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# Expanding financial inclusion: How retail participants can shape market growth

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**Article Content**:

**India's capital markets stand at the cusp of a significant transformation. With the increasing digital penetration of stockbrokers, access to capital markets in Tier 2 and 3 cities has expanded rapidly This growing footprint is increasing the penetration of equity markets across the country.**

Indian capital markets have grown significantly over the past two decades, with the market capitalisation of NSE surpassing $5 trillion in 2024. This growth, bolstered by regulatory initiatives like the introduction of REITs, InvITs, and T+1 settlement cycles, has improved operational efficiency unlocked innovation across financial products and businesses.

Despite the growth in recent years, a significant number of people in India still do not participate in capital markets, with the country's demat penetration at a mere 12%. This gap is largely due to a lack of financial literacy and limited or no understanding investment options.

For capital markets to truly enable India's growth, they must expand their retail participation and cultivate long-term investment behaviours.

## Capital Markets as a Key Source for Funding Growth

Capital markets offer an alternate avenue for companies to raise funds, facilitating long-term investments essential for sustainable growth. However, India's funding landscape is currently dominated by banks, primarily to provide loans for business expansion.

To build a diversified funding ecosystem, India must enhance retail participation alongside institutional investors. This strengthens capital- raising for businesses and stabilizes markets, as seen in developed economies where capital markets are the leading contributors to economic growth.

- In many developed economies like the United Kingdom, Australia, and the United States, the equity market capitalisation as a percentage of GDP has risen from 35% between 1991-1995 to 84% in 2006-2011.

- In the U.S., capital markets play an essential role in funding for non- financial corporations, accounting for 71.9% of equity and debt financing as of 2023.

However, retail participation in India remains relatively low, with demat penetration far behind countries like the US, where equity participation comes in at nearly 62%. A more balanced funding landscape, where both I banks and capital markets play vital roles, is essential for the country's economic future.

**Enhancing Retail Participation in Capital Markets**

India's retail and High Net Worth Individual (HNI) investors still prefer traditional assets like gold or fixed deposits rather than equities. In FY 20, physical gold holdings amounted to over Rs. 109 lakh crore, vastly exceeding retail participation in equities. With the withdrawal of the Sovereign Gold Bond scheme, this shift toward unproductive assets may intensify, limiting household savings from entering capital markets.

In order to increase retail participation, there is a need for a bouquet of financial products that cater to the diverse needs of retail participants. It varies based on their risk-taking appetite, investment preferences and long-term financial goals. A combination of equity, insurance, mutual funds, and other instruments can help individuals diversify their portfolios and make well-rounded financial decisions.

For India, addressing these gaps requires innovative solutions that cater to holistic financial planning. Businesses that can offer a comprehensive suite of services, thereby creating a one-stop shop for individuals will be the key thrust required to increase retail participation. Some of the contributors towards these initiatives could be:

- **Ease of access to capital**: While nearly 90% of Indians aged above 18 years had bank accounts in 2020-21, only 12% of those over 15 years of age had borrowed from a formal financial institution. This highlights a significant gap between financial access and actual usage, especially in credit penetration.

- **Access to diversified investment products**: As per the Association of Mutual Funds in India (AMFI) chairman, the mutual fund industry is on track to cross Rs 100 lakh crore over the next few years in Assets Under Management (AUM), from Rs 67 lakh crore in December 2024, reflecting increasing participation from retail investors.

- **Access to insurance:** At 3.7% in FY 2023-24, India's insurance penetration remains significantly lower than the global average of 7%, indicating a need for improvement to strengthen financial security and enhance social safety nets.
- **Access to investment tools**: Providing technology-enabled resources such as user-friendly investment apps, goal-based planning tools, and platforms offering simplified research and insights can empower retail participants with data-driven guidance for more informed decision- making.

A concerted effort is required towards combining financial education, digital outreach, and incentivization for first-time investors to encourage more retail participation in capital markets.

**Aligning India's Policy Framework for Retail Participation**

India's capital markets stand at the cusp of a significant transformation. With the increasing digital penetration of stockbrokers, access to capital markets in Tier 2 and 3 cities has expanded rapidly. This growing footprint is increasing the penetration of equity markets across the country.

However, for the country to leverage this growth and ensure more retail investors actively participate in the equity market, stockbrokers need to play a larger role, such as that of financial advisors. They must begin to address all pillars of financial inclusion-holistic portfolio management and financial planning support-so that individuals view equities not in isolation, but as part of a broader, well-balanced financial strategy.

Policymakers, regulators, industry leaders, researchers, academia, and financial institutions must contribute and collaborate to build a resilient financial ecosystem that supports both investors and businesses. One such forward-looking amendment is related to the Securities Contracts (Regulation) Rules (SCRR), 1957. The SCRR has played a crucial role in ensuring investor protection and upholding market integrity.

However, since these regulations were drafted in the pre-digital era, certain amendments are due, which will allow stockbrokers to emerge as one-stop financial service providers for retail investors. Any concerns about investor protection can further be addressed by introducing additional safeguards related to net worth, separation of funds, etc., to ensure the liquidity of different businesses.

If stockbrokers are prohibited from conducting business other than securities, it limits them from expanding their role and offering diversified financial products and services under one roof. While stockbrokers can currently provide investment advice and distribute non-securities products, permitting them to manufacture these products would allow them to create and customize financial products as per customer needs.

Therefore, Policy reforms must provide stockbrokers with the tools to bridge the gap between retail participants and capital markets, thereby strengthening long-term involvement of retail investors in capital markets.

Over the past decade, the ownership of equities with India's retail investors has increased significantly, accounting for nearly 23.4%. However, Indian households are still underinvested in equities, as per Morgan Stanley.

Mobilising even a fraction of India's household savings, which currently stand at around Rs 14.16 lakh crore annually, into capital markets can drive unparalleled economic growth. By empowering retail investors and ensuring their seamless integration into capital markets, India can pave the road to becoming a $10 trillion economy by 2032.