A Confirmatory Factor Analysis of Wealth Management Behaviour of Investors

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Abstract

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India is ranked among the Top 10 nations in terms of total private wealth held as per Capgemini's World Wealth report. In 2017, the individual wealth in India expanded to Rs.344 lakh crore from Rs.310 lakh crore in 2016. Individual wealth witnessed a higher growth rate of 10.91% in 2017 against 8.50% in 2016. India also created higher number of high-net-worth-individuals (HNWIs)with a growth rate of 9.5% to 2.19 lakh HNWIs versus the global average of 7.5% and Asia Pacific region's 7.4% Preference of Indians is also slowly but definitely shifting to financial assets over physical assets on year-on-year basis

The aggregate wealth held by Indian High Net worth Individuals (HNWI) (i.e. individuals with investible assets of $ 1 million or more) is expected to grow at a CAGR of 27 percent over next five years to approximately Rs. 400 trillion

Wealth advisors and wealth managers need to employ specific strategies for acquisition, service and retention of individual investor clients and at the same time deploy bold, game-changing strategies using data analytics to build business models to provide dynamic innovative investible products

This paper seeks to understand the diverse needs and factors influencing wealth management behaviour of the individual investors using descriptive statistics and confirmatory factor analysis employing structural equation modelling

Key Words : Wealth Management, High Net worth Individuals, transparency, security ,financial goals

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Introduction

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10.91% in 2017 against 8.50% in 2016. India also created higher number of high-net-worth-individuals (HNWIs)with a growth rate of 9.5% to 2.19 lakh HNWIs versus the global average of 7.5% and Asia Pacific region's 7.4% Preference of Indians is also slowly but definitely shifting to financial assets over physical assets on year-on-year basis

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Literature Review

Global opportunities and challenges are discussed, the drivers of structural change are examined and the business model options available to wealth managers wishing to seize the global potential and survive in the business long term. are explored (Ernst & Young Outlook Report, 2018)

The trends in wealth in India due to changes in its eco system are deciphered.. India's macroeconomic parameters look healthy in the long term inspite of a temporary blip in its growth figures on account of a slew of structural reforms, such as implementation of GST, RERA, new insolvency and bankruptcy code and demonetisation leading to formalization of Indian economy. With the recent steps such as recapitalization of banks, the economy is all set to follow a northward trajectory in the coming years. As more sectors come under the fold of formal economy, asset allocation is witnessing a structural shift with financial assets gaining an upper hand over physical assets. In 2017, total wealth grew by 10.91% to reach `344 lakh crore. The wealth in financial assets held by individuals grew substantially by 14.63%, while it grew by 5.92% in physical assets showing a trend reversal from 2016 (Karvy's India Wealth Report 2017)

In fact, millennials are entering their prime earning years and also have the prospect of large inheritances. They have the potential to become the wealthiest generation in history. Notably, this group of investors is different from their predecessors in terms of attitudes toward managing their finances and expectations in relation to client experience. Fulfilling the expectations in terms of expected investment performance and understanding personal financial goals are among the top three drivers of client experience for both firms and clients world over. However, clients and firms have different opinion on the issue of advisor interactions and transparency in driving client experience. (Ernst & Young Report 2016)

52% of wealth managers are looking to significantly reduce costs and are taking a number of initiatives in this direction.(Forbes Insight- Ernst & Young Report 2015)

Macro uncertainty following the global financial crisis affected levels of transactional activity, and global banks experienced a sharp fall in their wealth management divisional revenue during the year 2015. Moving forward, wealth managers pinned revenue growth as one of their strategic priorities and intend to improve revenue by improving the client experience at various touchpoints. (The Wall Street Journal, 2016)

Investor protection, through stricter codes of conduct for intermediaries is also a high priority.(EY Global wealth and asset management industry outlook 2014)

In Singapore, Deutsche Asset & Wealth Management has outsourced its wealth management back-office operations to a specialized service provider Avaloq. This move helped the global bank focus on its core business — client advisory and investment management — and enable it to push up revenues by handling larger client volumes (Bloomberg, 2014)

Millionaires in India are not accustomed to paying a fee for wealth management advice. Hence, the fee-based advisory model has not picked up in India. Domestic wealth managers, particularly large private banks, focus on commissions from transactions. (Bloomberg, June 2014)

SEBI set April 2015 as the deadline for all wealth managers who were advising on products to obtain two mandatory qualifications from the National Institution of Securities Markets (NISM): Series X-A and Series X-B. The qualifications aimed at giving these financial advisors proper understanding of the structure of the securities market as well as understanding of the asset allocation, product selection, portfolio construction and portfolio rebalancing based on clients' needs.

India has the potential to become a high-growth wealth management market supported by its growing young affluent investor base, improving wealth levels among global Indians, strengthening its regulatory environment with an increasing share of organized players. (Bric Data Industry Forecast Report, 2012)

The downturn of 2000-2002 took its toll on wealth providers but the industry has regained with the number of millionaires growing globally. Many players in the financial

market are refocussing on wealth management though the financial market cannot be relied alone to grow David Maude (2010)

According to Robert J. McCann, President of the Private Client Group at Merrill Lynch (2006) wealth management requires connecting with clients on a personal level beyond the industry norms

McKinsey & Company (2005) emphasised on wealth manager attributes depending on client's appeal, dynamics, product sets and economics of transactions

Research Gap

Existing literature is mostly limited to studies on trends on wealth management , wealth management for women entrepreneurs and changing ecosystem of wealth management. This paper seeks to examine the factors that are exogenous factors that influence wealth investment by investors to find out what wealth managers must do to serve investors better in future . The primary data has been collected from 250 respondents in the Delhi /NCR region in the age group 21 -50 and 50 + years The questionnaire helps to explore the preferences, personal goals, basis of investment decision, expectations and value propositions of individual investors.

Research Methodology:

Descriptive Statistics is used to find out the demographics dynamics of investors . The tool of structured questionnaire is employed to find out the investment preferences , expectations, financial goals and value proposition of investors from respondents. Quantitative tools of reliability, validity are used along with **Partial Least square Structured Equation Modeling approach to conduct Confirmatory Factor Analysis** to find out the major factors that influence investment decisions taken by investors.

Objective of the Study:

1. To understand the differentiated needs ,expectations and value propositions of the individual investors
2. To recommend some strategies for providing differentiated wealth management services for investors in India

Descriptive Statistics

The structured questionnaire was sent to 300 respondents in Delhi /NCR region. However, only 273 questionnaires from respondents were received back out of which 23 were discarded as they were incomplete. So only 250 questionnaires which were duly filled were considered for analysis

	Gender	Age	Occupation	Income

N	Valid	250	250	250	250
	Missing	0	0	0	0

Frequency Table

Gender

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Male	117	46.8	46.8	46.8
	Female	133	53.2	53.2	100.0
	Total	250	100.0	100.0	

Out of 250 respondents 46.8% were males and 53.2% were females which showed the growing awareness, concern for and responsibility of wealth management handled by women in their households in Delhi

Age

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	23	6	2.4	2.4	2.4
	24	3	1.2	1.2	3.6
	25	2	.8	.8	4.4
	26	2	.8	.8	5.2
	28	2	.8	.8	6.0
	32	7	2.8	2.8	8.8
	33	9	3.6	3.6	12.4
	34	36	14.4	14.4	26.8
	35	3	1.2	1.2	28.0
	36	3	1.2	1.2	29.2
	38	3	1.2	1.2	30.4
	43	14	5.6	5.6	36.0
	44	37	14.8	14.8	50.8
	45	54	21.6	21.6	72.4
	47	3	1.2	1.2	73.6
	52	2	.8	.8	74.4

	54	6	2.4	2.4	76.8
	55	16	6.4	6.4	83.2
	56	33	13.2	13.2	96.4
	57	4	1.6	1.6	98.0
	58	3	1.2	1.2	99.2
	59	2	.8	.8	100.0
	Total	250	100.0	100.0	

Largely 50% of the respondents were in the age group 35 years to 50 years who invested in various investment avenues .This reveals the existing gap for increasing financial literacy efforts in the domain of investor education for those below 35 years age group by pitching diverse short term and long term investible products for this age group as per the needs of their life cycle in the eco system of new innovative job opportunities

Occupation

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Salaried	97	38.8	38.8	38.8
	Business	98	39.2	39.2	78.0
	Professional	55	22.0	22.0	100.0
	Total	250	100.0	100.0	

A large number of respondents belonged to the salaried and business group revealing a tendency to save for their diverse futuristic needs based on their preferences and value propositions The growing number of professionals needed to be still looked as a market to be penetrated in the near future by the wealth managers

Income

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	<10 Lakhs	36	14.4	14.4	14.4
	10-20 Lakhs	77	30.8	30.8	45.2
	20-30 Lakhs	77	30.8	30.8	76.0
	30-40 lakhs	43	17.2	17.2	93.2
	>50 lakhs	17	6.8	6.8	100.0
	Total	250	100.0	100.0	

Respondents largely had an income between 10-30 lakhs which revealed the need for wealth accumulation and wealth preservation.

Hypothesis of the Study:

Alternate Hypothesis:

H1:	There is impact of **preference of wealth management delivery model** on total wealth investment portfolio
H2:	There is impact of **financial goals** on total wealth investment portfolio
H3:	There is impact of **factors influencing investment decision** on total wealth investment portfolio
H4:	There is impact of **drivers of wealth management** on total wealth investment portfolio
H5:	There is impact of **expectations of investors** on total wealth investment portfolio
H6:	There is impact of **value propositions of investors** on total wealth investment portfolio

Confirmatory Model of Influences and Value Propositions of investor's

Structural equation modelling (SEM) which includes measurement model and path analysis is an efficient tool to examine the casual relationships between the constructs and their underlying measurement suitability

Figure 1: Partial Least square Structured Equation Modelling Output showing impact of choice of wealth management delivery model, financial goals, factors responsible for change of wealth management delivery model, drivers for wealth management, expectations of investors and value propositions of investor on total wealth investment portfolio mix.

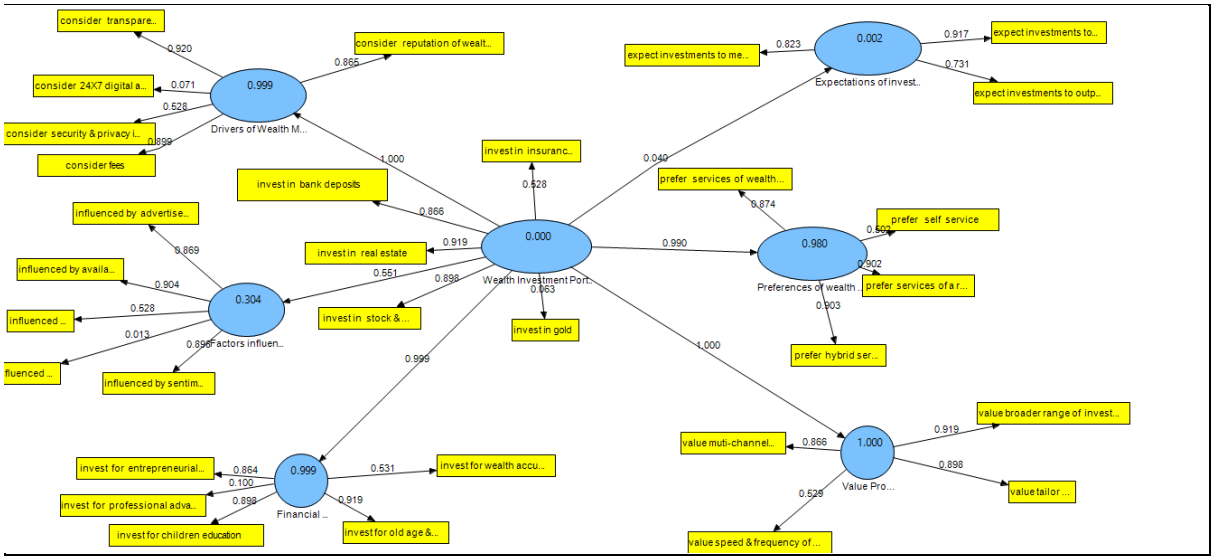

Figure 1

Source: Authors Own Compilation

Interpretation:

The Figure 1 shows that preference of wealth management delivery model, financial goals, factors influencing investment decision, drivers for wealth management, expectations of investors and value propositions of investors are exogenous variables (Independent Variables) and wealth investment portfolio is endogenous variable (Dependent Variable). This Figure is showing the relationship between exogenous and endogenous variables.

Measurement Model Assessment:

Table 1: Reliability and Validity

Items	AVE	Composite Reliability	R Square	Cronbachs Alpha	Communality	Redundancy
Drivers of Wealth Management	0.5371	0.8231	0.9993	0.7166	0.5371	0.5366
Expectations of investors	0.6842	0.8657	0.0016	0.8073	0.6842	0.0006
Factors influencing investment Decision	0.5319	0.8152	0.3039	0.7061	0.5319	0.1614
Financial Goals	0.5379	0.8261	0.9989	0.7277	0.5379	0.537

Preference of wealth management Delivery Model	0.6613	0.882	0.9795	0.8138	0.6613	0.6478
Value Propositions of investors	0.6703	0.8867	0.9997	0.8224	0.6703	0.6701
Wealth Investment Portfolio	0.5369	0.8224	0	0.7164	0.5369	0

Source: Authors Own Compilation

Interpretation:

The outer model was first assessed by values of composite reliability[1] (to assess internal consistency), average variance extracted (AVE) (to assess convergent validity). Cronbach Alpha (Haier et al , 2013) shows all indicators to be equally reliable. Table 1 shows that the value of the composite reliability ranges between 0.81 to 0.88 which is greater than the prescribed value of .70 (Haier et al, 2006) and value of AVE ranges between 0.53 to 0.68 which is found to be greater than 0.50 (Haier et al, 2006).

Table:2

Correlations

Items	Drivers of Wealth Management	Expectations of investors	Factors influencing investment Decision	Financial Goals	Preferences of wealth management Delivery Model	Value Propositions of investors	Wealth Investment Portfolio
Drivers of Wealth Management	1	0	0	0	0	0	0
Expectations of investors	0.0384	1	0	0	0	0	0
Factors influencing investment Decision	0.5504	0.1088	1	0	0	0	0
Financial Goals	0.9995	0.0391	0.5497	1	0	0	0

[1] Composite reliability is an appropriate measure of internal consistency reliability because it accounts for different outer loadings of the indicator.

Preferences of wealth management Delivery Model	0.99	0.0443	0.5407	0.9897	1	0	0
Value Propositions of investors	0.9998	0.0387	0.5505	0.9996	0.9901	1	0
Wealth Investment Portfolio	0.9997	0.04	0.5512	0.9994	0.9897	0.9998	1

Source: Authors Own Compilation

Interpretation:

Table 2 demonstrates that the square root of the AVE (Average Variance expected) values for all the correlations was higher than the inter-construct correlations (Fornells and Larcker,1981) thus establishing the discriminant validity.

Table: 3

Cross Loadings

	Drivers of Wealth Management	Expectations of investors	Factors influencing investment Decision	Financial Goals	Preferences of wealth management Delivery Model	Value Propositions of investors	Wealth Investment Portfolio
invest for entrepreneurial ventures /startups	0.8652	0.0156	0.4909	0.8642	0.8546	0.8657	0.8661
prefer self service	0.4937	0.0179	0.2614	0.4965	0.5023	0.4954	0.4937
consider reputation of wealth firm	0.8652	0.0156	0.4909	0.8642	0.8546	0.8657	0.8661
consider transparency in dealings	0.9197	0.0649	0.5197	0.9192	0.9056	0.9194	0.9193

consider 24X7 digital accessibility to portfolio	0.0708	-0.0159	0.0281	0.0544	0.0548	0.0515	0.0519
consider security & privacy in dealings	0.5279	-0.005	0.2853	0.5308	0.5195	0.5292	0.5284
consider fees	0.8985	0.0371	0.4703	0.8978	0.899	0.8981	0.8978
expect investments to meet market index	0.0386	0.9169	0.1215	0.0399	0.0481	0.0392	0.0406
expect investments to meet specific financial goals	0.0284	0.8229	0.0595	0.028	0.0277	0.0283	0.029
expect investments to outperform market index	-0.0009	0.7313	0.0737	0.0019	0.0027	0.0005	0.0016
influenced by advertisements	0.4952	0.0631	0.8689	0.4949	0.4801	0.4962	0.497
influenced by availability of investment products	0.4906	0.1068	0.9045	0.489	0.4792	0.4902	0.4912
influenced by market performance of instruments	0.2843	0.0632	0.5285	0.2875	0.2782	0.2852	0.2842
influenced by sentiments of other investors	0.4883	0.1179	0.8982	0.4862	0.4896	0.4874	0.4883
influenced by social media	0.0034	0.0119	0.0131	0.004	-0.0148	0.0014	0.0045
invest for professional advancement	0.076	0.0162	0.0165	0.1004	0.0714	0.0738	0.0719
invest for children education	0.8985	0.0371	0.4703	0.8978	0.899	0.8981	0.8978
invest for old age &medical needs	0.9197	0.0649	0.5197	0.9192	0.9056	0.9194	0.9193
invest for wealth accumulation	0.5279	-0.005	0.2853	0.5308	0.5195	0.5292	0.5284
invest in bank deposits	0.8652	0.0156	0.4909	0.8642	0.8546	0.8657	0.8661

invest in insurance policies	0.5279	-0.005	0.2853	0.5308	0.5195	0.5292	0.5284
invest in real estate	0.9197	0.0649	0.5197	0.9192	0.9056	0.9194	0.9193
invest in stock & mutual fund	0.8985	0.0371	0.4703	0.8978	0.899	0.8981	0.8978
invest in gold	0.0454	0.0709	0.0693	0.0422	0.0312	0.045	0.0628
prefer services of wealth manager	0.8651	0.02	0.4863	0.8634	0.8743	0.8653	0.8654
prefer hybrid servvice delivery model	0.894	0.071	0.4934	0.894	0.9026	0.8934	0.8932
prefer services of a robo advisor	0.8951	0.0295	0.4749	0.8944	0.9022	0.895	0.8948
value broader range of investment products	0.9197	0.0649	0.5197	0.9192	0.9056	0.9194	0.9193
value muti-channel interactions (both physical & digital)	0.8652	0.0156	0.4909	0.8642	0.8546	0.8657	0.8661
value speed & frequency of interactions	0.5279	-0.005	0.2853	0.5308	0.5195	0.5292	0.5284
value tailor made customised portfolio	0.8985	0.0371	0.4703	0.8978	0.899	0.8981	0.8978

Source: Authors Own Compilation

Interpretation:

The Individual loadings were found to be higher than the respective cross loadings providing additional evidence of discriminant validity. The item loading are mostly higher than the value of 0.6 (Nunnally, 1978) for exploratory study. Some indicator items from the variables were dropped that resulted in improved reliability and variability of those variables.

Structural Model Assessment:

Table: 4

Bootstrapping Technique

Columns	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	Standard Error (STERR)	T Statistics (|O/STERR|)
Wealth Investment Portfolio -> Drivers of Wealth Management	0.9997	0.9996	0.0001	0.0001	8570.6113
Wealth Investment Portfolio -> Expectations of investors	0.04	0.0452	0.0117	0.0117	3.4088
Wealth Investment Portfolio -> Factors influencing investment Decision	0.5512	0.5525	0.0153	0.0153	36.1121
Wealth Investment Portfolio -> Financial Goals	0.9994	0.9994	0.0002	0.0002	6583.1103
Wealth Investment Portfolio -> Preferences of wealth management Delivery Model	0.9897	0.9897	0.001	0.001	955.7505
Wealth Investment Portfolio -> Value Propositions of investors	0.9998	0.9998	0.0001	0.0001	12433.6698

Interpretation:

The Inner model was assessed to test the relationship between the exogenous and endogenous variables. The path coefficients were obtained by using non-parametric, bootstrapping routine technique (Vinji et al, 2010). Since the t value is greater than 1.96 the alternate hypothesis acceptance and rejection is discussed below:

H1	(8570.6113 Accepted >1.96)	There is impact of preference of wealth management delivery model on wealth investment portfolio	(Accepted)
H2	(3.4088 >1.96)	There is impact of financial goals on wealth investment portfolio	(Accepted)

H3	(36.1121 >1.96)	There is impact of factors influencing investment decision on wealth investment portfolio	(Accepted)
H4	(6583.1103 >1.96)	There is impact of drivers for wealth management on wealth investment portfolio	(Accepted).
H5	(955.7505 >1.96)	There is impact of expectations of investors on total wealth investment portfolio	(Accepted)
H6	(12433.66>1.96)	There is impact of value propositions of investors on wealth investment portfolio	(Accepted)

The impact of value propositions of investors, preference of wealth management delivery model, drivers for wealth management and expectations of investors on wealth investment portfolio seems to be too strong indicating an urgent requirement on the part of the wealth managers to address these in their future strategies to increase the assets under management

Table: 5

Blindfolding Technique

Total	SSO	SSE	1-SSE/SSO
Drivers of Wealth Management	1245.0000	567.0629	0.5445
Expectations of investors	747.0000	753.8347	-0.0091
Factors influencing investment Decision	1245.0000	1040.2898	0.1644
Financial Goals	1245.0000	587.8766	0.5278
Preferences of wealth management Delivery Model	996.0000	356.5201	0.6420
Value Propositions of investors	996.0000	328.4216	0.6703
Case 1	SSO	SSE	1-SSE/SSO
Drivers of Wealth Management	180.8088	83.9249	0.5358
Expectations of investors	102.0888	101.9823	0.0010
Factors influencing investment Decision	208.8203	174.6781	0.1635
Financial Goals	166.7767	79.1567	0.5254
Preferences of wealth management Delivery Model	148.1377	57.7122	0.6104
Value Propositions of investors	152.1524	51.9787	0.6584

Case 2	SSO	SSE	1-SSE/SSO
Drivers of Wealth Management	188.6598	80.4178	0.5737
Expectations of investors	110.0688	112.5108	-0.0222
Factors influencing investment Decision	165.3627	129.4922	0.2169
Financial Goals	170.9502	78.0438	0.5435
Preferences of wealth management Delivery Model	148.2374	65.0948	0.5609
Value Propositions of investors	135.9591	41.7968	0.6926

Case 3	SSO	SSE	1-SSE/SSO
Drivers of Wealth Management	185.1144	83.6429	0.5482
Expectations of investors	107.8927	108.0771	-0.0017
Factors influencing investment Decision	172.9897	142.1942	0.1780
Financial Goals	184.8188	89.9160	0.5135

Interpretation:

Since the value of Q square is greater than zero it shows the predictive relevance and reflects that the alternate hypothesis H1,H2,H3,H4,H5and H6. (There is impact of preference of wealth management delivery model, financial goals, factors influencing investment decision , expectations of investors and value propositions of investors on wealth investment portfolio) is accepted.

Road Ahead

Wealth management firms must treat technology expenditure as a revenue generator and not just as a cost to minimize

Investments and breakthroughs in the field of artificial intelligence and machine learning in the era of disruptive technology can be capitalised to acquire and capture new segments – booming young professionals and entrepreneurs

New holistic wealth management business models with largely digitalised processes like robo-advisory , pay as you use services would help to churn cost effective wealth management solutions for investors.

Gamification and use of internet platforms of marketing (facebook, linked in , blogs ,e-communities)Would help to offer differentiated products as per the advancement of life cycle and specific needs of the customers

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