

# Enhancing IPO Literacy through Investor Education Campaigns



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## 1. Introduction

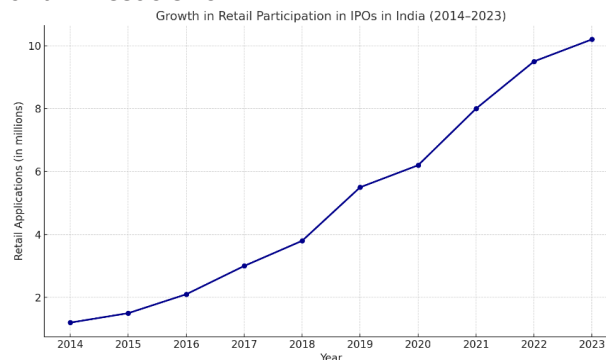
The Initial Public Offering (IPO) market serves as a vital conduit for companies to raise capital from public investors, facilitating growth, innovation, and job creation. For investors, IPOs represent an opportunity to participate in the early stages of a company's public journey, potentially yielding significant returns. However, the allure of quick gains often overshadows the inherent complexities and risks associated with these offerings. IPOs are characterized by high volatility, information asymmetry, and sophisticated financial mechanisms that can be daunting for the average retail investor. A lack of adequate "IPO literacy"—the comprehensive understanding of the IPO process, associated risks, valuation methodologies, and long-term investment principles—can lead to suboptimal investment decisions, financial losses, and a general erosion of trust in capital markets.

Investor education campaigns emerge as a critical tool to bridge this knowledge gap. These initiatives aim to empower investors with the necessary information, skills, and confidence to make informed decisions, mitigate risks, and foster sustainable participation in the capital markets. While regulators, stock exchanges, and market intermediaries have undertaken various educational efforts, the persistent challenges in retail investor engagement and protection highlight the need for a comprehensive analysis of current strategies and the exploration of innovative approaches.

Here we try to do a comprehensive analysis of the role of investor education campaigns in enhancing IPO literacy. It delves into the multifaceted challenges faced

by retail investors in the IPO market, evaluates the current landscape of investor education initiatives, and critically examines their effectiveness. Furthermore, it proposes key components for designing impactful campaigns, explores innovative delivery mechanisms, and offers policy recommendations aimed at fostering a more financially literate and resilient investor base. By enhancing IPO literacy, we can contribute to a healthier, more equitable, and robust capital market ecosystem.

Capital markets thrive on informed participation. The Initial Public Offering (IPO) process, in particular, requires a foundational understanding of company valuations, offer structures, market conditions, and risk assessment. In recent years, the Indian primary market has seen exponential growth in IPO activity, with record-breaking subscription levels, especially from retail investors. While this democratization of capital markets is a positive trend, it is also accompanied by risks stemming from inadequate investor knowledge. Charts below depict the growth in retail investor participation, growth in number of IPOs and growth in Issue size.



Source: SEBI



No of IPOs in last 10 years (Source: Investorgain.com)



Growth in Issue Size of IPOs in last 10 years (Rs. Crores) (Source: Investorgain.com)

Investor education campaigns aim to empower individuals with the tools and understanding required to make rational investment decisions. IPO literacy, a subset of overall financial literacy, is essential to protect retail investors from market volatility, misleading information, and speculative behaviour. This paper delves into the mechanisms and outcomes of investor education initiatives focused on IPOs and suggests best practices for widespread dissemination.

## 2. The Landscape of IPOs:

An Initial Public Offering (IPO) marks the first time a private company offers its shares to the public, transforming it from a private entity to a publicly traded one. This process allows the company to raise significant capital from a broad base of investors, rather than relying solely on private funding sources like venture capitalists or angel investors. The shares are typically listed on a stock exchange, making them available for trading by individual and institutional investors. The IPO process is highly regulated and involves a complex series of steps, including due diligence, regulatory filings, marketing to potential investors (roadshows), and finally, the pricing and allocation of shares.

## 3. Why Do Companies Go Public?

Companies undertake an IPO for several strategic reasons:

- **Capital Raising:** The primary motivation is to raise substantial capital for expansion, research and development, debt repayment, or acquisitions.
- **Liquidity for Existing Shareholders:** Founders, early investors, and employees can monetize their equity holdings, providing them with liquidity.
- **Enhanced Public Image and Brand Recognition:** Being a publicly traded company often boosts a company's profile, credibility, and brand visibility.
- **Access to Future Capital:** Publicly listed companies generally find it easier to raise additional capital through secondary offerings (e.g., FPOs) or debt issuance.
- **Employee Incentives:** Publicly traded shares can be used as a more attractive form of compensation through stock options and employee stock purchase plans.

## 4. Challenges in IPO Participation and Understanding

Despite the potential benefits, retail investors frequently face significant hurdles in navigating the IPO market effectively. These challenges stem from a combination of market dynamics, inherent complexities, and behavioural factors.

### 4.1. Information Asymmetry

One of the most pervasive challenges is information asymmetry. Institutional investors and high-net-worth individuals often have preferential access to detailed company information, management presentations, and analyst reports during the pre-IPO phase. They participate in exclusive roadshows, engage directly with company management, and receive in-depth analyses from investment banks. In contrast, retail investors primarily rely on the publicly available prospectus, which, while comprehensive, can be dense, filled with legal and financial jargon, and difficult for non-experts to interpret. This disparity in information access and analytical capacity puts retail investors at a disadvantage, making it harder for them to accurately assess the true value and risks of an IPO.

### 4.2. Behavioural Biases

Human psychology plays a significant role in investment decisions, and IPOs are particularly susceptible to various behavioural biases:

- **Herding Behaviour:** Investors often follow the crowd, especially when an IPO generates significant buzz or is heavily oversubscribed. The fear of missing out (FOMO) on a potentially lucrative opportunity can lead individuals to invest without conducting proper due diligence, simply because "everyone else is doing it." This can inflate demand and prices beyond reasonable valuations.
- **Overconfidence Bias:** Investors may overestimate their ability to pick winning IPOs or to time the market, leading them to take on excessive risk. A few successful early investments can reinforce this bias, making them

less cautious in subsequent offerings.

- **Anchoring Bias:** Investors might fixate on the initial hype or the grey market premium (GMP) as an anchor for the stock's future performance, ignoring fundamental valuations or market realities.
  - **Availability Heuristic:** Highly publicized successful IPOs (e.g., tech giants) are more readily recalled, leading investors to overestimate the probability of similar success for other IPOs, while less successful or loss-making IPOs are often forgotten or downplayed.
  - **Sunk Cost Fallacy:** After investing in an IPO, investors might be reluctant to sell even if the stock performs poorly, hoping for a recovery, thus holding onto losing positions for too long.
- These biases can lead to irrational decision-making, where emotional responses override logical analysis, resulting in poor investment outcomes.

#### 4.3. Complexity of Financial Jargon and Disclosures

The financial industry uses complex terminology and intricate legal disclosures. IPO prospectuses, regulatory filings, and financial reports are replete with specialized jargon (e.g., “dilution,” “lock-up period,” “book building,” “enterprise value,” “EBITDA,” “DRHP”) that can be incomprehensible to individuals without a strong financial background. Even experienced investors can find it challenging to scrutinise through hundreds of pages of disclosures to extract critical information. This linguistic and structural complexity acts as a significant barrier, discouraging retail investors from thoroughly understanding the underlying business, financial health, and risks associated with an IPO. Consequently, many investors rely on simplified summaries or advice from potentially biased sources, rather than forming their own informed opinions.

#### 4.4. Lack of Access to Reliable, Unbiased Information

While information is abundant, access to reliable, unbiased, and actionable information tailored for retail investors is often limited. Mainstream financial media might focus on sensational headlines or short-term price movements rather than long-term fundamental analysis. Independent research houses often cater to institutional clients, and their reports can be expensive or too technical for the average investor. This scarcity of trustworthy and easily digestible information forces retail investors to navigate a landscape filled with noise, speculation, and potentially misleading advice, making it difficult to conduct proper due diligence.

#### 4.5. Digital Divide and Accessibility Issues

Despite the increasing digitalization of financial services, a significant portion of the population, still faces challenges related to the digital divide. Lack of access to reliable internet, smart devices, or digital literacy skills can exclude potential investors from accessing online educational resources, participating in webinars, or even understanding online application processes. Furthermore, educational materials may not be available in regional languages, limiting their reach and effectiveness in diverse linguistic environments. Even for digitally savvy individuals, the sheer volume of information online can be overwhelming, making it difficult to identify credible sources and relevant content. Accessibility for individuals with disabilities (e.g., visual or hearing impairments) is another crucial aspect that is often overlooked in the design of investor education campaigns, further limiting their reach.

These challenges collectively underscore the urgent need for well-designed, targeted, and accessible investor education campaigns to empower retail investors in the IPO market.

### 5. The Importance of IPO Literacy

IPO literacy refers to an investor's understanding of the IPO process, from reading the Draft Red Herring Prospectus (DRHP) to comprehending valuation metrics and post-listing dynamics. This includes:

- Understanding the purpose of an IPO
- Evaluating company fundamentals and sector outlook
- Grasping price bands and book-building mechanisms
- Assessing risks and determining personal investment suitability

#### Why IPO literacy matters?

- Prevents speculative participation based on market hype
- Reduces susceptibility to misinformation and grey market trends
- Ensures balanced demand-supply during book-building
- Improves post-listing performance through rational investor behaviour

### 6. Current State of IPO Literacy in India

Despite the rise in retail IPO participation, surveys and industry observations suggest that a large proportion of investors do not perform due diligence before applying. Factors contributing to low IPO literacy include:

- Lack of financial education in formal curricula
- Complex DRHP documents filled with legal and financial jargon
- Media narratives focusing on listing gains over fundamentals
- Peer and social media influence

According to SEBI's Investor Survey (2020), less than 30% of retail investors in India claimed to fully understand the IPO application and allotment process. Many base decisions on oversubscription figures or informal advice, without reading official documents.

## 7. Key Components of Effective Investor Education Campaigns

To promote IPO literacy, campaigns must address both awareness and comprehension. The key components include:

### 7.1 Multi-Lingual, Multi-Platform Communication

- Use of vernacular languages
- Distribution via television, radio, social media, YouTube, and regional publications
- Infographics, short videos, and explainers on DRHP, ASBA, UPI process

### 7.2 Simplified Information Disclosure

- Summarized DRHP sections for retail investors
- Use of visual aids like dashboards to present financial data

### 7.3 Workshops and Webinars

- SEBI and stock exchanges partnering with colleges, trade bodies, and investor associations
- Case studies of past IPOs to explain success and failure factors

### 7.4 Gamification and App-Based Learning

- Interactive quizzes and simulations on IPO investing
- Modules within trading and demat apps to prompt learning at the application stage

### 7.5 Integration into Financial Literacy Programs

- IPO concepts in school and college curricula
- Training for financial influencers and local advisory networks

## 8. Role of Stakeholders in IPO Education

Investor education is a shared responsibility. The following stakeholders play pivotal roles:

### 8.1 SEBI (Securities and Exchange Board of India)

- Mandating disclosures
- Funding investor awareness programs
- Creating standardized educational content
- Mandating Audio-Visual videos for Main Board issuer.

### 8.2 Stock Exchanges (NSE, BSE)

- Conducting regional seminars and webinars
- Hosting educational material on IPOs on their websites

### 8.3 Merchant Bankers and Issuers

- Conducting transparent roadshows
- Creating retail-focused pitch materials
- Explaining use of proceeds and risks

### 8.4 Media

- Promoting responsible reporting
- Curbing sensationalism

### 8.5 Educational Institutions and NGOs

- Running investor clubs and certification programs
- Providing free or subsidized workshops in Tier-2 and Tier-3 cities

## 9. Global Best Practices

Insights from developed markets offer useful models:

### a) United States: Emphasis on Disclosure and Independent Research

The United States, with its highly developed and regulated capital markets, places a strong emphasis on comprehensive disclosure and encourages investors to conduct thorough due diligence. The Securities and Exchange Commission (SEC) is the primary regulatory body overseeing IPOs and plays a central role in investor education.

#### Key Regulatory Initiatives and Best Practices

- **SEC's Investor.gov:** The SEC's dedicated investor education website, Investor.gov, serves as a cornerstone for providing unbiased information. It offers extensive resources on IPOs, including investor bulletins, articles, and FAQs that demystify the process. These resources emphasize the importance of understanding the company's business model, financials, and the specific risks outlined in the prospectus.
- **Mandatory Prospectus Disclosure (Form S-1):** Companies going public in the U.S. are required to file a detailed registration statement (typically Form S-1) with the SEC. This document, which becomes the prospectus, contains comprehensive information about the company, its financials, management, risk factors, and use of proceeds. The SEC's educational materials consistently urge investors to read this document carefully, despite its technical nature.
- **Accessibility of Filings (EDGAR Database):** The SEC's EDGAR database makes all public company filings, including IPO prospectuses and amendments, freely accessible to anyone. This ensures transparency and allows investors to verify information from official sources.
- **Investor Alerts and Bulletins:** The SEC frequently issues investor alerts and bulletins to warn the public about potential scams, misleading marketing, or specific risks associated with certain investment trends, including those in the IPO market. These are often concise and highlight red flags.



- **Focus on Scepticism:** U.S. investor education often champions a sceptical approach, advising investors to be wary of excessive hype, overly optimistic projections, or brokers pushing an IPO too aggressively. It encourages investors to seek objective, independent research beyond what is provided by the underwriting banks.

## b) United Kingdom

The United Kingdom's Financial Conduct Authority (FCA) has actively worked on reforming the IPO process to ensure that investors have access to timely and unbiased information, particularly addressing concerns about the dominance of "connected" research from underwriting banks.

### Key Regulatory Initiatives and Best Practices

- **Restoring Prospectus Centrality:** The FCA's reforms aim to make the approved prospectus the primary source of information for investors much earlier in the IPO process. Traditionally, the prospectus was often made available late, with investor education largely driven by research from banks involved in the IPO. The reforms seek to reverse this, ensuring investors have comprehensive, official information sooner.
- **Levelling the Playing Field for Unconnected Analysts:** A significant best practice introduced by the FCA is the requirement to provide "unconnected" analysts (those from firms not part of the underwriting syndicate) with access to the issuer's management and information at the same time as "connected" analysts. This aims to foster independent research and provide investors with a broader range of views on the IPO, reducing reliance on potentially biased sources.
- **Managing Conflicts of Interest:** The FCA has also introduced new guidance to clarify that certain interactions between analysts and issuers (especially when underwriting mandates are being considered) could compromise analyst objectivity. The reforms seek to enhance standards of conduct throughout the IPO process to mitigate such conflicts.
- **Emphasis on High Standards of Conduct:** The FCA's framework promotes high standards of conduct among firms involved in IPOs, particularly concerning the management of conflicts of interest in the preparation and distribution of research.

## Impact on Investor Literacy

These reforms directly impact IPO literacy by ensuring that investors receive the most authoritative document (the prospectus) earlier and have access to more diverse and independent research. This allows for a more informed assessment of the IPO's value and risks, moving away from a market driven primarily by potentially biased "connected" research.

## c) Singapore

Singapore, a key financial hub in Asia, has focused on streamlining its IPO process while simultaneously broadening investor outreach and enhancing financial literacy through collaborative efforts. The Monetary Authority of Singapore (MAS) and the Singapore Exchange (SGX) are central to these initiatives.

### Key Regulatory Initiatives and Best Practices

- **MAS Proposals for Streamlined Prospectus and Outreach (2025):** MAS recently proposed significant changes to simplify prospectus requirements and expand investor outreach channels for IPOs.
  - **Streamlined Disclosure:** For primary listings on SGX, MAS proposes requiring issuers to disclose only core, material information most relevant for investor decision-making. This aims to concentrate issuer efforts on pertinent disclosures, making prospectuses potentially less daunting for investors.
  - **Simplified Secondary Listings:** Disclosure rules for secondary listings are proposed to align with international standards, allowing companies with primary listings elsewhere to use existing prospectuses with minimal adaptation.
  - **Earlier Investor Interest Gauging:** MAS suggests legislative amendments to allow issuers to gauge investor interest earlier in the IPO process. This supports more effective bookbuilding and, crucially, provides investors with additional time to familiarize themselves with the issuer and the offering before making a commitment.
- **Institute for Financial Literacy (IFL):** A collaboration between MoneySense (Singapore's national financial education program) and Singapore Polytechnic International, IFL provides free and unbiased financial education and training programs to the public. While not exclusively focused on IPOs, their "Investing" pillar covers fundamental concepts crucial for understanding public offerings. Their approach emphasizes easy-to-understand and practical information.
- **MoneySense National Financial Education Programme:** This national program, supported by MAS and other agencies, provides comprehensive financial literacy resources, including those related to investing in the stock market. It aims to equip Singaporeans with the knowledge and skills to make sound financial decisions.
- **SGX Academy:** The Singapore Exchange (SGX) offers educational programs through SGX Academy, which provides courses and workshops on various aspects of capital markets, including IPOs, to both retail and institutional investors.

### Focus on Accessibility and Practicality

Singapore's approach combines regulatory streamlining with a strong emphasis on practical, unbiased financial education delivered through dedicated institutions like the IFL. The recent MAS proposals aim to make the IPO information more digestible and provide investors with a longer window for due diligence, directly enhancing IPO literacy.

## 10. Measuring the Impact of Education Campaigns

Campaigns must be evaluated based on both qualitative and quantitative metrics:

- **Reach:** Number of people exposed to the campaign
  - **Engagement:** Workshop attendance, online course completion, quiz participation
  - **Knowledge Gain:** Pre- and post-session assessments
  - **Behavioural Change:** Increase in DRHP access, reduction in uninformed applications, improved risk perception
- SEBI along with associations like AIBI can collaborate with academic institutions and think tanks to develop IPO literacy indices.

## 11. Case Studies from India

### 11.1 BSE Investor Protection Fund (IPF) Campaigns

- Conducted over 1500 IPO education sessions between 2019–2024
- Reached semi-urban and rural investors with mobile vans and kiosks

### 11.2 NSE Paathshaala Program

- Online modules with case studies on IPOs
- Certificate-based learning model for students and investors

### 11.3 SEBI's measures towards enhancing Investor literacy.

- Issuer-led sessions before large IPOs
- Focus on DRHP walkthrough and valuation rationale
- Regulatory framework and disclosure norms that mandates companies to provide comprehensive information in clear, concise and easy to understand language.
- Dedicated Investor website that serves as a central hub for investor education.
- Saathi Mobile app to empower investors with knowledge about securities market.
- SEBI along with stock exchanges and depositories conducts various investor awareness programs that include Securities Market Trainers (SMARTs) Program, Regional Investor Seminars for Awareness (RISA), programs through Investor Associations and Mass Media campaigns.
- SEBI in association with NISM conducts test / certifications aimed at fostering financial literacy and empowering individuals with essential knowledge on Securities Market.
- SEBI's Complaint Redress System (SCORES) an online platform for investors to file complaints related to securities market including IPOs. This move aims at address investor grievances and seek redressal, building trust and confidence in the market.
- SEBI has promoted the ASBA facility for IPO applications that simplifies the application process and ensures that funds are blocked only upon allotment, enhancing investor convenience and safety.

These case studies show that targeted, locally adapted campaigns result in higher engagement and positive feedback.

## 12. Challenges and Recommendations

### 12.1 Challenges

- Low digital penetration in some regions
- Mistrust in formal education from low-income groups
- Overload of technical content
- Fragmented efforts without standardization

### 12.2 Recommendations

- Create a National IPO Literacy Mission under SEBI
- Develop standardized IPO education kits in multiple languages
- Incentivize brokers and fintech companies to deliver education modules
- Incorporate IPO knowledge checks within trading apps

## 13. Future Outlook

As Indian markets mature and more companies look to raise public capital, the demand for educated investors will intensify. IPOs are not just investment opportunities; they are instruments of wealth distribution and democratized capitalism. With FinTech innovation, digital media, and regulatory support, India is well-positioned to become a global model for investor education.

In the next decade, IPO literacy will be viewed not only as a financial skill but as a civic asset—empowering individuals to participate meaningfully in the country's economic story.

## Conclusion

Investor education campaigns, especially those focused on IPO literacy, are foundational to building a resilient and inclusive capital market. A concerted effort involving regulators, exchanges, educators, and market participants is essential to ensure that retail investors are not just participants in IPOs but informed stakeholders. With the right strategies, IPO literacy can transform India's retail investment landscape, boost market stability, and promote long-term financial well-being.