



## Factors Influencing Indians' Limited Engagement in the Share Market: A Study

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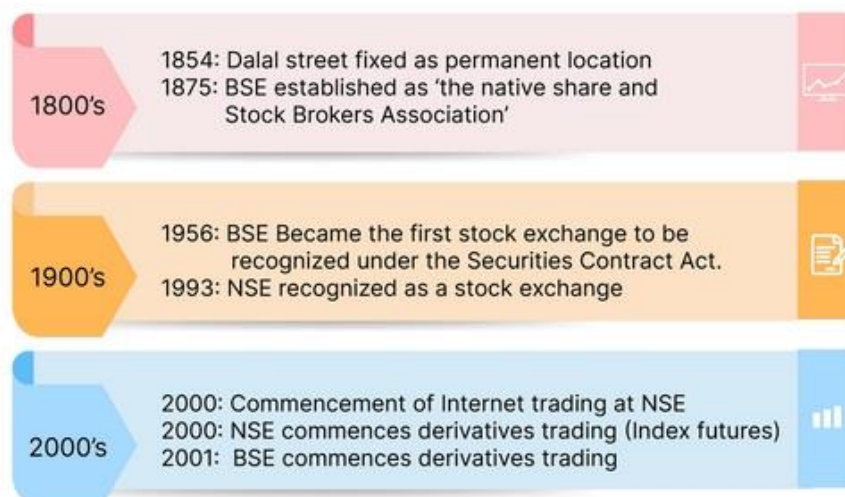
### ABSTRACT:

This research study aims to explore the factors that contribute to Indians' limited engagement in the share market. Despite being one of the fastest-growing economies globally, India continues to witness low participation levels in the stock market compared to other developed nations. Understanding the underlying reasons for this phenomenon is crucial for policymakers, financial institutions, and educators to devise strategies that can promote greater interest and participation in the share market among Indians. Through an extensive review of existing literature and analysis of relevant data, this study identifies and examines multiple factors influencing Indians' limited engagement in the share market. These factors include financial literacy and awareness, cultural and psychological influences, economic conditions, technology, and access to information. The implications of this research can inform policymakers and financial institutions in designing targeted initiatives to enhance financial literacy, promote a positive investment culture, and improve accessibility to the share market.

**Key words:** Cultural influences, Economic factors, Financial literacy, Investment, Share market, Technology.

### INTRODUCTION

The share market plays a pivotal role in the global economy, serving as a platform for capital allocation, wealth creation, and economic growth. However, despite India's status as one of the fastest-growing economies globally, the level of participation in the share market among Indians remains relatively low compared to developed nations. This limited engagement raises important questions about the factors influencing Indians' investment behavior and the barriers hindering their interest in the share market. The below figure gives the foot print of Indian share market.



Understanding the reasons behind Indians' limited engagement in the share market is crucial for policymakers, financial institutions, and educators to develop effective strategies to promote greater participation. Encouraging more Indians to invest in the share market can unlock numerous benefits, including improved capital market development, increased savings, and greater individual wealth accumulation.

By examining and analyzing relevant literature and qualitative insights, this study seeks to provide a comprehensive understanding of the underlying dynamics influencing Indians' investment choices.

One significant factor influencing Indians' limited engagement in the share market is financial literacy. Financial literacy refers to the knowledge and understanding of financial concepts and products necessary for making informed investment decisions. Limited financial literacy among Indians acts as a barrier, as many individuals lack the necessary skills and knowledge to navigate the complexities of the share market. This research study will explore the extent of financial literacy in India and its impact on investment behavior. The below figure through the light on why share market fluctuates.



[www.investopedia.com](http://www.investopedia.com)

Cultural influences also play a significant role in shaping Indians' investment preferences. Indian culture traditionally emphasizes savings and investment in tangible assets such as gold and real estate, which are perceived as more stable and secure compared to the volatile nature of the share market. Cultural norms and beliefs, risk perception, and the influence of family and social networks all contribute to Indians' investment choices. This research study will delve into the cultural factors that influence investment behavior and their implications for the share market.

Economic factors, including income levels, market volatility, and regulatory complexities, also contribute to Indians' limited engagement in the share market. Limited disposable income acts as a significant constraint for many individuals, making it challenging to allocate funds for investments. Moreover, the perception of the share market as a high-risk avenue and concerns about market volatility further deter potential investors. This study will explore the economic factors that influence investment behavior and their impact on Indians' participation in the share market. Some interesting fact about Indian share market is as follows,

**BSE**

**Bombay Stock Exchange (BSE) is the biggest stock exchange in the world in terms of the number of listed companies on an exchange.**

**BSE is also the oldest stock exchange in Asia. It was established in 1875.**

**Less than 2.5% population of India invest in the market.**

**When master blaster used to play International Cricket, his dismissal adversely affected the Indian Stock Market.**

**The costliest share in the Indian share market is MRF.**

**The terms "Bear" and "Bull" are thought to be originated from the way of attacking by each animal.**

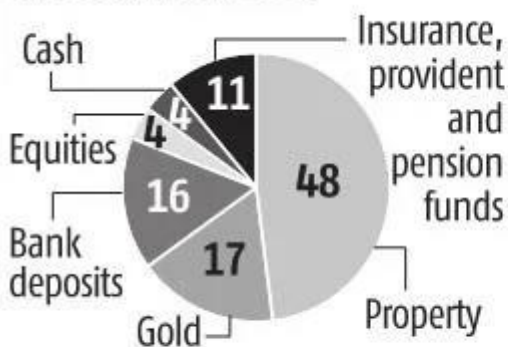
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Technological accessibility and the availability of user-friendly investment platforms also play a crucial role in shaping Indians' engagement in the share market. With the rise of technology and online trading platforms, individuals now have greater access to investment opportunities. However, barriers such as limited internet penetration, lack of awareness about digital platforms, and technological literacy hinder wider participation.

## NEW INVESTORS WELCOME

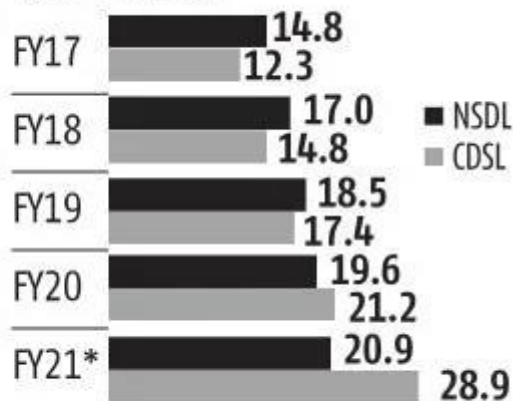
Stocks formed small part of Indian household wealth, but a record number of demat accounts were opened last year

### Indian household assets as of December 2020



Sources: Reserve Bank of India, Jefferies estimates, Central Depository Services Ltd, National Securities Depository Ltd

### Investors demat accounts (in million)



\*Dec 2020; Compiled by BS Research Bureau  
Source: CDSL result presentation

The above figure clears that **only 4%** Indian are invest in Equities that is in share market.

By exploring these factors and their implications, this research study aims to contribute to the existing body of knowledge on Indians' limited engagement in the share market. Ultimately, the study seeks to foster a more vibrant and inclusive share market ecosystem in India.

## FAST FACTS ABOUT INDIAN SHARE MARKET



1. The Indian share market is one of the largest in the world

in terms of market capitalization.

2. The primary stock exchanges in India are the National Stock Exchange (NSE) and the Bombay Stock Exchange (BSE).
3. The benchmark index of the Indian share market is the BSE Sensex, which represents the performance of the top 30 stocks on the BSE.
4. The share market in India operates on a T+2 settlement cycle, where trades are settled two business days after the transaction.
5. The Securities and Exchange Board of India (SEBI) is the regulatory authority overseeing the Indian share market.
6. The Indian share market provides various investment options, including equity shares, mutual funds, derivatives, and initial public offerings (IPOs).
7. The share market in India has witnessed significant volatility and fluctuations due to both domestic and global factors.
8. Online trading platforms and mobile applications have made share market investing more accessible to individual retail investors.
9. The Indian share market has witnessed increasing retail investor participation, driven by factors such as growing financial literacy and easier access to information.
10. The total market capitalization of the Indian share market was around \$3.1 (Source: World Federation of Exchanges).
11. The National Stock Exchange (NSE) is the largest stock exchange in India, with over 2,300 companies listed on its platform (Source: NSE).
12. The Bombay Stock Exchange (BSE) has a market capitalization of over \$2.3 trillion and is one of the oldest stock exchanges in Asia (Source: BSE).
13. The BSE Sensex, the benchmark index of the Indian share market, reached a record high of over 65,515.29 points in 4 July 2023 (Source: BSE).
14. Foreign institutional investors (FIIs) made a net investment of around \$37 billion in the Indian share market in 2020-2021 (Source: SEBI).
15. Retail investors in India contributed significantly to the share market, with around 10 million Demat accounts opened in the fiscal year 2020-2021 (Source: SEBI).
16. The equity segment accounts for the majority of trading activity in the Indian share market, with an average daily turnover of over \$15 billion (Source: NSE).
17. Initial Public Offerings (IPOs) raised approximately \$4.6 billion in the fiscal year 2020-2021, despite the challenging economic conditions (Source: SEBI).
18. The share market in India witnessed a surge in online trading activity, with over 18 million active trading accounts in 2020 (Source: NSE).
19. The share market in India has seen increased participation from retail investors, with retail trading contributing around 50% of the total turnover in recent years (Source: NSE).

## REVIEW OF LITERATURE

The Indian share market has witnessed significant growth in recent years; however, the level of participation among the Indian population remains limited. This literature review aims to explore the factors that influence Indians' limited engagement in the share market. The review will examine relevant studies and research conducted on this topic, providing insights into the socioeconomic, cultural, and psychological factors that shape Indians' decision to invest in shares. Numerous studies have highlighted the impact of socioeconomic factors on share market participation. Higher income levels, education, and occupation have been identified as positive determinants of engagement in the share market (Dholakia et al., 2017; Gupta & Jain, 2014).

Limited financial resources, lack of investment knowledge, and job instability have been associated with lower participation rates (Arora & Ghosh, 2019; Rastogi & Manchanda, 2017).

Cultural factors play a significant role in shaping Indians' attitude towards investing in the share market. Cultural norms, such as a preference for traditional assets like gold and real estate, can discourage individuals from participating in the share market (Sharma & Raut, 2016). Additionally, risk-averse cultural attitudes, strong emphasis on savings, and beliefs about luck and fate have been found to contribute to limited engagement (Mishra & Gubbi, 2017; Shah et al., 2019).

Studies highlight the importance of financial literacy in promoting share market engagement. Limited financial knowledge and awareness about investment products and strategies have been identified as barriers to participation (Khan & Ahmed, 2018; Singh & Kumar, 2018). Lack of understanding of basic financial concepts and investment risks has been associated with Indians' reluctance to invest in shares (Malik et al., 2019).

Trust in the fairness, transparency, and integrity of the share market significantly influences participation. Studies indicate that Indians' lack of trust in the market, including concerns about insider trading, market manipulation, and scams, hinders their willingness to invest (Sharma & Kumari, 2020; Verma et al., 2021). Building trust through effective regulatory mechanisms and investor protection measures can potentially encourage greater engagement (Gupta et al., 2019).

Indians' perception of risks associated with the share market and their risk aversion have a substantial impact on participation. Research suggests that Indians perceive the share market as highly volatile and uncertain, leading to a fear of potential losses (Jain & Majumdar, 2016; Mohanty et al., 2018). Risk-averse behavior and a preference for safer investment options limit their involvement in the share market (Chakraborty et al., 2020).

Complex regulations, lengthy procedures, and legal frameworks act as barriers to share market participation. Cumbersome processes for opening trading accounts, high transaction costs, and lack of investor-friendly regulations have been identified as deterrents (Pandey & Khan, 2018; Rana & Jain, 2016). Streamlining regulatory processes and reducing administrative burdens can facilitate greater engagement.

This literature review highlights the multidimensional factors influencing Indians' limited engagement in the share market. Socioeconomic factors, cultural influences, financial literacy, trust in the market, risk perception and aversion, and regulatory barriers all play significant roles.

#### OBJECTIVES OF THE STUDY

1. Identify cultural and societal factors impacting Indians' limited engagement in the share market.
2. Examine the role of financial literacy and awareness in influencing Indians' participation in the share market.
3. Explore how Indians' perception of risks and their tendency to avoid risks affect their hesitation to participate in the share market.

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#### LIMITATIONS OF THE STUDY

1. **Cultural and regional diversity:** India is a culturally diverse country with significant regional variations. The research study may not have adequately captured the nuances and differences in share market engagement across different cultural and regional contexts.
2. **Limited scope of factors examined:** The study may have focused on specific factors influencing Indians' limited engagement in the share market, potentially overlooking other relevant variables such as income levels, access to financial resources, or psychological factors.

#### 1. IDENTIFY CULTURAL AND SOCIETAL FACTORS IMPACTING INDIANS' LIMITED ENGAGEMENT IN THE SHARE MARKET

1. **Risk Perception:** Indians tend to have a conservative approach towards investments due to factors like financial security, stability, and risk aversion. Many prefer safer options such as fixed deposits, real estate, or gold, as they are considered more secure and culturally accepted.
2. **Lack of Financial Literacy:** Limited knowledge about the functioning of the stock market and investment instruments is another factor. Lack of awareness and understanding of financial concepts and investment strategies prevents many Indians from actively participating in the share market.
3. **Trust and Confidence:** Indians may have a lack of trust in the transparency and fairness of the stock market. Past incidents of scams, fraudulent practices, and market volatility have eroded public confidence, leading to skepticism and reluctance to invest.
4. **Family and Social Pressures:** Indian society often emphasizes stability and security over potential financial gains. Family and societal expectations prioritize traditional avenues of wealth accumulation, such as education, job security, and property. These pressures can deter individuals from exploring riskier investment options like the share market.
5. **Cultural Mindset:** Indians tend to have a long-term saving and investment mindset rather than a short-term trading mentality. The idea of investing in the stock market, which can be volatile and unpredictable in the short term, conflicts with the cultural preference for stability and long-term financial planning.

6. **Regulatory Constraints:** Complex regulatory frameworks, compliance requirements, and lack of investor-friendly policies may act as barriers to entry for individuals interested in the share market. Cumbersome procedures and red tape can discourage potential investors from engaging in the market.

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### **EXAMINE THE ROLE OF FINANCIAL LITERACY AND AWARENESS IN INFLUENCING INDIANS' PARTICIPATION IN THE SHARE MARKET.**

1. **Understanding Investment Options:** Financial literacy plays a crucial role in enabling individuals to understand different investment options, including the share market. It helps them comprehend the potential risks and rewards associated with investing in stocks and make informed decisions.
2. **Risk Perception and Risk Management:** Financial literacy helps individuals develop a better understanding of risk perception and risk management. It equips them with the knowledge to evaluate the volatility and uncertainty of the share market, thereby reducing fear and increasing confidence in participating in the market.
3. **Investment Planning and Goal Setting:** Financial literacy empowers individuals to plan their investments effectively and align them with their financial goals. It enables them to understand concepts like diversification, asset allocation, and long-term investing, which are essential for successful participation in the share market.
4. **Basic Financial Concepts:** A lack of financial literacy can lead to a lack of understanding of basic financial concepts such as compounding, inflation, and market cycles. This lack of knowledge may deter individuals from entering the share market or make them vulnerable to making uninformed investment decisions.
5. **Empowering Individuals to Make Informed Decisions:** Financial literacy provides individuals with the necessary tools and knowledge to critically evaluate investment opportunities, analyze financial statements, and understand market trends. This empowers them to make informed investment decisions and reduces the likelihood of falling victim to scams or fraudulent schemes.
6. **Building Confidence and Overcoming Barriers:** Financial literacy helps individuals build confidence in their ability to navigate the complexities of the share market. It equips them with the skills to interpret financial information, evaluate investment risks, and adapt to market changes. By reducing barriers to entry, financial literacy encourages more Indians to actively participate in the share market.
7. **Promoting Financial Inclusion:** Increasing financial literacy and awareness among marginalized communities and rural areas can contribute to greater financial inclusion. It allows individuals from diverse backgrounds to understand and access investment opportunities in the share market, fostering economic growth and reducing wealth disparities.

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### **EXPLORE HOW INDIANS' PERCEPTION OF RISKS AND THEIR TENDENCY TO AVOID RISKS AFFECT THEIR HESITATION TO PARTICIPATE IN THE SHARE MARKET.**

1. **Risk Aversion:** Indians generally have a conservative approach towards investments due to cultural and societal factors. They prioritize financial security and stability, which often leads to a preference for safer investment options. The share market is perceived as a riskier avenue compared to traditional options like fixed deposits, real estate, or gold. This risk aversion can deter many Indians from actively participating in the share market.
2. **Volatility and Uncertainty:** The share market is known for its volatility and unpredictability. Indians who are risk-averse may find it challenging to deal with the potential fluctuations in stock prices. The fear of losing money and the uncertainty associated with market movements can discourage them from investing in the share market.
3. **Limited Understanding of Market Dynamics:** Many Indians lack a comprehensive understanding of how the share market operates. They may not be familiar with concepts like market trends, company financials, or investment strategies. This lack of knowledge can lead to a perception that investing in the share market is risky and difficult to navigate, further reinforcing their hesitation to participate.
4. **Past Market Failures and Scams:** India has witnessed instances of market failures and fraudulent schemes in the past. Such incidents have a lasting impact on public perception and trust in the share market. The fear of being deceived or losing money due to unethical practices can contribute to Indians' reluctance to engage in the share market.
5. **Emotional Response to Losses:** Indians, like individuals from any culture, can experience emotional responses to financial losses. Loss aversion, the psychological tendency to strongly feel losses compared to gains of equal value, can influence their decision-making. The potential for losses in the share market may outweigh the perceived benefits, leading to hesitation or avoidance of stock market investments.
6. **Lack of Risk Management Skills:** Effective risk management is crucial in navigating the share market. Indians with limited exposure to financial education and risk management skills may find it challenging to assess and manage risks effectively. The absence of proper risk management strategies can contribute to their hesitation to participate in the share market.

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**SUGGESTIONS TO OVERCOME ABOVE CHALLENGES.**

1. Conduct a comprehensive survey to assess the level of financial literacy and awareness among the Indian population regarding the share market.
2. Explore the cultural and societal factors that contribute to Indians' preference for traditional assets (e.g., gold, real estate) over the share market.
3. Examine the impact of educational institutions in promoting financial literacy and awareness about the share market among students.
4. Investigate the role of media in shaping Indians' perceptions of the share market and its potential risks and rewards.
5. Analyze the effectiveness of existing financial education programs in encouraging Indians to participate in the share market.
6. Explore the influence of social networks and peer groups on Indians' investment decisions and share market engagement.
7. Investigate the barriers and challenges faced by Indians in accessing share market information, resources, and investment platforms.
8. Analyze the role of financial advisors and their impact on individuals' decision-making process and share market participation.
9. Explore the impact of regulatory policies and investor protection measures on Indians' trust and confidence in the share market.
10. Conduct a comparative analysis of share market participation between urban and rural areas, considering the influence of socioeconomic factors and cultural differences.

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**CONCLUSION:**

Several factors contribute to the limited engagement of Indians in the share market. Cultural and societal factors play a significant role, as Indians often prioritize traditional assets like gold and real estate over financial instruments. Financial literacy and awareness also influence Indians' engagement, as limited knowledge about the share market and its potential benefits hinder their confidence in investing. Perception of risks, influenced by personal experiences and media narratives, further amplifies the hesitancy to participate. To address these limitations, efforts should focus on promoting financial literacy and awareness among Indians, particularly through targeted education programs and initiatives. Enhancing knowledge about the share market, risk management strategies, and investment opportunities can empower individuals to overcome their hesitations and make informed investment decisions. Additionally, tailored approaches considering cultural and regional differences, along with accessible information and platforms, can encourage greater participation from various demographic groups. By addressing these factors, India can unlock the potential of its population to participate actively in the share market and foster long-term economic growth.

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