

Corner Office Views



CERULLI
ASSOCIATES

Corner Office Views

Timely Insights to Inform
your Business Strategy

Lead with knowledge and perspective. Connect with secular trends impacting financial services, interpret what they mean for your business, and drive new opportunities. Cerulli's Corner Office Views provides market-leading insights and tangible takeaways for senior executives seeking to strengthen and scale their business models.



About the Author



Ken Yap, CFA
Managing Director, Asia

Ken Yap is Managing Director of Cerulli's Asia Pacific office. He oversees Cerulli's business development strategy and research initiatives in the region. For 19 years, Ken has worked with asset managers, distributors, and financial institutions, identifying expansion opportunities with his deep knowledge of the market. He specializes in product development and market entry strategies into Asia's established and emerging markets.

Prior to leading the Singapore office, Ken covered local and global asset management and distribution trends in Cerulli's London and Boston offices. Before joining Cerulli, Ken was a consultant at Analysys' Cambridge office in the UK.

Ken holds a Master's degree in business from University of Cambridge and a Bachelor of Engineering from National University of Singapore.



How can managers create “digitalized personal touch” in China?

The coronavirus outbreak has brought about opportunities for a new wave of digital disruption, as more investors turn to online means of communication and making investment decisions.

Key Implications

- Managers are working hard to build their profiles and influence through multiple digital platforms, such as Wechat Official Accounts, Ant Fortune, and even platforms that are not strictly financial ones.
- Some fund firms have delayed or extended their fund initial public offerings (IPOs), but more are aggressively courting investors through online seminars, which have received huge interest.
- Rather than being a temporary outcome of the coronavirus outbreak, the surge in digital use could have a long-term impact on the industry.

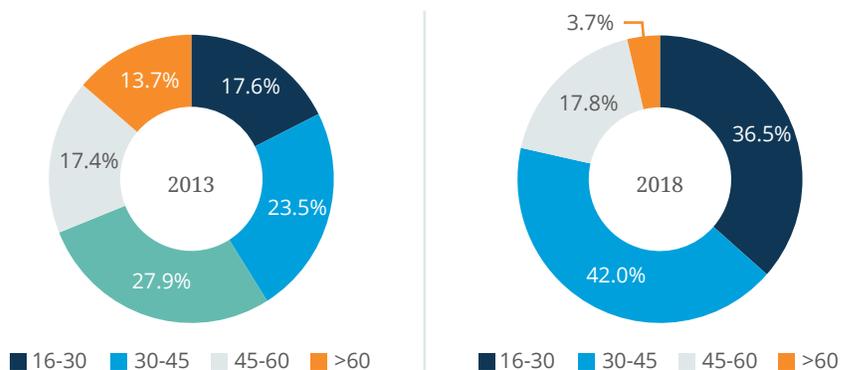
Changing behavior

What are some of the changes in investment behaviour in China arising from COVID-19? First, the epidemic situation has provided people with more free time at home to learn some financial knowledge and think about wealth planning. Secondly, the liquidity in the market has solidified investors’ confidence, especially in technology-related investments. Thirdly, investors can talk to managers—including “star” managers who may not be able to meet in person in normal situations, or professionals with much more experience than investors’ usual relationship managers—“live,” and purchase financial products via mobile apps right away.

Age Profiles of Individual Fund Investors, 2013 and 2018

Sources: Asset Management Association of China, Cerulli Associates

Analyst Note: More than 55,000 individual investors were surveyed in 2Q 2014 and more than 36,000 individual investors were surveyed in 2Q 2019.



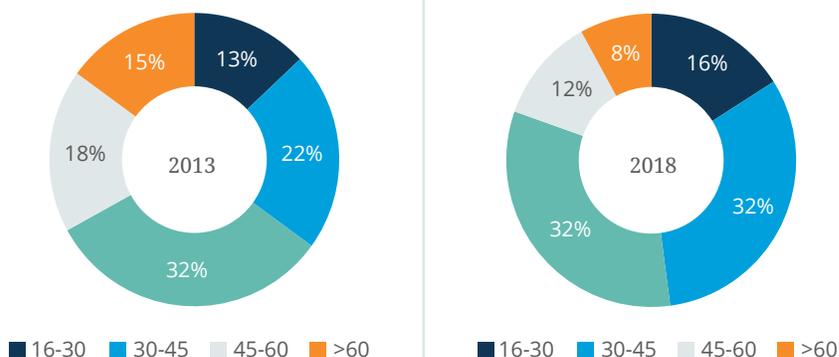
As for longer-term repercussions, similar to the consequences of digital disruption following the launch of Yu'e Bao in China in 2013, long-tail investors who might have been underserved by traditional distributors have now been reached. This time though, the reach could be much wider, as more people are staying home, regardless of where they live—in big cities or small villages—and how much wealth they have. A manager of an online platform told Cerulli that while investors from first-tier cities account for a large portion of its user base, it was able to reach more investors in second- or third-tier cities in the first two months of 2020.

Expansion of digital channels

The virus outbreak has certainly helped digital channels expand faster. This expansion has not been limited to third-party online platforms, but also includes digital platforms of traditional channels, such as banks and brokers. Banks have always been the key contributors to fund launches, and after facing competition from tech giants for many years, they are adapting faster than before. Some big banks have shown their capabilities in providing an almost-full-range of functionalities to customers remotely during this period, while some smaller banks have started selling deposit products via third-party online platforms to reach out to more clients. Meanwhile, managers are working hard to build their profiles and influence through multiple digital platforms, such as Wechat Official Accounts, Ant Fortune, and even platforms which are not strictly financial ones. For example, managers like Bosera and Yinhua, as well as distributors like Howbuy and Lufax, have built their audio channels on Himalaya, a podcast app that is popular in China.

Individual Investors' Average Holding Period of Single Fund, 2013 and 2018

Sources: Asset Management Association of China, Cerulli Associates
 Analyst Note: More than 55,000 individual investors were surveyed in 2Q 2014, and 36,000 individual investors in 2Q 2019. Results could have been affected by market sentiment in the same year of the survey.



Profile of China's fund investors

Chinese fund investors are getting younger, and mobile devices are becoming their preferred investment instruments. According to surveys conducted by the Asset Management Association of China (AMAC), 36.5% of individual mutual fund investors in China were below 30 years old in 2018, almost double that in 2013. About 71% used mobile devices as their main investment tools in 2018, compared to only 21% of that in 2014, when computers were widely preferred and the AMAC began to survey investors on their preferred modes of transactions.

These findings are linked to the country's high smartphone penetration and the evolution of online fund sales, triggered by the launch of Yu'e Bao, which brought lower investment thresholds and much higher transaction convenience to mass retail investors, especially the tech-savvy younger generation. Managers have been digitalizing

their marketing and sales strategies over the years to meet the needs of millennials as they start to invest and drive China's wealth management market, from improving their websites to partnering with third-party online platforms and producing more mobile content.

For example, the Ant Fortune and Tencent Licaitong websites have simple landing pages with general introductions and QR codes to direct investors to download mobile apps, while Lufax has reduced the number of products shown on its website, but displays all available offerings

A manager of an online platform told Cerulli that while investors from first-tier cities account for a large portion of its user base, it was able to reach more investors in second- or third-tier cities in the first two months of 2020.

in its mobile apps. At the time of writing, more than 50 asset managers, including four foreign managers, have built “Wealth Accounts” on the Ant Fortune app to actively engage with retail investors.

Such digital developments have shaped investment behaviour. Investors receive more information at a much faster rate, so they trade more frequently. A distributor told Cerulli that the turnover rate of online platforms is much higher than that of traditional channels. “People are too easily distracted by information,” he added. According to the AMAC surveys, a growing percentage of investors hold a single fund for less than a year, while a lower proportion of investors were willing to hold funds for more than three years, compared to five years earlier.

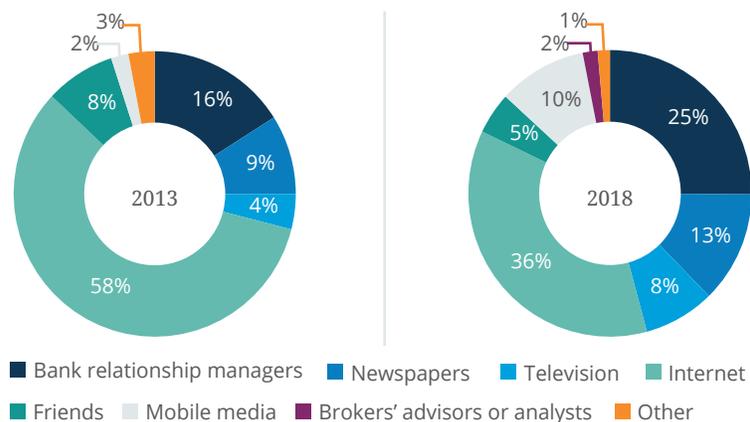
Advisory services needed

In fact, heavy churning has often characterized Chinese investors. They tend to expect relatively high returns from investing in funds—over 80% of investors sought annual returns of 5%-30% in the AMAC 2018 survey, but 60% failed to make profits since they started investing, though this figure was lower than in previous years. Investment education, or advisory, is truly in demand. According to the survey, 66% of respondents want to gain basic or deeper investment knowledge and 29% were experienced, but require professional advisory

One interesting survey finding was that more investors chose banks’ relationship managers as their preferred sources of investment information compared to five years earlier, although the internet is still used the most. Moreover, 83.2% (not shown in the exhibit) preferred to attend seminars in person for education. Apparently, the human touch is still important in conveying investment strategies or product information, and gaining investors’ trust. This has always been a challenge for managers, as most of them do not have direct access to retail

Individual Investors’ Average Holding Period of Single Fund, 2013 and 2018

Sources: Asset Management Association of China, Cerulli Associates
 Analyst Note: More than 55,000 individual investors were surveyed in 2Q 2014, and 36,000 individual investors in 2Q 2019. Results could have been affected by market sentiment in the same year of the survey.



investors. Yet, the current epidemic could provide new opportunities and paradigms for managers.

“Remote human touch” becoming important

With COVID-19 creating uncertainty and resulting in many people leaving the homes less often, this has posed challenges to fund sales—particularly new launches—as traditional distributors, such as banks, are not able to meet investors to promote their products. Offline activities, such as client meetings and investment seminars, have had to be moved online. Platforms like Zoom, Alibaba DingTalk, and Tencent Meeting have received hundreds of millions of users in a couple of days. Wechat has also been heavily used to reach retail investors.

In early February, some fund firms delayed or extended their fund initial public offerings (IPOs) due to market uncertainty and slow resumption of business operations following the end of the Chinese New Year holiday. However, more have started conducting online seminars aggressively, which have received huge interest. One example cited by

China Securities Daily was a seminar held on February 19. Live streamed with photos and text, and conducted by a manager from CCB-Principal Fund Management on Ant Fortune, the event attracted an audience of 70,000 in just one hour.

Accordingly, although it was unexpected, the number of mega fund launches from the week of February 17 was not unrealistic. At the time of writing, at least a total of 40 new funds was sold out in just one day. Among them, Foresight Fund Management created a fundraising record in China by pulling RMB120 billion (US\$17.2 billion) into its newly launched equity-biased balanced fund in a single day, despite its pre-set asset cap of RMB6 billion.

As they come up with strategies for investor education as well as fund marketing and sales in China, managers need to be sensitive to current developments and look for penetration points in digital networks. Rather than being a temporary outcome of the coronavirus outbreak, the “digitalized human touch” could have a long-term impact on the industry.

Cerulli for Research and Consulting

For nearly 30 years, Cerulli has provided global asset and wealth management firms with unmatched, actionable insights.

Headquartered in Boston with fully staffed offices in London and Singapore, Cerulli Associates is a global research and consulting firm that provides financial institutions with guidance in strategic positioning and new business development. Our analysts blend industry knowledge, original research, and data analysis to bring perspective to current market conditions and forecasts for future developments.

Cerulli's research product line includes the Cerulli Report series, the Cerulli Edge series, and Cerulli Lodestar.

Contact us to learn more:

info@cerulli.com | www.cerulli.com



CERULLI
ASSOCIATES

Research | Analytics | Consulting

info@cerulli.com | www.cerulli.com



United States

699 Boylston Street
Boston, MA 02116
United States
+1 617-841-1011



Europe

Valiant House,
4-10 Heneage Lane
London EC3A 5DQ
United Kingdom
+44 (0)20 7645 9040



Asia

10 Anson Road, #24-15
Singapore 079903
+65 6327 4045