

# FMA Money Week 2017

Attitudes towards bonds in New Zealand

# What do we know about bonds?

There is a lot of confusion and uncertainty around bonds, even among investors:

- While **two thirds** of those who had bought bonds said they were **certain** the company or government would **pay their money back**, **less than half** actually knew the **credit rating** of the bond they had invested in.
- **Only half** (two thirds of those who had actually bought bonds) knew that bonds **were a form of debt**.
- **Over a quarter** (around a third of those who had actually bought bonds) believe **bonds are always low risk** investment and/or that they are **guaranteed to pay back** their money.
- **Over half** of people in KiwiSaver **do not know that most funds invest in bonds**

# Methodology

The FMA and Buzz Channel designed a survey to discover how much people really know and understand about bonds.

All respondents either had KiwiSaver or had bought bonds

In total, 505 people responded to the survey - the margin of error on this sample is around  $\pm 4\%$  at the 95% confidence level (considered very acceptable).

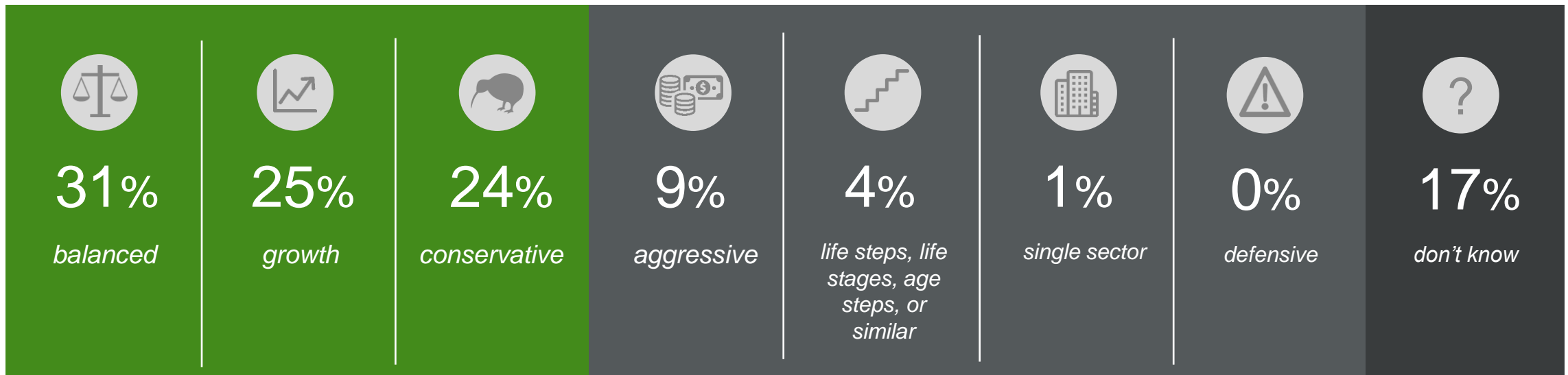
The survey was in field for twelve days, between 26th June and 6th August - this report summarises respondent feedback.

# Investing in KiwiSaver



Among respondents who have KiwiSaver, almost one in five (17%) **do not know** what KiwiSaver fund they are in, indicating they are possibly not actively monitoring their fund's performance.

### What kind of KiwiSaver fund are you in?







**Men** were **more likely** than women to be in an **aggressive** fund (14% vs. 4%), while **women** were **more likely** than men to say they **didn't know** what KiwiSaver fund they were in (21% vs. 12%).



One in three (33%) KiwiSaver investors **aged 18 to 24 did not know** what fund they were in. Older people were more likely to invest in conservative funds (33% of those aged 55 plus).



Respondents with a **higher household income** were more likely than others to be in a **growth** fund (42% of those earning \$150,001 or more annually), while those with a **lower household income** were more likely to say they **didn't know** what fund they were in (31% of those earning between \$20,000 and \$50,000 annually).

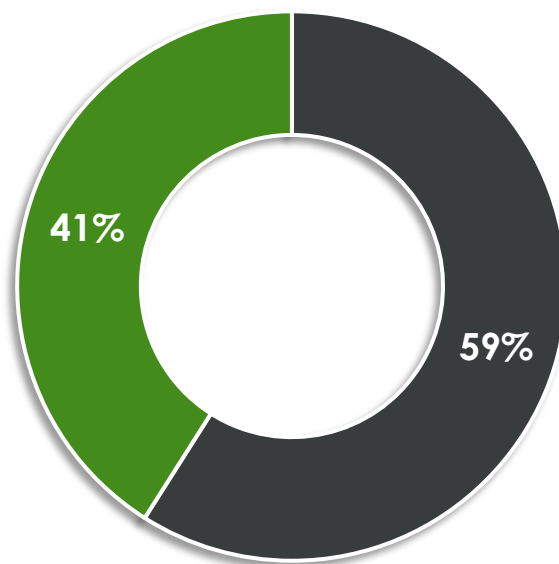


Respondents who had **bought a term deposit** were **more likely** to have a **balanced** (39%) or **aggressive** (13%) fund, and those who had **bought shares** on the New Zealand Stock Exchange were **more likely** to have a growth or aggressive fund than others. Those who had not bought a term deposit, shares, or bonds, were more likely to not know what fund they were in (28%).

Lower income and less experienced investors are less likely to know what fund they're in, or take advantage of potential capital gains through growth funds

Over half of those in KiwiSaver **did not know** that most KiwiSaver funds **invest in bonds**.

*Did you know that most KiwiSaver funds invest in bonds?*



■ No ■ Yes

**Younger people** in particular (69% of those aged 18 to 24 years old) were **not aware** that most KiwiSaver funds invest in bonds.

*Base: Respondents who are members of KiwiSaver n=440.*



**Older respondents** were **more likely to be aware** that most KiwiSaver funds invest in bonds (49% of those aged 55 and over vs. 31% of those aged 18 to 34).



Respondents with a **higher household income** were **more likely** than others to be **aware** that most KiwiSaver funds invest in bonds (55% of those earning \$150,001 or more annually).



Respondents who had **bought a term deposit or shares** on the New Zealand Stock Exchange were **more likely aware** that most KiwiSaver funds invest in bonds, compared with those who have never invested in bonds or other investment types (50% and 57% vs. 27% respectively).



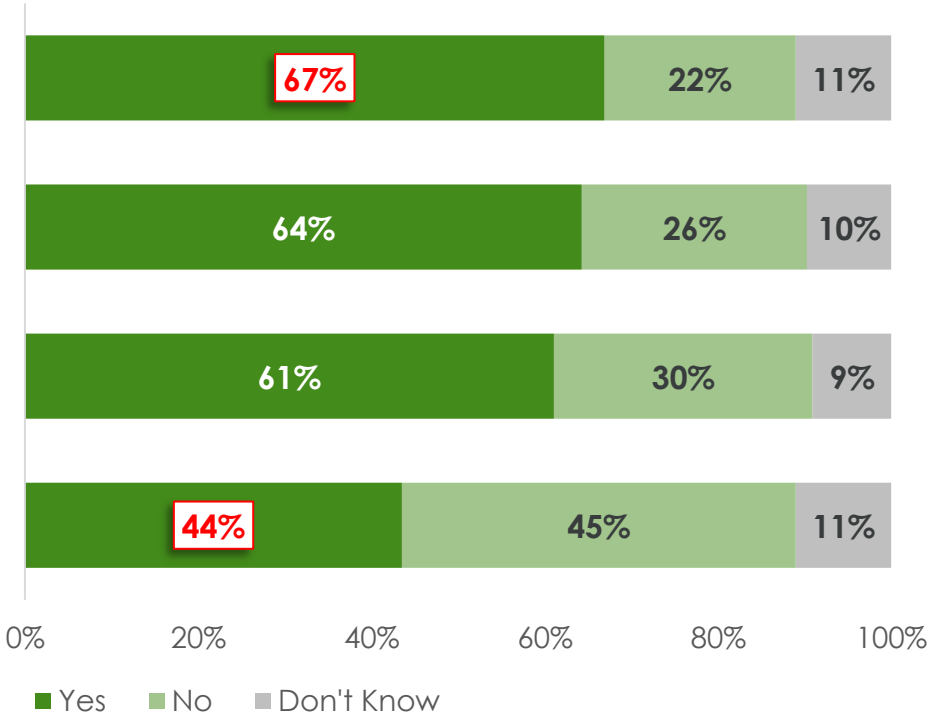
# Investors' understanding of bonds



Among those who had bought bonds: **Two thirds** of bonds investors said they were **certain** the company or government would **pay their money back**, but **less than half** actually knew the **credit rating** of the bond they had bought.

### When you bought the bond...

Were you certain that the company, or government, would pay your money back?



Among those who were **certain** they would be paid back, **42% did not know** the **credit rating** of the bond.



**Men** were **more likely** than women to know the **annual rate of return**, and **credit rating** of the bond they had invested in (68% vs. 52%, and 53% vs. 31% respectively).



**Older respondents** were **more likely** than younger respondents to know the **maturity date** of the bond (75% of those aged 55 and over vs. 38% of those aged between 18 and 34 inclusive).









**Higher income** earners were **more likely** to know the credit rating of the bond (73% of those with household income >\$150k), while **low income** earners were **less likely** (only 21% of those with household income \$50k or less)



Those who had **bought a term deposit** or **shares** on the NZX were **more likely** to know the **maturity date**, the **annual interest rate or return**, and the **credit rating**, of the bond they had invested in.

Again, lower income and less experienced investors are less likely to know important information about their investment when they purchase bonds

There is a lot of confusion about bonds. At least a third of respondents say they “don’t know” whether these statements about bonds are true or false.

	TRUE		FALSE		DON'T KNOW
 bonds are <b>investing in a form of debt</b> - because you have effectively lent money to a company or a government	52%	<input checked="" type="checkbox"/>	6%		42%
 bonds generally <b>pay a higher interest rate</b> ('coupon') than term deposits	34%	<input checked="" type="checkbox"/>	17%		49%
 bonds are <b>always low risk</b> investments	29%		34%	<input checked="" type="checkbox"/>	37%
 bonds are <b>guaranteed to pay</b> your money back	26%		38%	<input checked="" type="checkbox"/>	36%
 bonds <b>keep the same value</b> if you sell them before the maturity date or end of term	17%		33%	<input checked="" type="checkbox"/>	49%
 bonds <b>always pay the same rate of interest</b> , or coupon	17%	<input checked="" type="checkbox"/>	33%		50%

Only half knew that bonds were a form of debt. Over a quarter believe bonds are always low risk investment and/or that they are guaranteed to pay back their money (29% and 26% respectively).



A considerable proportion of bonds investors are unclear about the details of their investment

Among those investors **who had bought bonds**:

- **Only 64%** knew bonds were **investing in a form of debt**
- **33%** thought bonds are **always low risk** investments
- **31%** thought bonds were **guaranteed to pay back** their money
- **21%** thought bonds **kept their value** if sold before maturing (34% didn't know)
- **18%** thought bonds **always pay the same interest** rate (37% didn't know)



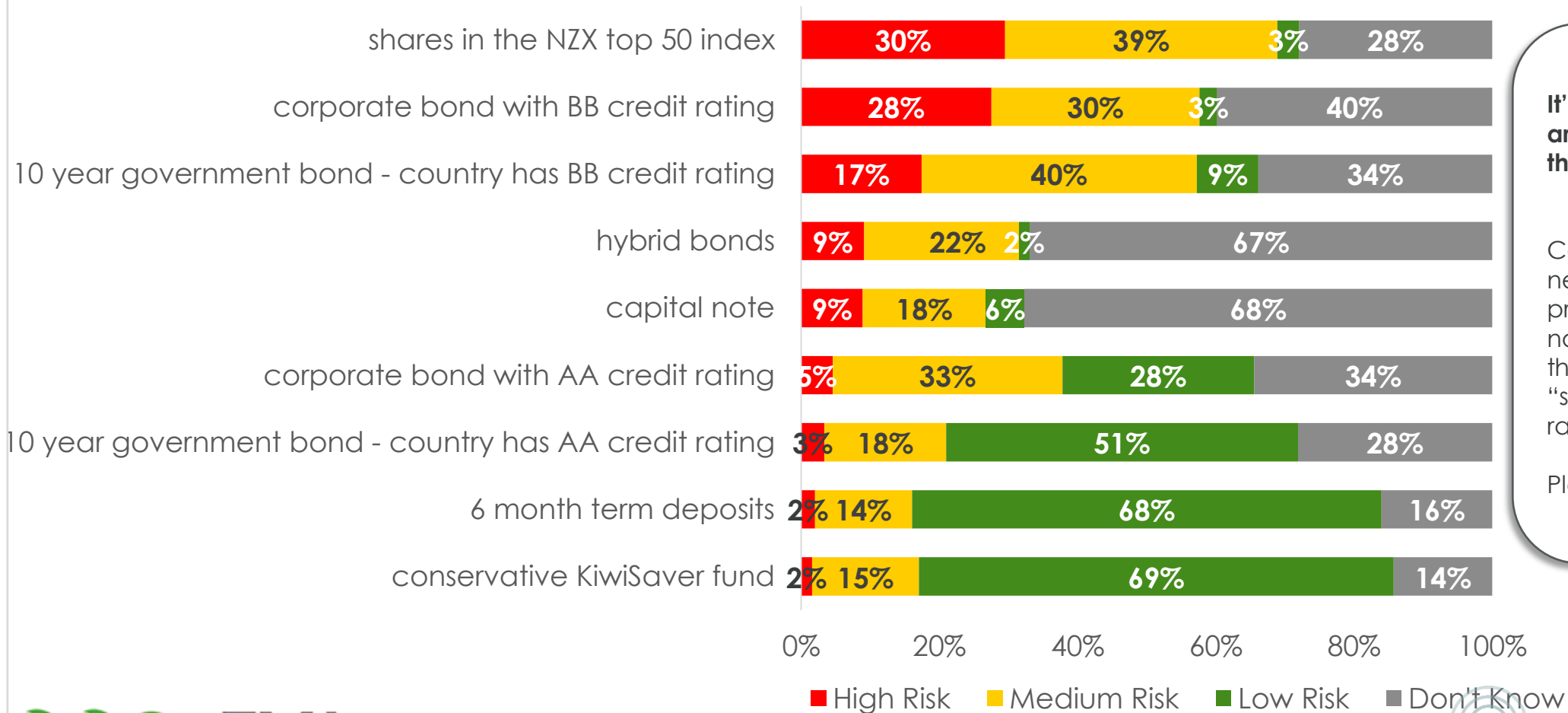
# A demographic divide?

**Women** and **younger** respondents were **more likely** to say they **didn't know** if bonds:

- **kept the same value** if sold before the maturity date or end of term (55% of women vs. 24% of men, and 56% of those aged between 18 and 54 years vs. 38% of those aged 55 years and over) - men and older respondents were more likely to say this was false
- are **investing in a form of debt** (49% of women vs. 35% of men, and 55% of those aged 18 to 34 vs. 31% those aged 55 years and over) - men and older respondents were more likely to say this was true
- generally **pay a higher interest rate** than term deposits (55% of women vs. 43% of men, and 59% of those aged 18 to 34 vs. 39% those aged 55 years and over) - men and older respondents were more likely to say this was true
- always **pay the same rate** of interest (56% vs. 44%, and 36% of those aged 18 to 34 years vs. 42% of those aged 55 years and over) - older respondents were more likely to say this was false



There is a lot of **uncertainty** around the risk of these investments - hybrid bonds and capital notes in particular.



It's important to note there are no "correct" answers to these questions.

Conservative funds are not necessarily always a low risk product. NZX 50 shares will not always be higher risk than a bond with a "speculative" BB credit rating.

Please see note on slide 18



**Men** were **more likely** than women to say a **10 year government bond** was **low** risk (at a BB credit rating: 12% vs. 6% of women, and at a AA credit rating: 59% vs. 43% of women) and that a **corporate bond** with BB credit rating and **hybrid bonds** were **medium** risk (36% and 27% vs. 18% and 24% of women respectively), while **women** were **more likely** to say a **conservative KiwiSaver** fund was **low** risk (73% vs. 64% of men). **Women** were also **more likely** than men to say they **didn't know** the risk of any products (apart from six month deposits - there was no significant difference here between men and women).



**Younger** respondents were **more likely** to say they **didn't know** the risk of a **10 year government bond** (40% of those aged 18 - 34 at a BB credit rating vs. 19% aged 55 years and over, and 46% at a AA credit rating vs. 26% aged 55 years and over), while **older** respondents were **more likely** to say these were **low** risk. **Older** respondents were also more likely to say a **corporate bond** was a **medium** risk than younger respondents (36% of those aged 55 and over at a BB credit rating vs. 19% aged 18 to 34, and 42% at a AA credit rating vs. 23% aged 18 to 34).



Respondents who have **never invested** in bonds or other investment types were **more likely** to say they **didn't know** the risk of any products asked about.

## NOTES

### **Not all bonds have the same features.**

This survey was based on bonds available to retail investors where the common features include:

- A fixed term or maturity date
- A fixed interest rate or coupon is paid regularly throughout the term
- The bond can be bought and sold on the open market.

There are other types of bonds where these features do not apply, such as:

- Perpetual bonds which do not have a fixed maturity date
- Floating rates bonds which do not have a fixed interest rate or coupon
- The bond is regulatory capital note such as a convertible bond.

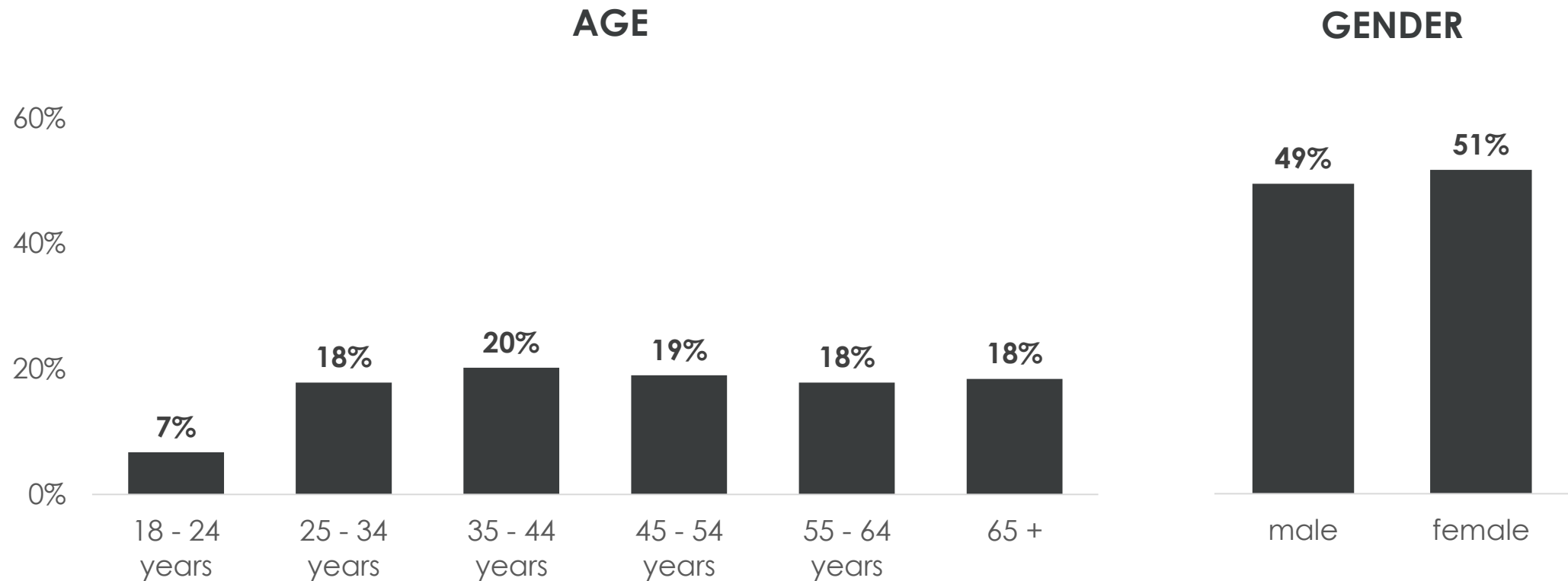
The survey question on slide 16 about product risks is meant as a rule of thumb response to the relative risks perceived in different products. It is not a test of people's ability to correctly analyse the inherent risk factors in each product. All investment products including bonds are subject to different risk factors in a range of different circumstances.

For more information go to <https://fma.govt.nz/consumers/ways-to-invest/bonds/>



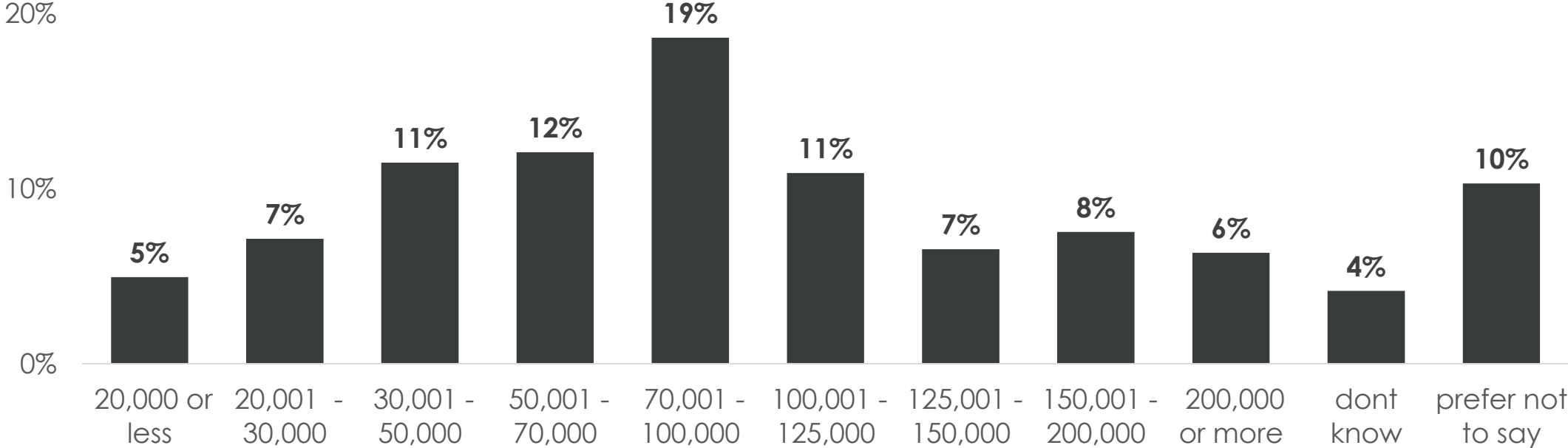
# Respondent profile

# RESPONDENT PROFILE



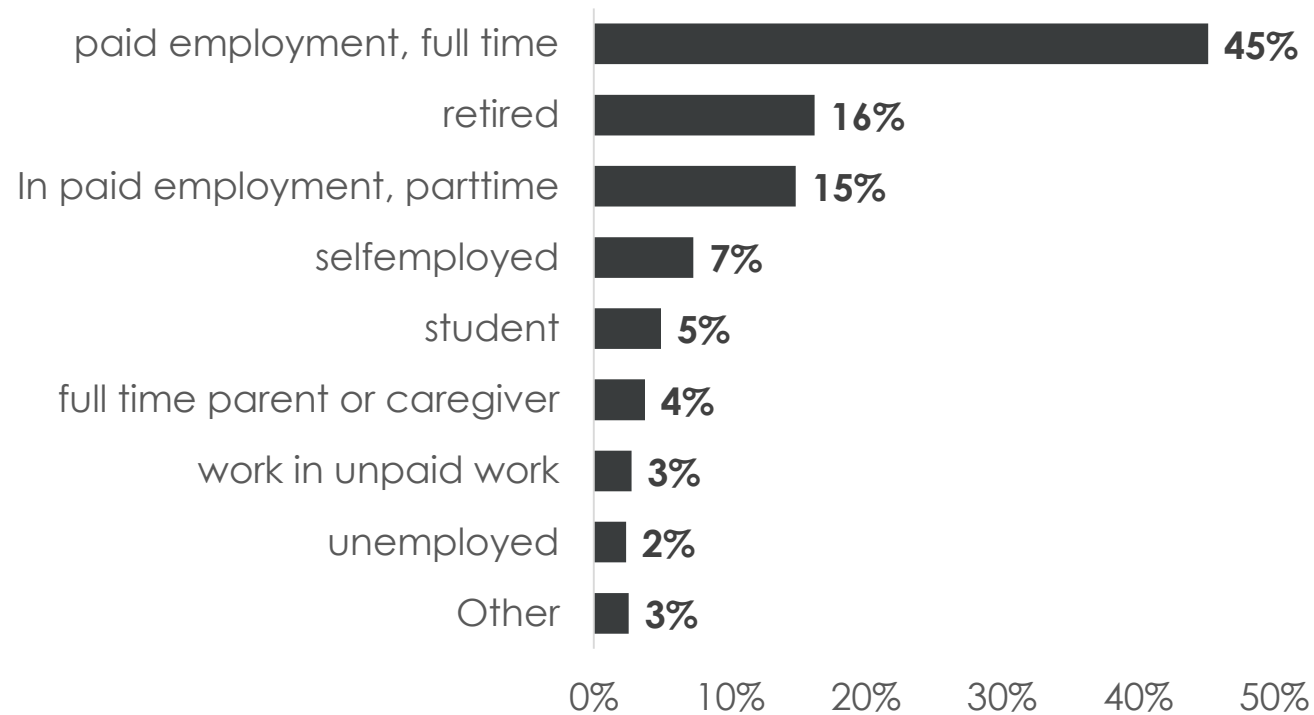
# RESPONDENT PROFILE

## ANNUAL HOUSEHOLD INCOME BEFORE TAX



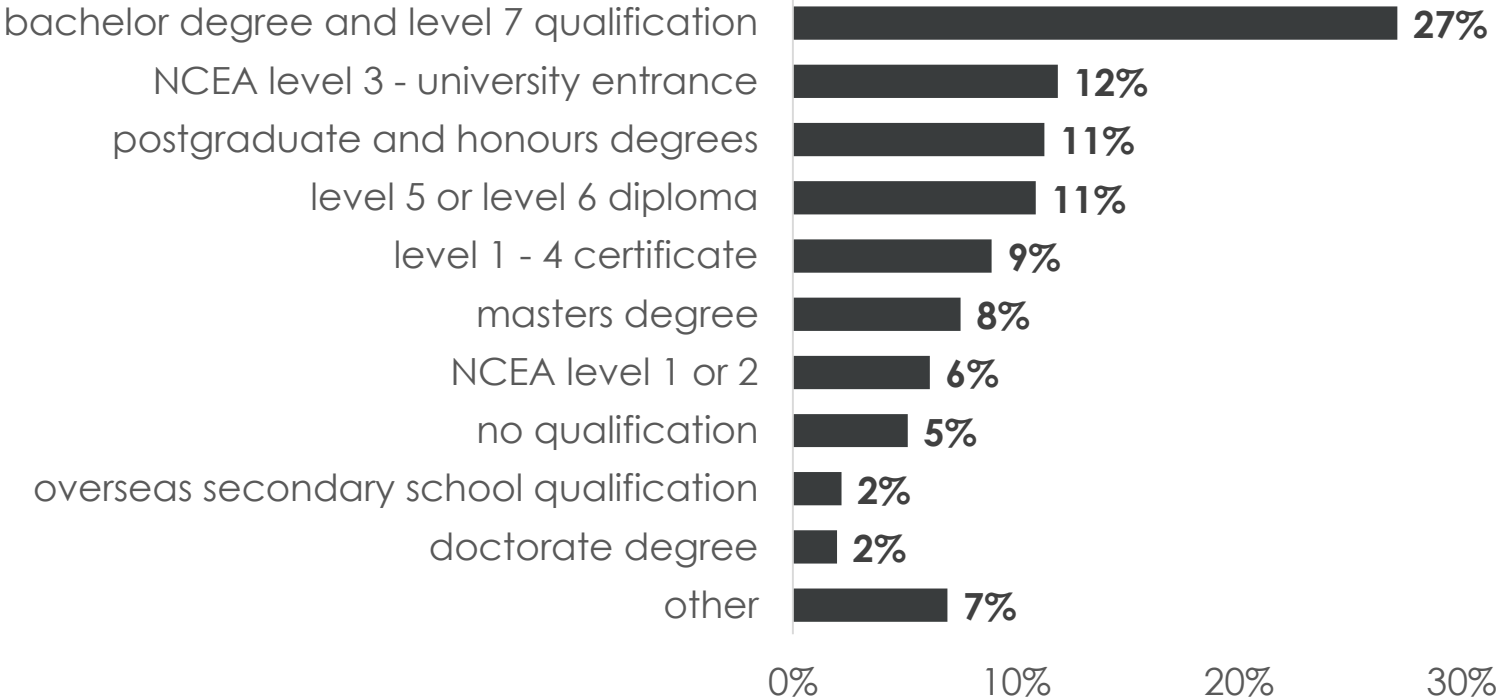
# RESPONDENT PROFILE

## WORK STATUS



# RESPONDENT PROFILE

## HIGHEST QUALIFICATION





# RESPONDENT PROFILE:

Note all respondents had to either have invested in KiwiSaver or bonds in order to complete the survey

