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Impact of Digitalization on Investments in India

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ABSTRACT

Digitalization has been one of the key forces that has been driving transformation in the Indian economy over the past several years. This transformation has been brought about by a number of different factors. The widespread adoption of digital technologies is directly responsible for the changes that have taken place in the financial sector in recent years. As a result of the rise of digitalization in the country, the practise of investing money in India has progressed. There has never been a higher number of people in India investing their own money in the stock market than there is right now, which is a record high. Retail investors in tier 2, tier 3, and rural areas now have the accessibility to not only learn about various investment opportunities, but also to invest in those opportunities within minutes thanks to the availability of the internet and digital infrastructure. This study will examine the implications of digitalization on the Indian stock exchange as well as its' impact on retail investors.

Key words**:** digitalization, mutual funds, retail investors, financial securities, demat

INTRODUCTION

The digitalization of a large portion of the Indian economy during the past few years has been one of the most important factors contributing to the country's dramatic economic shifts, which have been brought about by these years. The financial industry has not been immune to the profound effects that digitalization has had on the way organisations function; in fact, it has been one of the primary beneficiaries. The adoption of digital technology within the realm of finance has resulted in a plethora of positive outcomes, the most notable of which are improvements in terms of convenience, productivity, and access to various financial services. Traders, brokers, and other types of middlemen who handled transactions on paper used to hold a dominant position in the Indian financial services sector. In today's world, the commotion of a trading floor has been replaced by the hushed operation of computers that carry out trades. As a result, we no longer have to run to the bank for even the most insignificant of purchases; instead, we can complete the transaction with only a few touches on our mobile devices. Because of the increasing use of digital technology in the Indian financial sector, all of this has been made possible.

The proliferation of mobile internet, the development of e-commerce, and the growing acceptance of digital payment methods have all contributed to the digitisation of the Indian economy, which has been driven by a combination of these three causes. The Internet and Mobile Association of India (IAMAI) published a report predicting that the number of internet users in India will increase to 900 million by 2025, up from 622 million in 2020 [1]. This is an increase from the current number of users, which stands at 622 million. Because of this expanding digital footprint, the way in which investors acquire information, carry out trades, and manage their portfolios is undergoing significant change.

The use of digital technology in India has had a tremendous effect on the country's investment and financial markets. The number of retail investors in India is predicted to expand to 150 million by 2025, up from 20 million in 2015, according to a report that was conducted by PwC India and the industry group Assocham [4]. The research also came to the conclusion that digitalization is likely to result in a movement towards direct investments. This is because investors will be able to acquire information and carry out trades without the assistance of intermediaries.

However, the effects of digitalization are not confined to individual investors in the retail market. The convergence of digital and network technologies has propelled the digital economy to the forefront of economic and social activities, hence opening up new doors of opportunity for institutional investors [3]. These institutional investors include venture capital firms and private equity funds. These investors are increasingly turning to digital platforms in order to find attractive startups and other high-growth firms to invest in, as well as to make investments in those companies.

The digitalization of India's investments and financial markets brings with it a number of benefits, but it also brings with it a number of obstacles. One of the most significant obstacles is the requirement to protect the privacy and security of users' data, which is essential for preserving the faith and confidence of investors in digital platforms. Another obstacle is the necessity of preventing digitalization from leading to the marginalisation of some subsets of the population, particularly those who do not have access to digital technologies. This is a particularly pressing issue in countries where internet access is limited.

In light of these developments, it is important to examine the impact that digitization has had on Indian investments and financial markets, its implications for investors and other stakeholders, and the policy responses that are required to ensure that digitization is harnessed for sustainable and inclusive economic growth. Specifically, it is important to examine the impact of digitization on Indian investments and financial markets.

Methodology

The study employed both quantitative and qualitative research approach, using secondary data. Secondary data was collected from academic journals, reports by government agencies and financial institutions, articles and online sources.

IMPACT ON RETAIL INVESTORS

The advent of digital technology has fundamentally altered the ways in which we go shopping, bank, and invest. The expansion of digitization in India's financial sector has made it simpler for individual investors to engage in the country's stock market. Investors are now able to trade and invest in stocks without having to leave the convenience of their own homes thanks to the proliferation of online trading platforms. This has resulted in a large rise in the number of individuals investing their own money in the stock market in India.

The Indian retail investor has matured over the past five years. The financial markets and investment services sector has also experienced tremendous growth. In the last five years, the number of active demat accounts in the nation has increased by more than three times, reaching 11 crores in January 2023. Throughout the same time period, retail investors' overall holdings of assets and securities more than doubled, reaching an estimated value of Rs. 100 lakh crores in 2022.

The primary benefits offered by digitalisation were:

Accessibility

Digitalization has increased the level of accessibility that individual investors have to participate in the stock market. Investors now have the ability to trade and invest in stocks from any location at any time thanks to the proliferation of online trading platforms. This has resulted in a large rise in the number of individuals investing their own money in the stock market in India. According to the National Stock Exchange (NSE), retail investors accounted for 45 percent of the turnover of the NSE in fiscal year 2020-21. This represents a significant increase from the previous year, when they only made-up 30 percent of the turnover. It has been stated that this proportion is the highest it has been in a decade.

Lower cost

Digitalization has also resulted in a considerable drop in the fees and expenses normally associated with financial investments. When compared to traditional brokerage firms, the fees associated with buying and selling stocks on internet trading platforms are far lower. Because of this, participation in the stock market can now be achieved at a lower financial outlay by regular investors.

Greater Transparency

The advent of digitalization has also led to an increase in the stock market's level of transparency. Investors now have access to real-time market data and are able to keep a closer eye on their holdings thanks to the proliferation of internet trading platforms. Because of this, it is now much simpler for individual investors to make educated choices about their investments.

IMPACT ON SECURITIES

Digitization has become prevalent. In particular with regard to the realm of financial services, One area of the financial services industry in India that has capitalised the most on the digital transformation is the mutual fund industry. While digital investment platforms have grown in popularity, Indian investors now have easier access to mutual funds. Investor participation from tier-2 and tier-3 cities has greatly expanded in recent years.

Since May 2014, the industry has seen consistent inflows of capital, a growth in total assets under management (AUM), as well as an increase in the number of investor folios (accounts).

- The AUM of the industry reached its first milestone of 10 Trillion (10 Lakh Crore) on May 31, 2014, and in a relatively short period of time of roughly three years, the AUM size climbed more than two folds and reached its first milestone of 20 Trillion (20 Lakh Crore) in August 2017. In November of 2020, the size of the AUM was measured and it had officially surpassed 30 trillion (30 Lakh Crore).
- As of the 28th of February 2013, the overall size of the Indian Mutual Fund Industry was 8.14 trillion rupees; by the 28th of February 2023, that number had increased to 39.46 trillion rupees, representing an increase of around 5 fold in the space of 10 years.
- AUM in the mutual fund industry approximately increased by a factor of two over the course of the previous five years, going from 22.20 trillion as of February 28, 2018 to 39.46 trillion as of February 28, 2023.
- The number of investor folios has increased by more than 2 fold in the space of five years, going from 6.99 crore folios as of the 28th of February, 2018, to 14.42 crore as of the 28th of February, 2023.

- Since February 2018, a monthly average of 12.39 million new folios have been added over the course of the previous five years.
- The number of SIP accounts surpassed the one million threshold in April of 2016, and the total number of SIP accounts reached 6.28 crore as of February 28th, 2023.

Here are several ways in which digital platforms enable investors to make mutual fund investments:

Easy access to excellent investing insights:

Most investors struggle to begin their investment journey because they have limited access to information on mutual funds. The investors' mobile phones now have access to crucial information thanks to digital investing platforms. Investors from smaller locations can now access the same information and tools as those from larger cities.

Support in choosing the correct fund:

With so many options available, choosing the right fund can be fairly difficult for individual investors. Investors can now benefit from digital investment platforms in this decision-making process. For instance, to aid investors in choosing the best investment, we have developed a number of features including assisted investing widgets and curated lists of suggested funds with consistent performance across several mutual fund categories. Even a novice mutual fund investor can make an informed choice with the help of these features.

Digitalized Investment Process:

One of the main obstacles to entry for private investors has been the need for physical documents for various investment activities such as KYC, purchase, nomination, etc. The entire investment process, from investor KYC through investing, has been rendered paperless thanks to digital investment platforms. Investors may quickly open their accounts and make transactions from their phones using this streamlined investment process.

Easy SIP Setup:

SIPs have long been considered the ideal approach for individual investors to accumulate money over the long term and have recently emerged as the favoured investment option for these investors. More than 4 million SIP accounts in India today contribute more than Rs 9,000 crores per month. SIPs are now absolutely hassle-free to set up thanks to digital investment platforms.

Monitoring a consolidated investment portfolio:

One of the difficulties of investing offline was not being able to track all of your mutual fund purchases at once. Investors can track their investments in real time and obtain a consolidated view of them across many mutual fund firms thanks to digital investment platforms.

Full Control of Investments:

Investors can access their money through digital platforms at any time, providing them total control. As a result, investors can easily and at their convenience execute their investment selections. This can be especially helpful for investors looking to take advantage of investment or portfolio rebalancing opportunities in a volatile market environment.

In conclusion, digital investment platforms have made the entire investing process for users incredibly simple and seamless, from research to consideration to tracking. Resulting into the significant growth of mutual funds industry.

INTRODUCTION OF NEW AGE FINANCIAL ASSETS

The Indian financial landscape has undergone a significant transformation as a result of the emergence of new-age digital assets. In India, the use of digital assets such as cryptocurrencies, digital tokens, and assets based on blockchain technology is becoming increasingly common as an increasing number of investors look for alternative investment options that provide higher returns and greater levels of security.

The word "digital assets" refers to an all-encompassing container that includes everything that is mined and traded on a blockchain.

There are five primary classifications that can be applied to digital assets. These include digital currencies, NFTs (Non-Fungible Tokens), stablecoins, CBDCs (Central Bank Digital Currencies), and Security Tokens.

- Digital currencies are mediums of exchange that are used for making payments, investing, or trading. They are comparable to fiat money in the way they're used for these activities.
- Non-Fungible Tokens, or NFTs for short, are digital representations of assets on a blockchain that each have their own worth and identity.
- Stablecoins are digital assets that have been purposefully created to maintain a constant value. They can be backed by traditional currencies, commodities, or even other forms of cryptocurrency.
- Central Bank Digital Currencies, also known as CBDCs, are digital assets or currencies that are backed by the central bank of a country and that can be used for foreign exchange, payments, and other purposes.

- Tokenized copies of real-world assets, like as stocks, bonds, real estate, and other types of assets, are what we refer to as security tokens. Because digital wealth can be invested in and traded in a variety of ways and because it has a surplus liquidity pool in the markets, it has a lower risk of being extremely volatile and is therefore a secure choice to take into consideration.

Over 15 million people in India held cryptocurrency assets worth approximately $6.6 billion as of May 2021, according to a report published by Chainalysis, a company that specialises in the analysis of blockchain data. This places India in second place globally in terms of adoption of cryptocurrencies. According to the findings of the report, Indian investors are increasingly looking to digital assets as a hedge against inflation and economic uncertainty.

But the rise of digital assets has also raised questions about how they should be regulated and kept safe. The Reserve Bank of India (RBI) is worried that cryptocurrencies could be used for illegal things like money laundering and funding terrorism. It has warned investors several times about the risks of investing in digital assets. The Indian government is thinking about a bill that would ban all private cryptocurrencies and set up a framework for a digital currency issued by the central bank.

CONCLUSION

In conclusion, digitalization has completely transformed the investment landscape in India, bringing with it a plethora of benefits for investors such as improved efficiency, increased access to information, and increased transparency. The proliferation of digital platforms has made it simpler for individuals as well as institutions to invest in a variety of financial products. Some examples of these products include mutual funds, stocks, and bonds. In addition, the rise of digital technology has paved the way for the development of novel investment products and services, such as robo-advisory platforms, which provide retail investors with individualised recommendations regarding their investment portfolios.

Additionally, the digitalization of investments has had a positive impact on financial inclusion in India. This is because it has made it possible for a greater number of people to gain access to the financial system and invest their savings in a manner that is both more diverse and efficient.

Conversely, the digitalization of investments is not without the possibility of causing harm in some circumstances. The increased use of digital platforms for investment activities raises concerns regarding data privacy and data security. This is because the personal and financial information of investors may be susceptible to cyber-attacks and data breaches, depending on the nature of the digital platform. In addition, putting one's faith in digital platforms as a source of investment guidance runs the risk of leading one to place an excessive amount of trust in computational models, which may in turn lead to the making of suboptimal choices regarding financial investments.

It is important for regulators and industry players to work together to establish robust cybersecurity and data privacy frameworks, and it is also important to ensure that investors are adequately informed about the limitations and risks of digital investment platforms. This will help to mitigate the potential harms that could be caused by these potential harms. It is essential to proceed with caution and make certain that the risks associated with this trend are effectively managed, despite the fact that the digitalization of investment practises in India has, on the whole, resulted in a significant increase in benefits.

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