

Equities

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Streetwise

Wealth Management Products in China; Ignorance Is Bliss

- **WMP buyers: the knowledge gap** – We analyze the results of an in-depth grassroots study that targeted n=1200 individuals throughout China to discover customer appetites for, and attitudes to, Wealth Management Products being sold by banks. The analysis confirms the view of our China banks analysts in [Chinese Banks - Opening Pandora's Box of Wealth](#) that demand for WMPs will remain strong, but reveals that the vast majority of investors are significantly under-estimating the inherent risks, with some even expecting banks to compensate them for any capital losses.
- **Banks with the largest market shares in WMP** – ICBC (22%) and CCB (17%) were the banks most often cited by our respondents as their preferred sellers of WMPs, followed by Bank of China (12%), CMB (11%) and ABC (8%).
- **Attitudes to risk: where ignorance is bliss** – 77% of our respondents admitted they knew nothing about the investments inside the WMPs they had bought. Of the remaining 23%, responses were diverse and vague, reflecting the opaque nature of the products. Meanwhile, 57% of investors believed their WMPs to be 'low risk', with only 1.5% categorizing them as 'high risk'. 21% of those interviewed said they expected to be compensated by the selling bank for any losses of capital.
- **Impact on deposits likely to continue** – Our survey responses suggest WMPs are likely to continue to grow rapidly in China (73% of participants said they planned to increase their investments) and to maintain their drag on deposits in the near term. A significant recovery of stock market returns might provide some counterbalance to this growth, although it also would negatively impact deposits.
- **Penetration rates high overall** – We estimate the overall penetration of the WMPs might be as high as 33% among well-educated urbanites, driven by very high Tier 1 take-up. These investments already exceed bank deposits for 56% of our sample.
- **Streetwise** – enabling insights through collective intelligence

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Figure 1. What "informed" investors (23% of sample) thought they were buying into



See Appendix A-1 for Analyst Certification, Important Disclosures and non-US research analyst disclosures.

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Background

In the Mar. 16 report [Chinese Banks - Opening Pandora's Box of Wealth](#), our China banks team covered in some detail the emergence of wealth management products (WMPs) in Mainland China. WMPs, currently estimated to represent a market worth RMB5.5trn, are asset pool products that behave like non-guaranteed, short-term closed-end funds. WMPs enable banks to compete for deposits and customers. However, there may also be a number of risks to such products. In order to investigate the depth of penetration of the products, and to get more insights into on-the-ground trends in China, we employ our proprietary Streetwise survey product.

Streetwise

Streetwise is Citi Research's proprietary grassroots survey product, which seeks to identify underlying trends across various industries.

In this study, we posed 30 questions to n=1200 people throughout Mainland China who indicated they had recently bought wealth management products. Our study identified people from Tier 1 down to Tier 3 cities throughout the country. In order to reach the 1200 participants, we contacted n=3573 potential subjects. Subjects were all contacted by email, and had no idea ex ante of the purpose of the survey.

Conclusions

Penetration rates high overall – as high as 33% among well-educated urbanites

Banks with the largest market shares in WMPs – ICBC (22%), CCB (17%), Bank of China (12%), CMB (11%) and ABC (8%)

The market is growing fast – 73% of respondents said they planned to increase their investments in WMPs over the next 12 months

31% are making investments of RMB100K or more per product. Most (56%) were targeting returns of 5% or more, with 92% requiring a minimum 4% return, apparently within a six month window

Attitudes to risk – 77% of our respondents admitted they knew nothing about the WMPs they had bought. Of the remaining 23%, responses were very diverse and vague, reflecting the nature of the products. Meanwhile, 57% of investors believed their WMPs to be 'low risk', with only 1.5% categorizing them as 'high risk'. 21% of those interviewed said they expected to be compensated by the selling bank for any losses of capital.

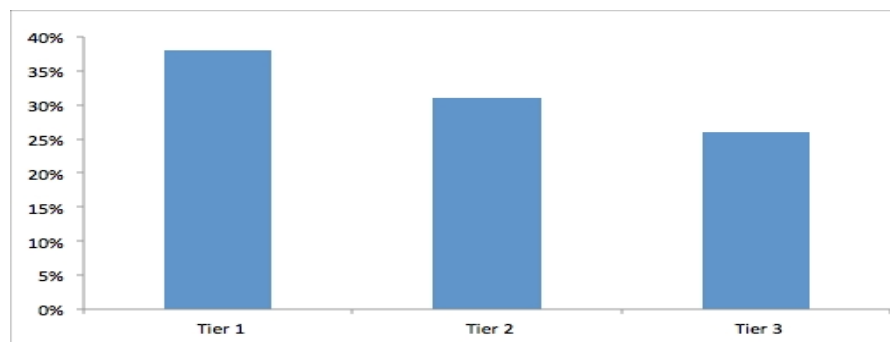
WMPs already exceed bank deposits for 56% of those interviewed.

Overall penetration rate for China may be as high as 33% in the kind of urban areas we targeted

Product penetration rates

We base our assessment of penetration rates on the total Chinese population who began our survey of n=3573. Within this population, just over 66% were rejected since they indicated they had no previous experience of investing in wealth management products¹. This suggests that an overall penetration rate for China may be as high as 33% among well-educated internet-using urbanites².

Figure 2. Penetration rate by city tier



Source: Citi Investment Research and Analysis

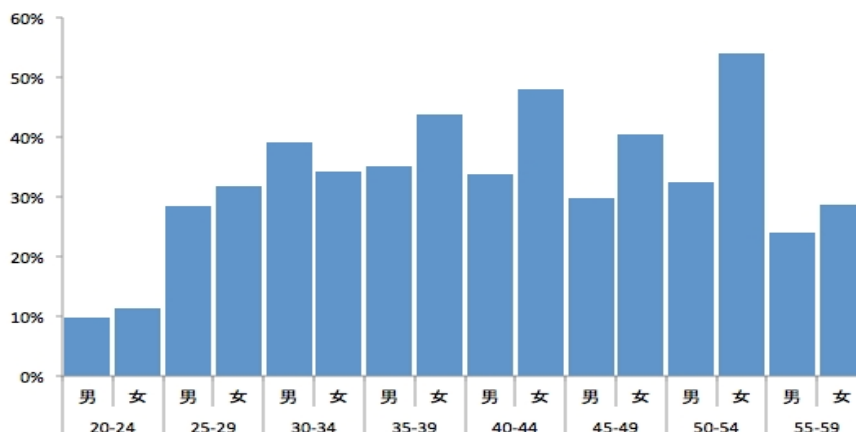
Cross-tabulating the data by city tier, penetration rates are driven higher by Tier 1 participants where, as one might perhaps expect, penetration was significantly higher, at around 38%. We find that penetration decreases with decreasing city tier, with Tier 2 cities experiencing 31% penetration, while even Tier 3 cities seem to exhibit rates as high as 26% overall. Cross-tabulating by age, there is a relatively normal distribution to the data, with peak penetration amongst the 35-44 year old age group. Surprisingly, in 7 out of the 8 age ranges the uptake in these products among females is higher.³

¹ Respondents were not aware of the reason for their rejection, nor were they aware that the topic of our survey was wealth management products. Respondents were not allowed to retake the survey.

² We note that our sample are largely quite well-educated internet users in urban areas, which may bias our results slightly

³ The anomaly in the 50-54 year old female age bracket seems to be an artifact of the sample size only: 34/63 participants in this age bracket. Most other sub-categories had well over 100 participants

Figure 3. Penetration by age and gender band



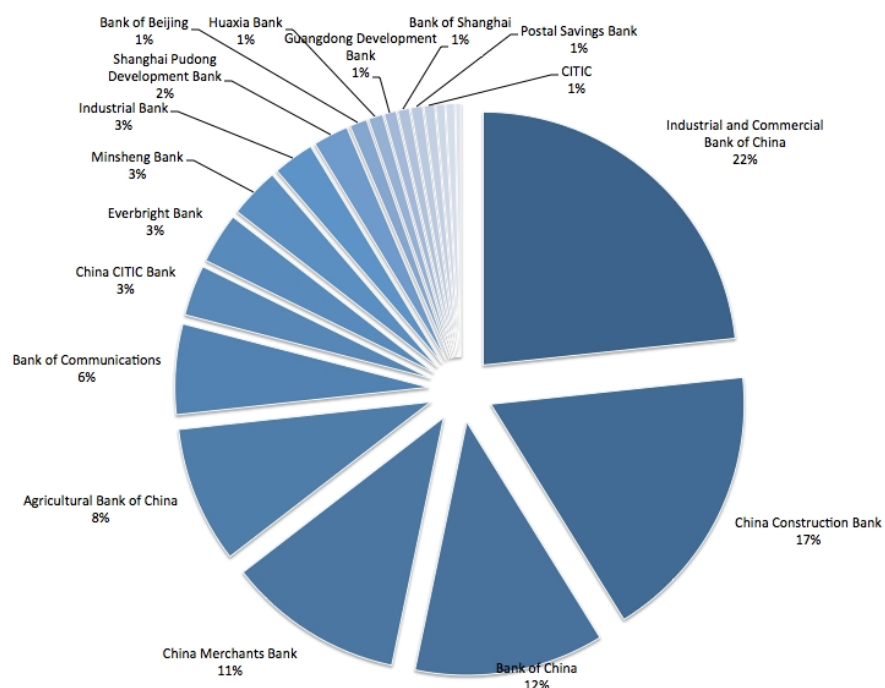
Source: Citi Investment Research and Analysis

Which banks have the largest market share?

Banks with the highest market share in WMPs are: ICBC (22%), CCB (17%), Bank of China (12%), CMB (11%) and ABC (8%)

When participants were asked which were the top 3 banks from which they would consider buying WMPs, the most frequently cited were: ICBC (22%), CCB (17%), Bank of China (12%), CMB (11%) and ABC (8%). Our sample included both novices who had been buying these products for less than 6 months (31%), as well as 'experts' who had been buying them for over 2 years (36%). When considering such an investment, 94% had bought these products at 3 banks or fewer, with 31% having purchased such products at only one bank.

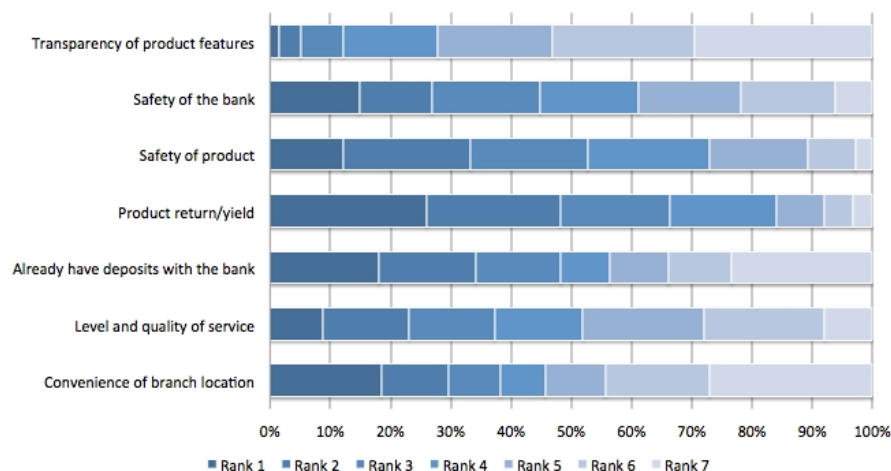
Figure 4. Which are the banks you would approach first to buy wealth management products?



Source: Citi Investment Research and Analysis

In general, it is clear that people are hungry for these products – most (65%) having proactively sought out the product as a reaction to advertising or after recommendation from friends. They see these products first and foremost as tools to enhance deposit or cash returns, and have to all intents and purposes abrogated responsibility for what they are investing in. When asked to rank reasons why they might have chosen the above banks, the majority saw the product return/yield as the single most important aspect of the choice. The transparency of the product, in contrast, was by far the least important feature, which is fortunate given the general low transparency of the products involved. What this seems to suggest is that individuals are placing a huge degree of faith in their banks and have little appetite for considerations of product risk and return characteristics.

Figure 5. Ranking of features most significant in making choice of bank (Rank 1 = most important)



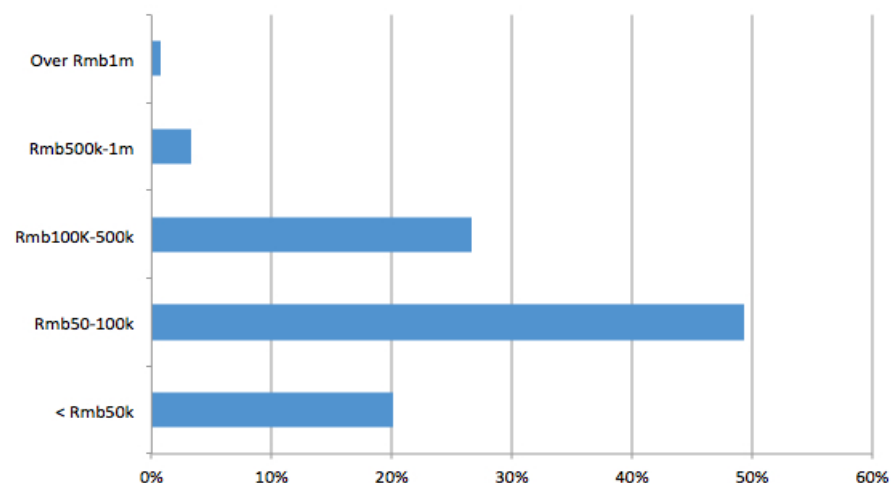
Source: Citi Investment Research and Analysis

31% are making investments of RMB100K or more per product. Most (56%) were targeting returns of 5% or more, with a staggering 92% requiring a minimum 4% return, apparently within a six month window

Typical investment sizes, horizons and expected returns

Our modal respondent (49%) said that his or her typical investment in each wealth management product was in the RMB50K-100K range, although almost a third of those asked (31%) were making investments of RMB100K or more per product.

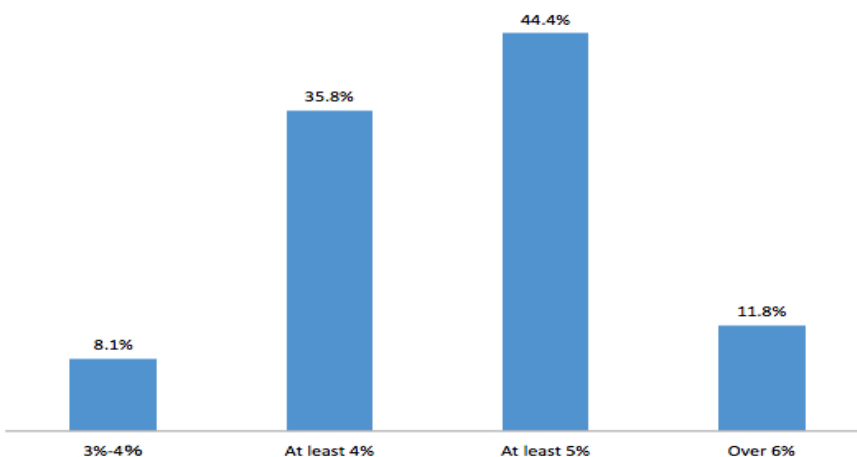
Figure 6. Our respondents' typical investment size per product



Source: Citi Investment Research and Analysis

Most (56%) were targeting returns of 5% or more, with a staggering 92% requiring a minimum 4% return, apparently within a six month window, since of those interviewed 60% weren't prepared to have their cash tied up for more than 3-6 months.

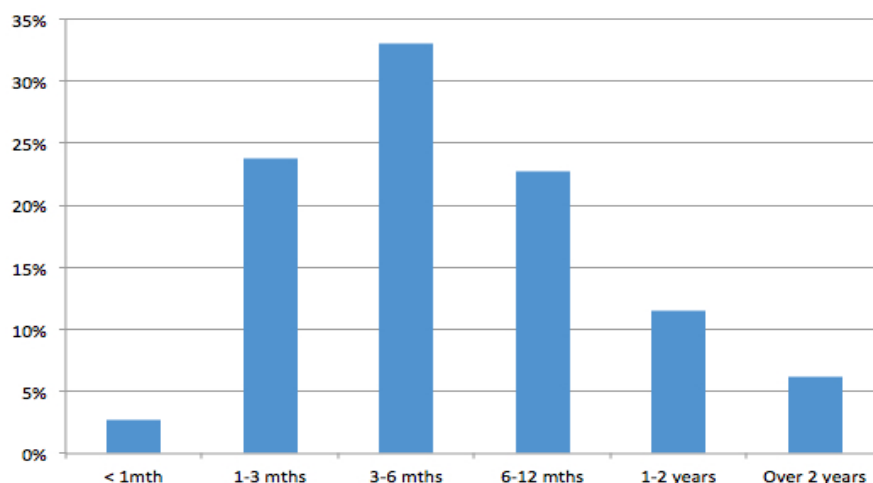
Figure 7. The returns that our participants expected from wealth management products



Source: Citi Investment Research and Analysis

Almost all (82%) required an investment period of less than 1 year. This suggests these products have created high expectations of short-term returns among investors, and if banks struggle to maintain current returns on these products, investors may become disenchanted, which may negatively impact fee income. We note in *Chinese banks: Opening Pandora's Box of Wealth* that there is a possibility that these products may struggle to maintain yields going forward.

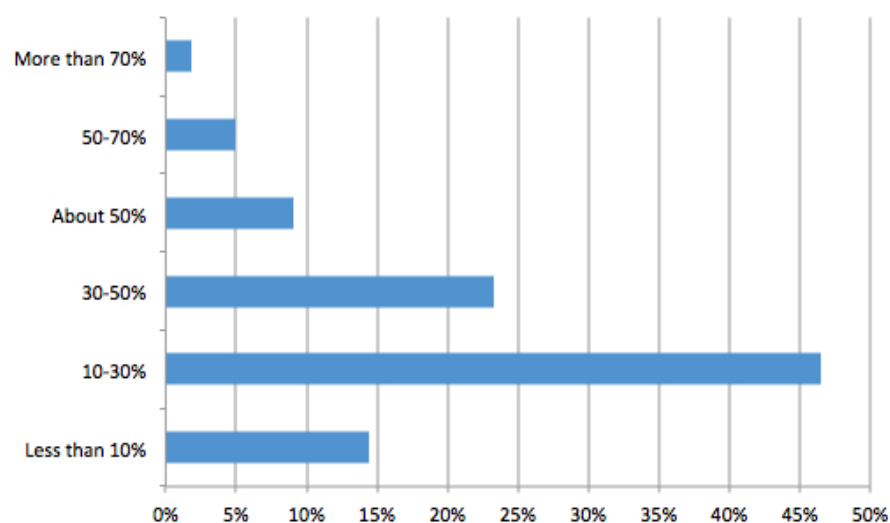
Figure 8. What holding period our participants normally looked for when buying wealth management products



Source: Citi Investment Research and Analysis

Our survey suggests that for our modal respondent (47%) WMPs represent 10-30% of their total financial assets (excluding real estate). However, for some 39%, the products represent over 30% of these total financial assets.

Figure 9. The percentage of total financial assets (excluding real estate) invested in wealth management products



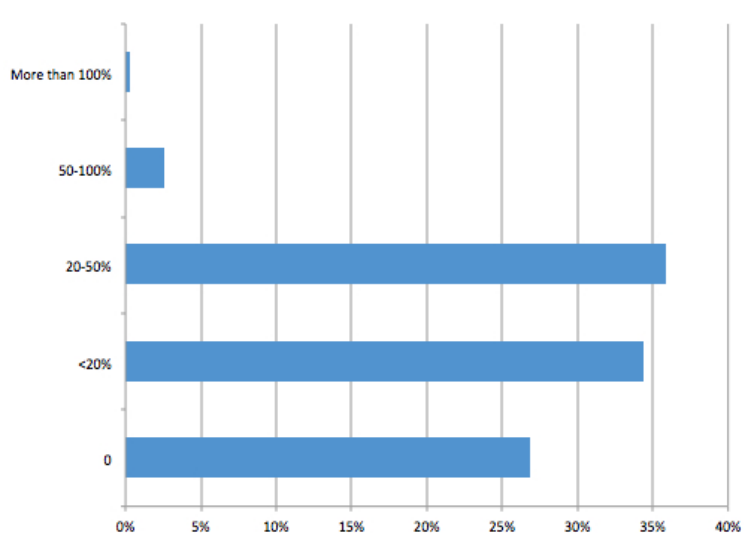
Source: Citi Investment Research and Analysis

Investments on the increase, sourced from deposits, but keep an eye on the stock market

73% said they planned to increase their investment in WMPs over the next 12 months

73% of those asked said they planned to increase their investment in WMPs over the next 12 months, of whom roughly half would be making an incremental investment of <20% and the other half planned to increase their current investment by 20-50%, so clearly we should expect investment in these products to grow significantly in aggregate over the next year.

Figure 10. The degree to which our total subjects will be increasing their investment in the next 12 months

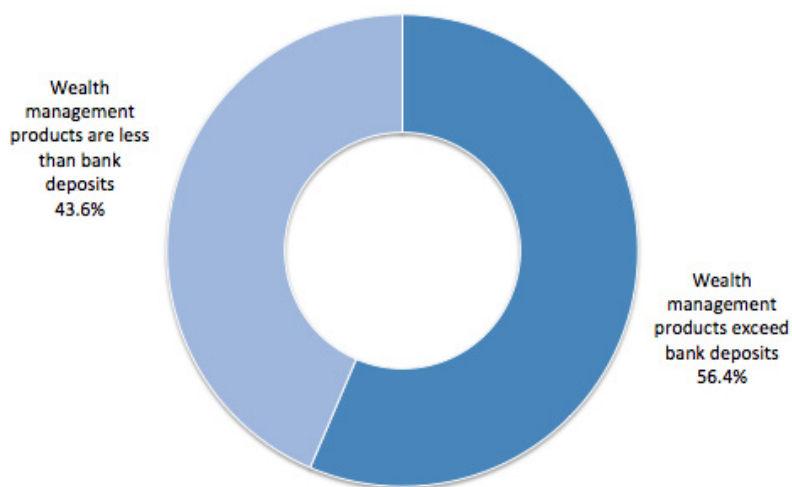


Source: Citi Investment Research and Analysis

For the majority (56%), their WMPs already exceed their bank deposits

We already mentioned in *Chinese banks: Opening Pandora's Box of Wealth* that WMP growth may have had a significant impact on deposit growth. For the majority of those surveyed (56%), their WMPs already exceed their bank deposits.

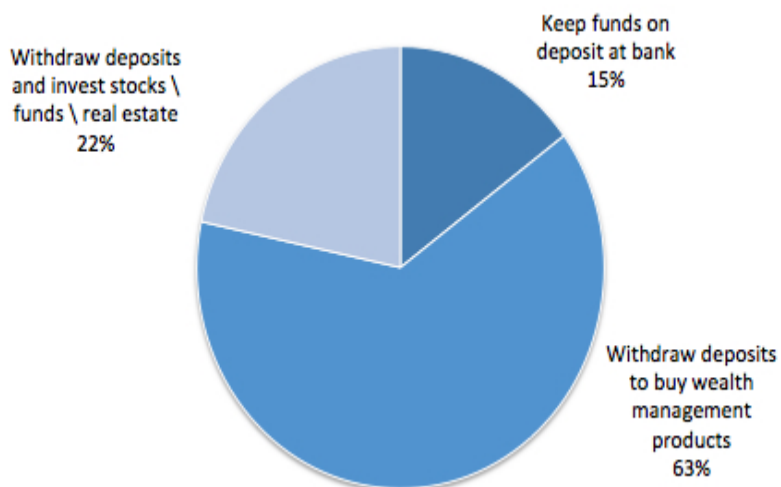
Figure 11. For the majority, wealth management products already exceed bank deposits



Source: Citi Investment Research and Analysis

The main source of funding for the further purchase of such investment products, according to those we interviewed, was cash in hand (52%), and bank deposits (44%). When pressed as to their likely course of action if deposit rates were to drop, 64% said they would take out deposits to buy this kind of financial product, with only 15% saying that they would continue to keep funds on deposit.

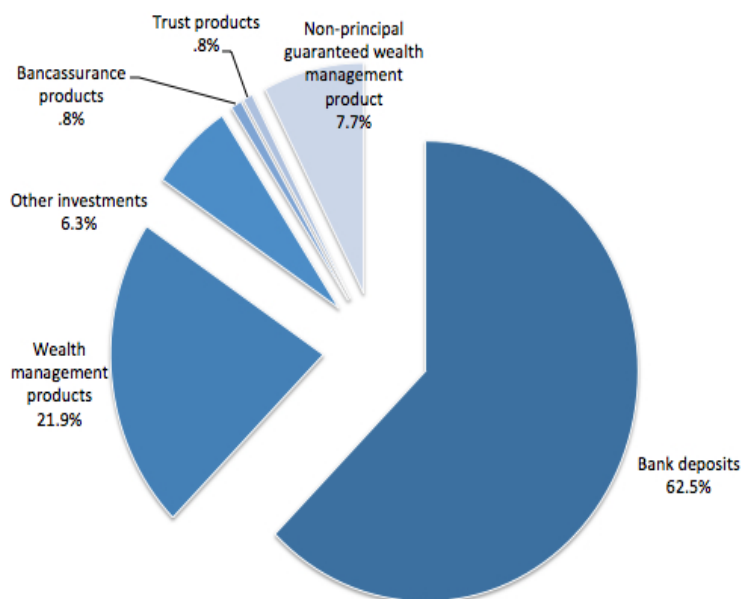
Figure 12. Subjects' likely courses of action should deposit rates fall



Source: Citi Investment Research and Analysis

When asked what they would do were the stock market to rebound, 63% said they would first draw down funds for investment from bank deposits.⁴ It seems clear, then, that both these scenarios are trigger points for significant falls in deposits. However, 30% indicated that a recovery in the stock market might also precipitate their withdrawal of funds from WMPs.

Figure 13. From which source they would first draw down their funds in the event of a stock market rebound prompting them to want to invest in stocks



Source: Citi Investment Research and Analysis

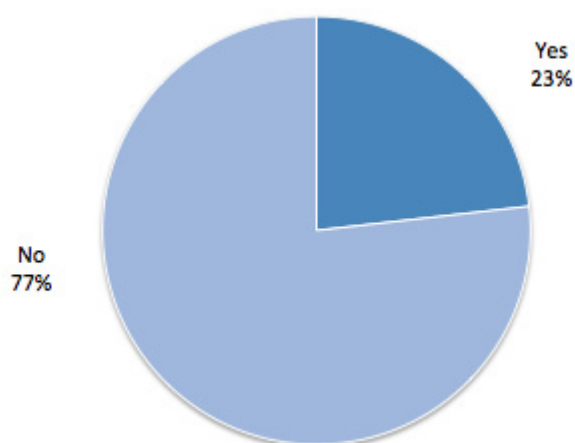
⁴ Of our total sample of 1200 who bought these wealth management products, 67% also invested in stocks, and were 3 times more likely to invest in stocks than bonds.

77% knew nothing about the investments inside the WMPs they had bought

Where ignorance is bliss: contemplating risk

77% of our respondents admitted they knew nothing about the investments inside the WMPs they had bought

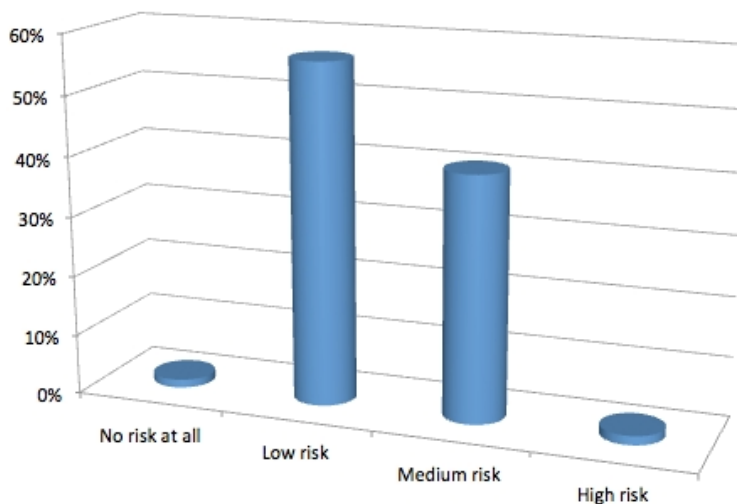
Figure 14. Do you know what the wealth management products you have bought invest in?



Source: Citi Investment Research and Analysis

Of the remaining 23%, responses were very diverse and vague, reflecting the opaque nature of the products. Meanwhile, 57% of investors believed their WMPs to be 'low risk', with only 1.5% categorizing them as 'high risk'. 21% of those interviewed said they expected to be compensated by the selling bank for any losses of capital.

Figure 15. How our respondents classified wealth management product risk

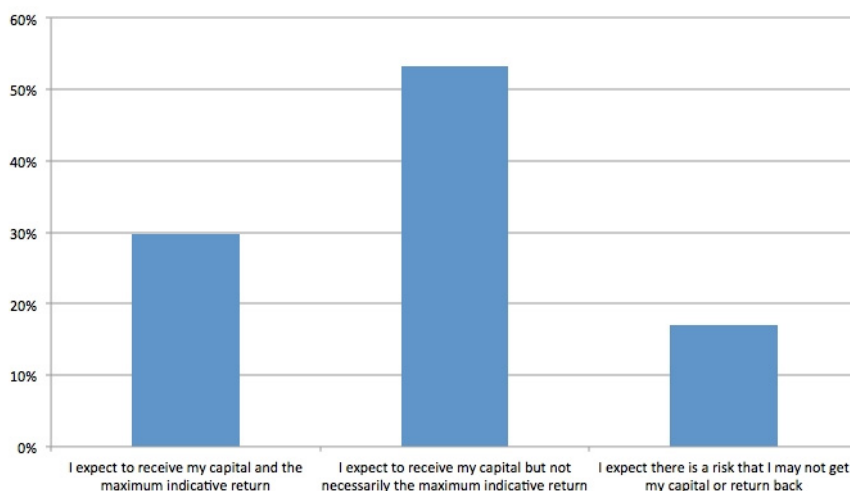


Source: Citi Investment Research and Analysis

83% expected to get their capital back under all scenarios when investing in a non-guaranteed product

There was also confusion among respondents about the returns they were to expect for investing in these products. 83% expected to get their capital back under all scenarios when investing in a non-guaranteed product. 30% expected always to receive their capital *and* the maximum indicative return. Only 17% understood there could be a risk to both their expected return *and* their invested capital.

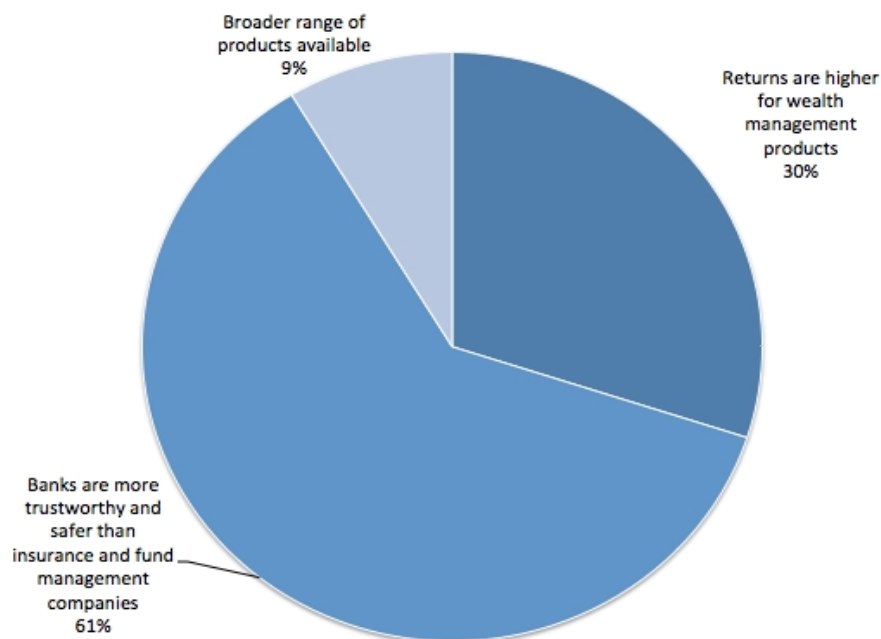
Figure 16. Respondents were not clear about the safety of their return or capital in a non-guaranteed product



Source: Citi Investment Research and Analysis

There is evidence to suggest that individuals thought their investments with banks were safer relative to other financial services providers. When asked what the most important factor was in choosing bank WMPs over other investments, 61% said that it was down to the trustworthiness of banks. Banks' trustworthiness was increasing with decreasing city tier, with as many as 67% selecting trustworthiness in Tier 3, as against 59% in Tier 1.

Figure 17. Trust in the bank is the key to high purchasing rates



Source: Citi Investment Research and Analysis

Some conclusions

Penetration rates high overall – as high as 33% among well-educated urbanites

Banks with the largest market share – ICBC (22%), CCB (17%), Bank of China (12%) CMB (11%) and ABC (8%)

The market is growing fast – 73% of respondents said they planned to increase their investment in WMPs over the next 12 months

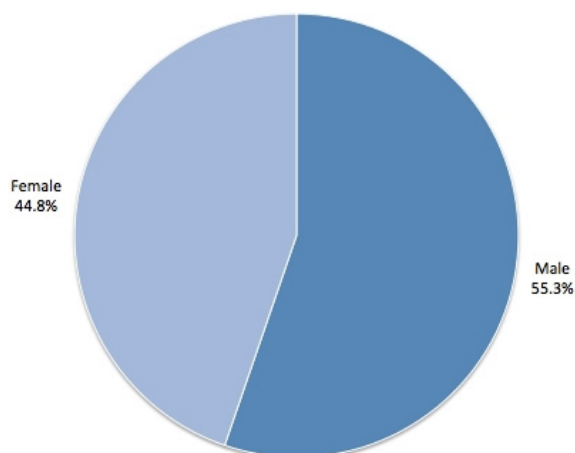
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WMPs already exceed bank deposits for 56% of those interviewed

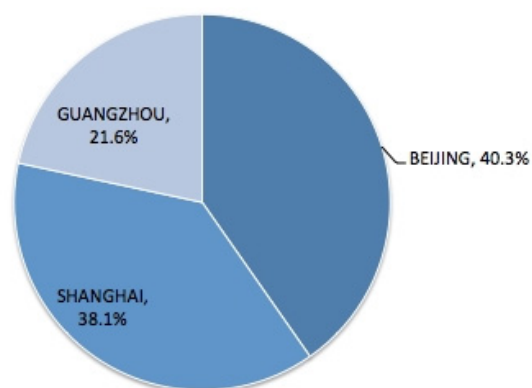
About our respondents

Figure 18. Respondents' gender



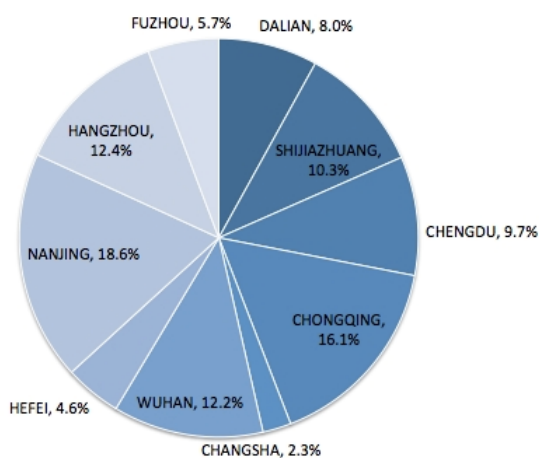
Source: Citi Investment Research and Analysis

Figure 19. Tier 1 respondents' geographical breakdown



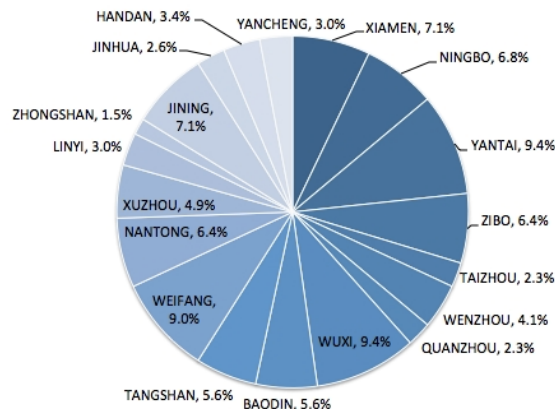
Source: Citi Investment Research and Analysis

Figure 20. Tier 2 respondents' geographical breakdown



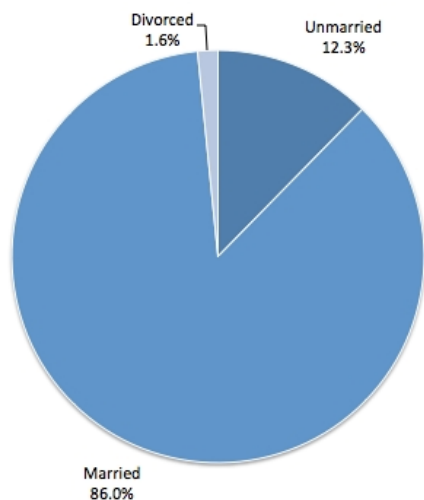
Source: Citi Investment Research and Analysis

Figure 21. Tier 3 respondents' geographical breakdown



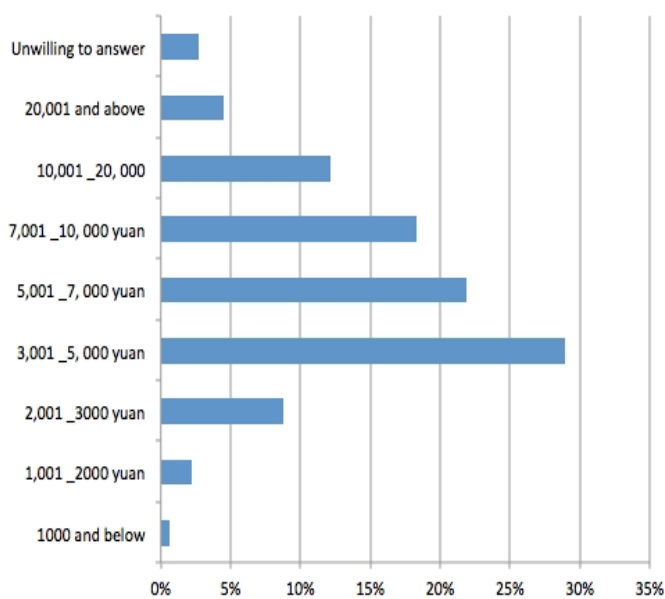
Source: Citi Investment Research and Analysis

Figure 22. Respondents' marital status



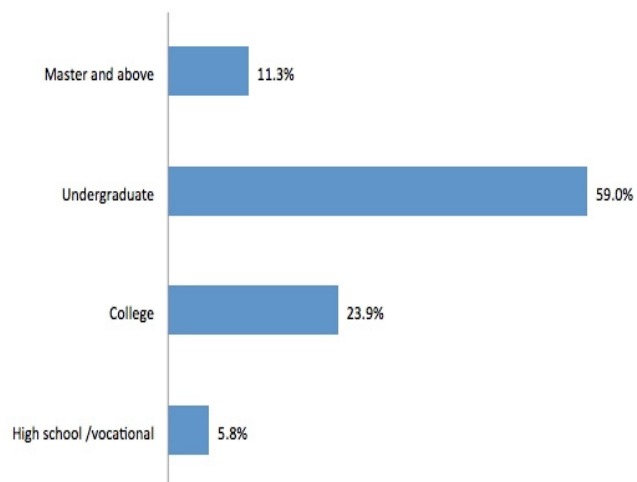
Source: Citi Investment Research and Analysis

Figure 24. Respondents' income bracket



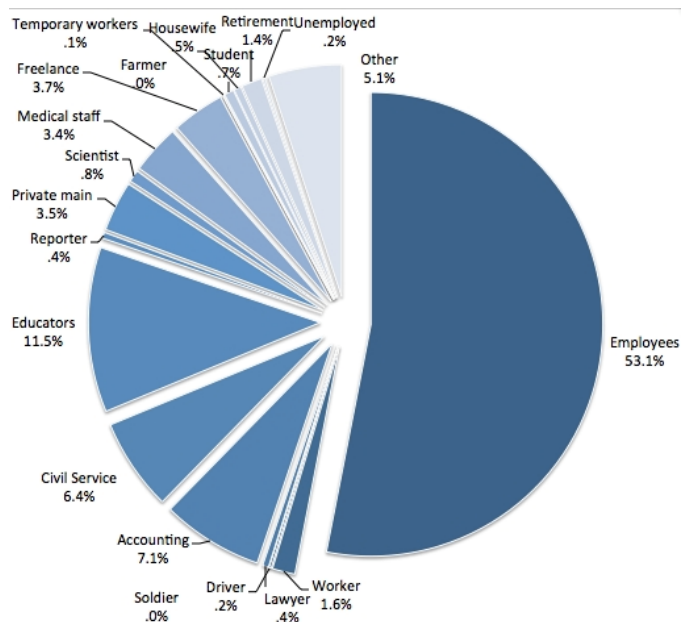
Source: Citi Investment Research and Analysis

Figure 23. Respondents' highest educational status



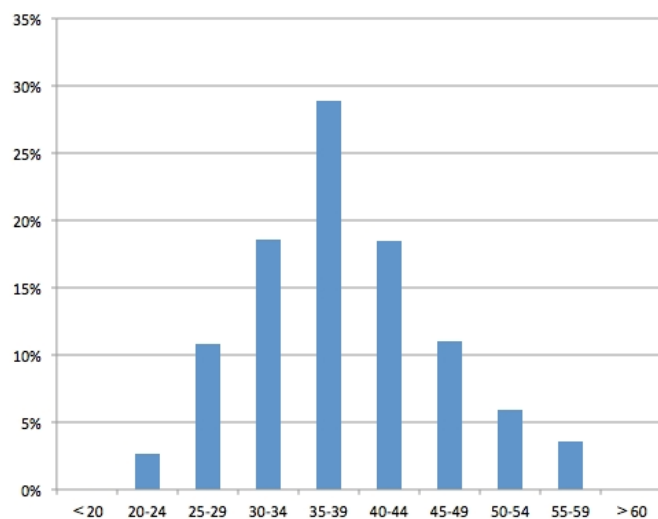
Source: Citi Investment Research and Analysis

Figure 25. Respondents' occupational status



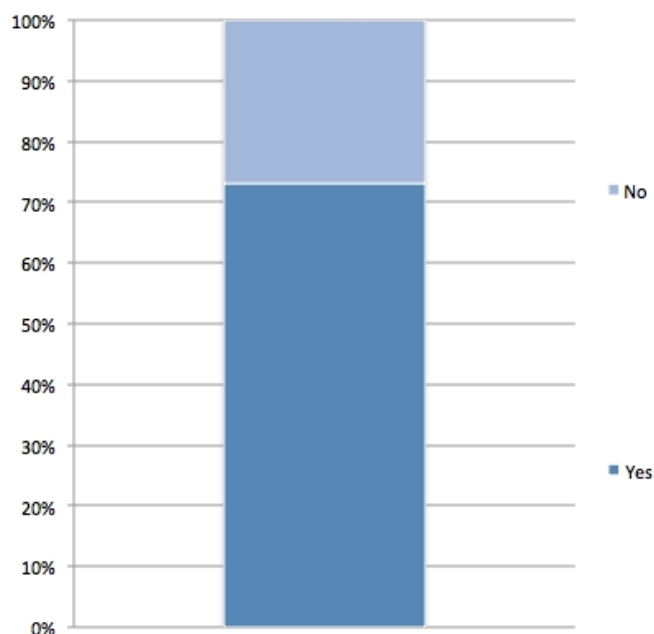
Source: Citi Investment Research and Analysis

Figure 26. Respondents' age ranges



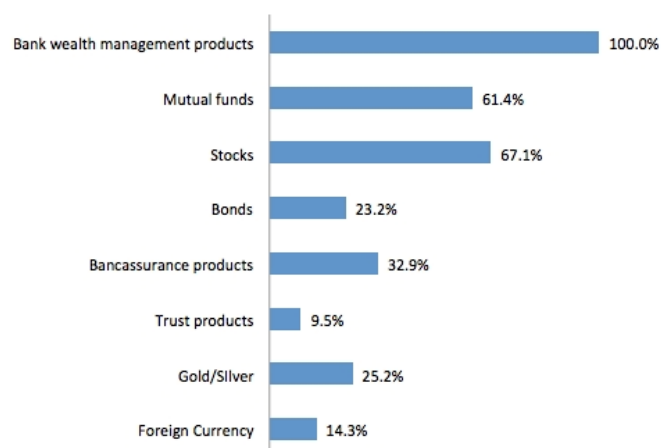
Source: Citi Investment Research and Analysis

Figure 28. Do they plan to increase their investments in wealth management products?



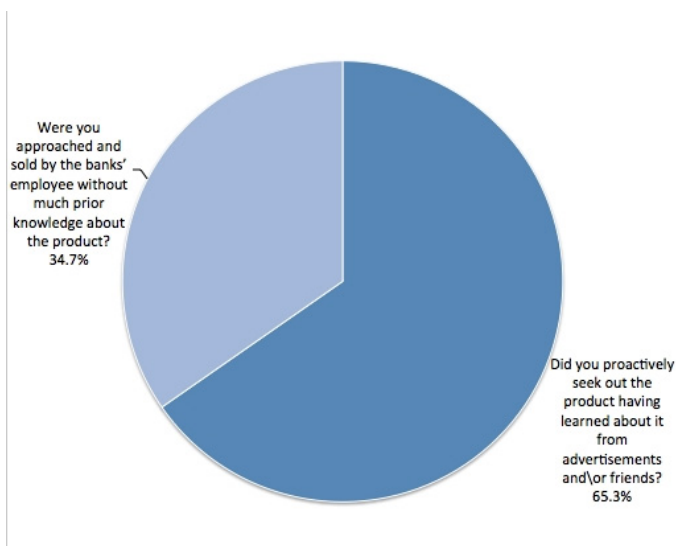
Source: Citi Investment Research and Analysis

Figure 27. What else they typically invested in



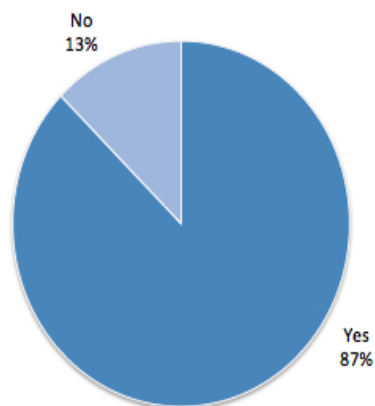
Source: Citi Investment Research and Analysis

Figure 29. Most sought out wealth management products themselves



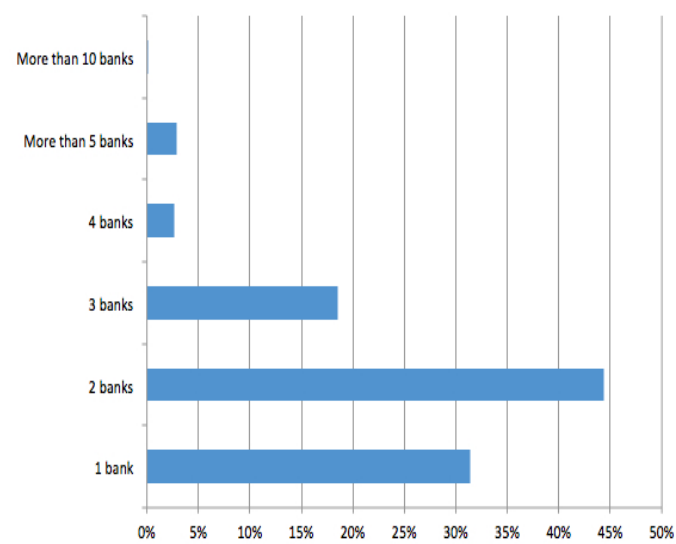
Source: Citi Investment Research and Analysis

Figure 30. Do they own property?



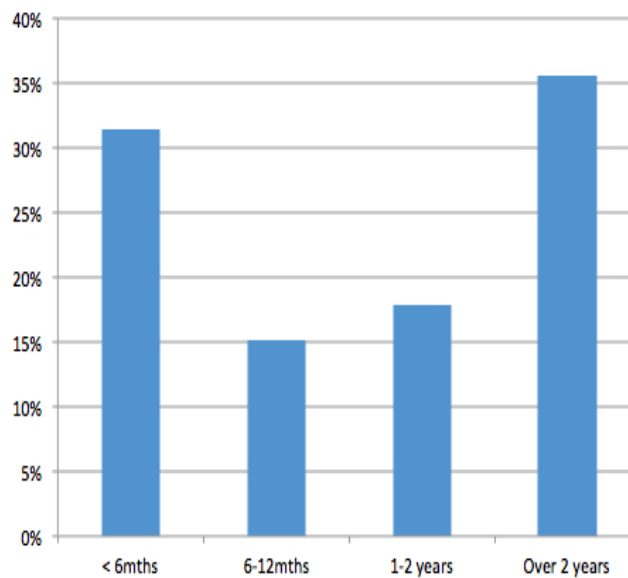
Source: Citi Investment Research and Analysis

Figure 32. How many different banks they have bought wealth management products from



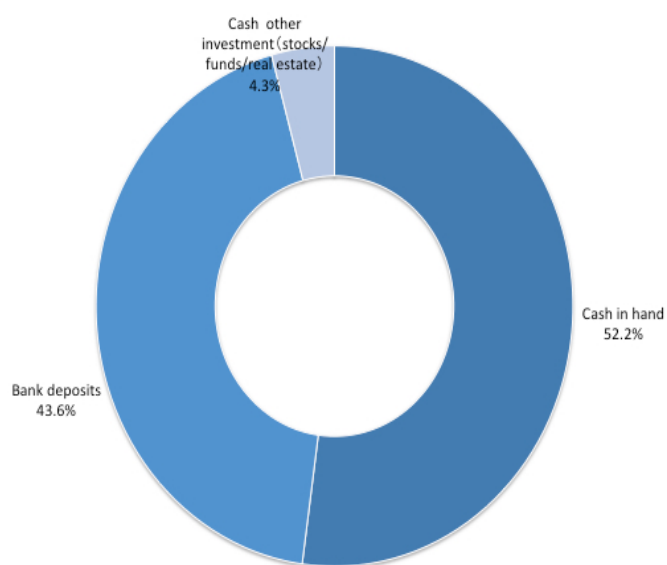
Source: Citi Investment Research and Analysis

Figure 31. How long they have been buying wealth management products



Source: Citi Investment Research and Analysis

Figure 33. Their typical source of funding for these products



Source: Citi Investment Research and Analysis

Appendix A-1

Analyst Certification

The research analyst(s) primarily responsible for the preparation and content of this research report are named in bold text in the author block at the front of the product except for those sections where an analyst's name appears in bold alongside content which is attributable to that analyst. Each of these analyst(s) certify, with respect to the section(s) of the report for which they are responsible, that the views expressed therein accurately reflect their personal views about each issuer and security referenced and were prepared in an independent manner, including with respect to Citigroup Global Markets Inc and its affiliates. No part of the research analyst's compensation was, is, or will be, directly or indirectly, related to the specific recommendation(s) or view(s) expressed by that research analyst in this report.

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Data current as of 31 Mar 2012

	12 Month Rating			Relative Rating		
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% of companies in each rating category that are investment banking clients	44%	42%	40%	47%	42%	43%

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