

Online Appendix:

Suitability Checks and Household Investments in Structured Products

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Table A1
Participation in Structured Product Market

This table demonstrates the determinants of investor participation in the structured product market. We run Probit regressions. The dependent variable is a dummy variable indicating structured product purchase (one for market participants and zero for non-participants). The sample consists of 338 participants and 50 non-participants. Data on non-participants are collected through face-to-face interviews at randomly chosen public locations in Hong Kong in July 2009. Data on the participants are collected through face-to-face interviews at various occasions between January and June 2009. The p -values are in parentheses.

Independent Variables:	Dependent Variable: Participating in Structured Product Market			
	(1)	(2)	(3)	(4)
Age	0.019 (0.025)	0.022 (0.010)	0.013 (0.125)	0.017 (0.066)
Male	-0.816 (0.000)	-0.802 (0.000)	-0.820 (0.000)	-0.810 (0.000)
Married	0.528 (0.025)	0.538 (0.026)	0.561 (0.018)	0.580 (0.017)
Income	-0.008 (0.036)	-0.010 (0.014)	-0.006 (0.102)	-0.008 (0.040)
Leveraged		0.586 (0.098)		0.624 (0.082)
Enroll in high school			-0.405 (0.054)	-0.401 (0.062)
Constant	0.266 (0.558)	0.028 (0.952)	0.762 (0.147)	0.526 (0.332)
Observations	388	370	387	369
Pseudo R^2	0.127	0.140	0.140	0.152

Table A2
The Determinants of Neglecting Product Suitability Checks

This table shows Probit regression results. The dependent variable is the probability of *suitability not checked*. *Suitability not checked* is a dummy variable and equals one if product suitability was not checked before the purchase, and zero otherwise. The *p*-values are in parentheses.

Independent Variables:	Dependent Variable: Suitability Not Checked			
	(1)	(2)	(3)	(4)
Interest rate (HIBOR)	0.184 (0.007)			0.160 (0.031)
Annual coupon rate		0.067 (0.446)		-0.020 (0.830)
Number of distributing banks			0.079 (0.041)	0.052 (0.208)
Socially connected	-0.577 (0.003)	-0.497 (0.009)	-0.502 (0.009)	-0.569 (0.004)
Levered	1.032 (0.007)	0.844 (0.022)	0.877 (0.020)	1.027 (0.009)
Above high school=0	0.326 (0.078)	0.285 (0.117)	0.300 (0.100)	0.334 (0.072)
Investment amount (million HKD)	0.015 (0.857)	0.026 (0.758)	0.014 (0.869)	0.010 (0.904)
ln(Age)	-0.023 (0.964)	-0.039 (0.938)	0.038 (0.941)	0.023 (0.964)
Male	-0.134 (0.479)	-0.145 (0.440)	-0.111 (0.558)	-0.112 (0.555)
Married	-0.036 (0.902)	-0.039 (0.896)	-0.082 (0.783)	-0.069 (0.817)
ln(Income)	0.005 (0.821)	0.009 (0.648)	0.006 (0.770)	0.003 (0.878)
Constant	-0.383 (0.852)	-0.201 (0.923)	-1.042 (0.624)	-0.986 (0.649)
Observations	221	221	221	221
Pseudo R^2	0.079	0.056	0.068	0.084

Table A3
Comparison of Leveraged and Unleveraged Investors

This table compares the characteristics of structured product investors who are leveraged versus those who are not leveraged. Leveraged investors are investors who owe money while buying structured products.

	All	Leveraged	Unleveraged	Difference	<i>p</i> -value
Suitability not checked	0.543	0.614	0.502	0.112	0.056
Age	55.458	55.752	55.295	0.456	0.672
Male	0.367	0.435	0.330	0.105	0.061
Married	0.886	0.913	0.871	0.042	0.253
Income	17.398	18.690	16.687	2.002	0.376
Can calculate compound interest rate	0.346	0.379	0.328	0.052	0.350
Enrolled in high school	0.566	0.590	0.553	0.037	0.516
Stock proportion	5.457	4.855	5.791	-0.936	0.508
Bond proportion	5.599	5.397	5.710	-0.313	0.833
Deposit proportion	28.618	29.685	28.027	1.658	0.624

Table A4
Suitability Checks and Investments in Structured Products:
Subsample Results by Survey Rounds

This table shows OLS regression results for the suitability check effect on investment allocation using subsamples collected in different periods. We conducted survey from January 14 to June 16, 2009, with the majority of the data collected in March and May of 2009. The dependent variable is the investment proportion in structured products. *Suitability not checked* is a dummy variable and equals one if salespeople did not check product suitability before the purchase, and zero otherwise. The *p*-values are in parentheses.

Independent Variables:	Dependent Variable: Investment Proportion in Structured Products (%)	
	Survey in March 2009	Survey in May 2009
Suitability not checked	12.444 (0.013)	11.759 (0.068)
Age	0.097 (0.702)	-0.687 (0.069)
Male	-12.467 (0.019)	9.255 (0.170)
Married	-1.199 (0.873)	9.951 (0.361)
Income	-0.355 (0.009)	0.029 (0.906)
Annual coupon rate	-4.725 (0.099)	0.967 (0.738)
Bank size	4.708 (0.312)	-7.026 (0.183)
Interest rate (HIBOR)	-3.998 (0.043)	2.813 (0.269)
Constant	69.659 (0.038)	110.146 (0.004)
Observations	111	83
Adjusted R^2	0.130	0.046

Table A5
Suitability Checks and Investments in Structured Products:
Non-fixed Sample Size

This table reports OLS regression results compared to Table 2, only with the sample not required to be balanced. In each of the regressions, we select observations that have non-missing data on the variables used in that regression, instead of on all variables that would be used in the 8 regressions. Variable definition is in Table 1. The p -values are in parentheses.

Independent Variables:	Dependent Variable: Investment Proportion in Structured Products (%)							
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Suitability not checked	9.974 (0.002)	10.117 (0.001)	10.024 (0.002)	10.027 (0.002)	10.588 (0.001)	8.050 (0.024)	8.155 (0.023)	8.662 (0.017)
Age		-0.146 (0.382)	-0.106 (0.534)	-0.105 (0.539)	-0.130 (0.438)	-0.095 (0.629)	-0.091 (0.645)	-0.097 (0.622)
Male			-4.170 (0.207)	-3.900 (0.244)	-3.526 (0.283)	-4.720 (0.215)	-4.652 (0.223)	-4.817 (0.207)
Married				-2.787 (0.586)	-0.676 (0.893)	0.040 (0.995)	0.177 (0.977)	0.376 (0.950)
Income					-0.293 (0.001)	-0.255 (0.019)	-0.249 (0.024)	-0.262 (0.018)
Annual coupon rate						-2.318 (0.197)	-2.360 (0.190)	-1.789 (0.335)
Bank size							-1.335 (0.678)	-1.242 (0.700)
Interest rate (HIBOR)								-1.708 (0.222)
Constant	54.460 (0.000)	62.517 (0.000)	61.847 (0.000)	64.166 (0.000)	68.167 (0.000)	79.100 (0.000)	86.175 (0.000)	87.461 (0.000)
Observations	298	298	298	298	298	221	221	221
Adjusted R^2	0.030	0.029	0.031	0.029	0.064	0.034	0.030	0.033

Table A6
Suitability Checks and Investments in Structured Products:
Subsample Results by Multi-time Purchases

This table reports OLS regression results using subsamples based on whether investors have purchased the structured products for multiple times or only once. For investors who purchased structured products for multiple times, we use their first-time purchased products for analysis. This is because investors are required to go through the suitability check only during their first purchases. Moreover, most of the multi-time purchases are due to investors rolling over their first-time investments. Therefore, the effect of suitability check is more prominent for the (immediate) first-time purchases than for the (later) rollover purchases. The p -values are in parentheses.

Independent Variables:	Dependent Variable: Investment Proportion in Structured Products (%)					
	Purchased Only Once			Purchased Multiple Times		
	(1)	(2)	(3)	(4)	(5)	(6)
Suitability not checked	9.270 (0.039)	9.660 (0.032)	10.738 (0.019)	7.076 (0.218)	7.271 (0.205)	9.114 (0.145)
Age		-0.258 (0.287)	-0.219 (0.369)		0.076 (0.829)	0.049 (0.894)
Male		-4.096 (0.396)	-4.510 (0.353)		-6.275 (0.290)	-5.969 (0.344)
Married		0.652 (0.930)	1.297 (0.863)		-1.407 (0.881)	-3.688 (0.712)
Income		-0.354 (0.064)	-0.340 (0.078)		-0.257 (0.039)	-0.256 (0.056)
Annual coupon rate			-2.193 (0.356)			0.664 (0.854)
Bank size			0.864 (0.827)			-3.891 (0.511)
Interest rate (HIBOR)			-1.988 (0.252)			-2.246 (0.417)
Constant	52.754 (0.000)	72.338 (0.000)	81.376 (0.004)	62.763 (0.000)	66.660 (0.003)	93.159 (0.032)
Observations	153	153	153	69	69	69
Adjusted R^2	0.022	0.031	0.026	0.008	0.028	-0.001

Table A7
Suitability Checks and Investments in Structured Products:
Subsample Results by Misinterpretation of Products by Salespeople

This table reports OLS regression results using subsamples based on alleged misrepresentation of structured products by salespeople. The group for *Blaming Misrepresentation* includes investors alleging that the salespeople did not provide critical product information or provided incorrect information. For example, credit-linked notes include credit events as default of *any* default of reference entities, but the salespeople may tell the investors that credit event can only be triggered by default of *all* reference entities. The *p*-values are in parentheses.

Independent Variables:	Dependent Variable: Investment Proportion in Structured Products (%)					
	Blaming Misinterpretation		No Misinterpretation		Interaction	
	(1)	(2)	(3)	(4)	(5)	(6)
Suitability not checked	7.436 (0.093)	8.152 (0.060)	13.889 (0.054)	15.118 (0.040)	13.889 (0.049)	16.050 (0.022)
Age		-0.141 (0.558)		-0.042 (0.912)		-0.134 (0.509)
Male		-2.267 (0.619)		-13.751 (0.097)		-4.838 (0.218)
Married		-5.666 (0.432)		26.788 (0.042)		2.636 (0.674)
Income		-0.417 (0.002)		-0.426 (0.102)		-0.362 (0.003)
Annual coupon rate		-0.994 (0.662)		-1.663 (0.659)		-1.369 (0.480)
Bank size		-1.171 (0.761)		-7.771 (0.272)		-3.083 (0.356)
Interest rate (HIBOR)		-3.634 (0.038)		1.711 (0.526)		-1.809 (0.216)
Blaming misinterpretation					9.861 (0.117)	10.966 (0.079)
Suitability not checked ×Blaming misinterpretation					-6.453 (0.437)	-7.836 (0.339)
Constant	57.361 (0.000)	98.612 (0.000)	47.500 (0.000)	81.265 (0.135)	47.500 (0.000)	87.513 (0.000)
Observations	146	146	60	60	206	206
Adjusted R^2	0.013	0.076	0.046	0.072	0.026	0.064