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A Study on the Growth of Retail Individual Investors

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Abstract:

Investment attracts different types of investors for different reasons. There are two major types of investors in the capital market, the institutional investor and the retail investor. Institutional investors are businesses or organisations having staff members who make investments on behalf of others (typically, other companies and organizations). Retail investors, on the other hand, are those who make investments with their own money, usually for themselves. Over the past few years, it has been the boom time for retail participants in the capital markets trading, as a record number of new participants have been added to the NSE and BSE. The present study helps to find the growth of retail investors, and different factors affecting the growth of retail individual investors and to study the Incremental growth of the Demat account in past few years which reflect the interest of investors in the capital market.

Keywords: Retail Individual Investors, Demat Account, NSE, BSE, CDSL, and NSDL.

1. Introduction:

Retail investors, often known as individual investors. A retail investor is someone who makes purchases and sales of equity shares, futures contracts, mutual funds, exchange traded funds (ETFs), and other forms of investment products through conventional or online brokerage houses or other sorts of investment accounts. According to SEBI regulation, a retail individual investor is a person who applies for or bids on securities with a value of no more than Rs. 2,000,000 in an initial public offering (IPO) and who purchases or retains shares of stock with a value of no more than Rs. 2,000,000.A retail investor in commodities is not constrained by any such threshold. Contrary to institutional investors like mutual funds, pension funds, like EPFO, or foreign institutional investors, retail investors buy assets for their own personal accounts and frequently trade in considerably smaller sums. Retail investors frequently have to pay much higher transaction fees because of their limited purchasing power.

Indians are turning away from the traditionally preferred physical assets like gold and real estate as well as bank accounts, favouring individual investment, which is growing in popularity. The majority of this shift in retail investor preferences may be attributed to elements like improved financial awareness, the pervasiveness of cell phones and the Internet, and the poor returns from conventional savings products. Understanding this shift in investor behaviour and habits is now more crucial than ever since investment options are becoming more generally accessible and educational opportunities are becoming more freely available owing to digital platforms.

Retail investment had been rising prior to the worldwide epidemic. However, Covid-19 gave aspiring investors the boost they required to get into the financial markets. In the UK and the USA, government stimulus programmes provided cash to those who were stuck at home during lockdowns and had little choice but to try trade as a way to improve their financial stability.

After the pandemic in 2020, active investor accounts in India surged by a record 10.4 million, signalling the beginning of a significant shift in investing habits. At the same time, retail stock ownership increased 9% in Q3 2020 at the 1,500+ businesses listed on the National Stock Exchange (NSE), the largest increase since March 2018.

Almost 4.5 million new retail investor accounts were added in the first two months of the fiscal year alone, demonstrating the exponential growth of retail investor involvement in FY21 as well. Incredibly, 12.25 million new CDSL accounts and 1.9 million new NSDL accounts were established in FY21, increasing the overall number of retail investors by 14.2 million.

Retail investors now control a majority of the Indian stock market as a result. From 33% in 2016 to 45% in 2021, the NSE alone showed a rise in the percentage of retail investors. A record-high monthly registration of new investors of 1.5 million was reached in June 2021, indicating that demand isn't waning either.

2. Objectives:

1. To study the growth of retail individual investors and factors affecting.
2. To know incremental growth of the Demat account.

3. Research Methodology:

This study is based on secondary data such as books, journals, reports articles and websites, etc.

4. Literature Review:

1. **Surendar Gade, (2015)**, in his study he discussed about the different strategies adopted by retail investors for taking decisions for investments in equity securities. Retail investors from five different cities namely Bangalore, Chennai, Hyderabad, Mumbai and Warangal for period of two years, discussed about investment decision process. In this study, it was discovered that a variety of sources used to get information on various factors needed for trading equity investments. This study illustrates how inexperienced and unqualified retail investors are to use sophisticated analytical tools to make investment decisions. They use relatively straightforward and quicker methods to decide whether to invest in equities securities.

2. **Mrs. Subha R & Mrs. Padmashree R, (2016),** this research attempts to examine, study, and analyse the behaviour influences of retail investors in stock investing and how their expectations are changing in the period of volatility. It is common knowledge that behaviour is a crucial decision-making aspect, and this is especially true when it comes to financial decisions. The attitude, expectations, overconfidence, herding, prospect, heuristic, and market information are crucial behavioural characteristics the researcher encounters while doing the research that influences equity decisions. In conclusion, it can be concluded that if opportunity costs are present in comparison to alternative investment opportunities, greater equity retail individual investing can be encouraged since the risk element will be decreased.

5. Factors Driving the Increase of Individual Investors in the Stock Markets:

The retail investor segment's growing interest is being attributed to a variety of factors. A quick summary of a handful of them is provided below.

1. **Younger investors:** The involvement of millennials in the stock market has been one of the major forces behind this constant development. Millennials appear to be more risk-taking than their ancestors. As a result, they were inevitably drawn to the stock markets.
2. **Access to the capital markets is made simpler:** The process of creating a trading and Demat account has gotten simpler and faster with the implementation of Aadhaar verification and e-KYC standards. Not just that. The entire procedure may be completed online from the convenience of your home, workplace, or even while you're on the go because it is fully paperless.
3. **An increase in consciousness:** Stock market mysteries have become less and less mysterious. Stockbroking firms have made great attempts to put together thorough investor education programmes to educate people about the markets. These initiatives have helped raise retail investor understanding by deconstructing the many ideas of trading, investing, and the stock markets as a whole.
4. **Lockdowns imposed because of COVID-19:** This has been among the main causes of the retail participation rate's totally explosive growth. Retail individual investors have extra time on their hands as a result of the implementation of countrywide lockdowns. And it appears that Indian investors took this opportunity to enter the stock market wisely. In addition, many people were motivated to enter the realm of stock trading by a decline in income brought on by pandemic-related salary cutbacks.

6. The Largest Participant in the Stock Market is a Retail Investor:

Individual investors account for 45% of trading volume on the stock exchange in India, where they dominate the market in year 2020-21. According to data from the NSE, the largest exchange in India, individual investors' market share increased gradually from 33% in 2016 to 45% in 2021.

6.1 Retail Individual Investors Control the Stock Market

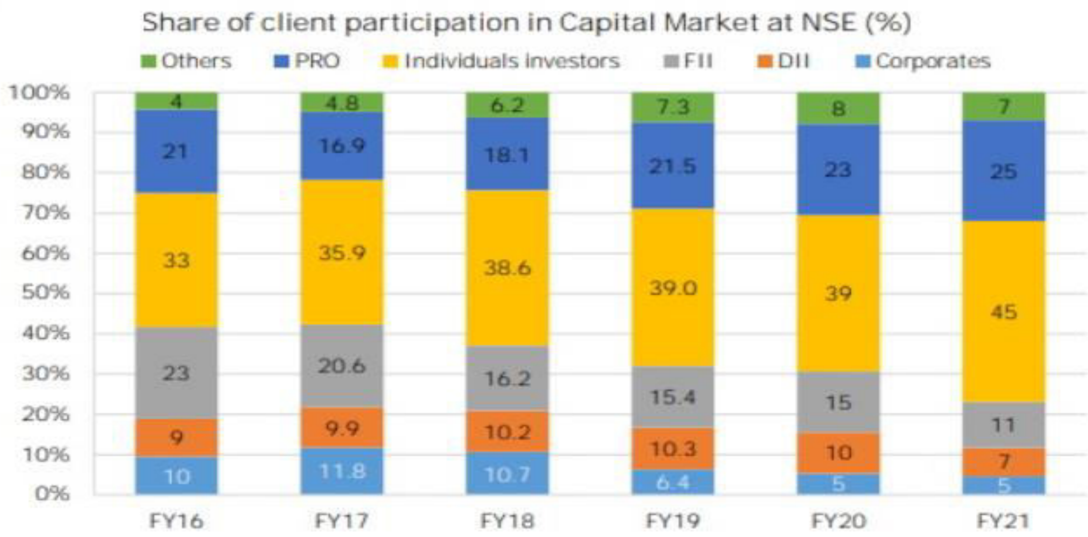

Figure 1

Source: NSE

https://www.capitalmind.in/2021/05/omg-the-retail-investor-is-the-biggest-player-in-the-stock-market/.

Note: FII: Foreign Institutional Investors, DII: Domestic Institutional Investors, Prop traders, Individual Investors: Individual Domestic Investors, NRIs, Sole Proprietorship firm and HUFs, Others: Partnership firms/LLP, Trust/ Society, AIF. Depository Receipt, Portfolio management clients, Statutory Bodies, etc.

Interpretations: From the above figure 1 it shows that trading volume of different investors in stock not in derivatives. Currently, domestic institutions (DII) make up a pitiful 7% of the market. Only 11% of all trading volume is now made up by foreign investors. Since 2016, their market share has decreased by half. 25% are proprietary traders, which are often the internal trading departments of brokerage houses.

The **45%** volume market share held by retail individual investors, however, is incomparable. If the average daily turnover on the market is Rs.60,000cr. Then approximately half of it is exchanged by retail investors. In essence, the retail trader is primarily responsible for the majority of the trading you observe, including intraday movements, rapid increases, etc. that we as we ascribe to mutual funds or international players.

6.2 The Index Futures Market is Dominated by Retail Investors

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The derivatives market comprises a sizable portion of India's index futures, primarily the Nifty and Bank Nifty. Again, the size of the individual investor in this case dwarfs that of the institutions, Refer figure 2:

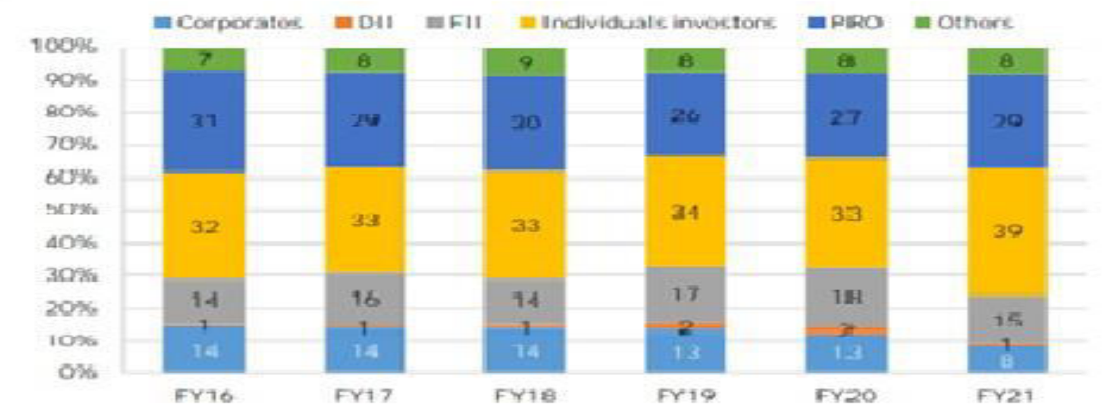

Figure 2

Source: NSE

https://www.capitalmind.in/2021/05/omg-the-retail-investor-is-the-biggest-player-in-the-stock-market/.

Interpretation: From above figure 2 it shows that Retail investors trade exclusively in 39% of the market for index futures. Only 15% of investors are foreign (FIIs), and 1% are domestic mutual funds. About 29% of all trade is for props, and this percentage has remained fairly consistent over the past few years.

7. Increase in Trading Volumes and Retail Participation:

The rise in the number of Demat accounts over the past several years is evidence that investors are regaining faith in the development of the Indian economy. There are more retail investors' funds in the stock market if there are more Demat accounts than usual.

<u>More Demat Accounts, Leads to More Retail funds</u>

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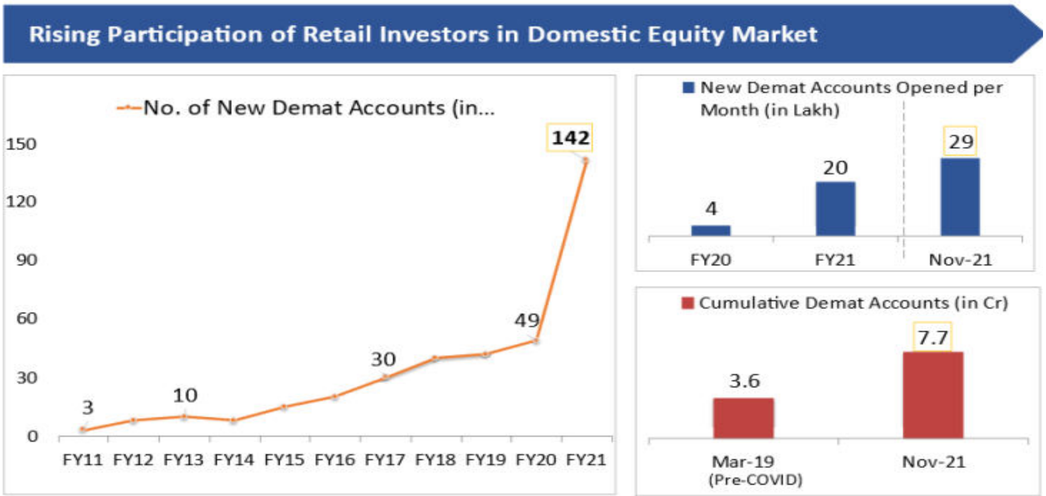

Figure 3

Source: https://blog.investyadnya.in/how-individual-retail-investor-have-emerged-as-strong-participants-in-the-stock-market/

Interpretation: From above figure 3 it shows that in India, there were just 3 lakh new Demat account openings in FY11; this number rose to 30 lakhs in FY17 and 49 lakhs in FY20. There were 1 Cr. 42 Lakhs worth of new Demat account openings in FY21. The increasing number of new Demat account openings demonstrates how quickly retail investor engagement in the equities market has grown since the epidemic. With a record number of 29 lakhs new Demat accounts, November 2021 set a new record for the greatest monthly comparison. When compared to March 2019, which was the pre-covid period, the cumulative Demat Account in November 2021 was 7.7 Cr.

8. Conclusion:

From the above research it can be inferred that number of retails investor has grown tremendously due to various aspect like:

- **Number of new Demat account:** The increasing number of new Demat account openings has demonstrated how quickly retail investor engagement in the equities market has grown since the epidemic.
- **Tendency to improve financial circumstances because of Covid-19:** The epidemic has probably been a major factor in the tremendous rise in individual investors. Around the world, people have noticed this tendency. Millions of individuals were stranded at home in

search of methods to improve their financial circumstances due to wage cutbacks, job losses, and an unclear economic future

- **Technology advancement:** Tech advancements have also brought us easy-to-use investment apps, while social media has provided access to all the chatter in the investment community. Large and vibrant investor communities can be found on sites like Twitter, Telegram, Reddit, etc., and they are always willing to share their market research and investing insights.
- **Investment awareness:** Without the aid of technology, the pandemic alone couldn't have had such a big impact. First off, Indians now have access to a whole new universe of online content thanks to the spread of the internet to even the most rural regions of the country. Additionally, this meant that more people would have access to information on investing, market news, and increased investment awareness.

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