Investor Protection In India – Current Status And Need Of A Dedicated Website For Grievance Redressal

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Abstract
There is a dire need for financial literacy especially in India. Several countries have introduced their financial literacy programs to fill this gap. The gap of low financial literacy is getting deeper in India. Another important aspect of the fastest-growing securities market is investor protection which is also very uncertain. It is important to ensure that investors have proper knowledge about their investments, affairs, and transactions before investing. There are guidelines for investor protection in India issued by SEBI, i.e., “Securities and Exchange Board of India (Disclosure and Investor Protection, Guidelines, 2000.” But those measures had mixed results. Also, there are certain issues which have shaken the confidence of investors over the years, such as conflicts of interest, corporate governance, lack of proper accounting standards, etc. Over and above there has been 27 broker defaults in India in the past 3 years, which is the highest in Indian History. On the other side, the existing NICE portal and SCORES are not sufficient to address the grievance of investors in India. Once they register the complaints in Scores, they again have to refer to NSE. Rather than having complaints on several portals, it is very important to have a dedicated portal where SEBI must be responsible to solve investors’ problems. In addition, this portal should be integrated with other agencies like NSDL and CDSL to resolve the issues. Hence, this study is aimed to provide an insight to grievance redressal in India and explain the needs for having a dedicated portal for grievance redressal, while improving the involvement of investors for economic development of the country.

Keywords: grievance redressal, financial education, SEBI, investor protection in India, financial literacy.

Introduction
Investor protection is very important for the rapid growth of capital markets in India. It boosts investor’s confidence and reassures them to safeguard their interest against malpractices and scams in the market and that they can have solutions against these malpractices. There are stark issues in investor protection in the context of high-profile cases that have shaken confidence of investors.
across the world. Over the long-term bearish market and global shutdown of the economy, regulators must strike a soft balance between fair and robust practices and strict investor protection, without affecting the market growth due to unduly rules and regulations. Investor protection is widely regarded as protection of investors’ interest by imposing several measures in areas associated with corporate governance of listed companies like disclosure, shareholders’ rights, and accountability, trading, market regulation, and settlement reliably and efficiently, along with dealings with investors by financial bodies.

**Background**

The “SEBI Complaints Redressal System (SCORES)” is an online platform where investors can lodge their complaints in securities market. The portal receives complaints against SEBI registered businesses and listed companies. There are certain matters that SCORES don’t consider like anonymous complaints (except from whistle-blower), fake allegations, unspecific or incomplete complaints, complaints not in purview of SEBI, complaints against any unregulated or unregistered activity, disputes due to private agreement with intermediaries and companies etc. SCORES also don’t deal with complaints against delisted/unlisted companies, vanishing company, suspended firms or firms under liquidation, etc. In addition, investor has to lodge a complaint within 3 years from the complaint’s date. If they fail to do so, they should take the complaint to the court of law or with the concerned entity. Stock market is constantly expanding with the introduction of new IPOs, new Demat accounts, and new listed companies every day and capabilities of stock exchanges are getting limited to regulate this market. Infrastructure is fantastic, but proper compliance of the circulars is not there and hence there are issues. Inadequate implementation of regulations relating to protection to investor is another lacuna. Most of the stock brokers who have defaulted the primary reason has been misuse of client funds and securities. They have unauthorisedly used the Power of attorney and transferred the shares to the broker’s pool account, also known as Broker Beneficiary account. Once transferred, Brokers have started doing proprietary trading in those shares by pledging it with clearing member or banks. Defaulting stock brokers are very serious concern. Audit process at the time of appointment of brokers as post their appointment is improper.

Current Process to be followed while making a complaint in the NICE Portal/SCORES in case of a normal complaint or in case broker defaults

1) Investor has to send an email to the broker, give him sufficient time to revert.
2) Again, send a follow up email, if the broker does not revert, then make a complaint to NSE in the NICE portal or if its BSE in its investor grievance portal.
3) Once the complaint is received the investor services cell contacts the broker and ask for a resolution. Suitable action is taken if required. Generally, this process is very time consuming
4) Again, if the customer is not satisfied the customer can log in a complaint in the SCORES portal of SEBI. Again, enquiry is conducted and it just states matter is referred to exchange.
5) Thus, the customer keeps on rotating between different agencies without a real resolution.
We have taken interviews of many investors, whose broker has defaulted they have said, all of them have complained about the lethargy and inefficiency of the regulator which have made them suffer and lose their hard-earned savings. They keep on shuffling between different complaint portals, without any resolution to their complaints. There is no ownership of responsibility. The only option left to the investor is to approach the court. With so many pending cases, it may take years for resolution of complaints.

Considering all these aspects, there is a need to have a dedicated website which can be in line with SEBI, CDSL and NSDL, so that investors can complain at once and stay assured to get their grievance resolved within stipulated time. There is a foundation provided by the regulatory framework. It is still important to find out how it is implemented and how the investor protection process actually takes place. Varied investor awareness levels of securities and their rights along with that of financial literacy affects both the intensity and nature of regulation required for protecting the interest of investors. Investment education is important for investors to take care of their own interests and reduce the dependence on regulators to determine each investment. Rather, awareness is paramount in “disclosure-based regimes” as it is vital to empower customers to deal with disclosed details. Most of the countries have a system to address and receive public grievances and reinforce public confidence (Hew & Ismail, 2003).

There are provisions made by “Securities and Exchange Board of India (SEBI)” to establish a committee with two key objectives – “Regulation and Promotion Development of securities market” and protecting investors’ interest. It is obvious that investors felt the impact of SEBI to watchdog the securities market and they somehow gained confidence to complain to and suggest their problems and grievances. However, the SEBI Act was amended several times to meet the evolving needs of the securities market for its development, such as in 1995, 1999 and 2002. SEBI is mainly aimed to safeguard investors’ interest and promote healthy growth of financial markets of India.

It is also worth noting that regulators have a herculean task to avoid the scams and malpractices in the market as they cannot monitor and regulate every aspect of financial markets and it is especially relatable to the Indian financial market (Arya, 2018). The redressal of every complaint is very challenging for the regulators. Hence, this study was conducted on the current status of financial education and the need for a dedicated website to protect investor’s interest in India.

**Literature Reviews**

Takeovers are very important as a mechanism for external corporate governance for investor protection. Whether corporate governance’s compliance with global standards can protect investors’ interest in developing countries has been a matter of debate for decades. Dixit et al. (2021) analysed the evolution of SEBI’s “Substantial Acquisition of Shares and Takeovers” in India for investor protection. They also compared the provisions of takeovers in India, the UK, the USA, Australia, and Singapore to determine the implications and convergence for investor protection. It is found that some provisions like threshold for initial trigger for the offer as well as offer prices of takeover code in India are complying with standards of common law economies.
The calculation of offer price on the basis of market rate may not show actual market value in India. Other provisions like offer size and creeping acquisition don’t just diverge from global standards, but they are also inconsistent to protect the interest of investors in India. Investment decisions are very vital to achieve the strategic plan of the firm. Because of having a lot of money involved, these decisions play the most important role for various stakeholders. Shahid & Abbas (2019) investigated the effect of investor confidence and corporate governance on decisions related to corporate investment. They have taken the sample of firms listed in Bombay Stock Exchange and Pakistan Stock Exchange from 2008 to 2017. The “Investor Sentiment Index (ISI)” was used to measure the confidence of investors. There is a great impact of confidence of investors on decisions related to corporate investment in both nations. The findings also suggest that the level of investment is higher in companies with robust practices in corporate governance. It improves the effect of investor confidence on decisions related to corporate investment. Solid corporate governance boosts the morale of board members for monitoring and controlling the interests of shareholders moderately, so that firm managers can make wise decisions. The effect of investor confidence is mitigated on corporate investment with strict measures on corporate governance. Altaf & Shah (2018) investigated the relation between firm performance and ownership concentration and evaluated the moderating importance of quality of investor protection on the relationship between ownership performance and concentration from a dynamic point of view. The findings suggested the “inverted U-shaped relationship” between firm performance and ownership concentration along with significant positive impact of quality of investor protection on firm performance. There is a significant moderating role of investor protection quality on the relationship between performance and ownership concentration. Kamarudin et al. (2021) investigated the significant influence of auditor tenure on quality of accounting and moderating impact of investor protection on their tenure on quality of accounting. It is found that longer tenure of an auditor is related to higher quality of accounting which supports the arguments on knowledge effect. Hence, the results on the joint impact of auditor tenure and investor protection suggest substitutive impact of investor protection where there is a weaker positive impact of tenure of auditor on accounting quality in an environment with high investor protection. Haider (2009) used objective “investor protection” measures in 170 countries and found that investor protection level is important for the difference in GDP growth across the nation. With stronger investor protection, countries are supposed to grow more rapidly than those having lack of investor protection. Recent studies showed vast gaps between ownership concentration in firms which are publicly traded, in the depth and breadth of capital markets, access to external finance, and in dividend policies. La Porta et al. (1999) suggested a common element to explain differences, such as how well creditors and shareholders are secured by the law from exploitation of controlling shareholders and managers of the companies. They explained the effectiveness of law enforcement and their difference across the borders, discussed the potential origins of such changes, determined
potential strategies, and summarised the consequences. According to them, the legal approach is more important to know corporate governance and the reform than the difference between market-based and bank-based financial systems.

**Research Gap**
It is especially important to have more investors to be involved in the developing financial market of the country with robust grievance redressal. As per their needs, it is important to help investors understand the need and use of financial education and different options to use their money wisely before investing, along with protection provided to them, whenever needed.

**Research Question**
- Why is a dedicated website needed for grievance redressal and investor protection in India?

**Research Objectives**
- To determine the need for dedicated website for investor protection in India

**Research Methodology**
To fulfil the above research objectives, this study is based on secondary data collected from various sources like articles published in peer-reviewed journals, government documents, media sources and all.

**Analysis of Study**

**Need for Dedicated Website for Investor Protection in India**
SEBI has introduced an online platform where investors can file their complaints associated with securities market against SEBI-registered brokers and companies. They can view the status of complaint in SCORES website or use toll-free number to know the status. Investors can seek clarification on complaints online with a unique registration number given for tracking. Here are the detailed steps shared by SEBI to file complaints online (Figure 1) –

**Figure 1 – Steps to lodge complaints in SCORES portal**
Source – BSE India

SEBI has also explained the process of handling investor complaints, as of August 2018 (Figure 2)

Figure 2 – Investor Complaint Handling Process
According to SEBI data, SCORES has received over 3789 complaints through its grievance redressal mechanism against listed bodies and intermediaries in 2021. In November 2021, there were 4159 complaints pending and 3056 were received, while there were only 26 complaints which remained pending for over 3 months (Economic Times, 2021). But we have conducted interviews and it was observed that there was no actual resolution of those complaints. When it comes to check the status, it is mentioned that the complaint was forwarded to NSE and they will look into it. At the end, complaints remain pending with NSE and BSE and there is no resolution. Hence, there must be one person who will be responsible and who can give actual resolution instead of resolution on paper. The lacunae is directional work in which responsibilities are just handed over to another and another person handed over the complaint to the next person, and so on. There is no actual resolution because investor has to complaint with NSE, BSE, SEBI, and other authorities. At the end, a common investor is confused as what they should do and a lot of money, time and resources are wasted in this process. There are millions of DEMAT accounts in India and more to open soon. In that case, investors have no idea where to go when any problem exists. This way, we need one-stop mechanism to resolve those complaints.

India is ranked 13th on “protecting minority investors” according to the World Bank, which is an element of surprise. Probably, the ranking is majorly based on legal intent as compared to true performance. Any victim of a bank collapse like “PMC Cooperative Bank”, a Ponzi scheme like PACL, Sarada, etc., credit card frauds, or retail investments in “Amravati Bonds” which were guaranteed to develop a new capital city by the State Government but scrapped due to government
change will admit one thing and held it responsible due to utter absence of proper investment protection in India, contradicting the high rankings from the World Bank.

Investors who were duped because their savings have been wiped out by such frauds still have lack of funds left to deal with a prolonged battle. Lakhs of rupees are charged by top lawyers in Supreme Court per hearing, which is not affordable for the victims but nothing for scammers who stole the money. The Indian judiciary system enables constant delays and denies justice. The cooperative bank violated all norms by lending 75% of its funds to one group in the notorious PMC Bank case. The RBI didn’t detect this, which was supposed to conduct audits of all banks regularly. Depositors are the ones who suffered and lost all their deposits. The HDIL promoter has given the statement at the Bombay High Court to rub salt that he could sell off his personal assets and pay back. Even though he sells these assets, the authorities retain the money, as in the NSEL case, which would never be given to the victims. A lot of speakers recommended lowering the interest rates but they missed the point that various liquidity injections and cuts in interest rates haven’t caused either investment demand or consumption. Rather, they have played a vital role in asset bubbles. They don’t see the consequences. In fact, lower interest rates are not good for pension funds and savings. The developed world is going through a serious crisis, failing to serve the obligations, especially due to lower interest rates.

The costs of interest are levied at a percentage of revenue, i.e., under 5%. If experts want lower services/product prices, they must go to the Centre to control indirect taxes. The impact is higher because GST rates are even higher than interest. Still, the government is seeking different ways to raise their collection from GST. India is also poor in “Ease of Doing Business” rankings, i.e., 163 out of 190, under “Enforcing Contracts”. The judicial system is also way too kind to scammers and fraudsters and too slow in delivering justice to the victims. There is a long way to go for India to seriously improve its investor protection and “Ease of Doing Business” ranking, apart from providing quick, strict punishment against any wrongdoings (Mulraj, 2019).

Results

In order to really protect investors’ interest, there is an urgent need for a website where investors can file their complaints and track their complaint status. In this context, SEBI also urged depositories and stock exchanges to bring a robust digital system for grievance redressal by the end of 2022 (The Economic Times, 2021). In addition, this portal should be in line with SCORES, which was introduced by SEBI, the capital markets regulator for investors to file their grievances in 2011. Complaints can be filed related to the securities market against SEBI-listed intermediaries and companies. According to SEBI, the platform must be digital with 24x7 online access.

This website should enable investors to lodge their complaints anytime and anywhere online, which is the key feature of this system. In addition, this website should generate an acknowledgment email upon receiving the complaint and a unique complaint number must be allotted for further reference and complaint status tracking to the immediate effect. In addition, the website must be able to link the complaint with SCORES to ensure proper redressal of investors’
complaints. Stock exchanges and depositories were also asked by SEBI to keep up with both online and offline modes to conduct arbitration and GRC.

Stock exchanges should conduct arbitration and GRC or “appellate arbitration hearings” online during the COVID-19 for fast-track grievance redressal. A lot of expenses and time can be saved for parties involved with the online process, which is good for investors. The online grievance redressal should be in public to a large scale by all depositories and stock exchanges to alert the investors. In addition, the amount has been tweaked by the regulators regarding the deposit from the investors while applying for arbitration.

According to SEBI, a client with a counter claim or claim up to 20 Lakh INR will be exempted from fee payments with arbitration reference. Even if the amount of claim is equal to or less than Rs. 20 lakhs in the dispute, the investor, respondent, or applicant is exempt from paying fees for arbitration cost and it will be borne by the exchange on investor’s behalf (The Economic Times, 2021).

A dedicated website is required to provide solutions to investors by letting them lodge complaints against any wrongdoings in the financial market, so that they can get immediate response from the authorities and quick action against the fraudsters. It should be designed as per the standards and guidelines by SEBI and linked with it to provide immediate solutions to the victims.

**Conclusion**

If we want to truly protect the interest of investors, one agency that is SEBI should be made liable to provide complete resolution of complaints and they should have ownership of the entire grievance redressal system. Other portals should all be clubbed together. It will not only simply the life of investors, but also make them believe in the judicial system in India. Investor protection is very important in this country, so that future investors can be assured that they would have someone to listen to their complaints if anything wrong happens. This way, a dedicated website is needed to provide grievance redressal of investors.

**References**


