

EFFECTIVENESS OF REGULATORY MEASURES IN STOCK MARKET-A STUDY ON RETAIL INVESTORS IN KARNATAKA**Dr. T. S. DEVARAJA**

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ABSTRACT

The extant research examines the effectiveness of regulatory measures towards protecting retail investors in Karnataka. This study also fills the lacuna by studying the investor's perception towards recent regulatory actions to avoid various market misconducts. This is an early effort to study the perception level of small investors in Karnataka. Several research works are conducted in this area. These works vary widely in terms of their objectives and scope. However, most of the studies have focused on the nature and extent of problems faced by the investors. The effectiveness of the measures initiated by the regulators is not studied to the desired extent as evidenced by the review of literature. Hence we consider this work interesting and relevant for the following reasons. Firstly, the study throws a light on effectiveness of present grievances redressal mechanism of Securities Exchange Board of India (SEBI) and awareness and perception of retail investors on the same. Secondly, it evaluates the effectiveness of utilizing Investor Education and Protection Fund (IEPF) under Ministry of Corporate Affairs (MCA) provisions and awareness and perception of retail investors on those provisions. In sum this paper pleads for implementation of effective regulatory action to avoid various market misconducts, which in turn increase the confidence in the mindset of the retail investors. This can be achieved by Indian regulators through conducting various awareness campaign and programs in all places of nation. This will help the regulators to create investors democracy by bringing them into the main stream.

Key Words: Institutional Investors, Investors Democracy Investors Empowerment, , Investor Protection, Retail Investors.

INTRODUCTION

Day-by-day the Indian capital market synchronized with global market, as a result there is a chance of market volatility. At this time the investors may also experienced with some market irregularities like economic crisis and corporate scandals. At the same time the regulators implement various policy initiatives to rebuild a confidence among investors over market.

The seeds of investor protection were sown way back in 1956 at the time of enactment of the Securities Contracts Regulations Act, 1956. Since then, investor protection has been receiving increased attention and focus from the market regulators. In the last decade, India has witnessed a transition of focus from investor protection to investor empowerment.

Even though we have several types of investors, not all investors need the same degree of protection. Hence it is necessary for the researcher to evaluate the effectiveness of regulatory measures on weaker segment over stronger segment of investors. However the attempts will be made with this study to know the effectiveness of measures taken by the SEBI and other regulators to protect retail investors. This can be achieved through present research by covering the different aspects. Firstly, by examining the awareness of retail investors with recent regulatory measures and analyzing the changing perception of retail investors towards the regulatory actions.

INVESTOR PROTECTION

Investor protection is defined by the extent to which the commercial law and its enforcement protect investors from expropriation by company insiders. A widely held view is that better investor protection, via its impact on firms' ability to raise external financing, has a positive effect on aggregate economic growth.

The acceptance of this conjecture is evidenced by the policy recommendations that the World Bank, the International Monetary Fund, and the European Bank for Reconstruction and Development routinely make to the countries they assists (Rui Castro, 2004).

REVIEW OF LITERATURE

Few studies can be cited from some thesis and research articles that addresses the various issues under the investor protection such as role of stock market regulators, Grievance redressal system, corporate governance and financial literacy. Therefore the literature review has been classified into following sub-headings:

Regulatory Effort

The sound investor protection essentially the product of the efforts made by the stock market regulators and institution situated in that country. Therefore the below literatures discussed the stock market regulatory efforts of India and other countries.

Rui Castro (2004) introduced the investor protection into a standard overlapping generations' model of capital accumulation to assess the widely held affirmative view. Ultimately he concluded that the better investor protection implies better risk sharing. Because of entrepreneurs' risk aversion, this results in a larger demand for capital.

Suchismita Bose (2005) attempts to know the regulatory infrastructure of Indian securities market and see whether there exist well formulated laws with well-defined scope and powers of the regulators, capable of presenting all investors in the Indian market with a level playing field. This study also summarized that the some of the regulatory provisions that have evolved for tackling market misconducts and try to see what comes in the way of regulatory action aimed at investor protection in India, as compared with the US which is perceived as the world's most safe and liquid capital market.

Balanaga (2007) suggested that investor protection play an important role in the economic development of a country. According to him for gaining the confidence of investors in the securities market, there is a need to provide an adequate rate of return and fair operating efficiency of corporate in the securities market, then the investors lure back to market.

Ramesh (2008) recommended that corporations should evaluate the implications of providing short-term “earnings guidance”, as well as advisability of meeting financial targets through aggressive accounting techniques. The author also criticized the SEBIs’ action over retail investor protection.

John Ja Burke (2009) argued that with the exception of enforcement, investor protection that takes the form of addressing informational asymmetries and inequality of bargaining power in the market are largely ineffective. In the context of securities markets, the delivery of prospectuses, proxy statements, and annual reports, though important, do not serve the needs of the retail investor, as the latter lack the skills required to draw conclusions from these documents to make informed investment decisions. Ultimately author concluded that there may be an inverse correlation between volume of information and investor protection, since as volume increases investors are less likely to read and analyze information. This critique is applicable equally to EU and US investor protection schemes.

Sabarinathan (2010) identified some of the major interventions of SEBI in important aspects of stock market. He also focused on SEBI’s performance by discussing various annual reports of SEBI. The paper critically examines the economic consequences of Indian stock market. The author overviewed that the combination of registration, licensing, eligibility conditions, and incentives allows SEBI to reining non-compliant behaviour that could potentially affect the functioning of the securities market adversely

Anuradha (2011) stated several problems faced by retail investors and the author also suggested some strategies and legal measures that the regulatory bodies (like, SEBI, RBI, MCA, Mof etc...) has to be taken to attract retail investors savings to capital market.

Shaik Abdul (2012) throws a light on SEBIs’ role in surveillance of capital market misconducts through its investor protection measures. They ultimately concluded that the matured capital market system requires monitoring rather than over-regulation.

Investor Grievance Redressal Mechanism

Investor grievance redressal mechanism and protection of retail investors go hand in hand with one another. In securities market, there are many instances of investors’ grievances that adversely affect the investors’ morale and the capital market as a whole. SEBI has initiated number of steps with regard to Investor Grievances and their redressal. The literature under review is cited as under:

Taneja, Pawan; & Sharma (2005) through perceptual analysis of retail investors about grievance redressal mechanism; opinioned that almost all investors are aware of the educational programs and they could be protects themselves from the fraudulent activities.

Somaiah (2005) in his thesis used several tables and charts to show the awareness level of retail investors regarding regulators to lodge their complaints. He observed that the more number of investors are unsatisfied with the redressal systems and ultimately suggested to restore investors confidence by laying down clear and time bound procedures for redressal of specific grievances by SEBI, Department of Consumer Affairs and RBI.

Goyal (2006) stated that there had been jump of such redressal in 2001-02. The percentage of redressal rate of SEBI, which was mere 21.61% in the year 1991-92, jumped to 94.99% during the year 2002-03. The author was of the view that timely redressal together with stiffer penalties can only help curb the malpractices in stock markets. Like TV show, which used to have three doors for the contestants, who used to contain prizes, the investors too should have to judge the three doors. The remedy available to investors is to pursue claims for damages stemming from the misconduct by the brokers; they have the option of door no. 1 for litigation, door no. 2 for arbitration, and then the door no. 3, i.e. the door for mediation. The paper suggested that mediation has the potential for exponential growth.

Venugopal, Sudarsan & Himachalam (2012) explored the various problems faced by the small investors and the role of SEBI in redressing the various grievances received from small investors in related to primary and secondary market. They also revealed the knowledge of individual investors regarding present regulatory system and its status. They came to know that even though the regulatory bodies are

taking various measures to protect retail investors, the investors are not much aware about the right department and the person in the agency to be contacted.

Harjit (2013) pointed out that, there are lot of grievances pending at the SEBI level. Market regulator should not adopt a post office like approach, rather make it sure that all the grievances of the investors are redressed in a proper, time bound and satisfactory manner.

Corporate Governance

The corporate governance is imperatively playing a role to erect effective investor protection in any stock market. The strong corporate governance is one which comprises of disseminating corporate information like audited balance sheets, income statements, and cash-flow statements, along with supporting disclosures to investors and other stake holders. The different author's opinions about corporate governance are as cited below:

Afra (2009) has empirically examined the stage by stage development and reforms in Corporate Governance. This study mainly focused on the role of SEBI and MCA in protecting small investors. The author also concludes that only discovering of major corporate scandals is not the matter but the thing is both industry groups and government actors have sprung into action following the Satyam scandal. According to him actual implementation and enforcement of Corporate Governance remain challenging one, these challenges arises because of number of social, political and economic conditions in India.

Gade Surendar (2011) revealed the perception of the retail investors towards the Corporate Governance reports, and its impact on them and the role of it in decision making process of investment. This study finds out that the most of retail investors are using Corporate Governance reports in their rationale financial decisions. Therefore the study considers that the CG reports are used in attracting more individual investment in to equity fold.

Harjit (2013) remarked that, Annual Report of a company should be completely standardized and simplified. Annual Reports are statutory documents and no non-statutory information should be provided in it. If the company intends to provide any extra information, this should be construed as advertisement and should be provided separately. This would avoid the confusion in the minds of investors, and they would be able to concentrate more on the financial information, and not on the window dressing of the company.

Investor Education

Retail investors are considered as the weakest segment in the market. Many a times they are cheated because they lack the financial literacy in interpreting the true essence of the financial statements and disclosures. Therefore empowering the retail investors through proper educational programs is considered to be much essential.

Pallavi (2004) examined the level of financial literacy among investors in Delhi and NCR, about particular financial instruments. The study also tried to find out the financial instruments which are considered to be the most reliable and the source of information which is mostly used by the individuals while taking investment decisions. Ultimately they found that most of the investors rely on brokers and advertisements at the time of investment.

Somaiah (2005) explained the role of small investors in Indian Securities Market, and the need of imparting education to small investors. He commented upon the inefficiency of market regulator and recommended that all business associations should organize Investor awareness programmes and Investor protection should be included in curriculum of commerce, economics business management & Finance, CA and CS and other courses.

Harsh Jariwala (2011) revealed the risk derived from financial illiteracy, and examined the need for creating financial literacy among retail investors to protect them from financial disasters.

NEED AND IMPORTANCE

Investor Protection is a widely studied area. However, most of the studies have focused on the nature and extent of problems faced by the retail investors. The effectiveness of the measures initiated by the regulators is not studied to the desired extent as evidenced by the review of literature.

We need to examine the above trend in the backdrop of the global economic slowdown and its implications for capital market operations. In a situation bound with uncertainty there are always higher chances of manipulations in market and retail investors need to be careful and aware of regulatory actions towards protecting their rights.

Therefore, there is a clear need to carry out an empirical study which helps to examine the effectiveness of protection measures in terms of retail investors.

The proposed study attempts to know the awareness and perception level of small investors towards recent developments in regulatory actions towards protecting them from market misconducts.

Evaluating the awareness and education level among small investors is also one of the remarkable things in testing the effectiveness of regulatory measures. This need and bridge the important research gap in the area of retail investor protection.

OBJECTIVES OF THE STUDY

- To analyze the trends in investors complaints redressal mechanism
- To evaluate the awareness and perception level among retail investors regarding investors complaints redressal mechanism
- To know the provisions relating to Investor Protection and Education Fund (IEPF)
- To analyze the awareness and perception level among retail investors regarding IEPF

HYPOTHESIS

H1: The average grievances redressal rate for first 10 years is not equal to the average grievances redressal rate for next 10 years

H2: In terms of present grievance redressal mechanism the small individual investors perceived negatively

H3: In terms of Function of Organizations Registered under IEPF the small individual investors perceived negatively

PERIOD OF STUDY

The present study was conducted during the period 2012

RESEARCH METHODOLOGY

Data Collection

The present study is based on both primary and secondary data. The primary data is collected from 100 individual share market investors who spread over in two major cities, namely Hassan and Mysore. the primary data is collected in respect of the following:

1. To know the perception and awareness level among retail investors towards the present investors complaints redressal mechanism.
2. To know the perception and awareness level among retail investors towards the provisions relating to IEPF.

The data is proposed to be collected primarily from historical annual reports available for the public in SEBI, MCA and some investor's web sites. Other secondary sources include Books, Journals, and News papers.

Sample Size and Design

The present study covers the 100 retail investors, 50 each from two major cities, namely Hassan and Mysore. Convenience sampling technique is used to select retail investors from these two cities.

Analysis and Interpretation
Table 1. Experience Class Wise Analysis

RANK THE FOLLOWING ACCORDING TO YOUR PREFERENCE IN STOCK MARKET					
Answers	All Class Of Sample Retail Investors	Experience of Retail investors (in years)			
		< 1	1-3	3-5	> 5
Profitability	28	53.33	25	33.33	14.29
Education & Awareness	25	13.33	25	20.00	34.29
Financial Information Disclosure	15	20.00	20	6.67	17.14
Effectiveness of Regulatory Measures	32	13.33	30	40.00	34.29
Column Total	100	100	100	100	100
No. of Respondents	100	15	20	30	35

Table 1 shows that the retail investors having below 1 year experience giving more preference to the Profitability(53.33%) and less importance to the financial information disclosure(20%), education and awareness(13.33%) and effectiveness of regulatory measures(13.33%).On the other hand the Retail investors having above 5 years experience giving more importance to the effectiveness of regulatory measures(34.29%),Education and awareness(34.29%),Financial information disclosure(17.14%) and less importance to the profitability(14.29%).

This is because the retail investors at the beginning stage when they enter into the market they are giving more importance to the profit and less importance for Regulatory Measures to Protect them. As they only having the desire to make profit, they don't have much idea of capital market misconducts. But after getting experience in the securities market they are giving much preference to the effective regulatory measures and education and awareness. They may realize that without effective regulatory measures and lack of financial education and awareness they may fail to make sound financial decision to earn profit in stock market.

In India to create a safer environment there are several measures that are initiated by the Indian regulators to protect small individual investors.

Being implementing regulatory measures effectively the primary stage is to build awareness among investors. Therefore in this paper the researchers have taken some parameters like awareness and perception level among investors towards SEBI and MCA's measures to protect them in capital market against different market irregularities.

SEBI and Grievances Redressal Mechanism

Securities and Exchange Board of India (SEBI) is a statutory body established under the SEBI Act, 1992 to protect the interests of investors in securities and to promote the development of, and to regulate the securities market. Redressal of investor grievances is one of the key components of SEBI's efforts to protect the interests of investors in securities. An account of receipt and redressal of investor grievances by SEBI is highlighted in Table II below:-

Table 2. Receipt and Redressal of Investor Grievances

Year	Cumulative		
	Grievances Received	Grievances Redressed	Redressal Rate (%)
1991-1992	18794	4061	22
1992-1993	129111	27007	21
1994-1995	713773	366524	51
1995-1996	1229853	718366	58
1196-1997	1823725	1465883	80
1997-1998	2335232	2142438	92
1198-1999	2434364	2269665	93
1999-2000	2532969	2416218	95
2000-2001	2629882	2501801	95
2001-2002	2711482	2572129	95
2002-2003	2748916	2611101	95
2003-2004	2785660	2632632	95
2004-2005	2840095	2685993	95
2005-2006	2880580	2723060	95
2006-2007	2907053	2740959	94
2007 - 2008	2616980	2427571	93
2008 - 2009	2674560	2503560	94
2009-2010	2706895	2546302	94
2010-2011	2746512	2584366	94
2011-2012	2083000	2070000	99

Table 2 suggest that the cumulative redressal rate improving from year to year which fetch up to record of 99% in 2011-12, compare to previous fiscal years. Because of the implementation of a new web-based investor complaint redressal system, SCORES, in June 2011 has helped in faster resolution of grievances

Table 3. The Two Tailed t Test Analysis of Grievance Redressal Rate

Statistics	1991-92 to 2001-02	2002-03 to 2011-12	Decision
Mean	70	95	Reject null Hypothesis
Variance	916.30	3.101	
Calculated t value	2.093		
Critical value (@10% SL)	1.734		

Table 3 reveals that the calculated t value is more than that of critical value and falls in rejection region, so reject the null hypothesis. Therefore it can be said that the average grievances redressal rate for first 10 years is not equal to the average grievances redressal rate for next 10 years.

SEBI Complaints Redress System (SCORES)

SCORES is a web based centralized grievance redress system of SEBI. SCORES enable investors to lodge and follow up their complaints and track the status of redressal of such complaints online from <http://scores.gov.in> website from anywhere. This enables the market intermediaries and listed companies to receive the complaints online from investors, redress such complaints and report redressal

online. All the activities starting from lodging of a complaint till its closure by SEBI would be online in an automated environment and the complainant can view the status of his complaint online.

There will be occasions when an investor has a complaint against, a listed company or an intermediary registered with SEBI. In the event of such complaint, the investor should first approach the concerned company/ intermediary against whom there is a complaint. Sometimes the response received may not be satisfactory. Therefore, investors should know as to which authority they should approach, to get their complaints redressed. Hence in order to know the awareness and perception level among small investors about SCORES the following tables are used:

Table 4. Awareness Level about SCORES Gender-Class Wise Analysis

Level	All Class of Sample Retail Investors	Gender	
		Male	Female
Aware	44	47.06	37.5
Unaware	56	52.94	62.5
Column Total	100	100	100
Number of Respondents	100	68	32

Table 4 shows the retail investors awareness considerably low on SCORES. The study depicts that the largest percentage say 56% of respondents are unaware, and only 44% of respondents are aware of SCORES. Through gender-class wise analysis it can be said that 52.94% of male respondents and 62.5% of female respondents are unaware, and only 47.06% of male respondents and 37.5% of female respondents are aware of SCORES. The Unawareness level exceeds the awareness level for the sample as a whole.

Table 5. Awareness Level about SCORES Experience-Class Wise Analysis

Level	All Class of Sample Retail Investors	Experience (in years)			
		Below 1	1-3	3-5	Above 5
Aware	44	20	35	46.67	57.14
Unaware	56	80	65	53.33	42.86
Column Total	100	100	100	100	100
No.of Respondents	100	15	20	30	35

Table 5 Shows that the as experience level of retail investors in capital market increases, the awareness level about SCORES also increases. The 20% of below 1 year experienced retail investors are aware and 80% of below 1 year experienced retail investors are unaware of SCORES. On the other hand 57.14% of above 5 years experienced retail investors are having aware and 42.86% of above 5 years experienced retail investors are unaware of SCORES. This study depicts that the retail investors having more experience are more aware of SCORES compare to less experienced retail investors.

Table 6. The Two Tailed z Test - Analysis of Investor Perception Towards "SCORES"

Statement: The SEBI Launched Centralized Web-Based Complaints Redressal System, called SCORES to ease investor to lodge complaints electronically						
Levels	Numbers	Mean	Standard Deviation	z Value		Decision
				Calculated	Critical	
Strongly Agree	15	3.864	1.2	1.407	1.96	Accept null hypothesis
Agree	18					
Neutral	5					
Disagree	2					
Strongly Disagree	4					
Total Number of Respondents	44					

Table 6 focuses that the calculated z value is less than critical value and falls in acceptance region, so accept null hypothesis. Hence in terms of present grievance redressal mechanism the small individual investors perceived positively.

Investor Education and Protection Fund (IEPF)

The Government has established an Investor Education and Protection Fund (IEPF) under Sec. 205 C of the Companies Act, 1956 under which unclaimed funds on account of dividends, matured deposits, matured debentures, share application money etc. are transferred through the IEPF to the Government by the company on completion of seven years. The Government is required to utilize this amount through an Investor Education and Protection Fund.

For this purpose, the proceeds from the companies are credited to the Consolidated Fund of India through this fund. This constitutes a cumbersome mechanism and has to be carefully examined in context of the rights of holders of securities and the role of the Government in protecting them while providing resources for investor education. Hence in order to know the awareness and perception level among small investors about "IEPF" the following tables are used:

Table 7. Awareness Level about IEPF Gender Class Wise Analysis

Level	All Class of Sample Retail Investors	Gender	
		Male	Female
Aware	34	41.18	18.75
Unaware	66	58.82	81.25
Column Total	100	100	100
Number of Respondents	100	68	32

Table 7 shows the retail investors awareness considerably low on IEPF. The study depicts that the largest percentage say 66% of respondents are unaware, and only 34% of respondents are aware of IEPF. Through gender-class wise analysis it can be said that 58.82% of male respondents and 81.25% of female respondents are unaware, and only 41.18% of male respondents and 18.75% of female respondents are aware of IEPF. According to the gender-class wise analysis male retail investors are more aware of IEPF compare to female retail investors.

Table 8. Awareness Level about IEPF Experience-Class Wise Analysis

Level	All Class of Sample Retail Investors	Experience (in years)			
		Below 1	1-3	3-5	Above 5
Aware	34	13.33	20	36.67	45.71
Unaware	66	86.67	80	63.33	54.29
Column Total	100	100	100	100	100
Number of Respondents	100	15	20	30	35

Table 8 Shows that the as experience level of retail investors in capital market increases, the awareness level about IEPF also increases. The 13.33% of below 1 year experienced retail investors are aware and 86.67% of below 1 year experienced retail investors are unaware of IEPF. On the other hand 45.71% of above 5 years experienced retail investors are having aware and 54.29% of above 5 years experienced retail investors are unaware of IEPF. This study depicts that the retail investors having more experience are more aware of IEPF compare to less experienced retail investors.

Table 9. The Two Tailed Z Test - Analysis of Investor Perception Towards Function of Various Organization Registered Under IEPF

Statement: Various Organization registered under IEPF are effectively educating and aware investors through various medias						
Levels	No.s	Mean	Standard Deviation	z Value		Decision
				Calculated	Critical	
Strongly Agree	3	353	1.368	11.28	1.96	Reject null hypothesis
Agree	5					
Neutral	6					
Disagree	7					
Strongly Disagree	13					
Total Number of Respondents	34					

LIMITATION OF THE STUDY

Because of the limited time span detailed analyze could not be carried for the research work, therefore present study only covers 100 retail investors from two major cities like Mysore and Hassan of Karnataka. The information used is primarily from historical annual reports of SEBI and MCA available to the public.

FINDINGS

1. The retail investors at the beginning stage when they enter into the market they are giving more importance to the profit and less importance to other aspects. As they experienced by year by year, may realize that without effective regulatory measures and lack of financial education and awareness they may fail to make sound financial decision to earn profit in stock market.
2. The average grievances redressal rate for 2001-02 to 2011-12 is more than that of average grievances redressal rate for 1991-92 to 2000-01. This is because implementation of a new web-based investor complaint redressal system "SCORES" in June 2011 has helped in faster resolution of grievances.
3. In term of awareness level of SCORES, the male retail investors are more aware than female retail investors and the retail investors having less experience in capital market are less aware when compare to the retail investors having more experience. On the other hand the Unawareness level exceeds the awareness level for the sample as a whole.
4. In terms of present grievance redressal mechanism the small individual investors perceived positively.
5. In term of awareness level of IEPF, the male retail investors are more aware than female retail investors and the retail investors having less experience in capital market are less aware when compare to the retail investors having more experience. On the other hand the Unawareness level exceeds the awareness level for the sample as a whole.
6. In terms of Function of organizations registered under IEPF the small individual investors perceived negatively.

SUGGESTIONS

1. Even though the grievance redressal rate growing year to year, there is a lack of awareness among retail investors about complaints lodging mechanism like SCORES. Therefore the SEBI need to aware small individual investors regarding latest technological changes in complaints lodging to make redressal mechanism system till more effective.
2. Improving financial education is another important issue in protecting retail investors. To do this, the fund created under IEPF should be utilized properly by conducting various workshops, seminars, etc...
3. Retail investor must aware about provisions of IEPF.

In nutshell it is cleared that creating awareness level among small investors towards regulatory measures is the first stage of evaluating the effectiveness of regulatory measures. Therefore the Indian regulators need to aware retail investors about regulatory measures through conducting various awareness campaign and programs in all places of nation.

Conclusion

In sum this paper pleads for implementation of effective regulatory action towards corporate crimes, is needed to increase the confidence in the mindset of the retail investors. But the investor protection is not simply a function of 'law on the books'. Effective investor protection depends heavily on 'law in action' which in turn depends on issues like innovative supervisory strategies, product design initiatives, capital market research, investor redress and investor education. there is a need to create awareness level among small investors towards regulatory measures is the first stage of evaluating the effectiveness of regulatory measures. Therefore the Indian regulators need to aware retail investors about regulatory measures through conducting various awareness campaign and programs in all places of nation. This will help the regulators to create investors democracy by bringing them into the main stream.

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