The disappearing investor

The latest count of active investors shows that earlier estimates were inflated. And multiple customer ID requirements are only harassuing genuine investors

In 2003, there were 4 million demat accounts. This rose to 10 million, but is back to square one after the PAN clean-up

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All this while we were being fed accounts of the growing fraternity of investors, as represented by the increase in the number of demat accounts. But following the requirement of PAN becoming a must from January 1 to operate in the capital market, it turns out that increase was an illusion.

Missing in action

Of the 9.9 million demat accounts with the two depositories, NSDL and CDSL, on 31 December 2006, 4.3 million have been frozen because their owners didn't submit their PAN. That leaves only 5.6 million accounts. That number will fall because, as some existing investors will still have more than one demat account and some will even be joint account holders. Conversely, that number may rise marginally because some investors might not have submitted a PAN because of inertia, ignorance or indifference. Excuses is all they can make, as the PAN requirement was publicised in the media, letters were sent to every account holder, the deadline was even extended by three months.

This exercise has reveals some interesting insights. Of the 7.7 million demat account holders with NSDL, 3.7 haven't submitted their PAN. Of these, 1.9 million accounts are empty. Probably, many of them sold their shares before 31 December to escape detection. It might be worthwhile for SEBI to investigate who all liquidated their entire holdings in, say, December.

The remaining 1.8 million non-compliers hold shares in their account. Who are these people? Some may have died. Some may have left India. Some may be having shares that are not traded any more. Some may have a miniscule shareholding and, therefore, not worth the effort. Some may be joint accounts, where one holder has provided the PAN verification, but the second hasn't. These are harmless. But could there also be people who are willing to give up their holdings for fear of a possible audit trail? It's again worth checking.

There's a bigger concern. On 15 January 2003, exactly four years ago, there were 4 million demat accounts. During this period, the number grew to almost 10 million, but now we are almost back to square one. It pains me to see that in a country of 1 billion people, only 5.6 million -- or 0.5 per cent -- are investors, even at a time when household savings are rising and we are in the midst of a bull run that is into its fourth year. In 1991-92, nearly 25 per cent of household savings were invested in the capital market. But in 2003-04, this had fallen to 1.4 per cent, though it climbed to 4 per cent in 2005-06. There is a serious need to introspect why Indian households have rejected the capital market so vehemently.

One number, please

Some of this desertion can be attributed to the fragmented approach to regulation, as typified by the Mutual Fund Identification Number (MIN) being made mandatory from January 1 for fresh investments of above Rs 50,000 in all schemes. So far, KYC (know your client) norms were less stringent for mutual fund investors on the grounds that they were passive investors. In reality, mutual funds in India are not small investor-centric; companies and HNIs are dominant players, many of them even influence investment decisions of the funds. Moreover, mutual funds are now emerging as a major force in the equity market.

The move is good, but the implementation is bad. Once again, the approach is piecemeal. Instead of building on existing data resources, a new identity system has been designed. It seems our law-makers hate convergence of identity. In the capital market, there already exist three IDs: DP client ID, unique client code (UCC) and unique identification numbers (UIN) under MAPIN. Poorly conceived and executed, these have become ineffective. More recently, PAN has been made the new ID. And now, we have MIN. Once more, investors have to do the rounds, submit their photographs, get their original PAN card and other documents verified. It's strange, since all these markets are governed by one requlator, Sebi

Instead of introducing another investor identification number, an effort should have been made to create a unique ID covering all capital market segments. A unified system can be easily implemented, based on the reality that every investor has an electronic account, data from which can be used. Couldn't millions of investors who recently reconfirmed their identities and PAN with their DPs have been spared the MIN process, as also the people who have already obtained UIN? For others, the existing databases could have been combined and, using the Dedupe software, unique numbers assigned.

I'm even more appalled by the selective nature of MIN -- only who make a fresh investment of above Rs 50,000. That will exclude the current unitholder population, which holds assets worth Rs 3,50,000 crore. It also excludes investors who, by design or necessity, will make applications of below Rs 50,000. Such exemptions make the entire system ineffective. I feel all mutual fund investors should have been covered under MIN and a six-month window given for compliance, as for demat accounts.

Even in mutual funds, we are being misled that the investor population is burgeoning. The statistics cited is number of folios, which has swelled to about 25 million. But there will be huge degrees of overlap, as one investor will be invested in many schemes, often in a combination of names. MIN could have unravelled that overlap, but it can’t with the exemptions.

It is imperative we work towards a single capital market ID. It helps all. Regulators can check money laundering and be more effective in surveillance. Policymakers can get an accurate count of number of investors and profiles, which will help them frame effective policies and processes. Investors can invest through a single ID. And industry can design better products and services. Integrate, don’t segregate.