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Stock Market Investor Grievance Redressal System-An Empirical Study

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Abstract:

The Securities and Exchange Board of India (SEBI) laid down several regulatory measures to protect the investors of capital market. Effective investor protection is not simply a function of 'law on the books', but it depends heavily on 'law in action' which depends on issues like innovative supervisory strategies, product design initiatives, capital market research, investors redress and investors education. This study is considered to be interesting for two reasons, firstly, it covers the recent trends in grievance redressal rate and secondly, it examines the fluctuations in pending grievance redressal rate. The present research is based on purely secondary data available at SEBI web sites and used analytical tools like simple percentage analysis and hypothesis testing. The paper pleads for implementation of effective investor grievance redressal mechanism.

Keywords: SEBI, Investor protection, Grievance redressal rate

1. Introduction

Day-by-day the Indian capital market synchronized with global market, as a result there is a chance of market volatility. At this time the investors may also experienced with some market irregularities like economic crisis and corporate scandals. At the same time the regulators implement various policy initiatives to rebuild a confidence among investors over market.

Indian securities market is regulated by various agencies, such as the Department of Economics Affairs (DEA), the Department of Company Affairs (DCA), the Reserve Bank of India (RBI) and the SEBI. Among them one of the important statutory body is SEBI and its main objective is to safeguard the interest of the investors. Also redressing investor grievances is one of the major tool that the SEBI used to provide a safer investment climate for investors in securities market. However the attempt is made with this study to know the effectiveness of grievance redressal mechanism at SEBI and in stock markets like BSE and NSE. This has been achieved through present research by analyzing trends in investor grievance redressal rate and pending grievance redressal rate.

1.1. SEBI

SEBI is the regulatory body for the securities market in India. It was established by The Government of India in the year 1988 and given statutory powers in 1992 with SEBI Act 1992 being passed by the Indian Parliament.

The basic functions of the SEBI are 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.

2. Investor Grievance Redressal Mechanism in Stock Market

Redressal of investor grievances is one of the key components of SEBI's efforts to protect the interests of investors in security market. The investor can complaint against a listed company or an intermediary registered with SEBI via several grievances redressal systems.

2.1. Stages in Investor Grievance Redressal

2.1.1. Approaching the Company/Intermediaries

Before lodging complaint, the investor should first approach the concerned company/intermediary against whom there is a complaint.

2.1.2. Lodging Grievances in Stock Market

Investors, who are not satisfied with the response to their grievances received from the company/intermediary, can lodge their grievances with the Stock Exchanges or Depositories. The grievance can be lodged at any of the offices of the BSE, NSE, CDSL or NSDL.

If the grievance is still not resolved, an investor can file arbitration under the Rules, Bye laws and Regulations of the respective Stock Exchange or Depository.

2.1.3. Lodging Grievances with SEBI

Investors who are not satisfied with the response to their grievances received from the Stock Exchanges or Depositories can lodge their grievances with SEBI.

2.2. Complaints Handled in SEBI

SEBI has a dedicated department named Office of Investor Assistance and Education (OIAE) to receive investor grievances. Grievances pertaining to other intermediaries are taken up with them directly for redressal and are continuously monitored by SEBI.

On the other hand grievances against listed company are taken up with the respective listed company and are continuously monitored. The company is required to respond in prescribed format in the form of Action Taken Report (ATR). Upon the receipt of ATR, the status of grievances is updated. Where the response of the company is insufficient, appropriate enforcement actions like adjudication, direction, prosecution etc. are initiated against such entity.

2.2.1. SCORES (SEBI Complaints Redress System)

SCORES is a web based centralized grievance redress system of SEBI. SCORES enables investors to lodge and follow up their complaints and track the status of redressal of such complaints through online. This enables the market intermediaries and listed companies to receive the complaints online from investors, redress such complaints and report redressal through online. All the activities starting from lodging of a complaint till its closure by SEBI would be online in an automated environment and the complainant can view the status of his complaint online.

An investor, who is not familiar with SCORES or does not have access to SCORES, can lodge complaints in physical form at any of the offices of SEBI. Such complaints would be scanned and also uploaded in SCORES for processing.

<ol style="list-style-type: none"> 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 8. Institutional Investors/ Portfolio manager, Custodians 	<ol style="list-style-type: none"> 9. Brokers/Securities lending Intermediaries/ Merchant Bankers/ Registrars and Transfer agents/ Debenture Trustees/ Bankers to Issue/ Credit Rating Agencies Trustees/ 10. Underwriters/ Depository Participants 11. Securities Exchanges/ Clearing and settlement organizations/ Depositories 12. Derivative Trading 13. Corporate Governance/ Corporate Restructuring/ substantial Acquisition and Takeovers/ Buyback/ delisting/ Compliance with Listing conditions.
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Table 1: Types of Complaints/Grievances Handled in SEBI

3. Statement of the Problem

Day-by-day the Indian capital market synchronized with global market, as a result there is a chance of market volatility. At this time the investors may also experienced with some market irregularities like economic crisis and corporate scandals. At the same time the regulators implement various policy initiatives to rebuild a confidence among investors about the capital market investment.

But the investor protection is not simply a function of 'law on the books'. Effective investor protection depends heavily on 'law in action' which in turn depends on issues like innovative supervisory strategies, product design initiatives, capital market research, and investor redress and investor education. Investor Grievance redressal mechanism is one of the important measures that the SEBI initiate to safeguard the interest of investors in capital market. However the attempts will be made with this study, to analyze the effectiveness of grievance redressal mechanism at SEBI.

4. Review of Literatures

Several research works are conducted in this area. These works are vary widely in terms of their objectives and scope. Among the available literature, the important ones having a bearing on the proposed theme of research are reviewed here.

- Pawan Kumar Taneja and Singh (2004): In this study titled, "Capital Market Reforms- A Case Study of Grievances and Awareness of Retail Investors in Stock Market", the authors wanted to know the retail investors perception towards stock exchanges education programs and grievances redressal system. Ultimately he opinions that almost all the respondents are aware of the education programs, and they could be protecting themselves from the fraudulent activities.

- Suchismita Bose (2005): In this article titled, "Securities Market Regulations- Lessons from US and Indian Experience", the author attempts to know the regulatory infrastructure of Indian securities market and see whether there exist well formulated laws with well-defined scope and powers of the regulators, capable of presenting all investors in the Indian market with a level playing field. This study also summarized that the some of the regulatory provisions that have evolved for tackling market misconducts and try to see what comes in the way of regulatory action aimed at investor protection in India, as compared with the US which is perceived as the world's most safe and liquid capital market.
- Parimala (2008): In this article titled, "Regulatory Frame Work Relating to Investor Protection with Specific Reference to Retail investors in Initial Public Offerings-A Critical Study", the author made a critical study on regulator frame work towards retail investor's protection in IPOs. This study also reveals the initiative of the SEBI for protecting investors through Disclosure and Investors Awareness. But the study purely based on conceptual study not including any statistical tools to analyze.
- Sabarinathan (2010): In this article titled, "SEBI's Regulation of the Indian Securities Market: A Critical Review of the Major Developments", the author identifies some of the major interventions of SEBI in important aspects of stock market. He also focused on SEBI's performance by discussing various annual reports of SEBI. The paper critically examines the economic consequences of Indian stock market. The author overviewed that the combination of registration, licensing, eligibility conditions, and incentives allows SEBI to rein in non-compliant behaviour that could potentially affect the functioning of the securities market adversely
- Venugopal, Sudarsan and Himachalam (2012): In this study titled, "Small Investors' Grievances and Redressal Mechanism in Indian Capital Market", the researchers explored the various problems faced by the small investors and the role of SEBI in redressing the various grievances received from small investors in related to primary and secondary market. In this article the authors only focused on the problems faced by the small investors in Indian capital market but they fails to throw a light on the solutions to overcome it.
- Shaik Abdul Majeed Pasha, Vamsi Krishna and Hemantha Gopi Kiran (2012): In their study titled, "A Study on Role of SEBI in Indian Capital Market: An Empirical Analysis", they throw a light on SEBIs' role in surveillance of capital market misconducts through its investor protection measures. They ultimately concluded that the matured capital market system requires monitoring rather than over-regulation.

5. Need and Importance

Investor Protection is very widely studied area. In that "The effectiveness of regulatory measures to protect investor", is need periodical analysis. More over most of the studies have focused on the nature and extent of problems faced by the investors. The effectiveness of complaint redressal system initiated by the SEBI is not studied to the desired extent as evidenced by the review of literature.

We need to examine the above trend in the backdrop of the global economic slowdown and its implications for capital market operations. In a situation bound with uncertainly there are always higher chances of manipulations in market and investors need to be careful and aware of regulatory actions towards protecting their rights.

Therefore, there is a clear need to carry out an empirical study which helps to examine the effectiveness of protection towards stock market investors. The extent study attempts to analyze the recent trends in investor complaint redressal mechanism and action taken towards pending grievances by SEBI.

6. Scope of the Study

This study was mainly planned to evaluate the performance of SEBI, relating to redressal of grievances and action taken towards the pending grievances. To analyze the trends in investor grievance redressal rate this study covers the period of 20 years starting from 1994-1995 to 2013-2014.

7. Objectives of the Study

- To analyze the trends in investors complaints received and redressal mechanism.
- To know the significance difference between grievance redressal rate of first 10 years compare to grievance redressal rate of last 10 years.
- To analyze the trends in pending investors grievances.
- To evaluate the fluctuations in pending grievance rate

8. Hypothesis

- H1: There is a significance difference between grievance redressal rate of first 10 years compare to grievance redressal rate of last 10 years.
- H2: The average pending action initiated grievance rate is more than 70%

9. Research Methodology

9.1. Study Design

The present study will be done through adopting descriptive research design. Under this we used Case study method to analyze present investor redressal mechanism at SEBI.

9.2. Study Settings

The extant research work will going to consider the study period from 1991-1992 to 2013-2014, to explore the different steps that the SEBI had taken to resolve investor grievances and to analyze the trends in grievance redressal rate.

9.3. Analytical Tools

The extant research used some statistical tools for analysis, like two sample t-test, one sample t-test and simple percentage analysis to achieve research objectives.

9.4. Data Collection and Analysis

The present study is based on secondary data and data is proposed to be collected primarily from historical annual reports available for the public in SEBI, MCA and some investors web sites. Other secondary sources include Books, Journals, and News papers.

Year	Grievances Received		Grievances Redressed		Cumulative Redressal	Year wise redressal rate (%)
	During the Year	Cumulative	During the Year	Cumulative	Rate (%)	
1991-92	18,794	18,794	4,061	4,061	21.61	21.61
1992-93	1,10,317	1,29,111	22,946	27,007	20.92	20.8
1993-94	5,84,662	7,13,773	3,39,517	3,66,524	51.35	58.07
1994-95	5,16,080	12,29,853	3,51,842	7,18,366	58.41	68.18
1995-96	3,76,478	16,06,331	3,15,652	7,18,366	64.38	83.84
1996-97	2,17,394	18,23,725	4,31,865	14,65,883	80.38	198.66
1997-98	5,11,507	23,35,232	6,76,555	21,42,438	91.74	132.27
1998-99	99,132	24,34,364	1,27,227	22,69,665	93.23	128.34
1999-2000	98,605	25,32,969	1,46,553	24,16,218	95.39	148.63
2000-01	96,913	26,29,882	85,583	25,01,801	95.13	88.31
2001-02	81,600	27,11,482	70,328	25,72,129	94.86	86.19
2002-03	37,434	27,48,916	38,972	26,11,101	94.99	104.11
2003-04	36,744	27,85,660	21,531	26,32,632	94.51	58.6
2004-05	54,435	28,40,095	53,361	26,85,993	94.57	98.03
2005-06	40,485	28,80,580	37,067	27,23,060	94.53	91.56
2006-07	26,473	29,07,053	17,899	27,40,959	94.29	67.61
2007-08	54,933	26,16,980	31,618	24,27,571	92.76	57.56
2008-09	57,580	26,74,560	75,989	25,03,560	93.61	131.97
2009-10	32,335	27,06,895	42,742	25,46,302	92.14	132.18
2010-11	56,670	27,63,565	66,552	26,12,854	94.55	117.44
2011-12	46,548	28,10,113	53,841	26,66,695	94.9	115.67
2012-13	42,411	28,52,524	54,852	27,21,547	95.41	129.33
2013-14	33,550	28,86,074	35,299	27,56,846	95.52	105.21

Table 2: Complaints Received and Redressed by SEBI

Source: SEBI Annual Reports

9.4.1. Deduction

The above table depicts that during the financial year 1991-92 SEBI received 18,794 complaints of which 4,061 were resolved marking a redress rate of 21.6%. The number of complaints registered a substantial increase in subsequent years and reached the peak level of 5,84,662 in 1993-94. Subsequently it gradually declined and in 2013-14, it received only 33,550 complaints. Considering, the fact that day by day investors gaining the confidence in the market. They realize the regulators efforts to protect them from market misconducts.

On the part of redressal, also a corresponding progress was noticed. The cumulative redressal rate improving from year to year which fetch up to record of 95.52% in 2013-14, compare to previous fiscal years. The implementation of a new web-based investor complaint redressal system i.e., SCORES, in June 2011 has helped in faster resolution of grievances is possible.

Statement of Null Hypothesis	p-value	Significance Level	Decision
There is no significance difference between grievance redressal rate of first 10 years compare to last 10 years	0.02	0.05	Reject Null Hypothesis

Table 3: The Two Tailed t-Test Analysis of Investor Grievance Redressal Rate for 20 Years

9.4.2. Deduction

The above table clearly depicts that under the t-test, the p-value is $0.02 < 0.05$ (α) at (95% confidence level). Hence we reject the null hypotheses. From the above analysis, it is clear that there is a significance difference between grievance redressal rates of first 10 years compare to grievance redressal rate of last 10 years. It also implies that several regulatory measures strongly effect on increasing grievance redressal rate.

Year	Cumulative Grievances Received	Cumulative Pending Grievances	% of Pending Grievances	Enforcement Actions Initiated Grievances	% of Action initiated Grievances	Actionable Grievances	% of Actionable Grievances
2007 - 08	26,16,980	1,89,409	7.2	1,33,354	70.4	56,055	29.6
2008 - 09	26,74,560	1,71,000	6.4	1,21,887	71.3	49,113	28.7
2009-10	27,06,895	1,60,593	5.9	1,22,713	76.4	37,880	23.6
2010-11	27,63,565	1,50,711	5.5	1,22,058	81.0	28,653	19.0
2011-12	28,10,113	1,43,418	5.1	1,19,693	83.5	23,725	16.5
2012-13	28,52,524	1,30,977	4.6	1,19,567	91.3	11,410	8.7
2013-14	28,86,074	1,29,228	4.5	1,20,081	92.9	9,147	7.1

Table 4: Status of Pending Cumulative Grievances

Source: SEBI Annual Reports

9.4.3. Deduction

The above table state that the pending grievance redressal rate declining year by year and stood at 4.5% in the year 2013-14 which is low when compare to previous fiscal years. This may be because of implementing of effective investor grievance redressal mechanism by SEBI.

Here in this table it is also clear that the % of action taken towards pending grievance is increasing as against to the % of actionable grievances. Hence the SEBI is also giving more importance towards pending grievance by taking necessary actions to resolve them as soon as possible.

Statement of Null Hypothesis	p-value	Significance Level	Decision
The average pending action initiated grievance rate is equal to 70%	0.006	0.05	Reject Null Hypothesis

Table 5: One Tailed Z-Test Analysis of Investor Pending Grievance Rate for 7 Years

9.4.4. Deduction

The above table clearly depicts that under the Z-test, the p-value is $0.006 < 0.05$ (α) at (95% confidence level). Hence we reject the null hypotheses. From the above analysis, it is clear that the average pending action initiated grievance rate is more than 70%.

10. Findings

- SEBI has separate components to handle investor grievance, which help it to make quick and effective redressal of grievances.
- The complaint received by SEBI Subsequently declined year by year, it may be because of investor gaining the confidence in the market and realizing the regulators efforts to protect them.
- The cumulative redressal rate improving from year by year which fetch up to record of 95.52% in 2013-14, compare to previous fiscal years. The implementation of a new web-based investor complaint redressal system i.e., SCORES, in June 2011 has helped in faster resolution of grievances is possible.
- In a couple of decades it can be noticed the faster resolution of investor complaints. Which means the investors grievance redressed rapidly for last 10 years when compare to first 10 years. It is possible because of strong regulatory measures.
- The necessary action taken towards pending grievances also increasing year by year it shows the SEBI not only resolved the grievances smoothly but also initiating the actions towards pending grievances
- The pending grievance redressal rate declining year by year

7. It is statistically proved in this paper that the average pending action initiated grievances rate is more than seventy percentage.

11. Suggestions

11.1. Even though the SEBI implemented effective regulatory measures in resolving investors complaints there is no consistency in resolving those grievances. So the SEBI needs to maintain consistent investor grievance redressal mechanism for achieving sound investor protection.

11.2. Towards the pending grievances SEBI need to take action against all pending grievances for smooth running of grievance redressal system in capital market.

12. Limitation of the Study

Because of the limited time span detailed analyze could not be carried for the research work. The information used is primarily from historical annual reports of SEBI and MCA available to the public.

1. The study covers the period of 1991-92 to 2013-14 for the purpose of exploring the regulators action against to resolve the investor grievances.
2. The information will be used is primarily from websites available to the public and the same doesn't indicate the current situation of regulatory action.
3. The findings and suggestions will be only recommendatory in nature and subject to market imperfections also.

13. Conclusion

The investor grievance redressal mechanism is one of the important measures that the SEBI has initiated in Indian Capital Market to achieve effective Investor Protection. The extant research examine the progress in grievance redressal rate and regression in pending actionable grievances. In a nutshell this paper pleads for implementation of effective investor grievance mechanism which contributes for consistent redressal system whose objective is to reach 100% grievance redressal rate.

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