An Evaluation of Investors Grievances and Redressal Mechanism in Indian Capital Market

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Abstract
This paper explains the small investor's grievances and redressed mechanism of capital markets in India. Capital markets place a vital role in mobilizing resources and segregating them in productive manner. Capital market is market which it deals with long term loans. This paper explains the importance, classification and growth of capital markets in India. The objective of the study is to evaluate the investor's grievances and redressed mechanism in Indian capital markets and to evaluate Failures to Redress Investor grievances. This study is based on secondary data it covered 5 years period from financial year 2010-11 to 2014-15. Statistical tools like percentages and graphs were used to analyze the data. This paper concludes that grievances received by SEBI were decreasing and grievances redressed were increasing. Hence pending actionable grievances was decreasing.

Keywords
Capita Market, SEBI, Small Investors, Grievances and Redressed Mechanism.

I. Introduction

A. Capital Market
The capital market is a market which deals in long-term loans. It supplies industry with fixed and working capital and finances medium-term and long-term borrowings of the central, state and local governments. The capital market deals in ordinary stock are shares and debentures of corporations, and bonds and securities of governments.
The funds which flow into the capital market come from individuals who have savings to invest, the merchant banks, the commercial banks and non-bank financial intermediaries, such as insurance companies, finance houses, unit trusts, investment trusts, venture capital, leasing finance, mutual funds, building societies, etc.
Further, there are the issuing houses which do not provide capital but underwrite the shares and debentures of companies and help in selling their new issues of shares and debentures. The demand for funds comes from joint stock companies for working and fixed capital assets and inventories and from local, state and central governments, improvement trusts, port trusts, etc. to finance a variety of expenditures and assets.
The capital market functions through the stock exchange market. A stock exchange is a market which facilitates buying and selling of shares, stocks, bonds, securities and debentures. It is not only a market for old securities and shares but also for new issues shares and securities. In fact, the capital market is related to the supply and demand for new capital, and the stock exchange facilitates such transactions.
Thus the capital market comprises the complex of institutions and mechanisms through which medium-term funds and long-term funds are pooled and made available to individuals, business and governments. It also encompasses the process by which securities already outstanding are transferred.

B. Importance of Capital Market
The capital market plays an important role in mobilizing saving and channel is in them into productive investments for the development of commerce and industry. As such, the capital market helps in capital formation and economic growth of the country. We discuss below the importance of capital market.
The capital market acts as an important link between savers and investors. The savers are lenders of funds while investors are borrowers of funds. The savers who do not spend all their income are called. "Surplus units" and the borrowers are known as "deficit units". The capital market is the transmission mechanism between surplus units and deficit units. It is a conduit through which surplus units lend their surplus funds to deficit units.
Funds flow into the capital market from individuals and financial intermediaries which are absorbed by commerce, industry and government. It thus facilitates the movement of stream of capital to be used more productively and profitability to increases the national income.
Surplus units buy securities with their surplus funds and deficit units sells securities to raise the funds they need. Funds flow from lenders to borrowers either directly or indirectly through financial institutions such as banks, unit trusts, mutual funds, etc. The borrowers issue primary securities which are purchased by lenders either directly or indirectly through financial institutions.
The capital market prides incentives to savers in the form of interest or dividend and transfers funds to investors. Thus it leads to capital formation. In fact, the capital market provides a market mechanism for those who have savings and to those who need funds for productive investments. It diverts resources from wasteful and unproductive channels such as gold, jewellery, real estate, conspicuous consumption, etc. to productive investments.
A well-developed capital market comprising expert banking and non-banking intermediaries brings stability in the value of stocks and securities. It does so by providing capital to the needy at reasonable interest rates and helps in minimizing speculative activities.
The capital market encourages economic growth. The various institutions which operate in the capital market give quantities and qualitative direction to the flow of funds and bring rational allocation of resources. They do so by converting financial assets into productive physical assets. This leads to the development of commerce and industry through the private and public sector, thereby inducing economic growth.
In an underdeveloped country where capital is scarce, the absence of a developed capital market is a greater hindrance to capital formation and economic growth. Even though the people are poor, yet they do not have any inducements to save. Others who save, they invest their savings in wasteful and unproductive channels, such as gold, jewellery, real estate, conspicuous consumption, etc.
Such countries can induce people to save more by establishing banking and non-banking financial institutions for the existence of a developed capital market. Such a market can go a long way in providing a link between savers and investors, thereby leading

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to capital formation and economic growth.

C. Indian Capital Market: Classification and Growth of Indian Capital Market

1. Classification

The capital market in India includes the following institutions (i.e., supply of funds tor capital markets comes largely from these); (i) Commercial Banks; (ii) Insurance Companies (LIC and GIC); (iii) Specialized financial institutions like IFCI, IDBI, ICICI, SIDCS, SFCS, UTI etc.; (iv) Provident Fund Societies; (v) Merchant Banking Agencies; (vi) Credit Guarantee Corporations. Individuals who invest directly on their own in securities are also suppliers of fund to the capital market.

Thus, like all the markets the capital market is also composed of those who demand funds (borrowers) and those who supply funds (lenders). An ideal capital market at tempts to provide adequate capital at reasonable rate of return for any business, or industrial proposition which offers a prospective high yield to make borrowing worthwhile.

The Indian capital market is divided into gilt-edged market and the industrial securities market. The gilt-edged market refers to the market for government and semi-government securities, backed by the RBI. The securities traded in this market are stable in value and are much sought after by banks and other institutions.

The industrial securities market refers to the market for shares and debentures of old and new companies. This market is further divided into the new issues market and old capital market meaning the stock exchange.

The new issue market refers to the raising of new capital in the form of shares and debentures, whereas the old capital market deals with securities already issued by companies.

The capital market is also divided in primary capital market and secondary capital market. The primary market refers to the new issue market, which relates to the issue of shares, preference shares, and debentures of non-government public limited companies and also to the realizing of fresh capital by government companies, and the issue of public sector bonds.

The secondary market on the other hand is the market for old and already issued securities. The secondary capital market is composed of industrial security market or the stock exchange in which industrial securities are bought and sold and the gilt- edged market in which the government and semi-government securities are traded.

II. Growth of Indian Capital Market

A. Indian Capital Market before Independence

Indian capital market was hardly existent in the pre-independence times. Agriculture was the mainstay of economy but there was hardly any long term lending to agricultural sector. Similarly the growth of industrial securities market was very much hampered since there were very few companies and the number of securities traded in the stock exchanges was even smaller.

Indian capital market was dominated by gilt-edged market for government and semi-government securities. Individual investors were very few in numbers and that too were limited to the affluent classes in the urban and rural areas. Last but not the least, there were no specialized intermediaries and agencies to mobilize the savings of the public and channelize them to investment.

B. Indian Capital Market after Independence

Since independence, the Indian capital market has made widespread growth in all the areas as reflected by increased volume of savings and investments. In 1951, the number of joint stock companies (which is a very important indicator of the growth of capital market) was 28,500 both public limited and private limited companies with a paid up capital of Rs. 775 crore, which in 1990 stood at 50,000 companies with a paid up capital of Rs. 20,000 crore. The rate of growth of investment has been phenomenal in recent years, in keeping with the accelerated tempo of development of the Indian economy under the impetus of the five year plans.

C. Factors Influencing Capital Market

The firm trend in the market is basically affected by two important factors: (i) operations of the institutional investors in the market; and (ii) the excellent results flowing in from the corporate sector.

D. New Financial Intermediaries in Capital Market

Since 1988 financial sector in India has been undergoing a process of structural transformation.

1. Some important new financial intermediaries introduced in Indian capital market are:

(i). Merchant Banking

Merchant bankers are financial intermediaries between entrepreneurs and investors. Merchant banks may be subsidiaries of commercial banks or may have been set up by private financial service companies or may have been set up by firms and individuals engaged in financial up by firms and individuals engaged in financial advisory business. Merchant banks in India manage and underwrite new issues, undertake syndication of credit, advice corporate clients on fund raising and other financial aspects.

(ii). Leasing and Hire-Purchase Companies

Leasing has proved a popular financing method for acquiring plant and machinery specially or small and medium sized enterprises. The growth of leasing companies has been due to advantages of speed, informality and flexibility to suit individual needs.

(iii). Mutual Funds

It refers to the pooling of savings by a number of investors-small, medium and large. The corpus of fund thus collected becomes sizeable which is managed by a team of investment specialists backed by critical evaluation and supportive data.

A mutual fund makes up for the lack of investor's knowledge and awareness. It attempts to optimize high return, high safety and high liquidity trade off for maximum of investor's benefit. It thus aims at providing easy accessibility of media including stock market in country to one and all, especially small investors in rural and urban areas.

(iv). Global Depository Receipts (GDR)

Since 1992, the Government of India has allowed foreign investment in the Indian securities through the issue of Global Depository Receipts (GDRs) and Foreign Currency Convertible Bonds (FCCBs). Initially the Euro-issue proceeds were to be utilized for approved end uses within a period of one year from the date of issue.

(v). Venture Capital Companies (VCC):

The aim of venture capital companies is to give financial support to new ideas and to introduction and adaptation of new technologies. They are of a great importance to technocrat entrepreneurs who have technical competence and expertise but lack venture capital.

The Securities and Exchange Board of India (SEBI), in 1991 made a compilation of common investor grievances, relevant legal provisions and various remedies available to the investors. The grievances were grouped under the following heads.

Grievances	
1	Refund Order/ Allotment Advise
2	Non-Receipt of Dividend
3	Non-Receipt of share certificates after transfer
4	Debentures
5	Non-Receipt of letter of offer for rights
6	Collective Investment schemes
7	Mutual funds/ venture capital funds/ Foreign Ventures/ Capital Investors/ Foreign Institutional Investors/ Portfolio manager, Custodians
8	Brokers/Securities lending Intermediaries/ Merchant Bankers/ Registrars and Transfer agents/ Debenture Trustees/ Bankers to Issue/ Credit Rating Agencies Trustees/ Underwriters/ Depository Participants
9	Securities Exchanges/ Clearing and settlement organizations/ Depositories
10	Derivative Trading
11	Corporate Governance/ Corporate Restructuring/ substantial Acquisition and Takeovers/ Buyback/ delisting/ Compliance with Listing conditions.

III. Role of SEBI on Investor Protection

SEBI was established in 1988 as a non-statutory body to deal with all matters relating to the development and regulation of the securities market and protecting the interests of investors. Subsequently, it was armed with statutory powers through the promulgation of SEBI Act, 1992. It is also vested with the power of a civil court and can summon all categories of market intermediaries to investigate on their working, to impose penalty and to initiate prosecution against them. For the effective functioning of the capital market, it has issued several guidelines; notable among them is that on disclosure and investor protection. It contains a substantial body of requirements for the issuers and intermediaries to ensure higher standards of integrity and fair dealing. In order to ensure that no malpractice taken place, a representative of SEBI supervises the allotment process. SEBI has also issued an advertisement code for the issuers to ensure that the advertisement remains fair and does not contain statements that mislead the investor or vitiate their informed judgment. Its regulatory policies and actions are found to have a great bearing on the efficiency of the capital market and though it on the efficiency of the whole economy. Investors can approach SEBI by filing their complaints against companies and brokers. It has set up certain procedures like the categorization of complaints and their regular follow-up with defaulting companies, Registrars and Merchant Bankers. With a view to handle a large volume of complaints, the grievances redress cell has been computerized.

IV. Objectives of the Study

1. To study the Status of Investor Grievances Received and Redressed
2. To study the Failure to Redress Investor Grievances
3. To analyze the Failure to Redress Investor Grievances with order passed under section 11B

V. Research Methodology

Source of Data - The study based on secondary data collected from SEBI official website. The data from financial reports from SEBI are collected for the study.

VI. Period of the Study

The data used for the analysis are Status of Investor Grievances Received and Redressed, the Failure to Redress Investor Grievances & the Failure to Redress Investor Grievances are last 5 financial years from 2010-11 to 2014-1.

Tools:

Trend percentages and graphs are used for analyzing the data.

VII. Data Analysis & Interpretation

A. Investor Grievance Refreshment

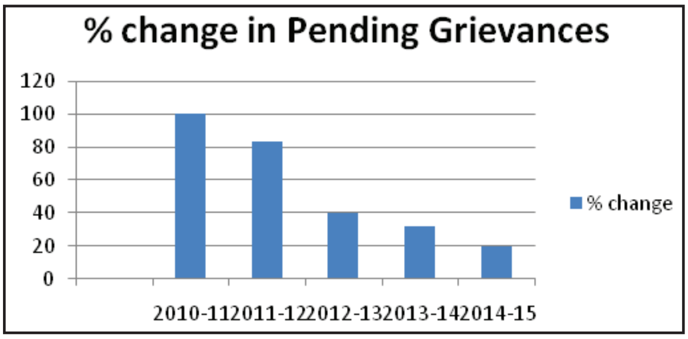
SEBI has been taking various regulatory measures to expedite the redressed of investor grievances. The grievances lodged by investors are taken up with the respective listed company or intermediary and are continuously monitored. Grievances pertaining to stock brokers and depository participants are taken up with the concerned stock exchange and depository for redressed and monitored by the concerned department through periodic reports obtained from them. Grievances pertaining to other intermediaries are taken up with them directly for redressed and continuously monitored by the concerned department at SEBI. The company/intermediary is required to respond in a prescribed format in the form of an action taken report (ATR). Upon the receipt of ATR, the status of grievances is updated. If the response of the company/ intermediary is insufficient /inadequate, follow up action is initiated. SEBI takes appropriate enforcement actions (adjudication, 11B directions, prosecution etc.) as provided under the law where progress in redressed of investor grievances is not satisfactory. SCORES has helped investors in getting real time information about the status of their grievances since investors can log onto SCORES at any time and from anywhere and check the status with the help of a surname and password provided to them at the time of lodging the grievance. Alternatively, investors can also call the SEBI helpline to check the status of their grievances. Since SCORES has made it possible to receive grievances online this helps SEBI to take up issues fast, including those that may require a policy change. Further, since companies are required to file ATRs within 30 days of receipt of complaint, in case of any failure SEBI can initiate action against the company depending on the merit of the case. The following paragraphs highlight SEBI's performance and measures taken in 2014-15 for expediting the redressed of investor grievances.

A comparative view of the number of investor complaints received by SEBI and the rate of redress of such complaints is given in Table No.1.

Table 1: Status of Investor Grievances Received and Redressed

Financial Year	Grievances Received		Grievances Redressed		Pending Actionable Grievances	% change
	Year-wise	Cumulative	Year-wise	Cumulative		
2010-11	56,670	27,63,565	66,552	26,12,854	28,653	100
2011-12	46,548	28,10,113	53,841	26,66,695	23,725	82.801103
2012-13	42,411	28,52,524	54,852	27,21,547	11,410	39.82131
2013-14	33,550	28,86,074	35,299	27,56,846	9,147	31.923359
2014-15	38,442	29,24,516	35,090	27,91,936	5,736	20.018846

Source: SEBI Annual Report



From the above table it is observed that for the for the financial year 2010-11 SEBI received 56,670 and in the fallowing years grievances are decreasing and the year 2014-15 there was a increase in grievances received by SEBI with 38,442.

It is also observed that grievances redressed by SEBI also decreasing, in the financial year 2010-11 it was 66,552 and every year it was decreasing and the year 2014-15 it was 35,090.

So the overall pending actionable grievances are decreasing year by year and from 28,653 in the financial year 2010-11 to 5,736 in the financial year 2014-15.

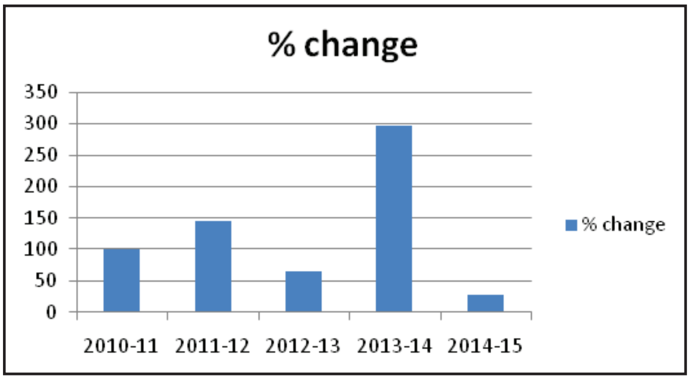
B. Regulatory Action Against Companies and their Directors for Non-Redresses of Investor Grievances

SEBI takes appropriate enforcement actions when progress in redresses of grievances is not satisfactory. Enforcement actions include adjudication, directions and prosecution.

Table 2: Failure to Redress Investor Grievances: Adjudication Proceedings

Financial Year	No. of Entities	Penalty Amount in lakhs	% change
2010-11	3	42	100
2011-12	5	61.3	145.9524
2012-13	10	40.35	65.82382
2013-14	20	120	297.3978
2014-15	17	34.25	28.54167

Source: SEBI Annual Report



Form the above table it is observed that failure to redress investor grievances are increasing. In the financial year 2010-11 number of entities are 3 and in financial year 2013-14 it was 20 entries.

So the SEBI issued a penalty of Rs. 42 Lakhs for the financial year 2010-11 for those 3 entities. It is also observed that year by year penalty amount for the failure to redress investor grievances are increasing from 2010-11 to 2014-15.

C. Regulatory action against Companies and their Directors for non-redresses of Investor Grievances:

SEBI takes appropriate enforcement actions (adjudication, directions, prosecution etc) as provided under the law where progress in redressed of investor grievances is not satisfactory. The 11B orders were passed during the last three years, against the companies and its directors debarring them from accessing the securities market and from buying, selling or dealing in securities directly or indirectly, in whatsoever manner, till all the investor's grievances against the company are resolved by them.

Table 3: Failure to Redress Investor Grievances: Order passed under section 11B

Financial Year	No of companies	No of companies where order disposed off on redresses grievances
2010-11	18	1
2011-12	7	5
2012-13	4	2
2013-14	3	3
2014-15	2	1

Source: SEBI Annual Report

From the above table it is observed that number of companies which are failed to redress investor grievances are 18 in the financial year 2010-11 fallowed by 7 in the next year. It is also observed that number of companies failed to redress investor grievances are decreasing year by year and the financial year 2014-15 it was only 2 when the order is passed under section 11B.

From the above table it is also observed that number of companies where order disposed off on redressed grievances is 5 in the financial year 2011-12 and the year 2014-15 it was only 1.

VIII. Suggestions & Conclusion

It is observed that for grievances received by SEBI are decreasing and grievances redressed by SEBI also decreasing and in overall pending actionable grievances are decreasing. So it is good sign for the SEBI and SEBI should take some necessary action to solve investor grievances very quickly.

It is also observed that failure to redress investor grievances are increasing. SEBI should form some strict rules and regulations for the entities that are failed to redress investor grievances so that those investors will invest more investment in securities market.
It is also observed that that number of companies which are failed to redress investor grievances when the order is passed under section 11B is decreasing and it is a good sign for SEBI.

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