International Journal of Social Science and Economic Research

ISSN: 2455-8834

Volume:03, Issue:06 "June 2018"

INVESTMENT ENVIRONMENT IN INDIA: STUDY OF SEBI ERA

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ABSTRACT

This paper explores the investment pattern, contribution of various reforms for investor protection as far as the steps taken by SEBI after the drastic consequences of scams in security market and nevertheless it focusses upon the future perspectives of an Investor in hands of SEBI. It has been found that SEBI has done a lot of work for the development of the Indian capital market. The need of the hour in the financial sector is the active participation of the investors so that the equity in the financial market increases and this is possible only when proper advice is provided to these investors to enable them to make an informed decision about the investment. SEBI have proposed a nationwide survey for assessing financial inclusion and literacy in the country in the draft 'National Strategy for Financial Education' that seeks to "create a financially aware and empowered India" and convert savers into investors. The primary function of Securities and Exchange Board of India under SEBI Act, 1992 is the protection of the Investor Interest and the healthy development of Indian Financial markets. No doubt, it is very difficult and herculean task for the regulators to prevent the scams in the markets considering the great difficulty in regulating and monitoring each and every segment of financial markets and the same is true for the Indian regulator also. But what are responsibilities of the regulators to set the system right once the scam has taken place, especially the responsibility of redressing the grievances of the investors and maintaining financial strength of economy so that their confidence is restored. SEBI had issued guidelines for the protection of the investors through the Securities and Exchange Board of India (Disclosure and Investor Protection) Guidelines, 2000. These guidelines have been issued by the Securities and Exchange Board of India under section 11 of the Securities and Exchange Board of India Act, 1992.

Keywords: Financial Strength, Grievances, Investor Protection, Scams, SEBI, Reforms,

INTRODUCTION

There is a term "Healthy Investors - Wealthy Nation" Investors can boost a revolution in India's Healthy Economic growth. Only the investors can help the country to achieve the dream of

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"India 2020" which aims at making India a developed country. India is listed as one of the top emerging markets by the global players for investment purposes and it is being called as the fundamentally strong emerging market by many of the top most performing investment institutions such as Morgan Stanley, Fidelity fund, Morning star, Kemper fund etc. Investment in securities such as shares, debentures, mutual funds has been getting acceptance in India. But still Indian Household refrained from investing in the equity market.

As investors the households have a variety of options available to them for investment. Since the last survey carried out by NCAER (National Council of applied economic research), the estimated number of investor households in India was 2.45 crore (about 11 percent of total households). That implied that 92.7 lakh households (or 6 percent) in rural India invest in the securities markets. It is relatively low rate of participation by the households in the security market, though there has been growth in the investor population over the past 10 years. The estimated number of investor households in India as per SIS 2015 are 3.37 crore (2.36 crore urban and 100.3 lakh rural households) Of these, 70 percent (2.37 crore) reside in urban areas while the other 1 crore were rural households. Among these, mutual funds were the most popular investment instrument and nearly 66 percent (or 2.2 crore households) were investors. There were an estimated 1.9 crore households which invested in equities and 77 lakh households which invested in bonds (public, private and PSU). Among derivative instruments, there were 30 lakh equity and currency derivatives investors and 21 lakh investors in commodity futures. Amongst the equity investors, about 18 percent (or 33 lakh) had invested in the primary (IPO) markets. Stock market is witnessed of various stock market scams since 1992 where various small investors lost their hard-earned money here questions arises against SEBI, whose primary function was to protect the interest of stockholders. SEBI as stock market regulator realized need to formulate strong capital market reforms in India for making the market an attractive investment destination for FII’s, Indian retail, corporate and other investors.

REVIEW OF LITERATURE

Kathuria and Singhania (2010), found that print media and websites are two most important sources of information that helped investors to make investment decisions. The investors had given preference to postal deposits, insurance and public provident funds.

Gupta.S, Chawla. P and Harkant. P (2011), stated financial markets are constantly becoming more efficient providing more promising solutions to the investors. Study also proved that occupation of the investor is not affected in investment decision. The most preferred investment avenue is insurance with least equity market. The study also argued that return on investment and safety is the most preferred attributes for the investment decision instead of liquidity.

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B. Raja Mannar, B. Ramachandra Reddy (2013), analyzed investor's perception and expectations towards mutual funds. Investors differ in their choice of investments based on the expected return against risk. Educational qualification of investors reflects on the financial needs and investment objective. Marital status influences impact on investment objective, willingness to take risk and volatility in investment value. Monthly income and monthly savings significantly influence financial needs, investment objective and volatility in investment value.

Kumar Rajesh and Arora R. S. (2013), suggested that investors need investment education and well informed about investment avenues through TV, internet, Newspapers and professional journals in order to enhance the awareness level.

Sree Geetha (2015), This study investigations investment pattern of the investors with respect to different investment avenues and their awareness on the mutual funds. The investors' attitude towards investment is analyzed with respect to their financial needs, investment objective, and return period of investment, willingness to take risk, inclination and level of security for budgetary resources.

Lokhande A. Murlidhar (2015), The study disclosed that there was no significant difference in awareness levels of rural male and female investors and their educational qualifications. The investment preference order of the respondents indicated that they wished to park their investments in 'safe' options only. Bank deposits, gold and jewelry, real estate were popular investment avenues for a majority of the investors.

OBJECTIVE OF STUDY

The main objective of the study is to know the impact of stock market scams on investment preferences by household investors. The other objectives are stated as under;

1. To find out the reasons behind low level participation by small and household investors in security market.
2. To bring in light initiatives taken by SEBI to restore confidence and bring stability in capital market after scams.

RESEARCH METHODOLOGY

Being the study descriptive in nature, it will go through theoretical data collection, and its analysis. This study is mainly based on secondary data has also been gathered from various, journals, magazines and websites for this purpose to know insights about the Investment Preferences, perception and initiatives taken by SEBI to restore investor confidence.

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DISCUSSION AND ANALYSIS OF STUDY

Table 1: Financial Assets (Savings) of the Households (2012-2017)
(in Rs. Billion and at Current Price)

Year	Bank Deposits	Non-Banking Deposits	Life Insurance Funds	Provident and Pension Fund	Shares and Debenture
2012-13	5,751	279	1,799	1,565	170
2013-14	6,393	228	2,044	1,778	189
2014-15	6,027	335	2,992	1,887	198
2015-16	6,220	366	2,660	2,768	413
2016-17	10,957	341	4,406	2,960	1,825

(Source Reserve Bank of India)

Table 1 shows that there were large structural changes in the pattern of financial savings. we can observe that there has been a steep increase of savings in Bank deposits and investments in Shares during 2016-17. The household savings channelled into bank deposits; life insurance funds; and shares and debentures; increased by 42 percent, 66 percent and 342 percent, respectively, in 2016-17. The absolute amount of household sector savings in shares and debentures increased from about 170 Rs. billion in 2012–13 to 1825 Rs. Billion in 2016–17. The shift in financial savings in favor of shares and debenture may be due to Depressed rates of return from real estate, gold and fixed deposits have led to investors searching for higher returns. Another reason would be the increasing attraction of the equity markets as the returns from stocks started going up. But there is also one other factor that also led to an increase in funds flowing to the capital markets—the decrease in cash holdings as a consequence of demonetisation. The proportion of financial assets allocated by households to investment in stocks and debentures is now at its highest in 24 years. Despite the growing sophistication of regulation stock market remains susceptible to fraud and scams. The last time the proportion of shares and debentures in incremental household assets was above 10% was in 1992-93, immediately after the euphoria generated by the opening up of the financial markets. That was also the time of the Harshad Mehta scam. When Harshad Mehta illegal activities led to stock market scam between Sep 1991 and April 1992 the BSE index went up by 143%. amount involved in this crisis was approx Rs. 4000 crores. This was not the end after this many other chose to follow footprints of Harshad Mehta by this way or other way and continued to burn the flame of stock market scams till date.

- Ketan Parekh - Security Scam and the extent of the scam was estimated to be around Rs 1500 crore.

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- Satyam computer- in 2009 by Ramalinga Raju to be around Rs 14162 crore
- Sahara hosing bonds- in 2010 by Subrata Roy to be around Rs 24029 crore.
- Speak Asia- in 2012 by Ram Sumrian Pal to be around Rs 2200 crore.
- Saradha scam- in 2013 by Supidta Sen to be around Rs 10000 crore.
- NSEL scam- in 2013 by Jignesh Shah to be around Rs 5600 crore.

Also, more basically, stock market investment in India all about equities and is not for nothing that equity capital called risky capital.

Reforms as protection measure to restore confidence of investors

Analysts felt that the major reason for SEBI's failure to protect investors against scams was lack of skilled human capital. For instance, they quoted the example of the KP scam in which KP had taken huge positions in ten stocks. In spite of SEBI possessing this information, it could not gauge KP's vested interests in acquiring these huge positions and his illegitimate plans. In a poll conducted in early 2002 by equity master, an equity research company in India, over 90% of the respondents believed that the regulatory environment was not sufficient to protect the rights of the retail investors in India. Bajpai realized that SEBI had to change this belief of retail investors. He said, “Restoring the confidence of retail investors in the market will be an important task of SEBI.” It is believed that the regulators cannot judge the psychology of the crooked brokers. It’s only after something has happened reforms come into being. The situation was of digging the well in case of fire. In order to boost investor confidence and broaden the investor base, Important reforms in this direction are formed

Settlement system: SEBI introduced rolling settlement on a T+5 basis for domestic as well as foreign institutional investors in 1998. Gradually reducing the settlement time since then, Indian markets have switched to T+2 trading now.

Dematerialization of share certificates: SEBI initiated the process of dematerialization of share certificates in 1999. The need for this initiative was felt to avoid the threat of forgery or theft of share certificates coupled with inordinate delay by transfer agents and post offices.

Fostering mutual funds: SEBI regularly issues revised guidelines for mutual fund industry to help them flourish in India. Till early 90s, Unit Trust of India was the only player in India's mutual fund market. Sebi's efforts not only encouraged hundreds of mutual funds to enter the Indian markets, but also gave an opportunity to not so savvy investors to invest in the markets through a much safer way. To enhance the popularity of mutual funds, SEBI relaxed know your customer (KYC) norms for small investors and widened the distribution network in rural India

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by roping in postal agents. By banning entry loads for mutual fund schemes in 2009, SEBI curbed mis-selling of mutual fund products.

Rolling out red carpet for FIIs: In order to keep a close eye on FII inflow; the task of giving approvals to FII registrations was handed over to SEBI in 2003 and since then SEBI has been consistently revising the FII investment limit in both corporate as well as government debt. Meanwhile, in order to discourage FII investments made through P-notes, SEBI has imposed sufficient checks and balances to avoid the flow of black money into the Indian markets.

IPO reforms: SEBI had last year notified wide-ranging reforms in Initial Public Offer - IPO market which included a strict vigil on usage of issue proceeds, greater disclosure by companies and their bankers and allotment of a minimum number of shares to retail investors. Keeping with the times, SEBI has also introduced e-IPO procedure for electronic bidding in public offers to help investors bid for shares in a cost-effective manner.

Surveillance and risk management: In 1996-97, SEBI directed all exchanges to fix the daily price band at 10% and a weekly overall limit of 25% to curb undesirable volatility. To bring about a coordinated trading halt in all equity and derivates market nationwide, SEBI introduced an index-based circuit breaker system applicable at 10%, 15% and 20% movement either way.

Web based centralized investor grievances tracking system: SEBI has a web-based centralized grievance redress system called SEBI Complaints Redress System – SCORES for assisting investors to lodge their complaints in a structured way. Further, in its silver jubilee year, SEBI has launched a massive mass media exercise to inform investors about SCORES and its toll-free helpline (1800 266 7575 / 1XXX XX 7575, available in 14 languages). To reach rural masses, SEBI has tied up with the department of posts to print cautionary messages on the back of post office passbooks while for urbanites Google India's Ad Word facility displays pop-up investor awareness messages on its search engine. During 2013-14, total 18,811 e-complaints were received compared to 26,195 received during the previous year.

Need for Investor Education

Many investors do not possess adequate expertise or knowledge to take informed investment decisions. Some of them may not be aware of the complete risk-return profile of the different investment options. Some investors may not be fully aware of the precautions they should take while dealing with market intermediaries and dealing in different securities. They may not be familiar with the market mechanism and the practices as well as their rights and obligations. With an objective to make the investors aware of various investment opportunities available, the risk and return attached to them and the procedures to be followed while investing in them, they need to be informed. The basic aim of investor education programs is to provide information and

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help the investors in taking investment decisions. In this backdrop, SEBI, BSE, NSE and the Department of Company Affairs, Government of India all conduct comprehensive education campaigns aimed at creating awareness among investors about securities market.

Initiatives taken by SEBI towards investor education

Only the lack of awareness and financial literacy is what, keeping households out of the stock market. No doubt SEBI is putting strong efforts to educate the investors regarding stock market in this regard Investor Education and Protection Fund (IEPF) has been established under Section 205C of the Companies Act, 1956 by way Companies (Amendment) Act, 1999 for promotion of investors' awareness and protection of the interests of investors. The Central Government notified the establishment of the Investor Education and Protection Fund (IEPF) with effect from October 1, 2001.The IEPF is credited with amounts in unpaid dividend accounts of companies, application moneys received by companies for allotment of any securities and due for refund, matured deposits and debentures with companies, and interest accrued thereon, if they have remained unclaimed and unpaid for a period of seven years from the due date of payment. The IEPF is utilized for promotion of awareness amongst investors and protection of their interests.

Further, The SEBI's launched "Securities Market Awareness Campaign" (SMAC). The motto of the campaign is— 'An Educated Investor is a Protected Investor.' The campaign was launched at the national level by the then Prime Minister, Shri Atal Bihari Vajpayee, on January 17, 2003. The structural foundation of the campaign is based on workshops that are being conducted across all over the country with continued and active participation of market participants, market intermediaries, Investors Associations etc., to spread SEBI's message of "invest with knowledge".

The workshops aim at reaching out to the common investors and are held primarily in small and medium towns and cities all over the country. The investors are familiarised with the functioning of the securities market, fundamentals of investment, risk management and investors' rights and responsibilities. Till date, more than 2188 workshops have been conducted in around 500 cities and towns across the country.

SEBI has prepared a standardized reading material and presentation material for the workshops. In addition, reference guides on topics concerning investors have been prepared and distributed to investors during these investor education campaigns. In addition, these messages are spread across the investor base by way of advertisements in newspapers, especially in the regional newspapers.

Till date, over 700 advertisements relating to various aspects of Securities Market have appeared in 48 different newspapers/magazines, covering approximately 111 cities and 9 regional languages, apart from English and Hindi. With regard to educating investors through the medium of radio, SEBI Officials regularly participate in programs aired by All India Radio. With a view to use the electronic media to reach out to a larger number of investors, a short cautionary message, in the form of a 40 seconds film, has been prepared and the same is being aired on television.

With a view to make information relevant to the investor available at one place, a dedicated investor website (http://investor.sebi.gov.in) has been set up and operated. A simple and effective internet-based response to investor complaints has been set up. On filing of a complaint electronically, an acknowledgment mail would be sent to investor's specified email address along with a complaint registration number instantaneously.

SEBI in collaboration with national institute of security market (nism) and NGO's targeted school students, College student, Middle income group, Executives, Housewives/housing societies, retirement planning, Self help group organizing workshops, seminars, regional seminars, certified course through trained resource persons including multimedia campaigning, special visits to SEBI denied websites like www.iepf.gov, investor Helpline www.investorhelpline.in, www.ncfeindia.org, www.watchoutinvestor.com has been launched.

The financial media today is almost as popular as entertainment media. Pink papers in the mornings, business channels throughout the trading session, sms alert services and investors websites for after. Hours ensures that households are never away from the financial world. The media has tremendous reach and plays its own role in spreading financial literacy.

CONCLUSION

The Indian stock market has witnessed impressive technological progress in the last decade regarding the trading system. SEBI continued to channelize its efforts to achieve its objective to strengthen the Indian regulatory framework of capital market and protection of the interest of the investors in security market by reviewing its policies, implementing fresh initiatives, discipline the market through a variety of appropriate enforcement actions, facilitating redressal of grievances of investors and nurturing a security culture Unless the retail investors are educated enough to understand the basics of stock market's behavior and stock selection criteria, most of them would be unable to benefit from market's technical progress.

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