

## ASSESSING THE EFFICACY OF SEBI IN REGULATING CAPITAL MARKETS: A CRITICAL ANALYSIS OF INVESTOR BEHAVIOUR AND MARKET INTEGRITY

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### ABSTRACT

The Indian Capital Markets and its regulator, the Securities and Exchange Board of India (SEBI) forms a very robust structure for our country's economy and its citizens alike. This research paper will critically analyze the effectiveness of our market regulator SEBI and will have specific emphasis on the Investor Behaviour and Market Integrity being challenged through the emerging issue of Financial Influencers, more commonly referred to as "Finfluencers" in this new age of investment aimed at influencing the youth for ulterior motives. The paper will focus on the insights of the concept of Indian Capital Markets, the Regulatory Landscape, concept of Finfluencers and the risks they pose and certain recommendations in curbing this emerging problem that sways investor behaviour and the market's integrity in regulating this issue. Investor Behaviour is the highlight of this research as it is based on the rapid emergence of young investors triggered by the Covid-19 pandemic and the prospects of earning quick equity and returns. This research will also emphasize upon the need for a robust regulatory framework especially for safeguarding young investors from herd mentality and panic selloffs. This research brings academic understanding between behavioral finance and regulatory oversight and digital media systems which generates beneficial information for policymakers to handle financial regulation challenges during digital times. The findings suggest that regulators should implement specific changes to support market equilibrium while keeping investor trust intact and solve the problems caused by finfluencers within Indian capital market transformations. The main emphasis focus of this paper involves in the stringency and need of a robust regulatory mechanism to combat such emerging challenges and issues.

**Keywords:** *Investor Behaviour, SEBI, Finfluencers, Market Integrity, Robust Regulatory Framework*

### 1. INTRODUCTION: UNDERSTANDING INDIAN CAPITAL MARKETS

The Indian Capital Markets with its stock exchanges are featured by its wide diversity in trading of financial instruments and volatility, which poses unique and multiple factors which may influence an Investor's behaviour. It ranges from macroeconomic variables, geopolitical situations and digital challenges that influence one's investment decisions. The traditional

regulatory practice in the Indian capital market landscape is certainly prioritizing investor protection as well as development of the markets in all its welfare and integrity. Though until recently, our regulatory system is trying to be more inclusive towards the effectiveness of rules and regulations for a more subtle understanding of the behavioural changes to investors and its effect on our capital markets to

aim at a more strengthened and robust investor protection mechanism.

With the onset of mass multimedia and digitalization through the impact of Covid-19 Pandemic, the Capital Markets are now being faced with the challenge of a pervasive negative influence over their retail investors. Investor behaviour is not a common concept involving a mere decision-making process; however, it is to be understood a rational function of investment making decisions involving a lot of psychological factors. Factors such as market recession, uneventful regulatory notifications and amendments, and market controversies related to acts of insider trading, and market manipulation often trigger the sentiment of a herd behaviour among the investors which lead them to panic selloffs and thoughtless investment decisions. This also leads to the foundation of a volatile market which can deeply affect its integrity. Therefore, one of the key focuses of this research is entailing the intervention of psychological factors in the regulatory sphere of SEBI and its efficacy.

The given paper and its research will focus on the emerging concept of unregistered investment advisors through the medium of social media, and more commonly known as “Finfluencers”, a combined term for “Financial Influencers”. The research is streamlined to focus on the behavioural changes in the retail investor landscape in our securities market and how these finfluencers and unregistered investment advisors affect them negatively. “Finfluencers”, a new form of investment advisors existing through social media. They may be either a celebrity or a social media influencer that work in the same notion as that of a traditional investment advisor by providing financial advice and market commentaries and may also act as an intermediary between financial institutions and investors. Unlike a normal social media influencer, this category of people only curate content based on personal finance. The most commonly used platforms for disseminating such information are Youtube,

Instagram, Facebook, Twitter (now X), and Telegram owing to their larger reach and accessibility to the general populace. While some of the other platforms for communication like WhatsApp, Podcasts, Reddit, Discord and Snapchat also play a crucial role in the distribution of such content<sup>1203</sup>. However, part of their content is portraying themselves as experts in the field of investments and financial analysis of the markets while trying to leverage their influence for ulterior motives over their audience who are eager to earn wealth without assuming any risk in their investment making decisions and studies also show that social media influencing has a considerable impact in the decision making of their target audiences, more particularly towards the youth<sup>1204</sup>. This persona of finfluencer serves as the best method to promote investment products or schemes<sup>1205</sup>.

The emergence of this new category of investment advisory has led to many regulatory concerns owing to unverified and unvalidated information which may lead to the young audience being susceptible to losses occurred due to making financial investment decisions based on such unvalidated information. These finfluencers, in order to appear trustworthy or credible among their audience, often entertain or share personal details like their own portfolios or material<sup>1206</sup>. A survey conducted by the Financial Industry Regulatory Authority (FINRA) along with CFA Institute in 2023 has found that over 37% of Gen-Z investors in the United States, 30% in Canada, 38% in the United Kingdom, and 51% in China give credit to social media influencers as one of the major factors in their

<sup>1203</sup> The International Organization of Securities Commissions, *Finfluencers* (Consultation Report, CR/08/24, Nov 2024) Ch 2

<sup>1204</sup> Michelle Faverio & Monica Anderson, ‘For shopping, phones are common and influencers have become a factor- especially for young adults’ (2022) Pew Research Center <<https://policycommons.net/artifacts/3176984/for-shopping-phones-are-common-and-influencers-have-become-a-factor/3975479/>> accessed 8 March 2025

<sup>1205</sup> The International Organization of Securities Commissions, *Finfluencers* (Consultation Report, CR/08/24, Nov 2024) Ch 1

<sup>1206</sup> Jiseon Han & George Balabanis, ‘Meta-analysis of social media influencer impact: Key antecedents and theoretical foundations’ (2023) Wiley Online Library <<https://doi.org/10.1002/mar.21927>> accessed 8 March 2025

investment making decisions in the market<sup>1207</sup>. The similar situation is applicable in the Indian capital market landscape wherein investor behaviour is being targeted by such an influence, more evidently after the massive digital exposure of investments during the Covid-19 pandemic<sup>1208</sup>. Therefore, regulatory stringency and expansion in the interpretation of existing laws is crucial in mitigation of such risk of malpractices that may negatively affect the investors' behaviour and the market integrity.

This paper evaluates the actions taken by SEBI which craft market reaction of investors and maintain market fairness, to analyze SEBI's market regulating performance. The paper shows how these foundation-based principles of market integrity can be enacted in current regulatory systems. First, the research solves current policy limitations, and second, presents innovative solutions for attaining better control over today's market complexities.

This research has many significances. This study will provide insights to the policymakers and regulator authorities for giving policymaking and regulatory framework based on evidence to weave through the dual requirements of the investor protection and market integrity. Knowing much more about the psychological and Behavioural drivers of the market actions can enable more educated decision making of the investors and market participants resulting in a more stable and resilient market ecosystem. On the academic side, this research is an attempt to amalgamate three fields that so far have been moving in separate orbit: Behavioural finance, regulatory theory and digital media studies, and draw scholarly parallels between all three, integrating their perspectives to construct new models of studying financial regulation.

The study evaluates how multiple negative elements create behavioral changes in investors. Rising market volatility because of economic instability combined with geopolitical factors tends to stimulate irrational investing behavior. Market damage through spreading incorrect facts gets worsened by conventional media alongside digital platforms thus leading investors to base their decisions on feelings instead of facts. Market participants often become susceptible to outside factors because of both herding behavior along with suboptimal investor behavior and thus require powerful regulatory protection.

The core aspect of this research studies how regulatory effectiveness arises from the way market participants perceive and act. Traditionally governing bodies need to transform their methods to supervise and interact with digital influencers because these influencers now possess rapid investment-swaying power and broad reach. The study investigates novel regulatory solutions which involve increased regulatory rules for financial content posted online in addition to more transparent enforcement activities. Market integrity requires these measures to restore investor confidence during times of lightning-fast technological progression and information advancement.

The present research demonstrates that Indian stock market regulation continues to adapt to the transformational phenomena currently shaping financial systems of today. A regulatory system that addresses investor behavior needed to become adaptive while deploying anticipatory strategies because both internal psychological aspects and external media and digital factors affect investor conduct.

The introduction of this research establishes the base for an in-depth analysis about SEBI's updated regulatory policies targeting modern digitalized market challenges. The introduction creates fundamental intellectual principles that lead to a complete evaluation of market practices while developing a predictive

<sup>1207</sup> FINRA Foundation & CFA Institute, 'Gen Z and Investing: Social Media, Crypto, FOMO, and Family' (2023) <<https://finrafoundation.org/sites/finrafoundation/files/Gen-Z-and-Investing.pdf>> accessed 8 March 2025

<sup>1208</sup> Tirthankar Patnaik, 'Retail Investment in India: During and after the Pandemic' (2023) Economic & Political Weekly Vol 58 Issue 22 <<https://www.epw.in/journal/2023/22/money-banking-and-finance/retail-investment-india.html>> accessed 8 March 2025

regulatory structure to maintain market trust and develop well-informed balanced investment choices for investors. Throughout the following chapters the conversation repeatedly examines how regulatory bodies can properly unite both market integrity objectives with investor behavioral modifications within advanced financial systems.

This work studies the impact of unregistered financial influencers on the investor behavior in Indian Capital Market and brings into light the regulatory challenges due to these emerging influencers. The evolution of India's capital market regulations is discussed in light of their historic development and their impact on molding of the investor behaviour and fairness of the market. This study examines regulatory frameworks that deal with the risks caused by absences of the registered advisor, opting between the protection of investors and financial education in the age of financial technology.

## 2. INVESTOR PROTECTION AND MARKET INTEGRITY REGULATIONS BY SEBI

The Securities & Exchange Board of India (SEBI), our financial markets regulator, has manifold roles in regulating the relevant markets and its key players. It not only aims to secure the development of our securities market but has a wider role in securing the interests of investors and ensuring their protection from multiple illegalities ranging from Insider Trading, Market Manipulation, Ponzi Schemes acting as Collective Investment Schemes, etc. through promulgating necessary regulations as one of its functions.<sup>1209</sup>

### 2.1 Contemporary Regulatory Landscape

Regional market regulation under SEBI represents a response towards new market challenges with a focus on managing technological innovations along with digital investor conduct. SEBI has acknowledged the rise of capital markets in investor activities so it

launched essential technology-based initiatives for market integrity alongside investor protection goals<sup>1210</sup>.

The regulator's contemporary vision encompasses three broad areas:

- i. Supports investor enablement through educational protection methods that give investors improved decision-making abilities.
- ii. embraces market development by implementing technological advances alongside product diversification for the purpose of enhancing market ease while improving transparency.
- iii. The system safeguards investor safety together with issuer protection as its primary function to maintain market stability and dignity.

SEBI established two new regulatory systems during the last few years to address market influence and investor conduct. It has implemented regulatory guidelines for financial influencers through its framework to fight false information and shield investors from unqualified financial guidance. The updated Suitability Framework now forces investment firms to evaluate their customers' profiles and risk capacities for making appropriate investment recommendations while preventing them from promoting unsuitable products. SEBI established countermeasures to combat incorrect market information that enables both negative investor behavior and market integrity breakdown.

### 2.2 Regulatory Philosophy: From Reactive to Proactive Governance

Capital market regulation in India has transformed its core philosophy from fire-fighting crises to active governance through planned measures. SEBI developed its early regulatory policies from past crises such as the scandals involving Harshad Mehta and Ketan Parekh. Over time the regulator developed into an institutional authority that base its methods

<sup>1209</sup> Securities and Exchange Board of India Act 1992, s 30

<sup>1210</sup> NSE Data & Analytics, *Indian Capital Markets: Transformative shifts achieved through technology and reforms* (July 2024)

on principle-based regulations while showing predictive abilities. The regulatory agency demonstrates such philosophical development through modern focus on technological innovation as well as investor education and pre-emptive risk management systems.

Capital market regulations in India went through historical changes to optimize the relationship between investor protection and market freedom. Every market regulatory phase starting from the pre-liberalization restrictions has aligned with prevailing economic ideas and working market conditions.

This historical study shows that Indian emerging market regulation must achieve pinpoint accuracy by avoiding both heavy-handed control which halts growth and non-intervention that endangers investors. The development of SEBI from an advisory non-statutory body to an advanced regulator demonstrates that even emerging market regulatory bodies should acknowledge the importance of thorough oversight strategies despite their initial reactive stance against proactive actions<sup>1211</sup>.

The continuing evolution of India's capital market will drive regulatory frameworks toward adapting solutions for the current market challenges stemming from technological transformations and changes in investor profiles and global market linking. Since the beginning future regulatory frameworks will maintain their dual focus between market advancement and protection of investors from debasement and information inequality because these elements form the core base for market trustworthiness.

### 2.3 Investment Advisory Regulations and Growing Concerns from Unregulated Financial Influencers in India

Recent years have witnessed a substantial development of Indian financial governance because SEBI created stronger rules to control

rising unregulated investment advisory and financial information distribution activities. Furthermore, there exists regulations from SEBI pertaining to Investment Advisers (IAs)<sup>1212</sup> and Research Analysts (RAs)<sup>1213</sup> exist to maintain open financial guidance and nurture responsible service alongside protecting investors in advisory research fields. The regulations establish key requirements including registration eligibility as well as qualification standards and payment policies as well as the separation of client accounts while mandating detailed information disclosures to clients. The regulations work to stop conflicts of interest and build ethical practices alongside improving professional quality services between IAs and RAs while protecting investor interests in the securities market.

Governments respond to increasing investor protection needs and market reliability standards as well as deceptive information defense measures in digitalized financial systems.

### 2.4 Crackdown on Unregistered Influencers

Back in October 2024, in a landmark circular, SEBI asked all who were on its rolls to cancel its contracts with financial advisors who were not registered with it in three months. In this instance, such a directive specifically applied to anyone who is providing investment advice or providing support for investment recommendations to persons or to regulated entities about the exchange of securities, commodities, or investment advice, but such person has not obtained registration. The regulator also clarified that 'all regulated entities and their agents are required to ensure that any persons associated with such regulated entities or their agents do not commit

<sup>1211</sup> Chinchwadkar, Rohan and Vidhu Shekhar. "Evolution of Private Equity Regulations in Emerging Markets: A Case of India." *The Journal of Private Equity* 20 (2016): 38 - 44.

<sup>1212</sup> Securities and Exchange Board of India (Investment Advisers) Regulations, 2013

<sup>1213</sup> Securities and Exchange Board of India (Research Analysts) Regulations, 2014

any activities with unregistered financial advisors without prior authorisation<sup>1214</sup>.

The SEBI board had earlier approved these steps on June 27, 2024 and the same were formally amended in the regulations on Aug 26, 2024. The regulations bar the entry of persons whose associations directly or indirectly, with a recognized stock exchange, clearing corporations, depositories and their agents, not being registered persons, were to provide advice in respect of securities or make a claim in respect of return or performance without authorization<sup>1215</sup>.

#### 2.4.1 Tightened Restrictions in January 2025

SEBI issued another circular through January 29 2025 which extended regulatory power by prohibiting two key activities for unregistered influencers: the provision of investment recommendations without authorization and the declaration of financial output without regulatory approval<sup>1216</sup>.

SEBI established stock price data delays lasting three months as its main directive for financial influencers which prevented them from providing real-time market information in promotional content. The introduction of delayed stock price data restrictions by experts predicts a significant decline in the relevance of financial influencers because these experts heavily depend on continuous market updates<sup>1217</sup>.

#### 2.5 Finfluencer Ecosystem

India's investment landscape has produced several influencers or financial influencers who have become a big influencer in front of young investors. It has to be mentioned that these influencers usually work outside the context of traditional financial advisory frameworks, and

they operate through social media platforms, which is why some regulatory issues relate to such a business model. Finfluencers can pass on misleading information in order to get followers, derive ad money, and also perhaps make investors make wrong decisions. Unregistered Advisors have unrealistic promises to deliver to uninitiated investors and also promise unrealistic returns and other profit par excellence to the uninitiated investors. Finfluencers are generally very reluctant to share their exact qualifications and experiences in the market and tend to not show them as a result of growing mistrust or loss of audiences. Only a rare few influencers work towards showcasing good financial advice without promising any guaranteed returns<sup>1218</sup>.

#### 2.6 Preserving Investor Education Initiatives

As SEBI introduces these restrictions, it has clarified that the regulations do not apply to genuine investor education initiative so long as they abstain from rendering direct or indirect financial advice. On one hand this distinction is aimed at to hold on to potentially valuable education content while keeping potentially harmful advisory services at bay<sup>1219</sup>.

This regulatory downsizing on unregistered investment advisors aligns with SEBI's greater pledge towards developing transparency and shield investor interests in the changing Indian financial markets. These measures are a part of an effort to make absolutely sure that investment advice does not come from potentially misleading influences unregulated—people with no oversight, but that it comes from the regulated—and from people who are held accountable for giving good advice.

As such, a new regulatory reality unfolds on the financial influencer landscape and a few developments could occur:

<sup>1214</sup> ENS Economic Bureau, *Sebi directs entities to end contracts with unregistered financial advisors within three months* (2024)

<sup>1215</sup> Ajay Vaishnav & Shivani Bazaz, 'SEBI tightens grip on unregistered advisors, orders entities to end associations' *CNBC TV18* (India, October 2024)

<sup>1216</sup> Archana Chettiar, 'Financial Influencers Face 40-60% Decline in Brand Deals Amid SEBI Crackdown' (2025) equentis Research < <https://www.equentis.com/blog/financial-influencers-face-40-60-decline-in-brand-deals-amid-sebi-crackdown/> > Accessed 8 March 2025

<sup>1217</sup> Ibid

<sup>1218</sup> Sunaina Chadha, 'Is your finfluencer trustworthy? Sebi's new rules will help you decide' (2024) *Business Standard* < [https://www.business-standard.com/finance/personal-finance/is-your-finfluencer-trustworthy-sebi-s-new-rules-will-help-you-decide-124062800353\\_1.html](https://www.business-standard.com/finance/personal-finance/is-your-finfluencer-trustworthy-sebi-s-new-rules-will-help-you-decide-124062800353_1.html) > Accessed 8 March 2025

<sup>1219</sup> Ajay Vaishnav & Shivani Bazaz, 'SEBI tightens grip on unregistered advisors, orders entities to end associations' *CNBC TV18* (India, October 2024)

- i. Advice professionalization: More influencers opt to acquire formal registration and qualification to continue being part of the regulated sphere.
- ii. Repositioning their Focus on Educational Content: Financial content creators might shift focus to educational content, without crossing any lines by clearly falling into the educational space as opposed to advice.

Those who choose to continue to operate within the financial content space will likely increase transparency in regards to their qualifications and any potential conflicts of interest.

Particularly, these represent a seminal shift in India's attitude towards the investment advisory services industry, accounting for the advantages of ensuring equity in financial accessibility to the people through digital platforms while safeguarding investors from detrimental advice. Both regulators and market participants are now faced with these challenges, while aiming to secure the still paramount goal: development of a reliable financial ecosystem in which investors can access relevant information in order to make informed decisions in their own interest, yet under adequate protection.

### 3. FINLUENCERS, THEIR ROLE AND RISKS THEY POSE

Rise of financial influencers, 'finfluencers' as they are popularly known, in India's capital markets presents a novel and unique regulatory challenge to the Securities and Exchange Board of India (SEBI) in the fast changing market landscape. However, these unlicensed financial advisors have still a great deal of pull with the retail investor through social media platforms until march 2025 as of mid 2024, when strict regulations were put in place. This report explores the convoluted regulatory face of finfluencers, their effect on investor practices and the continuous conflict between investor security and budgetary schooling in the computerized age.

### 3.1 SEBI's Regulatory Framework for Finfluencers

Growing retail investor participation or the increasing presence of financial advice in social media platforms raised the need of the regulatory framework to govern finfluencers in India. There is a significant shift in the regulatory landscape if you look at it as SEBI had approved comprehensive norms to regulate the finfluencers in June 2024. This was not a one off but followed on from discussions worldwide amongst securities regulators at International Organization of Securities Commissions that highlighted the risks involved in digitalization of retail marketing and distribution<sup>1220</sup>.

It was the increasingly apparent evidence that financial advice was being delivered to retail investors with the potential to cause them harm, unqualified. Specifically, research demonstrated that over 75 percent of the financial influencers did not disclose any relationships with financial products or services they promoted, causing major doubts about conflicts of interest and deceptive information. Due to the increase in reach of these influencers, in combination, with the lack of transparency, regulatory intervention was urgent<sup>1221</sup>.

### 3.2 Implementation Challenges in Regulating Finfluencers

#### 3.2.1 Ambiguities in the definition.

The problem lies in the fact that there are not clear definitions of words used by SEBI. Drawing no distinction between 'advice' and 'education', the regulatory framework is confusing as to what activities are required to be registered under the Act. While the Australian Securities & Investments Commission (ASIC), clearly defines financial product advice as advice that is designed to influence the decision of the investor, SEBI's framework is absent of such

<sup>1220</sup> Malini Mukherjee, 'SEBI's Finfluencer Legal Frameworks: Gaps in Enforcement and Investor Education' (2024) IndiaCorpLaw < <https://indiacorplaw.in/2024/08/sebis-finfluencer-legal-framework-gaps-in-enforcement-and-investor-education.html> > accessed 8 March 2025

<sup>1221</sup> Shailja Tiwari, 'Regulatory crackdown! SEBI's complicated relationship with financial influencers' (2024) *Financial Express*

specificity. Due to this ambiguity, content creators in India have been confused about whether they can post educational content from their YouTube channel or not, risking it to be advice and hence SEBI (Investment Adviser) Regulation, 2013 or SEBI (Research Analyst) Regulation, 2014. And these qualifications may be onerous enough to deter individuals from actually doing genuine investor education.

### 3.2.2 Limitations in Enforcement

The scale and decentralized nature of social media platforms present significant enforcement challenges for SEBI. With thousands of accounts across multiple platforms offering financial content, comprehensive monitoring remains difficult. The regulator must distinguish between genuine educational content and disguised investment advice, which requires substantial resources and sophisticated technological tools.

Additionally, the cross-border nature of digital content complicates enforcement efforts. While SEBI can regulate entities within India, it has limited jurisdiction over content creators operating from overseas who may target Indian investors. This creates regulatory arbitrage opportunities that could undermine the effectiveness of domestic regulations.

### 3.2.3 Coordination with Other Regulatory Bodies

The regulatory framework for influencers involves multiple entities, including SEBI and the Advertising Standards Council of India (ASCI). The ASCI Guidelines, released in 2023, require influencers to disclose material connections with advertisers but are voluntary and cannot be enforced<sup>5</sup>. This creates potential gaps in the regulatory coverage, as influencers may comply with one set of guidelines while neglecting others.

Effective regulation requires coordination between these bodies to ensure comprehensive coverage and consistent enforcement. However, differences in regulatory approaches

and priorities can create challenges in achieving this coordination.

## 3.3 Effects on Investor Education and Market Dynamics

### 3.3.1 Impact on Financial Literacy Efforts

The regulatory action against influencers in India created multiple effects on financial literacy throughout the country. Financial regulatory actions have diminished the distribution of both untruthful and unbalanced financial counsel. Opposition maintains that the regulatory action might have interfered with programs that provided genuine investor education to the general public<sup>1222</sup>.

The influencer movement actively contributed to raising India's financial literacy levels because a 2019 National Centre for Financial Education survey found these levels at around 27%. These financial experts successfully simplified complex financial ideas and distributed them to younger consumers who typically bypass conventional educational outlets. The regulations which limited influencers might have uncovered a gap in financial teaching which established channels have not successfully completed filling<sup>1223</sup>.

### 3.3.2 Risks to Investors'

The increasing number of 'influencers' representing financial influencer professionals has made financial guidance reach investors who are young for the first time. The financial health of investors remains at risk because such trends include serious dangers. There are three main risks which emerge from influencers.

### 3.3.3 Unqualified Expertise

Many influencers distribute unlicensed financial advice to clients without holding an official regulatory license or proper qualifications in

<sup>1222</sup> Malini Mukherjee, 'SEBI's Influencer Legal Frameworks: Gaps in Enforcement and Investor Education' (2024) IndiaCorpLaw < <https://indiacorplaw.in/2024/08/sebis-finfluencer-legal-framework-gaps-in-enforcement-and-investor-education.html> > accessed 8 March 2025

<sup>1223</sup> Sambavi Parthasarathy, 'Rise of Influencers sparks debate over influence and accountability' (2023) Frontline The Hindu < <https://frontline.thehindu.com/society/rise-of-finfluencers-sparks-debate-over-influence-and-accountability-personal-finance-sebi-asci/article67273277.ece> > accessed 8 March 2025

that field. Personal financial amateurs conceal their unprofessional knowledge of finance when they claim sufficient expertise to advise others. Investors who rely on unverified information sources run the risk of taking improper financial decisions which result in substantial financial losses.

### 3.3.4 Conflict of Interest

Company relationships that many influencers maintain with businesses whose products they promote remain undisclosed because these influencers do not face any requirements to reveal their connections. The recommendations made by these individuals create a conflict of interest situation because they prioritize their personal gain over what is best for their followers. Influencers increased the likelihood of investors making poor financial decisions by forcing them to purchase high-risk investments that they fail to understand properly.

### 3.3.5 Misleading and Misinformed Advice

Standard financial concepts used by influencers generally become too simple in translation or the disseminated information contains false statements factually. The unskilled investors can end up taking dangerous financial choices when inexperienced handlers deal with their funds. A number of influencers deride risk while misaligning their followers' expectations regarding future profit prospects thereby creating secure perceptions among their customers.

### 3.3.6 Pump-and-Dump Schemes

The avoidance of pump and dump schemes becomes challenging because social media serves as perfect ground for illicit activities of this kind. Influencers guide their followers to obtain stock through buying then discard their holdings afterward which increases stock price artificially while followers hold devalued shares. Would-be price discoverers and investor confidence suffer direct damage through this market manipulation strategy.

### 3.3.7 Lack of Accountability

While licensed professionals are subjected to regulation, influencers have no accountability on the basis of a set of regulatory standards. When they choose the best of times to recommend an investment, or the worst, but the worst is not theirs, the picture of expertise painted is false. Also, since they have no real oversight, it is also difficult to separate good advice from bad.

### 3.3.8 Encouraging Herd Mentality

This tunes herd behavior by getting people, followers to do without using their brain. The trading of large numbers of investors following the same advice can create distortions, as well as related volatility, in the markets. Generally, when herd basis happens, there are situations that the impulses have been used for making a decision which isn't concordant with a target financial objective or a person's risk tolerance will be involved.

### 3.3.9 Fraud and Scams

The spotlight has been turned on so called influencers who promote fake investment products, and urging scams such as cryptocurrencies and forex trading products. For retail investors, they will be tricked by the influencer more aggressively due to the influencer's credibility, and pay a hefty financial cost accordingly.

## 4. CASE STUDIES AND REGULATORY CHALLENGES

These financial influencers, popularly known as influencers, are among the new breeds of content creators that have sprouted over the years, thanks to the digital landscape and different categories of influencers on the cyberspace. With that, these social media personalities are carved mainly around making money, giving people the access to their personal finance, investment strategies and market insights, filling the wide gaps in financial literacy that education system failed to cover. Although it is filled with many who offer good educational content, this space has attracted

the attention of regulatory authorities in various parts of the world precisely because of the overly growing number of unregistered investment advisors posing as financial education providers. They identify and study various case studies and scenarios of finfluencers and unregistered investment advisors, and analyze their operational ways and deceptive practices with the regulatory framework that intends to safeguard the investors.

Financial influencers are in form of response to a huge gap in financial education. Informally, traditional educational institutions are proficient in wheezing academic subjects but deficient in the word of teaching practical financial knowledge – thus a huge population has ever been with financial illiteracy. This gap has been filled by finfluencers, those who are aiding the inexperienced in a number of financial areas, whether it's budgeting or more complicated investments. The emergence of these is not only an Indian phenomenon but a global phenomenon, which became a whole lot more pronounced during the COVID 19 pandemic. Numbers also show that financial content on social media viewership spiked by an incredible 300 percent during this period when people, who were now spending their time at home and who were becoming more and more concerned about their 'financial security', went in search of resources to guide them online<sup>1224</sup>.

#### 4.1 High-Profile Case Studies of Finfluencer Misconduct

##### 4.1.1 The 'Baap of Chart' Case

As the Baap of Chart order by SEBI in December 2023 revealed, this is one of the most significant regulatory action against finfluencers. Ansari was banned from the securities market for one year and six of his associates for six months. SEBI also directed them to refund the Rs 17.2

crore already collected through the services of unregistered investment advisory services<sup>1225</sup>.

Social media platform X (formerly Twitter) had been Ansari's playground, as he had built a fairly substantial following there, marketing himself as a stock market expert and offering his followers his ideas on what to buy and sell in the markets in the form of educational training. SEBI's probe found that Ansari and his associates have been involved in conducting unregistered investment advisory services by promising unrealistic returns to investors.

This case was especially egregious because Ansari's operations were deceptive. Most of his target audience were naive investors lured by flashy YouTube videos of exaggerated claims on high profits. In the final order, SEBI's Whole Time Member Amarjeet Singh noted that "Nasir along with his associates without holding any registered IA certificate provided investment advisory services promising unrealistic returns to investors". Maybe most alarming was the disparity between Ansari's public stance and his private trading record. Despite falling victim to personal trading losses of Rs 2.89 crore between January 2021 and July 2023, Ansari's website insisted on claiming he had a proprietary algorithm with "95% profit accuracy" that could 'deliver profits day after day, if not, there cannot be an overall loss.' However, SEBI discovered no evidence to support these claims but investors were still being enticed with the promise of assured returns and real time trading tips<sup>1226</sup>.

##### 4.1.2 The Ravisutanjani Kumar case

Another example is Ravisutanjani Kumar, or finfluencer, who exposed as a fake in creating his following with faked credentials. The creator platform TopMate operated on was where Kumar mentored folks for payments between INR 250 and INR 25,000 for consulting,

<sup>1224</sup> BuzzInContent Bureau, 'The curious case of finfluencers' (2024) < <https://www.buzzincontent.com/guest-column/the-curious-case-of-finfluencers-6929209> > Accessed 8 March 2025

<sup>1225</sup> Shravani Sinha, 'SEBI Cracks down on Finfluencers, 'Baap of Chart' & 7 others Banned for 1 Year, Directs 17.2 Crore Refund' (2024) GoodReturns < <https://www.goodreturns.in/news/sebi-cracks-down-on-finfluencers-baap-of-chart-7-others-banned-for-1-year-directs-17-2-crore-refund-1391507.html> > accessed 8 March 2025

<sup>1226</sup> Ibid

mentoring, and building of brand. His case became the subject of widespread discussion of the ethics of influencers, and of whether such influencers should be dealt with legally at all.

**Finfluencer problem:** Kumar's case is about creating an illusion where it's a matter of multiplication to get more followers on social media and monetize that base at the cost of creating content that is not sustainable for the audience. Many followers would likely not have paid his consultancy fees if they did not have the previously built up perception of expertise and insight.

#### 4.1.3 The Abhishek Kar case

One such troubling case of impropriety in this arena is YouTuber and finfluencer Abhishek Kar. The requirement to exchange its statement with SEBI and for any post clearance variations to its foundation prospectus faced exposure by social media personality Shreyas Bandi, for exposing Kar for allegedly inducing people to trade in stocks in the same. It's reported that he charged up to INR 14,000 or more in fees for his courses, and a premium membership promised greater profits, besides uploading his so called success stories.

However, the reality was. In contrast, Kar had actually realized huge losses in Futures and Options (F&O) business in fiscal years 2021 and 2022 however had stored this info from his 1.5 million followers. This is a case where investors, attracted by offers of quick returns are said to overlook due diligence on ineptive trading schemes promoted by unregistered advisors<sup>1227</sup>.

#### 4.1.4 YMForecast case

Not all the SEBI's actions are as a result of their monitoring, some pertain to vigilant investors. One such instance was that one started on November 18, 2022, when a retail trader sent SEBI an email regarding YMForecast, a firm that provided services believed to be illegal. The next

day, WhatsApp screenshots sent by the trader included evidence from another victim, as he followed up with how the company charged for different plans and different services.

SEBI found P Krishan Kumar and Jagdishan S. of Coimbatore, who were running an illegal advisory services in the website [www.ymforecast.com](http://www.ymforecast.com). The website, which had launched in March 2021, offered Astrotalk Advisory and Stock Advisory with plans ranging from ₹5,000 to ₹48,000 using referring names like Nifty Future Pre Advance, Nifty Options Pre Advance among others, which had validity ranging from one month to one year<sup>1228</sup>.

P Krishan Kumar was also having a NISM certification but their website was not having a SEBI registration number. NISM certification does not in itself permit individuals to offer Research Analyst (RA) or Investment Advisory (IA) services and hence the regulatory body propounds this. Additionally, this case shows that although the individual appeared well credentialed, in fact, he may have been performing outside the limits of regulation.

#### 4.1.5 Other Notable Cases

A number of other influencers have been under regulatory scrutiny and have been taken to task. Under regulatory scrutiny, Ghanshyam Tech (Yadav), which has in excess of 403,000 followers on Instagram and 1.44 million on YouTube, took down more than 35 Instagram posts from August and September 2023. As with others, he was charged with falsifying profit and loss statements to entice investment in certain stocks.

While Ankur Warikoo is regarded as one of India's most popular influencers, he has come under the scanner for spreading misinformation for profit. It was in 2022 when promoting investments in the now failed crypto exchange Vault that he made incredibly concerning statements 'There is no risk involved', and that 'It is guaranteed'. Warikoo was also criticised for

<sup>1227</sup> Chandrajit Mitra, 'Finfluencer Abhishek Kar's Big Claim on Assam's "Tantric" Practices Lands Him in Trouble' (2025) <<https://www.ndtv.com/india-news/finfluencer-abhishek-kar-in-trouble-over-remarks-on-assam-posts-video-apology-7448647>> accessed 8 March 2025

<sup>1228</sup> Securities and Exchange Board of India (Order, QJA/GR/SRO/29770/2023)

promoting health products without proper disclaimers and being accused of wholesale copying of content from published books with no attribution.

What we can learn from these cases is that unscrupulous influencers exhibit a number of common patterns of deceptions:

- i. Perpetrating others in the expertise and credentials misrepresentation to gain authority.
- ii. Covering up personal trading losses by marketing investment strategies.
- iii. Exaggerating the claims for returns and success rates
- iv. Failing to report the conflicts of interest on promoted products
- v. Illegal operation of investment advisory services without proper registration
- vi. Which would lead you to believe that a running out of opportunity is imminent or an investment opportunity is exclusive and there is limited time to participate.

## 5. CONCLUSION

In addition to an opportunity, they have become a complex situation for government regulators and authorities of the financial industry. As a result, the digital content creators have made financial information more accessible for potential better users' financial engagement. Following the elimination standard compliance, the investor risks of those affected by conflict of interest and sharp practices as well as dissemination of false information and misleading practices have been substantial.

This chapter establishes the recommendations in resolving these challenges by maintaining innovation in financial education intact in an extensive approach. The equilibrium in digital financial education space can be attained with refining regulatory procedures, greater transparency codes and standards, combined with education programs and technology solutions under accommodation with ethical self regulation techniques as well as public private sector partnerships and adjustable

regulatory schemes that secure the investment potential.

Moving forward, the proposed recommendations will need to be backed by appropriate stakeholders, with support of enough financial resources, as well as the ability to modify the concepts to future forms of digital transformation. Investing money in this is important because it brings an educated population to finance and offers very reliable information from a number of sources. How regulatory bodies would carefully handle matters arising from problems influencers constitute would birth financial opportunities that will benefit investors more than exposing them to these modern exploitation schemes.

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