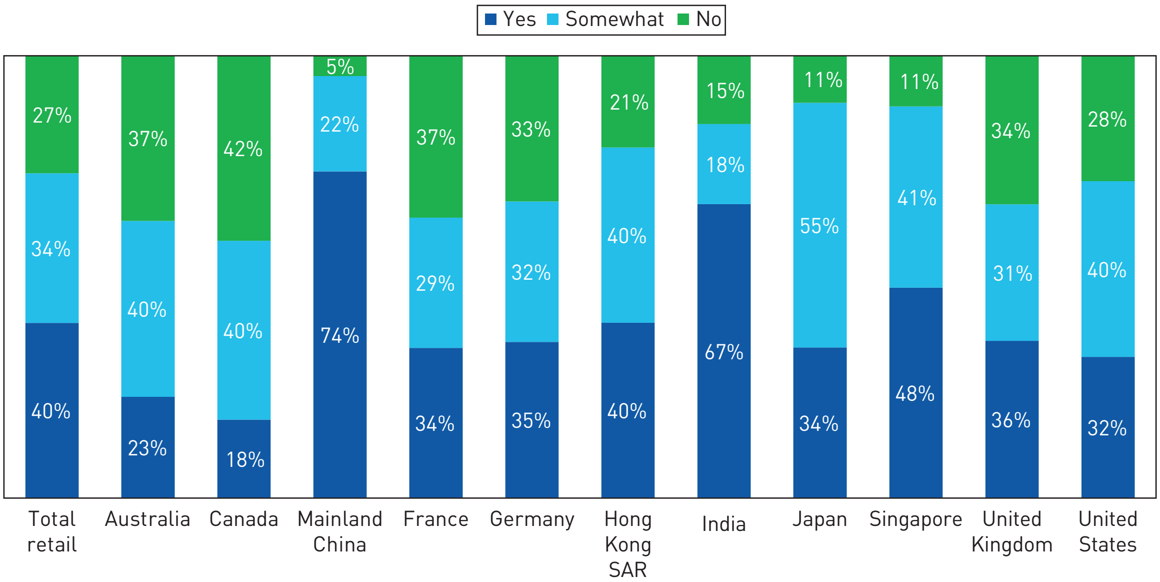


One participant remarked that in the past two years, new investors who entered the markets bought all manner of stocks, funds, and cryptocurrencies. Now that the markets are in a flux, they are left with an eclectic portfolio and need advice about how to manage their money going forward. It is not easy to get answers to those questions from technology platforms or the internet.

Trust: Values and Personal Connection

Trust is a complex topic because it is personal. Personal connections can develop through the relationship with one's financial adviser. As Chart 10 shows, three-quarters of respondents said it is at least somewhat important to have shared values—such as political or religious views—with their adviser. The importance of having an adviser who shares one's values ranked the second highest in India among the markets surveyed (67% answered affirmatively) behind only China (74%).

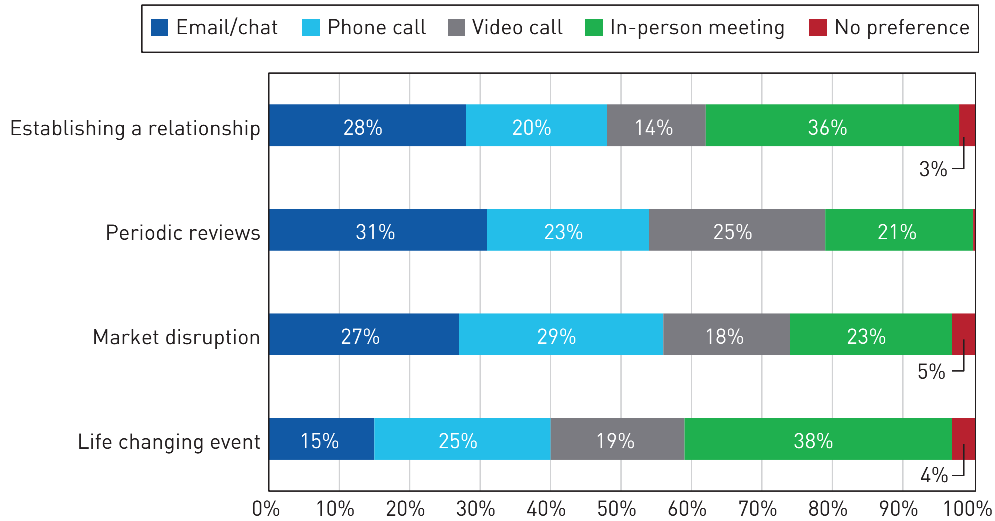
Chart 10. Is it important to you to have an adviser who shares your values (e.g., political or religious views)?



Our participants echoed these findings and suggested that having a shared context is important for trust. In some settings, being in the same space as the client (in terms of language, culture, or other factors) is a precursor to having meaningful conversations. One participant noted that even among institutional investors, a significant factor for discontinuing a relationship with an asset management firm is whether it "[h]as publicly stated corporate views on social or political issue that our organization disagrees with." Therefore, shared values are not just a retail phenomenon.

In the context of a hybrid work world, we also asked investors about their preferred modes of communication in several high-trust situations. Chart 11 shows that Indian respondents prefer interacting with their adviser remotely (emails, chats, phone calls, and video calls), but the start of a working relationship and life-changing events are the two most important times to establish a basis of trust with an adviser through in-person interaction.

Chart 11. In each of the following situations, which of these modes of communication would you prefer your financial adviser to use with you?



Participants agreed with the importance of in-person communication at the start of the relationship. One person remarked that body language is important at the start—advisers want to break the ice with clients and show confidence. Because these initial meetings are longer, video calls may not be the right channel. A beneficial side effect of the pandemic is the increased acceptance among clients to have their periodic reviews conducted virtually compared with a physical meeting. For a life-changing event, the focus is more on providing emotional support rather than where and what to invest, and these meetings are best conducted in person.

Another adviser remarked that they had been conducting meetings virtually before the pandemic, mainly because their clients are spread across the country. Still, for life-changing events, some clients prefer to travel long distances to meet and have that discussion in person. This adviser also sets expectations with clients at the start noting that the engagement will be conducted digitally at first and that clients are more than welcome to visit their offices for meetings.

The mode of communication may depend on the asset levels. Clients with high investable assets may desire a higher level of service. For clients with a lower investable asset base, economics may not permit an in-person meeting in general. Another participant countered this by suggesting that the past two years may have habituated some clients to virtual meetings regardless of asset levels. There was a bit of activity when the economy re-opened, something of a "revenge-travel" phenomenon. In the private wealth setting, even relationship managers felt that they needed to reach out to clients to reactivate relationships. Overall, however, the efficiencies that were created by virtual meetings are going to be preserved. Most advisers said they are seeing even those who might be considered "old-school clients" are more than happy to meet virtually. Client expectations are heterogenous across asset levels. During market disruptions, virtual modes also might offer the fastest way to respond and may be a better way to handhold clients rather than having in-person meetings.

Testing Trust: Investor Views on Market Crisis

During a crisis, adviser trust often is tested the most. In our survey, we found that a portion of retail investors did not follow the advice they received during the March 2020 market meltdown. For example, 19% of the correspondents who received advice to significantly increase their exposure to market following the meltdown reduced their exposure instead.

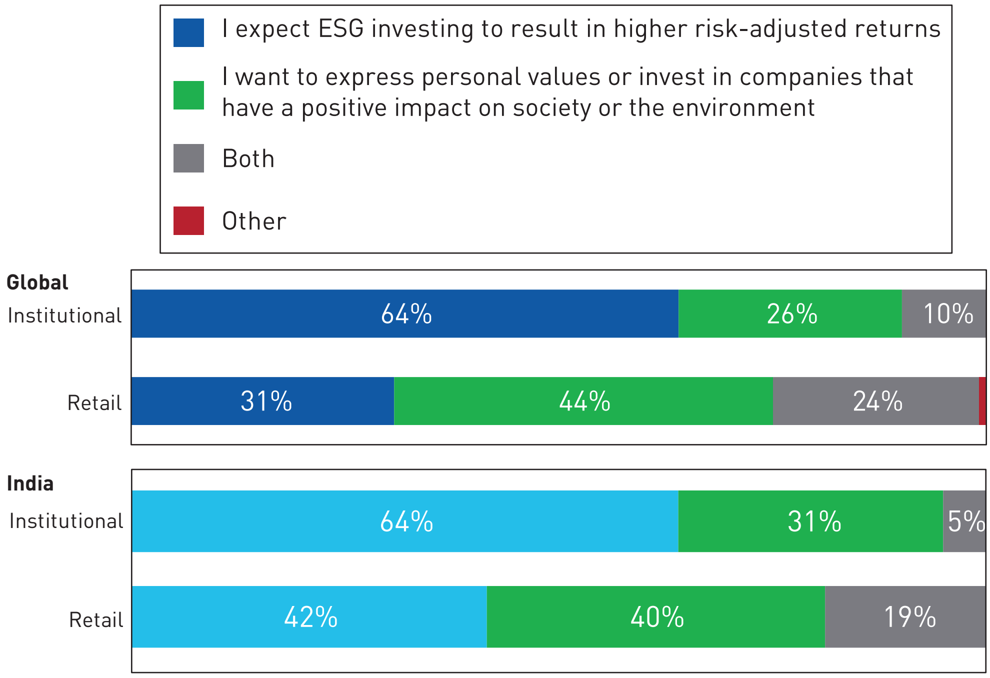
The roundtable participants said that most of their clients followed their advice, although some did not. In one instance, a business owner who lost sales during the lockdown panicked and sold off his investments at the wrong time. Some participants suggested that clients with limited financial knowledge tended to follow advice and stay put compared with those with some market knowledge (and exposed to noise).

The frequency of communication matters, and the emphasis was on overcommunication. It was helpful that the duration of the meltdown was short. If the downturn had been prolonged, the outcome may have been different. One respondent shared details of his communication with his clients during that time. His communication included his own portfolio's performance and demonstrated how it had gone through cycles, too, and explained why this might be the best time to invest. Last, his communication noted that despite the market downturn, if clients were losing sleep, it was best to sell and shift their investments to risk-free assets; after all, personal health matters more than a return on investment.

Investments Aligned with Personal Values

Our survey shows that interest in environment, social, and governance (ESG) investing is extremely high, with 100% of institutional investors and 77% of retail investors either interested in or already using ESG strategies. As chart 12 shows, the primary motivation for retail investors to consider investing in ESG strategies is to express personal values or to invest in companies that have a positive environmental or societal impact.

Chart 12. Primary motivation to invest in ESG



Conclusion

The high level of trust among Indian investors is a positive finding of the 2022 Trust Study. Survey participants stressed the need for alignment with their clients as well as the importance of human connection and shared values as enablers of trust. They also found the results relating to investor preferences on engagement and their views on technology and ESG to be illuminating.

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Author:

Sivananth Ramachandran, CFA
Director, Capital Markets Policy India, CFA Institute

Contributors:

Amit Chakraborty
Director, Institutional Partnerships, CFA Institute

Phoebe Ka Lam Chan
Analyst, Capital Markets Policy, CFA Institute

CFA Society India

Contributors:

Rajendra Kalur, CFA
Chair, CFA Society India

Ravi Gowtham
Chair, Research and Advocacy, CFA Society India

Shamit Chokshi
Board Member, CFA Society India

THE AMERICAS
(800) 247 8132 PHONE (USA and Canada)
+1 (434) 951 5499 PHONE
+1 (434) 951 5262 FAX

915 East High Street
Charlottesville, VA 22902
USA

477 Madison Avenue
21st Floor
New York, NY 10022
USA

ASIA PACIFIC
+852 2868 2700 PHONE
+852 2868 9912 FAX

23/F, Man Yee Building
68 Des Voeux Road
Central, Hong Kong SAR

Si Wei Beijing Enterprise Management Consulting Company Limited
Unit 7, Level 12, Office Tower C1, The Towers, Oriental Plaza
No 1 East Chang An Avenue, Dong Cheng District
Beijing, 100738, China

CFA Institute India Private Limited
Naman Centre, Unit No. 103
1st Floor, Bandra-Kurla Complex, G Block, Bandra (East)
Mumbai 400 051, India

EUROPE, MIDDLE EAST, AND AFRICA
+44 (0) 20 7330 9500 PHONE
+44 (0) 20 7330 9501 FAX

131 Finsbury Pavement
7th Floor
London EC2A 1NT
United Kingdom

Rue du Champ de Mars 23
1050 Brussels, Belgium

CFA Institute

www.cfainstitute.org
info@cfainstitute.org