Increasing the Base of Retail Investors in India

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The Bombay Stock Exchange (BSE) established in 1875,is the oldest stock exchange of Asia. While owning shares and trading in them, is not new to India, it is not familiar territory for most Indians. For a very long period, investing in shares, was considered gambling, and even the elite and well informed educated Indians shunned the equity market. The prevailing Governments and their socialist leanings, gave little importance to capital markets as an efficient and sustainable platform for raising capital for the growth of country. We even witnessed a period of 'dividend control', which actively muffled all enthusiasm for the capital market. Trading activities were largely controlled by a few brokers and speculators for a very long period of time. But success stories circulated about savvy investors, who made a fortune by investing early.

Dhirubhai Ambani played a major role in spreading the equity cult. He used the capital market effectively for the growth of Reliance. His was the first company, which attracted lakhs of first time investors, and who were rewarded handsomely for their trust. Slowly, the 'casino' image was shed, and in its place emerged the 'smart investor'. Nothing symbolised this change more than the BSE tower and its buzzing heydays in the 80s.

The definitive change in Indian Capital Markets came with the economic liberalisation of 1991. The Capital Market Regulator – Securities and Exchange Board of India (SEBI) was established in 1992, which was a significant step for the orderly development of capital markets. The control era was replaced with the regulation era. SEBI took a number of steps to ensure, that risks associated with investing in capital markets were addressed and minimised. Free pricing, which was common in developed markets, replaced the formula based pricing for IPOs in domestic market. The primary markets followed the booming secondary market, till it was brought down to earth by weak entrants & the Harsham Mehta scam.

As a panacea for all the ills plaguing trading, transfers and genuineness of shareholding, which prevailed in the physical certificate era, the Depositories were set up in the second half of 1990s. Dematerialisation of shares resulted in elimination of risks associated with delay in settlement cycles, frauds, wrong titles etc. Computerisation of banking also helped in reducing the overall time lines and risks. Retail investors who were at the receiving end due to systemic risks and delays, felt more secure and as a result their participation started increasing. As per latest available data, close to 2.5 Cr DP accounts are managed by the two depositories of India. Bulk of these are of retail investors.

Trading in securities was computerised which replaced the outcry system and brought in transparency. Trading volumes surged manifold which could not have been achieved in the old system. Settlements were computerised and we ultimately reached a T+2 cycle which is far more efficient than many developed markets. This led to further increase in participation of retail investors.

Mutual Funds have played important role in bringing retail investors to capital markets particularly post 1991. Mutual Funds have been managing investments of close to 5.5 Crore investors. It is estimated that we would have around 7 crore unique investors in India across Mutual Funds and Depository Participants and a large majority of these would be of retail investors.

Despite all these successes in expanding the retail base, when we consider the fact that 65% of our population of 130 Crore is below the age of 35, we find that we have huge scope for expanding the retail participation. Let us analyse the reasons why retail participation is not achieving its growth potential. The following could be some of the reasons which have restricted the r growth:

1. Lack of Knowledge : Bulk of the Indian population with investible surplus, is unware of various avenues where they can invest. Bank Fixed Deposits are extremely popular and would be the single largest source of formal investments for a very large investing population. Gold (precious metals) and Real Estate are the other two popular investment avenues. Many also resort to informal lending within their known circle and earn interest. Although Gold and Real Estate are considered safe havens, they are not totally risk free. While gold is liquid, and its value can be realized quickly in an emergency, real estate is generally considered an illiquid asset. Fixed Deposits do not provide inflation proof returns over longer duration. Gold provides very low returns over longer period of time. Returns on Real Estates are fluctuating and if one compares all these avenues of investments, Equity shares, compares very favourably especially over a longer period of time. This knowledge needs to be disseminated to a large part of our country's 'savings' population.
2. Lack of Service Availability : While it may be easy for investors in cities and large towns to find financial service centers of broker or mutual fund distributors,

in smaller towns and villages, it is easier to find a local bank branch for investing in Fixed Deposits, a jewelry shop or a local real estate agent. Banks are playing a vital role in distributing financial products. However they do not have necessary skills available in sufficient numbers to reach out to investors of remote areas, and explaining to them the benefits of investing in financial assets. Since the investor base in such areas is very small, mutual fund houses, brokers and banks do not find it economically viable to operate centres at such locations.

3. Lack of Experience : It is human tendency to avoid unknown. For generations, large of number of Indian investors have been investing in Bank Fixed Deposits, Gold and Real Estate and not in other financial assets. Fear of losing money is very high. Old habits die hard. And the horror stories of the past of uncertain equity markets have only added to the worry. The general attitude of the common Indian is – I cannot understand these stock markets, so why go into them?
4. Past Experience : In many cases, past experience of investors also come in their way. Many of them have been misguided by unscrupulous elements and have lost their savings. Many investors have lost money in scams and frauds. Legal process of obtaining justice is way too lengthy, highly costly and rarely effective.
5. Fear of being part of formal system : Investments in financial assets require disclosures and such investments can easily be identified. Many investors are still not comfortable joining the formal system since they can avoid disclosing their income and wealth by investing in Gold and Benami properties. Things are changing fast with Government taking necessary steps to attack informal sectors and catching tax evaders. This would certainly bring more investors to financial assets.

The positives now emerging for more retail participation in Capital markets.

1. Government is actively encouraging participation of retail investors in financial assets. Recent success of CPSE ETF and the interest it generated among retail investors is a good evidence of the same. Government is planning to launch more CPSE ETFs to meet divestment target and deepen retail investor base.
2. SEBI is tirelessly working in expanding the participation of retail investors into financial markets. SEBI changed the norms for allotment of shares in IPOs for retail category. Instead of allotting shares on proportionate basis, as is done in other categories like QIB and Non Retail, minimum shares are now required to be allotted to all investors in retail category irrespective of sum invested by them. This has resulted in huge participatory interest from retail investors. Record breaking participation of retail investors in some of the recent IPOs like Dmart, HUDCO, BSE, CDSL, AU Small Finance etc is indicative of the future trends.
3. Introduction of systemic Investment Plans (SIPs) by Mutual Funds have opened the flood gates for the retail investors. Inflow into SIPs is increasing day by day. Amount collected by Mutual Funds, particularly through SIPs is growing so rapidly and consistently that our markets have absorbed large offloading by FIIs during last financial year without major corrections.

What can be done to increase retail participation further?

Over and above Government of India and SEBI, Financial sector participants have to work collectively to encourage retail investors. Investing should be hassle free as far as possible. The following measures would help in bringing more retail participation

1. Education :
   - Educate retail investors about the benefits of investing in financial assets.
   - Highlight the fact that even small amounts can be invested.
   - Mutual Funds should continuously popularise SIPs.
   - Educate about investment risks and discipline in investing.
   - Educate the investor about the need for staying invested over a longer period.
   - Investors should be encouraged to start investing from an early young age.
   - Inform investors about the perils of impulsive 'follow the herd' investing.
   - Explain the power of compounding.
   - Teach about investments & financial planning in High Schools and colleges. This should not be restricted to only students of the commerce streams.
   - National Institute of Securities Market (NISM) can collaborate with universities across the country to provide necessary support for imparting training on financial markets.
   - Geographical spread of NISM would ensure that we have higher participation and more youngsters can be trained. This would also create more employment opportunities and would make trained manpower available for financial markets.

2. Accessibility : Retail investors, particularly in remote areas, should have easy accessibility of intermediary infrastructure for investing. Opening of broking and demat account should be hassle free. Central KYC would help in ensuring that investors, particularly retail investors, are not subject to lengthy and repetitive KYC processes. Central KYC would also help in reducing frauds. Spread of AADHAR and its use would help in easing the KYC process further.
3. Ease of operation : Retail Investors, particularly less educated ones, should be provided necessary ease of operating their banking, broking and demat accounts by training them. Spread of internet and service availability through mobile devise will help in reaching out to young generation and would attract them

towards investing in financial assets. Investing in IPOs and NFOs should be made more investor friendly including facilitating such transactions through bank ATMs, mobile phones and easy to use websites.

4. Investment Limits : Limits of investments in Alternative Investment Funds may be suitably modified to facilitate larger retail participation. Retail Investors may be provided a medium to pull their resources to invest in such funds. Since these funds are prone to higher risks, resource pulling can help in distributing the risk among larger number of investors. Similarly investment limits in REITS and INVITS may also be revised downwards. Although minimum investible amount for IPOs is now around rupees fifteen thousand, the same may also reduced to close to rupees ten thousand. Entire IPO process is now computerised. Applications Supported by Blocked Amount (ASBA) has not only reduced processing time, it has also brought down processing cost considerably apart from reducing the possibilities of frauds. Since ASBA is mandatory now, reducing minimum investible amount to rupees ten thousand will not result in higher processing costs. It would facilitate larger participation at retail levels. Once Investors are attracted towards investing in IPOs, they would gradually get used to investing further.
5. Reduction of Timelines : SEBI has done a remarkable job by reducing IPO allotment time line from seventy two days to six working days. SEBI has also reduced time for settlement of secondary market transactions to T+2 days from T+30 days. Our settlement systems and timelines are amongst the best in the world although we have a very large quantum of direct retail participation as compared to any other developed capital market across the globe. SEBI is working to reduce the IPO time lines even further to T+3 / T+4 days which would certainly help in encouraging more retail investors to invest in IPOs. But for this to be a reality, the banking system would need to be upgraded.
6. Resolution of Grievances : Regulator SEBI streamlined grievance resolution mechanism for all the intermediaries. Listed Companies, Investment Bankers, Stock Exchanges, Brokers, Depositories, Depository Participants, Registrars, Advertising Agencies and Advisors are all covered under regulations to ensure that Investor's Grievances are addressed in a time bound and regulated manner. In spite of these measures, investors, particularly retail investors still feel more can done. Over and above these efforts of SEBI, our legal system should be strengthened to make sure that culprits are punished in a time bound manner. Justice delayed is justice denied. Consumer forums are not sufficiently equipped and knowledgeable to deal with investor grievances. Special courts can be constituted to attend to legal cases for retail investors and they should be mandated to resolve cases in a time bound manner. This will enhance the confidence of retail investors in the system and would reduce the fear factor.
7. Incentivise : Government can explore incentivising retail investors to invest in capital markets by offering tax breaks. Long Term Capital Gains arising out of transactions carried out through stock exchanges, where Securities Transaction Tax has been paid, are exempt from paying income tax. Government may consider extending this for short term capital gains up to certain limits.

It is necessary to channelise savings of retail investors into capital markets which will make sure that they gradually move away from investing in Gold which essentially is an unproductive asset, and which in turn will help us reduce Gold imports, thus saving precious foreign exchange of country. It would also bring more people to the formal economy. Investors would reap higher returns and more local capital would be available for the development of our country. This however cannot be achieved overnight. It is a long drawn process. The opening of bank accounts for almost every one in this country, is a step in this process. All capital market related professionals have an important role to play in transforming the investment mindset of Indians. A healthy capital market which has the participation of a majority of our population, would mean greater wealth, prosperity and happiness for one and all. Let us build an India which will be the No. 1 economy in the world.

Happy Investing.