CHAPTER VI

Problems of Small Investors in the Market milieu
In the previous chapter the various provisions made by the SEBI for the protection of small investors were considered in detail, and their adequacy and effectiveness critically examined. It was found that despite the several steps taken by the SEBI there were still several gaps, loopholes, and shortcomings in them, and that the small investors faced a number of difficulties and problems, it became necessary, therefore, to go into the details of their difficulties and grievances before viable suggestions could be offered to remedy the situation. The present chapter is concerned with the grievances and complaints of small investors against the SEBI for failing to protect their interests fully and satisfactorily. As a first step towards knowing the present plight of the small investors, a field survey was undertaken and a large number of small investors were approached and interacted with during the investors’ workshops and seminars organized by the NSDL, SEBI, and local NGOs at places like Mumbai, Hyderabad, Tirupati and several other places. They were asked about their social, economic, and educational background and status. It was found that most of them belonged to the middle and lower-middle classes.

They were also asked about their understanding of the Capital Market, the parameters of their confidence in it, their financial capacity and aptitude for investment. Attempt was made to know from them their awareness and understanding of the Redressal system of the SEBI intended to solve their problems and alleviate their grievances. The information thus gathered from all of them was pooled together and analysed to understand the precise natures of the grievances and complaints, their rage and variety, and the kind of redressal, they expected. On their basis a comprehensive questionnaire was designed and framed, and distributed among some five hundred small investors all over the country for their response. The full text of the Questionnaire is given at the end.
of the study as Appendix-I. In all 350 responses were received. From a study of
the responses the small investor’s grievances and complaints were classified
and arranged for further analysis.

**Major Grievances**

The complaints received from the Small investors have been grouped into
various categories and in each category the particular grievances relating to it
are lighted. The following are the categories:

1. Complaints regarding public issues, IPO.
2. Grievances against brokers & sub-brokers.
3. Grievances against company.
4. Complaints against the SEBI.
5. Grievances against Registrar.
6. Complaints about vanishing companies.
7. Grievances regarding debentures.

Below are presented under each category the many grievances
experienced by the small investors,

**I. Public Issues (IPO)**

1. Neither allotment refund nor allotment received in IPO’s.
2. Allotment of shares received but the balance not refund.
3. Irregular allotment or non-allotment of shares at the time of IPO of
the Government PSUs.
4. Improper allotment of shares at the time of the IPO.
5. Non-receipt of shares or the application money.
6. Shares allotted in physical form though assured in prospectus about
Demat.
II. Broker

1. Cheating by the broker;
2. Cheating by the Sub-broker.
3. Differences between brokers and Small Investors regarding the arbitration process at the Stock Exchanges;
5. Cheating by the share transfer agent.
6. Fraudulent and unfair trade practices by share brokers.
7. Broker’s financial mismanagement causing difficulties to Small Investors.
8. Non-receipt/delay of sale proceeds especially from the sub-broker.

III. Companies

1) Non-credit of bonus shares.
2) Sudden changes in the value of company’s shares,
3) Enquiry about addresses & existence of the company,
4) Enquiry about non-tradable shares.
5) Non-receipt of interim dividend, though declared in the press,
6) Withdrawal of the buy-back scheme,
7) Compulsory (non-investor friendly) de-listing by the MNC.
8) Absence of response companies from the grievances.
9) Allotment of shares in private placement but subsequently, as promised, companies about the grievances.
10) Allotment of shares in private placement but subsequently, as promised, companies are not getting listed.
11) Delay in listing securities as assured by companies.
12) Losses suffered by Small Investors at the time of merger or takeover.
13) Non-receipt of payments at the time of buy-back.
14) Non-receipt of annual report.
15) Non-receipt of dividend warrants.
16) Non-response of companies and non-repayment of company’s fixed deposit, debentures amount and interest, though the company and management continue to function.
17) Siphoning off the monies collected by the NBFCs.
18) Non-receipt of interest and principle amount though the redemption is 3-7 years old.
19) Dividend not declared even several years after its being listed,
20) Cost of holding shares in Demat form of companies, which are de-listed and not tradable.

IV. The SEBI

1. Violation of the SEBI regulations during the takeover.
2. Grievances, difficulties about selling small lot.
3. No /slow response from the regulators regarding vanishing companies.
4. Complaints regarding plantation companies.
5. Complaints regarding the NBFCs.

V. Registrar

Several complaints were received about the way the Registrar treated the small investors.
1. Non-receipt of duplicates of shares applied for.
2. Shares transferred to someone else without the knowledge of investors.
3. Differences regarding mismatch of signatures at the time of transfer.
4. Illegal lien on debentures,
5. Unauthorized transfer of shares,
6. Non-receipt of shares sent for transfer,
7. Non-transfer of shares,
8. Difficulties in getting duplicate shares.
9. Duplicate shares issued to somebody without consent.
10. No response about query on issue of duplicate shares certificates.
11. Unauthorized cancellation of shares,
12. Fraudulent transfer of shares.
13. Hardship in getting duplicate shares, which have been misplaced.

VI. Vanishing Companies
1. No response to correspondence,
2. Change in company’s address.
3. Non-receipt of certificates.
4. Non-receipt of annual reports.
5. Non-receipt of interest / principal amount.

VII. Stock Exchange
1. Delay in receiving amount under investors protection fund from the Stock Exchange,
2. Trading of shares suspended at the BSE and the NSE.
3. Unnatural de-listing of companies and hardship to Small Investors.
4. Shares of the de-listing of company.
5. Difficulties due to the defunct of companies at OTC exchange.

6. After purchase of shares in the secondary market, suspension of trading of that particular company by stock exchange.

7. Slow investigation and delayed action on erring companies resulting in losses to Small Investors.

VIII. Demat Changes

1. Rejection of Demat application.

2. Delay in Demat by the managing agent, register.

3. Shares pending for Demat.

4. Unnecessarily long delay in Demat of shares.

5. Heavy charges collected for converting odd lot, small lot for Demat and sale (un-affordable).

6. Rejection of Demat application.

7. Hardship at the time of Demat.

8. Non-closure of Demat account and maintenance charges being levied as the companies have been de-listed.

9. Abnormal charges at Demat account.

10. Various difficulties about Demat charges and handling of accounts.

From the list above, it may be observed that more than seventy grievances were collected during the field work. Of course, these many more grievances of the small investors, however those listed are among the chief ones. The Small Investors' have expressed concern about the functioning of the regulators and also about status of corporate governance. The grievances are all real and experienced by the small investors. None is imagined.
The nature of these grievances may be looked into hereafter, category-wise.

I. Public Issues (IPO)

There are two types of IPOs: those made by good PSUs and good private companies, and those by companies with a dubious background. The complaints received are regarding grievances against the IPOs of good companies, Government PSUs also, and against the Registrar. It is not surprising that grievances are also received against such companies, which did not have a proper background.

Complaints regarding various IPOs from reputed companies and government PSUs are mainly against the Registrar such as errors in allotment, improper and indifferent response, allotment announced but withdrawn subsequently, refund order not sent on time, allotted shares not received. After the application and allotment, neither refund is not received for the shares not allotted, illegal cancellation of allotment once announced, non-receipt of shares or the application money as declared by the company, shares allotted in physical form though it was assured in prospectus to be allotted in Demat.

The main grievance of the Investors is improper or indifferent response from the company, the Registrar, the Merchant Bankers, the Intermediaries and from the Regulators; No one owns responsibility and passes the buck on the others. In major issues, issues of big companies, no one is ready to take the responsibility; there is no system of accountability, no transparency regarding the mechanism.
Such errors were committed during the first major Public Issues of a government Bank in the early 1990s. It was in 1994 or so, the State Bank of India came out with Public Issues. As our system was not prepared for such an undertaking such experience was the first of its kind error were committed. The Bank, the merchant Banker, the Registrar could not handle the applications properly. Several applications of Small Investors were rejected arbitrarily. However immediately after the experience of the SBI Public Issue, the Indian Capital Market and system rectified their system and similar mistakes were not repeated and the infrastructure to handle public issues was strengthened. The 2003-04 systems to handle major IPOs have been rectified and strengthened. It seems now that the Indian Capital Market is equipped to handle major IPOs.

II. Grievances Connected with Brokers and Sub Brokers

Various complaints are made against brokers and sub-brokers. The grievances are mainly connected with the Secondary Market. Problems arise because of the fees paid as there is no proper written commitment, or agreement. The grievances are either due to misunderstanding of the investor or manipulation by the broker or sub broker.

Some complainants say that although the payment has been debited to their accounts, the brokers have not delivered the shares. Cheating by the broker and the sub-broker are common complaints. The differences between brokers, sub brokers and investors are diverted for arbitration by the Stock Exchanges. From a study of the grievances connected with the arbitration process, it will be seen that in the guideline to it is said that the arbitration process will not only be fast but also will help to sort out the differences between the parties concerned. But in actual, practice the process lengthy, time-
consuming and seems never ending since, against the arbitration order, the affected party can, go to court for further litigation.

III. Grievances against Companies

The grievances against Companies which are many, can be divided into three categories:

1. Good reputed companies.
2. Good reputed big groups, but one of their company not treating investors properly.
3. Companies with dubious background.

Usually, companies which have good management, and adopted corporate governance guidelines, respond to the grievances of Small Investors readily. They have developed a good system. The top management also takes cognizance of the complaints of Small Investors, and the internal check system. It also monitors the Grievances Redressal System.

The complaints against good companies are mainly connected with their public issues, with the Registrar, takeover or buy-back. Particularly multinational companies have used the guideline of regulators their own interest to get their companies de-listed. This has affected the Small Investors since quality stocks are de-listed, and the buy-back price, barring a few, is low compared with their valuation and future benefits. Various types of non-Small Investor-friendly buy-back offers hurt the Small Investors.

Some big Indian companies also using the loopholes in the guidelines have and tried non-investor friendly buy-back. Some companies also have tried compulsory buy-back. Here is an instance An Indian Company tried to use to
its advantage the provision of Companies Act for buy-back system. Though traditionally the buy-back provision of the SEBI guidelines are acknowledged and accepted, the Indian promoter wanted to buy-back by hook or crook. Just a letter to the Small Investor that if he did not respond then it would be presumed that he accepted the buy-back, and therefore shares would be automatically transferred to the investment companies of the promoter’s Demat account. It would be assumed that he had accepted the buy-back offer though the book value and the valuation were quite above the offer price. The notices and the intimation did not reach to the small investor properly. Along with the notice a cheque for a certain amount was sent as buy-back. If the uninformed investor, by mistake, credited the cheque to his account, automatically his shares would be transferred to the promoter’s account. If the Small Investor did not respond within 7 days, automatically his shares would be transferred to the promoter’s Demat account. Thus the buy-back scheme was manipulated.

As investors strongly opposed such manipulations and as the media also raised this issue the Regulator subsequently, had to take action.

Is spite of such manipulations the guidelines have not been corrected properly by the SEBI. There is a need for the SEBI, DCA, NSDL and the Ministry of Corporate Affairs to sit together and re-examine them and plug the loopholes. The investors feel that purposely the loopholes have not been corrected till now in spite of protests. Several people have complained against the opening and liberalising buy-back provision which is in favour of Multi National Company (MNC). During the last four years, there have been open public debates regarding the buy-back such system. If good companies, the MNCs withdraw from the market. But it is doubtful if the buy-back offers would be available for Small Investors in the equity market. There is every
need to rethink about liberalization of the buy-back system. If an MNC or any other company wants to go in for such a buy-back, the small investors should be rewarded suitably. The benefit to be derived by the promoters, the MNCs, the holding company in future should also be made available to the Small Investors.

The government and financial institutions will have to devise proper guideline about such schemes of big promoters, big companies and the MNCs. A code of conduct should be adopted, and accountability within the investment committees, investment division and management. There should be transparency in all transactions.

There are complaints against dubious companies, which come into the market and vanish suddenly. Their addresses are not traceable. They are also companies, which profess, their intention give interim dividend, and even make the media are make to cover it. But the investors do not receive any dividend. There is no response and no clarification to their anxious queries.

Although the SEBI and DCA have received many such complaints, and issued some guidelines, these are not implemented properly. There is a need of accountability, corporate government and severe punishment for all those, involved in such manipulated announcements. The aggrieved small investors feel that the SEBI is concerned more about the development of the Capital market thus protection the investors' genuine interests. The SEBI management always discus, debates about infrastructure development and widening the Capital Market. But it does not choose to interact with the Small Investors regarding the Grievance Redressal System.
It is complained that the complaints also received that the small investor is not equipped, educated and does not know whom to for the redressal of his grievances. The SEBI should guide them properly. The complaints regarding SEBI's norms and guidelines regarding buy-back, and exemption of takeover are regarded by small investors, anti-small investor. The Investors' Association and Small Investors' feel that in almost all cases, the SEBI gives weight to the promoters to the management or the holding companies. Of course, it is also observed lately, in takeover cases, now the SEBI is taking into account the viewpoint of Small Investors, and giving directives in the interest of Small Investors. Many orders have been given against the acquiring groups. Between 1994 and 2001, hardly any open offer order was issued by the SEBI in favour of Small Investors. Most of the takeovers were exempted by the SEBI. It took almost 6 years for it to finalise the guidelines of takeover code.

IV. Vanishing Companies

Small Investors are totally upset by the response they are getting for their complaints against the vanishing companies. They even have lost all hopes Promoters are not traceable, addresses are not available, and there is response from Stock exchanges, ROC, DAC, or the SEBI. Thousands of crores of rupees collected have got vanished.

The BSE has shifted more than 1000 companies into the Z category. According to regulators the DCA and SEBI, initially had a list of about 300 vanishing companies. Year by year they are bringing down the list, and now it contains hardly 100 companies. Investors are upset about the role of Government, the SEBI, the RBI and the Stock Exchanges. The promoters have siphoned off the money of the vanishing companies and gone scot-free. No
punishment whatsoever is given to such unscrupulous promoters. Complaints also are received regarding companies changing their names, collecting money and disappearing altogether.

V. Stock Exchange

The main grievance is regarding absence response from the Stock Exchanges. Small Investors feel that the Exchange which have thousands of crores turnover have very small department to handle the grievances of Small Investors. Life concern is felt for the small investor who stakes his hard-earned money. The small investors wish that the stock exchange have a human face and give their redressal department a human face.

The Stock Exchanges are issuing from time to time details about the grievances received by them and handled. But Small Investors do not have any faith in the figure given by the exchanges. Complaints against the vanishing companies, and the non-responding companies, are not responded to at all. Complaints regarding the de-listing of companies are received from a large number of people. The investors complain that many times company’s management purposely gets its shares de-listed. As a consequence the sufferers are the small investors. The Small Investors purchase the shares of a company in the secondary market and next day, the Stock Exchange takes step to de-list it. Complaints also are received regarding the arbitrary shifting of a company’s shares from one group another. The complaints regarding the companies have been transferred to this Z category, the share prizes get momentum, the Stock Exchange, and the Regulator keep silent after the Small Investors get carried away, the company’s market price collapse, the small investors are the losers. Why proper steps and preventive measures are not taken by the Stock Exchange regarding such company’s shares.
Another major complaint pertains to getting the benefit of Investors Protection Fund. Though huge sums are collected by both the NSE and the BSE, they are not made available to the Small Investors. The process to make the claim is very lengthy and full of technicalities. The Small Investors feel that all measures and steps are taken about the protection fund not to help them but to avoid doing it.

Though proper guideline and time-framed programme and action plan are given to disburse to the small investors from the Investors' Protection Fund, they are not implemented. The investors also complain regarding the mechanism of arbitration and handling the complaints of brokers and sub-brokers. It is felt that the transactions entered into by sub-brokers are not responded to by brokers in many cases. Although sub-brokers act as agents of brokers, when the aggrieved investors file complaints against sub-brokers, brokers refuse to accept the responsibility of sub-brokers. There is no response from the Stock Exchange in this regard. Grievances also are expressed regarding suspension of trading of particular. Small Investors expect advance notice be given to them.

**Interpretation of Data**

The statistical interpretation of the data collected from the respondent has been done keeping in view the following objectives:

a. To study the pattern of the investment.

b. To study the logic, concept, motive behind the investment.

c. To observe the level of knowledge, which investors have with regard to the redressal of complaints

d. To study the various age groups in which people start to invest.
Nature of Financial Investment:

Table No: 6.1

Investors' Behaviour

<table>
<thead>
<tr>
<th>Financial Instruments</th>
<th>No. of Investors</th>
<th>% of Investors</th>
</tr>
</thead>
<tbody>
<tr>
<td>Equity</td>
<td>58</td>
<td>16.57</td>
</tr>
<tr>
<td>Bonds</td>
<td>51</td>
<td>14.57</td>
</tr>
<tr>
<td>Mutual Funds</td>
<td>52</td>
<td>14.86</td>
</tr>
<tr>
<td>Collective Investment Schemes</td>
<td>22</td>
<td>6.29</td>
</tr>
<tr>
<td>Company Deposits</td>
<td>26</td>
<td>7.43</td>
</tr>
<tr>
<td>Others</td>
<td>141</td>
<td>40.29</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>350</strong></td>
<td><strong>100.00</strong></td>
</tr>
</tbody>
</table>

Source: Field survey

The above Table shows that 350 sample investors (who form 40.29%) have made their Investments in "others", like high-yielding income schemes, such as Bullion, Insurance Policies and real estate. They want more security for their money. Except bullion, all the others are high yielding income schemes. Life Insurance and Health Insurance are more popular with Small Investors than other kinds of investments. It is probably done to the attitudes of middle class families for whom familial attachments and concern about the future that the small investors want to invest in insurance is a reliable instrument of future security. That it is also a tax-saving incentive is another
attraction. As IRDA (Insurance Regulation Development Authority) eased the norms and permitted private insurance companies to do business in India, many of the private insurance companies are offering various high-yield growth/income policies with many benefits to the common man and investors. But the LIC (Life Insurance of India) continues to play a vital role. As investing in the stock market is facing many fluctuations and the Sensex is acquiring high volatility, due to implementing the new economic policies not only in India but also in many economically developed countries, the small investors are investing their hard earned money on bullion, real estate, insurance polices etc.

The Table above shows that 58 or 16.57% of the sample Small Investors are much interested to invest their money in the Indian Capital Market because of its purchasing power. They have chosen to invest in equity shares. As the capital market culture has spread to rural areas for through print and the electronic media and the latest technology. Interestingly, the Small Investors having once entered into the Capital Market are gradually reducing their investments in Government saving schemes, long term investments, and they seem to want to exist form the traditional investment culture.

As for Mutual Funds, since the government has allowed private companies to enter this business in alliances with international companies, plenty of foreign funds are being allowed into the Indian Mutual Fund Industry. It has also attracted the small investors not only in metro cities but also rural areas to invest a portion of their savings/earning in mutual trusts. Mutual funds guarantee a steady income to the investors and easy encashing of their investments in MFs, irrespective of the volatility in the securities market/changes in of government policies from time to time. Though the UTI (Unit
Trust of India) is monitored by the Government, private mutual funds trusts enjoy a majority share in the business. The ICICI, HDFC, Bajaj-Allianz, Franklin Templeton, Kotak Mahendra, Birla Sun Life, TATA, BNP Paribas Sundaram, Reliance and many others are influenced by the small investors.

Not only the Mutual Funds, it seems, even Bonds/debentures of reputed Limited Companies are also guarantee a steady income to the investors, thus creating history. What is more Tax Free Bonds, Lower Tax related bonds issued by the RBI, the NABARD, the IDBI, the SIDBI and other Public Sector Units (PSUs) which are backed by the tax incentives of the Government of India also have become a popular investment instrument for the middle class, and salaried class in society. Particularly, the salaried classes go in for bonds, both to get exemption and to save their earnings.

Chart No: 6.1

Investors' Behaviour

<table>
<thead>
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<tr>
<td>Others</td>
<td>141</td>
</tr>
</tbody>
</table>
Causes of Losses of Small Investors:

Table No: 6.2
Causes of Losses

<table>
<thead>
<tr>
<th>Financial Instruments</th>
<th>No. of Investors</th>
<th>% of Investors</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fraudulent companies</td>
<td>125</td>
<td>35.71</td>
</tr>
<tr>
<td>Losses due to Manipulations</td>
<td>63</td>
<td>18.00</td>
</tr>
<tr>
<td>Involuntary Factors—beyond the control of the company or the issuer</td>
<td>42</td>
<td>12.00</td>
</tr>
<tr>
<td>Deficient Rules and Regulations</td>
<td>68</td>
<td>19.43</td>
</tr>
<tr>
<td>Lack of knowledge/ Awareness in Investors</td>
<td>52</td>
<td>14.86</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>350</strong></td>
<td><strong>100.00</strong></td>
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</table>

Source: Field survey

As the above Table No 6.2 shows, 35.71% of the sample Small Investors have incurred losses from Fraudulent Companies, propagated, and marketed through the media by their fraudulent managements. Small Investors who are victims of such fraud ask, "How and why the Regulator, ROC, DCA, SEBI, allow such dubious companies to raise money from innocent small investors through IPO, public issues, preferential allotment of shares, private placement of shares and promoters quota of shares, from the innocent Small Investor?" Why does not the SEBI monitor in advance the background and past history of such promoters/ directors? The Small Investors are not only angry with the system but they feel helpless, hopeless, and frustrated. Out of every
three Small Investors one has lost money in fraudulent Companies. Surely it is not a matter to be winked at.

Most complaints are about the losses incurred in the primary market/private placement of shares. Who is to be blamed for it, the ROC, DCA, SEBI or the Stock Exchange? The explanation, given and excuses offered by the Regulator about Investor protection in the name of disclosure do not seem satisfactory. For the Indian Capital Market is an emerging, developing market. Actually it is just one-decade-old open economy. In the early 1990s, Controller of Capital Issues (CCI) was removed, and the Government started regulating the companies, the IPOs, public issues price system was scrapped without creating a proper marketing mechanism, regulator network without educating the Small Investors and creating awareness among them about the Primary/Secondary market mechanism, the Regulators, the Government Policy makers went ahead throwing open the doors for all and sundry.

Among the sample investors, 125 expressed their anger about the losses they incurred from fraudulent Companies, 63 (18%) complained of manipulation, short selling, forward trading and unofficial gray market operations. Most of these are connected with the secondary market. Losses are incurred in the secondary market because of price manipulation tactics and the deliberate frauds practiced by the Operator-Broker-Promoter nexus.

Of the sample investors, 42 (12%) admitted that the losses incurred by them not only due to the defaults of the companies but their wrong investment decisions. Normally small investors do not accept their mistakes; always try blame the government or someone else. Barring these 42 among the sample respondents, the remaining 308 (88%) have blamed. Company managements, stockbrokers, manipulators, policy-makers, regulators, the government system
and the economic offences wing of the MCA. For 68 investors (19.43%) their losses are due to the failure of the Regulating body. If it had taken prompt and wise decisions and if then had been a proper monitoring and surveillance system, the losses might have been avoided. 52 of 14.86 % of investors sustained the losses for lack of awareness and knowledge of proper investment.

Chart No: 6.2

Causes of Losses of Small Investors

<table>
<thead>
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<td>Lack of knowledge/Awareness in Investors</td>
<td>52</td>
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</tbody>
</table>

From the figures, in Chart 6.2 and Table 6.2, it is obvious that most losses of small investors were due to the corrupt companies and fraudulent management by unknown promoters, about whose history and background and knowledge of administration was known without any compunction they cheated the gullible and innocent investors, by promising high returns to investment in a very short period.

Hasty investment decision brought losses to some investors. That some small investors among the sample should have owned their responsibility at least in part, for their losses, and do not throw the blame on the government or other bodies is both interesting and revealing. For, implicitly they admit that they should have taken investment decision after examining the pros and cons.
of investment. Their response to the question is not only positive, but encouraging. It means that they can think of the consequences of their investments without being lost in dreams dubious profiles. Such investors would be the backbone for a company. Values governing the united or joint family shall have a holy on the middle and lower middle classes of Indian society. They naturally would like to take decisions which protest the interests of their children, their future and security.

Analysis of the data collected from the responses to the questionnaire that safe investment decisions are taken by reveals many who have strong familial bonds, and who receive advice, encouragement, motivation and direction from the elderly people in the family, and the community. Table No 3 given below explains the aims and objectives of the Indian small Investor.

Table No: 6.3

<table>
<thead>
<tr>
<th>Financial Instruments</th>
<th>No. of Investors</th>
<th>% of Investors</th>
</tr>
</thead>
<tbody>
<tr>
<td>Earning high Interest/ Dividend</td>
<td>106</td>
<td>30.29</td>
</tr>
<tr>
<td>Post-Retirement</td>
<td>101</td>
<td>28.86</td>
</tr>
<tr>
<td>Children’s Education / Marriage</td>
<td>93</td>
<td>26.57</td>
</tr>
<tr>
<td>Deploy Surplus Earnings</td>
<td>26</td>
<td>7.43</td>
</tr>
<tr>
<td>Earning for doing business</td>
<td>24</td>
<td>6.86</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>350</strong></td>
<td><strong>100.00</strong></td>
</tr>
</tbody>
</table>
It is interesting that 93 investment decisions in the sample taken are for children’s welfare, for their education and or marriage. 28.29% of Small Investors have made investment decisions for the benefit of their in future through fixed assets and gold. Investments are also made so that they mature after a few years, when their children, particularly daughters, attain their majority. To get back their investments along with the interest, and the dividend at the time of marriage of the daughter or sons education would be of great help. Usually Small Investors go in for safe investment schemes / financial instruments by the GOI. They always prefer Safe instruments, like Bank Deposits, Small Savings Bonds, and they are averse to take risks.

Now radical changes are taking place in the socio-economic sphere. Parents wish to save a part of their income, for the higher education of their children, which has become unbelievably expensive, especially education in engineering and other professional courses. Many parents have opted for the nuclear family so that they may be equal to the needs of their son or daughter. Investments are made from this point of view. With the joint family system breaking up the tendency to save and invest a portion of one’s income for post-retirement security is fast developing in Indian society. Table No.6.3 shows that 28.86% of the Small Investors in the sample, i.e. 101 out of 350, have made investments so that they may have a steady monthly income after their retirement and also to have enough resources to meet their health problems in old age. Therefore many while young tend to opt for Security Schemes, safe investment instruments like small saving-government instruments, government bonds, the RBI Bonds, PPF, Insurance etc.

The influence of the Capital Market particularly in cites can also be seen from the above Table No.6.3, some small investors make investments also to
have surplus earnings, to have income dividends from or to get a huge income from investment. Out of the sample of 350, 30.29%, (106) have had this objective, and for 24 investors (6.86%) the objective of investment is to earn an income for regular living from investments.

An interesting development are a consequence of the economic growth, the boost acquired by the IT industry, the BPO etc, in that they have resulted in increase in highly paid jobs. At a very young age, one is likely substantially high to be employed in such a job, which brings him a salary much more than he can spent. Investing their surplus money in share markets is becoming a hobby among the highly paid young. 26 Small Investors (i.e. 7.43%) mentioned that their objective behind investment is to have surplus earning.

The following present the investment objectives of the small investors in the form of a Chart (Chart No.6.3)

Chart No: 6.3
Investment Objectives of Small Investors

<table>
<thead>
<tr>
<th>Objective</th>
<th>No. of investors</th>
</tr>
</thead>
<tbody>
<tr>
<td>Earning high interest/ dividend</td>
<td>106</td>
</tr>
<tr>
<td>Post retirement</td>
<td>101</td>
</tr>
<tr>
<td>Children's Education/Marry</td>
<td>93</td>
</tr>
<tr>
<td>Deploy surplus Earnings</td>
<td>26</td>
</tr>
<tr>
<td>Earning for business</td>
<td>24</td>
</tr>
</tbody>
</table>
Making provisions for a secure life after retirement, by means of investments and by means of saving one's hard earned money emerges as a major objective of investment. Providing for one's children's education & marriage emerges a second major objective of investment. It all the objectives listed are seen together, it would be found that they are all connected and point to monetary security one requires for every part/phase of one's life. It is as if the small investors whose income is limited try to make the most of it by investments which promise huge returns. In such a setup it is not at all surprising that they became easy victims of cheats, frauds, and double-dealers. What happened in the securities market remains a mystery. Hence, it is very clear that small investors have lost faith in the system.

Regarding the causes for the small investor to lose his money, it is not surprising that the main cause are vanishing companies and manipulations (Inside Trading) by companies, directors and brokers. This highlights the essential and urgent need to have stringent penalty against insider trading. In the developed countries there is provision for criminal proceeding against insider trading. However in India this is one area, which has been talked of the most but least acted upon. The cases of BPL, HLL, M.S. Shoes etc are examples where the SEBI could not even initiate proceedings against the culprits. The record of the SEC (Securities Exchange Commission) in the USA, which is i.e. the SEBI's counterpart in USA, is illuminating far good in this context. Each year the SEC brings between 400-500 civil enforcement actions against individuals and companies that break the securities laws. Typical infractions include insider trading, accounting frauds and providing false or misleading information about securities and the companies that issue them. In contrast, the number of cases caught by the SEBI can be counted on one's fingers. Even in these cases the culprits could not be brought to book because the SEBI lacked the necessary powers to search and seize. It is yet to be seen, how many
culprits can be booked even after the Sr. 4 has been given the required powers to search and seize.

Table No: 6.4
Money Lost by Small Investors

<table>
<thead>
<tr>
<th>Amount (in Rs.)</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>0-3000</td>
<td>20</td>
<td>6</td>
</tr>
<tr>
<td>3001-5000</td>
<td>45</td>
<td>14</td>
</tr>
<tr>
<td>5001-10000</td>
<td>60</td>
<td>19</td>
</tr>
<tr>
<td>10001-20000</td>
<td>65</td>
<td>20</td>
</tr>
<tr>
<td>20001-50000</td>
<td>109</td>
<td>34</td>
</tr>
<tr>
<td>50001-100000</td>
<td>13</td>
<td>4</td>
</tr>
<tr>
<td>More than 100000</td>
<td>7</td>
<td>2</td>
</tr>
<tr>
<td>Total</td>
<td>318</td>
<td>100</td>
</tr>
</tbody>
</table>

The above Table No. 6.4 shows the range of the amount of money lost by the sample investors. It ranges from Rs. 3000 to Rs. 3,00,000, the average being approximately Rs. 40,000. Given the size of small investors' population in India, it is no ordinary loss to the investing community.
<table>
<thead>
<tr>
<th>Type of Grievances</th>
<th>Nature of the Grievances</th>
<th>No. of Investors</th>
<th>% of Investors</th>
</tr>
</thead>
<tbody>
<tr>
<td>Type – I</td>
<td>Regarding non-receipt of Initial Public Offer (IPO)</td>
<td>112</td>
<td>32.00</td>
</tr>
<tr>
<td>Type – II</td>
<td>Non-Receipt of Dividend</td>
<td>38</td>
<td>10.86</td>
</tr>
<tr>
<td>Type – III</td>
<td>Non-Receipt of share certificates after transfer</td>
<td>3</td>
<td>0.86</td>
</tr>
<tr>
<td>Type – IV</td>
<td>Regarding non-receipt of Bonds/ Debenture certificates in / after allotment</td>
<td>45</td>
<td>12.86</td>
</tr>
<tr>
<td>Type – V</td>
<td>Non-Receipt of letter of offer for rights</td>
<td>23</td>
<td>6.57</td>
</tr>
<tr>
<td>Type – VI</td>
<td>Collective Investment schemes</td>
<td>4</td>
<td>1.14</td>
</tr>
<tr>
<td>Type – VII</td>
<td>Mutual funds / venture capital funds / Foreign Ventures / Capital Investors / Foreign Institutional Investors / Portfolio manager, Custodians</td>
<td>21</td>
<td>6.00</td>
</tr>
<tr>
<td>Type – VIII</td>
<td>Brokers/Securities lending Intermediaries / Merchant Bankers / Registrars and Transfer agents / Debenture Trustees / Bankers to Issue / Credit Rating Agencies Trustees / Underwriters / Depository Participants</td>
<td>56</td>
<td>16.00</td>
</tr>
<tr>
<td>Type – IX</td>
<td>Securities Exchanges / Clearing and settlement organizations / Depositories</td>
<td>13</td>
<td>3.71</td>
</tr>
<tr>
<td>Type – X</td>
<td>Derivative Trading</td>
<td>10</td>
<td>2.86</td>
</tr>
<tr>
<td>Type – XI</td>
<td>Corporate Governance / Corporate Restructuring / substantial Acquisition and Takeovers / Buyback / delisting / Compliance with Listing conditions.</td>
<td>25</td>
<td>7.14</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td>350</td>
<td>100.00</td>
</tr>
</tbody>
</table>
received the dividend cheques in time, and as for demat account holders, the
dividend amount has not been credited to their bank accounts, because the
investors have not informed their latest correspondence address and their bank
account number to the registrars of the company for crediting their dividend
amount. All dividend cheques / warrants are returning undelivered, and the
amounts are credited to either the company ESCROW account, IPEF account
of the MCA, or may be to the investor grievances cell of respective stock
exchanges. This problem has arisen due the negligence and unawareness of the
small investors who have kept their shares in their safe but have failed to take
the precautions to get at the latest information about the shares of the company
its progress, the dividend and bonus shares declared by the company etc.

Another grievance expressed by 25 (7.14%) the sample small investors
relates to Corporate Governance/ Corporate Restructuring/ substantial
Acquisition and Takeovers/ Buyback/ delisting/ Compliance with listing
conditions. Many of the companies have entered the stock market with volumes
of IPOs their promoters without any corporate governance/ administration/
experience. They are looting, and siphoning off the hard earned money of small
investors and after coming in to IPOs within one/two years, using the loopholes
of the rules and regulations of substantial acquisition of the shares/takeovers,
buyback of the shares by the company by the same promoters/ Directors from
the small investors for less than the face value/ market value. The particular
public limited company is merged with another company/ sister concerned
company by the same promoters/ directors, delisting of the shares. Many
companies which made IPOs in bull face have vanished in a short period and
there are no sections to safeguard the interest of the investors and justice is not
done to them.
Table No.6.5 given above shows that a considerable number of small investors have been facing problems of non-receipt of Initial Public Offer (IPO), that is though they have applied for it they are unable to know whether the shares they have applied for are allotted to them or not, due to the communication gap between the company, registers of the issues and investors. Among the sample of 350 investors, 105 (i.e. 30.29%) complained that their money was blocked for a particular issue only and therefore they were unable to apply for the forthcoming IPOs.

The second major problem is non-receipt of Bonds and Debentures certificates. It was faced by 54 (15.43%) of the sample investors because of made in wrong entries in the debenture/Bonds application by then in the respective columns of the application form. They also complained that the balance amount due to them after the debenture/Bonds were allotted had not been returned to them. They were negligent while filling the application properly as a result they did not receive the debenture certificates.

Non-receipt of rights shares is another problem. 46 (13.14%) of the sample small investors, complained that even though the company had declared the rights shares and claimed to have sent the application form to the current share holders/ investors as per the address, in their register, the rights issue application forms did not reach them they did are not mention their latest address for communication and demat account number.

Another major problem is non-receipt of dividends, and 38 (10.86%) of the sample investors have faced this problem. Though the company has declared annual dividends and interim dividends, the investors have not
As the companies reserve and allot later the major stakes in their company shares with internal agreements and lock in periods, so many Mutual Funds/ venture capital funds/ high net worth individual investors / Foreign Institutional Investors/ Portfolio managers and Custodians of the issue are making bulk deals. These impacts on the stock market daily volatility of that particular company’s shares. In the sample 21 (6%) small investors not get the information in stipulated time about the bulk deals, and share prices fluctuated. As a result the small investors anxiously had to sell away their shares as the company became sick and ran on losses consequently they lose their valuable money because the company has kept them ignorant about its fundamentals.

As many of the brokers/market intermediaries underwriters are collude and got information in advance about particular company’s financial positions, profit / loss, before the company declares its unaudited / audited results, they actively indulge in inside trading with out to the knowledge of the SEBI and other market regularities, and manipulate share prices, short selling and forward trading. As a result the small investors who are kept ignorant of the actual position of the company sell away their shares and sustain losses. Thus they are made scapegoats of the stock market.

Among the sample small investors only 13 (3.71%) expressed the view that the SEBI and the other governing bodies of the respective stock exchanges are determining the buying and selling of the shares of particular companies from time to time, i.e. T+1, T+3, T+5 etc., As a result there is a delay in the transfer of shares from buyer to seller, seller to buyers. And it is also one of the main reasons for the delay in settlement by the clearing and settlement organization/ Depositories Participants. As money is not changing physically, the investors are unable to investing in the shares of other companies.
There is no proper understanding of trading in derivatives i.e. futures and options in India, particularly among small investors. Even though it is a most powerful instrument in most advanced countries stock exchanges, it is not popular in India. Small investors do not show much interest in participating derivatives trading. In the sample only a small percentage of 2.85% investors (10) occasionally participate in the trading terminals in the NSE and BSE, as a huge amount has to be deposited as margin money to participate in derivatives trading. Small investors therefore do not show any interest in it. A large gap in settlement is also one of the main reasons for the small investor not being attracted by it.

In the study sample only 4 (1.14%) have invested collective investment schemes, most of the sample investors are complained on Plantation companies because it is not monitored by SEBI and all the regulators along with government refrained to handle the issue in the name of open economy, the small investors' were pitted against such manipulated companies.

**Chart No: 6.4**

_type of grievances_
The sample small investors are angry about the charges levied on demat. Their complaints regarding services provided by the DP are important, and cannot be ignored.

Stock Exchanges suspend transactions and trading in the shares of some listed company. These shares are actually in demat form and small investors cannot sell, dispose of them. All the same, they are being forced to pay demat charges.

After the SEBI's directive regarding the dematerialisation of all equity shares, the small investors, sometimes, gets caught in a dilemma. They come in IPO, transfer of shares in the demat mode. Then subsequently they find that either the shares are not traded at all or traded below par at Re.1.00, Rs.2.00 or so. They cannot sell their shares regularly, monthly, quarterly, annually. He is being penalized to pay the demat charges to the DP and the NSDL.
The sample investors also say that though they have filed/ sent their complaints to the NF, SEBI, Stock Exchanges, Companies none has taken note of them and responded to them. Of the sample, almost 13% (i.e. 12.86%) have expressed their concern about the demat charges of non-traded shares.

Of the sample small investors 71 (18.44%) complained that demat charges were very high. Before the demat mode was introduced, the small investors were not required to pay any charges. Shares of lower denomination were kept in safe deposit vaults or in the cupboards. Now for a small investor, shares in small quantities in the demat mode are becoming unaffordable.

Brokers and sub-brokers seem to be a regular problem, if not a menace. One out of every 4 small investors is not happy with them and their service. Their grievances against them are many, are high broker charges, brokerage, improper service, non-remittance of sale proceeds in due time etc.

It is clear from the nature of complaints made by the investors that the need of hour is to improve the redressal system further and make it truly efficient. Then only can such complaints/ grievances as the above can be to taken care of, and remedied.

Chart No: 6.5

Nature of the Complaints

<table>
<thead>
<tr>
<th></th>
<th>No. of Investors</th>
</tr>
</thead>
<tbody>
<tr>
<td>High Demat Charges</td>
<td>85</td>
</tr>
<tr>
<td>Demat Charges on Non-Traded Shares</td>
<td>45</td>
</tr>
<tr>
<td>High Brokerage</td>
<td>36</td>
</tr>
<tr>
<td>Against Broker's Service</td>
<td>32</td>
</tr>
<tr>
<td>Against Demat Account/IDP</td>
<td>38</td>
</tr>
<tr>
<td>Non-Receipt of Sale Proceeds</td>
<td>31</td>
</tr>
</tbody>
</table>
During the investigation, while interacting with the small investors, attempt was made to study and understand the extent of their knowledge about the Redressal system. The idea was to understand their level of education, their awareness about the protective measures in their behalf taken by the policymakers, regulatory, monitoring authorities and lawmakers. They were asked if the felt convinced that these officers of the redressal system were really concerned about them. The sample respondents were also asked if they know where should they complain, and whom they should have to approach for the redressal of their grievances.

It was found during the enquiry that the small investors were approaching different regulatory agencies, viz. the RBI, the SEBI, Ministry of Corporate Affairs (MCA), Company Law Board, Investors Grievances Cells of the respective stock exchanges etc. In some cases they did not approach the authorities concerned or they went to the wrong agency several times they were denied accessibility to the regulators. Many of the investors felt that that proper guidance to them about the redressal system was not available. They felt anguished that many a time the regulators without solving their problems passed on the buck to others. Naturally the small investors felt that the response of the regulators to their complaints and appeals were anything but positive.

The following Table No.7 compiles in a tabular form the responses received from the small investors regarding their knowledge about the redressal system.
The purpose in asking the respondents questions about the redressal system was to understand their knowledge about the present regulatory system and its status. In some ways their responses were encouraging. But it was somewhat disconcerting to find the responses. It was clear that all of them knew that there were many in the system. They approached various regulators viz. the SEBI, RBI, CLB, MCA, Consumer Courts and others. They also knew that proper regulator should be approached. Their knowledge that there are separate regulators for different financial instruments is in a way encouraging.

From Table No.6.7 it is clear that 53 of the sample (15.14%) know about RBI functioning as a regulator. But they did not know which department of the RBI should be contacted for redressal. The Indian investors in general know...
that the RBI is one of the most reputed Indian institutions concerned with banks. But from the survey, it is found that the knowledge of the respondents about the different functions of the RBI is limited. Therefore they send their complaint/grievance for remedying to different departments, contact the wrong person. In some cases, it is found that they have approached the wrong institutions. Complaints which ought to be sent to the SEBI are sent to the RBI. Under the circumstance, what is needed is to encourage small investors, whenever they have a grievance, at least write to some regulator. And Regulators and the Government should evolve a system among themselves to pass on the complaints/grievances of the small investors received to the appropriate regulators. These bodies should inform the investing public as to the correct/right regulator, (either RBI or SEBI) and that their complaints have been forwarded to the regulator concerned for follow up action.

Their belief that the SEBI is a regulator is not very encouraging, although it does performs some regulatory functions. The investors have heard the SEBI as a government agency connected with the Share Bazaar, Public Issues, Capital market etc. But they do not seems to know for what type of grievances the SEBI is to be contacted, which department and who the official concerned. For instance, some small investors seem to have approached the SEBI for redressal in cases of fraud committed by the private sector, which is not related to the SEBI at all. While approaching some agency for help and redressal deserves appreciation, at the same time, it is necessary to inform correctly all investors the appropriate agencies to be contacted for redressal. As Table No.6.7 shows, I the sample as many as 170 persons (48.57%) have approached the SEBI or recognized it as an authority for investors’ grievance redressal. But they are not quite sure that it is the right institution to be
approached for the redressal of their particular grievance. Some contact police and other agencies for different types of fraud not knowing that for their particular problem the SEBI is the right agency to be contacted.

Among the sample respondents 40 people (11.43%) believed that the police could be approached for redressal. But the police are an agency concerned with the maintenance of law and order in general system in the country. Fraud, cheating, manipulation, and similar irregularities in the stock market do not come under their purview. It is their ignorance about the redressal system that makes some go to the police for help.

To summarize knowledge of small investors about the redressal system, it is found that they have some but imprecise knowledge about the regulatory system, names of various regulators etc.

But their ignorance about it is greater then their knowledge. Though a small investor knows about the names of various regulators viz., ROC, MCA, SEBI and others, he does not know about the right agency to be contacted or approached. Nor does he know about the right department and the person in the agency to be contacted. He does not understand the technicalities of the redressal system. He gets confused and lost in it.

Attempt was made in the present study to quantify the knowledge of the small investors about the redressal system through questionnaire.
While going through the responses a unique thing was been observed. It was observed that almost 50% cases of the sample failed to approach to correct appropriate authority or regulator.

Table No: 6.8

Investor Expectations on Redressal System

<table>
<thead>
<tr>
<th>Expectations</th>
<th>No. of Investors</th>
<th>% of Investors</th>
</tr>
</thead>
<tbody>
<tr>
<td>Intermediaries should be fair and Transparent</td>
<td>195</td>
<td>55.71</td>
</tr>
<tr>
<td>Ban of Backdoor entries / strict punishments</td>
<td>185</td>
<td>52.86</td>
</tr>
<tr>
<td>Active Regulators i.e. SEBI</td>
<td>170</td>
<td>48.57</td>
</tr>
<tr>
<td>Internal Management</td>
<td>179</td>
<td>51.14</td>
</tr>
<tr>
<td>Investors Awareness / Education</td>
<td>218</td>
<td>62.29</td>
</tr>
<tr>
<td>Total Approached</td>
<td>350 Investors</td>
<td></td>
</tr>
</tbody>
</table>
Table No.6.8 given above reveals that out of the 350 sample small investors, interacted, a large number of them indicated what their expectations from the redressal system. They felt that the regulators were not responsible. Some feared about corruption within the regulatory administrative setup itself.

195 (55.71%) small investors in the sample expect good guidance from the Intermediaries. They want full transparency, fixing of responsibility within the administrative system. They also expect good governance form them and the corporates. A little more than half of the small investors’ (185; 52.86%) want strict punishment to be given to the unscrupulous promoter. They want the regulators, and the government, not only to punish the guilty but they put the behind the bars as other criminals are done.

A little less than half of the sample (170; 48.57%) says that regulators are to be made more active and responsive. Some even suggest that the regulators should be proactive because Prevention is always better than cure. They expect that after receiving the complaints/ grievance from the small investors, the regulators should respond quickly. They should acknowledge complaints received and immediately initiate enquiry, investigation, and action against the defaulter. 179 (51.14%) small investors suggest that the internal management system of the regulator should be made more effective. They also suggest that there is a real need for better co-ordination among the various regulators like the SEBI, RBI, MCA, CLB etc. so that the rampant irregularities affecting the small investors may be contained, and rooted out.

There was a positive response from 62.29% of the investors regarding their education. They agree with the suggestions that there is the need of investors’ education. They feel that investors' education is the real reply and corrective measure to stop further/ future fraud. “An informed investor is the safe investor”.

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The survey reveals one fact very clearly that; investors are a most vigilant lot in the Capital Market. The trends the general investors and the value propositions they make are much faster than those of regulatory bodies and other Capital Market activist. It is the investors’ activism, which is reflected in their expectation of the redressal system. Invariable every investor has stressed the need to enhance the measures to promote investor education. The other expectations related to good corporate governance practices ensuring complete disclosure and maintaining transparency in the affairs of the company, and strict punishment for the defaulters so that they become a lesson and warning to others unscrupulously inclined. Further, the investors demand the regulators to be more vigilant and active than they presently are. Last but not the least they expect the management of companies to be professional, effective and trustworthy.

The investor knows about his grievances. He responds clearly, without ambiguity when he is asked about them various complaints were mentioned by
the small investors, regarding from non-receipt of interest, principal amount, to services of broker. Complaints regarding demat, demat charges, updating of demat accounts also were received.

Small investors seem to have kept themselves abreast of market infrastructure of the capital market. They are particularly troubled regarding higher demat charges, their grievances and expectations about services etc. they put forth their cases forceful. This shows that the Indian small investors are getting ready to meet the challenges of the new era. The nature, concept, thinking process, the decision-making process about investments and other issues have been examined and analysed in the above field survey, during which direct interactions were established with the small investors. The sample of 350 small investors seems adequate for the study and to arrive at tangible conclusions.

It could be said that small investors are learning from default, and scams discovered from time to time though sometimes they get carried away and make "ill informed" decisions.

The observation made so far can be summarized as follows.

1. Capital Market is part of economic system has become now an accepted principle
2. There is no continuity of faith, confidence of small investors in the Capital market.
3. The Younger generation professionals, self-employed people, the educated up to the age group of 35 years are attracted towards the capital
market. Those of the age group 25 are eager to understand, learn and get educated about capital market.

4. The Younger generation is ready to understand the grievance redressal system and accept the principle, "Prevention is the best form of protection"

5. Though the interest rates have come down rapidly in the last few years, investment in Fixed Financial instruments is going up.

6. The reason for the small investors turning towards Government securities is their unpleasant experiences about various scams which have taken place in the last 10 years.

7. In the first decade of liberalisation, the private financial services provider made inroads into the upper middle class and the upper class of the society.

8. Private Mutual Funds has created a market network, among the middle-class, middle class and among these of the age group of 25 to 35 years, and above.

9. Attraction to the equity cult is found increasing.