

# Financial education and consumer protection in the Indian securities market

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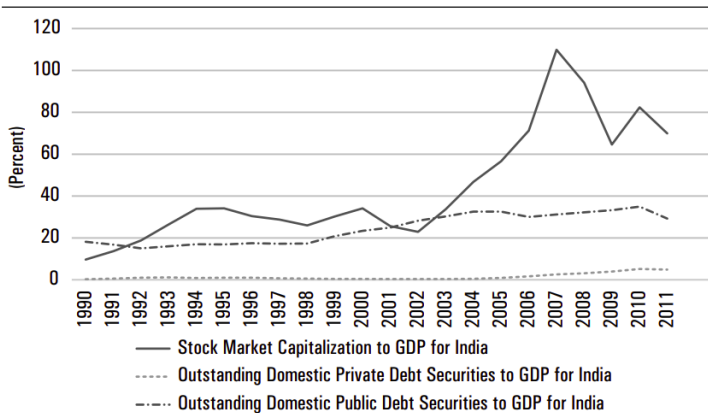
28<sup>th</sup> December, 2020

# Structure

1. Household investment in financial assets
2. Investor protection
3. Re-cap of measures taken
4. What's missing?

# Evolution of the Indian financial market

**FIGURE 1. Evolution of the Financial Sector in India: 1990–2011**



Source: 2015 [research.stloiusfed.org](http://research.stloiusfed.org)

# New facts about the household balance sheet

Measuring financial inclusion of households across all segments of the financial market.

$N = 75,000$

**Table:** Overview of scoring methodology

| Type of product                                       | Not holding | Holding but<br>not operating | Operating |
|-------------------------------------------------------|-------------|------------------------------|-----------|
| SB/FD/RD                                              | 0           | 2                            | 3         |
| Cap.Mkt                                               | 0           | 2                            | 3         |
| Derivatives                                           | 0           | 2                            | 3         |
| Insurance                                             | 0           | 2                            | 3         |
| Pension                                               | 0           | 2                            | 3         |
| <i>Financial Literacy and Inclusion in India 2019</i> |             |                              |           |

# New facts about the household balance sheet

Inclusion score for banking v.non-banking products

**Table:** Banking v. other financial products

|                                    | SB/FD/RD<br>2 $\geq$ 3pts | Other financial products*<br>6 $\geq$ 14 pts |
|------------------------------------|---------------------------|----------------------------------------------|
| ( % of total)                      |                           |                                              |
| All India                          | 87                        | 17                                           |
| <b>Location wise</b>               |                           |                                              |
| Rural                              | 86                        | 14                                           |
| Urban                              | 89                        | 19                                           |
| <b>Age wise</b>                    |                           |                                              |
| 18-29 yrs                          | 85                        | 18                                           |
| 30-49 yrs                          | 89                        | 16                                           |
| 50-69 yrs                          | 87                        | 13                                           |
| 70-79 yrs                          | 86                        | 14                                           |
| <b>(In ₹ ) Income segment wise</b> |                           |                                              |
| 50,001 $\leq$ 2,00,000             | 94                        | 15                                           |
| 2,00,000 $\leq$ 5,00,000           | 96                        | 21                                           |
| 5,00,000 $\leq$ 10,00,000          | 92                        | 35                                           |
| $\geq$ 10,00,000                   | 80                        | 40                                           |
| No income                          | 76                        | 15                                           |

\*PPF, insurance, cap.mkt, pension, derivatives

Source: *Financial Literacy and Inclusion in India* 2019

# New facts about the household balance sheet

## Comparison across non-banking products

% of respondents who obtained a min. score of 6/14 in non-banking financial products

|                      | Others | Cap. mkt. | Deriva- tives | Insurance | Pension |
|----------------------|--------|-----------|---------------|-----------|---------|
| <b>Location wise</b> |        |           |               |           |         |
| Rural                | 15     | 7         | 3             | 68        | 12      |
| Urban                | 19     | 10        | 5             | 79        | 15      |
| <b>Age wise</b>      |        |           |               |           |         |
| 18-29 yrs            | 19     | 10        | 5             | 72        | 14      |
| 30-49 yrs            | 17     | 8         | 4             | 74        | 13      |
| 50-69 yrs            | 12     | 5         | 2             | 68        | 12      |
| 70-79 yrs            | 11     | 4         | 2             | 65        | 16      |

Source: *Financial Literacy and Inclusion in India 2019*

# New facts about the household balance sheet

## Comparison across non-banking products (contd.)

% of respondents who obtained a min. score of 6/14 in non-banking financial products (contd.)

|                            | Others | Cap.<br>mkt. | Deriva-<br>tives | Insurance | Pension |
|----------------------------|--------|--------------|------------------|-----------|---------|
| <b>Income segment wise</b> |        |              |                  |           |         |
| 50,001 ≤ 2,00,000          | 17     | 7            | 3                | 73        | 12      |
| 2,00,000 ≤ 5,00,000        | 22     | 12           | 4                | 74        | 15      |
| 5,00,000 ≤ 10,00,000       | 30     | 16           | 5                | 76        | 29      |
| ≥ 10,00,000                | 30     | 33           | 17               | 57        | 37      |
| No income                  | 15     | 8            | 3                | 66        | 12      |
| <b>Occupation wise</b>     |        |              |                  |           |         |
| Self-employed (non-agr)    | 14     | 8            | 4                | 78        | 13      |
| Salaried (pvt.)            | 24     | 12           | 6                | 78        | 17      |
| Salaried (govt.)           | 22     | 15           | 6                | 78        | 17      |
| Retired person             | 26     | 12           | 6                | 75        | 25      |

Source: *Financial Literacy and Inclusion in India* 2019

## Gaps in awareness

| Product                              | % of respondents who are aware |
|--------------------------------------|--------------------------------|
| <b>Bank-offered savings products</b> |                                |
| SB                                   | 90                             |
| Current A/c                          | 41                             |
| RD                                   | 37                             |
| FD                                   | 60                             |
| PPF A/c                              | 29                             |
| NSC                                  | 28                             |
| <b>Insurance</b>                     |                                |
| Health                               | 60                             |
| Property                             | 36                             |
| Life                                 | 84                             |
| <b>Securities markets</b>            |                                |
| Mutual fund                          | 32                             |
| Stocks & shares                      | 21                             |
| Bonds                                | 18                             |

## Gaps in financial literacy

Reasonably high percentage of respondents had basic financial knowledge, except the power of compounding.

| Concept                                                       | % of households who demonstrated knowledge |
|---------------------------------------------------------------|--------------------------------------------|
| Division                                                      | 85                                         |
| Time value of money                                           | 46                                         |
| Interest on loan                                              | 75                                         |
| Simple interest                                               | 58                                         |
| Compound interest                                             | 5                                          |
| Risk-return                                                   | 84                                         |
| Inflation                                                     | 81                                         |
| Diversification                                               | 61                                         |
| Source: <i>Financial Literacy and Inclusion in India 2019</i> |                                            |

Diversification Q: 'it is possible to reduce the risk of investment in stock market by buying wide range of stocks and shares'.

# Reasons for not investing in the securities mkt

Apart from income levels, lack of exposure and trust seem to be significant reasons for under-exposure to publicly traded securities.

| Reasons                                                       | % of households |
|---------------------------------------------------------------|-----------------|
| Not enough money                                              | 56              |
| <b>Lack of knowledge abt. stock market</b>                    | <b>33</b>       |
| <b>Fear of losing money/ no trust</b>                         | <b>23</b>       |
| Complicated procedure                                         | 17              |
| Demands lot of time                                           | 8               |
| Do not generate sufficient returns                            | 5               |
| Not required/ no need felt                                    | 2               |
| Source: <i>Financial Literacy and Inclusion in India 2019</i> |                 |

## Investor protection

*High Level Co-ordination Committee on Financial Markets 2009:*

*“The next 200 million Indian consumers of financial products are waiting to join the traffic. They are at the gate, wanting to see some signs of traffic signals to feel safe enough to navigate the roads.”*

Key: investor protection and investor education are two sides of the same coin. In isolation, neither will have the desired impact.

## Re-cap of measures

- ▶ 1990s - early 2000:
  - ▶ Establishment of the Securities and Exchange Board of India
  - ▶ A disclosure-based system for accessing capital markets
  - ▶ Governance of securities market infrastructure
  - ▶ UTI monopoly broken; private enterprise in fund management
  - ▶ Regulation of MF industry and brokers
- ▶ Post 2005:
  - ▶ Focus on reducing distribution and access costs
  - ▶ Remuneration structures
  - ▶ Intermediary regulation (PMS, investment advisors, etc.)
  - ▶ Simplifying disclosures and product labelling
  - ▶ SCORES

# What's missing?

Recounting some recent failures

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|      |                            |                                                                            |
|------|----------------------------|----------------------------------------------------------------------------|
| 2015 | Amtek Auto bond default    | Preferential pay-outs to HNIs                                              |
| 2018 | Allied Financial Services  | Misappropriation of client moneys                                          |
| 2019 | DHFL defaults              | No clarity on resolution &<br>order of payment to holders of FDs and bonds |
| 2019 | Karvy Securities default   | Misappropriation of client securities                                      |
| 2020 | Anugrah Securities default | Fraud                                                                      |
| 2020 | Franklin Templeton         | No clarity on investor rights in resolution                                |

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# What's missing?

1. A redress agency  
*“a single unified Financial Redress Agency which would serve any aggrieved consumer, across all sectors. This would feature a low-cost process through which the complaint of the consumer against the financial firm would be heard, and remedies awarded.” (Report of the Financial Sector Legislative Reforms Commission 2013)*
2. Class action suits
  - 2.1 High recoveries and feedback loops (Cox and Thomas 2005)
  - 2.2 Bottlenecks
3. Resolution of financial services providers (*Report of the Financial Sector Legislative Reforms Commission 2013*)



Cox, James and Randall Thomas (2005), “Letting Billions Slip Through: Empirical evidence and legal implications of the failure of financial institutions to participate in securities class action settlements”, in: *Stanford Law Review* 58, p. 411.



*Financial Literacy and Inclusion in India* (Aug. 2019), tech. rep., NCFE.



*High Level Co-ordination Committee on Financial Markets* (Mar. 2009), tech. rep., Department of Economic Affairs.



*Report of the Financial Sector Legislative Reforms Commission* (Mar. 2013), tech. rep., FSLRC.