



SECURITIES AND  
FUTURES COMMISSION  
證券及期貨事務監察委員會

## Structured Product Investor Survey

Hong Kong  
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## **A. Summary**

### **Background**

In June 2006, the Securities and Futures Commission (SFC) engaged the Social Sciences Research Centre of the University of Hong Kong (SSRC) to conduct a Structured Product Investor Survey. The survey aims to understand retail investors' objectives of investing in structured products, their level of understanding of such products and whether they made profits or suffered losses out of their investments.

For the purpose of the survey, "structured products"<sup>1</sup> refers to unlisted synthetic products targeting retail investors. Structured product investors ("investors") are defined as those Hong Kong adults aged 18 or above who invested in one or more structured products in Hong Kong during the last two years.

207 investors were successfully identified and interviewed through making calls to 24,965 randomly selected residential phone numbers. Whilst the number of respondents is sufficient to identify certain common issues, caution must be taken in interpreting the results across the entire population of investors.

### **Retail participation**

- The SFC conducted a Retail Investor Survey from September to November in 2005, which found that around 3% of Hong Kong adults aged 18 or above invested in structured products during the last two years.
- Among the sampled investors in this survey, equity-linked products were most popular (82.6% invested in these products).

### **Investment objectives**

- Many investors bought structured products for perceived higher returns, either comparing to bank deposits of a similar term (42.0%), or other investments such as direct investments in the underlying assets when views on the movements of the underlying assets' prices were "neutral" or "stable" (28.5%).

### **Risk perception**

- Most (84.5%) investors considered structured products were "medium" to "very high risk". But 13.5% viewed structured products as "low" or "very low risk".

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<sup>1</sup> Equity-linked, credit-linked or index-linked products require the SFC's approval or authorisation of the relevant public offering documents, but offering documents relating to currency-linked deposits and interest rate-linked deposits do not.

## **Investment experience and portfolio size**

- Investors were generally experienced in financial investing<sup>2</sup>. Six out of ten investors had over five years' financial investment experience. With regard to structured products, over three-quarters of investors had over one year's experience in investing in these products.
- Interestingly, the weighting of structured products in investors' portfolios was inversely proportional to their experience in financial investments.

## **Dealing channels**

- Most (87.9%) investors bought their structured products through banks.

## **Level of knowledge and understanding of product information**

- Investors' understanding of structured products needs strengthening. Only half of equity-linked product investors could correctly point out that they would receive stocks if the price of the underlying stock dropped below the strike price on the valuation date when investing in a simple equity-linked product (a bull equity-linked note).
- Out of all respondents, 178 last purchased either an equity-linked, index-linked or credit-linked product ("relevant investors"<sup>3</sup>). However, only around one-tenth of these investors recalled having received, read and fully understood the offering documents. Those who had problems understanding the documents said that they contained too much jargon.
- Where sales representatives were involved, relevant investors were generally satisfied with the product explanations provided. However, a significant number of investors did not recall receiving advice from their sales representatives.

## **Early redemption**

- Most structured products were held to maturity but a quarter of investors redeemed them early, primarily to take profits or due to changed views on the performance of the underlying asset.

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<sup>2</sup> In this context, financial investing does not include investment in bullion, pure life insurance policies, foreign currency deposits and properties.

<sup>3</sup> Not every structured product is under the SFC's regulation. This group of investors was chosen because the offering documents of equity-linked, index-linked or credit-linked products require the SFC's vetting.

## **Investment results**

- Almost three quarters of investors made a profit or broke even in their investment in structured products during the previous 12 months when the Hang Seng Index rose by approximately 15%. Only 14% said that they suffered a net loss, and two-thirds of these investors indicated that they would continue to invest in structured products.

## B. Key Findings

### 1. Retail Participation

According to the Retail Investor Survey 2005, around 3%<sup>4</sup> of Hong Kong adults aged 18 or above invested in structured products during the last two years.

Below is the demographic information of the 207 structured product investors (“investors”) interviewed in this survey (Table 1).

**Table 1: Demographic Profile of Respondents**

	<u>Investors (%)</u>
<b><u>Gender</u></b>	
Male	51.7
Female	48.3
<b><u>Age group</u></b>	
18-24	3.4
25-29	8.9
30-34	9.4
35-39	16.7
40-44	13.8
45-49	16.3
50-54	15.8
55-59	7.9
60-64	3.9
65 or above	3.9
<b><u>Education</u></b>	
Lower secondary or below	11.8
Upper secondary	27.0
Matriculation	11.8
Tertiary: Non-degree	11.8
Tertiary: Degree or above	37.7

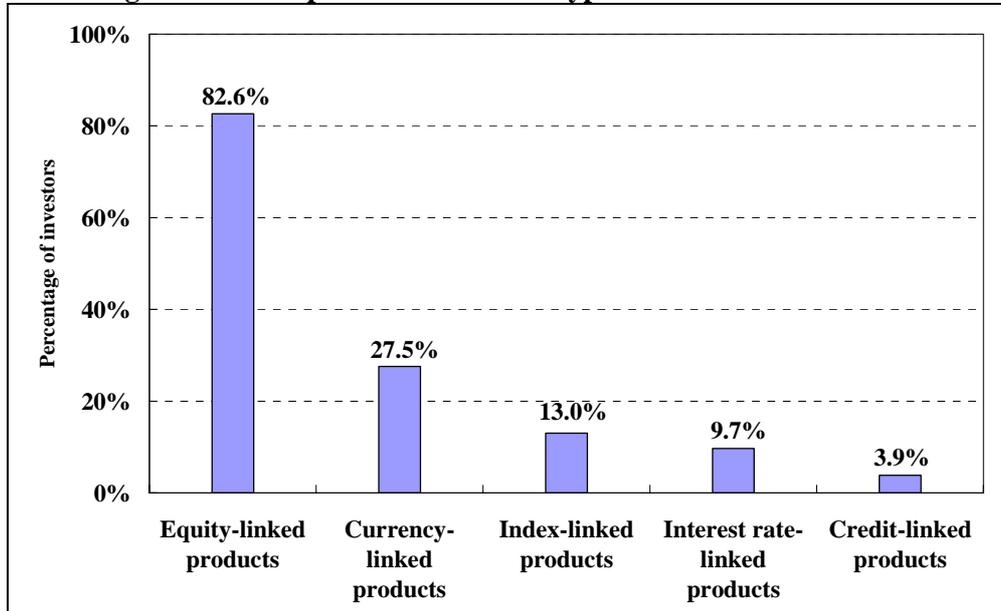
*(Base: All answers excluding refusal cases)*

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<sup>4</sup> The SFC conducted the Retail Investor Survey 2005 by telephone from September to November 2005. The retail participation rate was estimated based on interviewing 5,210 adults in Hong Kong. 146 (2.8%) of them answered that they invested in structured products during the last two years. The margin of error is approximately  $\pm 0.5\%$ .

Among the 207 investors interviewed, equity-linked products were the most popular kind of structured products (171 investors, or 82.6% bought these products), followed by currency-linked products (57 investors, or 27.5%) and index-linked products (27 investors, or 13.0%) (Figure 1).

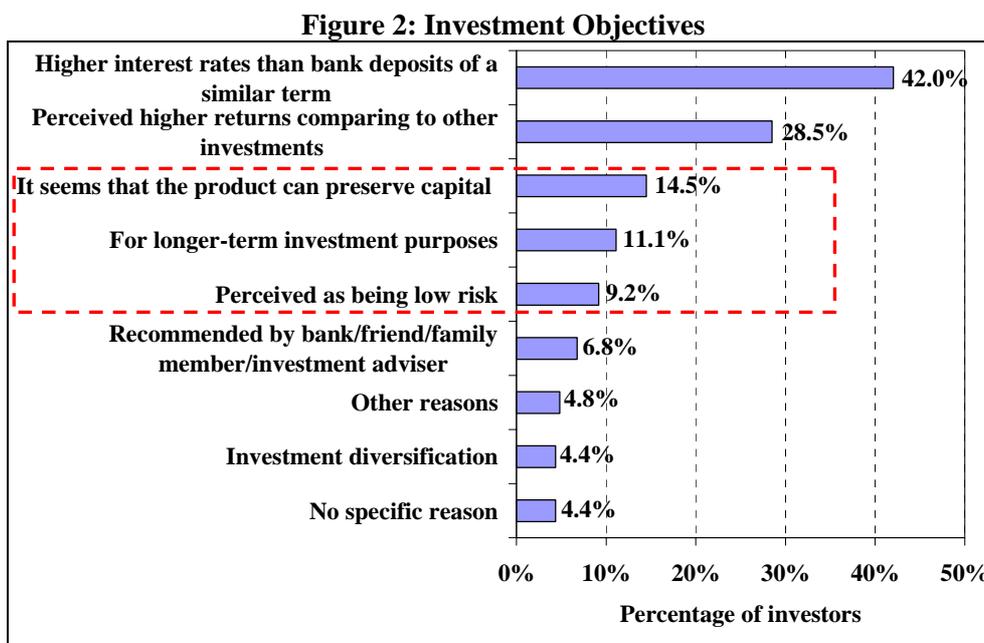
**Figure 1: Participation in Different Types of Structured Products**



*Note: Multiple answers allowed  
(Base: 207 investors)*

## 2. Investment Objectives

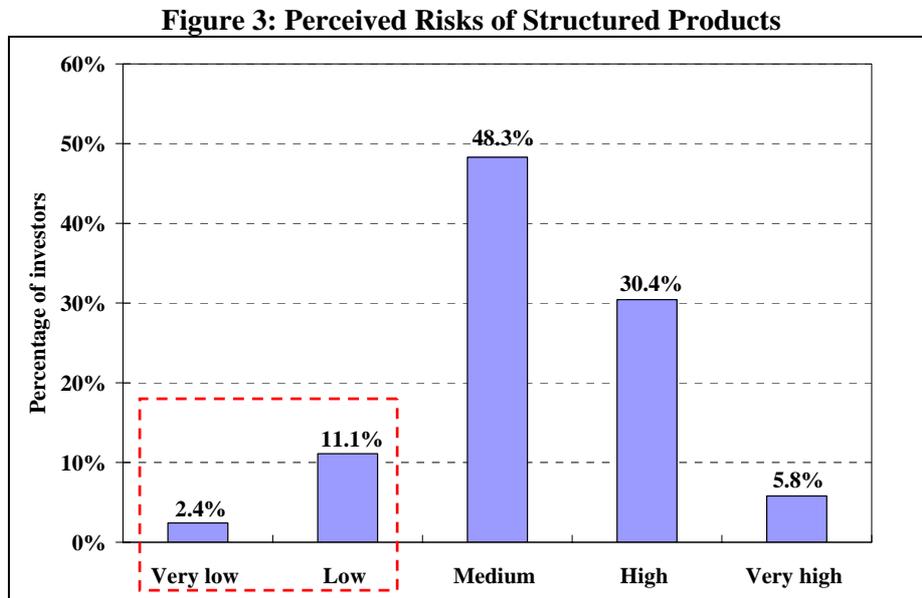
Investors invested in structured products mainly for perceived higher returns, comparing either to bank deposits of a similar term (42.0%), or other investments such as direct investments in the underlying assets when views on the movements of the underlying assets' prices were "neutral" or "stable" (28.5%). However, some answers given, e.g. "structured products seemed to offer capital protection", "for long-term investments", "perceived as low risk", indicated a lack of understanding of the products being invested in (Figure 2).



*Note: Multiple answers allowed  
(Base: 207 investors)*

### 3. Risk Perception

About half (48.3%) of investors considered structured products as medium-risk investments. Another one-third (36.2%) perceived the risk level as “high” or “very high”. The remainder (13.5%) viewed structured products as “low” or “very low” risk, perhaps indicating a lack of understanding of the products (see Chapter 6 for more detailed discussion) (Figure 3).

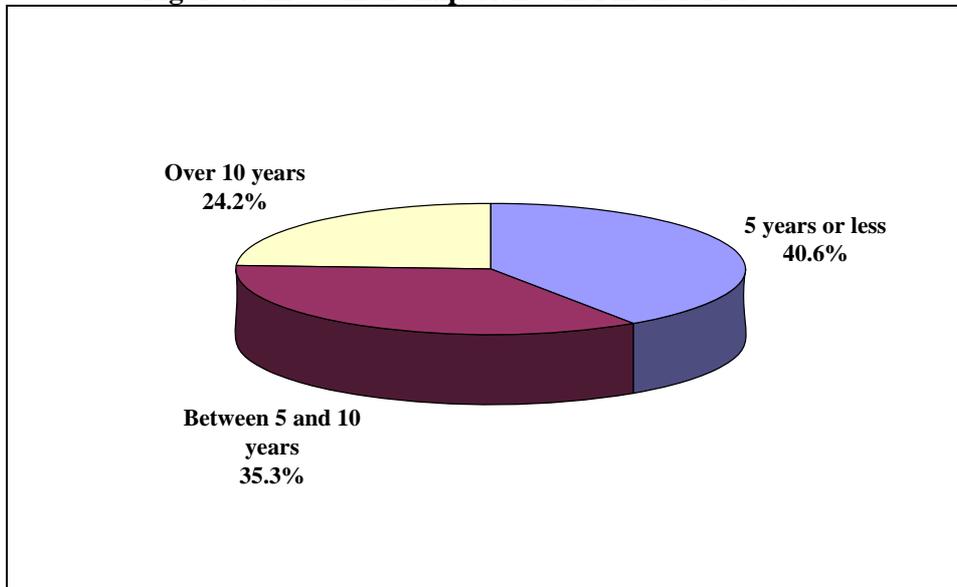


*(Base: 207 investors. Four of them said that the risk level varied from one product to another.)*

#### 4. Investment Experience and Portfolio Size

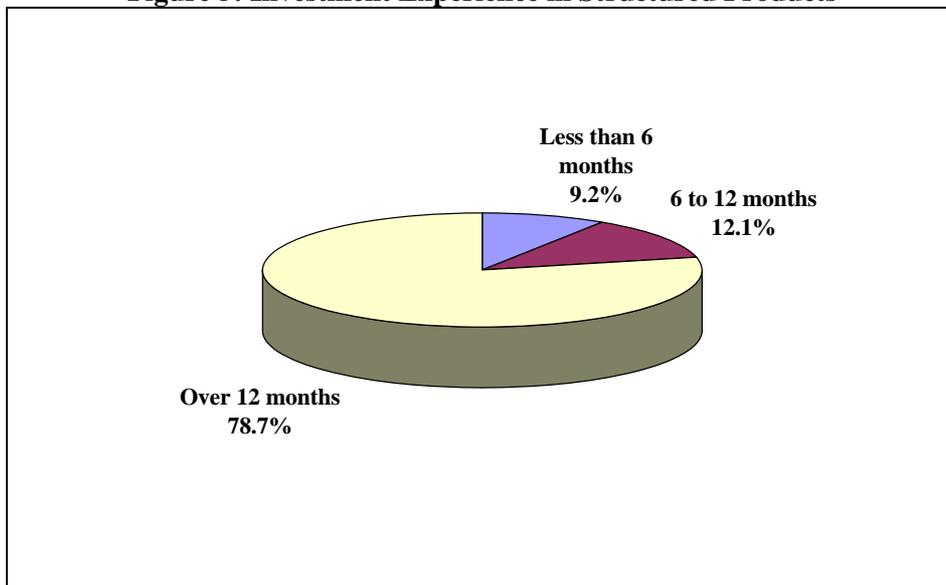
Investors were generally experienced in financial investments. Almost three-fifths (59.5%) of investors had over 5 years' experience in financial investing. Over three quarters of them had over one year's investment experience in structured products. Only about 20% of investors had 12 months or less investment experience in structured products (Figures 4 & 5).

**Figure 4: Investment Experience in Financial Products**



*(Base: 207 investors)*

**Figure 5: Investment Experience in Structured Products**



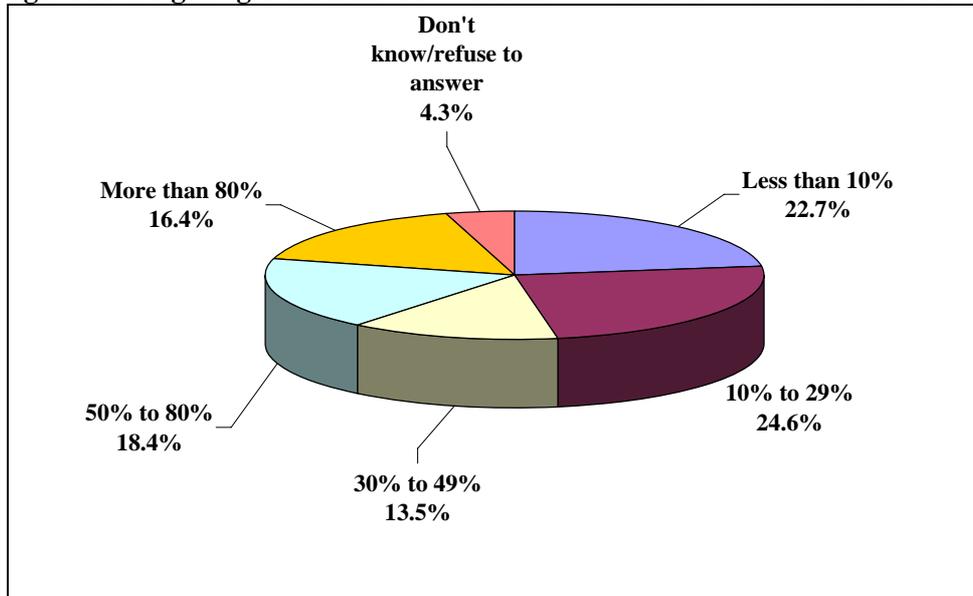
*(Base: 207 investors)*

With regard to the weighting of structured products in investors' portfolios, nearly half (48.3%) of investors said that structured products comprised over 30% of their investment portfolio, indicating either an appetite for risk in their portfolio or a misunderstanding of the nature of the products (Figure 6).

Interestingly, the survey indicated that the more experienced investors were in financial investment, the lower the weighting of structured products in their portfolios. 26% of investors with over 10-year experience in financial investment allotted 30% or more of their portfolios in structured products, but 59.5% of investors with 5 years or less financial investment experience had that weighting in their portfolios (Figure 7).

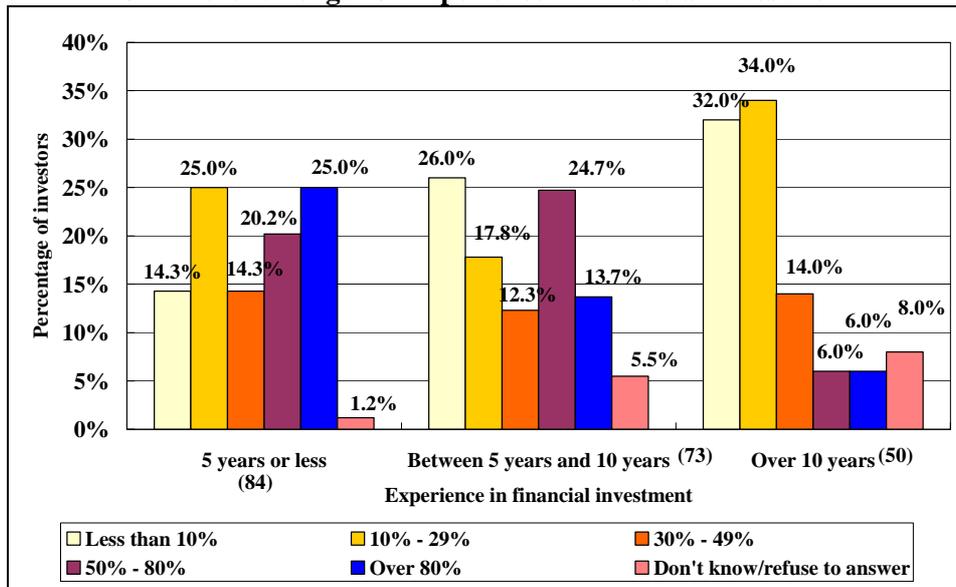
In dollar terms, the largest proportion of equity-linked and index-linked product investors owned products valued below \$100,000. Relatively more currency-linked and interest-rate linked investors had larger investments with value between \$100,000 and \$299,999 (Figure 8).

**Figure 6: Weighting of Structured Products in Investors' Investment Portfolios**



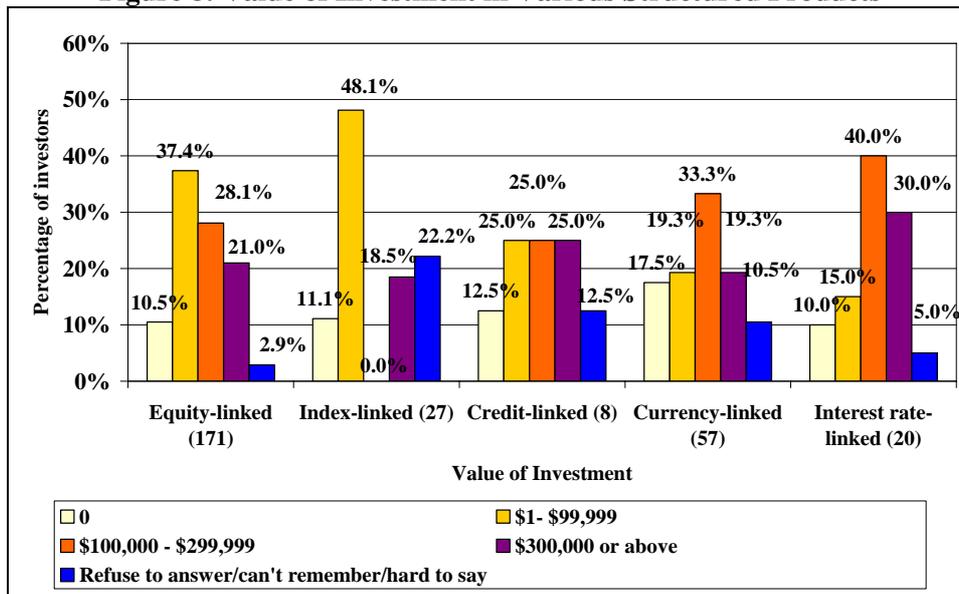
*(Base: 207 investors)*

**Figure 7: Weighting of Structured Products in the Portfolios of Investors of Different Length of Experience in Financial Investment**



Note: The number in brackets denotes the number of investors  
(Base: Investors of a particular level of financial investment experience)

**Figure 8: Value of Investment in Various Structured Products**

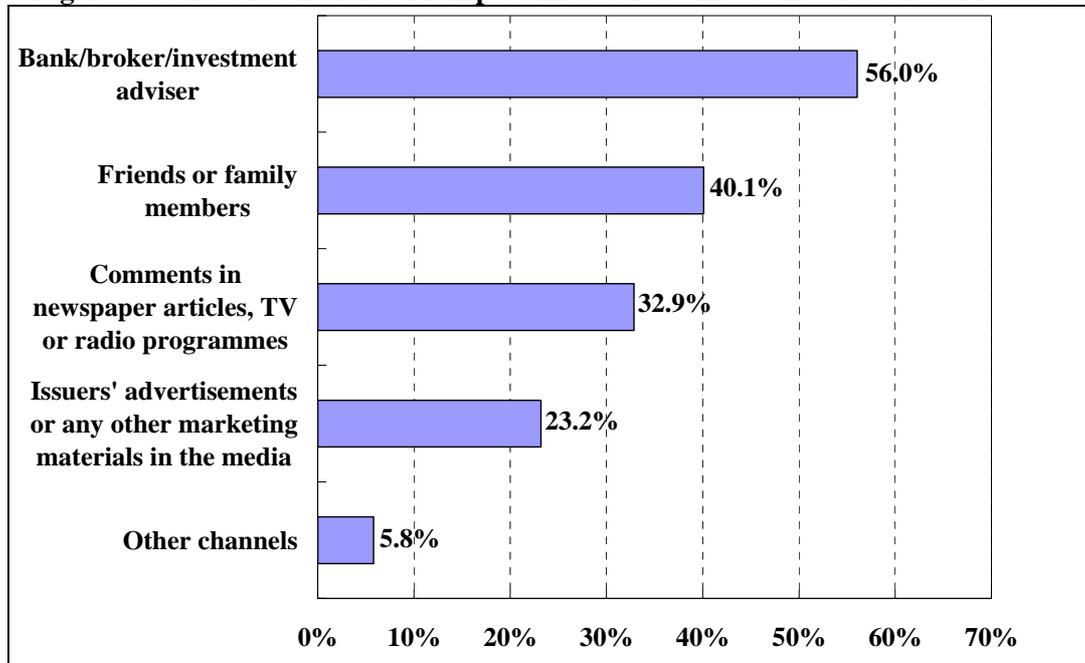


Notes: (i) The number in brackets denotes the number of investors.  
(ii) Zero value of investment means that the investor had invested in that particular structured product during the last two years but he did not hold any amount of that product at the time of the survey.  
(Base: Investors who invested in a particular kind of structured product)

## 5. Dealing Channels

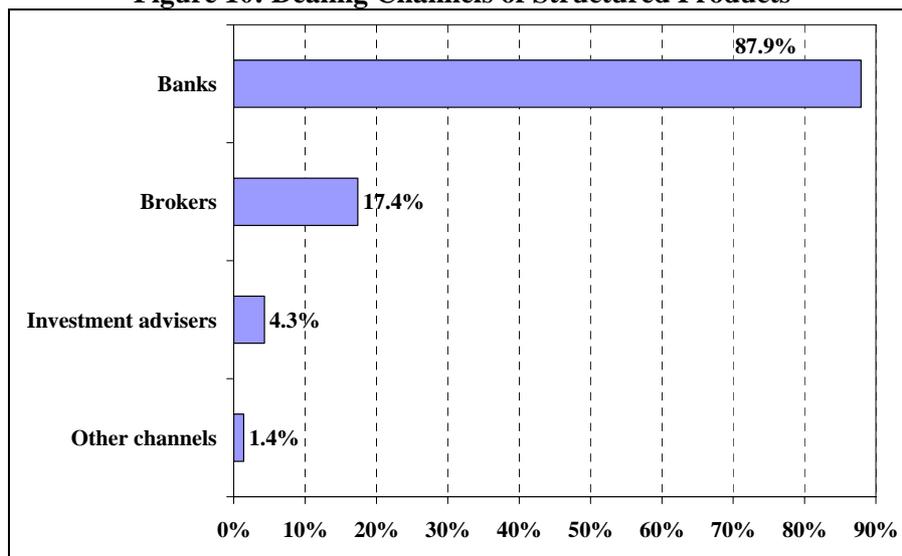
The largest proportion of investors was first prompted to invest in structured products by their intermediaries (e.g. banks, brokers). The next most influential group was friends or family members (Figure 9). Investors predominantly bought structured products through banks (Figure 10).

**Figure 9: What or Who First Prompted Investors to Invest in Structured Products**



*Note: Multiple answers allowed  
(Base: 207 investors)*

**Figure 10: Dealing Channels of Structured Products**



*Note: Multiple answers allowed  
(Base: 207 investors)*

## 6. Level of Knowledge and Understanding of Product Information

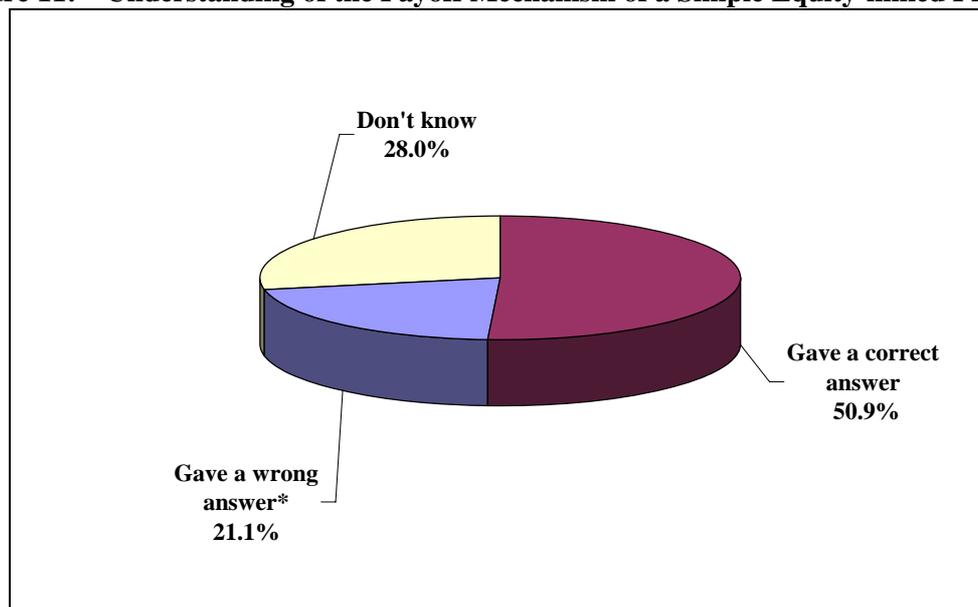
### (a) Payoff Mechanism of Equity-linked Products

To ascertain their level of product knowledge, equity-linked product investors were asked to point out what they would receive if the price of the underlying stock of a simple equity-linked product (a bull equity-linked note) dropped below the strike price on the valuation date.

50.9% gave the correct answer that they would receive stocks (Figure 11). Under such a scenario, investors would not be able to recoup their capital outlay from selling the stocks delivered to them upon maturity. Recovery of their capital investment would require holding the stock and a subsequent increase in its market price.

Therefore, those investors (14.5%) who purchased structured products for capital preservation (see Figure 2 in Chapter 2 “Investment Objectives” on P. 6) and 13.5% of investors who perceived the risk level of structured products as “low” or “very low” (see Figure 3 in Chapter 3 “Risk Perception” on P.7) may not fully understand the nature of structured products, which normally do not offer full capital protection on maturity<sup>5</sup>.

**Figure 11: Understanding of the Payoff Mechanism of a Simple Equity-linked Product**



Note: \* This includes 12.3% of equity-linked product investors who answered they expected to receive cash only, 7.6% said “nothing” and 1.2% anticipated other possible returns such as both cash and stocks.

(Base: 171 equity-linked product investors)

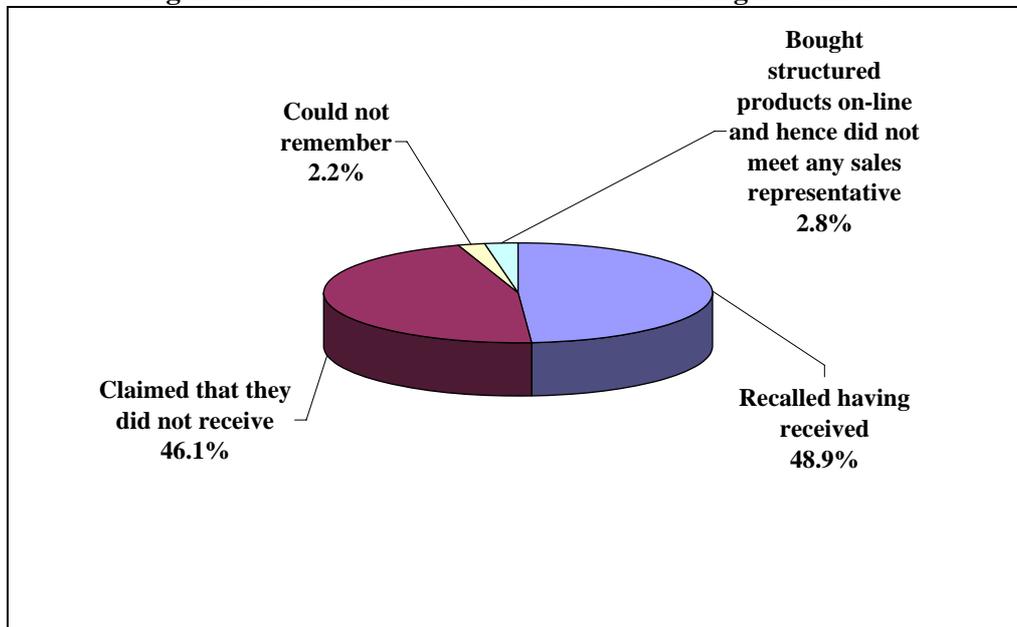
<sup>5</sup> There are a few structured products that offer full capital protection on maturity.

***(b) Understanding of Offering Documents***

Only those 178 investors whose last purchase during the last two years was an equity-linked product (“ELP”), index-linked product (“ILP”) or credit-linked product (“CLP”) (“relevant investors”) were asked questions related to their understanding of the offering documents and selling intermediaries’ explanations. Most (92.7%) relevant investors’ last purchase was ELP; versus 6.2% in ILP and 1.1% in CLP.

48.9% of relevant investors recalled having received the offering documents from the selling intermediaries. Among them, 65.5% said that they read them. Only one-third of readers said that they fully understood the offering documents with the other two-thirds saying the offering documents contained too much jargon or the product concept was too complicated. Overall, therefore only 10.7%<sup>6</sup> of relevant investors recalled having received, read and fully understood the offering documents (Figures 12, 13 & 14).

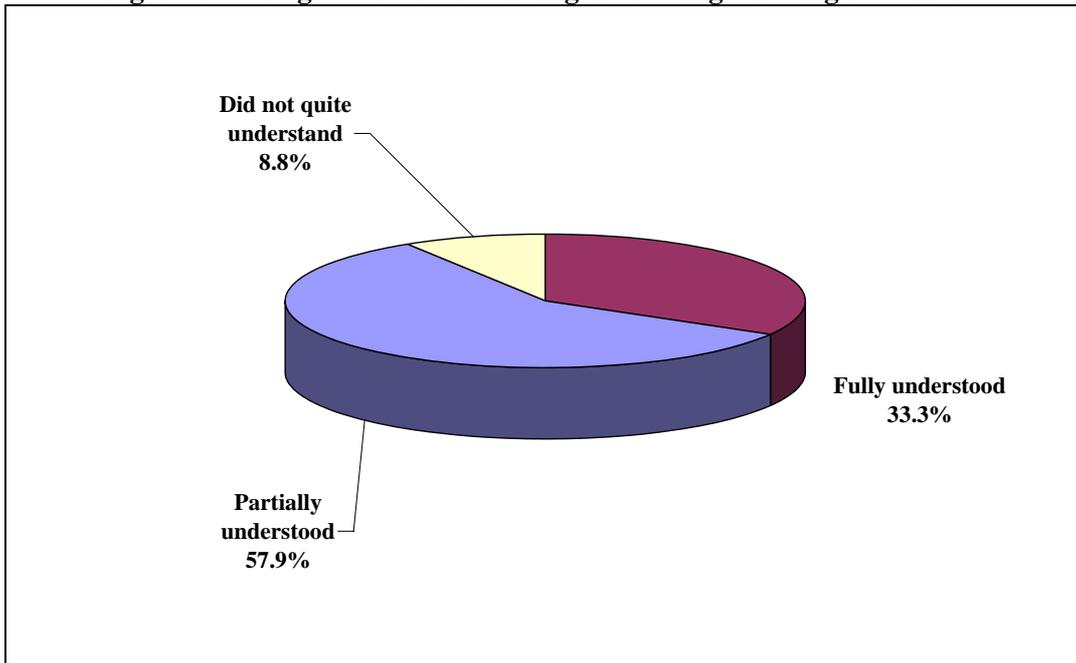
**Figure 12: Whether Investors Received Offering Documents**



*(Base: 178 relevant investors)*

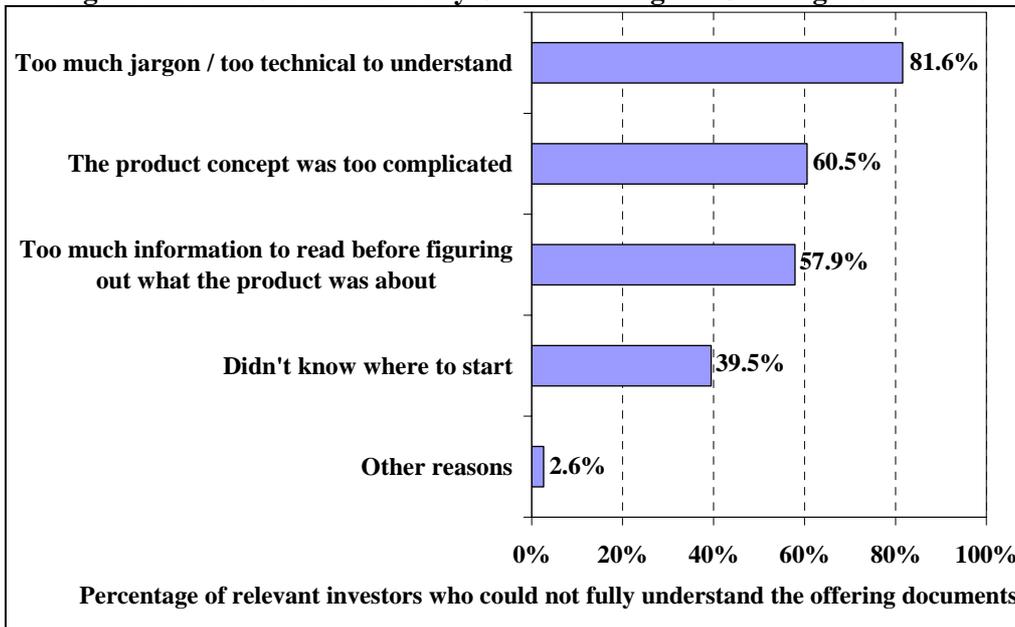
<sup>6</sup> This percentage is calculated by dividing the number of relevant investors who recalled having received, read and fully understood the offering documents (i.e. 19) by the total number of relevant investors (i.e. 178).

**Figure 13: Degree of Understanding in Reading Offering Documents**



*(Base: 57 relevant investors who read the offering documents)*

**Figure 14: Reasons for Not Fully Understanding the Offering Documents**



*Note: Multiple answers allowed*

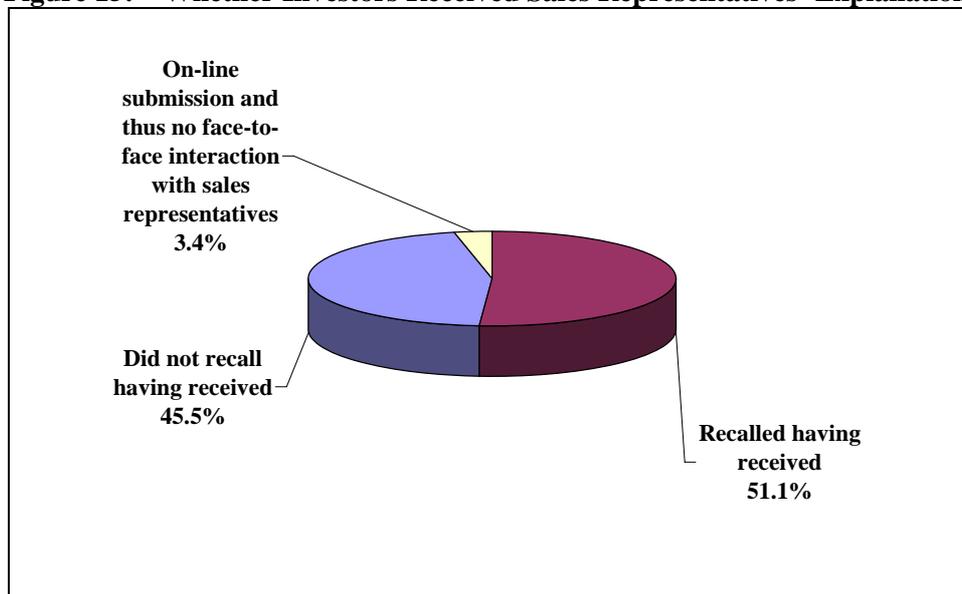
*(Base: 38 relevant investors who could not fully understand the offering documents. Caution must be taken in interpreting findings due to the relatively small sample size.)*

***(c) Understanding of Sales Representatives' Explanations***

Half of relevant investors recalled receiving sales representatives' product explanations, and the majority of these investors found the explanations helped them to understand the product's key features (87.9%) and risks (76.9%). 53.8% of these investors said that their last purchased structured product allowed early redemption, and in most cases (83.7%) the sales representative did explain the early redemption mechanism to them at the time of sale (Figures 15 & 16).

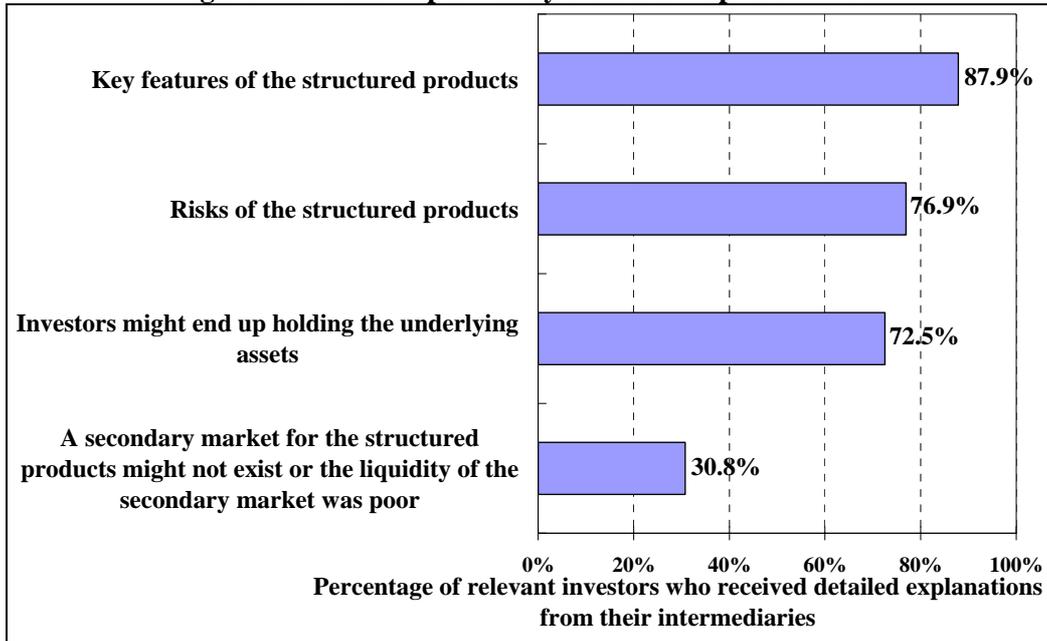
About half (48.4%) of relevant investors said that they fully understood the sales representatives' explanations. However, a similar proportion (49.5%) said they could not, largely because the product was too difficult to understand, or the sales representative used too much jargon (Figures 17 & 18).

**Figure 15: Whether Investors Received Sales Representatives' Explanations**



*(Base: 178 relevant investors)*

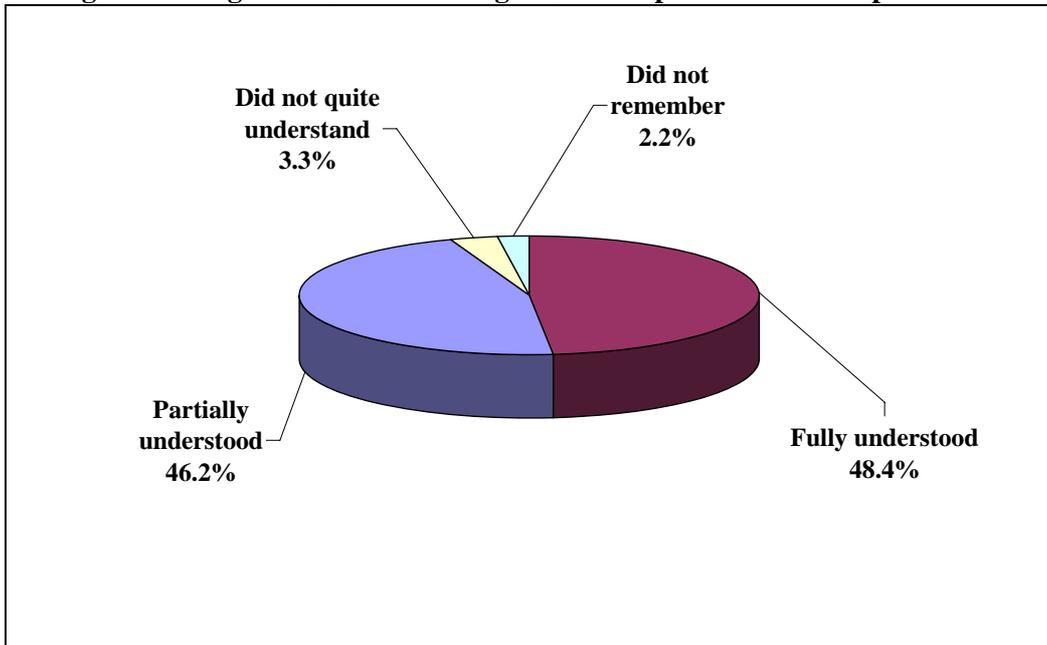
**Figure 16: Areas Explained by the Sales Representatives**



*Note: Multiple answers allowed*

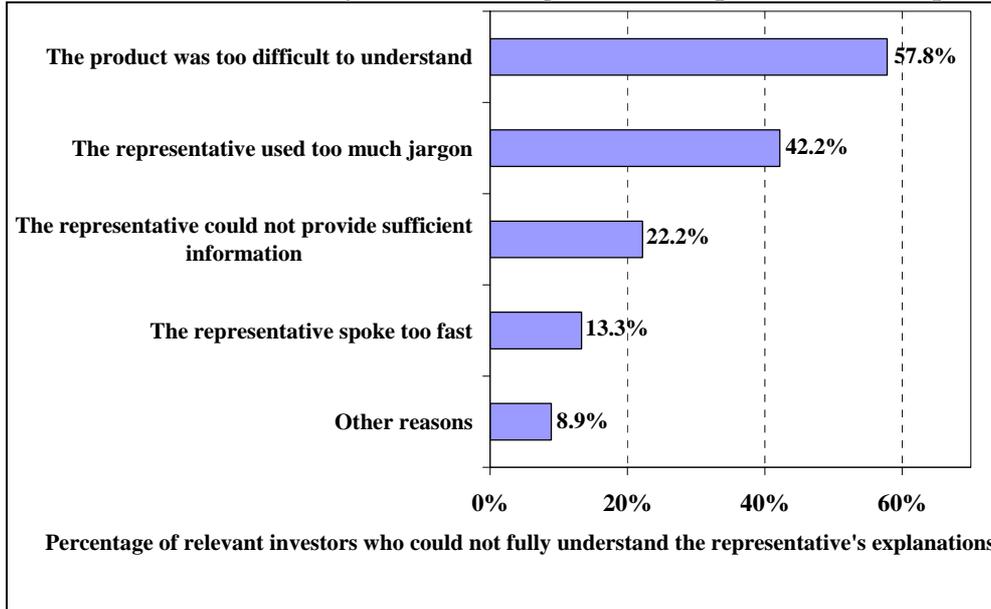
*(Base: 91 relevant investors who received detailed explanations from their intermediaries)*

**Figure 17: Degree of Understanding of Sales Representatives' Explanations**



*(Base: 91 relevant investors who received detailed explanations from their intermediaries)*

**Figure 18: Reasons for Not Fully Understanding the Sales Representative's Explanations**

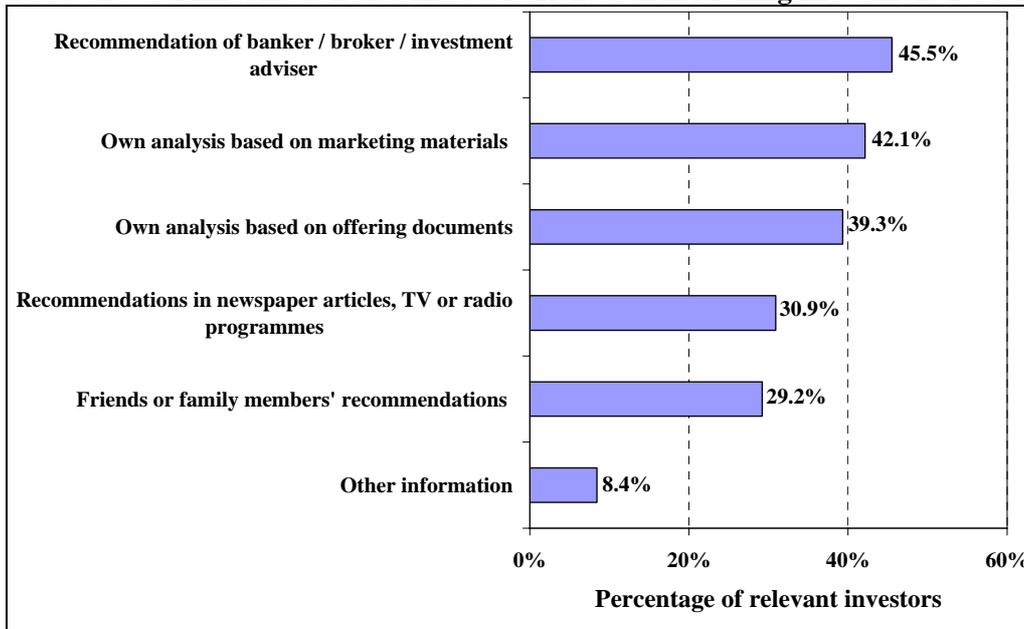


*Note: Multiple answers allowed  
 (Base: 45 relevant investors who could not fully understand the sales representative's explanations)*

**(d) Making Decisions**

Similar percentages of investors relied on the recommendations of their intermediaries and their own analysis based on marketing materials in making their investment decisions (Figure 19).

**Figure 19: Sources of Information that Investors Relied on in Making Investment Decisions**

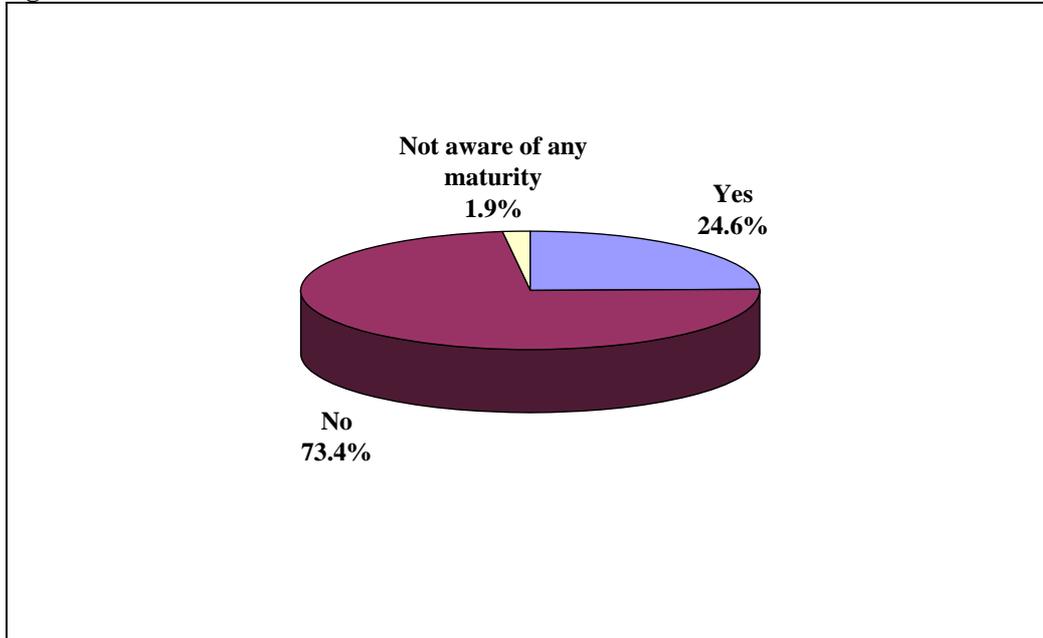


*Note: Multiple answers allowed  
 (Base: 178 relevant investors)*

## 7. Early Redemption

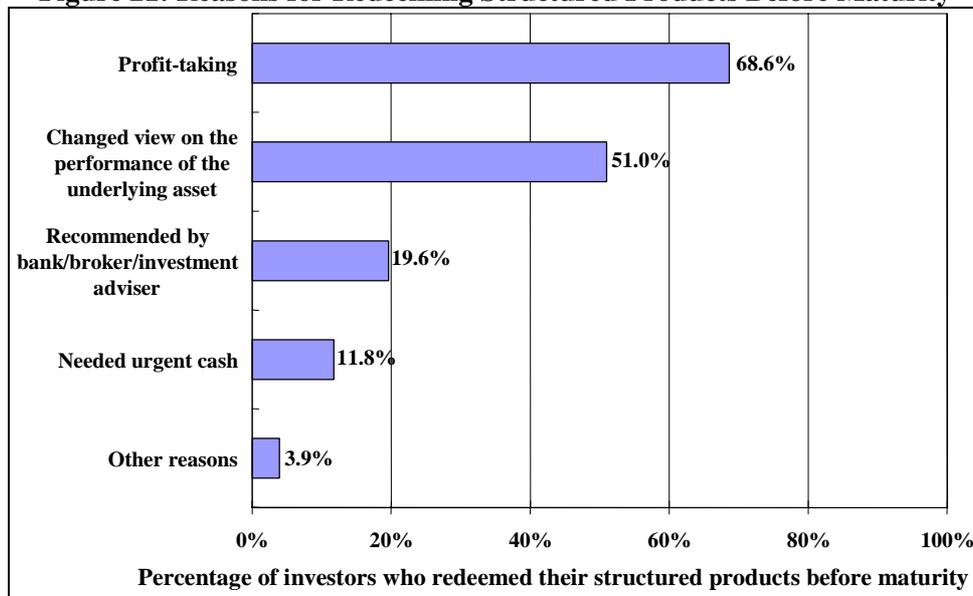
About a quarter (24.6%) of investors redeemed their structured products before maturity, mainly to take profits or due to changed views on the performance of the underlying assets. Only a few of them encountered problems during the redemption process. The major problem noted was “only unfavourable prices were available” (Figures 20, 21 & 22).

**Figure 20: Whether Investors Had Redeemed a Structured Product Before Maturity**



(Base: 207 investors)

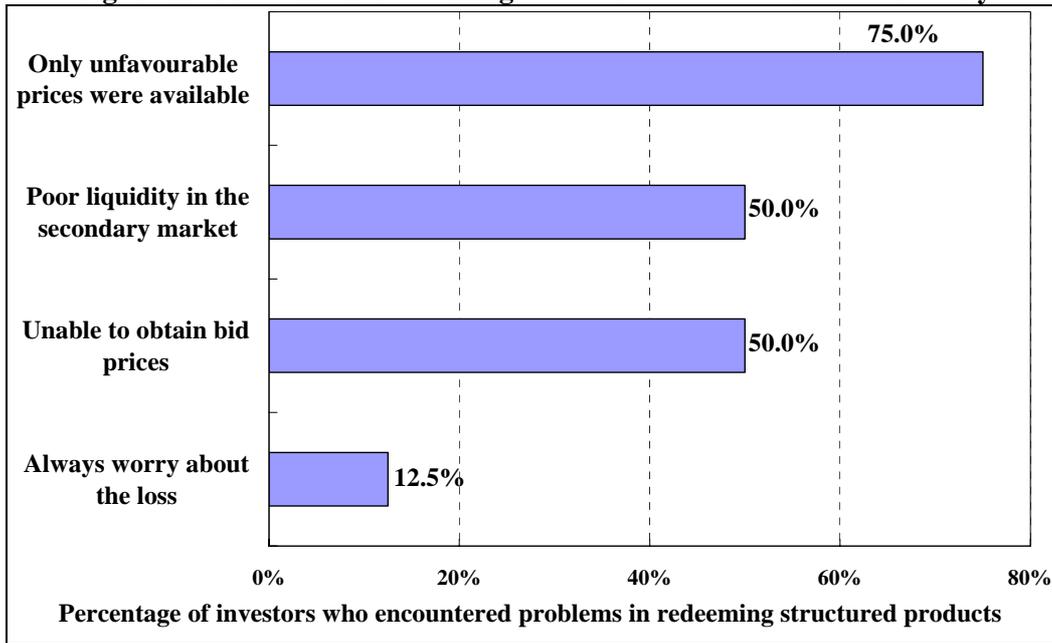
**Figure 21: Reasons for Redeeming Structured Products Before Maturity**



*Note: Multiple answers allowed*

*(Base: 51 investors who redeemed their structured products before maturity)*

**Figure 22: Problems in Redeeming Structured Products Before Maturity**



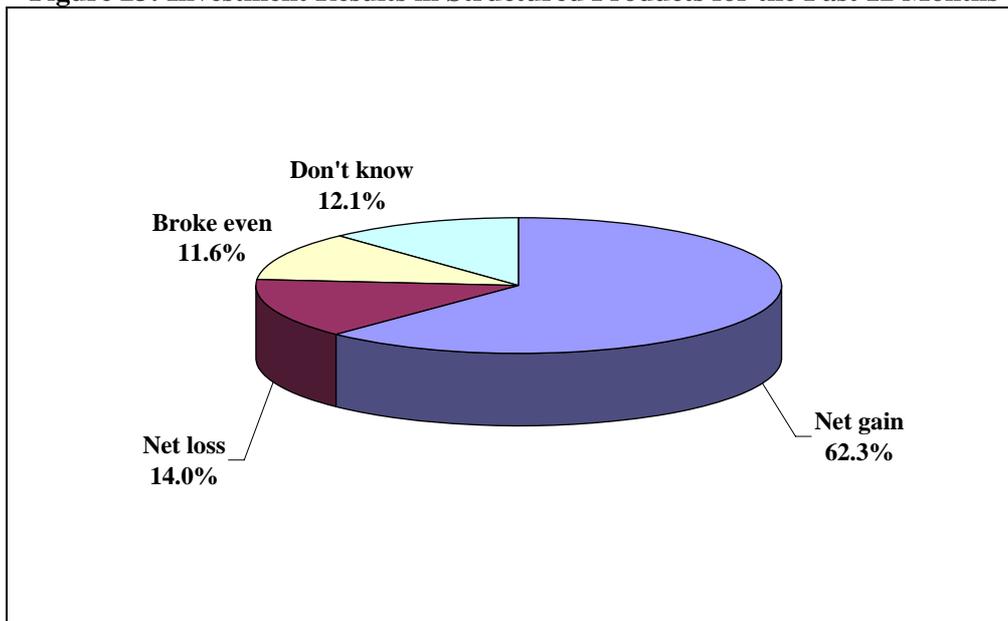
*Note: Multiple answers allowed*

*(Base: 8 investors who encountered problems in redeeming structured products before maturity. Caution must be taken in interpreting findings due to the relatively small sample size.)*

## 8. Investment Results

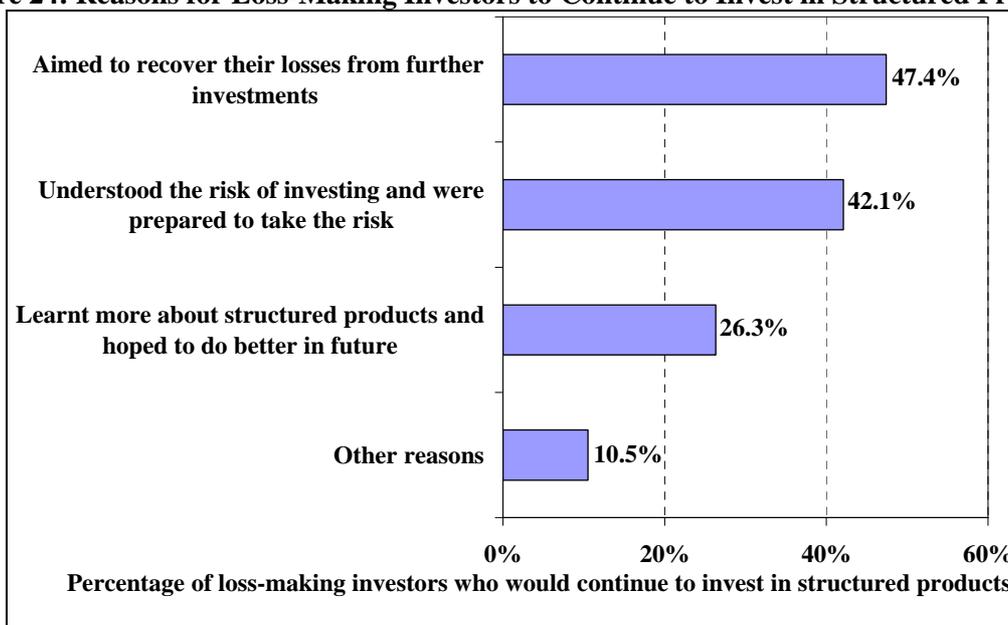
Most (73.9%) investors made a net gain or broke even in their investment in structured products during the previous 12 months. However, this is in the context of a bull market with the Hang Sang Index rising by approximately 15% from 14,201.06 on 30 June 2005 to 16,267.62 on 30 June 2006. 14% said that they suffered a net loss and of these investors, nearly two-thirds indicated that they would continue to invest in structured products (Figures 23 & 24).

**Figure 23: Investment Results in Structured Products for the Past 12 Months**



(Base: 207 investors)

**Figure 24: Reasons for Loss-Making Investors to Continue to Invest in Structured Products**



*Note: Multiple answers allowed*

*(Base: 19 loss-making investors who would continue to invest in structured products. Caution must be taken in interpreting findings due to the relatively small sample size.)*

## C. Survey Design

### Target Respondents

Definitions of the target respondents in this survey are as below:

- Investors: Hong Kong adults aged 18 or above who invested in one or more “structured products” in the past two years. “Structured products<sup>7</sup>” refers to unlisted synthetic products targeting retail investors.

### Data Collection Method

The survey data were collected through telephone interviews from 1 to 16 June 2006. A structured questionnaire was used to collect information from the target respondents.

### Sampling Method

Calls were made to a random sample of 24,965 valid residential telephone numbers. 207 investors were successfully interviewed. The maximum margin of error is  $\pm 6.8\%$  for this sample size.

<b>Final status of the call</b>	<b>No.</b>
Successful interviews	207
Drop-out cases	32
Refusals	1,377
No structured product investors were identified	11,178
Not available for interviews	12,109
Language problems and thus calls were suspended	62
<b>Total</b>	<b>24,965</b>

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<sup>7</sup> Equity-linked, credit-linked or index-linked products require the SFC’s approval or authorisation of the relevant public offering documents, but offering documents relating to currency-linked deposits and interest rate-linked deposits do not.