

# Investor Awareness : Empowering Investors in the Indian Securities Market



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The Securities and Exchange Board of India (SEBI) was established as a statutory body in 1992 to regulate and promote the development of securities market and to protect the interests of retail investors. SEBI regulates functioning of Indian capital markets and has issued guidelines concerning capital issues, disclosures by companies and investor protection.

Consider this: back in the day, when the SEBI Act was passed, in 1992, there was no NSE! The mutual fund industry in India had not been opened up to private players and there was only UTI. Likewise in the insurance industry where we only knew of LIC. The number of products available in the financial services space – across stock exchanges or mutual funds or insurance or even banks was only that much. Cut to the present decade and you'll see that India has not only become the most populous country, but also one of the fastest growing economies in the world, ranked fifth in the world in terms of nominal GDP in calendar year 2022. In PPP terms, India is the third largest economy in the world, after China and the US. India also has a young population (median age projected to be under 30 even by 2030), and most importantly a rising working-age population which could potentially aid higher growth rates. Over the past 3-4 decades, India has made rapid strides, and in the post-pandemic world, a new future seems to have emerged for India.

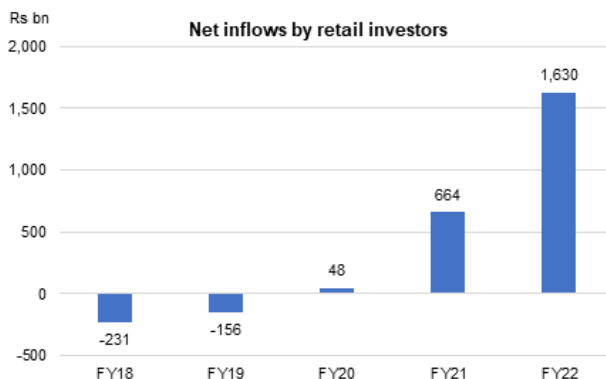
What this means is that with a rising average annual household consumer wallet size and also an average of two bank deposit accounts per adult, India's investors particularly are looking beyond – to mutual funds, alternative investment funds, investing overseas, diversifying across asset classes, insurance, and of course direct trading and investments, including not just stocks but also derivatives. To put this in perspective - assets under management of the insurance industry has gone up over the years and is today about 30% of bank deposits. Likewise, in the mutual fund industry, this is about 20% of bank deposits. Most importantly, the number of people investing directly in capital markets has also gone up to about 80 million. The number of demat accounts increased from 27.85 million in March 2017 to 114.5 million in March 2023, at a staggering CAGR of over 27%.

SEBI is mandated to build the capacity of investors through education and awareness. SEBI, along with Market Infrastructure Institutions (MIIs), endeavors to ensure that the investor obtains and uses information for informed decision-making, protect investor interests, and maintain the integrity and transparency of the market. The National Stock Exchange (NSE), as a leading MII, plays significant role in promoting investor awareness in the Indian securities market – and rightly so, given it has been the fund mobilisation gateway for India's corporate sector, playing a vital role in the globalisation and success of India and Indians. The market capitalisation of shares on NSE grew by a CAGR of 14% during the period March 2017 to March 2023.

The Indian market today has a diverse investor base, including institutional investors, retail investors, and foreign institutional investors (FIIs). This diversity in the investor profile is unique to demography of Indian markets.

While institutional investors, such as FPIs, mutual funds, insurance companies, and pension funds, are present in the Indian market, their participation is relatively lower compared to developed global markets.

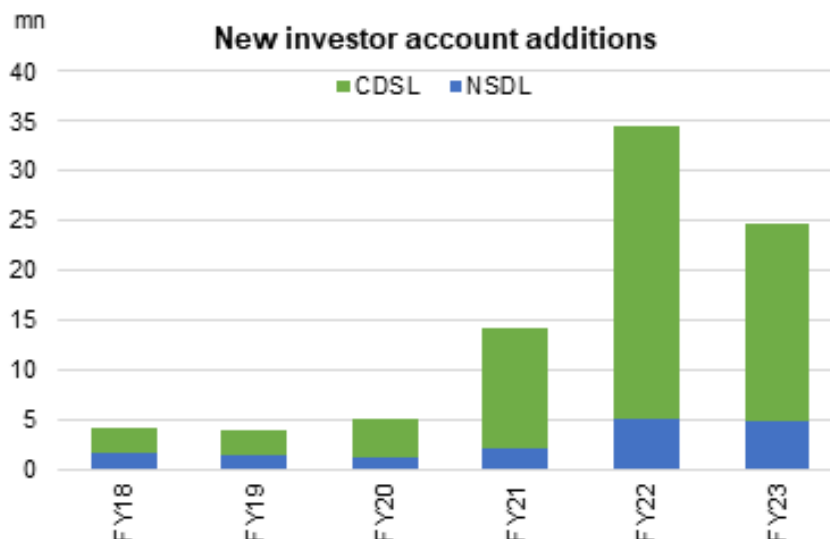
Retail investors, comprising individual investors and HNIs (High Net Worth Individuals), play a crucial role in shaping the Indian capital market. These investors are from diverse backgrounds including professionals, salaried individuals, self-employed individuals, and even homemakers.



Source: NSE.

- Note: 1. Retail investors: individual domestic investors, NRIs, sole proprietorship firms and HUFs.
- 2. Net flows include investments in securities in EQ, BE, SM, and ST series including ETFs only.
- 3. Net flows are calculated as buy traded value – sell traded value.
- 4. Data for 2023 is as of May 31<sup>st</sup>, 2023.

India's large and expanding middle-class population has contributed to the growth of retail investors in the capital market. The increasing disposable income, rising aspirations, cheap internet and smartphones expanded accessibility to financial markets and have led to a surge in retail investor participation.



Source: SEBI Bulletin, NSE.

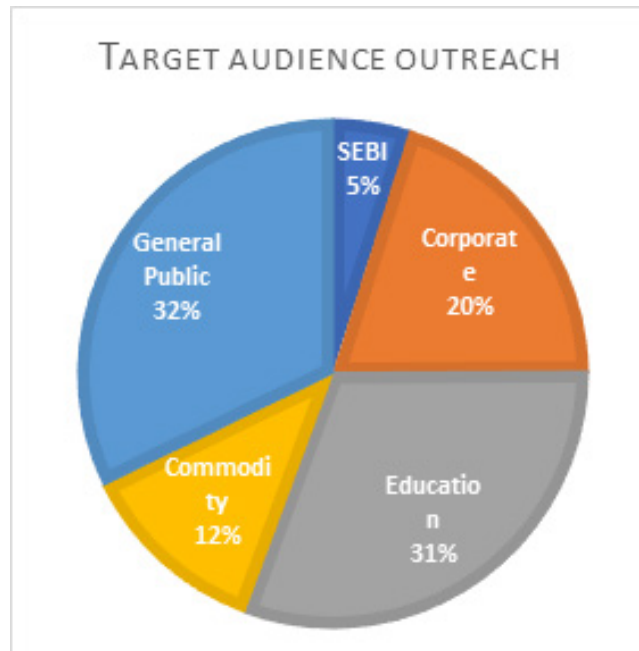
With the rise in retail participation in capital markets, there is an increasing need for investor awareness and education.

In the current context, building investor awareness has the following key objectives:

- **Protection of Investor Interests:** Educated investors are better equipped to identify potential risks and make informed investment decisions, reducing the chances of falling victim to fraudulent schemes.
- **Enhancing Market Efficiency:** Investor awareness promotes transparency and reduces information asymmetry, contributing to the efficient functioning of the securities market.
- **Strengthening Investor Confidence:** A well-informed investor base fosters trust and confidence in the securities market, attracting more investors and promoting its growth.
- **Ultimately the Investor awareness initiatives aim to empower individuals from diverse backgrounds to participate in the market, fostering financial inclusion and economic growth.**

The NSE, for example, has undertaken various initiatives to promote investor awareness, including

- **Investor Awareness Campaigns:** through a combination of electronic, print media, as well as programmatic ads in social media disseminating information on various investment products, risks, and market dynamics. Approximately 70% of the IAP programs are conducted by NSE through the online mode. During FY 2023, the NSE has conducted almost 5,000 Investors awareness programs vide webinars and on-ground seminars covering over 265,000 participants, which is quite a mammoth task. NSE's outreach program (IAPs) are geographically spread across 33 states and Union Territories covering 576 districts. These programs were conducted in 18 languages.
- **Investor Workshops and Seminars:** NSE organizes workshops and seminars across different locations, inviting industry experts to address investors and provide insights into financial planning, do's and don'ts of investing, market abuse practices, investment strategies, risk management, and market trends.
- **Online Resources:** NSE provides online resources such as webinars, articles, tutorials, and FAQs to educate investors about market-related concepts and best practices. 5153 spots on television were broad cast on CNBC, ET and Zee on important topics like Beware of Assured Returns and unsolicited Stock tips and do not share password. Feature Investor awareness videos on financial websites. Programmatic ads campaigns were run successfully to caution investors on important investor awareness topics with a total reach of 79 million+ impressions.
- **Focused Investor Awareness campaigns** through multiple media in various Regional Languages to cater and connect to the diverse set of audience. Video messages by senior employees of the Exchange to alert investors of the malpractices in the securities market.
- **Collaboration with Educational Institutions:** NSE has established partnerships with educational institutions to integrate financial literacy programs into the curriculum, ensuring early exposure to investment concepts.
- **Targeted Investor Outreach:** NSE conducts outreach programs in tier II and Tier III cities to reach out to newer/vulnerable sections of investors. The programs are conducted for students, MSMEs FPO's, Corporates etc. Content via audio, video, infographics, texts etc for different class of investors are created by NSE to have an impactful and relevant reach to the different types of investors.



Source: NSE IAP programs during FY 22-23

- **Investor Grievance Redressal** : NSE has provided easy, accessible, and multiple investor grievance redressal mechanisms online and through its investor service centers in multiple cities, to facilitate prompt resolution of investor complaints and disputes.

The key question today is how much more do we need to do to achieve a quantum leap in terms of outreach and making sure that investors, particularly the younger ones, are well informed. A recent SEBI study pointed out that nine out of ten people who forayed into stock futures & options (F&Os) end up on the losing side. What's striking in the survey results is that a majority of the retail investors believed that F&Os were a safer investment product than bank FDs. 98% of those surveyed traded options, while 11% traded in Futures.

So while NSE is committed to create Investor awareness, there are several challenges that could potentially hinder the effectiveness of some of the initiatives:

- **Lack of Financial Literacy**: A significant challenge is the lack of basic financial literacy among a large section of the population. Many individuals have limited knowledge about investment products, risk management strategies, and the functioning of financial markets. This lack of literacy makes it difficult for investors to understand complex financial concepts and make informed investment decisions. What's more, there is a tendency to get carried away by tips from financial influencers in the social media age!
- **Information Overload**: Investors are bombarded with vast amounts of information from various sources, including media, online platforms, and financial institutions. Sorting through this information overload and identifying reliable and relevant information can be challenging for investors, leading to confusion and potential misinformation.
- **Language and Cultural Barriers**: India is a diverse country with multiple languages and cultural nuances. Communicating investor awareness messages effectively across different regions and communities can be challenging. Language barriers and cultural differences may hinder the dissemination of information and the adoption of investor education initiatives.
- **Limited Access to Resources**: Certain segments of the population particularly in smaller towns may have limited access to resources such as internet connectivity, educational institutions, infrastructure etc. This lack of access can impede the reach and impact of investor awareness programs.
- **Behavioral biases and emotional decision-making**: Investors are susceptible to behavioral biases, such as herd mentality, overconfidence, and fear of missing out (FOMO), which can influence their investment decisions. Emotional decision-making can lead to impulsive and irrational investment choices, disregarding the importance of due diligence and risk assessment.
- **Dynamic and Evolving Market Conditions**: Financial markets are dynamic and constantly evolving. New investment products, regulatory changes, and market trends emerge regularly, requiring investors to stay updated and adapt their investment strategies accordingly. Keeping up with the changing market landscape can be challenging for investors, particularly for those with limited time or resources.

The future of investor awareness in India holds great potential, and all stakeholders, including regulatory bodies, market infrastructure institutions and investors themselves will play crucial roles in its development. Some of the

potential initiatives could be as follows:

- **Strengthening Regulations:** SEBI will continue to enhance regulations to ensure investor protection, transparency, and market integrity. Stricter enforcement of regulations will deter fraudulent activities and promote investor confidence.
- **Investor Education Mandates:** SEBI may introduce mandatory investor education requirements for market participants, such as brokers, issuers, advisors, and distributors, to ensure they possess the necessary knowledge and skills to guide investors effectively.
- **Technology-driven Solutions:** MII's will leverage technology to provide user-friendly platforms, mobile applications and interactive tools making investor education more accessible, personalized, and interactive.
- **Self-Education and Awareness:** Investors themselves have a crucial role in their own awareness and education. They should proactively seek knowledge about investment products, market trends, and risk management strategies through online resources, seminars, and continuous learning.
- **Responsible Investing:** Investors will increasingly focus on responsible investing, considering environmental, social, and governance (ESG) factors while making investment decisions. This trend will be supported by greater availability of ESG-related information and awareness campaigns.
- **Collaborations between market participants, regulatory bodies, and educational institutions** will lead to the integration of investor education into academic curriculum, ensuring that financial literacy becomes a fundamental part of education from an early age.

The future of investor awareness will witness a collaborative effort from all stakeholders, leveraging technology, regulatory reforms, and investor participation to create a well-informed and empowered investor base. Continuous education, robust regulations, technological innovations, and responsible investing practices will pave the way for a more transparent, inclusive, and prosperous Indian securities market.

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