CAPCO JOURNAL

The Capco Institute Journal of Financial Transformation

Value dynamics

Disruptive forces reshaping financial services

Structural challenges

Gender differences in financial advice: Lessons from a secret shopper study

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JOURNAL

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Value dynamics

Welcome to the 61st edition of the Journal of Financial Transformation.

I am delighted to announce our new partnership with King's College London, a world-renowned leader in education and research, marking a new chapter in the Journal's long and distinguished history.

In this edition focusing on Value Dynamics, we explore a critical – and ever more pressing – challenge: how institutions across financial services create, distribute and sustain value.

As Professor Crawford Spence, our editor from King's College highlights in his own introduction, the forces shaping value dynamics across financial services are myriad, encompassing technological transformations, secular shifts, political and social structures.

As a firm that has been at the cutting edge of innovation for over 25 years, these value drivers intersect directly with the work Capco does every day, helping our clients around the globe transform their businesses for sustained growth.

The integration of innovative new technologies including generative and agentic AI models, the digitalization of currencies and payments infrastructures, the reimagining of customer experiences, the relentless evolution of market ecosystems, the vital role of culture as a value driver: these imperatives are where we see – first-hand – clear opportunities for our clients' future growth, competitive differentiation and success.

We are excited to share the perspectives and insights of many distinguished contributors drawn from across academia and the financial services industry, in addition to showcasing the practical experiences from Capco's industry, consulting, and technology SMEs.

It is an immense source of pride that Capco continues to champion a creative and entrepreneurial culture, one that draws on the deep domain and capability expertise of thousands of talented individuals around the world.

We do not take our hard-earned status as a trusted advisor lightly, nor our responsibility to make a genuine difference for our clients and customers every single day – placing excellence and integrity at the forefront of everything we do.

I hope the articles in this edition help guide your own organization's journey as you navigate the many complexities and opportunities ahead.

As ever, my greatest thanks and appreciation to our contributors, readers, clients, and teams.

Annie Rowland, Capco CEO

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Editor's note

This 61st edition of the Journal of Financial Transformation is the first with a new editorial team in place, and is the product of a formalized collaboration between Capco and King's College London. This collaboration – a leading financial services consultancy and a prestigious academic institution – embodies the Journal's ethos: a balance between academic rigor and practical accessibility.

Traditional academic journals often deal with more prosaic conceptual matters. Even when they focus on more practical concerns, the timelines and mechanics of double-blind peer review processes can mean that the insights that they offer risk being out of date by the time they are published. Conversely, traditional op-ed articles in the financial press are all too often heavy on opinion and pre-conceived ideas and can lack the heft that comes with thoroughly researched pieces of work.

The Journal we've published strikes a vital balance between these two approaches.

This edition has an overarching focus of Value Dynamics. Specifically, the various articles look at how value is created, distributed and sustained across financial services. In turn, the submissions are grouped into three broad themes.

Technological transformations are explored in terms of how these can bolster or hinder value dynamics if not managed effectively. A number of secular shifts are also discussed – these being long-term changes that are impacting value dynamics in the sector. Finally, structural challenges are highlighted that emphasize the importance of sticky, tricky social and behavioral issues that surround the execution of financial services.

Overall, these themes highlight challenges and opportunities in the sector and encourage us to think differently.

It has been a pleasure working on this issue with such a fantastic and diverse array of different contributors.

Professor Crawford Spence
King's College London

Gender differences in financial advice:
Lessons from a secret shopper study

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Abstract

In the world of personal finance, gender disparities aren't just about gaps in income or wealth accumulation – they also extend to the quality of financial advice. This study explores whether financial advisors give women systematically worse advice than they give men and, if so, why. Through a secret shopper study conducted in Hong Kong, we uncover gendered patterns in financial advice that could have implications for women's financial empowerment.

1. Introduction

It is generally believed that the professional wealth management and financial advice industry segment their clients by wealth, risk profile and so on, but they do not customize their offerings for "non-traditional" client groups e.g., women. And yet, although not overt, there may be covert differences in the way that financial advisors respond to and advise women clients. This article describes our research that was inspired by the question whether financial advisors – consciously or unconsciously – deliver advice of different quality to women compared to men. And if they do, we wanted to understand why.

We report the results of a one-of-a-kind secret shopper study in Hong Kong's financial advisory sector. By deploying trained male and female secret shoppers with identical financial profiles to solicit advice from financial advisors, our study examines whether there are quality differences in the advice that women receive, compared to men.[1] These insights have implications for regulators, firms, and clients striving for equitable wealth management practices worldwide.

2. The secret shopper study: uncovering gender differences in financial advice

As Asia's premier financial hub, Hong Kong boasts a stock exchange with $4.9 trillion market capitalization, representing one of the world's most vibrant equity markets. Retail investors are the lifeblood of this ecosystem – more than a third of the adult Hong Kong population directly owns stocks and/or derivatives listed on the exchange, with women constituting nearly one-

[1] Bhattacharya, U., A. Kumar, S. Visaria and J. Zhao, 2024. "Do Women Receive Worse Financial Advice?" Journal of Finance 79: 5, 3261-3307

half of these individual investors.[2] This gave us the opportunity to study how this important yet relatively understudied demographic is treated by wealth managers.

A persistent financial literacy gap undermines women's market position. In a representative sample of Hong Kong adults, men scored higher than women on a financial literacy test and reported higher levels of confidence in their financial knowledge.[3] This dual disparity in both competence and self-assurance provides a setting where financial professionals, whether consciously or not, may adapt their recommendations when engaging with female clients.

The financial advisory industry in Hong Kong is tightly regulated. The Securities and Futures Commission licenses financial advisors through a comprehensive vetting (Type 4 license) process. In addition to examining them on specialized knowledge, the process considers candidates' education, qualifications, and experience as well as their personal financial status and solvency, and reputation and character.[4] This multilayered vetting suggests advisors are likely to be technically competent and able to provide high-quality advice to everyone. However, there is no explicit mechanism to ensure that male and female clients receive advice of equally high quality.

A unique feature of Hong Kong's financial advisory industry is that there are two different business models at work. On the one hand, securities firms operate like discount brokerages and earn revenue primarily through trading commissions – a structure that inherently rewards transaction volume over long-term portfolio performance. On the other hand, financial planning firms offer private wealth management services and charge a fee for assets under management, as well as earning commissions by selling a broader range of products.

Both types of firms employ staff who meet with walk-in clients and advise them on investments. Partnering with a local market research firm, we deployed trained secret shoppers (50% were female and the other 50% were male) to visit all retail-facing advisory firms in Hong Kong. These auditors posed as regular walk-in clients while following the study protocol – they reported similar financial profiles, investment objectives, investment amounts, and investment horizons and varied only three randomly assigned behavioral attributes. Within 24 hours after their visit, they answered an exit survey reporting key facts about the conversation they had. Since we sent both a male and a female secret shopper (on independent visits) to each advisory firm, we are able to detect any systematic differences in the extent to which they receive suboptimal advice.

The study's contribution to our understanding of gender differences in advice quailty stems from four design elements:

1. **A clear, objective measure of advice quality:** Since clients vary along a host of dimensions, the advice that is optimal for them varies as well. This makes it difficult for a researcher to evaluate advice quality objectively. We address this by examining the entire list of products that was recommended in each visit and classifying the advice as "suboptimal" if it exposed clients to uncompensated risk. This would happen if, for example, the advisors only suggested that the clients purchase individual risky securities (under-diversification bias) or local Hong Kong securities (home bias). Investing in this way would expose the client to idiosyncratic risk, foregoing the benefits of diversification.

[2] Hong Kong Exchange and Clearing Limited, 2015. "Retail Industry Survey 2014," March, https://tinyurl.com/5hxsymbk
[3] Investor Education Centre, 2018. "Financial Literacy," August, https://tinyurl.com/4nf88btr
[4] Securities and Futures Commission, 2024. "Licensing Handbook, Hong Kong," https://tinyurl.com/3hh3n7ry

This provides a conservative measure of suboptimal advice.[5]

2. **Randomly assigned behavioral attributes:** The study was also designed to try to uncover factors that could be driving any gender difference in advice quality. To that end, we attempted to experimentally manipulate (advisors' perceptions of) three latent attributes of the advisees relevant for financial advice: risk tolerance, confidence, and geographic outlook. Each shopper was assigned an avatar, consisting of either high or low levels of each attribute. The attribute levels were signaled through the script that shoppers used.
   - **Risk tolerance:** A shopper roleplaying a highly risk tolerant client would highlight the fact that they wanted to make high upside gains, but could afford to lose some money if the economic outlook turned poor. In contrast, a shopper signaling low tolerance for risk was instructed to highlight their need for safe returns and a willingness to accept lower returns as a result.
   - **Confidence:** A shopper roleplaying a highly confident client would mention that they don't usually need any guidance to make financial decisions, whereas someone with low confidence would highlight their inexperience and the need for support.
   - **Geographic outlook:** A shopper signaling an international outlook would mention they intended to migrate to Canada for their retirement, whereas one with a domestic outlook would avoid mentioning any relatives that lived abroad and emphasize that they wanted to retire in Hong Kong, the place they were born.

   By randomly matching shoppers to advisory firms, we could cleanly identify the effect of client characteristics (attributes as well as gender) on the quality of advice given.

3. **Business model interaction:** Hong Kong's financial advisory landscape – comprising both commission-driven securities firms and fee-based financial planners – offers a unique institutional setting, in which to examine how advisor incentives shape gender disparities in advice quality. Securities firms, reliant on transaction commissions, may prioritize frequently-traded products over diversified investments. Meanwhile, financial planners, with fee-based models, might demonstrate different patterns of advice. This dual structure allows us to obtain critical insights into whether financial incentives, rather than just cultural or cognitive biases, systematically disadvantage women investors.

4. **Naturalistic observation:** Importantly, neither the market research firm nor the auditors knew what our research question was, so as to avoid "demand effects," where study subjects report their answers to align with the research hypothesis. In addition, we took several precautions to ensure that the secret shoppers did not "blow their cover." Each shopper was assigned to a single avatar throughout the study, minimizing the chance that they might forget their lines or mistakenly signal the wrong avatar. In addition, anticipating that financial advisors would administer a risk profile questionnaire before making recommendations, we trained each auditor to give answers that would match their avatar.

Our experimental methodology advances beyond previous studies in finance by:

[5] It is possible that advice that we do not classify as suboptimal is also suboptimal, but we can be sure that the advice that is classified as suboptimal is so. In this way we stack the deck against finding that advice is suboptimal, which makes our results even more striking.

1. Capturing real-world advisor behavior rather than hypothetical scenarios.
2. Disentangling gender-based patterns from patterns across wealth or financial sophistication categories.
3. Identifying the specific mechanisms through which biases operate.
4. Measuring differences in actual recommendation quality rather than perceived discrimination.

Our results illuminate not just whether gender differences exist, but under what conditions they emerge most strongly.

3. Findings: gender matters – but business model matters more

We found that:

1. **Advice is frequently suboptimal:** Across all visits, 38% of advisors recommended only individual risky securities, and 39% recommended only local securities. These recommendations expose clients to idiosyncratic risk without sufficient compensation.
2. **Advisory firms' business models influence advice quality:**
   - **Securities firms gave suboptimal advice more often, although they were gender-neutral:** These firms, which earn primarily through trading commissions, recommended individual risky securities in 41% of visits and local securities in 40% of visits. However, their advice did not show significant gender differences.
   - **Financial planning firms gave suboptimal advice less often, but their advice quality varied by gender:** These firms, which rely less on trading commissions, recommended individual risky securities in 25% of visits and local securities in 35% of visits. However, they were significantly more likely to give such suboptimal advice to women (37% and 45% respectively) than to men (14% and 24% respectively).
3. **At financial planning firms, highly confident and risk tolerant women received suboptimal advice more often:** Suboptimal advice was more likely when female shoppers signaled high-risk tolerance than when they signaled low-risk tolerance (54% versus 28%), and also when they signaled high confidence versus low confidence (50% versus 27%). Women with a domestic outlook were also steered towards local Hong Kong stocks more often than similar men (47% versus 21%).

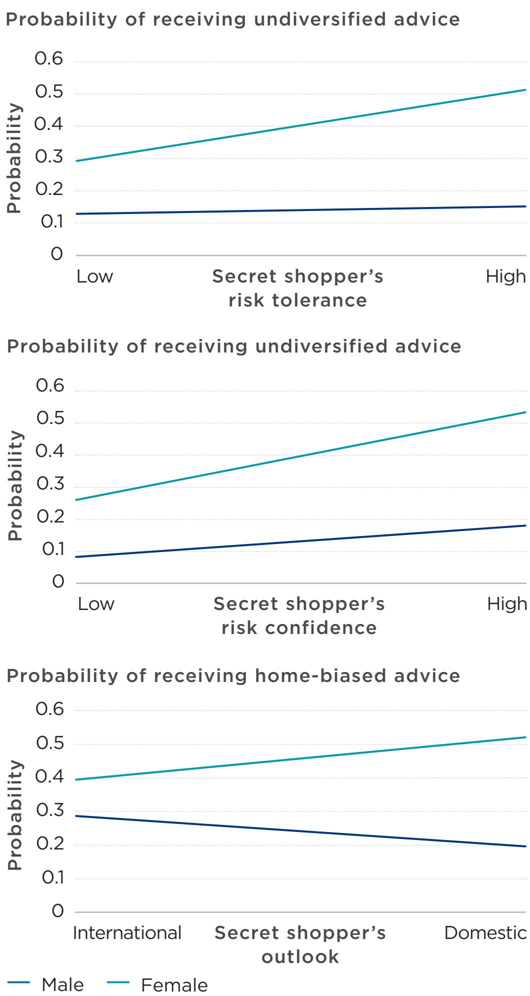
4. Insights into the mechanisms: the intersection of advisors' incentives and clients' financial knowledge

Financial advisors face a trade-off. On the one hand, their compensation often depends on commissions generated from client transactions, incentivizing them to recommend frequent trading or high-fee investment products. On the other hand, clients who perceive that they receive poor quality advice may terminate the relationship, causing the advisor to lose business. To balance these competing interests, advisors may cater to the clients' underlying preferences, such as favoring familiar single securities, to prolong the relationship, even if such strategies are not optimal for wealth growth.

The gender difference stems from the well-documented gender gap in financial literacy. Research consistently shows that women, on average, possess lower financial knowledge than men, making them less likely to detect suboptimal or biased advice. Advisors can exploit this knowledge asymmetry by steering female clients toward investments that serve the advisor's interests rather than the client's optimal financial outcomes.

The advisory firm's business model plays an important role. Securities firms (SFs) and financial planners (FPs) attract distinct client segments: Although FPs offer more in-depth advice, they charge higher fees, and so highly knowledgeable clients who are better able to make their own investment choices are less likely to use their services and work with SFs instead. This implies that both men and women who visit SFs generally have high financial knowledge, and so advisors at SFs perceive little difference between them, giving them little incentive, if any, to vary the quality of advice they give to women versus men. In contrast, FPs tend to serve less financially literate clients. Since there are many more low-literacy women than men, FPs female clients are on average less knowledgeable than their male clients. As a result, advisors at FPs may perceive female clients as easier targets for unsuitable recommendations, such as individual risky or local securities.

Figure 1: Gender differences in advice quality



These dynamics become especially pronounced when female clients display characteristics that contradict traditional gender stereotypes, such as high-risk tolerance or investment confidence. Advisors may interpret these traits as license to recommend speculative strategies and underestimate the client's vulnerability to poor outcomes. The result is a systematic pattern where women, particularly those displaying "atypical" investor profiles, receive advice that exposes them to unnecessary risk while generating disproportionate fees for advisors.

5. Implications

Women are estimated to own 30% of global private wealth, and so are an essential segment for the professional finance industry. The quality of the advice they receive, and their investment decisions based on this advice, can shape their economic outcomes. This research provides insights for regulators crafting targeted interventions, as well as firms optimizing their advisory practices.

Policy implications: Structural reform of advisors' incentives may improve advice quality. Transparent fee structures, standardized advice protocols, and decoupling individual advisors' incentives from trading commissions could all reduce the pressure to sacrifice clients' long-term financial interests for short-term commissions.

Industry practice: Training and development programs for financial advisors could emphasize an educative rather than prescriptive approach, focusing on explaining recommendations and investment risks clearly to clients. Financial advisory firms should enhance their service quality and minimize disparities across different client groups. Feedback systems that allow clients to express their satisfaction and concerns with the advice received can highlight key areas for improvement.

Financial education: Although the onus of responsibility for providing quality advice lies with the advisor, reducing gender disparities in financial knowledge is a worthy goal in itself. To the extent that financially knowledgeable clients are better equipped to accept high-quality advice (especially when it does not match their preconceived biases), our study suggests that improving women's knowledge could also improve the quality of advice they receive.

6. Why this still matters

Although the fieldwork for this study took place in 2017–2018, many of the fundamental features that drive our findings remain in place. Male investors in Hong Kong continued to have more diversified portfolios in 2023 than female investors and to hold more types of financial products (1.85 versus 1.44 types on average).[6] Women investors were also more likely to report that they had made financial losses, perhaps because of their relative under-diversification.

Some evidence suggests that women investors avoid seeking professional financial advice, preferring to rely on family and friends instead. Wealth managers who advise women report that their clients are often seeking help to understand the recommendation or the investment risk, and once they understand these they are willing to follow the advice.[7]

It is sometimes argued that recent advances in financial technology, such as robo-advisors and large language model (LLM)-based advising, could reduce the bias in advice quality across different groups, particularly by gender. However, the output of AI tools is only as good as the data that go into training it. If they are currently trained on few instances of female clients, existing LLM-based advisors may not display a gender bias[8], but that may change over time as new training data become available.

Understanding the boilerplate risk warnings on AI-generated advice requires financial knowledge. AI tools could be designed to better address the knowledge gaps between men and women, but that requires appropriate incentives for those who design and implement the tools.

7. Conclusion

The financial advisory landscape is shaped by a complex interplay of advisor incentives, gender disparities in financial knowledge, and institutional client matching processes. Because advisors often earn commissions based on product sales or trading frequency, they face inherent conflicts between their own financial gain and clients' best interests. This problem is exacerbated for when they face women clients, who on average, possess lower financial literacy and may struggle to identify unsuitable recommendations. Securities firms and financial planners further segment the market, with less knowledgeable clients – disproportionately women – often receiving suboptimal advice. To combat these systemic problems, comprehensive reforms are needed, including stricter fiduciary standards, enhanced financial education programs targeting women, and greater transparency in fee structures to align advisor incentives with client outcomes and promote equitable financial guidance.

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6 Hong Kong Investor and Financial Education Council, 2023. "Retail Investor Study 2023," September, https://tinyurl.com/5ecu7acp

7 Cheung, C., 2022. "Five Female Advisors on How they Advise Women," March 31, https://tinyurl.com/4cn7msek

8 Fieberg, C., L. Hornuf, M. Meiler and D. Streich, 2025. "Using Large Language Models for Financial Advice," working paper, SSRN, https://tinyurl.com/3ubv2bhf

About Capco

Capco, a Wipro company, is a global management and technology consultancy specializing in driving transformation in the financial services and energy industries. Capco operates at the intersection of business and technology by combining innovative thinking with unrivalled industry knowledge to fast-track digital initiatives for banking and payments, capital markets, wealth and asset management, insurance, and the energy sector. Capco's cutting-edge ingenuity is brought to life through its award-winning Be Yourself At Work culture and diverse talent.

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About King's Business School

King's Business School is a triple-accredited business school in the heart of London. It ranks amongst the top 10 business schools for research in the UK, based on the Research Excellence Framework 2021, and is consistently ranked in the top ten in the UK for business by the Times and Sunday Times Good University Guide, the Complete University Guide and the Times Higher Global University rankings.

The School advances world-leading education and research across four knowledge frontiers: (1) developing a modern workplace, (2) creating sustainable and socially responsible business, (3) Improving health and public services organisation and (4) strengthening economic and financial systems.

It is the ninth faculty of King's College London, leveraging interdisciplinary potential across the College. It drives pioneering thinking and engages the limitless energies of the city's businesses, policymakers, entrepreneurs and change-makers. King's Business School puts its commitment to drive positive change at the heart of its life-changing research and "London as a classroom" experiential education.

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