Increasing the Base of Retail Investors

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Indian Equity Market is scaling new heights. The benchmark indices i.e . Nifty and Sensex have made new 52 week highs of 11,171 and 36,747 respectively in January 2018. At the time of writing this article (Mid July 2018) we are around 1.5 to 2 % lower than the peak. When we look at the performance of the indices in the last six months against a sustained selling by FIIs (almost 38,900 crores between January 2018 and July 17, 2018) it clearly demonstrates to the world that the Indian Retail Investors have arrived and they have braved the onslaught of FII selling through disciplined investment primarily through SIP in Mutual Funds.

Having said that we acknowledge that the size of retail investors is too small in relation to our population. As of June 30, 2018, the aggregate number of demat accounts was about 3.26 crores which includes multiple accounts of same individual and accounts with very negligible holdings. So in the best case we have only about 2% of population having a demat account. The total number of MF folios as on June 30, 2018 was 7.46 crores while the number of folios under Equity, ELSS and Balanced schemes wherein the maximum investment is from retail segment was 6.22 crores which again includes multiple folios, which means that not more than 5% of the population has a MF folio. The low penetration is further compounded with the fact that almost 60% of the retail investors are concentrated in five States of Maharashtra, Gujarat, Tamil Nadu, West Bengal and Uttar Pradesh. Other States and Union Territories have a smaller share of retail investors.

The potential in India is huge. We are the world's sixth largest economy with a GDP of $2.597 trillion at the end of last year and we are growing faster than most big economies and we shall become world's fifth largest economy in the current year and the third largest economy by 2032. The demonetisation and GST has given tremendous boost to formal economy. The Make in India is the platform for future growth in manufacturing. Despite the increasing size of GDP we have only 4% of household having air conditioners, about 11% have a car and about 36% household have a two wheeler. Similar is the case for other industries. Our per capita consumption of FMCG category goods is far behind the developed countries. Other than bank accounts (thanks to Prime Minister Jan Dhan yojna) the participation in other financial instruments is very low. So the opportunity is huge. Such opportunities in a growing aspiration class economy will unleash the potential of large number of entrepreneur who needs to be supported by way of providing capital for risk taking and growing the economy. The retail has to shoulder the responsibility and participate in this growth opportunity for the success of the economy and their own financial success.

We believe that right steps in terms of education, financial literacy, tax incentives, utilizing the digital platform are some of the steps which will help in increasing the participation of the retail investors.

With a demography of 50% population below 25 years of age, providing right education to this age group through digital platform like smartphone will go a long way in increasing the financial literacy. In addition to this a small course in Savings & Investments should be made compulsory in school education from secondary stage.

Around two decade back the incentive on interest paid on housing loan was introduced. We can call it incentive on EMI. This has resulted in a massive boost to housing and today almost 95% household in rural areas and 69% household in urban areas live in their owned house. We need a similar incentive on SIP of small amount (say up to 5000 per SIP) in addition to section 80 C benefits available for ELSS to attract people and generate a massive pool of investments and create gains for the retail investors.

Whether we like or not, we as a society need a push. One such push was Jan Dhan Yojna. We need similar push to increase the participation of retail investors in financial markets. Some of the ideas which come to my mind are as follows:-

a) Single investment account which can take care of all investments such as Shares, Bonds, FDs, MF etc.
b) every EMI to have a 10% component of SIP in NPS;
c) every marriage to be compulsorily registered and a term insurance for couple to be made mandatory at the time of registration;
d) passing of a basic saving and investment course may be made mandatory for any job or business licence;
e) a commercial general insurance policy to be made mandatory at the time of issuance of Shops & Establishment certificate.

There can be many more such ideas. Such steps will serve the twin purpose of creating awareness and enlarging the retail base.

Finally retail become fearful on seeing frauds and manipulations. So strict regulatory monitoring and exemplary punishment is a must to keep up their confidence in the financial markets.

In the end I would like to say that the idea of Retail Investor in India has come and with little support and push on few fronts as mentioned above will increase the retail base significantly. I am confident that very soon instead of FIIs Indian Retail investors will be known as the movers and shakers of Indian Financial Markets.