THE INDIAN MARKET PARTICIPATION PARADOX: FROM AWARENESS TO ENTRY AND FROM ENTRY TO DORMANCY IN MARKET-LINKED INVESTMENTS

Himanshu Jee, Amity University Noida, Uttar Pradesh

ABSTRACT

The securities market in India has expanded rapidly yet more than half of Indian households still remain outside the financial market. People know about investment opportunities yet only a small number actually invest in them and their entry into the market does not guarantee ongoing financial commitments. The researchers evaluate the research gap through three different phases which include awareness through first-time entry through ongoing participation. The study uses the Securities and Exchange Board of India Investor Survey 2025 to collect household data, and it uses mutual fund information from the Association of Mutual Funds in India AMFI. SEBI reports that about 63% of households are aware of at least one securities market product while only 9.5% participate. The existing gap between two groups shows that people need to have more knowledge before they can start investing. Households decide to invest and stay invested based on their income and trust level and understanding of risks and ability to get financial advice and comfort with digital technology and previous investment experience and market losses.

The paper develops a framework for studying these barriers and proposes questions for further research. It does not claim to have conducted a household survey or estimated original statistical results. The argument states that investor inclusion must be evaluated through two criteria which include the number of new accounts and folios and the achievement of informed decisions and appropriate product selection and ongoing involvement by investors.

1. INTRODUCTION

India's securities market has experienced substantial growth throughout the last ten years because digital financial systems and simplified account opening procedures and rising mutual fund usage and increasing popularity of systematic investment plans (SIPs) have contributed to its development. The number of dematerialised accounts and mutual fund folios has expanded because households have started to invest more in market-linked financial products.

The broader market access has not resulted in increased household participation at the same rate.[1]

The Securities and Exchange Board of India (SEBI), through its Investor Survey 2025, identifies a substantial gap between awareness and actual investment. Approximately 63% of Indian households know about at least one securities market product but only 9.5% of households actually use such products.[2] The difference between these two things creates a critical inquiry which seeks to understand why people who know financial instruments do not make actual investments. The problem becomes more significant when participation is examined beyond initial entry. According to SEBI approximately 40% of investor households remain inactive because they did not make any new investments during the past year.[3]

The Indian market participation paradox includes three interconnected stages which begin with market awareness and continue through first-time entry to ongoing market participation. The three stages require different economic and behavioral and informational and institutional elements to be addressed. The research uses secondary data from the SEBI Investor Survey 2025 and AMFI publications to study these transitions. The framework establishes specific barriers which need to be recognized at each stage while distinguishing between actual absenteeism and legitimate financial choices and measuring investor participation through the standard of their active involvement not just the increase of their investment accounts.

2. STATEMENT OF PROBLEM

The standard measurement of inclusion in policy and industry reporting uses the total number of new accounts and folios and SIP registrations. The market figures do not show whether households understand their options and which choices they should make to maintain their investments through market fluctuations. The current research lacks sufficient understanding because awareness-based explanations do not account for two phenomena which include why knowledgeable households stay out of the market and why current investors stop trading. The main issue exists because researchers lack a complete framework which enables them to study customer transitions while assessing customer inclusion by measuring the standard and appropriate household time they spend in programs.

[1] Securities and Exchange Board of India, SEBI Investor Survey 2025 (SEBI, January 2026), Chapters 4, 5, 6 and 10.
[2] Ibid., Chapter 4, p. 23; Chapter 5, pp. 36–38.
[3] Ibid., Chapter 6, pp. 40–41.

3. RESEARCH QUESTIONS

RQ1: How large is the gap between awareness and participation in market-linked investments among Indian households, as reported by the SEBI Investor Survey 2025?

RQ2: What factors, including income, trust, risk understanding, access to advice and digital comfort, explain why aware households do not make a first-time entry?

RQ3: What factors, including past experience, market losses, product unsuitability and transaction friction, explain why entrants stop or reduce participation, and what do AMFI data indicate about continuity?

RQ4: How should investor inclusion be defined and measured so that it reflects informed, suitable and continued participation, and what further research follows?

4. RESEARCH OBJECTIVES

O1: To establish and describe the awareness-participation gap using the household-level findings of the SEBI Investor Survey 2025.

O2: To identify and organise the barriers to first-time entry within a structured conceptual framework.

O3: To identify the drivers of dormancy and examine what AMFI data can and cannot establish about continued participation.

O4: To propose an improved investor inclusion framework and identify directions for subsequent empirical research.

5. RESEARCH METHODOLOGY

The research employs a conceptual and analytical framework which depends entirely on existing secondary materials. The SEBI Investor Survey 2025 serves as the main household source which researchers complemented with AMFI data about mutual fund folios and SIP registrations and contribution and discontinuation patterns. Researchers investigate academic articles which focus on household finance and behavioral economics and financial literacy. The researchers do not present any data from primary household surveys or their own statistical analysis work. SEBI provides cross-sectional data about dormancy reports but does not monitor the same households over time. The AMFI aggregate data does not function as a tool to

determine whether individual investors maintain their investments or to establish cause-andeffect relationships. The analysis explicitly acknowledges these restrictions which exist in the research framework.

6. RESEARCH PROPOSITIONS

P1: Market entry requires awareness as a necessary requirement although its predictive ability remains weak. The main elements that determine the results include trust and risk understanding and the ability to obtain trustworthy guidance together with digital access.

P2: Dormancy is substantially influenced by investment experience, particularly disappointing performance, volatility, losses and unsuitable product selection, rather than by a mere absence of awareness.

P3: Account-based measures of inclusion overstate meaningful participation because they fail to match the effectiveness of indicators which track ongoing investment and assess suitability and determine decision-making processes.

7. LITERATURE REVIEW

Researchers have studied how household knowledge affects their ability to participate in securities markets through two fields of study which are behavioral finance and household economics. John Y. Campbell's research on household finance demonstrates that people choose to participate in financial activities based on their expected profits and their required initial expenses and their current financial status and their unique capacity to make decisions.[3] Theoretical foundations show why households with securities product knowledge still choose to avoid making investments.

The principles of behavioral finance explain human financial behavior through the concept of loss aversion which shows how people experience financial losses with greater emotional weight than financial gains. The study of Prospect Theory which Daniel Kahneman and Amos Tversky developed demonstrates that people assess financial gains and losses in different ways because they consider their losses to be more important than their equivalent gains.[4] The research indicates that people will react to two types of behavior. Guiso, Sapienza and Zingales further establish that trust is an important determinant of stock market participation,

[3] John Y. Campbell, 'Household Finance' (2006) 61(4) The Journal of Finance 1553–1604.
[4] Daniel Kahneman and Amos Tversky, 'Prospect Theory: An Analysis of Decision under Risk' (1979) 47(2) Econometrica 263–291.

demonstrating that perceptions of institutional fairness and the possibility of being cheated influence investment decisions.[5]

The research on financial literacy which Annamaria Lusardi and Olivia Mitchell conducted shows that financial literacy serves as a key factor which enables people to make educated economic decisions.[6] The ability to manage personal finances cannot help people who face income restrictions and lack proper distribution systems and have no trust in banks.

SEBIs previous investor education programs in India and its upcoming 2025 survey demonstrate that investors show different levels of awareness and investment activity and investment behavior. The Reserve Bank of India Financial Inclusion Index shows that financial inclusion needs to be assessed through three separate aspects which are access to finance and its actual use and the standard of financial services.[7] AMFI's publications show that mutual fund folios and SIP activities have grown significantly, while a large number of people who started SIPs have stopped their investments.[8]

The new digital investment ecosystem which includes electronic KYC and app-based platforms together with simplified payment systems has created less obstacles for completing transactions. The process of establishing customer accounts becomes simpler yet this process does not guarantee that customers will make smart or suitable investment decisions. The main research gap exists because current studies only investigate awareness together with entry and total investment growth at different times. This research connects all three stages to assess the various obstacles which exist at each transition point.

8. ANALYSIS

8.1. Stage One: Awareness to Entry (RQ1 and RQ2)

The first stage examines whether awareness of securities market products translates into actual household investment. The SEBI Investor Survey 2025 provides a particularly revealing

[5] Luigi Guiso, Paola Sapienza and Luigi Zingales, 'Trusting the Stock Market' (2008) 63(6) The Journal of Finance2557–2600.
[6] Annamaria Lusardi and Olivia S. Mitchell, 'The Economic Importance of Financial Literacy: Theory and Evidence' (2014) 52(1) Journal of Economic Literature 5–44.
[7] Reserve Bank of India, 'Financial Inclusion Index for March 2025' (Press Release, July 2025).
[8] Association of Mutual Funds in India, Monthly Mutual Fund Industry Statistics, various monthly and annual publications, available at: https://www.amfiindia.com/mutual-fund (last accessed November 2, 2026).

starting point. The research results show that 63% of Indian households know at least one securities market product which equals 21.3 crore households. However, only 9.5%, approximately 3.21 crore households, actually participate.[9]

Figure 1: India's awareness-participation gap

Households aware - 63% Households participating - 9.5% Difference between reported rates - 53.5 percentage points

The distinction becomes clearer when individual products are examined. Mutual funds and exchange-traded funds have an awareness level of 53%, but household penetration stands at only 6.7%. The total number of households that understand shares and equities amounts to 49% while only 5.3% of households actually invest in these financial instruments.[10] The evidence suggests that people become familiar with something through awareness but their confidence and financial capacity and willingness to take investment risks remain unchanged.

The first category of barriers is economic. Households must allocate their income between spending money and building emergency savings and paying their debts and achieving their financial goals. A household may understand mutual funds perfectly well but remain unable to commit disposable income to a market-linked instrument. SEBI identifies inadequate financial resources, minimum investment requirements and costs among the considerations affecting non-investors. The current situation specifically applies to households which experience irregular income patterns and need to handle their immediate financial obligations before they can build wealth.[11]

The second category involves informational and cognitive barriers. The existence of a mutual fund or equity share requires people to understand about volatility and diversification and investment horizons and potential capital loss. The survey identifies three main obstacles which include fear of market losses and uncertainty about returns and lack of product understanding. Financial education must therefore move beyond product recognition and address the ability to interpret risk and evaluate investment suitability.

Trust functions as the essential component which builds social connections between people. Investors need to trust three different aspects which include their product and the intermediary

[9] Securities and Exchange Board of India, SEBI Investor Survey 2025, Chapter 4, p. 23 and Chapter 5, pp. 36–38.
[10] Ibid., Chapter 5, Table 5.1, p. 37.
[11] Ibid., Chapter 7, Table 7.1, pp. 44–45.

and the platform and the institutional systems that control their transactions. Potential first-time investors will face obstacles because of the risk that companies might falsely sell products and provide incorrect investment advice and commit financial crimes. Guiso Sapienza and Zingales show that trust acts as the main factor which determines whether people invest in financial markets that provide them with actual investment possibilities.[12]

People encounter obstacles to accessing services because they need both unbiased financial advice and geographical access to practical support. The digital barriers of the system affect users through their difficulties with app functions and electronic documents and payment methods and language support. SEBI identifies easy account-opening procedures and userfriendly platforms as important motivators for non-investors.[13] The research results show that multiple factors must combine their effects because people need more than new information to complete the transition from awareness to entry stage.

8.2. Stage Two: First-Time Entry and the Quality of Participation (RQ2)

The second stage concerns the actual conversion of awareness into investment. Entry may occur through the opening of a demat account, acquisition of shares, creation of a mutual fund folio or commencement of a SIP. The different activities should not be used to measure household participation because they serve as separate activities.

A demat account functions as the system which enables electronic storage of securities. The opening of an account establishes no proof that the account holder has made any securities purchase or developed a pattern of investing. A mutual fund folio functions as an investment account record, but investors can maintain multiple folios. The account and folio numbers should not be treated as distinct identifiers for participating households.

The first investment type requires equal assessment, which needs to be evaluated because it determines investment evaluation process. An investor entering through a diversified mutual fund with an appropriate investment horizon may have a different experience from someone entering through speculative trading or an unsuitable high-risk product. The selection process for products needs to follow the rules of income stability and investment objectives and risk tolerance and liquidity requirements.

[12] Guiso, Sapienza and Zingales, supra note 6.
[13] Securities and Exchange Board of India, SEBI Investor Survey 2025, Chapter 7, Table 7.2, pp. 46–47.

Digital platforms have made it easier for users to access their services. The introduction of video-based KYC together with online account opening and app-based investment services has removed multiple traditional barriers which existed before. SEBI also identifies the increasing importance of digital infrastructure in improving market accessibility. [14] The process of onboarding users without any obstacles creates an incorrect perception about the difficulty level of making investment choices because it makes all decisions appear equally simple. A platform may make purchasing a financial product convenient without ensuring that the customer understands its risks.

The intermediary's role is therefore significant. Distributors and brokers together with registered investment advisers will help investors enter the market by explaining product details and supporting them with documentation and providing assistance throughout the suitability assessment process. Yet, the possibility of conflicting incentives and mis-selling makes independent and comprehensible advice essential.

The SEBI survey shows that personal contacts and social media financial influencers serve as major sources for investment information.[15] First-time investors will begin trading because they believe they will earn fast profits from popular stocks which their friends recommend instead of evaluating their actual financial situation.

The second stage needs complete evaluation through both its entry method and its entry quality assessment. New account growth indicates better accessibility, yet true inclusive practices require investors to make their initial investment through informed decisions which match their personal financial goals.

8.3. Stage Three: Entry to Dormancy (RQ3)

The third stage examines what happens after a household enters the securities market. The existence of an active account or folio does not guarantee that investors will continue their participation in the market. Investors have multiple options to end their involvement with market-linked products which include stopping new investments and SIP instalments and redeeming their holdings and complete withdrawal from the products.

Researchers need to create two separate definitions of dormancy which need to be studied as two different concepts. SEBI defines dormant investors as households that continue to hold

[14] Òo–22.
[15] Ibid., Chapter 9, Tableò 9.4, pp. 62–63.

securities market investments but have not made fresh investments during the preceding year. Lapsers stop being active investors because they sell all their financial products which include the securities market investments. [16] The current study requires this distinction because temporary pause and complete withdrawal represent two distinct ways of leaving a situation.

Figure 2: The three-stage participation pathway STAGE 1: AWARENESS 63% Households aware of at least one securities product (Entry barriers: affordability, trust, knowledge and access) STAGE 2: PARTICIPATION 9.5% Households currently participating (Continuity barriers: losses, volatility, unsuitable choices and liquidity needs) STAGE 3: CONTINUITY 60% / 40% Active and dormant shares of investor households, respectively

The survey results about dormancy present important evidence that supports their research. The dormant group includes approximately 40% of investor households. The dormant investors identify poor performance as their reason for inactivity which includes lower-than-expected returns and high volatility and significant losses. About 75% of the population experiences external influences which include negative experiences that others share and the need to obtain funds. The market sentiment together with transaction costs creates obstacles that prevent people from participating in economic activities.[17]

These findings demonstrate that investment experience holds significant importance. The investor who starts to trade in financial markets with the belief that short-term profits will occur without interruption will see normal market movement as proof that he has failed. The investor who receives poor outcomes from his initial investment will stop making further investments because he will withdraw from future chances to invest. The behaviour finance theory of loss aversion explains this phenomenon because losses create a stronger effect on people than other aspects of their decision-making process.[18]

AMFI's statistical publications offer an additional view of SIP registrations together with outstanding accounts and contributing accounts and discontinuations. The fiscal year 2024–25 saw the registration of 679.85 lakh new SIPs while 514.17 lakh SIPs reached termination through either discontinuation or completion. The following fiscal year 2025–26 saw SIP registration numbers rise to 719.22 lakh while SIP discontinuation and completion numbers

[16] Ibid., Chapter 6, pp. 40–41; Chapter 10, pp. 66–68."
[17] Ibid., Chapter 10, Table 10.1, p. 67.
[18] Kahneman and Tversky, supra note 5.

reached 679.75 lakh. The total number of outstanding SIP accounts grew from 1,005.39 lakh to 1,044.84 lakh during the identical annual periods.[19]

Table 1: AMFI SIP participation indicators

Indicator	FY 2024–25	FY 2025–26
New SIP registrations (lakh)	679.85	719.22
Discontinued/completed SIPs (lakh)	514.17	679.75
Outstanding SIP accounts (lakh)	1,005.39	1,044.84
Contributing SIP accounts (lakh)	811.16	971.86

Source: AMFI, monthly mutual fund statistics, annual financial-year series. Figures are rounded.

The data shows a significant conflict between two competing forces. The number of new SIP registrations and existing accounts has reached an all-time high, while the rate of account terminations has also increased. The period between FY 2025 and 2026 saw 94.5% of new IP registrations which ended through either discontinuation or completion of SIPs. The ratio should not be viewed as 94.5% of investors who failed or churned because the data shows transaction numbers and SIP account totals which exist at the scheme level. The AMFI organization combines discontinued SIPs with completed tenures according to its definition of SIPs.

[19] Association of Mutual Funds in India, Monthly Mutual Fund Industry Statistics, SIP registrations, discontinuations, outstanding SIP accounts and contributing SIP accounts, FY 2024–25 and FY 2025–26, available at: https://www.amfiindia.com/mutual-fund (last accessed November 2, 2026).

The data shows that new registration growth does not resolve the ongoing continuity problem. The number of contributing accounts is particularly relevant because it indicates a difference between registered SIP accounts and those making contributions during the reported period.

The total AMFI statistics function as a restriction because they cannot determine whether a household has stopped its investment activities and switched to different investment plans or started a new systematic investment plan. The system does not provide information about which specific market losses led to the particular investment suspension. The SEBI household survey therefore provides the more direct evidence on reported dormancy, while AMFI supplies an aggregate indication of changing SIP activity.

8.4. Measuring Investor Inclusion (RQ4)

The preceding analysis suggests that conventional measures of financial inclusion are incomplete. The establishment of new demat accounts and mutual fund folios together with SIP registrations serves as market growth indicators, although these three elements must work together to prove actual market participation. The establishment of new demat accounts and mutual fund folios together with SIP registrations serves as market growth indicators, although these three elements must work together to prove actual market participation.

The complete framework needs to include three separate dimensions. First, access and entry should measure the proportion of households aware of products, the proportion actually investing and the ease of entering the market. Second, quality of participation should examine whether investors understand product risks, receive appropriate advice and select instruments consistent with their financial objectives. Third, continuity should measure active contribution patterns, SIP persistence, dormancy and the reasons behind withdrawal.

The current regulatory framework serves as a basis for this particular method. The investor education programs of SEBI along with its disclosure standards and intermediary control measures and its complaint resolution systems will enhance investor confidence. The combination of simplified KYC processes and digital onboarding methods will reduce entry

obstacles for users while the implementation of suitability protections and clear disclosure practices will enhance user decision-making.[20]

The framework which has been designed requires security investments from all households which exist in society. The inclusion process should enable households who possess investment capability and their desire to invest to make investment choices without facing institutional barriers and informational barriers and procedural obstacles. The evaluation of success should focus on decision-making quality and sustainable participation rather than measuring success through account creation.

9. CRITICAL ANALYSIS AND ORIGINAL CONTRIBUTION

The Indian market participation paradox shows its measurement challenge as a main problem. The traditional metrics of financial inclusion which include demat accounts and mutual fund folios and SIP registrations show the growth of market infrastructure but only track initial market participation. The research does not establish whether households choose suitable products after making educated decisions about their investments. The SEBI Investor Survey 2025 demonstrates this distinction through its finding that 63% of households are aware of securities products, only 9.5% participate and approximately 40% of investors are dormant.[22] Awareness campaigns together with account-opening initiatives, which are essential for their objectives, cannot by themselves create substantial investor participation.

The paper presents its main research contribution through its three-stage framework which links three stages of awareness to first-time entry and ongoing participation. The framework demonstrates different financial literacy barriers which prevent people from making investments because it uses two different approaches to study both financial literacy and investment penetration. The awareness-to-entry transition is influenced by six factors which include affordability and trust and risk understanding and advice and accessibility. The entryto-continuity transition is influenced by five factors which include investment performance and product suitability and liquidity requirements and expectations and previous experiences. The two concepts create different ways to establish evidence because SEBI provides householdlevel data which shows awareness and participation and dormancy while AMFI delivers total data about SIP registration and contribution and discontinuation.

[20] Securities and Exchange Board of India, SEBI Investor Survey 2025, Chapters 3, 11 and 12 [22] Ibid., Chapters 4, 5, 6 and 10?

The framework establishes multiple research directions which need empirical examination. First, researchers should conduct longitudinal household studies to determine if first-year investment losses lead to increased dormancy risk. Second, researchers should conduct comparative studies to determine the extent to which independent financial advisory services vary between different income brackets and between various geographic areas and occupational groups. Third, researchers should investigate how SIP continuation rates change based on different distribution channels which include direct investment platforms and mutual fund distributors and banking intermediaries. Finally, researchers should study whether digital onboarding leads to better investment decision-making or just higher transaction levels.

The first counterargument needs evaluation while the second counterargument needs evaluation. First, dormancy does not prove that financial inclusion failed to succeed. Households will stop their financial contributions until they need money for education expenses and medical costs and unemployment and other liquidity needs. Investors will sell their investments after reaching their financial targets. The decisions show that people make logical financial choices which do not stem from their discontent with securities markets.

Second, non-participation may itself reflect an informed preference. A household with limited savings, substantial debt obligations or a strong preference for capital preservation should not be encouraged to assume risks inconsistent with its financial circumstances. The process of financial inclusion should not require people to engage in market activities against their will.

The research presents its unique contribution by demonstrating the distinction between market access and real financial participation. The research model shows that successful inclusion requires four elements which include accessibility, informed decision-making, product suitability and sustainable participation, while also allowing people to handle their own financial matters.

10. FINDINGS, SUGGESTIONS AND CONCLUSION

10.1. Findings

The study identifies four principal findings corresponding to its research questions.

The awareness-participation gap between the two parties exists as a major obstacle. The securities market product recognition rate among Indian households reaches 63% yet their actual market participation remains at 9.5%. Product awareness establishes investor paths, yet it does not guarantee their actual market entry.

The first-time people join a system they face multiple economic and informational and relational and accessibility obstacles which connect to each other. Aware households avoid investments because of their fear about losses and doubts regarding returns and because they have insufficient financial resources and limited access to unbiased advice and because they do not trust institutions.

Continuity creates its own unique set of difficulties. The SEBI report indicates that 40% of investor households remain inactive because external factors and poor performance constitute the main reasons for this problem. The SIP statistics from AMFI show that the number of users who stop using the service increases whenever new users start to register for the service. The total number of discontinuations does not provide enough evidence to show that investors stop making household investments.

The measurement system needs to expand its scope to assess three main areas which include decision-making based on knowledge and matching products to customer needs and sustaining product use for investors. The account-based system does not measure these areas because it depends solely on account-based systems.

The secondary evidence demonstrates that trust together with risk concerns and investment experience holds significance for P1 and P2. The evidence from account and registration growth demonstrates that P3 supports continuous participation through its dedication to P3. The research did not test any propositions through original empirical evaluation because it did not do so.

10.2. Suggestions

Investor inclusion policies should use active participation metrics together with account and folio counts to measure investment activity. Financial education should focus on understanding volatility, investment horizons, diversification and the consequences of premature withdrawals rather than merely increasing product awareness.

First-time investors and low-income investors need better access to independent financial advice. Digital platforms should provide risk disclosures which users can easily understand together with full cost information and suitable guidance for different types of investors. The SEBI and market institutions need to establish better longitudinal household data collection methods which can help them identify three different types of investor behavior during periods of inactivity.

10.3. Conclusion

The securities market in India has developed its awareness programs and built infrastructure and created investment opportunities. The gap between awareness and participation shows that accessibility can only provide limited access to the system. The initial entry point for investors does not function as the ultimate success standard because many investors will stop active trading after they invest.

The three-stage framework proposed in this paper provides a more comprehensive understanding of household investment behaviour. The three stages of awareness and entry plus continuity need distinct policy solutions which require different methods for assessment. The objective of investor inclusion should not be evaluated through the number of households that create accounts or register SIPs but through their ability to make investment decisions which are informed and appropriate and sustainable for their financial situation. People need to first convert awareness into active participation before they can develop permanent commitment to the process, while respecting the choice of households who decide against market-linked product investments.

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