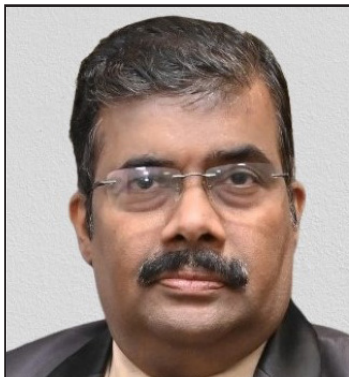


How to Get 25% of India to Participate in the Capital Markets

A National Strategy for Financial Inclusion, Wealth Creation and Economic Development



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Abstract

India is the world's fastest-growing major economy and is projected to become a USD 25–30 trillion economy by 2047. Despite significant advancements in financial inclusion, direct participation in capital markets remains relatively low compared to developed economies. While India has over 200 million demat accounts, active equity market participation remains below 15% of the population.

This paper proposes a comprehensive national strategy to increase capital market participation to 25% of India's population by 2047. Assuming a population of approximately 1.6 billion by 2047, the target implies creating nearly 400 million capital market participants. The paper identifies key barriers, examines global best practices, and proposes reforms across financial literacy, technology, product innovation, taxation, investor protection, retirement savings, and regional outreach.

Keywords: Capital Markets, Financial Inclusion, Retail Investors, Financial Literacy, India 2047, Wealth Creation, Mutual Funds, Equity Markets.

1. Introduction

Economic development and capital market participation are closely linked. Countries with higher household participation in capital markets generally exhibit:

- Greater household wealth creation
- Better retirement preparedness
- More efficient capital allocation
- Stronger entrepreneurial ecosystems
- Higher levels of financial literacy

India has made remarkable progress through:

- Digital payments
- Jan Dhan accounts
- Aadhaar ecosystem
- UPI infrastructure
- Dematerialized securities

Yet a large proportion of household savings continues to be held in:

- Bank deposits
- Gold
- Real estate
- Physical assets

The challenge before policymakers is: "How can India convert savers into investors and investors into long-term wealth creators?"

2. Current State of Participation

• Household Savings Allocation

Indian households have traditionally preferred physical and low-risk assets such as bank deposits, real estate, gold, and insurance products. While these instruments provide safety and liquidity, they often generate returns that barely outpace inflation over the long term.

• Analysis

- i. **Nearly 80% of household savings are concentrated in traditional assets** such as bank deposits, real estate, gold, and insurance products.
- ii. **Only about 10% of savings flow directly into capital market instruments**, including equities, mutual funds, exchange-traded funds (ETFs), corporate bonds, REITs, and InvITs.
- iii. Even a modest shift of savings from traditional assets to capital markets can have a transformative impact on India's economic growth.

• The Opportunity

Assuming Indian households save approximately ₹60 lakh crore annually, increasing the share allocated to capital markets from **10% to 20%** would generate an additional **₹6 lakh crore per annum** for productive investments. This incremental capital could finance:

- Infrastructure projects
- Manufacturing expansion
- Startup and innovation ecosystems
- Renewable energy projects
- SME growth and employment generation
- Vision for 2047

A desirable household savings mix for a developed India could be:

Asset Class	Current (%)	Vision 2047 (%)
Bank Deposits	40	25
Real Estate	25	20
Gold	15	10
Insurance & Small Savings	10	10
Capital Markets	10	35

Under this scenario, capital markets would become the primary engine for household wealth creation while continuing to coexist with traditional savings avenues. Such a shift would be a critical enabler in achieving the goal of having 25% of India's population actively participate in capital markets by 2047.

3. Why 25% Participation Matters

Increasing capital market participation to 25% of India's population by 2047 is not merely a financial-sector objective; it is a strategic national imperative that can significantly influence economic growth, wealth creation, financial inclusion, and India's transition into a developed economy.

i. Accelerating Household Wealth Creation

Historically, equities and equity-oriented mutual funds have outperformed traditional asset classes such as savings, deposits and gold over long periods. Wider participation in capital markets allows households to:

- Benefit from India's economic growth.
- Generate inflation-beating returns.
- Build long-term wealth through compounding.
- Achieve financial goals such as education, home ownership, and retirement.

Example: A monthly SIP of ₹5,000 earning an average annual return of 12% can accumulate to over ₹1.75 crore in 30 years.

ii. Mobilizing Household Savings for Productive Investments

India's household savings are estimated at nearly 30% of GDP, but a large portion remains parked in low-productivity assets.

If 25% of Indians participate in capital markets:

- More savings flow into businesses and infrastructure.
- Companies gain access to lower-cost capital.
- Dependence on bank financing reduces.
- Economic growth becomes more investment driven.

iii. Financing India's Growth Ambitions

India's aspiration to become a USD 25–30 trillion economy by 2047 will require trillions of dollars in investment. A broad investor base can provide a significant portion of this capital.

iv. Reducing Dependence on Physical Assets

Indian households traditionally favour:

- Real estate
- Gold
- Fixed deposits

While these assets have value, excessive concentration can:

- Reduce liquidity.
- Limit diversification.
- Lock capital in unproductive assets.

Greater participation in capital markets would create a more balanced asset allocation and improve overall capital efficiency.

v. Enhancing Financial Inclusion

Capital market participation should be viewed as the next phase of financial inclusion.

India has successfully achieved:

- Bank account inclusion through the Jan Dhan initiative.
- Digital payment inclusion through UPI.

The next milestone is Investment Inclusion: A developed economy requires citizens not only to save but also to invest.

vi. Strengthening Retirement Security

India's population is aging, and traditional family support structures are evolving.

Capital market participation can:

- Supplement pension income.
- Reduce retirement dependency.
- Promote long-term financial planning.
- Improve financial resilience among senior citizens.

vii. Supporting Entrepreneurship and Innovation

Every investor becomes a potential partner in economic growth.

Higher participation results in:

- Greater availability of risk capital.
- More funding for startups and SMEs.
- Increased innovation and productivity.
- Expansion of India's entrepreneurial ecosystem.

viii. Increasing Economic Stability

A strong domestic investor base reduces reliance on foreign portfolio investments.

Benefits include:

- Lower market volatility.
- Better absorption of global shocks.
- Stronger resilience during periods of foreign capital outflows.
- Greater financial sovereignty.

ix. Deepening Capital Markets

With 25% participation, India could become one of the largest retail-investor markets in the world.

Potential outcomes:

- Larger market capitalization.
- Greater liquidity.
- Improved price discovery.
- Development of bond, ETF, REIT, InvIT, and SME markets.

x. Creating a Nation of Owners Rather Than Savers

Capital markets allow citizens to participate directly in the growth of Indian enterprises. When individuals own shares, mutual funds, or ETFs, they become stakeholders in India's economic success.

4. Learning from Global Markets

Countries with high levels of capital market participation have typically achieved three objectives simultaneously:

1. Strong financial literacy
2. Retirement-linked investing
3. Easy access through digital platforms and collective investment vehicles

India can draw valuable lessons from these experiences while designing its own model suited to its demographic and economic realities.

Country	Approximate Participation in Capital Markets	Key Driver
United States	50–60% of households own stocks directly or indirectly	Retirement accounts (401(k)s), mutual funds, ETFs
Australia	51% of adults hold investments beyond their primary residence and pension assets	Superannuation system and investment culture
United Kingdom	37% of adults hold investment products	Tax-efficient investment accounts and pension participation
Canada	35–45% (estimated through pension and investment account ownership)	Strong pension and mutual fund ecosystem
India	Less than 15% of population participates directly in capital markets	Growing digital adoption but low financial literacy

Source: <https://www.fca.org.uk/publications/financial-lives/financial-lives-survey-2022-key-findings?utm>
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Lessons from the United States

The United States has one of the highest levels of stock ownership globally. More than half of U.S. households own stocks either directly or through retirement accounts, mutual funds, and ETFs. The expansion of retirement savings plans such as 401(k)s has been a major driver of participation.

Key Takeaways for India

- Link certain percentage of retirement savings to capital markets.
- Encourage long-term SIP-based investing.
- Expand low-cost index funds and ETFs.
- Promote employer-sponsored investment programs.

Lessons from Australia

Australia's compulsory superannuation system has created a nation of investors. The ASX Australian Investor Study 2023 found that 51% of Australian adults hold investments outside their primary residence.

Key Takeaways for India

- Strengthen pension participation.
- Encourage automatic retirement contributions.
- Promote long-term equity ownership through retirement products.
- Increase participation among women and younger investors.

Lessons from the United Kingdom

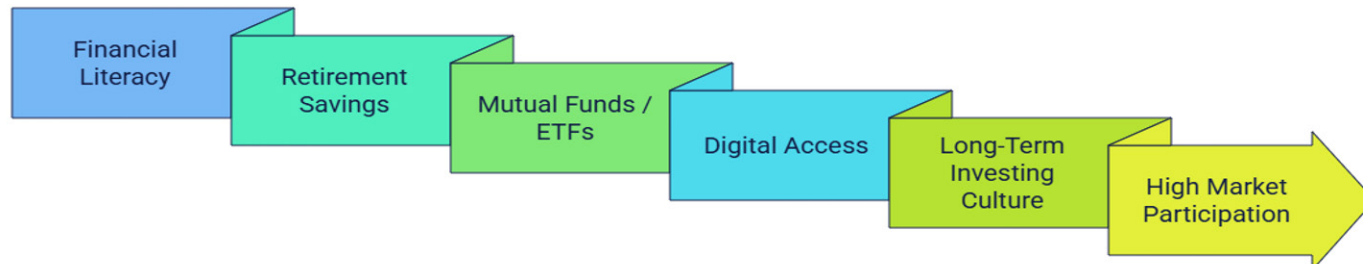
According to the UK's Financial Lives Survey, 37% of adults held investment products in 2022, up from 29% in 2017. Younger investors have increasingly entered the market through digital investment platforms.

Key Takeaways for India

- Expand digital-first investing solutions.
- Promote micro-investing products.
- Simplify onboarding and disclosures.
- Encourage tax-efficient long-term investing.

What Makes Markets Successful?

A common pattern seen is



The India Opportunity

India has already built:

- Aadhaar
- UPI
- DigiLocker
- Jan Dhan Accounts
- Digital KYC infrastructure

The next phase is to create a similar ecosystem for investing. If India can move from less than 15% participation today to 25% by 2047, it would add approximately 250–300 million new investors, creating one of the largest retail investor ecosystems in the world and significantly expanding the pool of domestic capital available for economic development.

5. Key Barriers to Participation

Despite significant progress in financial inclusion, digital infrastructure, and investor awareness, capital market participation in India remains relatively low compared to developed economies. Understanding and addressing these barriers is essential to achieving the goal of 25% population participation by 2047.

i. Financial Literacy Deficit

The most significant barrier is the lack of understanding of basic financial concepts.

Many individuals:

- Do not understand the difference between saving and investing.
- Are unfamiliar with concepts such as risk, return, diversification, and compounding.
- View stock markets as speculative rather than wealth-creating platforms.
- Lack awareness of mutual funds, SIPs, ETFs, bonds, REITs, and pension products.

Impact

- Low confidence in investing.
- Preference for traditional savings products.
- Susceptibility to misinformation and fraud.

ii. Cultural Preference for Physical Assets

Indian households have historically preferred:

- Real Estate
- Gold
- Bank Deposits
- Chit Funds and Informal Savings

These assets are perceived as:

- Tangible
- Safe
- Familiar
- Easily understood

Challenge

Generations of wealth preservation through physical assets make behavioural change slow and difficult.

iii. Fear of Losses and Market Volatility

Many first-time investors enter markets during bull runs and exit during corrections.

Common perceptions include:

- “Stock markets are gambling.”
- “Only experts make money.”
- “Markets are too risky.”

Result

Temporary market declines often discourage long-term participation.

iv. Limited Penetration Beyond Urban Centres

Investor participation remains concentrated in major cities.

Challenges include:

- Limited access to investor education.
- Lower awareness of financial products.
- Fewer financial intermediaries.
- Language barriers.

v. Low Disposable Income

A large section of the population focuses on:

- Daily consumption needs.
- Education expenses.
- Healthcare costs.
- Housing requirements.

For many households, investing appears to be a luxury rather than a necessity.

Reality

Even small SIPs can create wealth, but this awareness remains limited.

vi. Product Complexity

The investment ecosystem offers numerous products:

- Equities
- Mutual Funds
- ETFs
- Bonds
- PMS
- AIFs
- REITs
- InvITs

For first-time investors, the variety often creates confusion rather than empowerment.

Consequence, decision paralysis leads many individuals to avoid investing altogether.

vii. Trust Deficit

Past experiences involving:

- Ponzi schemes
- Unregulated investment products
- Mis-selling
- Market scams

have created scepticism among potential investors.

Key Concern

Investors often struggle to distinguish regulated products from fraudulent schemes.

viii. Inadequate Retirement Planning Culture

Unlike many developed economies, retirement investing is not deeply ingrained in financial planning.

Issues

- Dependence on family support.
- Limited pension coverage.
- Short-term investment mindset.

Impact

Lower participation in long-term wealth-building products.

ix. Gender Gap in Investing

Women represent one of the largest untapped investor segments.

Barriers include:

- Lower financial confidence.
- Limited access to investment education.
- Lower participation in financial decision-making.
- Risk aversion due to social and economic factors.

Opportunity

Increasing women's participation could significantly accelerate overall market participation.

x. Language and Communication Barriers

Most investment communication remains concentrated in English and a few regional languages.

India's diversity requires:

- Vernacular content.
- Regional-language platforms.
- Voice-enabled investing solutions.
- Localized investor education.

xi. Limited Exposure to Capital Markets in Education

Schools and colleges rarely teach:

- Personal finance
- Investing
- Wealth management
- Capital market fundamentals

As a result, many individuals begin their earning careers without basic investment knowledge.

xii. Short-Term Mindset

Many investors focus on:

- Quick profits
- Trading gains
- Market timing

instead of:

- Long-term investing
- Compounding
- Asset allocation

This often leads to poor experiences and early exits from markets.

6. National Target: 400 million Investors by 2047

The Strategic Imperative

India's aspiration to become a developed economy by 2047 will require a substantial increase in domestic capital formation. A broad-based investor ecosystem is essential to finance infrastructure, industrial growth, technological innovation, sustainability initiatives, and retirement security.

Assuming India's population reaches approximately **1.6 billion by 2047**, achieving **25% capital market participation** would translate into approximately **400 million active investors**.

This would make India one of the largest investor markets globally and significantly deepen its capital markets.

Why 400 million Investors?

Current Position

India has witnessed remarkable growth in investor participation over the last decade. Thanks to the planning and efforts of Security and Exchange Board of India (SEBI), Stock Exchanges, Industry Bodies and Trade Associations and others.

- Demat accounts have crossed 200 million.

- SIP registrations continue to reach new highs.
- Retail participation in IPOs has increased substantially.
- Digital platforms have democratized investing.

However, active participation remains concentrated among a relatively small proportion of the population.

Vision 2047

Metric	2025 (App.)	2024 (Target)
Population	1.43 billion	1.60 billion
Capital Market Participants	120 million	400 million
Participation Rate	8 – 10%	25%
SIP Accounts	100+ million	400 million
Women Investors	25% of investor base	50% of new investor base

Growth Trajectory to 2047

The target requires adding approximately **280 million new investors** over the next two decades.

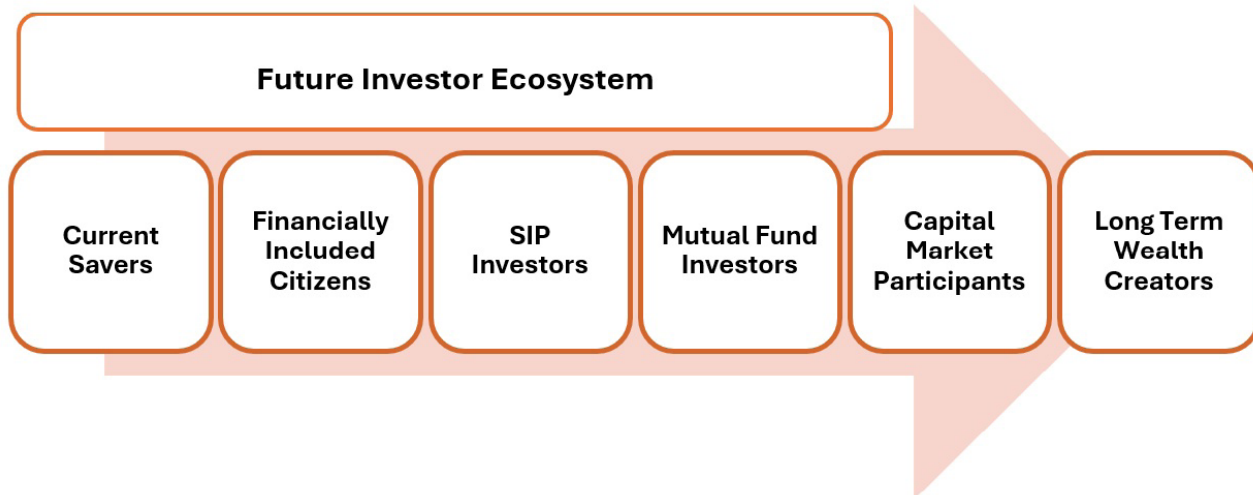
Proposed Investor Growth Path

Sources of New Investor Growth

The next 280 million investors are likely to emerge from multiple segments.

Investor Expansion Framework

Segment	Potential Contribution
Tier II & III Cities	35%
Rural India	20%
Young Workforce	20%
Women Investors	15%
Retirement Investors	5%
Senior Citizens	5%



Economic Impact of 400 million Investors

Household Savings Mobilization

Assume:

- 400 million investors
- Average annual investment of ₹25,000

Annual capital mobilization: **₹10 trillion (₹10 lakh crore) per year**

If average annual investment rises to ₹50,000: **₹20 trillion (₹20 lakh crore) per year**

This capital can be deployed towards:

- Infrastructure financing
- Manufacturing growth

- Startup funding
- Green energy transition
- SME expansion

Contribution to GDP Growth

A larger investor base contributes to, **Higher Capital Formation**
More household savings are transformed into productive investments.

Reduced Dependence on Foreign Capital

A strong domestic investor base helps absorb market volatility and external shocks.

Enhanced Financial Stability

Markets supported by domestic investors tend to exhibit greater resilience during periods of global uncertainty.

Wealth Creation

Households participate directly in the growth of Indian enterprises, creating a virtuous cycle of investment and consumption.

Key Milestones

Phase I (2025–2030)

Target: 180 million Investors

Focus Areas:

- Financial literacy campaigns
- SIP penetration
- Digital onboarding

Phase II (2030–2035)

Target: 250 million Investors

Focus Areas:

- Retirement investing
- Women investors
- Regional expansion

Phase III (2035–2040)

Target: 320 million Investors

Focus Areas:

- Rural participation
- Pension-linked investing
- AI-enabled investment platforms

Phase IV (2040–2047)

Target: 400 million Investors

Focus Areas:

- Universal investment access
- Capital market inclusion in every household
- Mature long-term investment culture

Key Success Metrics

To monitor progress, policymakers may track:

Indicator	2025	2047 Target
Active Investors	120 million	400 million
SIP Accounts	100 million	400 million
Women Investors	25%	50%
Rural Investors	15%	35%
Financial Literacy Rate	27%	75%
Household Savings in Capital Markets	10%	35%

Strategic Recommendation

India may consider launching a national mission similar to:

- Pradhan Mantri Jan Dhan Yojana
- Digital India
- UPI Revolution

under the banner “**Capital Market Inclusion Mission 2047**”

The mission should bring together:

- Securities and Exchange Board of India
- National Stock Exchange of India
- BSE Limited
- Mutual Funds
- Industry Associations
- Depositories
- Banks
- Educational Institutions
- FinTech Platforms

to create a coordinated national framework for investor expansion.

8. Strategic Pillar I: National Financial Literacy Mission

Objective

Make capital market education a national movement.

School Level

Introduce:

- Savings and investments
- Power of compounding
- Mutual funds
- Basic stock market concepts

College Level

Mandatory financial literacy modules.

Workplace Programs

Employer-led investment education.



9. Strategic Pillar II: SIP Revolution 2.0

The Systematic Investment Plan (SIP) has been India’s greatest financial inclusion innovation.

Future Enhancements

- ₹100 SIPs
- Daily SIPs
- UPI-based micro-investments
- Goal-based investing

Target

100 million SIP accounts today to 400 million by 2047.

10. Strategic Pillar III: Regional Expansion

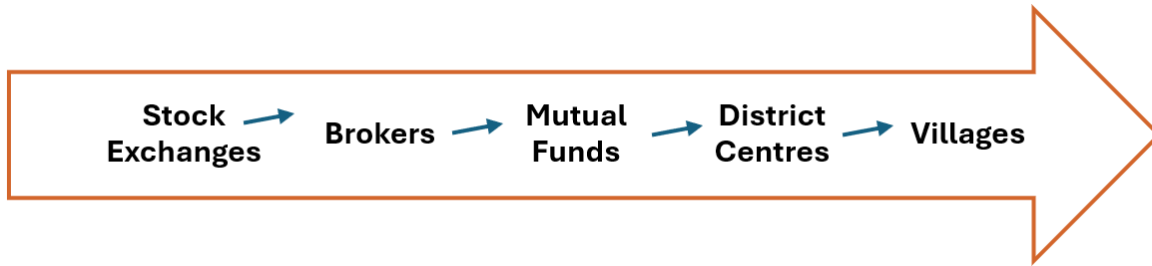
Investor penetration remains concentrated.

Opportunity

Large untapped markets:

- Tier-II cities
- Tier-III cities
- Rural India

Regional Outreach Model



11. Strategic Pillar IV: Technology Democratization

India possesses unique digital advantages.

Future Technologies

- AI investment assistants
- Voice-enabled investing
- Vernacular interfaces
- Mobile-first investing

Vision

Investing should become as simple as making a UPI payment.

12. Strategic Pillar V: Retirement-Linked Investing

A major reason for high participation in developed markets is pension investing.

Proposed Reforms

- Universal retirement accounts
- Auto-enrolment pension schemes
- Equity-oriented retirement funds

13. Strategic Pillar VI: Women Investors

Women represent one of the largest untapped investor segments.

Key Initiatives

- Women-focused financial literacy campaigns
- Tax incentives for long-term investments
- Women investor clubs
- Entrepreneurship-linked investing

Target

Women to account for 50% of new investors added by 2047.

14. Strategic Pillar VII: Simplification of Products

Investment products should be simplified into three categories:

Beginner

- Index funds
- Target-date funds
- Retirement funds

Intermediate

- Diversified equity funds
- ETFs
- Hybrid funds

Advanced

- Direct equities
- REITs
- InvITs
- Corporate bonds

15. Strategic Pillar VIII: Investor Protection

Participation increases when trust increases.

Required Reforms

- Real-time fraud detection
- AI surveillance systems
- Simplified disclosures
- Faster grievance resolution

Key institutions including Securities and Exchange Board of India, Stock Exchanges, and other Market Institutional Investors will play a critical role.

16. Strategic Pillar IX: Tax and Policy Incentives

Potential Measures

1. Enhanced tax benefits for SIPs.
2. Long-term wealth accounts.
3. Retirement-linked investment deductions.
4. Incentives for first-time investors.

These measures can accelerate adoption among middle-income households.

17. Strategic Pillar X: Capital Market Inclusion Mission

India successfully executed:

- Jan Dhan Mission
- Digital India
- UPI Revolution

A similar national mission could be launched “**Capital Market Inclusion Mission 2047**”

Goals

- One investor in every household
- 400 million investors
- Universal financial literacy
- Strong retirement savings culture

18. Expected Economic Impact

Household Wealth Creation

Assume:

- 400 million participants
- Average annual investment ₹25,000

Annual inflows: **₹10 trillion (₹10 lakh crore)**

This would significantly strengthen:

- Equity markets
- Bond markets
- Infrastructure financing
- Startup ecosystems

19. Roadmap to 2047

Phase I (2025–2030)

- National literacy campaign
- Expansion of SIP ecosystem
- Regional investor outreach

Phase II (2030–2040)

- Retirement investing revolution
- AI-powered advisory systems
- Universal financial education

Phase III (2040–2047)

- 25% population participation
- Deep retail ownership culture
- Globally competitive investor ecosystem

20. Conclusion

Achieving 25% capital market participation is not merely a financial-sector objective; it is a national economic development imperative. India’s future growth will require mobilization of household savings into productive investments that finance infrastructure, innovation, manufacturing, entrepreneurship, and sustainable development.

The path to 400 million investors rests on ten foundational pillars:

1. Financial literacy
2. SIP expansion
3. Regional outreach
4. Technology democratization
5. Retirement investing
6. Women investors
7. Product simplification
8. Investor protection
9. Tax incentives

10. National capital market inclusion mission

If implemented effectively, India can create the world’s largest and most inclusive investor ecosystem by 2047, transforming millions of households from savers into long-term.