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A STUDY OF INVESTORS' PROTECTION IN INDIAN CAPITAL MARKET
WITH SPECIAL REFERENCE TO SMALL INVESTORS IN MUMBAI

A SYNOPSIS OF THE THESIS
Submitted to S.N.D.T WOMEN'S UNIVERSITY, MUMBAI
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1.0 INTRODUCTION:

The capital market is of crucial importance because it provides institutional machinery to transfer capital from those who wish to lend to those who are in need of it. Capital market is vital for the development and strength of the economy. A strong and vibrant capital market assists corporate sector initiatives, finances and exploits new processes and instruments and facilitates management of financial risk. An important problem facing the Indian Government for the last six to seven years and yet remaining unsolved is how to revive the country’s capital market. The market continues to be in depression which started around 1995 mainly due to withdrawal of small investors. An important factor underlying such withdrawal is the erosion of small investors’ confidence in capital market (Gupta, 1998).

Investor confidence is the bedrock of any market. Confidence in systems and procedures, management of funds and functioning of markets, fairness to all investors.
transparency in dealing is an important aspect of capital market. Systems and procedures followed by stock exchanges, fund management organizations, brokers etc should be of highest standards and protect the interests of investors. Number of small shareholders in India increased from about 10 million in 1990 to over 20 million now. An all India survey carried out by the Society for Capital Market and Research and Development shows that as high as 79 per cent of the respondents had either 'no' or 'low' confidence in corporate management. Hence it is needed to instill investor confidence. This demanded an attempt to understand what had happened in this regard during capital reform period.

Nowadays, individual investors, mutual funds, pension funds and insurance funds place their money in various instruments of the capital market. Therefore, sustainable and pragmatic development of the capital market has become essential. With globalization of the Indian economy, the role of the Indian Capital market regulator assumes even more significance. The regulator has to be dynamic and responsive to changes and challenges not only to domestic but also international ones. At the same time, markets are getting seamlessly integrated (Raju, 2004). Therefore, it is essential to assess the
nature of satisfaction levels of investors and ensure the prevalence of fair, safe, efficient and transparent capital market for investors' protection.

There have been instances of frauds, scams and mismanagement of the capital market in the country. This has led to a number of distortions in the capital market working and in the capital market reform process. As a result of this, investors suffered a lot, particularly the small investors and extent of loosing confidence on capital market is increasing. Therefore, there is a need for a fool-proof method of checking and controlling the frauds and mismanagement of this sector in such a way that all investors are fully protected and they may operate with confidence. Hence it is valuable to understand the SEBI's role in protecting investors' interest in the Indian capital market as a regulatory authority. But there is often no single correct regulatory approach to an issue. Several instruments may bring desired results. Generally every regulator applies his or her judgment and takes a decision by keeping in mind the investors' interest. Regulation is not a static subject and it is a very dynamic one. Therefore, the studies in the field of investors' protection
in Indian capital market require to be updated frequently. That is why this study has been undertaken. Since its inception in 1992, SEBI has been framing various rules, regulations and guidelines and also changing them from time to time to make Indian capital market a modern, safe, fair and efficient one. Significant efforts have been made to restructure the Indian capital market keeping in mind investors' protection. Many of the weaknesses and inefficiencies of the capital market have been removed. Therefore there is a need to understand such initiatives and to measure their impact on capital market in general and on investors in particular because investor is the king of capital market. That is why regulators fine-tune their policies towards encouraging and protecting investors.

It would therefore, be interesting and valuable to study:

1. What extent are the small investors protected?
2. What is the contribution of capital market in economic development?
3. Has the importance of small investors declined?
4. What is the role of SEBI in protecting small investors and their confidence?
5. What are the problems faced by small investors?
6. What is the grievance redressal mechanism presently and how effective is it, particularly for small investors?

7. What is the growth pattern of the Indian capital market?

8. Are the investors, particularly small investors satisfied with the present redressal mechanism?

9. What are other organizations and intermediaries, besides SEBI, doing for investor protection and handling grievances?

10. What steps have been taken for educating the small investor?

This study seeks to answer some of these questions.

2.0 IMPORTANCE OF THE STUDY:

The Indian economy depends on the capital market and its future is closely associated with SEBI's regulatory and developmental measures along-with other regulatory authorities and how well the investors feel protected. After the abolition of the CCI (Controller of Capital Issues), it is the SEBI which shoulders the entire responsibilities of the regulation of new issues. SEBI has to ensure that the
genuine investors are protected and that capital is directed into productive corporate sector of the economy. SEBI is now more than a decade old and has had a monumental role with functioning of the securities market especially with respect to protecting investors.

Small investor plays a significant role to the national savings which could be used for building capital of the nation. The definition of a small investor (also called RII-retail Individual Investor by SEBI) has been revised from one who applies for shares up to Rs. 50,000 or less to one who can apply for shares up to Rs. 1,00,000 or less. There is a need to protect the interest of the small investor who in most cases is not very well informed about the development of the securities market. Over the recent past, investor complaints have increased and the SEBI has come out with rules and guidelines for issuing companies, brokers and other intermediaries in the interest of protecting the investors. Some of these investor complaints are of grave nature such as fraud, forgery, circulation of benami and bogus share certificates and sale of non-transferable certificates, misstatement in the prospects.
where by investors are misled to make investments in the company.

It is therefore necessary to study and understand the growth of the capital market, changes in the regulatory framework during the reform period, the worries as perceived by the small investors, their preferences and perceptions of major players in the capital market, the various problems faced by them and how they are being redressed presently, their satisfaction levels about redressal of their grievances. It is also essential to assess the awareness and usefulness of investor education programmes. This can provide some vital clues as to what needs to be done further in the area of investor protection.

3.0 OBJECTIVES OF THE STUDY:

The main objectives of the study are:

1. To study the growth of the Indian capital market.

2. To understand the need and importance of investors' protection.

3. To examine the role of regulatory authorities in investor protection and education
4. To assess the perceptions, preferences and worries of small investors in the Indian capital market

5. To assess the satisfaction levels of small investors while investing in various instruments in the capital market

6. To understand nature and type of grievances faced by small investors in the Indian capital market along-with the reasons why investors would like to approach to a particular regulatory authority for grievance redressal and further to assess investors experiences regarding redressal of grievances.

7. To examine the role and attitude of regulatory authorities in redressing investors grievances specially small investors grievances.

8. To assess the SEBI's attitude towards market players. and to study adequacy of measures for reviving investors' confidence, as perceived by investors.

9. To assess the awareness and usefulness of investor education programmes for investors' protection.
4.0 RESEARCH METHODOLOGY:

4.1 Scope of the Study:
For the purpose of this study, Mumbai city is selected. Samples were drawn from Mumbai city of Maharashtra for collection of primary data. A questionnaire was administered for this purpose, data analyzed and findings are presented.
The period of the study is restricted upto year 2002.

4.2 Sources of data:
The study is based on both primary as well as secondary sources of data.

4.2.1 Primary Sources:
Primary data were collected using questionnaire approach. Field surveys were conducted, interview schedules were used and observations made to get factual information from the respondents.

4.2.2 Secondary Sources:
Reports of SEBI, BSE, NSE, RBI and Economic Survey of India, published literature in the form of books and articles from journals, business magazines, newspapers etc were used to collect secondary data.
5.0 LIMITATIONS OF THE STUDY:

1. The present study is partly based on secondary source of information and thus suffers from same limitations as all such studies that rely on secondary data.

2. The topic is very dynamic since changes are taking place almost everyday. However, this study makes an attempt to take into account as much information as possible.

3. The study is based on primary data collected from investors which are based in Mumbai city only. This has been done from convenience point of view only. A larger sample from a wider cross-section would have made it even more focused.

6.0 CHAPTER SCHEME:

This study consists of eight chapters.

1. Introduction and methodology:

Chapter 1 deals along-with meaning of capital market and its importance in economic development, meaning and importance of investors' protection, the problem and the objectives of the study. Further, it also outlines the methodology of the study which includes
scope of the study, sources of data, definitions of selected terms, tools and techniques used, limitations of the study and chapter scheme of the study.

2. **Review of literature**

The second chapter reviews the literature on capital market and investors protection. It is divided into two sections. First section reviewed the studies in the global scenario whereas the second section reviewed the studies in the Indian context.

3. **Growth of the Indian Capital Market**

Chapter three assesses the growth of the Indian capital market for the period for 1980s and 1990s.

4. **Need for Investor Protection**

Capital markets across the globe are undergoing profound, unprecedented and fast-paced changes. Technology has revolutionized the processes and information explosion has sparked off remarkable changes in the way the world has been operating. What are the changes that have occurred in the Indian capital market is the focus of the fourth chapter. This chapter attempts to assess the changes in (a) channelisation of household savings (b) capital market
reforms (c) regulatory framework (d) the capital market design and scams which occurred during the 1990s. Due to these changes, need for investors' protection arises. This is highlighted in this chapter.

5. Investor Protection and Education: Role of regulatory authorities

A protected investor feels safer and invests more and more in the capital market-leading to greater economic development of the country. An educated investor is also a safer investor. Thus investor protection and education go hand in hand. This chapter examines what has SEBI, the BSE (Bombay Stock Exchange) and the NSE (National Stock Exchange) done for protecting investors.

SEBI's role in investor protection has been looked at from five dimensions- registration of intermediaries, supervision/inspection of market entities, surveillance, investigations and the grievance redressal mechanism.
While studying the role of BSE in investor protection, this chapter also highlights the role of Investor Services Cell, founded by BSE, for investor grievances redressal. Various types of complaints received by BSE have been categorized and the surveillance department's role has been studied.

The track record of the Investor Grievance Cell (IGC) set up by the National Stock Exchange has also been examined and status of arbitration matters at NSE studied. The efforts of all the three institutions towards investor education have also been examined. Investor Associations play an important role in making the small investor feel safer and this aspect has also been studied in this chapter. The contributions of two investor associations in Mumbai, the Investor Grievances Forum (IGF) and the Ghatkopar Investors Welfare Association (GIWA) have been assessed.

6.0 Profile of the respondents:

Chapter six describes the brief profile of Mumbai-the financial capital of India such as population, literacy and development in financial infrastructure.
This is followed by a profile of the sampled respondents.

7.0 **Investor Survey: Analysis and Findings**

Chapter seventh explains the research methodology of survey analysis first and then it presents findings in detail. It is an analytical report of the survey undertaken in Mumbai.

8.0 **Summary, Conclusions and Suggestions**

Summary of the findings and suggestions of the study are presented in this chapter.

7.0 **SOME FINDINGS OF THE STUDY:**

1. The Indian Capital Market had very humble beginnings with the first trading taking place under a tree at Apollo Street. However, the market really took off with great pace post 1980s. It demonstrated its potential not only to mobilize the savings of the household sector but also to allocate it with some degree of efficiency for industrial development.

2. The eighties and nineties witnessed investors from small cities and rich rural pockets across the country discovering that public issues were profitable investments. The floating of leasing...
companies. Introduction of newer instruments like commercial paper, certificate of deposits etc. further contributed to the dazzling growth of the capital market. Many important changes also took place in India in the field of finance. Policies which had bureaucratic control on entrepreneurial energies have been dismantled and refreshingly innovative changes have been introduced.

This unprecedented growth also brought along-with it, its own set of problems, particularly for the small investors. Frequent payment crisis, excessive speculation, lack of communication between brokers and stock exchange authorities, bad deliveries—all of these were the norm of the day.

3. Percentage of financial savings to total household sector savings was at its highest during the years 1994-95 and 1996-97. However, since the last four years, it has remained less than 50 per cent. The household sector savings in physical assets (like construction, machinery, equipment and inventories) have been given preference over financial assets. The share of financial savings of the household sector in
securities has gone down from 22.9 per cent in 1991-92 to 4.3 per cent in 2000-01, which subsequently increased to 8 per cent in 2001-02.

4. Various surveys undertaken in the past by SCMRD (Society for Capital Market Research and Development) along-with SEBI have indicated that the small investors are staying away from the market and the percentage of capital invested in capital market is miniscule compared to all others. In a study conducted in 2002 by SCMRD, it was found that 70% of the people interviewed felt that the regulation of the Indian capital market was inadequate. Another study conducted by Department of Company Affairs found that one-fifth of the people contacted had been deceived earlier in the capital market.

5. Small investors flock to the market only if they feel safe. A safe investor is one who is an informed investor-one who takes rational decisions based on factual data. An investor feels safe when regulations are in place and constant steps are taken to safeguard his interests. In case he has a problem, there has to be an efficient mechanism by which his
grievances/complaints are sorted out. This study also attempts to take an opinion from various investors about investors' protection and education experiences.

Some of the survey findings are as follows:

(i) 55.8% of the respondents perceived the regulation of the capital market are strict or very strict.

(ii) 71.0% of the respondents had a satisfactory or more than satisfactory experience while investing in shares. This percentage was 66.7% for mutual funds.

(iii) The top three worries of the capital market as perceived by the respondents were-no proper regulation of market, followed by too much volatility and then poor redressal of investor complaints.

(iv) 56.7% of the respondents had complaints at one point of time or the other.

(v) 55.5% of the complaints of the investors pertained to public issue of shares. whereas the complaints against debentures were 22.5%.

(vi) 35.9% of the respondents had interacted with SEBI earlier. 33.5% of the respondents had interacted with Stock exchange grievance cell. Fewer people interacted with investor associations or consumer forum for their
complaints. However, there was not much difference in their experience with interacting with these different agencies as far as satisfaction levels are concerned. (vii) 37.6% of the respondents mentioned that they would like to deal with SEBI in the future for resolution of their complaints, whereas 33.04% said that they would like to deal with Stock Exchange grievance cell. This is because 58% of the people felt that they are more effective in complaint redressal. (viii) 25.5% of the respondents felt that SEBI’s measures for reviving investor confidence are not enough. (ix) SEBI’s attitude towards intermediaries is perceived as tough or very tough. (x) About 52.4% of the respondents were aware of the investor awareness programmes. However, 19.8% of the respondents said that they were not much useful.