Growing the Retail Investor Base

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India's financial market began its transformation path in the early 1990s. The banking sector witnessed sweeping changes, including the elimination of interest rate controls, flexibility in reserves and liquidity requirements and an overhaul in lending norms. Persistent efforts by the Reserve Bank of India (RBI) to put in place effective supervision and prudential norms since then have upgraded the country closer to global standards. The Indian Capital Market has witnessed various reforms since 1991 after the liberalization of the Indian Economic Policy. The setting up of the Securities and Exchange Board of India (SEBI) in 1992 was a landmark development. The setting up of the National Stock Exchange (NSE) which introduced online trading in 1994 was another major reform that completely revolutionised the trading in the Indian Capital Market. The establishment of National Securities Depository Limited (NSDL) in 1996, ensured quicker, safer and cheaper settlement of trades. Indian stock markets are today among the most advanced markets of the world in terms of automation, settlement systems, dematerialisation, cost of transaction etc.

Today after a decade and a half of these reforms, we find that even though the regulators and policy makers have taken various initiatives for modernizing and strengthening our capital markets, the participation of retail investors in the capital market has not shown the same rate of growth as compared to participation from institutional investors. There may be around two crore investors in capital markets including those in units of mutual funds. As compared to this, there are over eight crore persons holding PANs out of the total population of around 115 crore in India. From this point alone, one can measure the potential for participation of retail investors in the Indian Capital Markets. Indian primary as well as secondary markets are heavily dependent on inflows from foreign institutional investors (FIIs), who contribute around 70 per cent of trading volumes. As per market information, four cities viz., Mumbai, Delhi, Ahmedabad, Kolkata account for over 80 per cent trading in the cash segment. Considering the minuscule contribution of the other top urban centres which are more than 300 in number, there is a huge opportunity to deepen the retail investor base in small cities and towns in India.

Impressive though the developments may be, India's stock markets still have huge potential for improvement. Firstly, the shareholding of corporates needs to be broadened, as in a number of cases, ownership is concentrated in the promoters & their family/relatives and company insiders. This implies that public shareholding is minimal, which needs to be increased for the sake of improved corporate governance. Recent initiative from the policy makers to enhance the minimum public shareholding threshold is a positive step in this direction. Resumption in disinvestment is also key to further developing India's equity markets. The process which has been sluggish so far has just started picking up enabling PSU companies from accessing more efficient sources of funding. It also interferes with their movement toward market-disciplined processes and better corporate governance. However, the retail participation in this was again poor particularly in recent issues. Alongwith pricing and market conditions, the distribution network, low awareness are also equally responsible for this and need urgent attention.

A diverse investor base within a prudently regulated environment significantly reduces the risk of one-way portfolio flows and volatility. To broaden the investor base, financial markets need to be more effective in pooling surplus savings and allocating them to the most productive investments. This can be achieved by utilizing the available infrastructure for further penetration into semi-urban and rural areas, spreading financial literacy amongst the existing and prospective investors with a focus on semi urban and rural areas, ensuring adequate liquidity in the market, controlling the volatility, eliminating the possibilities of price manipulation and putting in place comprehensive system for protection of interest of investors. Financial inclusion is the key word today for the entire financial system of the country. The policy makers have been taking various initiatives in this direction. The focus has been in facilitating the process that a range of appropriate financial products and services are available to underprivileged sections at an affordable cost. Players in the Indian Capital Market can effectively participate along with the banking industry to tap the household savings. As per the data available, less than 3% of net savings is invested in equities and mutual funds. For attaining higher growth, it is imperative that more savings are diverted to the real sector, infrastructure, SMEs, etc. In this direction, a co-ordinated and continuous effort from banking and stock market entities is required for further penetration of equities. While financial markets have certainly become more developed over the years, we should be conscious of the fact that development of financial markets is an ongoing process and there is still a long way to go before the markets are fully developed and integrated. Financial markets have to play an important role to sustain the current growth momentum being experienced by the Indian economy. However, their development needs to continue to be in line with the corresponding real sector developments. In order to further enhance the depth of the market, it is imperative that the retail participation is substantially increased. This can be achieved by taking, inter-alia, the following measures:

Increasing financial literacy and awareness
A lot of initiatives have been taken by the policy makers as well as market participants for increasing the financial literacy amongst the people of India. However, still a huge scope exists for enhancing its reach and effectiveness. In this direction, National Securities Depository Limited (NSDL) has been conducting Investor Depository Meets (IDMs) all over the country with the objective of creating awareness about the depository system among various users since its inception in 1996. These IDMs are aimed at providing first-hand information about new features and facilities to the investors and get their feedback about the depository services. These are conducted in a number of regional languages making it easier for the masses to understand. Such initiatives are also taken by Stock Exchanges, Broking entities and Mutual Funds. There is a need to expand these initiatives with a focus on rural and semi-urban areas. Different types of investor education programms can be designed and implemented based on the need of the category of population viz., Urban, Semi-Urban and Rural. Such focussed investor education programmes would go a long way in presenting a broad based information dissemination. It is imperative that such programmes are more general in nature rather than in the nature of marketing a particular financial product. It has to be an educative exercise rather than product marketing.

Expanding the number of Issuers
More number of Issuers should participate in the Capital Market in order to further deepening and broad basing the market. The recent endeavour of the Regulator to introduce dedicated SME Exchange is a welcome step in this direction. The establishment of SME Exchange would on one hand provide opportunity to the SMEs to easily access the capital market and on the other, it would provide distinct investment opportunity to the investors who have risk appetite for investments in SME sector.

Providing diverse investment options
Various reforms have been undertaken to provide different investment avenues to the investors in capital markets, yet a huge potential exists for widening the debt and derivative markets. The participation of retail investors can be enhanced by providing them more and more investment options in form of diverse product range suiting the requirements of different class of investors having different expected returns and risk appetite. One of the requirements in this regard would be simplicity of products being offered so that even a common man understands what he is subscribing to.

Training and increasing the reach of intermediaries
With the advent of screen based trading system and setting up of depository system in India, the geographical location of the investor is immaterial for participating in the secondary market. Broker dealers, whose businesses once restricted only to traditional exchange transactions and IPOs, have now adopted a dynamic business model that covers thousands of branches, agents, and employees which enables them not only to reach greater numbers of retail investors but also to become "one-stop finance shop". Many newer brokerage houses, including those that began as internet-based businesses, have also established similar operations. They feature depository services, portfolio management, commodities, distribution of insurance, mutual funds, and retail debt instruments etc.

NSDL has been taking several initiatives to enable the Participants to spread their services from different locations. NSDL's Certification Programme in Depository Operations (NCDO) is one amongst such initiatives. Since trained and competent staff is a basic requirement of any service, NSDL provides training and certification to the staff of the Participants to enable them to serve their clients in a better way. It also enhances the pool of certified and trained personnel with Participants to expedite their future expansion plans. Further, usage of internet based services needs to be enhanced so that the investors can transact online without visiting the offices / service centres of Participants.

Enhancing Investor Protection
The basic requirement for enhancing the retail participation is to enhance the confidence of retail investors in the capital markets. Orderly development of any financial market requires investor interest to be protected against all kinds of manipulation and wrongdoings. The surveillance systems put in place by the regulator and exchanges have brought down the number of instances of price manipulation and frauds. The Capital Market regulator – SEBI has also on its part taken several initiatives for investor protection and has framed various regulations for prevention of fraudulent and unfair practices. There is a constant need to spread awareness about various investor protection measures implemented by SEBI, Exchanges and Depositories so that the reluctance of prospective investors can be removed. A robust grievance redressal system, an interactive and devoted investor relations team and focus to build and maintain investors' confidence should be one of the primary objectives of all market intermediaries. Pro-active investor relations not only help in reducing the investor grievances (and thereby enhancing investors satisfaction) but also acts as a

handy tool of surveillance system by acting as eyes & ears of the capital market entity.

Simplified norms for entering the market

SEBI on its part has been taking several initiatives in prescribing KYC norms for investors in the capital market. However, these norms differ for different categories of investors and for different investment products. A uniform approach would help so that if an investor has complied with the norms and is identified in the system by way of biometric details or otherwise, the investments in other instruments or avenues become easier. May be, advent of UID would help in this direction.

Cost effective services

The potential of the capital market is huge and cost effective efficient services need to be introduced to widen the customer base and realise full potential of the Indian growth story. The Investors world wide will choose to invest/trade more in the markets with lower transaction costs. It is well known that liquidity and depth in the market diminishes with higher cost of transactions. The regulator on its part has been taking measures to rationalise the cost of transactions in the capital market. In this direction, the settlement fee charged to the Participants has been reduced several times by NSDL.

Financial Regulation and Inclusion

Efforts with regard to financial regulation and financial inclusion should work together for a common objective of broadening and deepening a healthy market place. Regulation should be framed and wherever required tweaked in such a manner that they facilitate the objective of expanding the retail investor base. For instance, approvals for service centres of intermediaries in more lucrative centres can be linked to the number of service centres opened in those districts and areas which are identified to be very less penetrated. This will lead to expansion of service centres in those places as well.

Conclusion

The Indian Capital Market compares well with the developed markets in terms of shorter settlement cycles, low transaction cost, internet based trading and derivatives trading. The online systems established by exchanges and depositories significantly contribute to augmentation of speed, efficiency, transparency and reduction in market systemic and settlement risks. However, in terms of depth of the market, it is yet to travel a long distance. Well developed markets with larger investor base and wide participation would lead to the ultimate objective of the financial inclusion being pursued by the policy makers. Our efforts need to be focused on widening the base of the stock market, increasing liquidity and reducing transaction costs for an increasing number of stocks; expanding the universe of traded instruments and upgrading technology; raising retail investor confidence by increasing the effectiveness of surveillance and increasing investor protection; promoting greater self-regulation, transparency, disclosure and healthy competition amongst market intermediaries. Ultimately, investors have to be convinced that equities are investment products and not only speculative products as is widely perceived.