

# Position Paper *on* Issues faced *by* Retail Investors

An insight into the declining participation of the retail investor



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Essentially, this paper is based on the vast bank of information, interaction, feedback and surveys conducted by Moneylife Magazine as well as the feedback received from investors who have attended Moneylife Foundation's workshops and seminars over the past year.

We would like to thank all the fund managers, finance experts and investment advisors who attended the 'Brain-storming Session' organised by Moneylife Foundation to start the work on the seminar. In addition we sought inputs from specific people to make this effort meaningful. The list of those who actively participated in the discussion is on the last page.

In order to make the report more robust we commissioned Synovate India to conduct a survey of investor perceptions across nine cities. We are grateful to C P Parthasarathy, founder of Karvy group as well as Mr V Shankar, the founder and Mr NK Prasad, COO, of Computer Age Management Services (CAMS) for supporting this initiative.

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# Executive Summary

The retail investor population in India is plummeting, despite a vibrant economy and a rising stock market. Clearly, investors are grappling with some issues that are acting as a deterrent for participation in the capital markets. What is it that is ailing our system?

Moneylife Foundation and Moneylife magazine have regularly highlighted the myriad problems that adversely impact the smooth functioning of our capital markets. Moneylife Foundation has worked closely with leading experts from the financial services industry to identify and find solutions to various issues that burden the investor today. This Position Paper is the outcome of a sincere effort on our part to persuade authorities to address these issues urgently.

## **Macro issues**

This Paper will first discuss the policy issues that affect the retail investors as a whole. The issues that are faced by the investors in the primary and secondary markets will be highlighted in this section. Primary market reforms would cover the difficulties faced by investors while applying for new shares, including the efficacy of IPO grading. The secondary market reforms highlight issues the retail investor goes through in dealing with various intermediaries and the hassles of opening a demat account. This section covers, among other things, the costs and documentation process for opening an account, rampant price manipulation, apart from corporate governance norms and disclosures which need to be followed by the companies. New government products and other macro issues are also highlighted.

## **Micro issues**

The following part of the Paper discusses micro policy issues in detail, issues which are indirectly related to the retail investor. Here we will cover topics like taxation issues and the actual awareness of the investor regarding investment in the stock market. With the help of an in-depth survey, we will look at the investing habits of people, as also their awareness of different aspects related to investments. We will also highlight the issues faced by the investor who invests in mutual funds, ULIPs, PMS and other problems faced in the transmission of shares and mutual fund units.

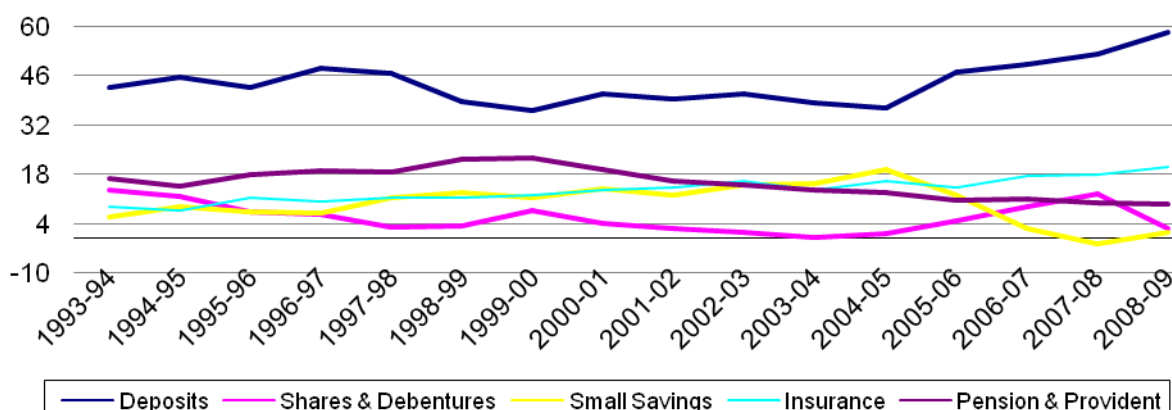
## **Recommendations**

The Paper will conclude with recommendations to address every issue identified through this process. It is our honest opinion that these recommendations, if implemented, will go a long way in improving the health of the investor community. We sincerely hope that the concerned authorities will consider these measures in earnest and work towards their actual implementation.

# 1. Introduction

Even though the Sensex has spiralled from a level of just 3,000 to 21,000 between 2003 and 2008, the percentage of investors investing in equity and debt markets has hit rock bottom. A 2009 Swaroop Committee report states that the investor population has declined from 20 million in the 1990s to just over 8 million by 2009. This means that of the 188 million investors holding financial assets, only 8 million are actively participating in the capital markets. So what are the rest of the 180 million investors doing? Despite good market returns on equity investments, why is the preferred choice of an average investor a fixed deposit?

Financial Savings of the Household Sector



(Source: Handbook of Statistics on the Indian Securities Market 2009)

The above chart shows the percentage of household income invested in the different investment options from the year 1993 to 2009. Shares and debentures is the big bold line. It can be seen that over the year 2008-09 the contribution dropped around 79% after taking around almost four years to build up. Surprisingly the investment in govt. Securities and small savings has decreased considerably over the years from 2004 to 2009. It can be seen that people prefer to invest all their savings in deposits with banks, non-banks etc.

Indian retail investors have traditionally been risk averse. Even today a majority of the population chooses to ignore the equity market. A Karvy Private Wealth Report states that 30.3% of the individual wealth in India is in fixed deposits. While equities and mutual funds account for another 35% of individual wealth, a chunk of this is contributed by high net-worth individuals. The retail investors continue to shun the equity markets and in doing so, risk losing out on the opportunity to build substantial wealth for the future. The corrosive effect of inflation on investment returns provides a serious threat to the financial well-being of the people. Equities are known to have the potential to beat inflation over the long term. In such a scenario, the only sensible way to secure one's long term future is to harness the power of equities.

Sadly, various issues are creating obstacles in the path of investors, which need to be addressed quickly. In mid-August, the minister of state for finance, Namo Narain Meena's reply to a question in the Rajya Sabha clearly showed how narrow, shallow and illiquid the Indian equity market is and that it is concentrated in the hands of a few individuals in a few centres. He pointed out that 50% of the cash market transactions on the NSE, the main pillar of the Indian stock market system, came from a shockingly low 451 investors of which 156 were proprietary traders; 50% of the trading in NSE's derivatives segment came from just 106 investors of which 58 were proprietary traders. He also revealed that 90% of the trading in the cash segment comes from only 192,200 investors even though the number of clients is 30.90 lakhs and just 6% of the accounts contribute to 90% of the trading. This shows that there are many dormant investors. The number of active retail investors as a percentage of the total investors will be very low. The derivatives segment also shows skewed participation. Only 5.75 lakh clients traded in derivatives during the quarter April to June 2010. Of these, 90% of trading came from just 18,035 (including 520 proprietary traders). This means that 5.57 lakh clients (97%) accounted for only 10% of total trading while only 3% of clients accounted for 90% of the trading! Clearly, the retail investor is not participating actively.

The year 2008 saw a huge decline in the participation of retail investors the world over. But comparatively the retail investor participation in India is much less compared to countries like US, China & Australia etc. In India retail participation as a percentage of population is just 1.3%, whereas the retail participation in countries like the US, China and Australia is 27.7%, 10.5% and 41%.

#### **Participation of the retail investors**

<b>Countries</b>	<b>Latest Year available for</b>	<b>% of population</b>
Australia	2008	41
Mauritius	2007	2.56
Argentina	2005	0.52
Hong Kong	2008	21
UK	2008	18
Germany	2007	12.5
China	2007	10.5
<b>India</b>	<b>2010</b>	<b>1.3</b>
Malaysia	2005	39.2
Korea	2009	9.6
Turkey	2007	1.6
Poland	2010	2.8
Hungary	2010	16
South Africa	2009	0.2

*Source: Various sources*

The retail participation in India is very low even if we factor in the percentage of population living in the rural areas which do not even have access to banks. What we need to understand here is what other countries are doing to gain investor confidence and encouraging them to invest in the stock markets.

This paper examines the changes in needs/expectations of investors to determine the barriers for non-investors, to identify the strengths and weaknesses of the regulatory set up, to assess the extent to which market intermediaries are meeting the needs of retail investors and finally to get a holistic view of retail investors in the market—primarily related to usage and behavioural pattern of investors.

The study provides a concrete groundwork of facts and recommendations for the protection and promotion of small investors' interest. It will optimistically create awareness for all those interested in development, reform and promotion of the equity and debt markets among investors. It provides an insight into the concerns, problems and needs of both investors and non-investors and also highlights some of the myths and notions they carry in their minds. For this purpose, Moneylife Foundation tied up with Synovate India to carry out an intensive survey across different cities of the country. The findings of the survey are surprising and clearly outline the need to address key concerns of the population.

## **2. Macro Issues**

### **2.1 Primary Market Reforms**

In a capitalist economy, the primary market plays a crucial role in allocation of resources. The success of an entrepreneur, a vital cog in the wheel of a growing economy, is closely linked to the smooth and efficient functioning of the primary market. Having borne the risk of starting a new business, the entrepreneur needs further resources that will help him expand and reach newer heights. This need is fulfilled by a vibrant and active primary market that gives him access to the required equity capital, thereby allowing investors to share the fruits of entrepreneurship.

At the same time, if the primary market is not functioning efficiently, the entrepreneur may find his business growth stymied and may even lose his incentive for taking risk. Although the Indian primary market has come a long way, it is still far from being a well-oiled machine that is a characteristic feature of primary markets in most developed economies.

#### **2.1.1 Investments in IPOs**

- 2.1.1.1 The apathy of retail investors to equity markets is reflected in the extremely poor subscription to all the initial public offerings (IPOs) in the recent past. The percentage of retail subscriptions is declining year after year. Post 2008, the returns on IPOs were encouraging for the retail investors to invest in companies going public, but the market crash of 2008 saw the retail investor losing confidence in the stock market all together. It is clear from a survey conducted by Moneylife that there is a fundamental issue that is keeping investors away from the primary market. Overpricing of IPOs appears to be the single biggest factor for investor apathy towards the primary market.
- 2.1.1.2 Many IPOs still experience poor response from retail investors. But there seems to be no tangible action to change the scenario for the retail investor. It is the media's job to reveal the facts but if the facts come out, the biggest losers would be the big media conglomerates such as The Times of India group and Network18. These organisations charge lakhs of rupees for IPO advertisements, touting their massive reach. How would all that spending be justified when IPOs receive less than 4,000 applications nationwide? Hence, the story of pathetically poor retail subscriptions to IPOs is hardly known.
- 2.1.1.3 A reason for the poor response to IPOs could be that returns from the IPOs are declining over the years. Only when investors see some gains being

posted will they have greater confidence in subscribing to the IPOs. Although this is not a systemic issue, it does speak a lot about the quality of IPOs in the recent years. Allocative efficiency in the primary markets is of utmost importance to the growth of the economy and its productivity and international competitiveness. This involves providing a steady flow of quality IPOs at the right price to the right people. Not only is there a dearth of good quality IPOs, but the problem is compounded by the overpricing of most of these issues and cornering of shares by institutional investors and others. An academic analysis by the regulator of the advertising spend to retail subscription of all these IPOs would hold important lessons for future issues.

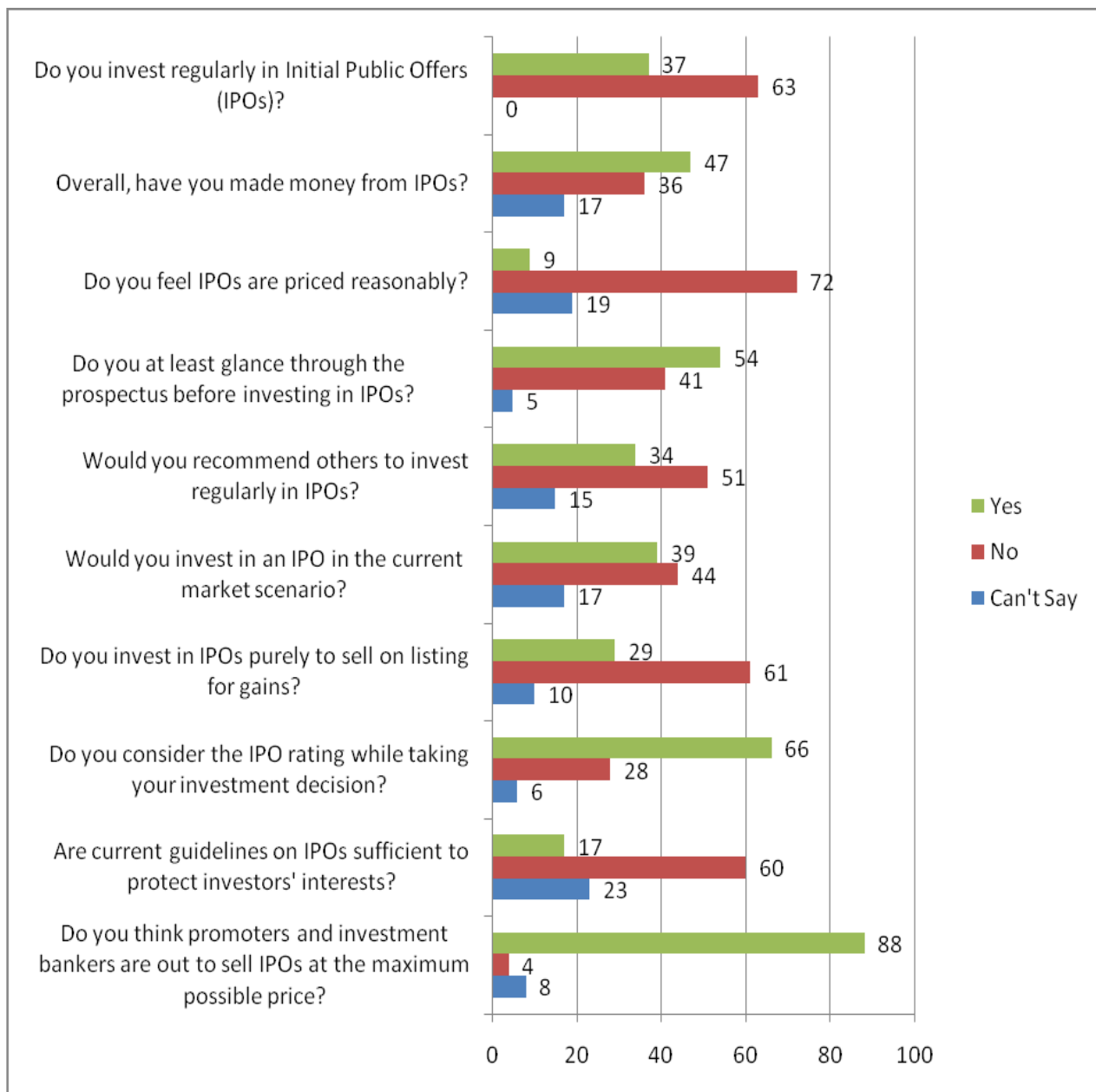
Table 2.1.5.1: *Percentage of Retail Subscriptions for recent IPOs*

Company Name	Date of Issue	Return*	Retail subscription
Prestige Estates Projects Ltd	27-Oct-10	-25.41%	0.08
Nitesh Estates Limited	13-May-10	-44.26%	0.16
NTPC Limited	18-Mar-10	-6.97%	0.17
Orient Green Power Company Ltd	08-Oct-10	-38.83%	0.18
Rural Electrification Corporation Ltd	08-Mar-10	28.52%	0.23
Standard Chartered PLC	11-Jun-10	10.82%	0.25
Hathway Cable & Datacom Ltd	25-Feb-10	-39.54%	0.28
A2Z Maintenance & Engineering Services Ltd	23-Dec-10	-25.40%	0.33
DB Realty Limited	24-Feb-10	-60.17%	0.37
Godrej Properties Limited	05-Jan-10	20.36%	0.38
Commercial Engineers & Body Builders Co Ltd	18-Oct-10	-64.25%	0.38
JSW Energy Limited	04-Jan-10	-8.63%	0.40
MBL Infrastructures Ltd	11-Jan-10	10.47%	0.40
Parabolic Drugs Limited	01-Jul-10	-31.33%	0.40
Emmbi Polyarns Limited	24-Feb-10	-65.22%	0.46
Jaypee Infratech Limited (JIL)	21-May-10	-34.41%	0.61
Vascon Engineers Limited	15-Feb-10	-26.52%	0.62
Oberoi Realty Limited	20-Oct-10	1.96%	0.94
Ramky Infrastructure Limited	08-Oct-10	-32.14%	0.99
*as on 17 Jan 2011			

2.1.1.4 Moneylife conducted an online survey on 25 October 2010, where around 660 users participated. Only 37% of these said that they regularly invest in IPOs.

And 51% say that they would not recommend IPOs to others, even though 47% say they have made money from their IPO investment. The IPO rating is very crucial for investors as 66% make their decisions as per the rating. And yet, SEBI is considering reviewing the mechanism, amid calls from certain entities to scrap the concept altogether. Industry participants have been divided over its effectiveness ever since it was introduced. A recent study by the capital market regulator has concluded that there is no correlation between the grades and the performance of the shares after listing, which makes some believe that IPO grading does not serve any purpose. However, this is a false assumption, as is reflected in the outcome of the Moneylife survey.

Table 2.1: *Online Survey-Investors attitude towards IPOs*



2.1.1.5 Our survey clearly brings out a couple of important facts that are contrary to the media reports fed by market intermediaries with vested interests. First, it is untrue that investors are only on the lookout for tips and do not take the effort to read the prospectus. Our survey shows that 54% do take a glance at the prospectus before taking their decision. Second, as many as 66% said that they consider the IPO grade while deciding on the offer. Clearly, IPO grading is proving to be of service to the investors.

2.1.1.6 61% of respondents admitted that they invest in IPOs purely to sell once the shares are listed—to take advantage of the price pop on listing. This

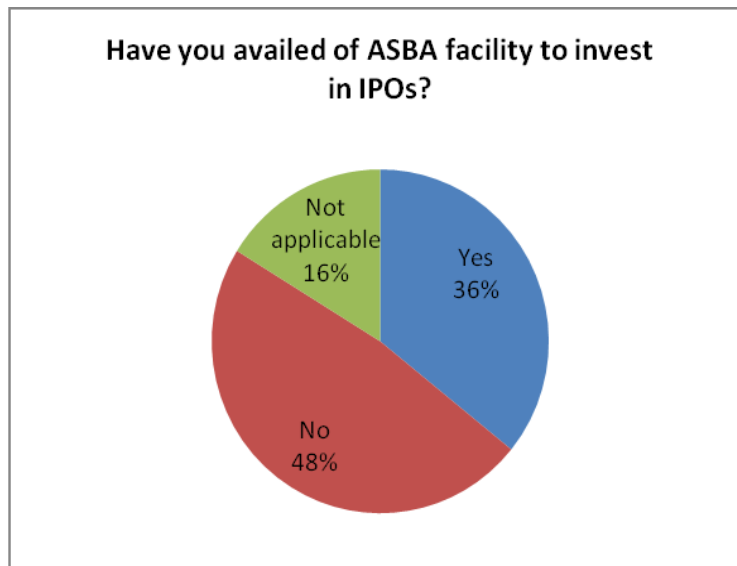
proves that investors have very little confidence about the performance of the issue post listing. This is because of the unduly high pricing of the issue in the first place. A whopping 88% of respondents said that pricing of IPOs is unfair. Interestingly, they also believe that current guidelines for IPOs are insufficient to protect investors.

- 2.1.1.7 The reverse book-building process at the time of delisting of company shares remains a grossly neglected area. This process allows investors to decide the exit price of companies seeking to delist shares. However, very few investors participate in reality and only a small group of investors dictate the pricing, cornering big gains in the process, at the expense of retail investors. Lack of information and inadequate representation for retail investors at the regulatory level remains a concern.

Next, we will highlight other issues faced by the retail investor in the primary market.

## 2.1.2 **ASBA**

- 2.1.2.1 While most investors believe that it is extremely difficult to get past all the paperwork, SEBI has attempted to make the IPO processing much smoother. The objective is to make the process more “efficient” and ensure that investors get the refund money without any delay. This process is called Application Supported by Blocked Amount (ASBA). An ASBA Account can be opened with Self Certified Syndicate Banks (SCSB) as per SEBI guidelines. There are several benefits of this new approach. There is no loss of interest, since application amount is not debited to the savings account on application and the amount for which no shares have been allotted is available immediately on completion of allotment process. There is no need to wait for the amount to be refunded by the company and be credited to the account.
- 2.1.2.2 After a slow start, ASBA has found rapid acceptance among the investor community over the last year. More than 60-70% of the total bid applications in recent initial public offerings (IPOs) have come through the ASBA route. The Coal India IPO was among the more successful IPOs of late, where out of the Rs2.36 lakh crore bids received, about Rs1.67 lakh crore were made under ASBA. Similarly, the issues of Power Grid and MOIL saw 65.3% and 55.5% of bids, respectively, coming in through ASBA.
- 2.1.2.3 However, this route has not yet become popular among the retail investors - institutional investors have made the most out of this mechanism, with more than 80% of their monies flowing to public issues coming through this route. The figure for retail investors is lower, between 25% and 35%. In the case of the Coal India IPO, for instance, only 28% of all retail investors took the ASBA route.
- 2.1.2.4 This latest advancement also has its shortcomings. For instance, not all banks are enlisted as SCSB as of today. But in order to make use of this offer, an investor should have an account with a SCSB. Also, even if a bank is listed as a SCSB, only few of its branches may have the ability to process IPO applications with ASBA payment option. The low reach of SCSBs that are allowed to offer ASBA services has also restrained the spread of ASBA in tier-II and tier-III cities.
- 2.1.2.5 As per SEBI, the major reason why ASBA got a timid response at the time of its introduction was due to lack of incentive among banks to accept ASBA. However, this problem was partially done away with after the regulator clarified that the companies need to pay ASBA fees to banks. Still, the banks are not happy as they receive comparatively lower brokerage than brokers. Also, broker forms are not available in many bank branches.
- 2.1.2.6 48% of the respondents surveyed by Moneylife Foundation said that they do not take the ASBA route while investing in IPOs.



- 2.1.2.7 Many investors are shy of investing through this route as they are not clear about who is to be approached if there are mistakes in allotment. There also seems to be a lack of awareness among investors as it has not received wide publicity in the smaller cities and towns.
- 2.1.2.8 The ASBA route will be promoted well if brokers are made an integral part of the ASBA process, since they have the reach and daily interactions with clients. Banks should be allowed to use brokers, except for the online ASBA application process, for bidding, and brokers can be remunerated with a nominal charge.

### **2.1.3 Quality of IPOs and judgements**

- 2.1.3.1 The present structure of the Indian stock market is faulty in the most important respect—it is extremely attractive to speculators and market operators but is able to garner only a pitiable proportion of household savings. This behaviour is characterized by minimal screening procedures, which can ensure that the IPOs are of good quality.
- 2.1.3.2 According to a report by Virendra Jain titled “Wealth Creation & Destruction through Book-Building IPOs in First decade of 21<sup>st</sup> Century”, the returns provided by IPOs during 2001-2009 is 22.42%. This has been calculated on the basis of the present value as on December 31, 2009 of the total amount raised in a calendar year and assuming it to be invested for a time span upto December, 2009.
- 2.1.3.3 The report further states that the return provided by IPOs of private sector companies is 15.47% whereas PSUs have delivered 29.72%. However, there is a wide fluctuation in returns of private companies on a yearly basis. For IPOs made by private companies in 2001, 2007 and 2008, the returns are

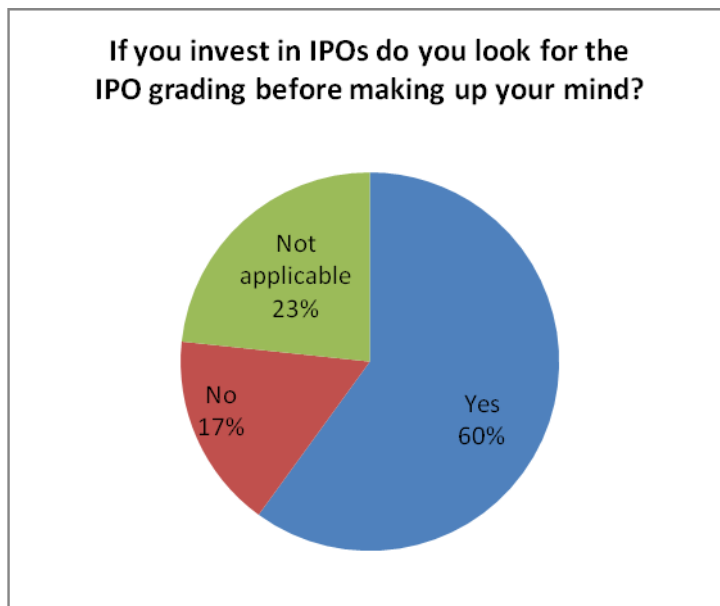
negative. The overall figure of 15.47% has largely been achieved due to performance of IPOs during 2002—particularly of Bharti Airtel Ltd, which has given a compounded return of 44%, skewing the overall results.

2.1.3.4 However, the IPOs from PSU companies have performed more evenly over the years and the returns have been positive for all the years in which their IPOs were made.

2.1.3.5 Investors are still nursing huge losses from the previous IPO boom of 2007. In that year, a total of 83 IPOs were listed on the National Stock Exchange (NSE). Out of these 83 IPOs only 29 IPOs, which is just 35% of the total, have left the investor's capital intact. Out of the total 83 IPOs, 54 are still quoting below the issue price while 21 IPOs are down by more than 60%.

#### 2.1.4 IPO Grading

2.1.4.1 IPO Grading is among the few popular inputs investors use before applying to IPOs, as can be seen from the following response to the Moneylife Foundation survey. As many as 60% of respondents admitted to referring to the grade assigned to the company while considering its offer.



Source: Moneylife Foundation survey

2.1.4.2 However, in a newspaper column (DNA), Vijaya B Marisetty, a visiting scholar at the National Institute of Securities Markets and the Indian School of Business in Hyderabad, mentions that the grading mechanism has been criticized on the following grounds:

1. Grading discourages small entrepreneurs to raise capital through IPOs. Hence grading should be voluntary rather than mandatory.
2. It is the job of SEBI to scrutinise the quality of an IPO. Given that rating agencies differ in their approach and are biased on some parameters, their rating is questionable.
3. Grading mainly talks about the fundamentals of the IPO, however, it is not linked with the pricing. Most of the IPOs are still underpriced or overpriced.
4. The grading of IPOs is very difficult. Unlike grading of debt issues, where the cash flows and time horizon are defined, the cash flows and time horizon are not known in equity issues.

2.1.4.3 But he mentions that the following counter-arguments prove that grading is indeed one of the best methods employed by SEBI so far:

1. Grading discourages small entrepreneurs: In a majority of the markets, even those that have more sophisticated investors, an IPO is not preferred route for small issuers. They prefer private equity or venture capital funds as issuers are not confident whether the public can take higher risk that is associated with smaller IPOs. That means investors in developed markets discourage such issues and hence IPOs attract lower subscriptions.  
However, in the case of India, where retail investors exhibit an overreaction through high subscription rates, a lot of small issuers with highly risky projects are encouraged to go for an IPO. The instances of vanishing companies in India are a clear example of such activity. SEBI's insistence to have IPO grading is valid if the institutional investors share substantially increases and thereby the retail investor does not get adversely affected.
2. The cost of monitoring: SEBI, to some extent, has transferred the cost of monitoring to the investors. In the earlier phase, SEBI used to monitor the quality of the project. Now the issuer bears the cost by paying fees to the grading agency (SEBI still incurs the cost as it also monitors the quality).
3. Grading and issue pricing: Grading doesn't reflect the rationale of the issuer's offer price. The main reason for the difference between the offer price and the listing price is due to the information asymmetry between issuer and the investors on the value of the firm. Grading is indirectly aimed to reduce the information asymmetry and the grading agencies specify in advance the rationale for categorising a firm with a specific grade. Hence, in the post - grading era, there should be less mispricing compared to the pre-grading era. If an issue that is graded

as 'bad quality' experiences higher listing price then it doesn't mean that the grading is wrong. It means that investors generally have higher risk appetite and they prefer investing in risky projects (similar to junk bonds) and hence the excess demand jacks up the price. In summary, this is not a valid criticism.

4. Grading of equity is a complex job: this is a valid point. There is no other market where rating agencies grade IPOs. However, if the purpose of grading is to filter fly-by-night operators, then it is serving the purpose. Rating agencies have better resources than SEBI to do this job. However, if the job of rating agencies is to determine the fair value of equity then grading may not serve the purpose.

2.1.4.4 In summary, while reviewing the IPO grading the regulator should focus on:

1. Whether IPO grading has resulted in the reduction of fly-by-night operators.
2. Whether IPO grading has reduced the information asymmetry between issuers and the investors.
3. Whether cost of grading fees paid by the issuer is being offset by additional benefits to the issuers in the form of improved liquidity and valuation.
4. Whether capital allocation is more effective (right projects are getting right capital) in the grading regime than non-grading regime.

## **2.1.5 Institutional Investors and Retail Investors now on par**

2.1.5.1 Retail and institutional investors are now treated on par in terms of bidding for shares in public. Qualified Institutional Buyers (QIBs) now pay 100% money in primary issues upfront, just like the retail investors. There has been gradual reform in this area, starting from the point when QIBs paid nothing upfront on application, to only 10% as margin money in public issues, while retail investors were putting the entire money along with the applications. This move has finally brought down the misleading and exorbitant level of over subscriptions by QIBs in the primary market.

## **2.2 Secondary Market Reforms**

The secondary markets play an equally important role in a capitalist system. For the general investor, the secondary market provides an efficient platform for trading of his securities. A dynamic secondary market facilitates continuous and better price discovery, which in turn helps traders, manufacturers, exporters, governments, consumers, and speculators. The stock price in an efficient market reflects all available information about the listed company.

Over the last decade, there have been rapid changes in the Indian capital market, especially in the secondary market. Advanced technology and online-based transactions have modernised the stock exchanges and facilitated smoother trading of securities.

Despite substantial improvements in the structure and functioning of secondary markets here, there remains a huge scope for improvement if individual investors have to be attracted to the market. For the secondary markets to perform efficiently, investors' interests need to be protected and safeguards need to be put in place to ensure transparency.

This is because investors have often lost heavily in their secondary market investments due to various scams. Unfair trade practices or price manipulation is not uncommon. The absence of quick punishment and redressal in the form of awarding compensation to aggrieved investors has left investors disillusioned.

### **2.2.1 Costs attached to open accounts**

2.2.1.1 To start with, the secondary market throws some obstacles in the path of the retail investor even before an individual can begin trading. When you add up all the charges, it comes up to quite a large sum that an investor needs to shell out before earning any money on his investments. The following are the various costs that a first time investor has to incur before he begins trading.

1. One-time account opening fees varying from Rs. 200-800.
2. An investor will generally be interested in trades involving delivery and therefore will look for the lowest delivery brokerage. Average rate for delivery brokerage is around 0.5%.
3. In addition to the brokerage, they have to pay various statutory charges connected with stock trading (such as Securities Transaction Tax at 0.125% on delivery based transactions) and pay account maintenance charges (anywhere between Rs. 200 – Rs. 500).

2.2.1.2 Besides the brokerage rates, they have to check out many other factors such as charges for online trading platform, call trading charges,

convenience of funds and securities transfer, back office reports, contract notes etc. The following is the list of charges charged by brokerage firms before a person can begin trading.

Table 2.2.1: Account opening and brokerage charges with various firms

Name of Firm	Account Opening Charge	Annual Maintenance		Brokerage	
		1st year	2 <sup>nd</sup> year onwards	Delivery	Intraday
Angel Broking	Rs. 740	Rs.0	Rs. 300	50p	10p
Geojit BNP Paribas	Rs. 650	Rs. 300	Rs. 300	0.30%	0.03%
HDFC Securities	Rs. 799	Rs. 0	Rs. 500	Rs. 25 or 0.5%	Rs. 25 or 0.1%
ICICI Direct	Rs. 975	Rs. 0	Rs. 500	Rs. 25 or 0.75%	Rs. 15 or 0.05%
IDBI Paisabuilder	Rs. 700	Rs. 0	Rs. 350	0.65%	0.06%
Indiabulls	Rs. 900	Rs. 0	Rs. 0	0.35%	0.05%
India Infoline	Rs. 555	Rs. 0	Rs. 0	25p	5p
Kotak Securities	Rs. 750	Rs. 360	Rs. 360	0.59%	0.60%
Motilal Oswal	Rs. 0	Rs. 0	Rs. 100	0.30%	0.05%
Reliance Money	Rs. 750	Rs. 200	Rs. 200	1p	1p
Religare	Rs. 500	Rs. 250	Rs. 250	0.30%	0.06%
SBI	Rs. 400	Rs. 400	Rs. 400	0.50%	0.15%
Sharekhan	Rs. 750	Rs. 0	Rs. 300	0.5% or 10p	0.1% or 5p
Ventura	Rs. 3,500	Rs. 0	Rs. 400	0.20%	0.03%

Source: <http://www.tracenotes.com/reports/brokers-india.html>

2.2.1.3 When added up, these costs vary from Rs. 555 to Rs. 3500 just for opening and setting up an account with the brokerage firm.

## 2.2.2 Demat issues

2.2.2.1 The original goal of the introduction of demat accounts was to eliminate bad deliveries, shares stolen or lost in transit, delay in transfer registration etc. Even though it did manage to eliminate most of these problems, it did give rise to biases against small investors.

2.2.2.2 Retail investors have been encountering several problems with the demat system in India. India's demat system is a mandatory business service which is priced unattractively for the retail investors. Under the current system of

fixed pricing for demat services, those with small investments would find a demat account expensive to maintain.

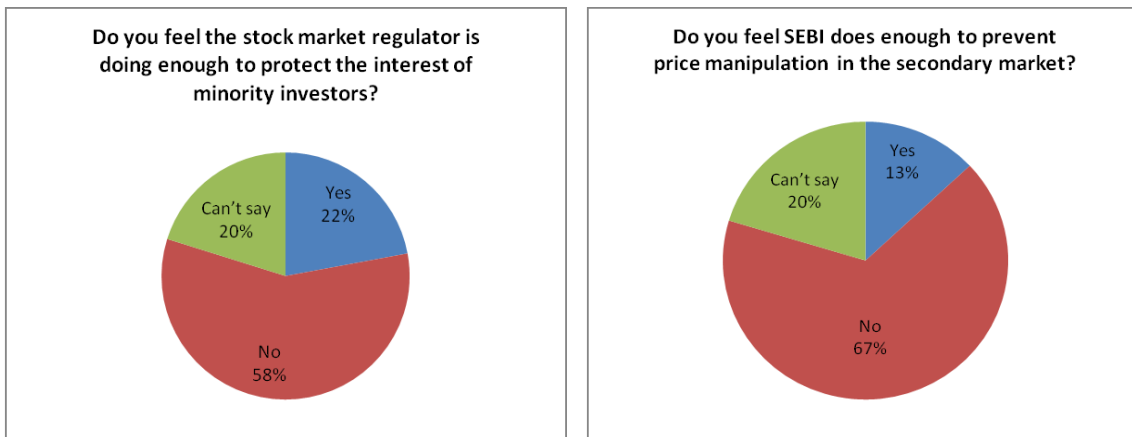
- 2.2.2.3 Cumbersome KYC procedures have also created many problems for investors. For instance, all DPs who are affiliated with NSDL make it mandatory for the investor to provide the Nominee's photograph and signature (whereas CDSL doesn't). In case an investor does not submit a photograph and signature of the Nominee, they refuse to accept the nomination in the first place. On the back of the recent Bombay High Court judgement, however, this has serious implications on the ownership of shares for the nominee.
- 2.2.2.4 A 20th April judgement of the Bombay High Court has overturned established practice in the matter of transmission of shares by giving all ownership rights to the nominee rather than the legal heirs. This means that if the nomination is valid, the nominee is entitled to ownership rights of the shares, to the exclusion of legal heirs.
- 2.2.2.5 Shares of some companies are yet to be converted into demat form, which greatly inconveniences shareholders. All listed companies are required to credit the proceeds of dividends to the shareholders directly to their bank accounts through the ECS or NEFT route. However, there are still some companies who send dividend warrants to shareholders, even when the shares have been converted to demat form. Two such companies which sent dividend warrants for the year 2009-10 are Minda Industries Ltd and Shakti Pumps India Ltd.

## 2.2.3 **Manipulation**

- 2.2.3.1 There have been several instances of scams in the securities market in the past, which have provoked strict action from the regulator and forced implementation of tighter regulations and control mechanisms. To improve surveillance in the securities market, SEBI introduced the Integrated Market Surveillance System, which provides the regulator the capability to analyse information on market transactions immediately and develop parameters that would in turn generate alerts highlighting abnormal market movements.
- 2.2.3.2 Given the technology put in place, it should have been much easier to keep track of suspicious market activity and prevent it from becoming widespread. Unfortunately, there appears to be no improvement in the control over manipulation, as is evident from the spate of instances of price rigging and manipulation that Moneylife magazine has been highlighting. For instance, Splash Media & Infra registered a 7,785% jump in share price from 24 March 2009 to 26 November 2010, despite a poor financial track record. Shree Nath

Commercial & Finance rose 1,698% between 1 February 2010 and 16 November 2010, even when its financial performance has been erratic and poor. Sigrun Holdings crashed 94% between 10 December 2009 and 3 January 2011, despite an improvement in its financial performance in the last two quarters. Clearly, these and many more such stocks are being manipulated at will.

- 2.2.3.3 Worse, even where manipulation has been detected and culprits nabbed, in many cases, SEBI has allowed them to get away scot free. Top Media Entertainment was caught manipulating its own shares, but didn't pay a penny; all it did was to voluntarily promise to stay away from the market for three years. Why was SEBI so lenient? Parklight Securities was allowed to escape with a Rs. 25,000 payment and a three-month suspension of registration through two consent applications, despite its involvement in 15 of the worst cases of price manipulation. Why was Parklight Securities let off the hook instead of being permanently barred?
- 2.2.3.4 According to regular reports by the Intelligence Bureau (IB), which has been keeping tabs on the market activity of several such entities, price rigging and manipulation runs rampant in the stock markets. There is a clear promoter-broker nexus that is working overtime at the expense of minority shareholders. This raises questions about the proactiveness of the market regulator in checking suspicious activity.
- 2.2.3.5 While the IB reports blandly reproduce such explosive and eye-popping information, complete with the names of top institutions, it is not clear if any of these details are being investigated by SEBI.
- 2.2.3.6 The small investor is easily tempted by the big percentage gains clocked by several small and illiquid stocks. They invariably get stuck with these scrips when they crash. Even more stay away from the market unable to understand how a well known firm like Shree Ashtavinayak Cine Vision, producer of blockbusters can stay locked in the lower circuit day after day and then suddenly reverse course and stay locked in the upper circuit for days together. Investors would rather stay away from a manipulated market like this.
- 2.2.3.7 58% of respondents surveyed by Moneylife felt that the regulator is not doing enough to protect the interest of minority shareholders. And 67% of the respondents felt that SEBI needs to do much more to prevent stock price manipulation.



Source: Moneylife Foundation survey

## 2.2.4 Consent orders

- 2.2.4.1 It is crucial that individuals and entities that engage in unfair trade practices and illegal conduct be held accountable and suitably punished for their behaviour. Unfortunately, under the current system, even repeated offenders escape fitting punishment with a mere fine. The consent order mechanism has been adopted by SEBI to settle cases and it has helped reduce regulatory costs and also save the time and effort spent on pursuing enforcement actions.
- 2.2.4.2 More often than not, however, the regulator's action through a consent order leaves a lot of questions unanswered. A common criticism is that the accused entities are allowed to escape with a monetary penalty or disciplinary action that does not justify the nature of the offence.
- 2.2.4.3 SEBI's website claims that consent proceedings take into account factors like 'history of non-compliance', 'track record of the violator' (whether guilty of similar or serious past violations), and conditions necessary 'to deter future non-compliance'. These rules have been ignored in the most wanton application of consent regulations to let off serious and multiple offenders. The consent order regime, although technically overseen by a high powered committee (HPC), is conducted in the most shockingly capricious manner, with minimal disclosures or correlation between the nature of offence, repeated violations and size of penalty. Statistics compiled by [www.watchoutinvestors.com](http://www.watchoutinvestors.com), financed by the Investor Education & Protection Fund, reveal 92 instances of two or more consent filings by the same entity.
- 2.2.4.4 A couple of firms have been allowed to file consent applications a whopping seven times each. In fact, the details only magnify the whimsicality and the deep rot in the system. With so many companies getting off on the loose, why has SEBI been so benevolent with such companies. We had Top Media

Entertainment which had been caught manipulating its stock, but they just had to voluntarily promise to stay off the market and were let off without paying any fine. Companies like SMC Global Securities have constantly just been paying fines but still continue with its malpractices without being banned. Action Financial Services also got away with seven consent applications. This just undermines the consent order regulation. The Ketan Parekh group, called Mangal Keshav Securities, whose consent applications were also acceptable to SEBI for paltry sums of Rs10 lakh (for circular trading and volume ramp-up in Database Finance in September 2008), Rs7 lakh (irregular transactions in Jindal Stainless in May 2009), Rs3.5 lakh (for synchronised trades in Adani Exports in June 2009) and Rs7 lakh (for price and volume ramp up in the shares of BSEL Infrastructure Realty and Maharashtra Seamless in February 2010). Total payment was just Rs27.50 lakh, despite its long, dubious history and association with Ketan Parekh, who is identified as the architect of the 2000-01 securities scam. This Ketan Parekh group company has also escaped the consent route.

- 2.2.4.5 The philosophy behind consent orders is that the regulator avoids long-drawn litigation and permits the wrongdoer not to admit guilt on the condition that the consent order will put out details of the charges against the person/entity in the public domain and the financial cost would be high enough to act as a deterrent. Instead, SEBI's consent orders are seen as a quick escape mechanism for anyone who is caught violating market regulations and the amount paid would depend on the skills of the lawyer who negotiates the settlement.

## **2.2.5 Disclosures**

- 2.2.5.1 Transparency in the offer documents for investment products still remains a huge concern. At a time when companies and mutual funds are raising heaps of money through share sale and new products, adequate and accurate disclosure of facts is of prime importance.
- 2.2.5.2 However, there remain some glaring issues as regards disclosures in public offers. The IDR issue of Standard Chartered Plc last year, for instance, was highly suspect. Questions about non-disclosure of Standard Chartered Plc litigations still remain unanswered. The bank's name was involved in the 1992 Harshad Mehta securities scam, which rocked the Indian capital market. However SEBI turned a blind eye over all its pending litigations and quietly passed the red herring prospectus (RHP), while Lakshmi Vilas Bank Ltd and United Bank of India had to disclose all their pending litigations.

2.2.5.3 The failure to insist on this disclosure reflects badly on SEBI. It should insist on the same transparency and disclosure standards that it expects from Indian companies.

## **2.2.6 Power of Attorney**

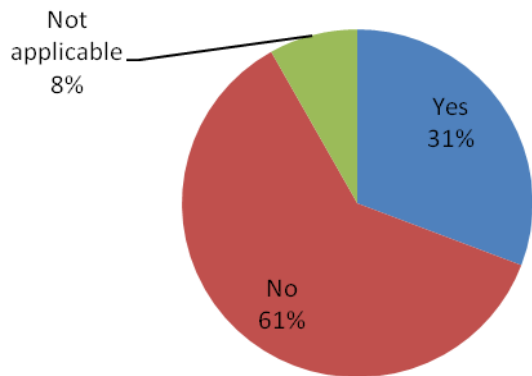
2.2.6.1 Power of Attorney (PoA) gives brokers the power to debit and credit specific trading accounts and sell or buy shares in the account holder's name without their express approval. However, these powers were misused by brokers for years mainly because the regulator was reluctant to initiate tough and decisive action. While SEBI has concrete rules on the matter that state that PoAs cover specific areas only, most brokers get clients to sign general PoAs, giving wide powers to access shares and funds of their clients.

2.2.6.2 This issue of general versus specific PoAs was explicitly highlighted in a SEBI circular issued on 22 April 2010 where SEBI took a firm stand stating several conditions and restrictions on PoAs made in favour of stockbrokers. Among the activities that the circular prohibited were transfers of securities for off-market trades, transfer of funds from the bank account of the clients for trades executed by the clients through another stock broker, executing trades in the client's name without their consent, and specifically, merging of a client's balances to cover a debit in another client's account.

2.2.6.3 Though SEBI has made it clear that brokers cannot refuse services to clients who do not sign PoAs in their favour, many brokers still follow this practice. In May 2010, Moneylife decided to do a survey of ten top broking firms, all of whom offered online accounts (ICICIDirect, ShareKhan, Geojit BNP Paribas, Kotak Securities, HDFC Securities, HSBC InvestDirect, Prabhudas Liladhar, SMC, Angel Broking and Indiabulls) to see which of them would let us open a trading account—either online or offline—without signing a PoA. All the companies that *Moneylife* approached refused to open an online account without signing a PoA, the only option being to open an offline account. The only exception was Angel Broking, who informed us that we did not need to sign a PoA to open an online account. While the issue of signing a PoA for an online account is debatable itself, our main concern was that we were only informed of the offline account after much prodding and arguing, with some companies not even informing us of it until we brought it up ourselves.

2.2.6.4 In Moneylife's own survey, 61% of respondents surveyed said that they were not comfortable with signing a PoA agreement in favour of their broker. Another 26% said they were forced into signing a PoA even when they didn't want to.

**Are you comfortable with signing a Power of Attorney (PoA)?**



Source: Moneylife Foundation survey

## 3. Micro Issues

### 3.1 Clarity on taxation

- 3.1.1 A constant bone of contention between taxpayers and tax authorities is the classification of income from sale of shares. Tax authorities consider this source of income as 'business income', whereas investors demand that it should be classified under 'capital gains'. Capital gains from sale of shares is 15% for short term capital gains and is not applicable for long term gains (shares held more than a year). Income from business attracts a tax of around 33%.
- 3.1.2 When the taxpayer has high short-term capital gains compared to the long-term gains, the transaction in shares may not be considered as an investment but as a business activity. But there is no fixed factor to determine if the trading of shares is a business activity or an investment activity. This leaves utter confusion in the minds of the investor and causes a lot of heartburn in case his tax return is picked up for scrutiny. The problem is compounded by the fact that different tax officers have differing views on this subject. While one officer may view investment activity in its actual vein; another may be intent on treating it as 'business income', no matter what evidence one places before him. This debate over the distinction between a trader and an investor refuses to reach its logical conclusion. Although a CBDT (Central Board of Direct Taxes) circular has laid down guidelines to help officers distinguish between the two, this still remains a grey area as taxpayers may be asked to prove why capital gains should not be considered as business income. Trying to prove it to be so, can be a harrowing task for anyone.
- 3.1.3 Another issue, pointed out by India Finance and Investment Guide of web portal [indiamart.com](http://indiamart.com), is whether increasing the tax rate will make investors retain their investments for a longer period. The tax rate was recently increased to 15% from the previous 10%. If the stock of a company is expected to fall, no investor would want to be still invested in that company and will thus sell his shares before making a loss. This defeats the purpose of the tax rate to retain the investor for a longer period.
- 3.1.4 The revised tax code, if implemented, will mean a fundamental change in the way people will perceive equity capital from now. Short-term capital gains from equities and mutual funds would be fully taxed and long-term capital gains would be taxed too. ULIPs would no longer enjoy tax-free status.
- 3.1.5 Mutual funds would also be hit by the revised DTC. A possible tax hit for unit-holders under the revised DTC worsens their business model. The only

redeeming feature, if any, is that pension funds are supposed to invest in stocks and that will ensure that the market indices stay up.

### **Tax refund cases pending due to mismatch in the TDS data**

- 3.1.9 Around 50% of the claims filed for tax refunds are pending due to a mismatch in the details mentioned in the TDS form. Form 26 AS is a tax statement which provides details of the tax deducted at source (TDS) and the tax collected at source (TCS). The form consists of three parts, PART A, PART B and PART C. **Part A** displays details of tax which has been deducted at source (TDS) by each person (deductor) who made a specified kind of payment to you. Details of the deductor (name & TAN) along with details of tax deducted like section under which deduction was made (e.g. section 192 for salary), date on which payment was effected, amount paid/credited, tax deducted from payments and deposited in the bank are included in this part. **Part B** displays details of tax collected at source (TCS) by the seller of specified goods at time these goods have been sold to you. Details similar to those displayed in Part A in respect of the seller and the tax collected will also be available. **Part C** displays details of income tax directly paid by you (like advance tax, self assessment tax) and details of the *challan* through which you have deposited this tax in the bank.
- 3.1.10 An investor is mainly concerned with the second part. In part A & B there are special codes given for the status of booking. This is denoted by the codes P, F & U. Details of the same are given below.
- 3.1.11 Provisional (P) – Only for TDS/TCS affected by Government deductors. Provisional tax credit is effected on the basis of TDS/TCS returns filed only. On verification of the payment details by the Pay & Accounts officer (PAO), status will change to Final (F).
- Unmatched (U) – Deductors have not deposited the taxes or have furnished incorrect particulars of tax payment. Final credit will be reflected only when the payment details in the bank match with the details of deposit in the TDS/TCS return.
- Final (F) – In case of non-Government deductors, payment details of TDS/TCS deposited in a bank by the deductor have matched with the payment details mentioned in the TDS/TCS return filed by the deductor.
- 3.1.12 Refund issues are faced when the status is “U”. The possible reason for this is:
- a. Deductor has wrongly quoted the challan details in the return against which your TDS/TCS was deposited.

b. Deductor has provided correct challan details in TDS/TCS return but the bank has made an error while digitising challan details.

- 3.1.13 In this case the assessee will be unable to claim a refund. The only solution for this is that the individual has to write a letter to the concerned deductor to revise/rectify the TDS return.
- 3.1.14 Though it may sound very simple, at times, even the deductor is unaware of this code. It's the tax payer who will have to go running around from pillar to post to get the same rectified. Just a minor data-entry error can cause a whole lot of inconvenience to the tax payer.
- 3.1.15 There is a similar case where an investor has mailed Moneylife with this issue. In her case the deductor was a TATA Group subsidiary, which ignored her requests for several years but rectified the problem only after it was taken up by Moneylife Foundation. If this is the level of awareness at the Tata Group, one can only imagine how much worse it is with hundreds of smaller listed companies which have neither qualified nor experienced staff.

## **3.2 Grievance redressal**

- 3.2.1 Investor protection is one of the primary objectives of SEBI. Wide ranging power has been given to SEBI, in order to ensure that investors' interests are protected. According to a special report done by Deena A. Mehta, Managing Director of Asit C. Mehta Investment Intermediaries Limited, ideally, the only risk for an investor for investment in equity should be that of the risk associated with the business performance of the company —any risk beyond such risk should ideally be eliminated. The biggest difference between Indian markets and markets abroad is speedy disposal of cases and harsh and immediate punishment to the wrongdoers. The response of the regulators in India has been knee-jerk and panicky. Instead of trying punishing wrongdoers after in-depth investigation and sensitivity to market practices, the regulators have only succeeded in eroding the investors' confidence in the market by high profile arrests and media hype. The end result of all the scams (be it 1992 or 2001) is that it is business as usual for most of the persons involved.
- 3.2.2 The report - Redressal Mechanism for Investors under Securities Law by Ms Mehta - also states that the biggest problem of all security market participants is to change the perception of the investors of stock markets. "Stock markets are traditionally regarded as speculative dens bordering on gambling arenas. Investments in stock markets are regarded as Money doubling avenue rather than a serious exercise in increasing the yield of the overall portfolio. People who come to stock markets want easy money, quick money and lots of money. This investment psychology has led to a structure

where over 90% of the transactions done do not result in delivery. Panic and euphoria are constantly in the hearts and mind of the investors rather than desire for a steady predetermined profit and loss targets," mentions the report.

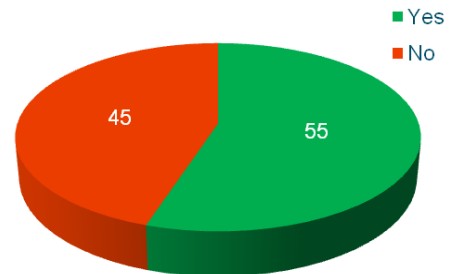
- 3.2.3 The protection available under the Securities Law has to be seen in relation to the general legal enforceability of laws in the country. Deena Mehta mentions in the report that the first level of remedy which is available with Stock Exchanges and SEBI is very rapid. Proceedings against various intermediaries registered with SEBI are disposed of in a time bound fashion and the threat of cancellation of registration forces the intermediaries to fulfill their commitments. However, when it comes to the second level of redressal and matters going to court the excessive delays which plague our legal systems cannot be avoided.
- 3.2.4 Though 16 years have elapsed since the setting up of SEBI to regulate the securities market, we are still in a situation of dual control being exercised by the Department of Company Affairs and SEBI on matters relating to compliance by companies listed on stock exchanges. Also, the process for making amendments is tedious and time consuming. Instead of having a comprehensive Act, the regulatory authorities introduce a series of circulars. As these circulars are not reviewed from time to time, business practices are far different from the laws that regulate them.

### **3.3 Investor awareness**

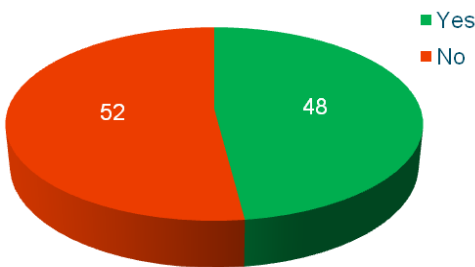
- 3.3.1 Moneylife Foundation, with the support of Registrar & Transfer Agents CAMS and Karvy Computershare, commissioned Synovate India in carrying out a nation-wide survey to gauge the level of understanding of the common man regarding financial products and services, as also their preferences while investing. It was surprising to see that out of the 1230 subjects that were surveyed only around 50% of them were aware of independent financial advisors (IFAs). But what was more remarkable was that out of the ones who were aware 76% have used the services of IFAs.
- 3.3.2 The awareness in metros was found out to be less than the awareness in non-metros. The percentage was 51 in metros compared to 63 in non-metros. And nearly 80% of those investors who were aware have used their services. Same was the case for the metro cities. In metro cities, 41% of the lapsed investors gave "lack of expert guidance" as their reason to stop/reduce their investments in equity. So it can be seen that SEBI and the IFAs themselves need to work hard on generating awareness. Another point that is notable is that the lapsed investor (individuals who have stopped or reduced their investment personally in the equity market in last 1 year)

reduced his usage of a broker to a large extent. The usage of IFAs was reduced by 10%.

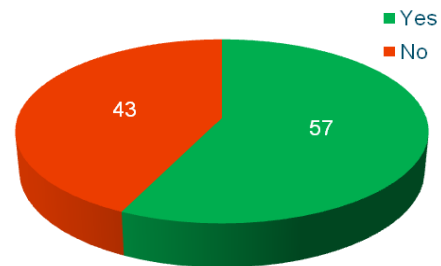
**Fig: This shows the percentage of Investor and lapsed investors who are aware about IFAs**



**All( Investor+Lapsed Investor) - Awareness about IFA (n=1024)**



**Lapsed Investor - Awareness about IFA (n=306)**



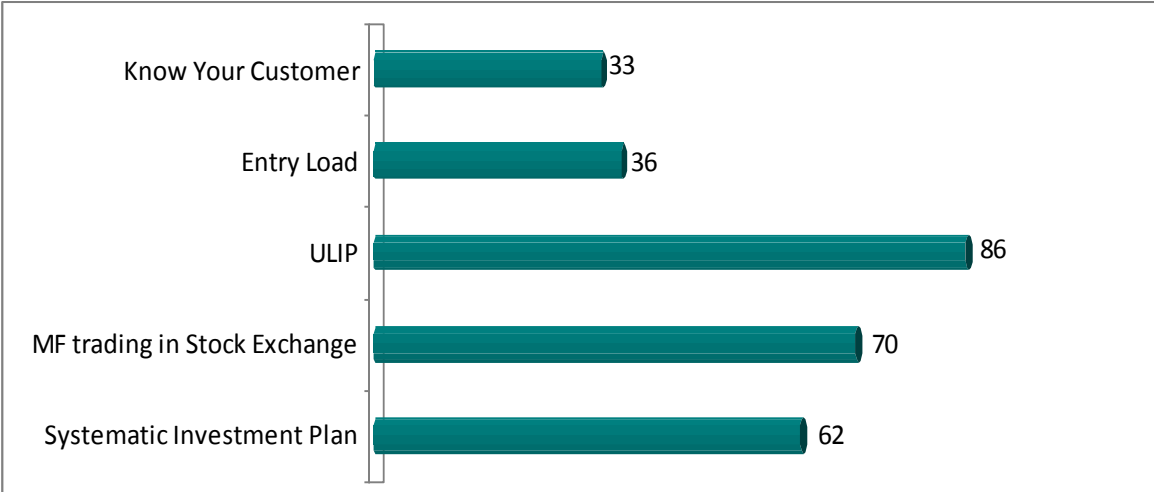
**Investor - Awareness about IFA (n=718)**

3.3.3 30% of the investors said they do not invest as they feel the market is very risky and unstable. And they prefer to invest in portfolios that give them some assurance of returns. 41% of those from metros cite lack of expert guidance as their reason to stop investments which is more than that of non-metros.

3.3.4 Even though there are a large number of investors in mutual funds and insurance, not many of them are aware of key terms like KYC and entry load. The percentage of investors who are aware is just 33% and 36% respectively. What is even more surprising is that in Mumbai, which is the financial capital of India, there are just 10% and 19% respectively of investors who are aware of these terms. Pune was the only city where the

awareness was the highest with 85%, whereas the remaining cities failed to cross even 65%. This shows that there is a very low awareness even among investors who have been investing for a period of around five years, though most investors are aware of SIPs and online trading of mutual funds.

**Awareness of key financial terms**



**3.4 Investor preference**

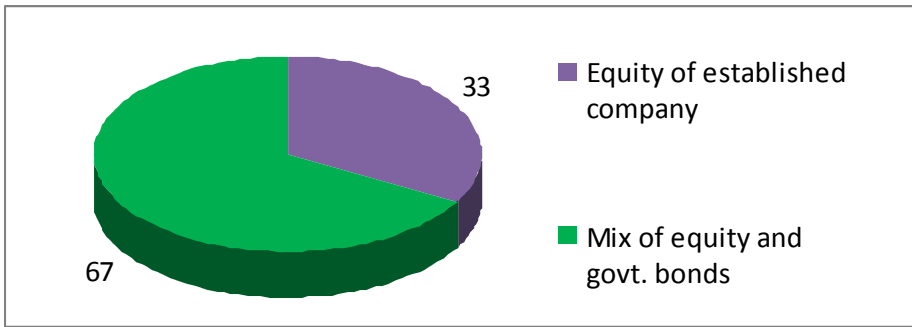
3.4.1 The survey conducted by Synovate studied the preferred mode of investment of the investors and non investors. Insurance turned out to be the most popular mode of investment for both the investors and non investors. Investors prefer to invest in ULIPs as well as term plans while non investors prefer the latter. The primary reason given by non investors for not investing in the equity market is risk, as they consider the markets to be highly unstable and volatile. Non investors are risk averse as 72% of those surveyed are looking for protection of capital and steady income. Non investors were also asked if they would shift their investments to equity if protection of capital is ensured, the study showed that 43% are willing for the same.

## Investment instruments of investors

	Total	Delhi	Mumbai	Ahmedabad	Kolkata	Bangalore	Chennai	Hyderabad	Pune	Indore	Jaipur
BASE (n)	718	154	155	51	50	50	50	50	54	51	53
Insurance	98	96	99	94	100	100	100	100	98	98	100
Mutual funds	84	90	86	47	92	98	98	72	94	100	53
Fixed deposits	62	49	54	84	88	78	62	44	56	73	79
Gold	48	60	27	55	40	40	88	62	74	37	21
Stocks/shares	45	31	32	67	40	46	58	60	85	37	43
Kisan vikas patra	20	37	22	31	24	-	-	2	6	24	19
Real estate	27	36	22	16	26	6	6	58	78	2	15
PPF	23	15	37	31	26	4	14	40	22	8	26
NSC	18	13	22	29	38	14	4	6	7	-	43
Pension plans	21	21	15	27	24	14	20	18	35	45	8
Govt. Bonds	14	12	3	10	24	2	20	20	9	12	49
IPO	11	6	3	8	10	2	16	4	76	-	8
RBI Bonds	4	5	5	-	6	6	2	8	-	-	4
ELSS funds	4	3	4	6	4	4	16	-	6	-	2
Recurring Deposits	3	-	-	6	-	-	-	-	-	-	30
Company bonds	2	2	-	6	6	2	8	-	2	2	2
Annuities	3	-	-	-	2	4	22	-	-	6	-
Crude oil/ Commodities	1	3	-	2	-	2	2	-	4	-	-
Forex	1	1	-	-	-	-	2	-	-	4	-

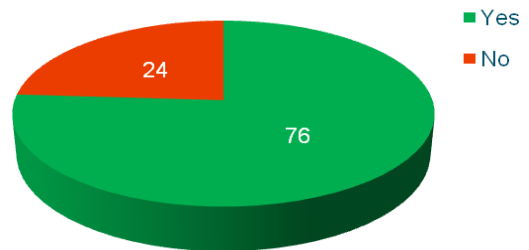
3.4.2 Most of the investments done by investors are for "Future Planning" followed by "Financial security for the family". For the non-investors, "Financial security" and "Rate of return" were the top two reasons for investment. It shows that non-investors are content with what they have and find no need for taking unnecessary risks.

**Investment most comfortable with investors**

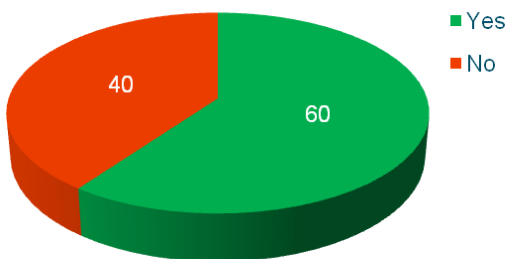


3.4.3 When it comes to sources of information, word of mouth was the main source. Other main sources were television and newspapers. Majority of those who have approached an IFA are satisfied with the service received. The main reasons put down by the investors for not using IFAs is that they do not feel the need for an advisor and that they get their information from other sources like the media and bank relationship managers.

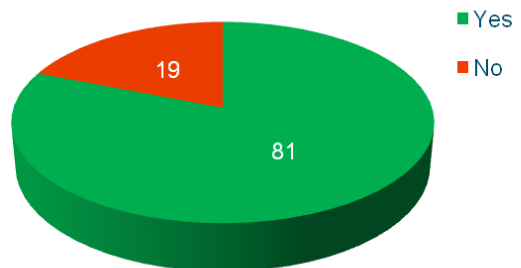
**Fig: This shows the percentage of Investor and lapsed investors who are aware and have availed the services of an IFA.**



**All Aware (Investor+Lapsed Investor) – Ever availed the service from IFA (n=559)**



**Lapsed Investor (Aware) – Ever availed the service from an IFA (n=147)**



**Investor (Aware) – Ever availed the service from an IFA (n=412)**

3.4.4 From the survey it was also seen that the investors were clueless when it comes to payments to IFAs. When asked what would be their preferred mode of payment to IFAs, an equal majority chose one of the following: "A fixed advisory fee", "As a percentage of their investment" and "Included in the

investment product". It can be seen that investors have differing views when it comes to the payment mode to advisors.

3.4.5 The main difference between investors in metro cities and those of non metros is that the awareness of IFAs is lesser in the metro cities. Another notable point that came out in the survey was that the lack of expert guidance was amongst the top four reasons for reduction in investments by the lapsed investors in the metro cities. This shows that there is a need for IFAs but the investor segment is just not aware of it.

Table 3.1 *Investor preference (in percentage)*

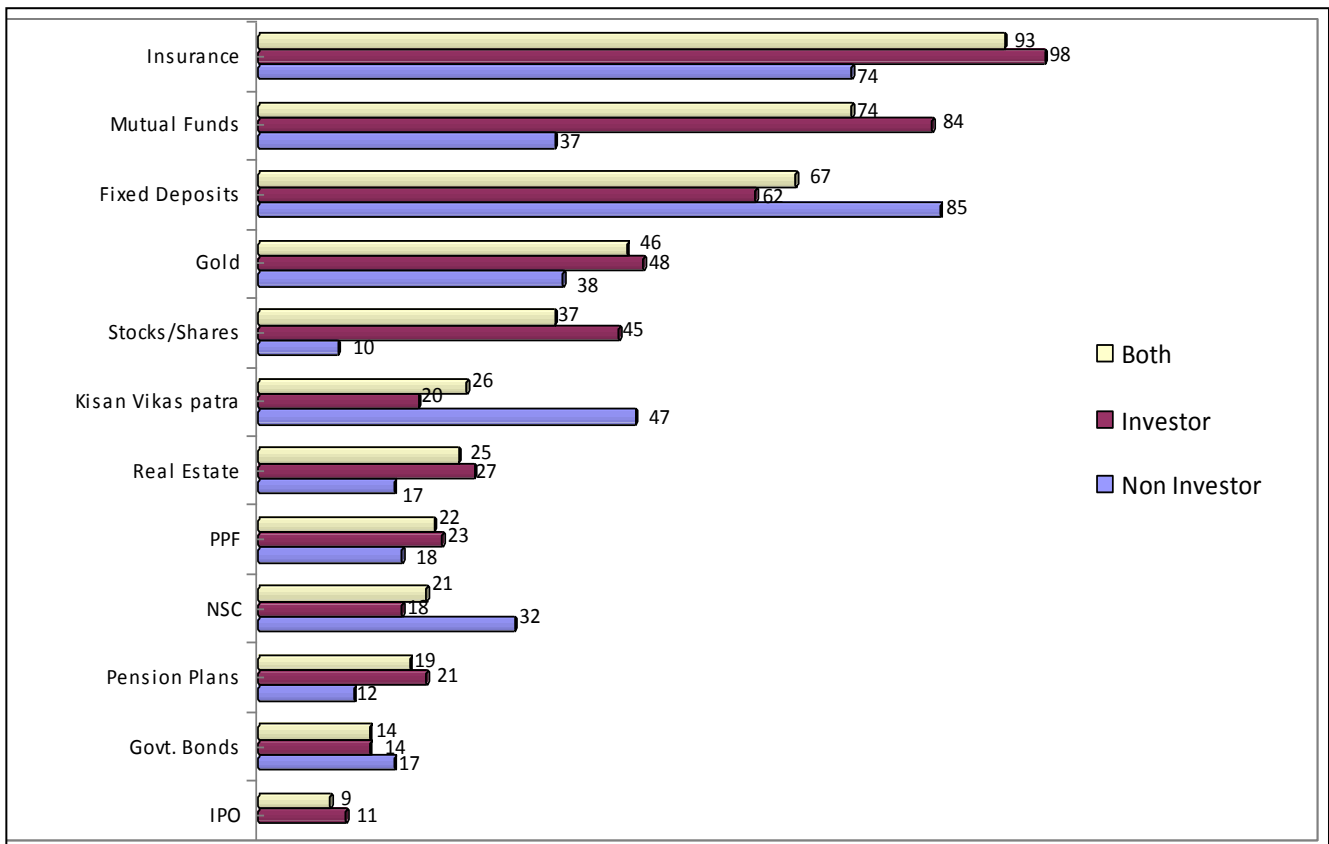
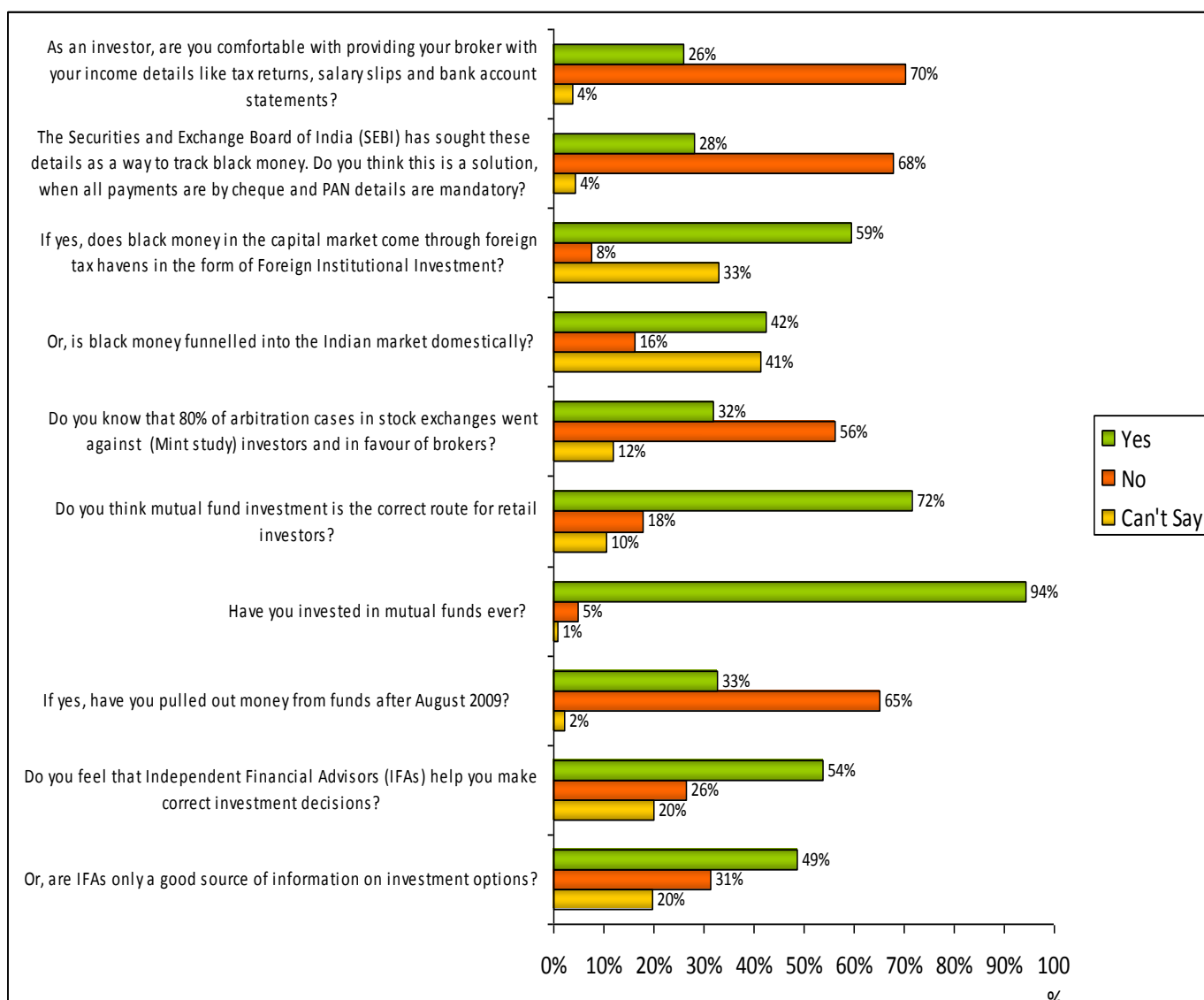


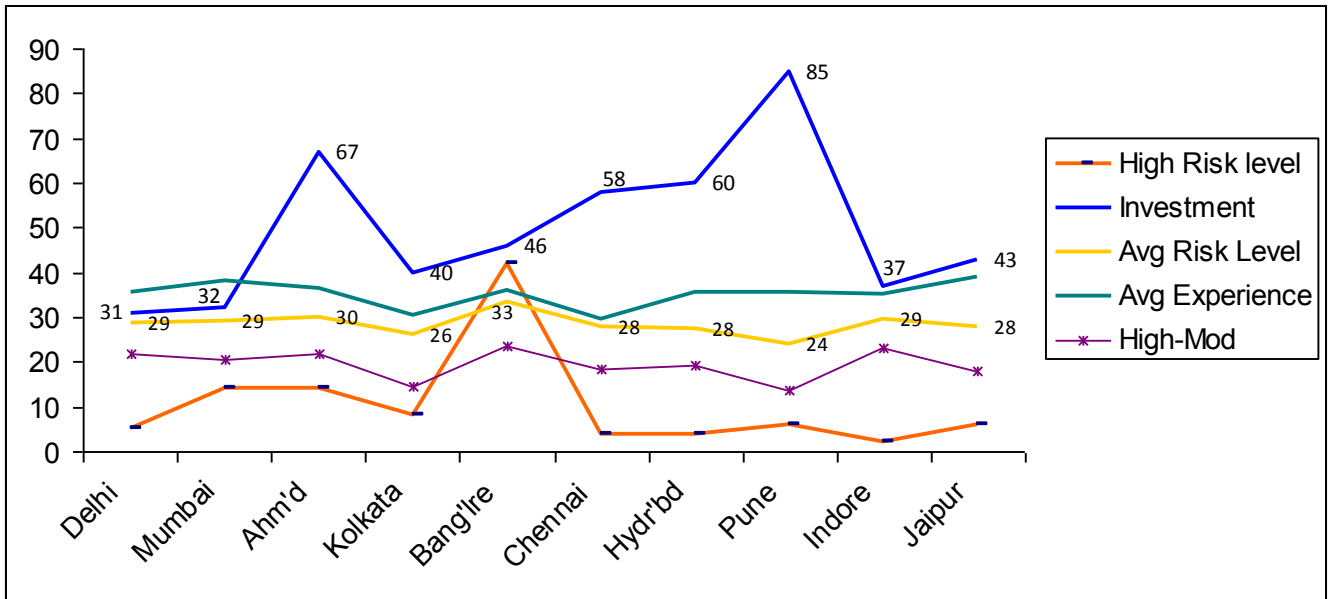
Table 3.2 Online survey conducted by *Moneylife*



3.4.6 Investors look for assets that give them more security. If they see a high level of risks in a particular product they stay away. Ninety-eight percent of investors put their money in insurance which is more of a risk product than an investment product. When it comes to investment in equity, most of them do it through mutual funds followed by their own investments in stocks and shares. Only eleven percent of investors invest in IPOs and just four percent in equity-linked savings schemes (ELSS). The other areas of investments include fixed deposits and gold in which 62% and 48% of investors have invested respectively.

3.4.7 There are just 10% of the polled investors who are ready to take on a high level of risk. And 20% of investors fall in the category of the conservative type. This shows the mentality of the Indian investor who is mostly conservative and is not ready to take up any form of risk. But what is more

startling is the behaviour of investors in different cities. Where just 6% of the investors have a high risk appetite, 85% of them invest in the equity market and in a place like Bengaluru where 42% have an affinity for high risk, the highest among all cities, just 46% invest in shares. This just shows that investors have a lack of understanding of their risk appetite and are just investing blindly or are not investing at all.



### 3.5 Mutual funds

3.5.1 In August 2009, as part of a series of regulatory changes SEBI banned entry load and upfront commissions. This effectively eliminated the well-entrenched incentive-based distribution system of selling mutual funds. With commissions eradicated, mutual funds have found distributors deserting their products in favour of better revenue-yielding products like Unit-linked Insurance Plans (ULIPs). This was one of the reasons for recent splurge of Rs. 600 crore as Mutual fund dividend distribution. The Synovate study suggests that only 5% of MF investors have shifted to ULIPS. Post August 2009 only 25% of people polled have changed their investment attitude. The scrapping of MF entry load is seen as positive by investors. However, it has still not helped to increase the investor base and net inflows into equity funds are still falling. It is clear that there will be need for more incentives for increase of retail participation in capital markets.

- 3.5.2 The only beneficiary in all of SEBI's actions seems to have been banks and bank distributors. The regulator should have examined the issue of trail commissions fully over the past couple of years, when investors had been complaining about not being able to switch IFAs. Top SEBI officials have taken the position that the industry will learn to swim and find a solution. But as things stand, large sums of money are flying out of the industry. That result defeats the government's stated objective of encouraging retail investors to participate in the capital market through mutual funds.
- 3.5.3 With independent financial advisors (IFAs) reluctant to service small investors after SEBI scrapped the entry load, it has been a happy hunting ground for banks to get the business of such customers. Naturally, IFAs are outraged. They are especially angry at mutual fund companies that are in a hurry to accept and act on these requests to transfer AUMs (Asset under Management). The game has shifted from serving the investor to running after trail commissions.
- 3.5.4 It may be recalled that the decision that trail commission should go to the new distributor was taken by AMFI way back in September 2007. But this never got implemented because of the vested interests that control AMFI. As a result, AMFI dragged its feet for over two years and has tried very hard not to implement the decision.
- 3.5.5 According to the data on mutual fund subscriptions released by AMFI in December 2010, the last year witnessed a total net outflow of more than Rs16,000 crore from equity mutual funds. Moves by the Securities and Exchange Board of India (SEBI) to popularise buying and selling of mutual funds through stockbrokers' terminals have not exactly taken off. The irony is that the stock exchanges, which run with sharp profit motive, have had another great year and market benchmarks have scaled a 32-week high.
- 3.5.6 At the end of the day, can all this confusion be a reason to deter retail investors from the equity markets?

## **3.6 ULIPs**

- 3.6.1 In the last two years, collection in ULIPS has been Rs1,35,000 crore and data indicate that equity AUM of insurers stood at Rs 4 trillion (US\$88bn), 34% of total, as of December 2009. According to the IRDA data on new business premium on regular plans (non-single premium), 21 of 23 insurance companies showed a declining trend in collections in October. According to

the October data, premium collections were down by 24% compared with the same period last year, with private insurers registering a 42% year-on-year drop in collections.

▶ First year premium of life insurers		
(in Rs cr)		
	Non single premium	
	Oct,10	Oct,09
ICICI Pru	91	336
Kotak	33	82
SBI Life	109	334
Bajaj Allianz	120	243
Reliance	138	215

(Source: IRDA)

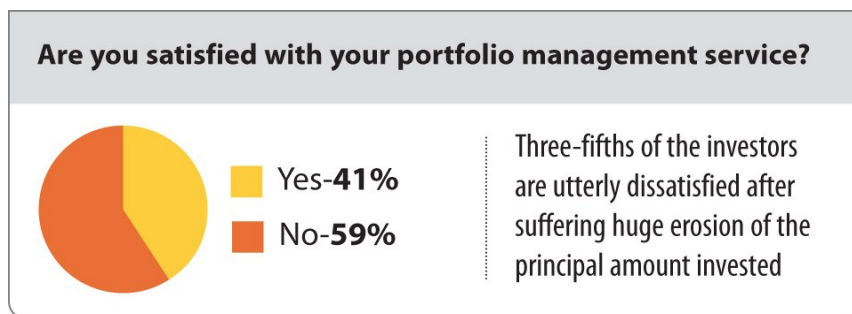
- 3.6.2 In an exclusive interview with Moneylife, IDBI Federal Life Insurance chief, Mr. GV Nageswara Rao said that ULIPs were 80% of their business and now it is down to 65%. ULIPs are controversial as many products have been sold on assured return by intermediaries in the past, due to the high incentives that were being offered. ULIPs do not have easy entry and exit policies and huge sums of money have been deducted towards countless charges. The ultimate sufferer due to all this chaos has been the end user or investor. ULIPs have the highest AUM in the stock market and lack of transparency in the scheme has led to many not renewing policies.
- 3.6.3 During all this time, SEBI has watched silently for several years as funds under ULIPs grew exponentially and substantially outstripped those of mutual funds. It has stirred into action only because its decision to ban entry-loads has hit the mutual fund industry hard. The alternative mechanism of trading through stockbrokers has not worked, nor will it be less expensive for investors than paying entry-load. Worse, investors are still paying to buy funds, but the money is deducted directly by banks for holding the investment. The consequence: Rs7,200 crore has flown out of equity funds since August 2009, much of it ending up in ULIPs due to its unilateral action.
- 3.6.4 SEBI had no business raking up another controversy with such a thoughtless action. Firstly, it is far-fetched to label ULIPs issued under the supervision of IRDA as 'collective investment schemes' when SEBI failed to follow up its notice to art funds and watched silently while they raised a few hundred crore rupees and also ended up short-changing investors.
- 3.6.5 As for the ULIP controversy, SEBI should have taken up the issue with the finance ministry, since IRDA is also under its administration and it alone has the authority to delineate regulatory turf in situations such as these. Had SEBI approached the finance ministry, there may have been a more cogent discussion on other problems with the insurance sector, such as high lapse rates, high rejection of claims, annuity products that have no insurance

component and probably need to be classified as mutual funds, and the fact that Indians remain grossly under-insured even when the industry is paying such high commissions to agents.

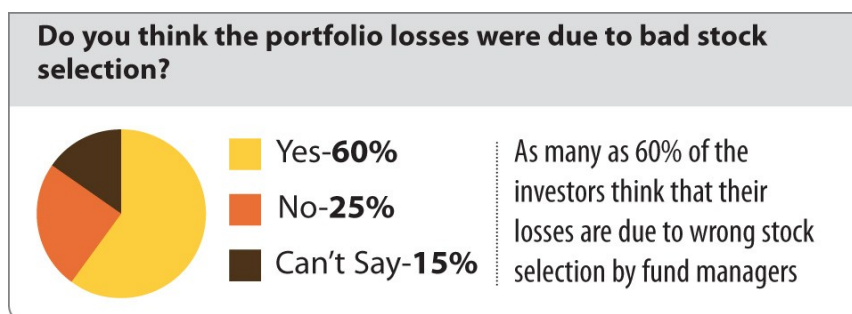
### 3.7 PMS

3.7.1 In theory, PMS (portfolio management services) is the ideal solution for affluent people who are willing to pay a hefty fee to have their money invested in the market by experts. Supposedly smart investors have apparently put Rs30,000 crore in PMS, but returns are another matter altogether.

3.7.2 PMS, which are offered by asset management companies (AMCs), brokerage firms and niche portfolio managers, have been known to provide a bitter experience to many investors. Among the respondents surveyed by Moneylife, 59% admitted to having suffered huge losses in their PMS investment.



3.7.3 But, even here, the field is skewed by the large number of complaints about significant losses incurred by investors in Kotak group's three PMS schemes. Several investors say they have lost as much as 30% to 40% of their principal—a complaint to SEBI has often helped in getting a refund of at least the fees collected by Kotak, despite massive losses.

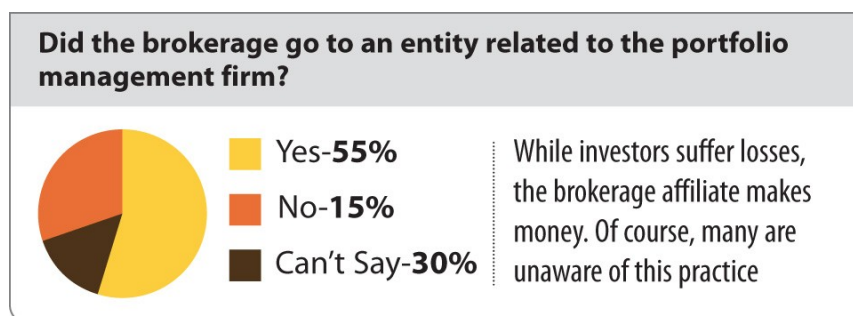


3.7.4 The SIGMA Equity Portfolio did even worse. From April to December of 2009, the benchmark index, the BSE 200, posted 91.2% returns, but the scheme

inched up by only 8.7%. Kotak is among the biggest in the PMS business, managing almost Rs1,000 crore. But it probably attracts the maximum number of complaints. A cardiologist, who had invested Rs42 lakh in a PMS with JM Financial in 2007, walked out in early 2009 with half the sum. The karta of an HUF (Hindu Undivided Family) tells us that he had invested Rs50 lakh of the family fund and received just Rs31 lakh on redemption—a loss of around Rs19 lakh (or 38%).

### **Inadequate Information**

- 3.7.5 Regulators often advise investors to think, research and then invest. Not many people know that there are three types of portfolio managers, but even if they knew this, what kind of research could they have done when there is no comparative data available? As *Moneylife* has been highlighting for a while now, there is no statutory filing and aggregation of data in the public domain to help investors choose a PMS, based on track record.
- 3.7.6 However, before handing over money to the investment house, you can ask them to produce three years of performance. The regulation mandates that.



- 3.7.7 Since the regulator does not mandate public disclosures of PMS performance, *Moneylife* decided to poll its readers for some answers. For this survey, we received 122 responses to a fairly simple set of questions. Of these, we have eliminated those who have never invested in a PMS but still chose to respond to the questionnaire. That whittled the sample down to 73. This is a high-quality sample and more reliable than most surveys conducted by leading market research companies for a narrow set of people. The responses were interesting.
- 3.7.8 For starters, inducement to invest in PMS comes from a variety of sources—financial advisors (a high figure of 32%), friends (26%), brokers (21%) and bankers (18%). As we had guessed, these services have more dissatisfied investors (59%) than happy ones; a majority (63%) say they will not recommend PMS as an investment route to others. But 59% of them did get some returns on their investment—although the high dissatisfaction level suggests that the returns were probably below their expectations. In fact, 30% of the respondents received a return of less than 10%, which is below

the inflation level. Of these, 20% got under 8%, which is what a bank fixed deposit would have fetched. Some 41% said their returns were over 10%. And we were not even asking how many of them beat the popular benchmarks like the Sensex. A majority of the respondents (63%) have invested in more than one PMS. Nearly half the investors (48%) have remained invested for over two years. About 12% did not respond to this query.



- 3.7.9 The survey showed that there is low awareness about costs, charges, churning of portfolios or related-party transactions. This was evident from the number of investors who simply could not respond to questions on these issues. For instance, 29% of the people did not respond to the question of returns earned, but a high 60% felt that the losses in their portfolio were due to bad stock selection. A third of the respondents couldn't say if their portfolio was churned excessively.
- 3.7.10 Only 3% of our respondents had filed a complaint with the regulator about the manner in which a PMS was run. This number is hard to analyse because it is unclear if they did not complain because they thought it was pointless, or just chose to vote with their feet. The findings suggest that all is not lost for the industry and, if the regulator puts in place a robust reporting system and some much-needed checks and balances, there would be plenty of takers for well-managed portfolio management schemes.

### **Sales Pitch**

- 3.7.11 The common complaint against the performance of these schemes is that they raked up losses and churned portfolios aggressively; the stock selection was poor and some did not even return the entire principal. How are investors lured to get into a PMS? Is there mis-selling involved? If so, when will the market regulator wake up and review the PMS sales literature?
- 3.7.12 What lures most investors mainly is unbridled and unregulated boastful and, sometimes, false claims. If JM Financial's executives told a doctor that the money-management skills would 'separate the men from the boys' in a downturn, a portfolio manager boasted about the firm's ability to predict trends and to hedge against risk. Another investor writes that he attended a

fancy presentation by a brokerage firm which claimed 95% accuracy in stock selection. He says, "I find it difficult to digest the claim, unless you have inside information. And you cannot have inside information on all the stocks."

- 3.7.13 Apparently, these exclusive meetings at five-star venues are selling not only PMS, but also investment in poorly regulated sectors such as real estate. The sales literature of Kotak runs as follows: "Portfolio Management from Kotak Securities comes as an answer for those who would like to grow exponentially on the crest of the stock market, with the backing of an expert." The only exponential growth seems to be in the losses that they have made. Kotak claims that "to understand the dynamics of various asset classes and investment options we use the best talent in the industry to come up with cutting-edge products." This looks like peddling pure snake oil. Investors will find it hard to understand how the 'best talent in the industry' could make absurd judgement calls to lose a large chunk of capital in 2009-2010, a period that has been hugely rewarding for investors.
- 3.7.14 In its sales brochure, Kotak states that its portfolio managers have an average experience of over nine years in the equity markets and it boasts of a research team with an average experience of five years. With such talent and experience, the Kotak team seems to be following two simple rules that take retail investors to ruin; One, 'buy high and sell low', and two, 'chase market momentum too late'.
- 3.7.15 No wonder, some sensible distributors don't sell PMS. Last year, Brijesh Dalmia, founder, Dalmia Advisory Services, told us, "I do not like PMS and I do not sell them. PMS is sold as a customised product, but in reality it is not. Costs are very high as compared with other investment options. The taxation is not suitable for customers. Besides, the investor has no control on the churning part by the fund house or the fund manager." Mr Dalmia added, "PMSs are operated with no fixed fee structure and capping on expenses on churning. This is obviously not in the interest of the client. In the last couple of years, I have not seen any PMS which has beaten the benchmark index of any diversified equity fund. Of course, PMS will be promoted by the distributors and financial advisors because of the high commission offered by the fund houses which range anywhere between 2%-4%."

### **3.8 Transmission of shares**

- 3.8.1 The SEBI Committee on 'Transmission of Shares', recommended a threshold limit at holding of 200 shares or Rs. 1 lakh in value, whichever is higher, for companies to require an affidavit, deed of indemnity and no-objection certificate from other legal heirs.
- 3.8.2 SEBI had constituted a group to suggest suitable measures to address issues relating to difficulties faced by investors while dealing with transmissions of

securities in the physical and dematerialised mode. The terms of the reference of the group were to: examine various procedures followed by the listed companies and registrar & share transfer agents for transmission of physical shares; explore the implementation of the concept of either or survivor in the depository system; and to suggest uniform norms and procedures relating to the transmission of physical shares, specifically with reference to documentation required for transmission.

- 3.8.3 According to a few people tracking the committee's work, Sebi took about 16 months to move ahead on the report despite unanimity among committee members on addressing the difficulties in transmission of physical and dematerialised securities.
- 3.8.4 Most investors think that they are investing in shares for short-term gain and they often do not apply their mind on the inheritance issue. However, this is not correct as it is important to ensure that investment in shares is also passed on to the legal heirs without any hassles. Till a decade back, there was no provision in the Companies Act, 1956, for appointing a nominee for shares or debentures. A shareholder or debenture holder could have joint holders but no nominees. However, the situation underwent a change from 31 October 1998 when Section 109A was inserted in the Companies Act. According to this section, every holder of shares or debentures can nominate a person who will own the shares or debentures after the shareholders' demise.
- 3.8.5 In the depository system, the problems are mitigated to a great extent as the shares are account balances in the electronic form. The process of transmission of dematerialised shares is not only simple but also much faster than the shares held in physical form. This is because the successor has to deal with only one entity, which is the depository participant (DP), with whom the deceased was maintaining his demat account. Once the DP is convinced as to the title of the legal heir(s) and does the needful, all the shares lying in the demat account are transferred to the demat account of the legal heir(s) of the deceased.

### **3.9 NPS**

- 3.9.1 The New Pension System (NPS) is a product which was perfectly designed for the masses. The product was, good, it offered choices and was available at low costs. Regulators were expecting the product to sell from a "pull" factor rather than a "push" factor. But NPS did not take off as it should have. As on 12th February, the 952 branches of various banks and financial services companies had collected just 3,690 forms. PFRDA (Pension Fund Regulatory and Development Authority) shows them as registered users. All we know is that they had collected forms.

- 3.9.2 In order to create a pull strategy for the product, the government started literacy campaigns and industry-level advertising. But many investors wouldn't choose financial products that are shown to them on a platter by themselves. There is no evidence to show that investors make the "good choice" by themselves. In order to sell this product the government should adopt a push strategy which would ensure sales of the product.
- 3.9.3 For the future success of the national-level NPS, a critical factor is the requirement to encourage and manage coordinated actions by a large number of stakeholders including government departments, local government offices, grass-root level functionaries, banks, NGOs and community based organizations and fund managers. In parallel, a State will need to establish a mechanism for closely monitoring the actions of each category of stakeholder across multiple districts to ensure integrated and coordinated operations. How this develops in practice will determine the success of the NPS.
- 3.9.4 In recent news it was seen that out of the 27 states that have adopted the NPS, 9 states are still yet to make payments to the scheme. The Centre had launched the NPS for employees who joined service after January 1, 2004. Since then, all states except for the Left-run West Bengal, Tripura and Kerala, have adopted the pension scheme. But due to the burden of a sharp hike in salaries and benefits awarded by the Sixth Pay Commission, most states have failed to transfer any pension money to the fund managers. The NPS is to all workers paid from the state budget from schoolteachers to employees of rural, urban and autonomous bodies. Direct and indirect employees of state governments form about 6% of the paid workforce and roughly 2% of India's population.
- 3.9.5 But with no funds being invested for as long as seven years in states like Tamil Nadu, these workers retirement incomes will suffer significantly. Citizens under the NPS have earned 15% to 20% returns in the last two years. Central government employees have earned a weighted average return of about 12.4% over the same period.
- 3.9.6 By contrast, most states have credited their workers with 4.5% to 8% interest on their notional pension account balance. And, some states have not even deducted workers contributions for all these years, while others have used deductions from workers pay to fund current revenue expenditure.
- 3.9.7 This shows the apathy of the state governments themselves towards the scheme, so then, what can we expect from the general public. This attitude of the state government has led to the government employees earning 8% to 16% less on their savings and even much higher losses if we take compounding into consideration.

## 4. Recommendations

4.1 Only a safe and well regulated capital market will attract more investors. This will happen when the only risk for an equity investor is the risk associated with the business performance of the company he has invested in. The regulatory system should ideally eliminate any risk beyond that (Deena Mehta).

4.2 This can be achieved through speedy disposal of grievances and exemplary and immediate punishment to wrongdoers. Moneylife Foundation's surveys and direct feedback repeatedly highlight that people avoid the capital market because they find equity investment very risky. This has a lot to do with repeated scams and blatant price manipulation which goes unchecked and leads to frequent scams. Moneylife Foundation's survey among retail investors showed that 58% of investors feel that SEBI is not doing enough to protect the interest of minority investors and 67% feel that SEBI is not doing enough to prevent price manipulation. Based on our findings, we make the following recommendations.

1. **Information availability:** An investor wanting to buy a stock needs to be able to access online, all information about a company, as reported to a statutory database. SEBI needs to hasten the process of completing CorpFiling or re-introduce Electronic Data Information Filing and Retrieval System (EDIFAR). Today an investor has to cull out information from various media websites or those like [www.watchoutinvestors.com](http://www.watchoutinvestors.com). There is no source for getting searchable information on enforcement action, consent orders and warnings issued by SEBI to specific companies and intermediaries or the performance of Portfolio Management Services. The Consent Orders continue to be opaque and provide no indicator of the gravity of wrongdoing. (Please refer section 2.2.4)
2. **Entry issues:** Today, the high entry cost and repeated Know Your Customer (KYC) requirements have turned into a barrier for entry of new investors. In addition, depositories such as the National Securities Depository Limited (NSDL) have introduced their own rules such as asking for photographs and signatures of nominees. This has legal implications following a Bombay High Court judgement by Justice Roshan Dalvi and could lead to unintended persons becoming the heirs/beneficiaries of shares. We recommend that depositories and demat accounts are at the centre of any trading activity and KYC detailed obtained and maintained at the depository ought to be sufficient for identification proof for all capital market transactions. (Please refer section 2.2.2)
3. **Power of Attorney (PoA):** Even after SEBI has woken up to the misuse of Power of Attorney (PoA) brokers continue to create their own rules and make demands that are out of line with the regulation. Each broker insists that an investor opens a demat account that the broker is comfortable with. This forces investors to bear the cost and effort of opening needless demat accounts.

Similarly brokerage firms set up by banks insist on opening designated bank accounts with that bank and also maintain a deposit with it. These costs and inconveniences are adding up to driving investors away from the capital market. (Please refer section 2.2.6)

4. **Grievance Redressal** remains a problem area. While SEBI provides online registration of grievances and a tracking number, our experience is that investors are not happy with the process. At the same time, SEBI believes that it has set up a robust mechanism. We recommend that SEBI puts out a monthly press release detailing the category of complaints it has received with details of resolution. It must also highlight which company/intermediary has the highest number of complaints against it in a given month. This data was being provided by SEBI in 1992 but has since been stopped. We recommend a revival of this practice. (Please refer section 3.2)
5. We also recommend that SEBI should work with investor/consumer associations to have an open-house for grievance redressal. Such open house meetings must be publicized by SEBI at its own expense, in order to ensure wider participation. The feedback received would be valuable in tightening the grievance process. Also, in order to have a healthy capital market it is necessary that we have speedy and exemplary punishment to the accused. The average citizen in Indian society does not have much respect for law, and the lengthy legal process aids the culprits.
6. **Portfolio Management Services (PMS)** are an important need for affluent people who want to participate in the capital market but do not have the time to make decisions themselves. However, PMS remains opaque and virtually unregulated. Investment norms are sketchy and there is no restriction on churning and trading through affiliates of service providers. Secondly, there are no rules to prevent false claims and fake sales pitches. This happens because there is no publicly available information on the performance record of the service provider. SEBI has not asked for performance data to be revealed on individual websites and on sales literature. We recommend that such data must be available on the SEBI website or on a statutorily-mandated database. (Please refer section 3.8)
7. Moneylife Foundation believes that all decisions pertaining to investors are taken on the basis of feedback from market intermediaries rather than investors. Nobody asks what the investor wants. There is also no attempt to expand the market or disseminate information on areas such as reverse book building that happens which a company wants to delist. The root of this is grossly inadequate representation for investors on SEBI's primary and secondary market committee. We recommend that SEBI needs to take serious cognizance of the views of investor organizations and engage with them on a regular basis. (Please refer section 2.1)

8. Stock tips and financial advice on television without any accountability remains peculiar to the Indian market and erodes the credibility of its capital market. Several SEBI chairmen have publicly spoken about initiating action but have done nothing. We recommend that SEBI ban stock tips through televised investment advice altogether. Similarly, SEBI has done precious little about the problem of paid news.
9. One way of getting people into the market is through mutual funds. However the upheaval in the sector and frequent change in rules and regulations have completely confused investors and many small investors are unable to get affordable and credible investment advice. This is driving investors away from an investment avenue that would ideally help them beat inflation. (Please refer section 3.6)
10. **Initial Public Offerings** (IPOs) have the potential to become a big entry point for first-time investors in the capital market. However, in every bull-run, investment bankers quickly take IPO prices to ridiculous levels and kill the market. Similarly on issues such as IPO gradings, there is a continuous effort to scrap or dilute the process. We recommend that SEBI uses its power of moral suasion to speak to intermediaries and companies to help keep prices reasonable. Secondly, IPO gradings must be made more independent by paying grading fees through the vast sums of money available with stock exchanges and SEBI in investor protection funds. (Please refer section 2.1)
11. As regards **TDS**, we feel that the increased burden placed on individual and with regard to a deduction is unfair, especially since they have no powers to ensure or enforce rectification or compliance. (Please refer section 3.1)
12. The **NPS** is an excellent savings product for the long term but has failed to find acceptance among the masses. The NPS cannot be recommended to investors until it is stabilised and there is no confusion and contradiction from the regulator's end. For this to happen, the PFRDA Act needs to be passed urgently, lending some stability to the product and creating more confidence in the minds of investors. (Please see section 3.9)

## Acronyms

ULIP	Unit linked insurance plan
IFA	Independent financial advisors
SEC	Socio-economic classification
IPO	Initial public offering
ASBA	Application supported by blocked amount
SEBI	Securities and Exchange Board of India
SCSB	Self certified syndicate bank
NBFC	Non-banking financial companies
CRAs	Credit rating agencies
QIBs	Qualified institutional buyers
F&O	Futures and Options
NSDL	National Securities Depository Limited
CDSL	Central Depository Services Limited
FIIIs	Foreign institutional investors
RHP	Red herring prospectus
PFRDA	Pension Fund Regulatory and Development Authority
IRDA	Insurance Regulatory and Development Authority
DTC	Direct Tax Code
PPF	Public Provident Fund
PoA	Power of Attorney
CFP	Certified Financial Planner
DP	Depository Participant
AUM	Assets Under Management
AMFI	Association of Mutual Funds in India

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- Securities and Exchange Board of India ([www.sebi.gov.in](http://www.sebi.gov.in))
- Association of Mutual Funds in India ([www.amfiindia.com](http://www.amfiindia.com))
- Insurance Regulatory and Development Authority ([www.irda.gov.in](http://www.irda.gov.in))
- [www.chittorgarh.com](http://www.chittorgarh.com)

## **Appendix-1**

### **List of Attendees for Moneylife Brainstorming Session**

Jayant Vidwans  
Vandana Kashikar  
Jaydeep Kashikar  
Hemant Thakur  
Sandeep Vasa  
Yogendra Joshi  
D. Sundararajan  
Pradeep Samant  
Nandini Mathure  
Jaya K. Nagarmat  
Kishore Nagarmat  
Vivek Rege  
Yogin Sabnis  
Prakash Wadhvani  
Manoj Rihwaani  
Anil Manuja  
Nitin Vete  
C.M. Purohit  
Jalpa Broker  
Shrikant Mane  
Prashant Sampat

Tarun Birani  
Kartik Jhaveri  
Parag Shah  
Vinod Jain  
Rajesh Jha  
Mukesh Parikh  
Pratabh Bhai  
Uday Merchant  
Atul Nayyar  
Sanjay Khatri  
Pranab Mazumdar  
Anil Mhatre  
Nilesh Ghia  
Nikhil Naik  
Dhruv Mehta  
Madhusudan Poddar  
Roopa Venkat  
Ganesh Shanbag  
Sangeeta Jhaveri  
Mukesh Ramnani  
Anil Merchant

## About Moneylife Foundation

Moneylife Foundation is a not-for-profit trust engaged in spreading financial literacy through workshops, round table meetings and awareness campaigns and advocacy to crystallise policy to bring about regulatory changes that protect investor rights. We also engage in grievance redressal, counselling and research.

Members of Moneylife Foundation can register free of charge and our membership continues to grow rapidly. As of January 2011, we had 4,800 members — in just 11 months from our launch on 6 February 2010. Members receive regular information about all our financial literacy workshops; they write to us for assistance in having grievances redressed, they are also invited to all our meetings and workshops free of charge. They can also subscribe to free daily news capsules from Moneylife Digital and can avail of all the facilities of the Moneylife Knowledge Centre which has an excellent collection of books on business, finance, corporate biographies, reports of government committees and much more.

(<http://www.moneylife.in/promotion/mlfoundation/index.html>)

Moneylife Foundation has received the Income tax exemption under Section 12(A) and has also applied for 80(G).

### Founder Trustees

Moneylife Foundation was set up by Sucheta Dalal and Debashis Basu. The founder trustees of Moneylife Foundation are: Sucheta Dalal, Debashis Basu, Dr. Nita Mukherjee and Tina Trikha.

### Major Initiatives

- Moneylife Foundation has tied up with Disha Financial Counselling Services, a not-for-profit entity set up by ICICI Bank. Under the arrangement, a senior counsellor from Disha conducts one to one sessions with members facing difficulty in managing credit, at the Foundation office.
- With the support of ICICI Bank-Disha Financial Counselling, we hold FREE workshops every Tuesday on 'How to be safe and smart with your money' where we explain the basics of how to keep your money safe and growing.
- Moneylife Foundation has conducted workshops with support from ICICI Pru Asset Management, Bank of Baroda, IDBI Mutual Fund, BRICS Securities, Karvy, CAMS, Indiabulls Financial Services Pvt Ltd, and Axis Mutual Fund.

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