A STUDY ON PERCEPTION OF INVESTORS AND INTERMEDIARIES TOWARDS SECURITIES MARKET REFORMS

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Abstract: *The Securities Market in India went through a major transformation during 1990s. The deregulation, liberalization and globalization of the Indian economy provided much needed impetus to the capital markets for its growth and development. The role played by the Securities Market was far reaching as compared to that of its role in the initial stages. The investor base in each of the markets has also expanded considerably and their active participation is imperative must to achieve a balanced growth and level of efficiency. This study attempts to understand the perception of the investors and intermediaries who are the most important market players towards security market reforms. From this study it became evident that the investors and intermediaries have a positive outlook towards the reforms of the market. It has become very clear that there is no significant difference in the perception of among investors and intermediaries relating to reforms of the market.*

KEY WORDS: *Security Market, Security Market Reforms, Capital Market, Investor perception, SEBI*

Introduction: The primary role of capital market is allocation of capital among competing sectors of the economy. The changes in law concerning the financial sector during the 80s and the economic reforms introduced after June 1991 contributed significantly to the growth of Indian Capital Market. The Securities Market in India went through a major transformation during 1990s. The deregulation, liberalization and globalization of the Indian economy provided much needed impetus to the capital markets for its growth and development. The role played by the Securities Market was far reaching as compared to that of its role in the initial stages. Now, the Indian securities market can be compared to that of the developed countries in terms of the infrastructure and sophistication. The efficient allocation of capital is sought to be achieved through abolition of various controls, industrial policy reforms, trade policy reforms, etc., thus allowing a free play of market forces. The earlier reforms facilitated faster growth and the latest one focused on strengthening the functioning of the capital markets in India by adoption and implementation of best international practices, systems and products. The investor base in each of the markets has also expanded considerably and their active participation is imperative to achieve a balanced growth and level of efficiency.

Capital Market is the barometer of the economy. This statement truly brings out the importance of the capital market in the macro economic affairs of any country. On breaking up of the shackles of protectionism and with the liberalisation and globalisation of economies, the world is becoming a global village and the role of capital markets is assuming immense importance. However, the larger the role of capital markets, the greater the responsibility on the regulators, participants, investors for the smooth functioning of the capital markets. The story in India is no different. Regulation is a political commodity which is demanded by the private interest groups and provided by the government agencies through legislation or regulatory bodies. Regulation has a role to play only when the market processes such as competition, existence of contestable property rights and routine laws for enforcement of economic contracts are unlikely to achieve allocation and productive efficiency in utilities. The absence of regulation leads to problems of information asymmetry, externalities and market power concentration. The Narasimham Committee report on financial sector reforms, which said that the Indian Capital Market is 'over-governed and under-regulated', only underlined the need for such a regulatory body. That is, at this juncture, the Government of India took a bold step of revamping the existing system and bringing in the new regulator for the market. The establishment of SEBI and the repeal of the Capital Issues (Control) Act,

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1947 in May 1992 is a major step in the liberalization process of the securities market. With this move the Government's control on various activities such as issue of capital, pricing of the issues, fixation of premium and control over the rates of interest was abolished. The timing could not have been better. With the stock markets riding the crest of an artificially engineered boom and the securities scams about to burst forth like a cluster bomb on an unsuspecting public. The Securities & Exchange Board of India (SEBI) Act was promulgated on April 4th 1992 (replacing the earlier ordinance), giving much needed teeth to the watch dog body to regulates the markets. SEBI was established with the objectives of:

a) protecting the interest of investors in securities,

b) promoting the development of securities market, and

c) regulating the securities market.

Review of literature:-

Some of the studies that have been carried out on this subject are being presented here in brief. Singh (1995) felt that unlike in the U.S and the U.K in the nineteenth century, stock market development in developing countries is not an evolutionary response to market forces but instead, developing county governments have played a major proactive role in the development of this market. Besides, for the period of the 1980s, firms in developing countries resorted to a lot to equity financing as the relative cost of equity capital fell significantly during those years. The fall in the cost of equity was due to a large rise in share prices that resulted from internal and external financial liberalization. As access to stock markets became easier the participation in stock markets increased in the 1980s. This was also the time when the relative cost of debt financing increased with embarkation of financial liberalization in developing countries and the steep rise in international interest rates. The cost of equity capital relative to debt was thus favorable to equity during 1980s and firms as a result resorted to equity financing more heavily.

Abhay Pethe and Ajit Karnik (2000) have looked at the role that stock exchanges are expected to play in an economy viz. that of providing liquidity and helping in price discovery. And they found that in the Indian context, neither seems to be fulfilled at the present time, at least not to the full extent. There are indications that we are getting there. This may be seen from the macro –economic changes that are taking place, especially in the policy design environment. The physical characteristics such as computerization and volatility seem to be mimicking the western more developed-economies, but whether this implies development or is merely a superficial similarity remains to be seen. The relationships between the macro-economic variables and stock indices are as yet, not very conclusive.

Roy M K (201) felt that there is an increasing recognition among policy-makers of Less Developed Countries (LDC) about the beneficial role of stock market in mobilizing and allocation of resources in support of growth and development. Specially, it is increasingly recognized that, given the competition for foreign sources of funding and the limited availability of domestic finance in LDCs relative to their development needs, equity market could play an important role in providing capital to the productive sectors, as well as facilitating the process of privatization. But efficient functioning of the market is an essential condition to ensure the above benefit to the economy. Dann and James (1982) examined the central issue in the economics of regulation concerning the behaviour of regulators. They argued that regulators act in the interest of the regulated, while others argue that they act in "public" interest or perhaps in their own interest. They explored the effect of deposit-rate ceiling changes on the stock prices of Savings and Loan institutions (S&L's). Their results suggest decrease in share prices of S&L's around the date of announcement of the removal of ceilings on certain types of deposits. They argued that S&L's have earned economic rents from restrictions on deposit interest rates. The decline in equity prices has been attributed to reduction in these rents as a result of removal of ceilings on deposit interest rates.

Need for the Study:-

The development of capital market is vital for the growth of real economy. A stronger capital market promotes sound and sustainable financial system. The growth and development of Indian capital market, in particular during the last two decades has been spectacular. The plethora of reforms that have taken place over a period has changed the outlook of the Securities Market. The important reforms introduced in the Indian Securities Market are more particularly, the establishment and empowerment of SEBI, market determined allocation of various recourses, screen based trading system, dematerialization and electronic transfer of securities, ban on trading of deferral products,

introduction of rolling settlement, trading in derivatives and risk management, efficient trading and settlement system. This has led to a great deal of development both in terms of volumes of the trade and in terms of the depth of the market. The process of reformation has solved many problems and at the same time it gave birth to certain other problems. The legislature has been taking all the necessary steps to overcome the problems in the market. The market activity depends on the investors. In any well developed or developing market the role played by the retail investor is very crucial for the growth and development of the same. Unless there is an active participation and support from them, the market will not be able to perform the function of price discovery. And hence it becomes imperative to understand the perception of the investors and intermediaries who are the most important market players towards security market reforms.

Objectives of the study:-

1. To understand the perception of the investors and intermediaries towards security market reforms.
2. To identify the difference, if any, in the perception among the investors and intermediaries and to understand the reasons for the same.

Methodology:-

To achieve these objectives, the primary data has been collected through structured questionnaires from both the investors and the intermediaries during the year 2007-08. Secondary data has been collected from reports, Bulletins of RBI, Bulletins of SEBI, books, journals, magazines, conference papers, published and unpublished thesis etc. Averages, weighted averages and ANOVA are used to analyse the data and draw conclusions.

Hypothesis:-

When it comes to the perception of the investors and intermediaries towards reforms in the securities market, it is assumed that there is no difference in the perception of investors and intermediaries. The same has been tested by using one way ANOVA to test equality of population means.

The hypotheses are:

H0 (Null Hypothesis): There is no significant difference in the perception of among investors and intermediaries relating to reforms of the securities market.

H1 (Alternate Hypothesis): There is a significant difference in the perception of among investors and intermediaries relating to reforms of the securities market.

Sampling

In order to ascertain the opinions of the investors and the intermediaries, the state of Karnataka has been selected as it is truly cosmopolitan in its nature. A Sample of 300 investors from Karnataka state is taken for the study on the basis stratified, convenience and judgmental sampling. While selecting the investors, care has been taken to select them from Urban (State Head Quarters), Semi-Urban (District Head Quarters) and Rural (Other) areas. A sample of 150 investors from urban area i.e. Bangalore, 50 investors from semi-urban i.e. Gulbarga and Mangalore and 100 investors from rural areas is selected as the number of investors at urban area is comparatively more than that of the other areas. When it comes to the semi-urban areas, the number is taken as 50, as the number areas are comparatively lesser than the rural areas. The rural areas are given its due and accordingly ten places are selected for the study. The places covered under rural areas are Nanjanagud, Gauribidanur, Hospet, Thirthahalli, Somavarpet, Harihara, Karkala, Nippani, Birur and Bhalki.

A sample of 50 intermediaries such as stock brokers and depository participants of an urban area (Bangalore) is also taken for the study to understand their perception towards the reforms of the market.

Limitations of the Study

Any research by its inherent nature is bound to have some limitations and this study is not an exception to that rule. The major limitation of the study is that it is restricted to the state of Karnataka only and the size is also limited. However an effort is being made to minimize the impact of this limitation by selecting maximum number of investors from Bangalore, which is truly a cosmopolitan city. As this study is based on the responses of the investors and intermediaries, there is a possibility of personal bias. Care has taken to bring down the impact by asking cross reference questions. Some of the investors could not relate themselves to the impact of reforms as they were new entrants to the market. The investment activity is the outcome of innumerable factors. Whereas in this study only a limited number of factors are considered. With all these limitations, efforts are made to evaluate the situation as

accurately and objectively as possible.

In this study it is assumed that the inferences drawn are applicable across the country. It is also assumed that the investors' confidence has been boosted only through the first generation reforms that have taken place during the 1990s, and therefore the study has focused on the same. The later set reforms are not structural in nature, and, hence, the same is not considered for the study.

Investors' Perception towards the Reforms of the Market

The compulsions of the Indian economy during 1990s forced the governments to take the path of reforms in all aspects. The governments have taken various measures to revive the economy that was almost at the level of bankruptcy. This study tries evaluating the perception towards some of the important reforms that are being initiated towards reforming the market. Towards this end, certain evaluative statements are prepared and the investors are asked to indicate their agreement with the statements from strongly agree to strongly disagree on a five point scale. After ascertaining their responses for each of the statement under the three area categories of investors, the corresponding scores are multiplied by 5 points for strongly agree, 4 points for agree, 3 points for neutral, 2 points for disagree and 1 point for strongly disagree. Then scores are divided by the number of their category in the sample to understand the score for each of three categories of the investors. Then the score is multiplied by their proportion in the total sample of investors. The scores thus arrived are multiplied with weights assigned for each of the statement to arrive at the comprehensive score of the market.

Table 1.1 gives us the details regarding investors' perception towards the reforms of the market. The first factor considered is the repeal of CCI, which had the control over the securities market and establishment of SEBI. It is seen as the most important reform that has taken place for the betterment of the market. This path breaking decision has gone a long way in bringing the market to comparable international standards. The investors also perceive that it has contributed to the growth of the market. The scores of all the investors are almost the same i.e. around 3.85. This indicates that they perceive the strong impact made by the SEBI.

The second factor is the introduction of depositories and dematerialization. This has not only solved the problems of having securities in the problems, but also brought in transparency and speed into the settlement etc. The investors do not seem to be fascinated by this. This can be clearly seen from the scores which are hovering around 2.75, which indicates that they are neutral about it.

Derivatives are viewed as the most important and powerful financial instrument in the 20th century. The basic purpose of introducing them is to provide for risk minimization and price discovery. From the study it appears that the investors are neutral about the impact of the introduction of them as the scores are around 2.96. This may be because of the fact that derivatives are not available on all financial securities.

Earlier the management of stock exchanges used to be in the hands of the individuals, who were the powerful brokers of the stock exchange. This used to lead to a lot of self-centred practices Corporatisation of stock exchanges gave a distinct identity to these bodies and made them more accountable with bifurcation of management. The score arrived is 3.21 which indicates a slightly positive opinion about the same in the minds of the investors.

When asked about the free pricing of securities and book building process in the primary markets the investors appear to be slightly skeptical about the same as the scores are around 2.3.

The next factor that is considered is the segregation of clients' accounts from that of the brokers. This is expected to have brought in transparency in the transactions and minimization of misuse of the clients' funds by the brokers. The investors appear to be neutral about the impact of the same on the market as the scores are around 3.

Speculation is and was the major problem in almost all the markets. Abolition of the "badla" system and introduction of Revised Carry Forward system in the beginning and later Modified Carry Forward system as per the recommendations of Shri. G S Patel and Prof. J R Verma committees, is supposed to have reduced the quantum of unwanted speculation in the market. The comprehensive score for the same is working out to be 3.21. This indicates that the investors agree that the speculation has been reduced to some extent.

Table No: 1.1 Investors' Perception towards the Reforms of the Market

Sl. No.	Statement	Weightage	Urban Investors (0.5)	Semi-urban Investors (0.167)	Rural Investors (0.333)	Value for the aspect	Weighted Value
1	Repeal of CCI and establishment of SEBI contributed the most for growth of the market	0.35	3.953	3.92	3.66	3.8500	1.3475
2	Dematerialization and depositories solved many problems of investors	0.20	2.813	2.68	2.69	2.7500	0.5500
3	Introduction of derivatives increased for better profits with lower risks	0.10	2.960	2.86	3.01	2.9600	0.2960
4	Corporatisation of Stock Exch anges for better performance and accountability	0.05	3.153	3.22	3.24	3.1930	0.1597
5	Free pricing of issues and book building have provided for price discovery	0.10	2.247	2.34	2.43	2.3230	0.2323
6	Segregation of clients' accounts led to transparency and minimized misuse of clients' funds	0.05	3.167	2.94	3.01	3.0770	0.1539
7	Revised carry forward system controlled speculation to a great extent	0.10	3.267	3.10	3.17	3.2070	0.3207
8	Establishment of Central Listing Authority has made listing easier & provi ded for better control	0.05	3.047	2.62	2.77	2.8830	0.1442
	Total	1.00					3.2043

Source: Primary Data through Questionnaire.

The other factor was Establishment of Central Listing Authority to make listing easier and provide for better control. When asked about the same urban investors are slightly above neutral level, where as the semi-urban and rural investors are below the neutral level. In general it appears that the investors do not feel any additional benefits because of Central Listing Authority as the score is 2.9.

The weighted average score of all the factors is working out to be 3.2. This indicates that investors are slightly positive about the reforms that have taken place over the period of time.

Table No: 1.2 Intermediaries' Perception towards the Reforms of the Market

Sl. No.	Statement	Weightage	Value for the aspect	Weighted Value
1	Repeal of CCI and establishment of SEBI contributed the most for growth of the market	0.35	3.98	1.393
2	Dematerialization and depositories solved many probl ems of investors	0.20	3.20	0.640
3	Introduction of derivatives increased for better profits with lower risks	0.10	2.76	0.276
4	Corporatisation of Stock Exchanges for better performance and accountability	0.05	3.20	0.160
5	Free pricing of issues and book building have provided for price discovery	0.10	3.02	0.302
6	Segregation of clients' accounts led to transparency and minimized misuse of clients' funds	0.05	2.40	0.120
7	Revised carry forward system controlled speculation to a great extent	0.10	3.14	0.314
8	Establishment of Central Listing Authority has made listing easier & provided for better control	0.05	2.80	0.140
	Total	1.00		3.345

Source: Primary Data through Questionnaire.

The responses of intermediaries relating to the reforms of the market are given in table no. 1.2. They expressed that repeal of CCI and establishment of SEBI as the most positive contributor to the growth of the market with a score of 3.98, indicating the strong impact made by SEBI. The perception of the investors is also same for this factor. Dematerialization and establishment of depositories, Corporatisation of Stock Exchanges, Revised Carry forward system and Free pricing of issues and Book building process are viewed slightly positive towards the reforms of the market with a score of 3.2 on an average. Establishment of Central Listing Authority, introduction of derivatives and segregation of clients accounts are felt to be of little importance. The score for them is around 2.5. The weighted average score of all the factors is 3.35, indicating a moderate level of agreement with the processes of reforms. In all it is found that there is not much of difference in perception between investors and intermediaries towards the reforms of the market.

ANOVA for Reforms of the Market

Regarding the reforms process the respondents are asked to rate their perception on 8 major reforms and the score is calculated for a maximum of 40 and tabulated below.

Table No: 1.3 Respondents' Perception Scores regarding Reforms of the Market

Urba n Investors						Semi -urban Investors		Rural Investors			
Code	Score	Code	Score	Code	Score	Code	Score	Code	Score	Code	Score
1	24	51	22	101	26	1	28	1	24	51	34
2	25	52	15	102	27	2	26	2	24	52	14
3	24	53	35	103	21	3	25	3	16	53	24
4	28	54	21	104	22	4	29	4	25	54	25
5	25	55	23	105	19	5	22	5	28	55	31
6	27	56	27	106	30	6	26	6	22	56	22
7	21	57	24	107	23	7	21	7	27	57	23
8	25	58	24	108	24	8	18	8	18	58	26
9	27	59	29	109	26	9	25	9	25	59	27
10	24	60	27	110	19	10	20	10	22	60	22
11	29	61	23	111	23	11	35	11	24	61	22
12	27	62	25	112	21	12	18	12	21	62	20
13	30	63	23	113	25	13	24	13	28	63	22
14	20	64	30	114	19	14	21	14	26	64	28
15	28	65	27	115	31	15	22	15	27	65	22
16	24	66	26	116	19	16	25	16	25	66	22
17	23	67	23	117	30	17	22	17	23	67	26
18	33	68	24	118	16	18	25	18	31	68	17
19	25	69	17	119	26	19	26	19	25	69	28
20	26	70	25	120	23	20	25	20	26	70	26
21	25	71	26	121	20	21	21	21	19	71	26
22	26	72	20	122	23	22	23	22	24	72	21
23	26	73	22	123	30	23	20	23	31	73	24
24	20	74	26	124	20	24	24	24	29	74	31
25	27	75	22	125	23	25	24	25	24	75	19
26	25	76	27	126	22	26	25	26	18	76	24
27	21	77	32	127	21	27	19	27	26	77	22
28	24	78	24	128	24	28	24	28	23	78	24
29	27	79	23	129	22	29	23	29	23	79	21
30	27	80	29	130	24	30	23	30	25	80	27
31	32	81	26	131	31	31	22	31	28	81	25
32	20	82	21	132	23	32	23	32	24	82	19
33	25	83	22	133	23	33	26	33	24	83	26
34	20	84	23	134	26	34	24	34	23	84	26
35	33	85	26	135	32	35	24	35	26	85	24
36	26	86	24	136	16	36	23	36	20	86	24
37	18	87	26	137	23	37	27	37	27	87	19
38	23	88	26	138	25	38	21	38	17	88	27
39	29	89	25	139	23	39	24	39	21	89	25
40	29	90	21	140	32	40	24	40	25	90	18
41	24	91	29	141	21	41	29	41	29	91	22
42	21	92	21	142	26	42	22	42	23	92	20
43	20	93	25	143	20	43	27	43	26	93	26
44	30	94	25	144	32	44	23	44	27	94	21
45	24	95	25	145	21	45	22	45	25	95	28
46	26	96	28	146	20	46	21	46	25	96	20
47	24	97	28	147	26	47	22	47	23	97	23
48	20	98	20	148	24	48	28	48	22	98	23
49	31	99	24	149	28	49	17	49	23	99	26
50	25	100	26	150	22	50	26	50	26	100	23

Intermediaries									
Code	Score	Code	Score	Code	Score	Cod e	Score	Code	Score
1	27	11	25	21	21	30	22	41	30
2	30	12	29	22	18	32	18	42	28
3	19	13	25	23	27	33	19	43	22
4	30	14	27	24	29	34	31	44	19
5	22	15	21	25	22	35	23	45	23
6	22	16	22	26	22	36	21	46	33
7	26	17	26	27	22	37	22	47	18
8	23	18	21	28	30	38	31	48	31
9	25	19	22	29	30	39	21	49	23
10	26	20	25	30	25	40	22	50	29

H_0 (Null Hypothesis): There is no significant difference in the perception of among investors and intermediaries relating to reforms of the market.

H_1 (Alternate Hypothesis): There is a significant difference in the perception of among investors and intermediaries relating to reforms of the market.

F calculated (1.0931) is less than F critical (2.631), hence null hypothesis is accepted. And it is concluded that there is no significant difference in the perception of among investors and intermediaries relating to reforms of the market.

Anova: Single Factor

SUMMARY *Groups*	*Count*	*Sum*	*Average*	*Variance*
Urban Investors	150	3688	24.58667	13.94881
Semi -urban Investors	50	1184	23.68	10.18122
Rural Investors	100	2398	23.98	12.18141
Intermediaries	50	1225	24.5	16.45918

ANOVA

Source of Variation	*SS*	*df*	*MS*	*F*	*P- value*	*F crit*
Between Groups	43.50095	3	14.50032	1.093121	0.352033	2.630716
Within Groups	4589.713	346	13.26507			
Total	4633.214	349				

Conclusion

From this study it becomes evident that the investors and intermediaries have a positive outlook towards the reforms of the market. This will be a good test to measure the confidence level of the investors, because the first generation reforms that are initiated have changed the very structure of the market and provided for the platform to make our security markets comparable to that of international market. This has become evident from the study conducted by SEBI-NCEAR. In their study they found that more number of retail investors started investing in the security market. The reforms such as repeal of CCI and establishment of SEBI contributed the most to the growth of the market, corporatisation of Stock Exchanges for better performance and accountability, revised carry forward system controlled speculation to a great extent, segregation of clients' accounts led to transparency and minimized misuse of clients' funds; these are the most significant reforms of the market by both investors and intermediaries. The other factors are not given much importance by both investors and intermediaries. From ANOVA it has become very clear that there is no significant difference in the perception of among investors and intermediaries relating to reforms of the market. When we look at the scores of investors from different areas, it becomes very evident that the scores of each of the attributes and their perception is almost the same for all investors. Only in case of intermediaries a little higher variance is observed in the perception towards market reforms.

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