

INVESTOR PROTECTION IN INDIA- BROKER INFORMATION AN IMPORTANT MILESTONE

S. Gandhi¹ and G. Shrivastava²

¹ASMSOC, NMIMS, Mumbai & Research Scholar at Himalayan University, Itanagar

²Himalayan University, Arunachal Pradesh

¹surbhi.gandhi@nmims.edu

ABSTRACT

Investor protection plays a very important role in emerging securities markets and other financial segments. Investor protection refers to ensuring that investors are well informed about the transactions, purchases, company's affairs, and so on. SEBI has its guidelines for investor protection in India as per "Securities and Exchange Board of India (Disclosure and Investor Protection Guidelines, 2000)". But there is still a lack of proper brokers' information in India and investors still have to look around to gather all the details scattered in different places. Considering the dire need for a strong platform which gathers all the brokers' information in one place, this study is aimed to analyze people's opinion about the brokers' information they need on the proposed regulator's website. The US already has a website authorized by FINRA, i.e. BrokerCheck, which has all the details about broker firms and individual brokers. In this study, both primary and secondary data has been used. Secondary data is collected from various relevant sources to design the theoretical framework, such as research papers, news portals, official websites, government reports, etc. In addition, primary data has been collected through a self-structured questionnaire designed on 5-Point Likert Scale, which includes the kinds of details investors need about the brokers, such as pending cases with SEBI and Supreme Court, professional background of the broker, etc.

Keywords: BrokerCheck, FINRA, SEBI, investor protection, India, broker information

1. Introduction

An investor is an individual who distributes his capital hoping for financial return in future. Minimizing risk and enhancing return is the major concern of every investor. An investor is a group of people or individuals who invests in a company in a securities market. The term "investor protection" refers to the mechanism or process with which an investor's interest is secured in the securities market. It basically means the acts to maintain and add transparency in procedures when it comes to deal with investors and suitable legislation. A lot of investor protection measures have been implemented for investor protection in India. Basically, there are mechanisms by regulatory bodies like judiciaries, SEBI, and Acts (Sarmah).

In the United States, brokerage is one of the largest parts of the financial services industry. Brokerage firms generated whopping \$200 billion as revenue by the end of 2014. They have over 630,000 brokers and over 160,000 branch offices where they provide financial advice and solutions to millions of investors. BrokerCheck is an online tool developed by the "Financial Industry Regulatory Authority (FINRA)", so that investors can choose trusted

brokers before investing. This website provides data on consumer complaints, history, professional background etc. of over 1.2 million former and existing brokers. It is a vital tool for protecting and encouraging investors to make the most of it just like consumers use Tripadvisor or Yelp to compare businesses and deals in other industries. India also needs an online platform like BrokerCheck where investors can find all the important details about brokers before opening a Demat account. Currently, there is a lack of consolidated broker information at one place. Currently, investors have to do in-depth research and combine the scattered pieces of information about brokers but everyone doesn't have much time to do that.

1.1 Background

Investors are the backbone of securities and the financial market. They are used to determine the activity level in the market, invest money in stocks, funds, etc. to achieve financial returns, and ultimately grow the economy. Hence, it becomes very important to protect them from fraudsters, so that they can gain confidence before investing. A lot of measures are involved in investor protection. The Indian government has established "Securities and

Exchange Board of India (SEBI)" to safeguard investors' interest and Mutual Funds' regulations. SEBI has put measures for investor protection in place to protect the investors in stock market, mutual funds, and shares against malpractices.

Established on April 12, 1992, the SEBI is a legal body aimed to regulate and manage the commodity and securities market in India by forming rules and regulations. Its administrative center is located in BKC or "Bandra Kurla Complex", Mumbai. It has a corporate structure with over 20 divisions to be managed by an office head. A part of such offices includes strategy and financial investigation, company account, authorization, legal issues, etc. (Babu & Naidu, 2012). But the question is still the same. In this day and age, do investors have access to important and consolidated insights to brokers in one platform? This article is aimed to find out the same.

1.2 Literature Review

According to **Kelley & Woidtke (2006)**, multinational foreign investment in the US is drastically higher with poor shareholder protection and creditor protection. They further suggested that firms located in countries with poor investor protection either have limited access to debt capital or invest sub-optimally because of agency issues. US multinationals are especially interested in investing in countries with poor investment protection as they may reduce extreme outcomes associated with poor investor protection.

A regulatory notice has been issued by FINRA in April 2017 regarding the use of digital mediums and social media by dealers and brokers. Earlier FINRA guidance has expanded the notice on such topics. **Sacks et al (2017)** explained how digital communications and social media are set within the needs of several FINRA rules and guide registered firms and representatives. Firms should be able to maintain interactions with chat support and text messaging.

Akron & Samdani (2017) use a "quasi-experimental setting" in India to empirically suggest that unwillingly distribution of "initial public offering (IPO)" book-building shares encourages investors to diminish the value of IPOs in primary market to buy shares at

cheaper rate in secondary market. Takeovers are very important as an additional mechanism of corporate governance for investor protection. Whether the compliance of corporate governance to international standards can help developing countries to protect investors' interest is still a matter of debate.

To determine whether investor protection leads to economic growth of the country, **Castro et al (2004)** proposed a usual "overlapping generations model for capital accumulation" for investor protection. Better risk sharing comes from better investor protection. Capital witnesses larger demand due to risk aversion by entrepreneurs. **Babu & Naidu (2012)** discussed investor protection measures introduced by SEBI in India. Positive results have been observed in investor education campaigns to some extent. However, there is still a long way to go. Investors have been constantly fleeing the market in India, despite the expansion of the "equity cult", which needs an apex body immediately to implement and frame certain measures for investor protection in India.

1.3 Research Gap

Considering the above discussions, it is found that there is a huge need for an online platform where investors can get all the important information about brokers before investing to prevent malpractices and ensure investors' protection in India. Hence, this study fills the major gap that is still prevalent in the investment sector in this day and age in India, i.e. lack of proper broker information.

1.4 Research Question

- Why the need for a broker information website in India?
- Do people need the broker information before opening a demat account in any broker firm in India?

1.5 Research Objectives

- To determine the need for an authenticated website where investors can find all details about brokers in India
- To find out investors' perception towards the need of broker information before opening a Demat account in India

1.6. Hypothesis

H0: There is no relation between broker information and investor awareness.

Ha: There is a relation between broker information and investor awareness.

2. Research Methodology

To fulfill the above research objectives and solve the hypothesis, this study was conducted using descriptive research, which includes interviews and surveys to analyze the present situation of investors in India and what kind of information they need about brokers before investing. Hence, both primary and secondary sources were used to collect the data.

2.1 Research Method & Design

We have collected secondary data from research papers, legislations, news articles, books, and other online sources. We have framed the research design and concepts accordingly. For collection of primary data, Google Form was distributed among investors in Mumbai and other cities. Mumbai has been highly focused because it has the highest population of investors and people have highest financial literacy in the Financial Capital of India as compared to other major cities of India. We have used IBM SPSS v22 to analyze the given responses and solve the above hypothesis.

2.2 Research Approach

We have employed an interview and survey method for this study to collect the data related to “investor protection in India”. We have collected responses from investors and other participants in the study and the target population mainly resides in Mumbai because Mumbai is the Financial Capital of India and one of the largest cities of India. Most of the stock companies have their registered offices located in Mumbai and it has the highest number of investors. The frequency of responses will be analyzed and hypotheses will be solved using relevant statistical techniques. In this survey, we have asked the respondents their opinion on what information they would require about the broker on the regulators’ website. We have framed questionnaires on a 5-Point Likert scale, i.e. from Very Important to Unimportant (5 = Very Important, 4 =

Important, 3 = Moderately Important, 4 = Slightly Important, and 5 = Unimportant).

3. Analysis of Study

The “Securities and Exchange Board of India (SEBI)” is the regulatory body for Indian securities markets. It is established with an aim to “protect the interests of investors in securities and to promote the development of, and to regulate the securities market and for matters connected therewith or incidental thereto.” However, SEBI has been shielded from direct public responsibility and also lacks transparency. A “Securities Appellate Tribunal” includes the Supreme Court of India and a panel of 3 judges which have censured SEBI occasionally. In SEBI, one can only get basic information like the name of the brokers, authorized person, etc. For complete broker-wise information, it takes a lot of time to search individually on the NSE website. It is very daunting to find out every detail about the broker, such as charges filed, complaints, etc.

On the other hand, the “Financial Industry Regulatory Authority (FINRA)” is aimed to safeguard investors’ interest and integrity of the securities market. Fair financial markets are the ones every investor relies on in America. FINRA is a not-for-profit, government-authorized organization which manages dealers and brokers in the US. They ensure that anyone can enter the market with assurance. In addition, FINRA ensures that –

- Basic protection is provided to every investor
- Every securities product is qualified, tested and licensed before sale
- Every securities product promoted is not misleading, but trustworthy
- Every securities product is ideal to meet the needs of an investor
- Investors get complete disclosure on the product before investing

FINRA is an authorized body to protect investors by ensuring honest and fair practices by brokers and dealers. It oversees over 624,000 brokers in the US and billions of market events every day. Innovative ML and AI techniques are used to track the market and provide investors, policymakers, regulators, and other stakeholders with necessary support. FINRA offers a free tool “BrokerCheck” to


check the professional details of brokerage firms and individual brokers, along with investment advisors and advisor firms. The portal provides valid information about

representatives and advisor firms by retrieving from SEC’s “Investment Adviser Registration Depository (IARD)” database.


Figure 1 – A Graphic Illustration of BrokerCheck website




Why Use BrokerCheck?



BrokerCheck helps you make informed choices about brokers and brokerage firms- and provides easy access to investment adviser information.



BrokerCheck tells you instantly whether a person or firm is registered, as required by law, to sell securities (stocks, bonds, mutual funds and more), offer investment advice or both.



BrokerCheck gives you a snapshot of a broker's employment history, regulatory actions, and investment-related licensing information, arbitrations and complaints.

Source – Brokercheck.finra.org

Indian investors should also be able to access every detail about brokers and dealers using a website like Brokercheck. It immediately tells whether a firm or individual is registered and authorized to sell securities products legally and provide investment advice. Hence, this survey was conducted with an aim to know investors’ perception towards the need for complete broker information using a robust online portal in India.

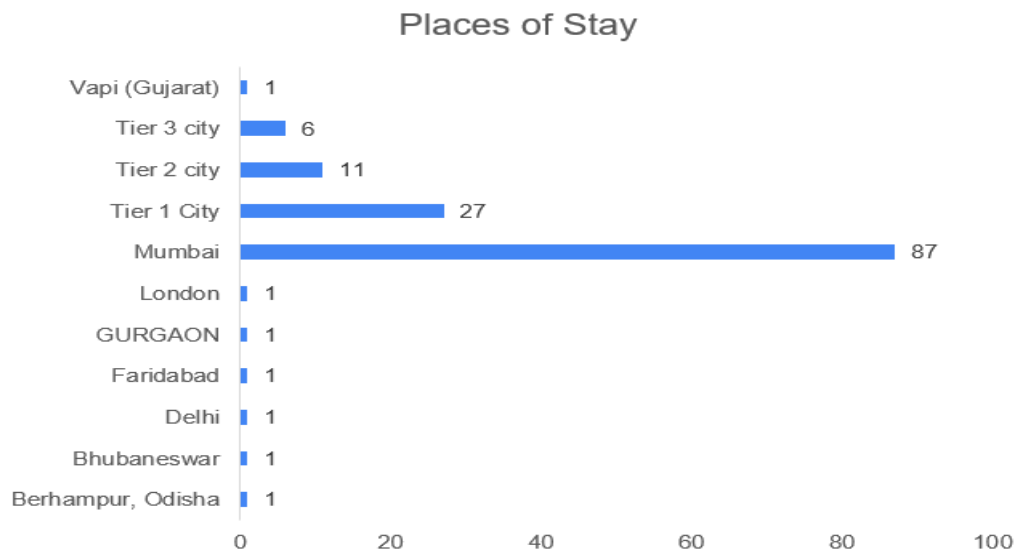
3.1. Demographics

We have collected 138 responses in this survey. Most of the respondents (n=87, 63%) belong to the financial capital of India, Mumbai. In addition, 27 (19.6%) respondents belong to tier 1 cities, 11 (8%) from tier 2 cities, 6 (4.3%) from tier 3 cities, 1 respondent from Vapi district, Gujarat, 1 from Berhampur, Orissa, 1 from Bhubaneswar, 1 from Delhi, 1 from Faridabad, 1 from Gurgaon, and 1 respondent from London (Table 1).

Table 1 - Place of stay

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Berhampur, Odisha	1	.7	.7	.7
Bhubaneswar	1	.7	.7	1.4
Delhi	1	.7	.7	2.2
Faridabad	1	.7	.7	2.9
GURGAON	1	.7	.7	3.6
London	1	.7	.7	4.3
Mumbai	87	63.0	63.0	67.4
Tier 1 City	27	19.6	19.6	87.0
Tier 2 city	11	8.0	8.0	94.9
Tier 3 city	6	4.3	4.3	99.3
Vapi (Gujarat)	1	.7	.7	100.0
Total	138	100.0	100.0	

Figure 1 – Place of Stay



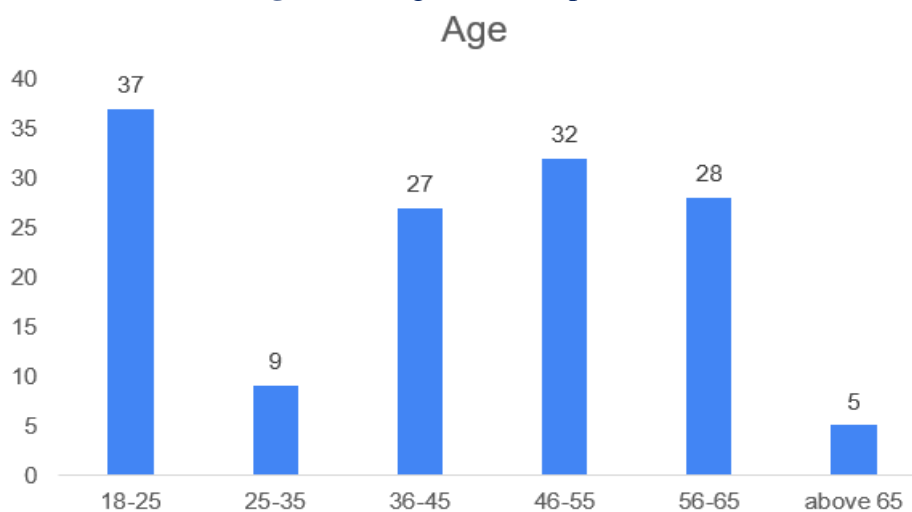
In this survey, the majority of respondents (n=37, 26.8%) were young and aged 18 to 25 years. In addition, 32 (23.2%) participants aged 46-55 years, 28 (20.3%) participants aged 56-

65 years, 27 participants (19.6%) aged 36-45 years, 9 participants (6.5%) were aged 25-35 years, and 5 participants (3.6%) aged above 65 (Table 2).

Table 2 - Age

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid 18-25	37	26.8	26.8	26.8
25-35	9	6.5	6.5	33.3
36-45	27	19.6	19.6	52.9
46-55	32	23.2	23.2	76.1
56-65	28	20.3	20.3	96.4
above 65	5	3.6	3.6	100.0
Total	138	100.0	100.0	

Figure 2 – Age of the respondents



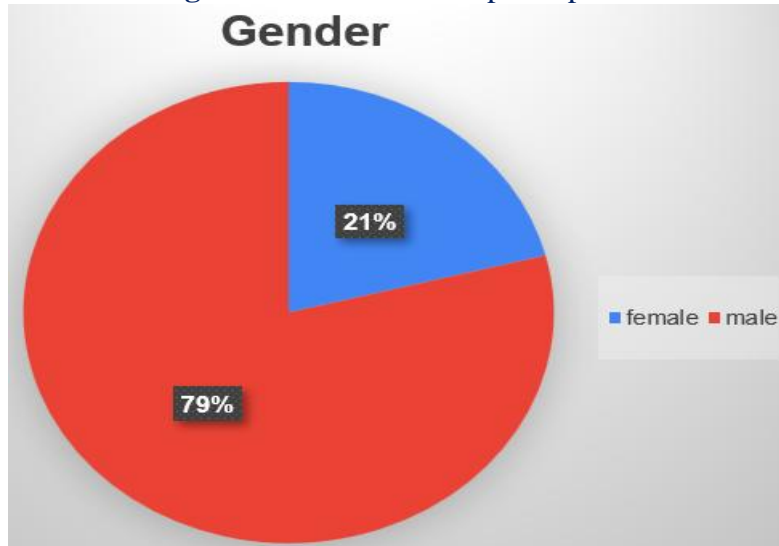
Majority (79%) participants in this study were male, i.e. 109 participants, and the rest 21% of

the participants were female, i.e. 29 respondents (Table 3).

Table 3 - Gender

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid female	29	21.0	21.0	21.0
male	109	79.0	79.0	100.0
Total	138	100.0	100.0	

Figure 3 – Gender of the participants



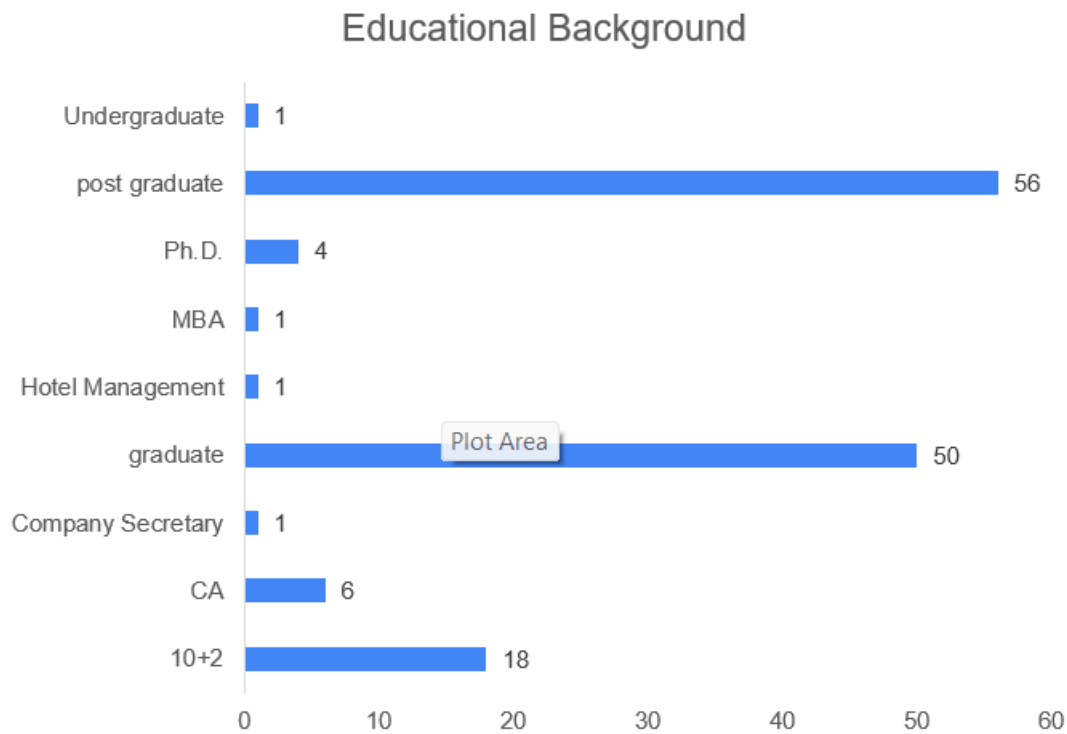
When it comes to educational qualification, 56 participants (40.6%) have done post-graduation, 50 (36.2%) participants were graduates, 18 (13%) have completed 10+2, 6 participants were CA, 1 was company

secretary. 1 participant completed hotel management, 1 had completed MBA, 4 participants were doing Ph.D., and one was undergraduate (Table 4)

Table 4 - Educational Qualification

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid 10+2	18	13.0	13.0	13.0
CA	4	2.9	2.9	15.9
Chartered accountant	1	.7	.7	16.7
Chartered Accountant	1	.7	.7	17.4
Company Secretary	1	.7	.7	18.1
graduate	50	36.2	36.2	54.3
Hotel Management	1	.7	.7	55.1
MBA	1	.7	.7	55.8
Ph.D.	1	.7	.7	56.5
Phd	1	.7	.7	57.2
PhD	1	.7	.7	58.0
PHD	1	.7	.7	58.7
post graduate	56	40.6	40.6	99.3
Undergraduate	1	.7	.7	100.0
Total	138	100.0	100.0	

Figure 4 – Educational background of the participants



We have asked whether they have a Demat account for investing in the stock market. In this study, 125 (90.6%) respondents had a

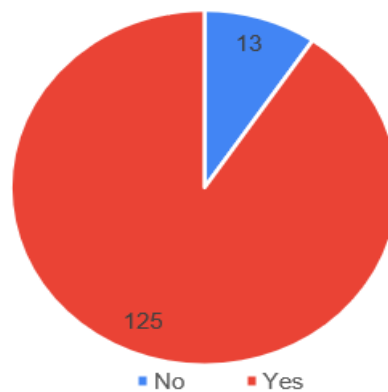
Demat account while 13 (9.4%) didn't have a Demat account (Table 5).

Table 5 - Do you hold shares in a demat account?

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid				
no	13	9.4	9.4	9.4
yes	125	90.6	90.6	100.0
Total	138	100.0	100.0	

Figure 5 – Do you hold shares in Demat Account?

Shares in Demat Account



The aim of this study is also to propose a website which includes all broker's information in one place that people need. Hence, we have asked people's opinion on

what details about the brokers they need in the regulator's website. We have analyzed responses (received in 5-Point Likert Scale) using "Descriptive Statistics" in SPSS.

For “professional background of the broker like experience, qualification etc., the value of Mean is 4.33 (SD = 0.830), which means majority of respondents consider it important. Similarly, the majority of investors want to know total complaints received against the broker on the website, for which the mean value is 4.46 (SD = 0.775). The Mean value of “Regulatory action taken against the broker” is 4.47 (SD = 0.803), Mean value for “number of cases pending in SEBI” is 4.49 (SD = 0.865), Mean value for “number of complaints in Stock Exchange” is 4.41 (SD = 0.925), Mean value for “type of complaint appearing the most like non-settlement of account etc.” is

4.37 (SD = 0.875), Mean value for “cases pending, disposed or in appeal in Securities Appellate tribunal and its details” is 4.42 (SD = 0.905), Mean value for “cases pending, disposed or in appeal in Supreme court and its details” is 4.28 (SD = 0.982), Mean value for “cases pending, disposed or in appeal in high court and its details” is 4.31 (SD = 0.919), Mean value for “inspection report of brokers conducted by Stock exchanges, i.e. BSE and NSE” is 4.30 (0.941), and mean value for “any order passed by SEBI against the broker” is 4.43 (0.887)”. All in all, respondents need all of this information in the proposed website.

Table 6 - Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
professional background of the broker e.g. qualification, no years of experience etc.	138	1	5	4.33	.830
total complaints received against the broker	138	2	5	4.46	.775
Regulatory action taken against the broker	138	1	5	4.47	.803
number of cases pending in SEBI	138	1	5	4.49	.865
number of complaints in Stock Exchanges	138	1	5	4.41	.925
Type of complaint appearing the most like non settlement of accounts etc,	137	1	5	4.37	.875
cases pending, disposed or in appeal in Securities Appellate tribunal and its details	137	1	5	4.42	.905
cases pending, disposed or in appeal in Supreme court and its details	138	1	5	4.28	.982
cases pending, disposed or in appeal in high court and its details	138	1	5	4.31	.919
inspection report of brokers conducted by Stock exchanges ie BSE and NSE	138	1	5	4.30	.941
Any order passed by SEBI against the broker	138	1	5	4.43	.887
Valid N (listwise)	136				

In order to solve the above hypothesis, we have conducted a one-sample T-Test on SPSS Software with a confidence level of 95% on the given responses. We have observed that the significant value of all of the statements is less than 0.05. Hence, “H0 – There is no relation

between broker information and investor awareness” is considered null and void and “H1 = There is a relation between broker information and investor awareness” is valid. It means there is a need for broker information for investor protection in India (Table 7).

Table 7 - One-Sample T-Test

	Test Value = 0					
	t	df	Sig. (2-tailed)	Mean Difference	95% Confidence Interval of the Difference	
					Lower	Upper
professional background of the broker e.g. qualification, no years of experience etc.	61.246	137	.000	4.326	4.19	4.47
total complaints received against the broker	67.648	137	.000	4.464	4.33	4.59
Regulatory action taken against the broker	65.391	137	.000	4.471	4.34	4.61
number of cases pending in SEBI	61.019	137	.000	4.493	4.35	4.64
number of complaints in Stock Exchanges	55.940	137	.000	4.406	4.25	4.56
Type of complaint appearing the most like non settlement of accounts etc,	58.518	136	.000	4.372	4.22	4.52
cases pending, disposed or in appeal in Securities Appellate tribunal and its details	57.194	136	.000	4.423	4.27	4.58
cases pending, disposed or in appeal in Supreme court and its details	51.257	137	.000	4.283	4.12	4.45
cases pending, disposed or in appeal in high court and its details	55.139	137	.000	4.312	4.16	4.47
inspection report of brokers conducted by Stock exchanges ie BSE and NSE	53.756	137	.000	4.304	4.15	4.46
Any order passed by SEBI against the broker	58.641	137	.000	4.428	4.28	4.58

4. Results

Investors must be encouraged to make informed investment decisions through awareness and education and it is especially true in developing economies like India. SEBI has certain measures to provide information to use for investing, compare different options as per specific needs, ascertain rights and obligations, take important precautions, and seek help for grievance redressal. But when it

comes to getting brokers' information and each and every background detail, investors have to look for various options and it takes a lot of time.

Most of the potential investors hesitate because they don't have enough time to gather all the necessary information regarding investment options and investors have to rely on brokers. There is also a lack of proper information about brokers in the NSE portal. A robust

online platform like BrokerCheck by FINRA is strongly needed in India. This study is the first step because there is still a lack of research on what kind of brokers' information investors need in India. Hence, we have conducted a survey with all kinds of details investors need on a potential regulator's website in India. There is a strong need for providing every relevant detail in the public domain. In this study, participants wanted all the possible brokers' details in one place.

5. Conclusion

The amendment of "Securities and Exchange Board of India Act, 1992" was done several times, i.e. 1995, 1999 and 2002, considering the changing needs to respond to improvements in the securities market. The SEBI is mainly aimed to secure investors'

interest and ensure proper growth of the Indian economy. However, preventing all the scams prevalent in the financial market and monitoring and regulating every aspect of the market is a herculean task before the regulators. In addition, redressal of grievances and setting the system exactly when the scam happened is very important to restore investors' confidence. Keeping all the brokers' information in one place, such as grievances, complaints registered, cases pending, background, etc. can also help investors make informed decisions and prevent any financial mishaps from happening. This study proposes a robust online portal where all the brokers' details will be available to investors within fingertips, so that they can confidently invest in the securities market.

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