



Population of Investors in Securities

M. S. Sahoo, Chief General Manager and R. Venkateswaran, Research Officer with SEBI.

The term 'investor' is defined differently by different people in different contexts. Depending on the context and purpose, the number of investors varies. This explains a large part of the difference among the different estimates of the number of investors, the balance being explained by the methodology of estimation.

An investor ordinarily means a person who makes investments. The investments may be made in intangibles, real assets or financial assets. The financial assets could include non-securities such as commercial papers, bank deposits, annuities, pension funds, small saving instruments, or securities. The securities could include government securities and corporate securities – listed or unlisted. These could include shares, debentures, derivatives, units of mutual funds / other collective investment schemes, etc. A person may invest in one kind or any kind of securities, and non-securities across the financial markets. Thus, when we wish to know the number of investors, we must be clear if we mean the number of investors in bank deposits only, or the number of investors in listed shares only, or the number of investors who have invested in both bank deposits and listed shares, or the number of investors who have invested in bank deposits and / or listed shares. We must be clear whether we are looking for the number of investors in money markets, in securities markets, in financial markets, or in financial products. If we are focusing on investors in securities, we must similarly be clear if we mean the number of investors having investments in equity and debentures, or in any kind of securities, as commonly understood, or in securities as defined in the Securities Contracts (Regulation) Act, 1956 (SCRA). If we go by the definition in the SCRA, it would include any person who has invested in listed equity, listed debentures, government securities, derivatives of securities, units of mutual funds and other collective investment schemes, security receipts, rights or interests in securities, etc. Depending on the context and purpose, different surveys have estimated the number of

e-mail : msahoo@sebi.gov.in

*The understanding reflected and the approach used in this paper are of the authors and not necessarily of their employer.

investors in particular securities or a select combination of securities, though some of the estimates are not intuitively correct. For example, according to the SEBI-NCAER Survey 2001, the number of households investing in equity reduced from 12.1 million in 1998-99 to 6.54 million in 2000-01. Similarly, it finds that 2.54% of households in Maharashtra have invested in equity as against national average of 3.7% in 2000-01. Some of the surveys are based on a very limited sample size and

have adopted not so scientific a methodology. Despite these limitations, these estimates provide a valuable inference about the number of investors in securities and we use them as we have not come across any survey which has estimated the number of investors in securities, as used in common parlance or as defined in the SCRA.

The Society for Capital Market Research and Development (SCMRD) carries out periodical surveys of household investors to estimate the number of

investors. Their first survey carried out in 1990 placed the total number of share owners at 90-100 lakh. Their second survey estimated the number of share owners at around 140-150 lakh as of mid-1993. Their latest survey estimated the number of shareowners at around 2 crore at end 1997, after which it remained stagnant up to the end of the 1990s. The bulk of the increase in the number of investors took place during 1991-94 and the momentum tapered off thereafter. 49% of the share owners at the end of 2000 had, for the first time, entered the market before the end of 1990, 44% entered during 1991-94, 6.3% during 1995-96 and 0.8% since 1997. These surveys estimate the number of individual shareholders of listed companies. They do not include the investors in non-listed securities, debentures of companies, units of collective investment schemes and government securities, and the institutional investors.

SEBI and NCAER have been carrying out investor surveys at intervals. According to an NCAER Survey, an estimated 1.66 million, or 1% of all Indian households had invested in securities in 1986. According to a SEBI-SCMRD Survey, an estimated 3.8 million, or 2.5% of households had invested in securities in 1990. According to the first SEBI-NCAER Survey of Indian

Investors are the backbone of the economy. They supply the much needed scarce funds to the government(s) and the corporate sector for investment and thereby contribute to the national income, prosperity of the society and higher standard of living of the people. The authorities, therefore, have the responsibility to protect the interests of the investors. The efficacy of the investor protection systems as well as the reforms ushered in by the authorities is reflected in the number of investors, while the nature and scale of the systems is determined by the number of investors. Hence it is necessary to know the number of investors.



investors conducted in early 1999, an estimated 12.8 million, or 7.6% of all Indian households representing 19 million individuals had directly invested in equity shares and / or debentures as at the end of the financial year 1998-99. 60% of these investor households had invested in equity / debentures of less than two companies, while the balance 40% had invested in more than two companies. The investor households increased at a compound growth rate of 22% between 1985-86 and 1998-99. About 35% of the investor households became investors in equity shares prior to 1991, while 47% of the investors entered the market between 1991 and 1995 and 17% after 1995. Of the 48 million urban households, an estimated 8.8 million households, or 18%, representing approximately 13 million urban investors, owned equity shares and/or debentures. Of the 121 million rural households, only about 4 million households, or 3%, representing nearly 6 million rural investors, owned these instruments. The rural investor households increased at a compound growth rate of 30% compared to 19% for urban investor households. According to the second SEBI-NCAER Survey conducted in late 2000, 13.1 million, or 7.4% of all Indian households, representing 19.5 million individuals, had directly invested in equity shares and/or debentures during the financial year 2000-01. The investor households increased by 3 lakh while the number of investors increased by 5 lakh between 1998-99 and 2000-01. Of the 51 million urban households, an estimated 7.8 million households, or 15%, representing approximately 12 million urban investors

owned equity shares and/or debentures. Of the 125 million rural households, about 5 million households, or 4%, representing 8 million rural investors owned these instruments. The rural investor households increased at 32.6% while the urban investor households decreased by 11.7% between 1998-99 and 2000-01.

An estimated 15 million households (nearly 9%), representing at least 23 million unit holders, had invested in units of mutual funds (MFs) in 1998-99 according to the first SEBI-NCAER Survey. There were 11.8 million households (nearly 7%), representing 19 million unit holders, who had invested in units of MFs in 2000-01 according to the second SEBI-NCAER Survey.

The SEBI-NCAER Surveys estimated the number of investors in equity and debentures and the number of investors in units of MFs separately. Since equity, debentures and units of MFs are the most common form of securities, the numbers can be combined to ascertain the total number of investors in securities. If combined, an estimated 21 million, or nearly 12% of all Indian households representing 32 million individuals had invested in equity shares and / or debentures and/or units of MFs as at the end of financial year 2000-01. The summary findings of these SEBI-NCAER surveys are presented in Table 1. It may be noted that these surveys estimated the number of investors in listed equity, listed debentures and units of mutual funds. These did not include the investors in non-listed securities, government securities, etc. and the institutional investors.

Table 1: Investor Population

| Investments in | 1975/80/85 (SCMRD) | 1986 (NCAER) | 1990 (SEBI/SCMRD) | 1998-99 (SEBI-NCAER) | | | 2000-01 (SEBI-NCAER) | | |
|--|-----------------------|-----------------|----------------------|-------------------------|-------|-------|-------------------------|-------|-------|
| | | | | Urban | Rural | Total | Urban | Rural | Total |
| Number of Households having Investments in Equity/Debentures/ Mutual Funds (million) | | | | | | | | | |
| Equity (E) | 6/11/26 | 1.66 | 3.8 | 8.30 | 3.80 | 12.10 | 4.62 | 1.92 | 6.54 |
| Debentures (D) | | | 2.9 | 2.96 | 0.74 | 3.70 | 5.28 | 4.27 | 9.55 |
| E n D | | | 2.7 | 2.40 | 0.59 | 2.99 | 2.10 | 0.91 | 3.01 |
| E U D | | | 4.0 | 8.83 | 3.98 | 12.81 | 7.80 | 5.28 | 13.08 |
| Units of MFs (MF) | | | | | | 15.05 | 7.04 | 4.74 | 11.78 |
| (E U D) n MF | | | | | | | 2.51 | 1.33 | 3.85 |
| (E U D) U MF | | | | | | 12.33 | 8.68 | 21.01 | |
| Percentage of Households having Investments in Equity/Debentures/Mutual Funds (%) | | | | | | | | | |
| Equity (E) | | 1.00 | 2.50 | 17.18 | 3.16 | 7.15 | 9.00 | 1.53 | 3.70 |
| Debentures (D) | | | 6.15 | 0.61 | 2.18 | 10.3 | 2.7 | 5.40 | |
| E n D | | | 4.98 | 0.49 | 1.76 | 4.09 | 0.72 | 1.70 | |
| E U D | | | 18.33 | 3.29 | 7.57 | 15.20 | 4.22 | 7.41 | |
| Units of MFs | | | | | 8.89 | 13.73 | 3.78 | 6.67 | |
| (E U D) n MF | | | | | | 4.89 | 1.06 | 2.18 | |
| (E U D) U MF | | | | | | 24.04 | 6.93 | 11.90 | |
| Number of Investors having Investments in Equity/Debentures/Mutual Funds (million) | | | | | | | | | |
| Equity (E) | 12/24/60 | | 9.00 | 12.22 | 5.73 | 17.95 | 6.93 | 2.80 | 9.73 |
| Debentures (D) | | | 4.36 | 1.12 | 5.49 | 7.92 | 6.23 | 14.15 | |
| E n D | | | 3.53 | 0.89 | 4.43 | 3.15 | 1.33 | 4.48 | |
| E U D | | | 10.00 | 13.05 | 5.96 | 19.01 | 11.7 | 7.7 | 19.5 |
| Units of MFs | | | | | | 23.0 | 11.35 | 7.65 | 19.0 |
| (E U D) n MF | | | | | | | 4.05 | 2.14 | 6.19 |
| (E U D) U MF | | | | | | 19.01 | 13.20 | 32.21 | |
| Source : SEBI-NCAER Surveys | | | | | | | | | |

Source : SEBI-NCAER Surveys





According to SEBI, there were a total of 1.6 crore investor accounts with mutual funds as on 31st March 2003. Out of this, 1.56 crore were individual investor accounts, which constituted 97.42% of the total number of accounts and accounted for 41.07% of the total net assets. Corporates and institutions, who formed only 2.04% of the total number of investor accounts in the MF industry, accounted for 57.12% of the total net assets in the mutual funds industry. The NRIs / OCBs and FIIs constituted a very small percentage of investor accounts (0.54%), but accounted for 1.81% of net assets. Though these detailed data for subsequent years are not available, available data indicate that the number of unit holders declined to 1.46 crore at the end of March 2004 and to 1.39 crore at the end of March 2005. It is likely that there may be more than one folio of an investor with a MF and an investor may have folios with more than one MF. If this duplication, which is in the range of 25-30%, is removed, probably the number of investors in MFs could reduce to 1 crore.

An indirect, but very authentic, source of information about the number of investors is the database of beneficial accounts with the depositories. At the end March 2005, there were 7.4 million beneficial accounts with the depositories. This could mean there were 7.4 million investors in securities. The various estimates of the number of investors in securities are presented in Table 2.

Table 2 : Number of Investors having Investments in Securities

(In lakh)

| Year | Source | Investors in Shares | No. of Investors in | | | Investor Accounts with MFs | Investor Accounts with Depositories |
|------------|---------------------|---------------------|-----------------------|--------------|----------------------------------|----------------------------|-------------------------------------|
| | | | Equity and Debentures | Units of MFs | Equity/ Debentures/ units of MFs | | |
| 1954-55 | Raj K. Nigam | 4.5 | | | | | |
| 1961 | L C Gupta | 6.25 | | | | | |
| 1975 | SCMRD | 12 | | | | | |
| 1980 | SCMRD | 24 | | | | | |
| 1985 | SCMRD | 60 | | | | | |
| 1990 | SCMRD/SEBI | 90 | 100 | | | | |
| 1992 | SCMRD | 125-135 | | | | | |
| Mid 1993 | SCMRD | 140-150 | | | | | |
| 1997-2000 | SCMRD | 200 | | | | | |
| 1998-99 | SEBI-NCAER | | 190 | 230 | | | |
| 2000-01 | SEBI-NCAER | | 195 | 190 | 322 | | |
| 31.03.2002 | Depositories | | | | | | 38 |
| 31.03.2003 | SEBI/Depositories | | | | | 160 | 40 |
| 31.03.2004 | SEBI/Depositories | | | | | 146 | 58 |
| 31.03.2005 | SEBI/Depositories | | | | | 139 | 74 |
| 31.03.2005 | Estimate by Authors | | 145 | 100 | 201 | | |

The number of beneficial accounts with depositories could be an overestimate of the number of investors in securities for the following reasons:

- The same person may have two accounts - one with NSDL and the other with CDSL.
- The same person may have two different accounts with the same depository in his name written in two different ways.
- The same person may have two different accounts with the same depository for the two separate sets of securities held for two different purposes.
- Two persons may have three accounts; one each in individual names and the third one is a joint account.
- A person may have accounts, but the account may have the custody of non-securities such as Kisan Vikas Patras, commercial papers, or shares of unlisted companies, etc.
- A person may have accounts but the account may have the custody of government securities, which are securities as per the definition in the SCRA, but not included in any surveys or estimates.

The number of beneficial accounts with depositories could be an underestimate of the number of investors in securities for the following reasons:

- Most of the securities listed on NSE and BSE are held in depositories. A very few securities listed on the other exchanges are held in depositories.
- Though 100% of trades on exchanges are now settled by demat delivery, 100% of securities of a company are not held in demat form. For example, in the case of ITC Ltd, as on 22nd April 2005 (source: ITC Web Site), 37.71% of shares are held in physical form. For the Sensex companies as a whole, as on 31st March 2005, on an average 40% of shares in face value terms are held in physical form.



(c) The most of the units of mutual funds, though held in demat form for all practical purposes, are generally outside the depositories.

The reasons for overestimation may have overestimated the number of investors by 5-10%, but the reasons for underestimation may have underestimated the number of investors substantially. It is because; the big and sophisticated investors having investments in many companies as well as the big, well performing and investor savvy companies have joined the depositories. The small companies with predominant promoter holding and the investors with small holdings of big / small companies have generally not joined the depositories. The companies listed on the small exchanges have generally not joined the depositories as there is no trading in such companies. The individual investors who have small investments and do not wish to trade frequently have not joined the depositories to avoid depository charges. As stated earlier, a large number of investors of the companies, which have joined depositories, have also not joined depositories. In case of ITC Ltd., for example, 47% of share holders have not joined the depositories. The investors who have invested in units of MFs only have also not joined the depositories. Thus, if we take into account the investors in physical securities of dematted companies, the securities of non-dematted companies and the units of MFs, the number of investors may be much higher than the number of beneficial accounts with the depositories. Table 3 makes an attempt to estimate the number of investors from the number of beneficial accounts with the depositories.

Table 3 : Estimation of Number of Investors in Units of MFs/Listed Equity/Debentures

| Sl. No. | Description | Unit | No./Size/Value | Assumption/Remarks |
|---------------------------------------|--|-----------|----------------|--|
| Adjustment for Overestimation | | | | |
| 1 | No. of beneficial accounts with Depositories | lakh | 73.5 | Obtained from the Depositories |
| 2 | No. of Investors in equity/debentures with the Depositories | lakh | 66.2 | Discount the number of beneficial accounts by 10% to remove the accounts having only CPs, KVPs, unlisted securities, government securities, units of MFs etc. and duplication of accounts. |
| Adjustment for Underestimation | | | | |
| 3 | Market Capitalisation of Companies with NSDL | Rs. Crore | 16,38,300 | Obtained from NSDL |
| 4 | Value of the Securities in the Custody of the Depositories | Rs. Crore | 11,91,419 | Obtained from the Depositories (10,70,460 + 1,20,959) |
| 5 | Average Holding of Shares of Investors with Depositories | Rs. | 17,99,726 | Sl. No. 4 divided by Sl. No.2 |
| 6 | Average Holding of Investors outside Depositories ² | Rs. | 8,99,863 | The average holding of an investor holding physical shares would be about half of that of an investor holding demat shares as explained in the foot note. |
| 7 | Market Capitalisation of NSE+BSE | Rs. Crore | 18,75,700 | Obtained from CMIE |
| 8 | All India Market Capitalisation | Rs. Crore | 19,00,000 | Add 1% to NSE + BSE Market Capitalisation. |
| 9 | Market Capitalisation of Physical Shares | Rs. Crore | 7,08,581 | Sl. No. 8 minus Sl. No. 4 |
| 10 | No. of Investors holding Physical Shares | lakh | 78.74 | Sl. No. 9 divided by Sl. No. 6 |
| 11 | Total number of Investors in Equities/ Debentures | lakh | 144.94 | Sl. No. 10 plus Sl. No. 2 |
| 12 | Total number of investors in equities/ debentures/units of MFs as on 31st March 2005 | lakh | 201.46 | 30% of investors in equities/debentures also invest in MFs, which have about 10 million investor accounts. Hence the number of investors is 70% of Sl. No. 11 plus 10 million. |

From the above, it appears that the number of investors in equity/debentures is about 14 million. The SEBI-NCAER survey indicates that about 30% of investors in equities/debentures have also invested in units of MFs. This means that out of 14 million, about 4 million investors have invested in equities/debentures/units of MFs. If this overlap is removed, given that 10 million investors have invested in units of MFs and 14 million in equity/debentures, the total number of investors in equity/debentures/units of MFs would be about 20 million.

2. Taking the example of ITC Ltd., it was found that the average holding of shares of ITC Ltd. of an investor holding physical shares is two-third of that of an investor holding demat shares. Besides, most of the investors having investments in a number of companies have demat accounts, while most of the investors having investments in only one company do not have demat accounts. This reduces the size of the average holding of an investor having physical shares by another one third. However, most of the small companies are closely held by promoters while most of the big companies are widely held. This could raise the size of holding of investors holding physical shares by 50%.



Table 4 : Percentage Distribution of Investors

| State | Investor Households as per SEBI-NCAER Survey 2001 | Investor Accounts with NSDL as at end January 2005 | Applications in (Book Building) Retail/Non- QIB Investors | Public Issues during 2004-05 All Investors |
|-------------------|---|--|--|--|
| 1 | 2 | 3 | 4 | 5 |
| Andaman & Nicobar | 0.00 | 0.01 | 0.00 | 0.00 |
| Andhra Pradesh | 8.98 | 6.49 | 4.94 | 4.94 |
| Arunachal Pradesh | 0.00 | 0.00 | 0.00 | 0.00 |
| Assam | 2.47 | 0.38 | 0.21 | 0.21 |
| Bihar | 8.75 | 1.24 | 1.51 | 1.51 |
| Chandigarh | 0.11 | 0.24 | 0.97 | 0.97 |
| Daman & Diu | 0.00 | 0.00 | 0.00 | 0.00 |
| Delhi | 1.41 | 9.52 | 9.79 | 9.78 |
| Goa | 0.16 | 0.37 | 0.11 | 0.11 |
| Gujarat | 5.33 | 17.15 | 26.52 | 26.51 |
| Haryana | 1.90 | 1.89 | 0.11 | 0.11 |
| Himachal Pradesh | 0.61 | 0.19 | 0.00 | 0.00 |
| Jammu & Kashmir | 0.00 | 0.38 | 0.00 | 0.00 |
| Karnataka | 5.48 | 7.24 | 4.46 | 4.46 |
| Kerala | 3.52 | 2.49 | 0.93 | 0.93 |
| Madhya Pradesh | 7.61 | 2.46 | 2.20 | 2.20 |
| Maharashtra | 10.10 | 24.24 | 30.07 | 30.10 |
| Manipur | 0.00 | 0.00 | 0.00 | 0.00 |
| Meghalaya | 0.23 | 0.00 | 0.00 | 0.00 |
| Mizoram | 0.00 | 0.00 | 0.00 | 0.00 |
| Nagaland | 0.00 | 0.01 | 0.00 | 0.00 |
| Orissa | 3.57 | 0.67 | 0.30 | 0.30 |
| Pondicherry | 0.11 | 0.09 | 0.02 | 0.02 |
| Punjab | 2.42 | 2.09 | 1.37 | 1.37 |
| Rajasthan | 4.84 | 2.37 | 4.00 | 3.99 |
| Tamil Nadu | 7.58 | 7.50 | 4.10 | 4.10 |
| Tripura | 0.00 | 0.03 | 0.00 | 0.00 |
| Uttar Pradesh | 16.26 | 6.98 | 3.73 | 3.73 |
| West Bengal | 8.57 | 5.98 | 4.65 | 4.65 |
| Total | 100.00 | 100.00 | 100.00 | 100.00 |

Source : NSDL, SEBI-NCAER Survey, 2001 and Prime Database

Now that we know how many investors are there in securities markets in India, it is useful to know where they are located. How many investors are there in Maharashtra or West Bengal? Again, the most authentic source of information about the distribution of investors is available from NSDL as presented in Table 4. The distribution of investor households as found out by the SEBI-NCAER Survey 2001 is also presented in the said table. The number of applications received from investors in response to public issues made through book building, as available in the Prime Database, provides an indication about geographical distribution of investors. The same is also presented in Table 4. The data in columns 2 and 4 of the Table present distribution of retail investors while the columns 3 and 5 present distribution of all investors, including institutional investors.

The number of investors and their distribution as presented above are estimates, which differ widely among themselves and at times contradictory to one another. SEBI could make use of the databases available with the depositories, share transfer agents, listed companies and mutual funds to make an exact estimation of the number of investors. In addition to the number of investors, many other aspects of investor population can be derived from these databases. These could include: the geographical distribution of investors, distribution of investors on the basis of size of the portfolio, distribution of investors on the basis of the number of securities / non-securities owned by them, the overlap of investors across financial products, distribution of investors on the basis of frequency of transactions, etc. All these could be done at a fraction of the cost involved in a large scale sample investor survey. In fact, the survey is redundant as comprehensive databases of the entire investor population are available with the market participants. □